

Behavioural Analysis of Individual Investors Towards Selection of Mutual Fund Schemes: An Empirical Study

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ABSTRACT

Development of an economy necessarily depends upon its financial system and the rate of new capital formation which can be achieved by mobilizing savings and adopting an investment pattern. The need to mobilize small savings and channelize it for productive purpose through financial markets, further leads to emergence of mutual funds. However, investment in the Mutual funds depends upon the expectations of investors, which are further influenced by the perception towards different schemes. The objectives of the study aim to know the pulse of an investor. In this regard their preferences towards different financial instruments and schemes of Mutual Funds is analysed using demographic factors like (age, gender, savings). An attempt has also been made to identify the preference pattern in mutual fund schemes and to analyse the factor influencing the selection of these schemes.

Keywords: Capital Appreciation, Investment, Mutual Fund, Savings, Transparency

Financial sector plays an important role in development of an economy. An efficient financial system inclusive of financial institutions, financial markets and financial intermediaries promotes the habits of thrift and channelize it in appropriate channel. The primary objective of financial system is to mobilize the savings and invest it in the productive ventures. It works as an intermediary between the savers and investors and leads to economic growth. This sector is the largest in world in terms of earning and it comprised of a wide range of businesses including banks, credit card companies, securities companies, mutual funds and others. Investment and savings help the people to save money and build credit, while enabling the business to expand and increase efficiency.

In this competitive world, investor is bounded by number of financial services and financial providers. A few years back, banks were considered as a prime source of savings and investment. But the changing scenario and increasing needs of investors, mutual funds, stock market, insurance comes in to the scope. Investment and saving behaviour are influenced by the transparency, investment options, awareness, financial literacy, tax benefits and others. During past years increasing income and awareness boosted risk taking ability of common investors and thus mutual fund became the most preferred and safest

investment option among all class. The investor always tries to maximise the return and minimise the risk. The mutual fund is a vehicle that enables millions of small investor to participate in the stock market and to optimise their resources. It provides higher safety, liquidity as compared to other financial intermediaries.

Mutual funds have emerged as an important segment of financial markets and so far have delivered value to the investors. It has grown by leaps and bounds in last couple of years. But no industry can flourish without a proper regulatory mechanism in the place. A study on the investor behaviour, thus assumes a great importance.

MUTUAL FUNDS

The first Mutual Fund set up in India was UTI (Unit Trust of India) in 1963. During 1990s, the government allows the private and public sector banks to set up mutual funds. The Indian Mutual Fund has passed through three phases. The first phase was between 1964 and 1987 and the only player was the Unit Trust of India, which had a total asset of Rs. 6,700 crores at the end of 1988. The second phase is between 1987 and 1993 during which period 8 Funds were established (6 by banks and one each by LIC and GIC).

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The total assets under management had grown to 61,028 crores at the end of 1994 and the number of schemes was 167. The third phase began with the entry of private and foreign sectors in the Mutual Fund industry in 1993. The share of the private players has risen rapidly since then. Currently (2012) there are 34 Mutual Fund organizations in India managing 1,02,000 crores. Not only the players are increasing in the market, but also increasing number of schemes in the market for the investors.

REVIEW OF LITERATURE

As mutual fund enters the capital market, it has attracted profitable business opportunities. The number of studies have so far been taken in this regard. Sankaran (2004) defines the types of classes for investment, classification of schemes. The author is of the opinion that mutual fund industry will continue to grow inspite of competition and will be propelled in the right direction because of the investor friendly financial markets. Increasing competition with increased growth leads to more and more products in the market. On the basis of the study in Andhra Pradesh the investment in Debentures, Mutual fund, Bonds, Post Office Deposits, and Real Estate is found to be comparatively high as compared to investment in shares and gold. The study also reveals six factors affecting the decision of investment in the mutual funds namely Infrastructure, Reputation of fund, Flexibility, Transparency, Name of the sponsor, Additional facilities. Normally, investor investment depends on his short

