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# Investors Preferences For Investment In Mutual Funds In India

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## ABSTRACT

There has been growing importance of Mutual Fund Investment in India. When compared with other financial instruments, investments in Mutual funds are safer and also yields more returns on the portfolio investment. Indian mutual fund has gained a lot of popularity from the past few years. Earlier only UTI enjoyed the monopoly in this industry but with the passage of time many new players entered the market, due to which the UTI monopoly breaks down and the industry faces a severe competition. As the time passes this industry has become a buzz word in the Indian financial system. So it is very important to know the investors' perception about this industry.

This study is done to determine the preferences of investors for investment in mutual funds in India. The objectives of the study were to identify the factors that influence the preferences of investors for investment in mutual fund, to analyze investment options other than mutual funds and to plan the promotion of mutual fund investment in India. The sample were divided into two i.e. Prospective and Existing investors. The study reveals the most preferred factor for investment in mutual fund by the existing investors is high return and tax benefits. Bank is the main factor which influences their investment decision as the preferred distribution channel for investment.

**Keywords:** UTI, Investor, Preferences, Return, Mutual Fund

## INTRODUCTION

Mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. This pool of money is invested in accordance with a stated objective. The ownership of the fund is joint thus "Mutual", i.e. the fund belongs to all

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investors. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciations realized are shared by its unit holders in proportions the number of units owned by them. Units are issued and can be redeemed as needed. The fund's Net Asset value (NAV) is determined each day. Investments in securities are spread across a wide cross-section of industries and sectors and thus the risk is reduced. Diversification reduces the risk because all stocks may not move in the same direction in the same proportion at the same time. Mutual fund issues units to the investors in accordance with quantum of money invested by them. Investors of mutual funds are known as unit holders. The SEBI (MF) Regulations, 1993 defines mutual fund as "A fund established in the form of a trust by a sponsor to raise money by the trustees through the sale of units to the public under one or more schemes for investing in securities in accordance with these regulations." Investment is the allocation of monetary resources to assets that are expected to yield some gain or positive return over a given period of time. In Exhibit 1 these assets range from safe investments to risky investments. Investments in this form are also called 'Financial Investments".

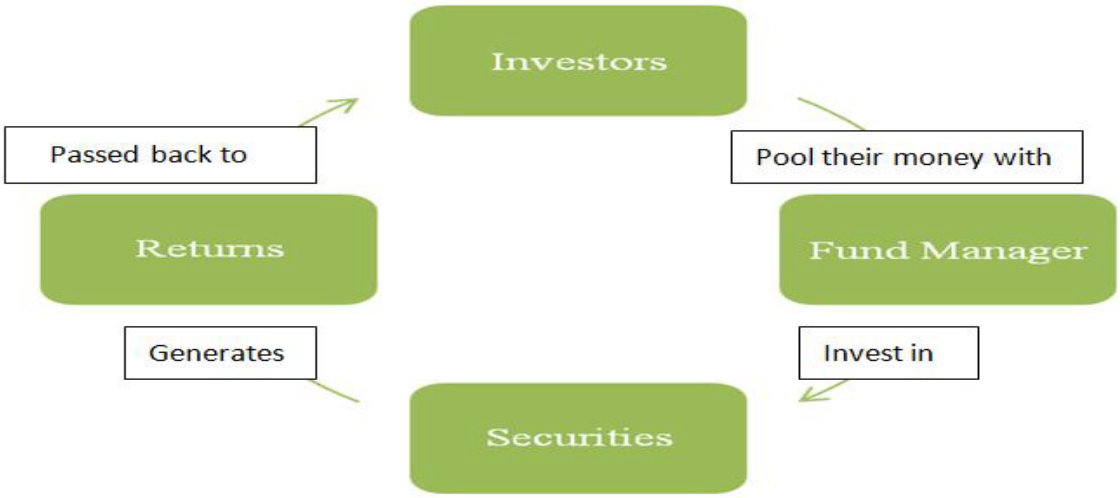



**Exhibit 1**

Grossman and Stiglitz (1980) had revealed that in equilibrium rational investors allocate money to active and passive strategies in proportions that leads to equal risk-adjusted expected returns to both strategies. Ippolito and Bogle (1992) have reported that fund selection by investors is based on past performance of the funds, and money flows into winning funds. Harlow and Brown (1990) found that women tend to take less risk than

