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Investment Choice of Indian Investors in Mutual Funds: An Empirical Study

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Abstract:Objective- This paper makes an attempt to identify factors affecting choice of investors in relation to Mutual funds investment in India.

Research Methodology- The study is based on survey method and data is collected through Interview Schedule from sample of 1000 respondents from various parts of the country.

Findings- Monetary Returns being followed by Regulations, Customer Support, Promotional Measures and Market Risk has emerged to be the important factors that affect the investment making decisions of the investors in relation to mutual funds in India.

Keywords: Mutual Funds, Factors, Investment, Monetary Returns, Regulations, Customer Support, Promotional Measures, Market Risk.

I. INTRODUCTION

The Indian capital market has been increasing tremendously during the last few years, with the vibrant growth of the securities market. The one instrument which arises as most happening sector of the capital market is Mutual Fund. A Mutual Fund is a trust that pools the savings of small investors who share a common financial goal and offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost. It has occupied an important place in global as well as in Indian capital market, due to its increasing growth trend in the last few years.

The Indian Mutual Fund industry has witnessed a significant growth since its inception in 1963 driven by several favourable economic and demographic factors such as rise in income levels and the increasing reach of Asset Management Companies (AMCs). The Assets under Management (AUM) have surged to Rs 4,173 billion in March 2009 from just Rs 250 million in March 1965. In a span of 10 years (from 1999 to 2009), the industry has registered a CAGR of 22.3%, albeit encompassing some shortfalls in AUM due to business cycles.

The impressive growth in the Indian Mutual fund industry in recent years can largely be attributed to various factors such as increasing household savings, comprehensive regulatory framework, favourable tax policies, introduction of several new products, investor education campaign and role of distributors.

There are wide varieties of Mutual Fund schemes from which an investor can opt one or many according to his/her requirements. Mutual fund is one stop shop for investors where they can invest their hard earned money according to their risk appetite and can get equity base returns from professional fund managers.

Classification of mutual funds is done on the basis of their investment objective and structure which is as follows:

1. **On the basis of Investment Objectives**
   - Growth Schemes
   - Income Schemes
   - Balanced Schemes
   - Tax Saving Schemes
   - Sector Funds
   - Index Funds
   - Exchanged Traded Funds (ETFs)
   - Money Market Schemes

2. **On the basis of Structure**
   - Open-Ended schemes
   - Close-Ended Schemes
   - Interval Schemes

II.   REVIEW OF LITERATURE

A number of studies have been conducted over the time period to evaluate the mutual fund industry and its significance in various aspects. Some of the study which has been done is mentioned below:

D'silva, D'silva and Bhuptani (2012) suggested that investment in Mutual Funds, as compared to other financial instruments, are safer and yield higher returns on the portfolio investment.

Badrinath, S.G & Gubellini, S (2011) have evaluated the return performance of long-short, market-neutral and bear mutual funds using multi-factor models and a conditional CAPM and revealed that Market-neutral funds provide a down market hedge, but bear funds do not generate the returns that investors hope for.

Javier & Pablo (2009) have examined the market for equity mutual funds and found that Funds with worse before-fee performance charge higher fees and that better fund governance may bring fees more in line with performance.

Chen, Kraft & Weiss (2011) have tested mutual funds that engage in tax planning and how do they respond to changes in the capital gains tax rates was investigated. It was found that there was consistency with tax planning by managers of both open-end and closed-end mutual fund and mutual fund managers may not tax plan like individuals because fund managers have incentives to consider the tax liability of both current and potential investors.

Narayanswamy and Rathnamani (2013) in their research work analysed financial performance of selected mutual fund schemes through the statistical parameters such as alpha, beta, standard deviation, r-squared and Sharpe ratio and concluded that it is essential for investors to consider these statistical parameters while investing in mutual funds apart from considering NAV and Total Return in order to ensure consistent performance of mutual funds.

III.   OBJECTIVE

The primary objective of the research study is to identify the factors affecting the choice of investors in relation to Mutual funds investment in India.

IV.   RESEARCH METHODOLOGY

In order to achieve the identified objective, primary sources of data have been utilized. In the current study, the primary data is collected through well structured Interview Schedule. Before the collection of data, a field testing of the instrument was conducted. The reliability and internal consistency was tested using Cronbach Alpha Coefficient.

Convenience Sampling Technique is used for selecting the sample. For the purpose of study, a sample of 1000 respondents was selected from the various parts of the country.

