A STUDY ON FACTORS INFLUENCING AMONG THE MUTUAL FUND INVESTORS WITH REFERENCE TO MADURAI DISTRICT

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Abstract

The study is analyse that the investors hesitate to invest in the equity fund when the market is down, but the marketing and distribution costs of these, incurred during this period, do not reflect a rise of investor's choice. The purchase decision of a mutual fund is largely depend upon investors' level of savings, investment pattern of the risk profile. As a product manager in the mutual fund market one ought to design mutual fund products which shall combine an optimal mix of return, risk, liquidity and safety for the small investors. Hence it is essential to analyse the profile of investors, investors' preferences and how they rate the mutual fund schemes and what significant factors influence their rating scheme. This study helps the mutual funds and other relevant agencies in designing the new schemes and their marketing.

Introduction

An investor has various alternative avenues to invest his savings in. Hence, savings are productively invested in assets depending on their risk and return characteristics. The objective of the investor is to minimize the risk involved in investment and maximize the return from the investment. Thus rise in price or inflation erodes the value of money. Savings are invested to provide a hedge or protection against inflation. If the investments cannot earn at par with the rise in prices, the real rate of return will be negative. Thus the objectives of an investor should be maximization of return, minimization of risk and hedge against inflation. Investors can put their money to work in various ways, but well managed, diversified common stock portfolio is one of the best means to accumulate wealth over years. Mutual funds are basically institutional arrangement for pooling of funds from small investors and investing them in the best possible portfolios. Mutual funds came in India with the establishment of Unit Trust of India in 1963. Until 1987, UTI was the only mutual funds company in the country. In 1987, the public sector banks with six banks established another mutual fund whereas they remained four after two public sector banks namely Indian Bank and bank of India have closed their mutual funds since 1995-96. At the same time, GIC, LIC and IDBI also floated their mutual funds in the form of subsidiaries. The mutual funds industry expanded in 1993 with the opening of this market for private sector too. At the end of March, 2002, 37 mutual funds are operating in the country having identified composition and led to product innovation (Uppal and Kaur, 2007).

Investors Behavior

The investment behavior of the people is usually determined by their asset management, investment objective, security returns, tradeoff between risk and returns. The optimum portfolio composition will in general differ among investors. It will depend both on their tastes and preferences that determine their expected utility from return and risks, and on the shape and position of the efficient opportunity frontier available to them. Since the investor behavior includes the nature of investment, amount of investment, selection of fund, selection of land families, variables leading to select the MFs, attitude towards the investment on MFs, reason for switching from are found to another and also the problems encountered in investing on MFs, the investors behavior in mutual funds industry covers all these areas.

Need for the Study

The new mutual fund launches has seen many of the equity based funds in the market during this period, primarily to attract investors who would like to take advantage of the low price in the stock market, but majority of the funds launched were debt funds. The investors hesitate to invest in the equity fund when the market is down, but the marketing and distribution costs of these, incurred during this period, do not reflect a rise of investor's choice. The purchase decision of a mutual fund is largely depend upon investors' level of savings, investment pattern of the risk profile. As a product manager in the mutual fund market one ought to design mutual fund products which shall combine an optimal mix of return, risk, liquidity and safety for the small investors. Hence it is essential to analyse the profile of investors, investors' preferences and how they rate the mutual fund schemes and what significant factors influence their rating scheme. This study helps the mutual funds and other relevant agencies in designing the new schemes and their marketing.

Statement of the Problem

Mutual fund in itself is deemed to be an institutional entity that encompasses the commonly desired and/or schematically accumulated financial goals of the community of investors. The money collected form a plethora of sources is invested by the fund manager in various types of securities depending on their duly specified objectives. A mutual funds, therefore, in is rudimentary conceptualization, is a collection of stocks and/or bonds, where in an investors holds a share, which represents a part of the fund holding thereof. A proportionate sharing of income earned through such investors and capital appreciation witnessed by the schemes is duly carried out. It must however be mentioned that this proportional sharing by the unit holders is governed by the number of units owned by them. Mutual fund is therefore, the most suitable investment option available for a common man

as it provides an opportunity to invest in a diversified, yet professionally managed portfolio at a competitive.

Objectives of the Study

- To study the profile of the investors and their investment behavior in mutual fund market
- To exhibit the investment pattern amongthe investors in different mutual;
- To identity the factors influencing the investment on mutual funds;
- To offer valuable recommendations.

