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"Investor's opinion on Investment Pattern and Mutual Fund Investment"

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ABSTRACT

This article was conceptualised & primary data Based with the aim to understanding about the investment pattern in Madurai town with reference to Mutual Fund. A distinction is made between the clients of kg investments and non-clients. The total sample size was about 75. One of the important findings in the study was that many investors are not aware of investment in Mutual Find, same time they are known about investment in other avenue. This should be erased by create awareness about advantages of Mutual find investment.

Introduction

Every rupee one spends, saves or share has a far greater value than one probably realizes. The prosperity that has come to India post liberalization and remained more or less concentrated in the hands of a few needs to trickle down. And much of that percolation depends on what one does with the money. How efficiently one handles it, how well one can invest it, how wisely one borrows it ad how smartly one spends it.

As far as India is concerned the country has a booming economy and the SENSEX has scaled 6000 points. In a paradox the debt markets are in a lacklustre mood and the interest rates are rising especially on the home loans. Millions of the middle class still have availed a lot of loans for their needs. Meanwhile the inflation had been on the rise, now though quiet can rise unpredictably at any time fuelled by the hike in the petrol and diesel prices. Under such circumstances investments made are to be careful decisions. Unfortunately there are no time-tested methods for investing in the investment avenues today available. While investments in the equity markets enhance your returns, debt funds will give affixed but definite returns. Whatever be the investment alternatives ones priority remains the same-how to utilize ones money in the best possible manner, for this one has to keep an eye on the interest rates, the SENSEX, the overall Economic changes, the changing Government regulations and many more at the same time.

The investment Industry has ever been on the growth, bewildering ranges of investment alternatives are available today with the common man. They basically fall into two categories namely the financial assets and the real assets. By financial assets we mean the paper claims on the issuer such as the Government or a corporate body. The important ones being the:

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- Equity shares
- Corporate debentures
- Government securities
- Mutual funds
- Insurance policies etc

Real assets on the other hand are represented by tangible assets such as residential house, a commercial property, gold and other precious stores etc.

All of these investment instruments differ in their features such as returns, risk, marketability, tax shelter and many more. Based on these features an investor is required to select the best according to his needs and usually he does this by selecting a blend of these known as the portfolio to reduce his risk and give him a regular fair return.

The various investment alternatives can be classified industry wise into the following:

- Non marketable financial assets
- Equity shares
- Debt instruments
- Mutual funds scheme
- Real estate
- Precious objects
- Insurance policies

The following table time series data about security – wise investment portfolio of mutual fund industry in Indian indicates that the investment pattern has undergone substantial change over the years.

Investments pattern of Indian Mutual Fund Industry
(Figure in percentage)
(approx)

Types of Investment	**2007 2008**	**2008 2009**	**2009 2010**	**2010 2011**	**2011 2012**	**2012 2013**	**2013 2014**	**2014 2015**
Equity and preference shares	50.92	52.69	54.53	55.14	55.62	56.02	56.35	56.63
Debentures and	28.21	30.35	28.41	28.63	28.80	28.95	29.06	29.16

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bonds								
Terms Loans	5.60	4.38	4.34	3.99	3.71	3.48	3.29	3.13
Government securities	7.59	8.04	7.27	6.41	5.72	5.16	4.69	4.29
Others	7.68	4.53	5.44	5.83	6.14	6.40	6.61	6.79

Non-Marketable Financial Assets

A good portion of the financial assets of the individual investors is held in the form of non-marketable securities like bank deposits, post office savings, company deposits and PF. A distinguishing feature of these assets is that they represent the personal transactions between the investor and the issuer.

Bank deposits are the simplest of the investment avenues. There are various kinds of bank deposits like current, savings, fixed deposit accounts. They differ in their interest receipts and terms. While there is a ceiling on the interest payments on the savings deposit, the interest rates varies with the term of the fixed deposits.

Most of the investors with a gene called utmost caution will put their significant portion of their savings in FD. These are easy to operate. The theory is that one must always keep an amount equal to four months salary, as liquid cash. FDs must be for a long term such as 3 years and above to get a better return. One main factor here is the interest rates and most of the investors keep a vigil over this.

