

## **An Empirical Study on Factors Affecting Investment in Mutual Funds**

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### **ABSTRACT**

It is the dream for every human being to earn more and to invest hard earned money so that they can reach their financial goals. Two decades ago the most safest and fair return on investment place are the Banks. Investors are more concern about the safety rather than the multiplication. But present scenario reveals the changing tendency of the investors about their perception towards investment. The port-folio available for the investors to invest their savings are such as Bank Deposits, Shares, Debentures, Bonds, Government Securities, Mutual Funds Gold and Silver, Real estates, etc. Due to globalization and the increased capacity of earning, investors are inclined towards such type of investment which will work harder for their savings and fetch them good return. Mutual funds are one of the best choices which will fulfill their expectation. The objective of the research is to throw light on the concept of Mutual Funds and what are the key factors that will be taken into consideration by the investors before making their investment in Mutual Funds.

**Key Words:** Mutual Funds, Globalization, Port folio of Investment, Return on Investment,

### **1. INTRODUCTION**

The first mutual fund (Open-end type) with redeemable shares was established on 21<sup>st</sup> March 1924. Based on the concept of Unity is strength and with a view to provide small investors who have less knowledge about the investment skills and unaffordable for bulk investments a wide avenues of investment opportunities a business genius named Adriaan Van ketwich formed a trust in the name of Massachusetts Investors Trust with a view to execute the concept of mutual funds. Even though decades have passed away the trust is still alive and its existence is managed by MFS Investment Management. There are so many Asset Management Companies are functioning worldwide. But MFS is one of the oldest member with its incredible financial services especially in the field of Mutual Funds.

### **2. ORIGIN OF MUTUAL FUND IN INDIA**

In order to stabilize the economic growth, the Government of India and Reserve Bank of India have joined together to give birth of a company named as Unit Trust of India. UTI was set up in the year 1963 and holds the name as the first company dealing with mutual funds. The very objective of UTI is to pool the savings of the investors who are longing for the information about the investment industries and has a desire to be the holders of financial instruments such as shares, debentures, bonds, etc., in a large firm with small investments.

During the period from 1964 to 1987 UTI plays monopoly rule in the field of Mutual Funds. During this phase of inception it has introduced a number of plans and plays a pivot role in establishing Mutual Fund Industry in India. One of the famous plans introduced by UTI is ULIP

- Unit Linked Insurance Plan which mobilizes higher percentage of Asset Management funds from the investors.

By the end of 1988, with the permission of Government of India, State Bank of India has launched first Non-UTI Asset Management Fund immediately followed by the entry of its counter parts namely Canara Bank, Life Insurance Corporation, General Insurance Corporation and Punjab National Bank. As a result the mutual fund industry in India started its journey in the path of growth and potential investors are interested to increase their percentage of savings in mutual Funds. As a consequence of entry of public sector banks in the field of mutual funds brought the monopolistic role of UTI to an end.

The need of financial sector reforms and importance of economic liberalization pushed the Indian government to open the doors for private sectors to participate in the operation of Mutual Fund Industry. During the period from 1993 to 2003 many private companies in collaboration with foreign entities has established their Asset Management Funds. In order to prevent the interest of stakeholders and safeguard their investment, Government of India has announced many rules and regulations through SEBI Regulations Act 1992. On the other hand the mutual fund industry itself a regulatory body named as Association of Mutual Funds of India (AMFI) mainly with the aim to educate the investors and to streamline the industry.

In the year 2003 February, in order to encourage the entry of private sector the UTI has been bifurcated into two separate entities named as

- (i) UTI Mutual Fund (Directly controlled by SEBI regulations)
- (ii) Specified Undertaking of Unit Trust of India (SUUTI)

A global economic recession hits the financial markets in the year 2009. Majority of the investors were affected by great losses which resulted in losing their faith in investing Mutual Funds. SEBI introduced numerous positive policies in the year 2012 and the Government of India has taken progressive measures. It results in a constant rise in the Assets Under Management as well as total number of participants which resulted in exponential growth of the Mutual fund industry in India.

