

# A Study on Mutual Fund Investor's Behaviour with Specific Reference to Akola

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## ABSTRACT

Mutual funds have emerged as an important segment of financial markets and have delivered value to the investors. Mutual funds investment is not very much risky as compared to investment in stock market. Indian mutual fund industry provides reasonable options for an ordinary man to invest in the share market. The surplus of schemes provides variety of options to suit the individual objective whatever their age, financial position, risk tolerance, and return expectations. Important outcome of the study is investor's fund selection varies as per age and villages not affected by education level and occupation. The factors that make impact on decision making are past performance and reputation of fund, withdrawal facility and company services. Investors are overconfident in term that they have selected best scheme. Investor acknowledges gains are due to better result of investing companies and losses are the effect of incorrect information provided by the friends. As of now big challenge for the mutual fund industry is on investor awareness and to spread further to the semi-urban and rural areas.

**Keyword:** Retail Investors, Investor Behaviour, Investment Risk, Investment Preference, Mutual Funds

## INTRODUCTION

Mutual fund investments have become a subject of great significance in the recent investment alternatives. It has more significance when retail investors are keen to diversify their investment to maintain a balance between investment growth and investment risk. There are large numbers of small investors, who are able to save and make investment in financial instruments, but majority of them lack expertise for saving and investment. A mutual fund provides the customers desired investment portfolio as well as offer the benefit of high liquidity. Mutual Fund is a retail product designed to target small investors, salaried people and others who are intimidated by the mysteries of stock market but, nevertheless, like to reap the benefits of stock market investing. At the retail level, investors are unique and are a highly heterogeneous group. Hence, their scheme selection also widely differs. This situation attracted the Asset Management Companies (AMCs) to know the choice performance of the investors for designing suitable schemes. Taking note of this condition

a survey was organized. In this survey 250 Mutual Fund investors in Akola District were selected for studying the factors influencing the fund selection investors.

## NEED FOR THE STUDY

It is commonly understood that MF product is designed for small investors, salaried people, and those who expect to invest in stock market for reaping taking the advantage of stock market return. Retail investors are a highly diverse cluster. The globalisation and liberalisation measures announced by the government led to change the state of mind of investors. Hence, the need to be innovative in designing the product was not felt and investors had to choose from among the limited schemes offered.

## REVIEW OF LITERATURE

Woerheide (1982) in his study on the subject 'investor response to suggested criteria for mutual funds' proved that factors like size of fund, effectiveness of marketing

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and previous return of funds have great impact on selection. Among these the effectiveness of marketing programme has strong impact.

Noel Capon (1994) stated that there are many evidences that supports that in spite of risk and return other factors also effect on mutual fund selection. Investor showed different behavioural factors at the time of selecting fund.

As per study of Shankar (1996) the Indian investors consider mutual funds as product and AMCs, should follow the consumer product distribution model to capture the market.

Madhusudhan V. (1996) in his study assessed the awareness of MFs investors, for identification of factors influencing the buying intention and the factors affected the selection of a fund. The study reveals that income schemes and open ended schemes are more preferred than growth schemes and close ended. Investors search for safety, liquidity, and capital appreciation.

Syama Sunder (1998) in his survey revealed that mutual fund agents take part in disseminating the mutual fund culture. Open-end schemes were favored. Age and income are the two important factors in determining selection of scheme. Goodwill and income are the major concern in the investment of mutual fund.

Shanmugham (2000) in the study reports that psychosomatic and sociological factors influenced the financial factors in investment decision.

Wilcox (2002) in the research on investor's preferences showed that investors given preference to past result was more than fee charged by fund.

Donnor and Oxenstierna (2007) in conducted a study on Swedish market "the factors that investor value while choosing mutual fund" and founded that company associated factors i.e. reputation and availability has been preferred due to lack adequate information about financial services. At the same time knowledgeable investors considers fund specific factors and expect high-quality existence of company for recognition.

Walia and Kiran (2009) in the study recognized investor's outlook and parameters which create discontent. Main conclusion of study is investor's wants novel products and expect to put in value in the offered services.

As of the above review of the study it can be incidental that Mutual Fund as an investment avenue is attracting of different segments of the society.