Equity Shares

Equity still remains in the top slot as the best investment opportunity for the retail investors. In spite of the highly volatile market ruled by sentiments, the stock markets are the best place to invest. Equity capital represents the ownership capital. Equity shareholders collectively own the company. They bear the risks and enjoy the reqards of ownership. Of all the forms of the securities the equity remains the most attractive ones. While the fixed income investment avenues seem to be more important to the investors, equity seems to capture their interest the most. The potential rewards and penalties associated with the equity shares make them an interesting even exiting proposition.

The economy and the corporate have strong fundamentals and hence the current stock valuations are not at dizzy heights. In the medium to long term, prospects are high for an appreciation given the fact that there is high liquidity, equity allocation are low and huge foreign investments increase to flow into the country.

Equity markets are on a roll backed by robust economic and corporate fundamentals. In the month of January 04 SENSEX after reaching 6194.11 levels has turned quite volatile and has corrected. When the markets turn choppy and its difficult to determine the direction of the markets staying invested through mutual funds will be a wise option as they carry with them benefits of professional management. If one considers the macro-economic factors then these intermediate corrections should not be a cause of worry for the investors. GDP growth expected to grow at 7.5 percent plus, burgeoning Forex reserves crossing US $ 100 billion mark, fiscal Deficit

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expected to be around 4.8% of GDP, as against previous target of 5.6% for FY11-12, FII inflows and healthy banking and corporate scenario are some of the macro economic factors which gives confidence that the markets are headed for a healthy long term bull run.

A strong efficient and dynamic share market is a key component of a healthy economy and is also indicative of one. The share market's role is to facilitate the efficient allocation of capital.

Debt Instruments

Debt instruments constitute short term or long-term debt instruments. Debt instruments, which have a maturity of less than 1 year at the time of issue, are called money market instruments. These instruments are highly liquid and have negligible risk. The major money market instruments are Treasury bills, CD, CP and REPOS. The government, financial institutions, banks and the corporate dominate the money market instruments. Individual investors rarely participate in the money market directly.

TB's are the most important market instrument. They represent the obligations on the part of the Government of India which have a primary tenor like 91 days and 364 day. CD's and CP's represent other forms of the Money market instruments.

On the other hand bonds or debentures represent the long-term debt instruments. The issuer of a bond agrees to pay a stipulated stream of cash flows.. Government securities, RBI Relief bonds, private sector debentures etc represent the other forms of these instruments.

Dept market mainly invests in the government securities they had a great run till few months ago the rising inflation and the rise in interest rates reduced their returns. Therefore most of the rising inflation and the rise in interest rates reduced their returns. Therefore most of the investors began to desert them. Banks on the other hand resorted to a large scale Gilt funds for their credit needs. Thereby giving a depressed return scenario, the international crude oil prices pushed up inflation to a high fo 8% and debt funds struggled to maintain their income of 9% leaving the investors to look for other investment sources. One thing that should be kept in mind is the interest rates and the term of investments in the debt instruments whether for long or short terms.

Real Estate

The most important asset for individual investors generally is a residential house. In addition to this, the more affluent investors are likely to be interested in the following types of real estate; commercial property, agricultural land, semi urban land, even time share in a holiday resort.

The demand for such investments is soaring high. The more affluent investors may be interested in investing in commercial property. This may take the form of constructing a commercial complex or by buying office or shop space in ac

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commercial complex. The appeal of such an investment life mainly in the form of regular income, which can be revised upward periodically. Further commercial property may enjoy some capital appreciation over a period of time. The disadvantage is that it requires a large outlay and may require time and effort in managing it.

Precious Objects

Precious objects are items that are generally small in size but highly valuable in monetary terms. The important precious objects are:

- Gold and silver
- Precious stones
- Art objects

Gold and silver, the two most widely held precious metals appeal to almost all kinds of investors due to their historic hedging against inflation, they are highly liquid and are aesthetically attractive. But against these advantages these metals also have some disadvantages such as they do not provide regular current income, no tax advantages associated with them and the most important possibility of being cheated. Precious stones such as the diamonds, rubies, emeralds, sapphires and pearls have appealed to the investors due to their aesthetic appeal and rarity. Art objects include paintings, sculptures, and etchings also form a part of the investments.