### 3. KEY FACTORS FOR INVESTMENT DECISION IN MUTUAL FUNDS

A Mutual Fund is a professionally managed investment scheme usually run by an asset management company that brings together a group of people and invest their money in stocks, bonds and other securities. In Mutual Funds a Fund Manager otherwise called as portfolio Manager decides how to make investments and for his skill in selecting the investment, he will be paid a fee which comes from the earning from the fund. According to the information revealed by AMFI the worth of Assets under management companies have been tremendously increased from 25 crores in the year 1965 to 2,338,082 crores during the year 2018. It shows the investors interest towards mutual funds. The following are the key considerations by the investors before taking investment decisions in mutual funds.

#### CONSISTENCY OF PERFORMANCE

Normally investors will analyze the returns from a particular investment over a period of time. If the investment option provides fair and good returns consistently obviously he may go for

selecting that particular pattern of investment. The same mechanism is applicable for mutual fund industries also. A fund which generates fair and good returns over a period of time irrespective of the climate prevails in the industry whether the industry is in peak or in the down line. AMC Track Record plays immensely a greater role by publishing the past performance and the net worth of the assets managed by the companies. Transparency in maintain track record helps the investors to select a suitable type of investment which will fulfill his financial goals.

#### **4. FUND MANAGERS EXPERIENCE AND EXCELLENCE IN THE FIELD**

The most important factor which drives an investor to select a fund option is the fund manager's experience in the field and his tactfulness to make wise investment decisions during the period of boom and recession.

#### **RISK FACTOR**

Yet another key consideration is the risk slab fixed by the investors to play within the boundaries. In the year 2005 SEBI made it compulsory for all Asset Management companies to display the riskometer. It reveals 5 levels of risk associated with the amount invested such as low, moderately low, moderate, moderately high and high. For example if an investor is ready to bear only low risk, he can opt for liquid funds and short duration funds, if he adopts medium risk factor, he can choose Multicap funds, if he goes for high risk, his choice may be for Equity Hybrid Funds. But while fixing the risk slab he has to consider the duration of the investment also.

#### **EXPENSE RATIO CHARGES**

It involves the brokerage and other operational costs that the AMC charges on the investors. Stock Exchange Board of India Regulates the percentage to be charged by the Asset Management Companies. A higher expense ratio will definitely minimize the return on the investment and vice versa. Even though some of the funds are charging higher percentage of expense ratio the return NAV (Net Asset Value) will be higher. Hence the expense Ratio should be scrutinized by the investors thoroughly before making investments depending upon their financial goals.

#### **LIQUIDITY**

Liquidity indicates the speed of converting Mutual Fund into money. When the investors want to restructure their portfolio, easy conversion of the previous investment plays a vital role. The various routes for liquidating mutual funds are opting funds listed in stock exchanges, Buy back option Switching over and roll over options, Pledging etc. Hence the investors should throw a considerable amount of attention on the liquidity nature of mutual funds while making investments.

#### **EXIT LOAD**

Exit load is a charge imposed by the AMC when the investors divorce his relationship and wants to quit from a scheme or from the company. The higher the percentage of exit load directly affects the NAV value of the investor and the lower percentage keeps in the

comfortable zone. In order to get high return and easy diversification, an investor has to analyze the load of percentage connected with the type of mutual fund selected to invest.

## **BRAND IMAGE**

Irrespective of all the other factors Brand Image created by the Asset Management companies attracts more investors. By providing quality products and transparency in dealings, employment of qualified and skilled asset managers create a positive brand image among the investors. Even though there is a slight decline in the performance the AMC's which are having their brand image and value still retains the potential customers.

## **5. RESEARCH OBJECTIVE**

1. To highlight the basic concept of mutual fund industry.
2. To analyze the various important factors that affects the investment decision by the investors in mutual fund industry.
3. To tabulate valuable findings and suggestions.

## **6. RESEARCH METHODOLOGY**

A sample of mutual fund investors were considered as the respondents of the research. The sample size is 100 respondents. Convenience sample method was used to select the respondents. A structured questionnaire was prepared to get honest answer from the respondents.