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men in case of investment. Women are less likely to invest in riskier but high return assets than men (McDonald, 1997). Recent studies yield that males and females are equally successful in taking decisions under condition of risk (Croson and Gneezy, 2004). Many studies have research models in finance were influenced by the seminal work of Modigliani and Miller (1958), which stressed that, under perfect capital market setting; financial decisions had little bearing on the investment decision of firms. This has been challenged by theoretical and empirical studies since the mid-1970s, which produced results inconsistent with studies based on Modigliani and Miller propositions (Gertler, 1988; Stiglitz, 1988; Fazzari, 1992; Fazzari and Athey, 1987; Fazzari and Variato, 1994). These studies focused on how human beings should make their decisions but not on how they make their decisions. Ippolito and Bogle (1992) says that fund/scheme selection by investors is based on past performance of the funds and money flows into winning funds more rapidly than they flow out of losing funds (Riley and Chow, 1992), aversion to realized losses (Fama and French, 1992), investors confusion (Shefrin and Statman, 1995) also affect individual's investment decision has conducted a study to assess the awareness of MFs among investors, to identify the information sources influencing the buyer decision and the factors influencing the choice of a particular fund. The study revealed that income schemes and open-ended schemes are preferred over growth schemes and closeended schemes during the prevalent market conditions. Investors look for Safety of Principal, Liquidity and Capital Appreciation in order of importance; Newspapers and Magazines are the first source of information through which investors get to know about MFs / Schemes and the investor service is the major differentiating factor in the selection of MFs.

**PROBLEM STATEMENT**

There has been growing importance of mutual fund investment in India. When compared with other financial instruments, investments in Mutual funds are safer and also yield higher returns on the portfolio investment. The focus of the study is to identify the factors that are responsible in increasing the mutual fund investment in India. The study also helps to understand the role of demographics in mutual funds in India. This enables the fund managers preferences of investor's behind investing in Mutual Funds. Further analysis of the study reveals that financial literacy of respondents is very important for

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making investment in Mutual funds. Therefore mutual fund companies should promote financial awareness amongst the respondents so as to channelize their income and savings towards Mutual funds. When investor invests in a mutual fund, they depend on the fund's manager to make the right decisions regarding the fund's portfolio. If the invests in Index Funds, they foregoes management risk, because these funds do not employ managers. Though these are the problems in the investment of mutual funds, in the recent days most of the investors preferred to invest their funds on mutual funds. In this background, the research has made an attempt to study the investor's preference for mutual funds in India**.** The scope of the research is defined to the state of Haryana.

**OBJECTIVES OF THE STUDY**

- To identify the factors that influences the preferences of the investors for investment in mutual funds
- To analyze investment options other than mutual funds
- To plan for promotion of mutual fund investment in Haryana

**METHODOLOGY FOR THE STUDY**

**(a) Research design**

Descriptive research design used with an objective to gather maximum possible information.

**(b) Sources of data**

Primary data was collected from the existing investors and prospective investors both. Primary data was collected through one to one interaction with customers through structured questionnaire. Secondary data collected from books, journals, magazines and other published sources of information besides World Wide Web. Secondary Data is required mainly for knowing the present status of Indian mutual fund industry**.** The major sources were reports of Reserve Bank of India, Securities & Exchange Board of India, and Association of Mutual Funds in India, Business Magazines, Libraries, Previous Thesis (submitted in the related field), Portals, and Websites. The Sampling methodology applied in the proposed study was Judgmental Sampling Method. The study includes existing investors as well as prospective investors having interest in mutual funds. The basis for judgment of existing investors was economic profile and the previous investment made by them. Total sample size of 100 was taken consisting 50 existing

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investors and 50 prospective investors to accomplish the objectives of the project so as to get effective results. Existing investors who have invested in mutual fund and Prospective investors who have interest in the mutual funds. The study would be concentrated on India for the collection of data.

**(c) Data Collection Tools**

Questionnaire containing closed ended questions used as main research instrument. The questionnaire is structured in such a way that it contains all the questions which will help in getting the objectives of study fulfilled. The primary data collected analyzed through analysis of variance which includes factor analysis, and Chi-Square Test.

**(d) Analysis of Data**

For analysis of primary data gathered from questionnaire ANOVA Technique (one way), Chi-Square test and factor analysis will be used for analysis and interpretation. Besides graphs and tables are used for the purpose of presentation.

