

Impact of Influential Investors Investment Objective and Selection Behaviour Attributes Over Open Ended Mutual Fund Schemes

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Abstract

This paper study about the various influential investment objective and selection behavior over open ended mutual fund schemes. It is very difficult task for selecting a particular fund by the investors to satisfy their financial objective. This paper concentrates on two categories of investors namely Long term and Short term investors. Asset Management Company (AMC) focused on bridging a gap between savings and investment and creating long term wealth for investors through a range of simple and relevant investment solutions. It creates long term wealth for investors through a range of investment solutions. The ignorance of investors about mutual fund coupled with aggressive selling by promising higher returns to the investors have resulted into loss of investors' confidence due to inability to provide higher return. This necessitates the Asset Management Companies (AMCs) to understand the fund/scheme selection/switching behaviour of the investors to design suitable products to meet the changing financial needs of the investors. In order to determine the factors of influencing attribute over their mutual fund investment, it is important to reduce the parameters so that there is a limited set of parameters that represent the total consideration set. The factor analysis using varimax rotated component analysis has been used for the study. This factors analysis helps to find the emerging influencing factors concerning in open ended mutual fund investment decision have been highlighted.

Key words: Mutual Funds, Investors, Selection Behavior, Fund image, Investment facility

Introduction

A mutual fund is a professionally managed investment fund that pools money from many investors to purchase securities. These investors may be retail or institutional in nature.

Mutual funds have advantages and disadvantages compared to direct investing in individual securities. The primary advantages of mutual funds are that they provide economies of scale, a higher level of diversification, they provide liquidity, and they are managed by professional investors. On the negative side, investors in a mutual fund must pay various fees and expenses.

Primary structures of mutual funds include open-end funds, unit investment trusts, and closed-end funds. Exchange-traded funds (ETFs) are open-end funds or unit investment trusts that trade on an exchange. Some close-ended funds also resemble exchange traded funds as they are traded on stock exchanges to improve their liquidity. Mutual funds are also classified by their principal investments as money market funds, bond or fixed income funds, stock or equity funds, hybrid funds or other. Funds may also be categorized as index funds, which are passively managed funds that match the performance of an index, or actively managed funds. Hedge funds are not mutual funds; hedge funds cannot be sold to the general public as they require huge investments. They are more risky than mutual funds and are subject to different government regulations.

Factors involved in influential investment objective and selection behaviour

The influencing factors for mutual fund investment decision are consist of nine criteria such as- Intrinsic fund deployment of resources, Credibility of track record, Flexible investment facilities, Intrinsic fund qualities, Credibility of fund image, Credibility of fund Manager, Real attempt to solve customer request, Establish rapport relationship and Provide financial suggestion. Here these variables are segregated into two dimensions namely Fund Influence and Sponsor Influence.

Research Objective

- o To predict the significant influential investors investment objective and selection behavior attributes over open ended mutual fund schemes.
- o To explore the factors emerging under rotated component matrix

Literature Review

Lodhi (2014) examined the impact of financial literacy, high experience, use of accounting information, importance of analyzing financial statements and age on the investment decision of any individual by applying a survey in Karachi, Pakistan. By using SPSS, correlation analysis was performed in order to determine the relation between the aforementioned variables. According to empirical results, financial literacy and accounting information were considered to be significant.

Geetha and Vimala (2014) investigated the effect of demographic variables on the investment decisions by performing a sample survey method in Chennai, India. According to analysis results, from the investors' point of view, changes in demographic factors such as age, income, education, and occupation had an influence in the investment avenue preference.

Tej singh, priyanka (2014) analysed the private sector of mutual funds are gaining more in terms of scale of mobilization of funds compared to that of public sector mutual funds. The study reveals that the private sector mutual funds are gaining more in terms of scale of mobilization of funds compared to that of public sector. The gap is reaching up to 81 percent in 2003-04 from 31 percent in 1998-99 and finally settled at 54 percent in 2009-10.

Suchitashukla (2015) analysed the financial performance in terms of risk–return relationship of selected mutual fund schemes (5 categories $\times$ 3 mutual fund=15 schemes). The study reveals that Overall the mutual funds have given better returns than the benchmark in the above period subject to infrastructure fund in year 2013.