## **SELECTION OF THE STUDY AREA**

Avadi Municipality area has been selected to conduct the research. The basic reason behind the selection of area is being the resident of the area easy collection of data is possible by the researcher. Being a growing city there will be more possibility of investors in securities zone. Up to the knowledge of the researcher there are no recent studies conducted in the area of mutual fund investment in Avadi area.

## **DATA COLLECTION**

Both primary and secondary data were used to carry out the research. The secondary data has been collected from various authorized reports, books, journals, interview given by eminent personalities about mutual fund investment. Primary data was collected by structured questionnaire and direct discussion with the respondents.

## **TOOL FOR ANALYSIS**

Tabulation of primary data has been carried out. Based on the responses Rating Index of factor consideration while making mutual fund investment was calculated. The rating scale assigned was – Strongly Agreed- 5 rating scale, Agree- 4 rating scale, Neutral-3 rating scale, Disagree- 2 rating scale and Strongly Disagree- 1 rating scale. For calculating the score each factor was multiplied by number of respondents with the appropriate value.

**RATING INDEX = OBTAINED SCORE/MAXIMUM SCORE X100**  
**RATING INDEX OF FACTORS AFFECTING INVESTMENT DECISION IN MUTUAL FUNDS**

S.NO.	FACTORS	SA	A	N	DA	SDA	TOTAL	INDEX
1.	Consistency of Performance	36	30	24	6	4	100	77
2.	Liquidity	24	32	34	6	4	100	76
3.	Expense Ratio	16	24	22	16	22	100	59
4.	Brand Image	22	38	34	4	2	100	75
5.	Exit Load	20	14	24	18	24	100	57
6.	Risk Factor	20	32	30	10	8	100	69
7.	Fund Managers Experience	20	30	20	18	12	100	65

SA-Strongly Agree: A-Agree: N-Neutral: DA-Dis-Agree: SDA-Strongly Dis-Agree:

**TABLE NO 1**

## 7. INTERPRETATION

From the above table we can understand that by obtaining 77% consistency of performance factor holds the prime importance, the 2<sup>nd</sup> key position goes to Liquidity factor by scoring 76%. The factor Expense ratio assumes 6<sup>th</sup> Rating by attaining 59%. The factor Brand Image occupies 3<sup>rd</sup> place for consideration which is assigned 75%. The score for Exit Load Factor is 57% which gains 7<sup>th</sup> place in the consideration. The Risk Factor Enjoys 4<sup>th</sup> place by holding 69%. The Score for Fund Manager's experience is 65% by which it gains 5<sup>th</sup> place for consideration while making investment decisions in the mutual funds.

## 8. FINDINGS AND SUGGESTIONS

From the above interpretation it is clear that the consistency of performance attracts more investors than any other factors. Hence to withstand in the industry an asset management company has to maintain its performance in a consistent manner. Liquidity assumes the next consideration by the investors. So there should be flexibility in converting the plans or withdrawing the plans. Brand Image hits the investors psychologically to choose their financial instrumental products. Hence to maintain their Brand Image in the industry AMC has to take considerable measures such as best return, easy conversion, ethical trading, transparency in track records, etc. The awareness about the risk adjoined with the scheme should be created and clear explanations should be given by the concern authorities dealing in mutual funds. Fund Managers skill and knowledge of recent trends in the market should be enhanced because the next priority given by the investors are their perception towards the efficiency of fund managers on whom the investors are having much faith and confidence. Even though the expense ratio and exit load occupies last two places, minimizing these cost will attract more investors towards mutual fund industry.

## 9. CONCLUSION

Even though mutual funds are subject to market risk, the report given by AMFI indicates an increasing trend of investment. By pooling savings of the small investors, the mutual fund industry is not only fulfilling the dream of an ordinary investor but also the dream of our economists to make our country a developed nation in the global market. More education and

awareness is needed in the part of investors to have a clear vision and confidence. The Government, AMCs, and SEBI joined together should take more progressive measures to attract the investors towards Mutual funds and guarantee about monitoring the operations of these industries.

## **10. LIMITATIONS**

1. The research deals only with small group of respondents which may not represent a large population.
2. Convenience sampling method was used
3. Perception is a social science hence the opinions and views expressed by the respondents may change in future.

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