Insurance Policies

There are two types of insurance policies, one is the Life insurance policy and the other the General insurance policy and the other the General insurance policies. The basic customer needs met by life insurance policies are protection and savings. Policies that provide protection benefits are designed to protect the policyholder from the financial consequence of unwelcome events such as death or long-term sickness/disability/ policies that are designed as savings contracts allow the policyholder to build up funds to meet specific investment objectives such as income in retirement or repayment of a loan. In practice many of the policies provide a mixture of both savings and protection benefits. The main types of life insurance policies are endowment assurance, money back plan, whole life assurance; term assurance etc. riders on the other hand are add-ons to the life insurance policies. These add-ons can be purchased with the base policy on payment of a small additional premium. The most common ones are the accidental death benefit (ADB) rider, Critical illness rider, term raider etc.,

Many of the MNC's today have come out with different insurance policies both in life as well as general insurance policies.

Success in the stock markets depends a lot on quality research and time. If one doesn't have the time then one mainly considers investments such as insurance policies and mainly life insurance. Life insurance was traditionally viewed as tax

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saving product rather than a financial product. India is an underinsured market, with life insurance premiums forming barely 2.5% of its GDP, compared with the other over 8% in 94. Over the past years awareness of the insurance products has risen remarkably, thanks to the aggressive marketing of private players. One of the main reasons for the growth is the introduction of ULIP schemes by the private players. A part of the investments into the ULIP scheme can be invested in the debt or equity markets as per the direction of the policy holder by the Fund manager of the insurance company, and a portion of the amount goes for life cover.

Summary evaluation of various investment avenues

Investment Avenues	Return		Risk	Marketability/ Liquidity	Tax shelter/ benefit	Convenience
	Current Yield	Capital Appreciation				
Equity	Low	High	High	Fairly high	Yes	High
NCD	High	Negligible	Low	Average	Nil	High
Equity schemes	Low	High	High	High	Yes	Very high
Debt scheme	High	Low	Low	High	Yes	Very high
Bank deposits	Moderate	Nil	Negligible	High	Yes	Very high
PPF	Nil	High	Nil	Average	Yes	Very high
Life insurance	Nil	Moderate	Nil	Average	Yes	Very high
Residential house	Moderate	Moderate	Negligible	Low	High	Fair
Gold and silver	Nil	Moderate	Average	Average	Nil	average

(Source: Chandra. P; investment analysis and Portfolio Management; 2002)

Background and Related literature

When purchasing funds, we posit that investors use representativeness heuristic, where recent performance is deemed overly representative of a fund manager's true ability. When selling funds, this representativeness heuristic is more than offset by investors' reluctance to realize losses (loss disposition effect).

There are thousands of mutual funds available for purchase. Choosing a mutual fund for ones investments is a decision fraught with uncertainty. In general, which faced with uncertain choices, people use heuristics or rules of thumb to make judgments (tversky and kahneman (1974)). Using a representativeness heuristic, people believe small samples to be overly representative of the population from which they are drawn (Tversky and kahneman (1971), khneman and tversky (1972)). Gilovich, Vallone, and Tversky (1985) document that people systematically underestimate the chance of observing streaks, such as a run of heads in the flip of an unbiased coin, in a random sequence. Thus if people do observe streaks of heads or

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tails when an unbiased coin is flipped, they are likely to conclude that the coin is biased.

We posit that investors use this representativeness heuristic when buying mutual funds.[1] A fund recent performance is viewed as overly representative of a fund manager's skill and , thus, of the fund's future prospects. The abundance of mutual fund rankings and salient stories about successful fund manager's (e.g., Peter Lynch and Warren Buffet) reinforce the representativeness heuristic. If investors rely on a representativeness heuristic when selecting mutual funds. they will underestimate the tendency of fund performance to mean revert and thus anticipate better relative performance than is realized.

The fact that more money is invested in active then passive funds despite the superior historical performance of the latter is prima facie evidence that most investors believe that some mutual fund managers have the ability to consistently beat the market. Surveys also reveal that investors rely heavily on past performance when evaluating their fund purchase decisions (Goetzmann and Peles (1997); Fitzsimons, and Prince (1996)).