term and long term needs and further on the basis of information available. Kavitha Ranganathan (2006) in her study reveals that most of the respondents use Internet facility to know more about mutual funds; however other modes like personally visiting the office, extracting knowledge from friends, relatives are also given equal importance. The awareness and adoption of schemes are increasing with increase in education; the awareness of equity fund schemes is the highest and (35.71 per cent) followed by balanced fund schemes (32.86 per cent). The awareness is not only sufficient; some important factors need to be considered for the reputation of the fund manager and information about the fund is considered to be the important by the Mutual Fund investors, Rao K. Lakshmana (2011). The investors generally consider the recent performance as overall representative of fund future performance. Rajeshwari T.R and Rama Moorthy V.E (2002) studied the financial behaviour and factors influencing fund/scheme selection of retail investors and reveals that the investors are basically influenced by the intrinsic qualities of the product followed by efficient fund management and general image of the fund/scheme in their selection of fund schemes. The fund selection scheme is based on the past performance of funds and money flows in to winning funds more rapidly than they flow out of losing funds, Ippolito (1992). Gupta (1994) made a household investor survey with the objective to provide data on the investor preferences on Mutual Funds and other financial assets. The findings of the previous studies have contributed a lot. Also, the findings of this

Table 1: Mutual Fund Schemes and Their Classification

| <i>Mutual Fund Schemes</i> | <i>Features</i> |
|---------------------------------|--|
| On the basis of maturity | |
| Open Ended scheme | Do not have fixed maturity |
| Close ended Scheme | Open for specified period of time |
| On the basis of investment | |
| Growth / Equity Oriented Scheme | Provide capital appreciation |
| Income / Debt Oriented Scheme | Provide regular and steady income |
| Balanced scheme | Provide both growth and regular income |
| Money market scheme | Provide liquidity |
| Others | |
| Sector specific Scheme | Investment in specified sector/ industry |
| Tax Saving Scheme | Tax rebates |

Source: AMFI (Association of Mutual Funds in India)

study will surely be appropriate to the policy makers and mutual funds to design the better financial products for the future.

RESEARCH METHODOLOGY

The present paper is devoted to study the pulse of an investor. The research is descriptive cum diagnostic. The research is based on primary as well as secondary data. The secondary data is retrieved from books, Journals, online articles, news. The primary data is collected through interviews and pre tested questionnaire covering National Capital Region (Delhi and Gurgaon). The convenience sampling is used and total of 123 questionnaires were collected. The questionnaires were then put to screening and 33 were found to be unfit for this study. Thus, unfit questionnaires were discarded and analysis is done on the basis of 90 questionnaires. However, the sample restriction, time constraint and lack of financial literacy are the major limitations during this study.

OBJECTIVE OF THE STUDY

- ◆ To analyse the preferences towards different financial products in the market
- ◆ To identify the preference pattern of investor towards mutual fund schemes
- ◆ To study the factors influencing selection of Mutual Fund Schemes

HYPOTHESIS OF THE STUDY

H₀₁: There is no significant relation between the gender/ age/ savings and preference towards different financial instruments.

H₀₂: There is no significant relation between the gender/ age/ savings and preference towards mutual fund schemes.

Table 2: Association Between Preference towards Financial Instruments And Gender, Age, Annual Savings

| Financial Instruments | | Gender | | | Age | | | | Annual Savings | | | |
|-----------------------------|----------|--------|--------|----------|-------|-------|----------|----------|----------------|-----------------|----------------|-------|
| | | Male | Female | Total | 20-30 | 41-50 | above 50 | Total | below 50,000 | 50,001-1,00,000 | above 1,00,000 | Total |
| Life insurance | Count | 9 | 4 | 13 | 7 | 2 | 4 | 13 | 4 | 0 | 9 | 13 |
| | % | .1 | .2 | .1 | .1 | .1 | .2 | .1 | .2 | .0 | .2 | .1 |
| Share and debentures | Count | 9 | 5 | 14 | 5 | 1 | 8 | 14 | 9 | 4 | 1 | 14 |
| | % | .1 | .3 | .2 | .1 | .1 | .4 | .2 | .4 | .4 | .0 | .2 |
| Mutual funds | Count | 5 | 7 | 12 | 9 | 1 | 2 | 12 | 7 | 0 | 5 | 12 |
| | % | .1 | .4 | .1 | .2 | .1 | .1 | .1 | .3 | .0 | .1 | .1 |
| Pensions and provident fund | Count | 14 | 2 | 16 | 8 | 4 | 4 | 16 | 4 | 5 | 7 | 16 |
| | % | .2 | .1 | .2 | .1 | .3 | .2 | .2 | .2 | .5 | .1 | .2 |
| Postal savings | Count | 3 | 0 | 3 | 1 | 2 | 0 | 3 | 0 | 0 | 3 | 3 |
| | % | .0 | .0 | .0 | .0 | .1 | .0 | .0 | .0 | .0 | .1 | .0 |
| Real estate | Count | 22 | 2 | 24 | 20 | 4 | 0 | 24 | 0 | 0 | 24 | 24 |
| | % | .3 | .1 | .3 | .3 | .3 | .0 | .3 | .0 | .0 | .4 | .3 |
| Commodity and gold | Count | 8 | 0 | 8 | 8 | 0 | 0 | 8 | 0 | 2 | 6 | 8 |
| | % | .1 | .0 | .1 | .1 | .0 | .0 | .1 | .0 | .2 | .1 | .1 |
| | Count | 70 | 20 | 90 | 58 | 14 | 18 | 90 | 24 | 11 | 55 | 90 |
| | % | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Chisquare | 17.774 | | | 32.030 | | | | 51.879 | | | | |
| DF | 6 | | | 12 | | | | 12 | | | | |
| p-value | .007* | | | .001* | | | | .000* | | | | |
| | Accepted | | | Accepted | | | | Accepted | | | | |