## OBJECTIVES OF THE STUDY

The main objective of this study is to examine the investment behaviour of the retail investors on mutual funds in Akola. Besides, the study has the following secondary objectives:

1. To understand the savings avenue preference among MF investors
2. To identify the features the investors look for in mutual fund products

## TESTING OF HYPOTHESES

The study is based on the formulation of the following null hypotheses: There is significant relationship among the acceptance level of the retail investors towards factors influencing to invest in mutual funds.

## METHODOLOGY

This is an investigative research and rationale is to find what factors the investors in mutual funds.

## Sample and Population

As the universe of the study is entire Akola, an attempt is made to stratify into strata. The stratification is done on the basis of geographical and administrative factors. The sample size consists of 250 retail investors.

**Table 1: Area profile of Respondents**

<i>Sr. No</i>	<i>Place</i>	<i>No.</i>	<i>Percentage</i>
1	Akola	55	22
2	Balapur	27	10.8
3	Telhara	54	21.6
4	Akot	41	16.4
5	Barshitakli	33	13.2
6	Murtijapur	40	16.00
Total		250	100

In the study area six administrative blocks have been classified for sample study as above.

## Tools for Data Collection

The present study is empirical in character based on survey method. As an essential part of the study, the primary data were collected from 250 retail investors. Taking into consideration the objectives of the study, a questionnaire is prepared. Each question is improved for its relevance in the areas. The questionnaire is constructed based on Likert scaling technique. Pre-testing of questionnaire is done during Nov. 2014, involving 30 respondents to know the relevance of the questions. In the light of pre-testing, necessary changes were incorporated in the questions and their sequences.

The secondary data have been collected mainly from journals, magazines, government reports, books and unpublished dissertations.

## Period of the Study

As an essential part of the study, the primary data is collected by the researcher for a period of 6 months from Jan. 2015 to June 2015. The secondary data are related to the period of last 5 years ending on March 2015.

## Framework of Study

To understand the preference, objectives for investment, and the preferred mode of communication, the respondents were asked to grade their preferences on a ranking scale. The ranks were assumed by the weighted mean value of the responses. For identifying the factors influencing the investor's selection, following variables were set for structuring the questionnaire. These variables are as follows-

### Product Qualities

1. Performance Record
2. Standing Or Brand Name
3. Expense Ratio
4. Portfolio Of Investments
5. Standing Of Scheme(S), Portfolio Manager(S)
6. Withdrawal Facilities
7. Innovativeness Of The Scheme
8. Products With Tax Benefits

9. Entry And Exit Load

### Fund Sponsor Qualities

1. Standing Of A Sponsoring Firm
2. Range Of Schemes With Different Investment Objectives
3. Recognized Brand Name
4. Well Developed Agency Net Work/Infrastructure
5. Efficient Research Wing
6. Expertise In Managing Money

### Investor Services

1. Disclosure Of Investment Objectives And Periodicity Of Valuation In Advertisement
2. Disclosure Of The Method And Periodicity Of The Scheme's Sales And Repurchase In The Offer Documents
3. Disclosure Of NAV On Every Trading Day
4. Disclosure Of Deviation Of The Investments From The Original Pattern
5. Disclosure Of Scheme's Investments On Every Trading Day
6. Mutual Fund Investors' Grievance Redressal Machinery

In the survey, the respondents were asked to rate the significance of the 21 specified variables on a 5 point scale ranging from Highly Important (5) to Not at all Important (1).

## LIMITATIONS OF THE STUDY

Sample size is limited to 250 educated investors Akola city only. This study has not been conducted during ups and downs of market. The study has not captured such situations.

## DATA ANALYSIS

56.4% respondents belongs to the age group 31 to 50 years, 82.8 % respondents having education more than graduate, 77.2 % respondents belonging to annual family income up to Rs.100000, 68 % respondents of businessmen and salaried category, and 82 % respondents have saving more

**Table 2: Analysis of Retail Mutual Fund Investors by Demographic Factors**

<i>Present Investor Particulars</i>		<i>Number Of Respondents (Total=250)</i>	<i>Percentage (%)</i>
Sex	Male	180	72
	Female	70	28
Age	Below 30	60	24
	31-40	76	30.4
	41-50	65	26
	Above 50	49	19.6
Academic Qualification			
HSC		43	17.2
	Graduate	80	32
	Post graduate	67	26.8
	Professional	60	24
Marital Status	Married	213	85.2
	Unmarried	37	14.8
Occupation	Professional	40	16
	Salaried	95	38
	Business	75	30
	Retired	45	18
Annual Income (in Rs.)	Less than 1,00,000	57	22.8
	1,00,001-2,00,000	58	23.2
	2,00,001-3,00,000	65	26
	Above 3,00,000	70	28
Annual Savings (in Rs.)	Less than 50,000	45	18
	50,001-100,000	55	22
	Above 1,00,000	150	60

Source: Primary Data

than Rs. 50000. Therefore, they are capable to invest in mutual funds.