Research Methodology

The research methodology is the way of systematically solving the research problem. It is a science of studying how research is conducted scientifically. Under it, the researcher acquaints himself/herself with the various steps generally adopted to study a research problem, along with the underlying logic behind them. The research methodology consists of research design, locale of research, sampling procedure nature of data, data collection methods, framework of analysis and imitations.

Research Design

A research design helps to decide upon issues like what, when, where, how much, by what means etc., with regard to an enquiry or a research study. It is an arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research design is the conceptual structures within which research is conducted; it constitutes the blue print for the collection, measurement and analysis of data.\

Selection of the Study Area

The Madurai district was purposively selected as the study area by the researcher for the following reasons.

- The financial advisers who gave the address of investors are residing at Madurai district.
- There were no exclusive recent studies related to the investors' behavior in the Madurai district.
- The Madurai district is a growing district in Tamil Nadu. Now only the investors are giving more importance in investing on mutual funds.

Nature of Data and Data Collection

Both primary and secondary data have been used for the present study. The secondary data are collected from the books journals and various reports related to mutual funds market in India. The data related to investors' behavior in mutual fund market have been collected from the pre structured interview schedule.

Tools for Analysis

T-Test

The‘t’ test has been used to find out the significant difference among the two means. It is calculated by

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\frac{(n_1-1)\sigma s_1^2 + (n_2-1)\sigma s_2^2}{n_1+n_2-2} \chi \sqrt{\frac{1}{n_1}+\frac{1}{n_2}}}}$$

With the degree of freedom of (n_1+n_2-2) (chow, et al., 1995)

One-Way Analysis Of Variance

The one-way analysis of variance is used to find out the significant difference among the more than two groups regarding a particular criterion which is measured in interval scale. (Sanjeev and Rust, 1997).

$$F = \frac{Greater\ Variance}{Smaller\ Variance}$$

Factor Analysis

The factor analysis is a multi-variate method. It is a statistical technique to identify the underlying factors among a large number of interdependent variables. It seeks to extract common factor variance from a given set of observations. It splits a number of attributes or variables into a smaller group of uncorrelated factors. It determines which variables belong together. This method is suitable for the cases with a number of variables having a high degree of correlation. (Aaker, 1997)[4].

Discriminate Analysis

The objective of discriminate analysis is to separate a population into two distinct groups or two distinct conditionalties. After such a separation is made, it should be able to discriminate one group against the other. For this purpose, a function called ‘Discriminant function’ is constructed. It is a linear function and it is used to describe the difference between two groups. If it is applied to identify the importance of discriminate variables among the two groups, it is called as ‘two group discriminate analysis. If the groups are more than two, it is called as multi discriminate analysis. The un-standardized procedure has been followed to establish the two group discriminate function. It is

$$Z = a+b_1X_1+ b_2X_2+\ldots..b_nX_n$$

Multi Discriminate Analysis

The multi discriminate analysis (Zafar et al., 1995)[7] have been administered to identify the important discriminate factors among Ranking –Driven Investors (RDI), active information investors (all) and advises influenced investors(ADI).

Confirmatory Factor Analysis (CFA)

The CFA is one of multi variate statistical tools which is applied to confirm the extracted variables in the factor by the exploratory factor analysis.

Analysis and Interpretation

Classification based on the occupation by the respondents

The following the table 1 shows that the respondents occupations. It consists of Private employment, Government employment, Business, Agriculture and Others.

Table 1 Occupation among the Investors

S. No	Occupation	Number of Investors in		Total
		IDI	ILI	
1.	Private employment	93	131	224
2.	Government employment	110	67	177
3.	Business	87	69	156
4.	Agriculture	16	-	16
5.	Others	51	90	141
	Total	357	357	714

The Important occupational backgrounds among the investors are private employment and government employment which constitutes 31.37 and 24.79 per cent to the total respectively. The number of investor with agricultural background constitutes only 2.24 per cent to the total. The important occupational backgrounds among the individual investors are government employment and private employment which constitutes 20.81 and 26.05 per cent to its total respectively. Among the institutional investors, these two are also private and others which constitutes 36.69 and 25.21 per cent to its total respectively.

Classification based on experience by the respondents

The following the table 2 shows that the respondents years of experience in mutual funds investment it consists of experience less than 3years, 3-6years, 7-9 years, 10-12 years and above 12 years.