**DATA ANALYSIS AND RSEULTS**

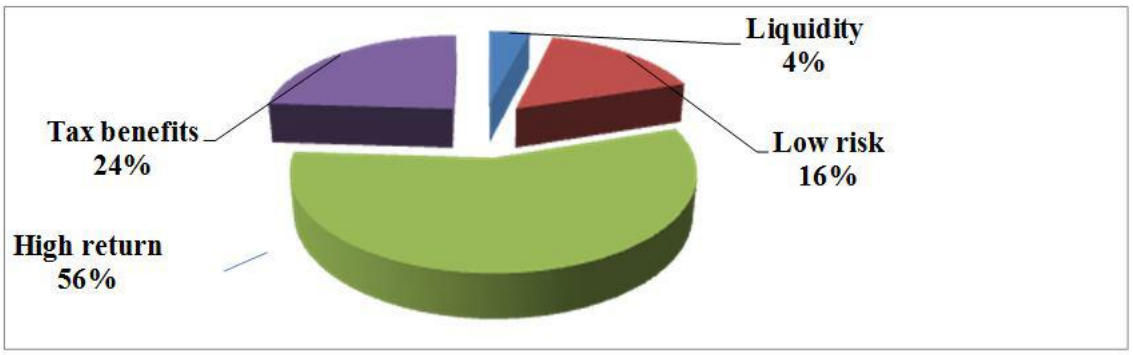
**(A) Analysis for the Existing investors**

**1. Knowledge of Mutual Fund and its operations**

As Mutual fund industry is investing very less amount of money in advertising, thus very less no. of respondent knows the functioning of mutual fund and its schemes. Only 47 percent of respondents know about the functioning and operations of mutual fund and its schemes.

**2. Factors Responsible for the Selection of Mutual Fund**

Various factors have different significance for different investors, which attract them to invest in mutual funds. Exhibit 2 shows different factors responsible for selection of mutual fund.



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**Exhibit 2**
**Factors Responsible for Selection of Mutual Funds**

### 3. Factors Influencing Investment Decision

Surroundings environment and source of information can clearly influence the investment decision of investor. Intermediaries like financial advisor or consultants, broker and agent influences more to investor decision, Study shows that 24 percent of investor's decision influence by intermediaries. As electronic media and print media as advertisements have good reach among investors, so 6 percent investors stated that information on internet or advertisement is sufficient to select as investment option for investing money. Bankers (32 percent of investors) also having significant contribution in influencing decision of investing money.

### 4. Mode of Investment Preferred

Systematic Investment Plan (SIP)**,** under this a fixed sum is invested each month on a fixed date of a month. Payment is made through post dated cheques or direct debit facilities. One Time Investment, under this a lump sum amount is invested once for a long period of time (equity growth fund) and as the dividends grows that invested amount can be re-invested. 84 percent investors invest in mutual through SIP and rest 16 percent use the mode of One Time Investment.

### 5. Preference of Distribution Channel

Study reveals that Bank is best channel as a primary source for purchasing mutual funds. Intermediaries and insurance agents are also a good option to investor for purchasing mutual fund schemes.

### 6. Features of Mutual Fund Attracting Investors

A variety of features are having different significance for different investors, which attract them to invest in mutual funds. Tax benefits is having maximum priority of investors, around 50 percent of those investors who are holding schemes of mutual funds, invest their money due to tax. 36 percent of mutual fund scheme holder stated that, better return is main reason which encourages them to invest in mutual funds. Only 10 percent

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of investors believe that investment in mutual fund is for income. While rest 4 percent invest for bonus.

**7. Preference of Sector by Investors**

Mutual fund have various choices of investment schemes for investors in various sectors which are categorized in two i.e. Public and Private sector. Study reveals that Public sector is preferred by most investors (83%) followed by Private sector (17%).

**8. Option for getting Return Preferred by the Investors**

Mutual fund investment Plans (viz. Growth, Dividend Payout, and Dividend Reinvestment) which play significant role in selecting mutual fund for investing money by investors, study reveals that mostly investors (82 percent) prefer growth in NAV option. While 8 percent prefer dividend reinvestment option and rest 10 percent prefer dividend payout.

**(B) Analysis for Prospective Investors**

**1. Knowledge of Mutual Fund**

Study revealed that most of the respondents (74 percent) were unaware about the functioning of mutual fund and its various schemes. Very less percent of respondents (26 percent) have knowledge of mutual fund.