Note: *p<0.05

RESULT AND ANALYSIS

Demographic Characteristics

The number of male respondents in the survey were 77.8% and 22.2% were female respondents. Out of which around 61.1 % respondents from the age group of 20-30 and others are above. As far as annual income and saving are concerned, only 9 % respondents have the annual income less than Rs. 1, 00,000 while 30% people have savings less than Rs. 50,000. This shows that 70% respondents are having sufficient amount of savings to be invested in profitable opportunities.

The investor is available with several different products in the markets; differ in terms of return, flexibility and risk. The objectives of the study aim to know the pulse of an investor. In this regards, their preference towards different financial instruments and schemes of Mutual Funds is analysed using demographic factors like (age gender, savings).

The first objective is analysed with the descriptive statistics (frequency and percentages). The first hypothesis is checked using chi square test. The different options available for investment are Life insurance policy, shares and debentures, mutual funds schemes, postal savings, pensions and provident fund. The others emerging market for investment are real estate and commodity/gold. The following table reveals the investment pattern in these instruments and hypothesis testing:

Table 2 depicts that

- ◆ 30% male respondents prefer real estate to be the most important saving avenue. While 40 % respondents among the female group prefer to invest in the mutual fund schemes because of safety, return and flexibility. The least preferred is commodity and gold.
- ◆ Below 50 age group 30% of the respondents prefer real estate while above 50 age group moving towards pensions and provident funds. This is primarily because young investors are ready to take risk and would like to enjoy capital profits rather than to have a fixed income.
- ◆ The another 40 % respondents from the saving group of 1,00,000 and above prefer real estate and the respondents having saving less than 1,00,000 preferred pensions and provident fund this is because

the medium salaried respondents wants to play safe. While another group having savings less than the 50,000 preferred shares and debentures.

- ◆ The chi-square analysis is used to check the hypothesis H_{01} . The p value of .007, .000, and .001 are found to be significant as $p < 0.05$. It means alternative hypothesis that there is a relation between the gender/ age/ savings and preference towards saving avenue is significant.

The second objective is to analyse the preference pattern in the mutual fund schemes. The schemes as suggested by AMFI (Association of Mutual Fund in India) discussed before. The following table reveals the investment pattern in these schemes and hypothesis testing.

The second objective of the paper is to identify the schemes opted by the respondents as shown below in Table 3

- ◆ 40% each of male and female respondent's opted growth schemes to be most profitable investment option. On the other side, tax saving schemes is also opted by 30% male respondents and 20% female respondents.
- ◆ A very high percentage i.e. 70% respondents for the age group above 50 invest in the tax saving schemes and other 30% of same category prefer growth scheme.
- ◆ The money market schemes are least preferred while balanced scheme and special schemes are preferred 30% and 40% respectively by the respondents of the age group 41-50.
- ◆ The growth schemes are highly preferred among the 20-30 age group respondents. They equally preferred the tax saving schemes and money market schemes.
- ◆ The chi-square analysis is used to check the hypothesis H_{01} . The p value of .330, .000, and .000 are compared with significance p value ($p < .05$). It means alternative hypothesis that there is a relation between the age/ savings and preference towards saving avenue is significant. While there is no significant relation between the gender and preference towards mutual fund schemes.