Table 2 Years of Experience in Investing in Mutual Funds

S. No	Years of experience in Years	Number of Investors In		Total
		IDI	ILI	
1.	Less than 3	102	31	133
2.	3-6	120	61	181
3.	7-9	73	69	143
4.	10-12	37	88	125
5.	Above 12	25	108	133
	Total	357	357	714

The important year of experience among the investors is 3 to 6 years and 7 to 9 years which constitutes 25.35 and 10.89 per cent to the total respectively. The number of investors with the experience of above 12 years constitutes 18.63 per cent to the total. Among the individual investors, the first two years of experience are 3 to 6 and less than 3 years which constitute 33.61 and 28.57 per cent to its total respectively. Among the individual investors, these two are above 12 and 10 to 12 years which constitute 30.25 and

24.65 per cent to its total respectively. The analysis infers that the years of experience among the institutional investors are higher than among the individual investors.

Classification based on amount invested on mutual funds

The following the table 3 shows that theamount invested on mutual funds by the respondents it consists of less than0.5 lakhs, 0.5-1.0 lakhs, 1.01-2.0 lakhs, 2.01-3.0lakhs and above 4.0 lakhs.

Table 3 Invested Amount on Mutual Funds among the Investors

S.No	Amount of Investment (Rs. in Lakhs)	Number of Investors in		Total
		IDI	ILI	
1.	Less than 0.5	130	-	130
2.	0.50-1.0	96	-	96
3.	1.01-2.00	56	62	118
4.	2.01-3.00	67	80	147
5.	Above 4.00	8	215	223
	Total	357	357	714

In total, a maximum of 31.23per cent of the investors invested above 4.00lakhs. It is followed by the invested amount of Rs.2.01 to 3.00 lakhs and above less than 0.5 lakhs which constitutes 20.59 and 18.21 per cent to the total respectively. Among the individual investors, the first two amounts of investments are less than 0.5 lakhs and Rs.0.50 to 1.00 lakh which constitutes 36.41 and 26.89 percent to its total respectively. Among the institutional investors, theses two are above 4.00 lakhs and Rs.3.01 to 4.00 lakhs which constitutes 60.22 and 22.41 per cent to its total respectively. The analysis reveals that the amount of investment among the institutional investors is higher than the individual investors.

Proportion of investment on mutual funds

The following the table no.2.4 shows that the proportion of investment on mutual funds by the respondents it consists of proportion up to 10, 11-20, 21-30, 31-40 and above 40.

Table 4 Proportion of Investment on Mutual Funds to Total Investment

S. No	Proportion (in per cent)	Number of Investors in		Total
		IDI	ILI	
1.	Upto 10	101	111	212
2.	11-20	127	85	212
3.	21-30	70	69	139
4.	31-40	40	59	99
5.	Above 40	19	33	52
	Total	357	357	714

The dominant ratio among the investors is 11 to 20 per cent which constitutes 29.69 per cent to the total. It is followed by up to 10 per cent which constitutes 29.69 per cent to the total. Among the individual investor, the important ratios are 11 to 20 and up to 10 per

cent which constitutes 35.57 and 28.29 per cent to its total respectively. Among the institutional investors, these two are up to 10 and 11 to 20 per cent which constitutes 31.09 and 23.81 per cent to its total respectively. The analysis infers that the important ratio among the institutional and individual investors is up to 20 per cent.

Factors influencing to invest on mutual funds

The following the table no.2.5 shows that the factors influencing to invest on mutual funds by the respondents it consists of safety, easy liquidity stability income, capital growth, transferability, tax planning, status, flexibility, speculative value, diversification, low cost of investment, regular saving, higher return, risk bearing,future planning, friends and relatives, financial advisors brokers & agents and company reputations.

Table 5 Variables Influencing to Invest on Mutual Funds

S. No	Variables	MeanScore among		t-Statistics
		IDI	ILI	
1.	Safety	3.9143	3.0614	2.1449*
2.	Easy liquidity	3.4568	4.3993	-2.0641*
3.	Stability income	4.1233	4.0964	0.3393
4.	Capital growth	4.5943	3.6964	-2.0086*
5.	Transferability	3.0688	4.1143	-2.5089*
6	Tax planning	2.9097	3.8646	-2.4173*
7	Status	3.8644	3.1447	-1.8803
8	Flexibility	3.3488	4.0868	-1.9914*
9	Speculative value	3.4189	4.3861	-2.2179*
10	Diversification	3.9681	3.9089	-2.3681*
11	Low cost of investment	3.9889	3.1446	2.0969*
12	Regular saving	4.3038	3.2141	2.4148*
13	Higher return	4.5066	3.4549	-2.3891*
14	Risk bearing	2.9192	4.0823	-2.7086*
15	Future planning's	4.0811	3.4667	-1.6334
16	Friends and relatives	4.1144	3.0896	2.3883*
17	Financial advisers	3.3089	4.1144	-2.0497*
18	Brokers and agents	3.8696	3.3081	1.4938
19	Company reputation	2.9808	3.8643	-2.1431*