Dr. Shriprakashsoni et al. (2015) comparative analysis of mutual fund schemes available at kotak mutual fund and HDFC mutual fund. The study concludes that Kotak Mutual Fund schemes are more destructive in Large Cap Equity schemes and HDFC Mutual Fund schemes.

Methodology

This proposed research paper has employed a descriptive research method. It is related to the analysis of significant influential investors' investment objective and selection behavior attributes over open ended mutual fund schemes. The researcher has adopted simple random sampling method to select sample respondents of 387 in the study area of tiruchirappalli district. The questionnaire survey technique has proposed to collect data. The following analysis has been used for the study:

- o Component Matrix
- o Factor Loading
- o Summary of Model Fit
- o Regression Weight.
- o Z Score

Exploratory factor analysis on influencing for open-ended mutual fund

In order to determine the factors of influencing attribute over their mutual fund investment, it is important to reduce the parameters so that there is a limited set of parameters that represent the total consideration set. The factor analysis using varimax rotated component analysis has been used for the study. This factors analysis helps to find the emerging influencing factors concerning in open ended mutual fund investment decision have been highlighted. There are nine influencing attributes are included for this study.

Table No.1: Descriptive Statistics

Variable Name	Variable Label	Mean	Std. Deviation	Analysis N
Resource	Intrinsic fund deployment of resources	3.88	.890	387
TrackRec	Credibility of track record	3.76	.938	387
Flexible	Flexible investment facilities	3.68	.917	387
FundQual	Intrinsic fund qualities	3.66	.951	387
Credibility	Credibility of fund image	3.74	.867	387
FundMagr	Credibility of fund Manager	3.88	.928	387
Tanspare	Real attempt to solve customer request	3.59	.864	387
Tangible	Establish rapport relationship	3.37	.811	387
FinAdv	Provide financial suggestion	3.65	.876	387

Descriptive analysis on influencing attributes for mutual fund investment decision

The influencing factors for mutual fund investment decision are consist of nine criteria such as, Intrinsic fund deployment of resources, Credibility of track record, Flexible investment facilities, Intrinsic fund qualities, Credibility of fund image, Credibility of fund Manager, Real attempt to solve customer request, Establish rapport relationship and Provide financial suggestion.

It is found that out of nine influencing factors for mutual fund investment decision, “Intrinsic fund deployment of resources” and “Credibility of fund Manager” was highly influential criteria for taking mutual fund investment decision. It has achieved a highest mean of 3.38 each and “Credibility of track record” and “Credibility of fund image” achieved at large mean by 3.76 and 3.74 respectively. The explanatory factor analysis is used to identify the factors that emerged to predict the influencing factors for mutual fund investment decision criteria in open ended mutual fund schemes. To test the suitability of the data for factor analysis, the following steps have been taken. The correlation matrices are computed and examined. It reveals that there are enough correlations to go ahead with factor analysis.

Table No.2: Communalities shows initial and extraction value

Communalities	Initial	Extraction
Resource	1.000	.699
TrackRec	1.000	.359
Flexible	1.000	.686
FundQual	1.000	.780
Credibility	1.000	.628
FundM agr	1.000	.511
Tanspare	1.000	.544
Tangible	1.000	.404
FinAdv	1.000	.575

Extraction Method: Principal Component Analysis

The communality of nine investment objective variable's proportion of variability that is explained by the two factors. The proportion of variance on any one of the original variables, which is being captured by the extracted factors, is known as communality. Large communalities indicate that a large number of variance has been accounted for by the factor

solution. The communality value is the same, regardless of whether unrotated factor loadings or rotated factor loadings for the analysis. Examine the communality values to assess how well each variable is explained by the factors. The closer the communality is to 1, the better the variable is explained by the factors. From the about output the communality value contributes significantly to the fit of influencing factors for mutual fund investment decision criteria. Hence, all these standards indicate that the data is suitable for factor analysis. For extracting factors the principal components analysis and latent root criterion, rotation methods with varimax were also applied. As per the latent root criterion, only the factors having latent roots or Eigen values greater than 1 are considered significant, and all the other factors with latent roots less than 1 are considered insignificant and disregarded.