The third objective aims to study the factors influencing selection of schemes. It has been observed that people tend to invest in tax saving schemes and growth schemes. Some others are also investing in income scheme. But people are

Table 3: Association Between Preferences towards Mutual Fund Schemes and Gender, Age, Annual Savings

| Mutual Fund Schemes | | Gender | | | Age | | | | Annual Savings | | | |
|---------------------|-----------------|--------|--------|----------|-------|-------|----------|----------|----------------|-----------------|----------------|-------|
| | | Male | Female | Total | 20-30 | 41-50 | above 50 | Total | below 50,000 | 50,001-1,00,000 | above 1,00,000 | Total |
| Growth schemes | Count | 25 | 7 | 32 | 26 | 0 | 6 | 32 | 13 | 0 | 19 | 32 |
| | % | .4 | .4 | .4 | .4 | .0 | .3 | .4 | .5 | .0 | .3 | .4 |
| Income scheme | Count | 4 | 4 | 8 | 8 | 0 | 0 | 8 | 4 | 0 | 4 | 8 |
| | % | .1 | .2 | .1 | .1 | .0 | .0 | .1 | .2 | .0 | .1 | .1 |
| Balanced scheme | Count | 4 | 0 | 4 | 0 | 4 | 0 | 4 | 0 | 2 | 2 | 4 |
| | % | .1 | .0 | .0 | .0 | .3 | .0 | .0 | .0 | .2 | .0 | .0 |
| Special scheme | Count | 5 | 0 | 5 | 0 | 5 | 0 | 5 | 0 | 0 | 5 | 5 |
| | % | .1 | .0 | .1 | .0 | .4 | .0 | .1 | .0 | .0 | .1 | .1 |
| Tax saving scheme | Count | 21 | 4 | 25 | 10 | 3 | 12 | 25 | 2 | 7 | 16 | 25 |
| | % | .3 | .2 | .3 | .2 | .2 | .7 | .3 | .1 | .6 | .3 | .3 |
| Money market scheme | Count | 11 | 3 | 14 | 12 | 2 | 0 | 14 | 5 | 0 | 9 | 14 |
| | % | .2 | .2 | .2 | .2 | .1 | .0 | .2 | .2 | .0 | .2 | .2 |
| other | Count | 0 | 2 | 2 | 2 | 0 | 0 | 2 | 0 | 2 | 0 | 2 |
| | % | .0 | .1 | .0 | .0 | .0 | .0 | .0 | .0 | .2 | .0 | .0 |
| | Count | 70 | 20 | 90 | 58 | 14 | 18 | 90 | 24 | 11 | 55 | 90 |
| | % within gender | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Chisquare | 13.710 | | | 76.898 | | | | 42.958 | | | | |
| DF | 6 | | | 12 | | | | 12 | | | | |
| p-value | .330* | | | .000* | | | | .000* | | | | |
| | Rejected | | | Accepted | | | | Accepted | | | | |

Note: *p<0.05

not aware; rather don't want to know the other schemes of mutual fund. There is a financial illiteracy among the educated and highly qualified respondents. They relied on the agents or look for some integral qualities of Fund in the choice of investment alternative.

First of all, the reliability of questionnaire is checked with the value of cronbach's alpha and it comes out to 0.795, a value cronbach alpha greater than 0.5 is considered to be reliable. The reliability of questionnaire is found quite satisfactory. The total of 14 variables has been taken. The factor analysis technique is used to club the different variables and therefore prerequisite conditions for factor analysis need to be checked first.

The null hypothesis is that the correlation matrix is not an identity matrix, is rejected by the Bartlett's Test of

Sphericity. This signifies that all the factors are highly correlated but not perfectly correlated. The approximate chi-square statistics is 161.426 with 91 degrees of freedom which is significant p<.05. The value of KMO is checked for the sample adequacy and it has been found to be 0.613 which is greater than 0.5.

Table 4: Measure of Sample Adequacy

| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .613 |
|--|--------------------|---------|
| Bartlett's Test of Sphericity | Approx. Chi-Square | 161.426 |
| | df | 91 |
| | Sig. | .000 |

The communalities were calculated and it has been observed that first four factors explained on combined account 65.447% of total variance (See appendix-1) The factors which explained the maximum total variance are taken and factors which are having Eigen value less than 1 are discarded. Finally, four factors were extracted and named accordingly. The factor loadings for the different variables are given below in table 5. The table is showing the factor loadings with respect to 14 variables.