The decision to sell a mutual is quite different from the decision to purchase a fund. Most investors hold few funds. In 1988, the average household held five mutual funds.[2] Thus, unlike purchases where investors have thousands of funds to choose from, investors have only a handful of funds from which to choose when selling.

Using the representativeness heuristsic, investors would view poor fund performance as overly representative of a manager's skill and sell losing fund investments. However, this representativeness heuristic is partially offset by investors' desire to avoid the recognition of losses or loss aversion. In contrast to the representativeness heuristic, loss aversion predicts that investors will sell their winning funds. while holding their losers.

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[1] Rabin (2000) formerly models this notion by assuming people believe in the '' Law of Small Numbers,'' exaggerating the degree to which a small sample resembles the population from which it is drawn. He concludes that people may pay for financial advice from '' experts'' whose expertise is entirely illusory.

[2] The investment company institute, mutual fund fact book, 2000, p.47

Kahneman and Tversky (1979) argue that people are loss averse: they have an asymmetric attitude to gains and losses, getting less utility from gaining, say, $ 100 than they would loss if they lost $ 100 (having started $ 100 wealtheir). If investors use the purchase price of their mutual funds as a reference point, prospect theory predicts that mutual fund investors would be more likely to sell their winning mutual funds than their losers. The disposition to sell winners and hold losers has been dubbed the ''disposition effect'' (Shefrin and Statman)1985)).

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The disposition effect has a large effect on the investors selling decisions for many asset classes. Including individual common stocks (Odean (1998), Grinblatt and Keloharju (2000), company stock options (Health, Huddart, and Lang (1999), residential housing (Genesove and Mayer (1999)), and futures (Locke and Mann (1999)).

2. Objectives of the study

- To know the investment pattern of investors (madurai)
- To identify the number of investors in mutual fund from selected size.
- To know the age wise investment pattern of the investors and their asset allocation
- To identify the tax assesses investment pattern investment pattern in various tax saving instruments.

3. Scope of the study

- From knowing of investment pattern of investors on one MF industry can realise and issue the scheme / product.
- From knowing of asset allocation, the mutual fund industry can formulate / benefits of particular scheme / product.
- From knowing of tax assesses investment pattern; it will help to strengthening of ELSS facilities.

4. Methodology

The survey is based on descriptive research where the researcher tries to achieve new insights into the phenomenon. The methodology opted for this survey has been discussed under the following heads.

- Area of survey
- Sources and instruments of data collection
- Tools air analysis

4.1 Area of survey

The survey was conducted among the investors (size 75) in Madurai win client of KG INVESTMENTS (30) and non client of KG INVESTMENTS (45) were selected on a randon basis, while the non-clients of KG INVESTMENTS were selected using convenient sampling method.

4.2. Sources and instruments of collecting data

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The sources of information were in the form of collecting names, income, investment, portfolio (in %), about stock market etc. The primary data was collected using a ' Structured interview schedule'. The interview schedule is based on perception and attitude of investment pattern and mutual fund.

4.3. Tools and Analysis

Percentage method and chi-square method was adopted for the companion of the factors taken for the survey to analyse the collected data and to arrive at meaningful results. The responses were arranged and a master table prepared consolidating all the details of the interview schedule.

Limitation

- The study is confined to mutual fund industry
- The study is confined to Madurai & KG INVESTMENTS (stock broking Ltd.,)
- The respondent is unable to answer in calculative manner, about their level of income, allocation of assets into investment and mutual fund also fear to open minded about their income level

5. Analysis of data:

The questionnaires were given to the investors in the ratio of 30-45 of KG INVESTMENTS clients and non-clients respectively. The topic fully focuses on the individual investors behaviour, attitudes of investment, assets allocation and awareness level on mutual fund.