Table No.3: Total Variance Explained

Component	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1	3.990	44.330	44.330
2	1.196	13.284	57.614
3	.885	9.833	67.446
4	.720	8.003	75.449
5	.594	6.602	82.052
6	.509	5.652	87.704
7	.453	5.030	92.734
8	.389	4.320	97.054
9	.265	2.946	100.000

Table No.4: Total Variance Explained under Extraction and Rotation sums of Squared loading

Component	Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.990	44.330	44.330	2.720	30.219	30.219
2	1.196	13.284	57.614	2.466	27.395	57.614

Extraction Method: Principal Component Analysis

After the standards indicated that is significant result obtained in the Kaiser-Meyer-Olking Measure of Sampling Adequacy, it is found that the data are suitable for factor analysis. Principal components analysis was employed for extracting the data which allowed determining the factor underlying the relationship between a number of variables. The total variance explained suggests that it extracts three factors accounts for 57.614 percentage of the variance in the relationship between variable. The purpose of the analysis is to obtain a small number of factors which account for most of the variability in the nine variables. In this case, three factors have been extracted, since two factors had eigen values greater than or equal to 1.0. Together they account for 57.614% of the variability in the original data. Loading on factor can be positive or negative. Rotation is necessary when extraction technique suggests that there are two or more function. The rotation of factors is designed to give an idea of how the factors are limited and extracted differ from each other and to provide a clear picture of which items load on which factors. There are only three factors, each having Eigen value more than one. The Eigen value of three factors under rotation squared loading was 2.720, and 2.466 respectively. The percentage of total variance is used as an index to determine how well the total factors solution accounts of what the variables together represent. The present solution accounts for 57.614 percent of the total variation for influencing factors for mutual fund investment decision criteria in open-ended fund. It is pretty good extraction as it can economize on the number of factors (from nine items, it has reduced to three factors) while the loss was 42.386 percent. The percentage of variance explained by factors one to three factors of investors investment objective in open ended fund criteria are 30.219 and 27.395 respectively (table above).

Table No.5: Factors contributes investor's investment objective criteria in open-ended mutual fund scheme selection

Name of the dimensions	Label	investor's investment objective	Factor Loading
F1 Fund influence	Resource	Intrinsic fund deployment of resources	.832
	FinAdv	Provide financial suggestion	.753
	Tanspare	Establish report relationship	.672
	FundM agr	Credibility of fund M anager	.597
	TrackRec	Credibility of track record	.537
F2 Sponsor influence	FundQual	Intrinsic fund qualities	.882
	Flexible	Flexible investment facilities	.781
	Credibility	Credibility of fund M anager	.731
	Tangible	Real attempt to solve customer request	.634

Influencing factors for choosing Open Ended Mutual Fund Schemes

Diagram No.1: Estimating standardized regression weights for Influencing factors of investors' mutual fund schemes by long term investors