* **Significant at five per cent level**

The important variables influencing to invest on mutual funds among the individual investors are capital growth, higher return and regular savings since their mean scores are 4.5943, and 4.3038 respectively. Among the institutional investors, these important variables are easy liquidity, speculative values and financial advisers since the respective mean scores are 4.3993, 4.3861 and 4.1164 respectively. Regarding the perception the variables influencing the investment on mutual funds, the significant difference among the

individual and institutional investors have been identified in the perception on safety, easy liquidity, capital growth, transferability, tax planning, flexibility, speculative values, diversification, low cost investment, regular savings, higher return, risk-bearing friends and relatives, financial advisers and company reputation sine the respective 't' statistics are significant at five per cent level.

Association between profile investors and their perception on factors influencing to invest in mutual funds

The following the table no.2.6 shows that the association between profile investors and their perception on factors influencing to invest in mutual funds it consists of age, sex, level of education, occupation, personal income, family size, Number of earning members per family, Family income, Monthly savings, Risk orientation, Knowledge on financial market, Scientific orientation, Years of experience and Proportion of investment on to total investment.

Table 6 Association between Profile Investors and their Perception on Factors Influencing to InvestinMutual Funds

S. No	Profile variables	f-statistics				
		Liquidity	Savings	Income	Motivation	Value-added gain
1.	Age	2.9183*	2.4108*	2.0676	2.1142	2.6708*
2	Sex	2.4056	2.7189	3.0678	3.3445	3.5605
3	Level of education	2.1142	2.7603*	2.5706*	2.4817*	2.6081*
4	Occupation	2.4502*	2.8184*	2.9081*	2.1718	2.6862*
5	Personal income	2.3806*	2.7189*	2.0339	2.2706*	2.5139*
6	Family size	2.6811*	3.1143*	2.7096*	2.5156*	2.6804*
7	Number of earning members per family	2.8089*	2.4508*	1.8917	2.2081	2.4509*
8	Family income	2.5014*	2.7339*	2.0911	2.7308*	1.9193
9	Monthly savings	2.4086*	1.9089	2.1423	2.6086*	2.4546*
10	Risk orientation	2.7889*	2.6088*	2.5681*	2.4143*	2.8089*
11	Knowledge on financial market	2.5911*	2.8962*	2.7184*	2.9091*	2.8185*
12	Scientific orientation	2.6062*	2.7108*	2.3101	2.4508*	2.6504*
13	Years of experience	2.9194*	2.8167*	2.4546*	2.6089*	2.8184*
14	Proportion of investment on to total investment	2.6084*	2.5603*	2.8183*	2.7176*	3.3969*

Significant at five per cent level

Regarding the perception on liquidity factor, the significantly association profile variables are age, occupation, personal income, family size, number of earning members per family, family income, monthly savings, risk orientation, knowledge on financial market, scientific orientation, years of experience and portion of investment on mutual funds to total investment since the respective 'F' statistics are significant a on five per cent level. The significantly associating profile variables with the perception on saving are age, level of education, occupation, personal income, family size, number of earning members per family, family income risk orientation, knowledge on financial market, scientific orientation, years of experience and the portion of investment regarding the mutual funds to total investment. Regarding the perception on income, the significantly associating profile variables are level of education, occupation, family size, risk orientation, knowledge on financial market, years of experience and proportion of investment on mutual funds to total investment.

Regarding the perception on motivation, the significant difference among the investors are identified when they classified on the basis of level of education, personal income, family size, family income, monthly savings, risk orientation, knowledge on financial market scientific orientation, years of experience and proportion of investment on mutual funds to total investment since the respective 'F' statistics are significant at five per cent. The significantly associating profile variables regarding the perception on value added gain are age, levelof education, occupation, personal income, family size, number of earning members per family, monthly savings, risk orientation, knowledge on financial market, scientific orientation, years of experience and portion of investment on mutual funds to total funds.

Summary of Findings, Recommendations and Conclusion

Summary of findings

1. The dominant occupational backgrounds among the investors are private employment and Government employment. The most important occupational background among the individual and institutional investors is Government employment and private employment respectively. The important personal incomes for month among the investors are Rs.35001 to 45000 and above Rs.45001 to 55000. The most important personal income per month among the individual and institutional investors is Rs.35001 to 45000 and Rs.45001 to 55000 respectively.
2. The dominant levels of scientific orientation among the investors are higher and moderate. The most important level of risk orientation among the individual and institutional investors is lower and higher respectively. The important levels of years of experience among the investors are 3 to 6 and 7 to 9 years. The most important level of

years of experience among the individual and institutional investors is 3 to 6 years and above 12 years respectively.