As per the Table 5, the third, fourth, fifth and tenth statements are combined in the first factor with .574, .727, .520, .549 loadings respectively. The first factor is named intrinsic qualities as includes investment objective, entry and exit loads, withdrawal facility and initial investment. These features form an integral part of product and primarily required. As same the statements which describe the brand and name of sponsor and products are combining together in the second factor named as Reputation/ Brand. The transparency, third factor which consider the investor, grievance redressal machinery and disclosure of periodicity of valuation are combined with a highest loading in the third factor as .840, .834. The higher the transparency for investors, higher will be the performance. There are some others information which

are required except explained like Disclosure of NAV, past risk and return patterns and fringe benefits. These variables are loaded in the fourth factor -.695, .629, .567 loadings respectively. The negative sign shows that the fringe benefits are not as important as others. It is desired by the marketers to design the products as per the investor requirement. Thus intrinsic qualities of fund, Reputation/ Brand, additional benefits and transparency factors must be considered by the mutual funds to attract more and more customers. The importance of each variable is significant. But the marketer must attempt to consider those variables which are having high factor loadings for respective factors.

Findings

The individual investor behaviour is analysed and it has been observed that investor choose a particular product being motivated by several objectives.

- ◆ The young investors adopt capital appreciation as their objective of investment and prefer to invest in real estate market.
- ◆ The investors above 50 are moving towards pension and life insurance products. It is desirable at the

Table 5: Factors Influencing Selection of Mutual Fund Schemes

| S.No | Factors | Rotated matrix with factor loadings | | | | |
|------|---------------------|---|---------|-------|-------|-------|
| | | Statements | Factors | | | |
| | | | 1 | 2 | 3 | 4 |
| 3 | Intrinsic Qualities | Withdrawal facility | .574 | .261 | .414 | -.214 |
| 4 | | Products with minimum initial investment | .727 | .102 | .110 | -.019 |
| 5 | | Entry and exit loads | .520 | -.266 | .433 | .054 |
| 10 | | Disclosure of Investment Objective | .549 | .312 | -.134 | .377 |
| 6 | Reputation/ Brand | Sponsor has well developed research experience and infrastructure | .101 | .762 | .096 | .170 |
| 1 | | Reputation of the Fund | .056 | .811 | -.227 | .249 |
| 2 | | Type of the fund | .018 | .777 | .199 | -.301 |
| 7 | | Sponsor expertise in managing money | .407 | .521 | .102 | .471 |
| 9 | | Sponsor has recognized brand name | .376 | .696 | .155 | .378 |
| 13 | Transparency | Investor grievance redressal machinery | -.007 | .119 | .840 | -.043 |
| 14 | | Disclosure of periodicity of valuation in the advertisement | .265 | -.095 | .834 | .026 |
| 11 | Additional benefits | fringe benefits | .371 | .070 | .213 | -.695 |
| 12 | | Disclosure of NAV | .125 | .182 | .557 | .629 |
| 8 | | Sponsor past performance in terms of risk and return | .228 | .081 | .036 | .567 |

part of marketer to cater the needs of investor and target them on the basis of gender, age and annual savings.

- ◆ The saving pattern of investor reveals that increased investment results in to multiplier effect and thus they are more peculiar for the capital appreciation.
- ◆ The results reveal that there is an increasing shift towards commodity and gold. The trading in commodity market has started since mid-2008 and the diversified commodity market has on an average generated 12.70% return as compared to diversified equity market which has 7.7%. the people have started investing in gold and commodities
- ◆ Due to intangibility of services, emphasis should be on promotion of corporate brand. A familiar and trust worthy name resonates well with the customers in the market, like ICICI Prudential (backed by ICICI bank) and SBI Mutual Funds(backed by SBI).
- ◆ The quality of product in which the investor is investing is also important, as it will provide the return to the investor.
- ◆ The disclosure of information related to initial investment, entry and exits loads must be disclosed as to be accessed easily by less qualified respondents.
- ◆ Need for transparency is more important for services with intangible nature of service act. It is well taken care of by SEBI by laying down the norms for protection of investor's interest.

Scope for the Further Research

The mutual fund industry is still growing; the further research could be done into expectations of an investor from Mutual Funds products, its performance and other related areas

CONCLUSION

An individual investor is a green horn when it comes to the market. The main causes are lack of conceptual knowledge, lack of resources (fixed salary), less awareness. The mutual funds are the best guide for all those investor who does not have sufficient time, expertise and resources. The market potential can be tapped by scrutinizing the investor behaviour; using it to satisfy the interest of investors. The finding of this study is expected to have managerial implications for AMCs (Asset management Companies) in product designing, marketing and management of the fund.

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