5.1 Major findings

1. Out of the total 75 investors selected, most of them were graduates
2. Out of the total 75,52 of them belonged to the salaried class, 15 in the self employed category
3. A total of 45 out of 60 worked or were working in the private sector
4. A large proportion of the investors had an annual income of less than 2 lakhs per annum
5. Most of the investors said that they had long term investment plans.
6. A large proportion of the investors (77% and 75%) still invested in Savings and fixed deposits respectively. While stocks and mutual funds constituted only 50% and 37% only.
7. Out of the 75 investors, 43 of them consider investing in the stock markets too risky.
8. Most of the mutual fund investors opted for Equity schemes, out of the total 28 investors, of them went for equity schemes, 11 invested in balanced and 1 in debt schemes.

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9. Age wise classifications of investments have shown that in the age class of less than 35 most of the clients have invested in stocks. But out of 20 clients only 10 have invested in Mutual funds. On the other hand a large majority of the non clients (25 and 24 respectively, out of 26) are still investing in SB and FD. In the are group of 35-50 it can be seen that most of the clients as well as the non clients have turned their investments towards more fixed income instruments rather than depending on equity related ones. In the age group of 50 and above out of the 3 clients all the 3 have invested in stocks, 2 in mutual funds and FD and 1 each in SB,PPF,PO and others. The non clients on the other hand have reduced investments in equity related products in this age category while many of them have invested in SB and FD.
10. Professional management was the most favoured reason for investing in Mutual funds.
11. Out of the various tax-saving instruments Insurance was the most availed one.
12. Most of the investors availed life insurance policies, many of them having taken them as a part of tax saving effort.

SUGGESTIONS AND RECOMMENDATIONS

- Most of the investors belonged in the age group of less than 35, which means they are able to take more risks and would like to earn more through investing in shares and other equity linked instruments.
- Clients in the age group of above 50 years can slowly reduce their investments in stocks and start investing in SB and FD's. non clients on the other hand in the age group of less than 35 years have not invested in stocks and mutual funds while a majority has done so in SB and FD's. They need to be made aware of the benefits of planning their investments at this age and kg investments can play an important role here.
- Most of the investors in shares are day traders, since they consider shares to be risky the benefits of investing in equities and Mutual funds and holding them for longer periods should be made aware to them.
- Kg investments stock broking, madurai should create awareness about the importance and advantages of investing in mutual funds, just like they have done for the shares and other stocks.
- This can be achieved if they can hold seminars once in a while for each occupational categories in madurai town
- Kg investments also can start a personal advisory division that caters to the need of investors especially in the Tax planning areas also through their web sits.

STATISTICAL INFERENCE:

Chi-square test was administered to study the possible association between variables like investment behaviour, attitudes and awareness with mutual fund in collaboration with investment pattern. it was evident that the value of Chi-square in respect of all the attitude and awareness was higher than the table value. This indicated that there is a positive association with investment pattern and awearness. At the same time, the chi-square value obtained with respect to investment behaviour

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was lower than the table value indicating that there is no association between the income level with awareness of mutual fund. This proved that attitude were dependent upon other factors in awareness' about mutual funds, its popularity and its objectives (which helpful and satisfy the customers needs).

CONCLUSION

In the last few years there have been a variety of investments that have been available to choose from. Through this variety is good, it has also made the choice of investments more complex there are mainly two thumb rules that one needs to remember. One no single instrument can be the best form of investment for everybody. Two, the investment has to suit the specific needs and requirements of an individual, and the investor alone is the best judge of what one wants out of his investments.

A good asset allocation is the Holy Grail of investing, but according to one recent survey most 401 (k) participants don't even have an asset allocation strategy. Asset allocation is the comerstone of good investing. Each investment must be part of an overall asset allocation plan. And this plan must not be generic (one-siz-fits-all), but rather must be tailored to ones specific needs.

Asset allocation not stock or mutual fund selection, not market timing is generally the most important factor in determining the return on ones investments. In fact, according to research which earned the Nobel Prize, asset allocation (the types or classes of securities owned) determines approximately 90% of the return. The remaining 10% of the return is determined by which particular investments (stock, bond, mutual fund, etc.) the investors selects and when he decides to buy them.

Investing and selecting the right investments are to play a major role in the future as the investors face a lot or alternatives. In this case stock brokers and other personal advisory services are going to play a dominant role in helping the investors in careful planning, reducing risks and thereby increasing returns.

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