The survey reveals that the most preferred investment vehicle is Bank Deposits, with MFs ranking 4<sup>th</sup> in the order among 8 choices

**Table 3: Savings Avenue Preference Among Respondents**

<i>Savings Avenue</i>	<i>WMV</i>	<i>Rank</i>
Currency	2.78	VII
Bank Deposit	6.19	I
Life Insurance	5.55	III
Pension and PF	5.58	II
Shares and Debentures	4.14	VI
Units of MFs	5.13	IV
Postal Savings	4.40	V
Chits	2.24	VIII

Source: Primary Data

**Table 4: Scheme Preference Among Mutual Fund Investors**

<i>Scheme</i>	<i>WMV</i>	<i>Rank</i>
Growth	2.16	I
Income	2.07	II
Balanced	1.76	III

Source: Primary Data

Growth schemes are ranked first, followed by income schemes and balanced schemes.

**Table 5: Mutual Fund Investment Objective Among Present Investors**

<i>Objectives</i>	<i>Weighted Mean Value</i>	<i>Rank</i>
Safety	3.43	I
Liquidity	2.74	IV
Tax Benefit	3.15	III
Good Return	3.31	II
Capital Appreciation	2.37	V

Source: Primary Data

The investors expect safety first, followed by good returns, tax benefits, liquidity and capital appreciation.

**Table 6: Preferable Route to Mutual Fund Investing**

<i>Route</i>	<i>WMV</i>	<i>Rank</i>
Friend's suggestion	3.03	V
Newspapers/Magazines	4.41	II
Self-Decision	4.80	I
Television	3.13	IV
Brokers/Agents	3.53	III
Mail	2.10	VI

Source: Primary Data

The survey reveals that the scheme choice assessment is made by respondents on their own, and the other sources influencing their selection decision are newspapers and magazines, brokers and agents, television, friends suggestions, and direct mail in that order.

The findings regarding the influential fund selection factors are discussed below.

**Table 7: Significance of Factors in Mutual Fund Selection**

<i>Factors Weighted</i>	<i>Mean Value</i>	<i>ScaleSignificance</i>
Scheme Qualities	4.55	Highly Important
Fund Sponsor Qualities	4.20	Important
Investor Services	4.38	Important

Source: Primary Data

### Influence of Product Qualities on Selection of Scheme

The weighted mean value and scale significance is given in Table 8.

The eight fund related variables were analyzed for their significance. The analysis reveals that the investor considers all the 8 variables as important in his selection of the scheme.

### Influence of Fund Sponsor Qualities on Selection of Fund

The six sponsors' related variables were analyzed for their significance. The analysis reveals that the investor considers all the six variables as important in his selection of the fund.

### Influence of Investor Services on Selection of Fund

The weighted mean values of the variables and scale significance are given in Table 10.

**Table 8: Significance of Product Related Factors in Scheme Selection**

<i>Sr. No.</i>	<i>Variable</i>	<i>WMV</i>	<i>Std. Dev.</i>	<i>Scale Significance</i>
1	Fund's Performance Records	4.37	0.78	Important
2	Scheme's Standing Or Brand Name	4.21	0.73	Important
3	Scheme's Expense Ratio	3.62	0.93	Important
4	Scheme's Portfolio Of Investment	4.15	0.93	Important
5	WithdrawalAnd RedemptionFacility	4.10	0.86	Important
6	FavorableRating By A Rating Agency	3.85	1.02	Important
7	Products With Tax Benefits	3.91	0.97	Important
8	Entry And Exit Load	3.66	1.02	Important

Source: Primary Data

The seven investor services related variables were analysed for their significance. The analysis reveals that the investors consider 6 out of 7 variables as important and consider 5 (Disclosure of schemes' investment on every trading day) as somewhat important in the selection of fund. Hence, to identify the investor services related factor, which influences the investor's fund selection, and to enable the AMCs to develop the identified services,