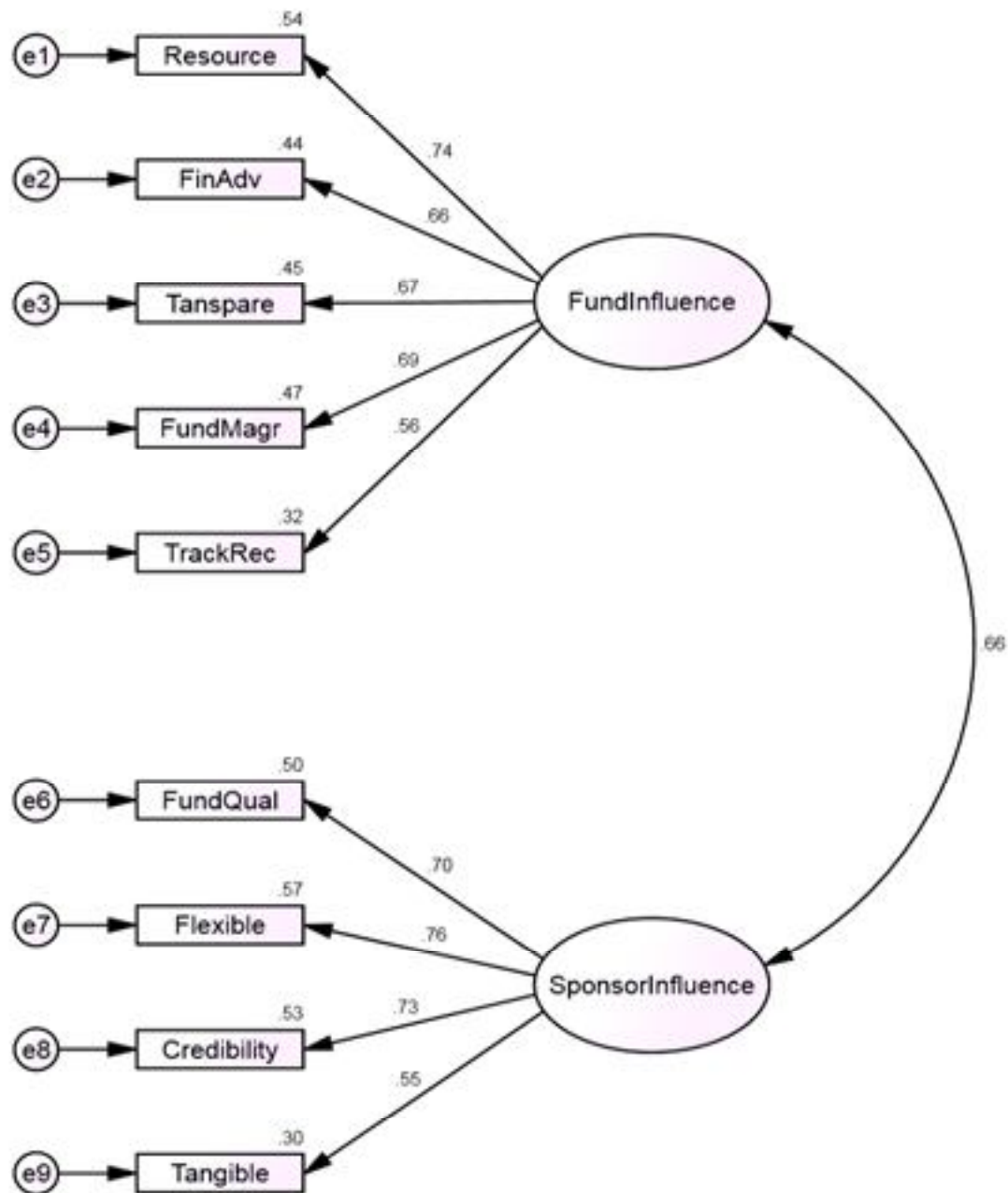


Table No.6: Regression Weight for influencing factor of mutual fund by long term investors

indicators		Latent factor	Estimate	S.E	C.R.	P	Estimate Standardized
Resource	<---	Fund Influence	.704	.062	11.443	0.001	.737
FinAdv	<---		.639	.064	10.024	0.001	.665
Tanspare	<---		.618	.061	10.105	0.001	.669
FundMagr	<---		.637	.061	10.455	0.001	.687
TrackRec	<---		.539	.066	8.174	0.001	.563
FundQual	<---	Sponsor Influence	.602	.056	10.666	0.001	.704
Flexible	<---		.658	.056	11.678	0.001	.756
Credibility	<---		.652	.058	11.150	0.001	.729
Tangible	<---		.460	.059	7.820	0.001	.545

The probability of getting a critical ratio as large as 11.443 in absolute value is less than 0.001. In other words, the regression weight for Fund Influence in the prediction of Intrinsic deployment of Resources is significantly different from zero at the 0.001 level (two-tailed). it is found that When Fund Influence goes up by 1 standard deviation, Intrinsic deployment of Resources goes up by 0.737 standard deviations.

The probability of getting a critical ratio as large as 10.455 in absolute value is less than 0.001. In other words, the regression weight for Fund Influence in the prediction of Credibility of Fund Manager is significantly different from zero at the 0.001 level (two-tailed). The result clearly indicates that when Fund Influence goes up by 1 standard deviation, Credibility of Fund Manager goes up by 0.687 standard deviations.

The probability of getting a critical ratio as large as 11.678 in absolute value is less than 0.001. In other words, the regression weight for Sponsor Influence in the prediction of Flexible investment facilities is significantly different from zero at the 0.001 level (two-tailed). it is clear that When Sponsor Influence goes up by 1 standard deviation, Flexible Investment facilities go up by 0.756 standard deviations.

The probability of getting a critical ratio as large as 11.15 in absolute value is less than 0.001. In other words, the regression weight for Sponsor Influence in the prediction of Credibility of

fund image is significantly different from zero at the 0.001 level (two-tailed). It is concluded that when Sponsor Influence goes up by 1 standard deviation, Credibility of fund image goes up by 0.729 standard deviations.