3. The important invested amount on mutual funds among the investors is above Rs.4.00 lakhs and Rs.2.01 to 3.00 lakhs. The most important amount invested on mutual funds among the individual and institutional investors are less than 0.5 lakhs and above 4.0 lakhs respectively. The important proportion of investment on mutual funds to the total investment among the investors are 11 to 20 per cent and up to 10.00 per cent. The most important proportion among the individual and institutional investors is 11 to 20 and up to 10 per cent respectively.
4. The important numbers of mutual funds invested among the investors are 11 to 15 and 16 to 20. The most important number of mutual funds invested among the individual and institutional investors are less than 5 and above 20 funds.The important sources of investment on mutual funds are earnings and savings. The most important source of investment and the individual and institutional investors are savings and earnings respectively. The important sources of information are advertisement and seminars. The significant difference among two group of investors have been noticed in the case of importance given on agents, brokers, friend and relatives, others investors, newsletters and seminars as their sources of information about mutual funds.
5. The important factors influencing to invest on mutual funds are liquidity, savings, income, motivation and value added gain. The important variable in the liquidity factor is easy liquidity and safety whereas in savings, these two are diversification and future planning. In the case of 'income' factor, these variables are stability in income and high return whereas in motivation factor, these variables are friends and realties; and brokers and agents. In the case of value added gain, these variables are speculative values and tax planning.
6. The significantly associating profile variables with the investor's behavior are years of experience, knowledge on financial market, risk orientation and level of education. Regarding in assets invested in mutual funds, all profile variables are significantly associated. Regarding the perceived riskiness of mutual investment, the significantly associating profile variables, age, sex, level of education, personal income, monthly savings, risk orientation, knowledge on financial market, scientific orientation,years of experience and portion of investment.
7. The variable considered for selecting mutual fund schemes among the individual investors are dividend, performance of schemes and expenses changed, whereas among the institutional investors, these are capability of fund manager, performance of schemes and single of investment management. Regarding the importance given on the variables considered for selecting mutual fund schemes, the significant difference among the individual and institutional investors have been identified in the case of risk

capacity, credibility of sponsor, risk adjusted return, fund objectives, type of portfolio, investment philosophy of the fund, bench mark, allocation of funds, adequate unit holders information, dividend, confident ability, style of investment management, entry and exit load, expense changes and services offered by the fund.

Recommendations

Innovative product service

Since the success of mutual fund business largely depends on the product innovation, marketing, customer service, fund management, committed man power etc. the following measures in these areas have to be taken on priority basis to achieve the success ofmutual fund business in future.

1. **Transparency of Investment**

There is a need to make transparency of the problem of investment and the NAV of the schemes it launched at periodic intervals.

2. **Efficient branch network**

Mutual funds are not still able to tap large savings from the rural population just because of lack of proper branch network. Now the time has to spread the branch network to remote areas to mobilize more resources.

3. **Product innovation**

While floating any new scheme of mutual fund need to spend more time, effort and money to launch the scheme.

Customer service and investors relations

Mutual fund need to take an advantage of computer technology in a major way to extend efficient service to the investors.

Rating of Mutual Funds

In view of the increasing number of mutual fund schemes in the market, there is every need to rate these schemes in terms of parameters like liquidity, return, growth, etc.

Small investors

The AMC should focus on small investors. The buying intent of mutual fund product by a small investor can be due to multiple reasons depending upon customer risk return trade off.

Conclusion

The present study concludes that the institutional investors are well versed than the individual investors in the mutual fund market. The important factors leading to invest on mutual funds are liquidity, savings, income, motivation and value added gain. The highly preferred mutual fund schemes are differ among the investors in different segment. The factors considered to select the mutual fund schemes are the natural of funds, performance, company services, fund manager and personal factor. The important decision

variables influencing the investment on mutual funds are liquidity factors, risks involved and current market conditions. The investors' perception on service quality of mutual funds is not up to their level of expectation. The higher gaps are identified among the individual investors than the institutional investors. The important reasons for switching from one found to another are consistency in performance, pest performance and found managers efficiency. The important problems identified by the investors are performance, fund management, company, service and market. The profile of the investors plays its own role in the investors' behavior. Since the scope of mutual fund market is very under in India, the company realizes the needs of the different class investors and designs the product according to their needs. The service quality of the mutual fund company is the only way to wider their market base.

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