**2. Factor influencing not to invest in Mutual Fund**

Study revealed the different reasons for not holding mutual funds. It is clearly depicted that 72 percent out of 50 respondents who were not investing money in mutual fund, stated that they were unaware about mutual funds and its schemes and products of industry and 14 percent were not investing in mutual fund due to risk associated with it and 12 percent due to complex nature of product. And 2 percent stated that because of fluctuation in returns.

**3. Investment Options Preferred Other than Mutual Fund**

Study depicts the various investment options other than mutual fund preferred by the respondents who have not invested money in mutual fund. Most of the respondent preferred fixed deposit as the best investment option other than mutual fund (40 percent) following 30 percent respondent preferred other option including Post office NSC, Provident fund, Gold, Real estate etc. 20 percent respondent states that insurance is safe

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and better than mutual fund. Rest 10 percent believes that saving account is better investment option.

4. **Advice preferred before investing in Mutual fund**

Study states that mostly advice to be preferred before investing in mutual fund by prospective investor was of financial agents or consultants (64 percent) while 30 percent respondent stated that they will prefer the advice from bank and rest 6 percent prefer the advice of their peer group before moving into mutual fund.

**5. Sector preferred for Mutual fund investment if interested**

Study depicts the most of the prospective investor prefer public sector (60 percent) for investment. While rest prefer investing in other sector (36 percent) which comprise of real estate sector, gold etc. for better return. Less number of investor prefer private sector (4 percent) as they consider it risky.

**6. If interested, investment will be done**

Study shows that the most prospective investor wants to invest their money in mutual fund if interested on yearly basis (70 percent) while 24 percent on quarterly basis in mutual fund. A small percent i.e. 6 percent want to invest money on monthly basis.

**7. Source of Information**

Study shows that major source of information for the prospective investor is media which includes both electronic as well as print media i.e. 58 percent. 20 percent gain knowledge from Banks while 12 percent seeks information from their peer group and remaining 10 percent from the intermediaries about mutual fund.

**DATA INTERPREATION**

From Table 1, it can be interpreted that the data is suitable for Factor analysis. The values in Significance level should be less than 0.05 which indicates that our data is suitable for Factor Analysis.

**Table: 1**

**KMO Test**

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| **KMO Measure of Sampling Adequacy** | **.830** |
|---|---|

**Table: 2**
**Component Matrix**

| **Factors** | **F1** | **F2** | **F3** | **F4** | **F5** |
|---|---|---|---|---|---|
| Dividend | .799 | | | | |
| Return | .769 | | | | |
| Safety | .735 | | | | |
| Growth | .687 | | | | |
| NAV | .655 | | | | |
| Liquidity | .606 | | | | |
| Income | .500 | | | | |
| Reinvestment | | .613 | | | |
| Payout Facility | | .519 | | | |
| Bonus | | .644 | | | |
| Tax Benefits | | | .732 | | |
| Sector Preference | | | .519 | | |
| Product Management | | | | .748 | |
| Knowledge of Schemes | | | | | .615 |
| Advertising | | | | | .641 |
| Eigen Value | 7.735 | 1.736 | 1.599 | 1.199 | 1.077 |
| Cumulative Percentage | 35.159 | 43.049 | 50.319 | 55.767 | 60.663 |

Table 2 shows the Eigen values and percentage of variance for other factors is shown respectively in the table. The Total Variance accounted by 5 factors is 30.332% is acceptable & thus establishes the validity of study.

## CONCLUSION

The most preferred factor for investment in mutual fund by the existing investors is high return and tax benefits. Bank is the main factor which influences their investment decision as the preferred distribution channel for investment is also bank. Tax benefit is the mostly preferred feature of mutual fund which attracts the investor for investment in mutual fund. Majority of the existing investor prefer the systematic investment plan as mode of investment in mutual fund as it gives more freedom of payment and provides better services to the investor. Investment in public sector is the best selected option for investing in mutual fund. Also the existing investors prefer the option of growth in NAV for getting in return for investment in mutual fund. The prospective investors have very less or equivalent to nil knowledge of mutual fund. The main factor for not holding mutual fund is their lack of knowledge for mutual fund and its scheme and also the risk associated with it. The other options preferred better than mutual fund investment were

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fixed deposits, Post office NSC, Government Provident fund, Gold etc. The major source of information about the schemes of mutual fund and other scheme for investment is media which includes both electrical as well as paper. The sector preferred by the prospective investors for the investment in mutual fund is public sector if they are interested in future. If these prospective investors are interested in mutual fund then they would like to invest yearly rather investing monthly.

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