The probability of getting a critical ratio as large as 10.666 in absolute value is less than 0.001. In other words, the regression weight for Sponsor Influence in the prediction of Intrinsic Fund Qualities is significantly different from zero at the 0.001 level (two-tailed). It is clear that When Sponsor Influence goes up by 1 standard deviation; Intrinsic Fund Qualities goes up by 0.704 standard deviations.

It is concluded that out of nine investors influence variables, the variables namely “Flexibility investment facilities”, “Intrinsic fund deployment of resources” and “Credibility of fund image” has achieved highest critical ration and emerged to predict the investors influence criteria for the long term investor.

The probability of getting a critical ratio as large as 11.389 in absolute value is less than 0.001. In other words, the covariance between Fund Influence and Sponsor Influence is significantly different from zero at the 0.001 level (two-tailed). It is estimated that .655 is the estimated correlation between Fund Influence and Sponsor Influence.

Findings

- o Investors influencing attributes In Open-Ended Mutual Fund: The influencing factors for mutual fund investment decision are consist of nine criteria such as, Intrinsic fund deployment of resources, Credibility of track record, Flexible investment facilities, Intrinsic fund qualities, Credibility of fund image, Credibility of fund Manager, Real attempt to solve customer request, Establish rapport relationship and Provide financial suggestion. It is found that out of nine influencing factors for mutual fund investment decision, “Intrinsic fund deployment of resources” and “Credibility of fund Manager” was highly influential criteria for taking mutual fund investment decision. It has achieved a highest mean of 3.38 each and “Credibility of track record” and “Credibility of fund image” achieved at large mean by 3.76 and 3.74 respectively.
- o Long Term Investors: it is concluded that out of nine investors influence variables, the variables namely “Flexibility investment facilities”, “Intrinsic fund deployment of resources” and “Credibility of fund image” has achieved highest critical ration and

emerged to predict the investors influence criteria for the long term investor. It is estimated that .655 is the estimated correlation between Fund Influence and Sponsor Influence.

Suggestions

The findings clearly indicate that influencing indicators for investors to choose the open-ended mutual fund scheme are not same between Long term and Short term investors. Even though all the influencing attributes were influence the investors decision over the investment in open-ended mutual fund scheme. Moreover, the indicators such as intrinsic fund deployment of resources, Provide financial suggestion and credibility of track record has made differ between short term and long term investors. Based on the findings, it is suggested that all the mutual fund companies should bring schemes with continuous return and minimum guaranteed return. it will help the investors to invest without any hesitation. In realism, the mutual fund companies ensure their product qualities of open-ended fund, more probably ensure the any particular fund in the line of open-ended fund sponsor qualities and provide investor expected services are important should be should be consider by mutual fund companies irrespective of whatever type of fund they offer to public. The mutual fund companies should construct quality open-ended fund to meet the expectations of short term and long term investors.

Conclusion

In the present Indian financial market the Mutual funds are gaining popularity. An open-ended fund or scheme is one that is available for subscription and repurchase on a continuous basis. These schemes do not have a fixed maturity period. Investors can conveniently buy and sell units at Net Asset Value related prices which are declared on a daily basis. The key feature of open-end schemes is liquidity. The majority of mutual funds are open-end. By continuously selling and buying back fund shares, these funds provide investors with a very useful and convenient investing process. Though both open-end and close-end schemes have registered excellent growth in fund mobilization, but currently the open-ended category of schemes is more popular among the investors. Open-ended mutual funds offer many advantages -- including diversity and accessibility when compared with other types of investments. The various factors are identified in the study provide some valuable suggestion

based on the investors investment objective, investors influence indicators for open-ended mutual fund scheme selection and acceptable investors selection criteria to choose open-ended schemes. This will guide the organization in designing various open-ended mutual fund products for the various categories of investors. The mutual fund product designers have to craft strategies to introduce innovative open-ended schemes to improve the scope of the mutual funds market. The Mutual fund companies should ensure that right open-ended scheme shall be served to the various categories of investors. This will increase the overall investors trust and their commitment towards various open-ended mutual fund schemes further sponsor by the mutual fund companies in future.

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