## FINDINGS

1. No significant relationship is found between in the acceptance level of the respondents belonging to different gender, age groups, educational status, and occupation towards motivating factors for investment in mutual funds. However, a significant relationship is found different annual family income group and amount of wealth owned towards motivating factors for investment in mutual funds.
2. 56.4% respondents belongs to the age group 31 to 50 years, 82.8 % respondents having education more than graduate, 77.2 % respondents belonging to annual family income up to Rs.100000, 68 % respondents of businessmen and salaried category, and 82 % respondents have saving more than Rs. 50000. Therefore, they are capable to invest in mutual funds
3. No significant relationship is found between the attitude of the respondents belonging to different gender, educational status, annual family income, occupation, and amount of wealth owned towards significance level of the fund selection criterion. A significant relationship is found among the attitude of respondents of different age groups towards significance level of the fund selection criterion.
4. Male respondents, respondents in the age group 36-45 years, respondents having P.G and above qualification, respondents who have annual family income above Rs.100000, businessmen, respondents having wealth value up to Rs. 3, 00,000 are giving more significance to fund selection criterion.
5. There is a consistency among the attitude of the investors in the age group up to 25 years, among the investors having HSC qualification, among the investors who have annual family income above Rs.2, 00,000 among the professionals, and investors who have wealth value up to Rs.3,00,000 towards significance level of the fund selection

criterion.

6. Gender and educational status have no significant effect on the attitude level of the respondents towards significance of the fund selection criterion.
7. The survey reveals that the investors are basically influenced by the intrinsic qualities of the product followed by efficient fund management and general image of the scheme in their selection of fund schemes.

## SUGGESTIONS

1. Continuous product development and introduction of innovative products, is a must to attract and retain this market segment. MFs can design effective products combining insurance and investment benefits to cater to the investor needs of safety and returns respectively. This will surely attract low and moderate risk profile investors who often resist their desire to play directly in the capital market.
2. The survey reveals priority to self-decision in scheme selection. Information dissemination through all possible routes which will reach the investors should be tapped in a cost-effective manner by AMCs. The agencies and persons engaged in giving investment advice should gear up now to win the confidence of the investors. In the long run, it will help both the investors and the investment advisers, thus strengthening the link between the individual investors and the mutual funds.
4. When the nation is set for digital India, In spite of having access to Internet, necessitates establishment of more internet operated service centers throughout the length and breadth in urban and Semi-urban centers.
5. Mutual fund companies should segment their target customers and position their products. As far as retail investors are concerned, they can be in turn divided into various segments such as young families with small or no children, middle-aged people saving for retirement and retired people looking for steady income. Suitable products such as growth and balanced schemes for young families and income schemes with certain and steady returns for retired people can be marketed. By proper segmentation and by targeting the right product to the right customer, mutual fund companies can hope to win the confidence of their customers and own them

for a lifetime. In this way the market scope for mutual funds can be expanded.

6. Whenever a mutual fund is launched, it states its portfolio according to the objectives of funds, but is experienced that many mutual fund operators ignored the basic objective of fund portfolio; particularly those mutual funds which are income oriented required investing their many mainly in debt instrument of high yielding. It is suggested that the mutual fund operators must understand the basic objective of fund portfolio and accordingly shall launch funds in the market.
- 7 The respondents state that mutual funds have not been able to provide quick service and adequate service. Therefore, it is suggested that the mutual fund companies should improve their service quality to attract more retail investors. At present, electronic sale of financial products is gaining volumes with the widespread acceptability of e-buying. Therefore AMC's should establish friendlier and easily accessible 'Automated Response Systems'. It will reduce the turn around time for services like investments, redemptions and transfers and bring them on par with banks in turn around time.

## CONCLUSION

The characteristics of the Indian Stock Market and consciousness of the investor require for running a mutual fund. The study looks at the awareness stage of the investors towards savings in mutual funds. The small investors purchase does not have a high level of consistency due to the influence of different purchase factors. Hence, the mutual fund industry needs to expand products to satisfy customer needs. The post survey developments are likely to have an influence on the findings. Behavioural trends usually take time to stabilize and they get disturbed even by a slight change in any of the influencing variables. Hence, surveys similar to the present one need to be conducted at intervals to develop useful models. It is hoped that the survey result will be helpful in decision-making for the AMC's.

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