Exploratory Factor Analysis is used in order to reduce the dimensions and factor extraction. For finding out the appropriateness of factor analysis, KMO measure is calculated. Bartlett's test of sphericity is used for analyzing the correlation matrix. Principal Component Analysis is being used for extraction of the factors. Factors are rotated using Orthogonal Varimax Rotation with Kaiser Normalization.

V.   ANALYSIS OF DATA AND INTERPRETATION

The demographic profile of the respondents is explained in Table 1.

Table-1
Profile of Respondents

Variables	Categories	No. of Respondents	Percent
Gender	Male	734	73.4%
	Female	266	26.6%
Occupation	Service	387	38.7%
	Business	278	27.8%
	Professional	321	32.1%
	Student	14	1.4%
	Housewife	0	0
Age	Below 30	128	12.8%
	31-40	437	43.7%
	41-50	233	23.3%
	50-60	164	16.4%
	Above 60	38	3.8%

Education	Below Graduation	167	16.7%
	Graduation	84	8.4%
	Post Graduation	236	23.6%
	Professional	511	51.1%
	Doctorate	2	0.2%
Income (Annually)	3-5 lakhs	183	18.3%
	5-15 lakhs	546	54.6%
	15-25 lakhs	254	25.4%
	Above 25 lakhs	17	1.7%

(Source: Primary Data)

The above table is self-explanatory. However the following observations can be made.

1. **Gender Distribution:** Most of the respondents are male with the ratio of 73.4% to 26.6% for females, showing a wide disparity in sex representation in the industry.
2. **Occupation Distribution**: 38.7% respondents belong to service class while 32.1% respondents belong to professional community.
3. **Age Distribution:** The respondents were spread on a cross-section of age groups from below 30 to above 60 years. A majority of respondents are from the age group of 31-40 that accounts for 43.7%, while that of 41-50 that falls on the second position accounts for 23.3% and the lowest ratio of respondent at 3.8% belongs to the age above 60 years.
4. **Qualification Distribution:** A minor portion of 0.2% of respondents is Doctorate while maximum of them i.e. 51.1% are Professional qualification.
5. **Income Distribution:** Out of total respondents, the highest portion of respondents i.e. 54.6% lies in the slab of annual income between Rs. 5-15lakhs. 25.4% of the respondents have an income ranging from 15-25lakhs, while a portion of 18.3% and 1.7% of respondents have an annual income of Rs. 3-5lakhs and above 25lakhs respectively.

Before applying the factor analysis, the reliability of the instrument is tested with the use of **Cronbach Alpha**. The alpha value comes out to be .871 which shows internal consistency amongst the attributes.

Table-2
Reliability Statistics

Cronbach's Alpha	N of Items
.871	20

(Source: Primary Data)

From Table 3, it can be interpreted that the data is suitable for Factor Analysis. The KMO measure for sampling adequacy should not be less than 0.5 otherwise it indicates that results from Factor Analysis is not useful. Similarly, the value in Significance level should be less than 0.05 which indicate that our data is suitable for Factor Analysis. In the Table 3, the **KMO is 0.756**, which shows that our study is quite suitable for Factor Analysis.

Table-3
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.756
Bartlett's Test of Sphericity	Approx. Chi-Square	936.792
	Df	190
	Sig.	.000

(Source: Primary Data)

Bartlett's Test of Sphericity indicates whether the correlation matrix is an identity matrix, which would indicate that the variables are unrelated. The significance level gives the result of the test. Very small values (less than 0.5) indicate that there are probably significant relationships among the variables. A value higher than about 0.10 or so may indicate that the data are not suitable for factor analysis. In table 3, **Bartlett's test of sphericity significance is 0.000** which is less than 0.50 we can move ahead with our study.

After testing the accuracy of the sample, the next step is to find out the factors.

VI. FINDINGS

The analysis shows that the investors' choice in India is forcing the Mutual Fund Companies and Distributors to focus on the below mentioned factors which an investor considers while selecting a fund. The table 4 identifies five factors which are generated by factor analysis. These factors are generated from 20 statements mentioned in table 5.

Table-4
Factors Affecting choice of Investors

Sr. No.	Factors	Eigen Value	% of Variation Explained	Cumulative %
F1	Monetary Returns	6.247	31.276	31.276
F2	Regulations	2.402	12.057	43.333
F3	Customer Support	1.734	8.632	51.965
F4	Promotional Measures	1.236	6.128	58.093
F5	Market Risk	1.202	6.021	64.114

Table-5
Rotated Component Matrix

Variables	F1	F2	F3	F4	F5
Returns	.790				
Capital Appreciation	.786				
Brand of Fund	.750				
Liquidity	.676				
Tax Incentives	.622				
Broker/Agent Advice	.558				
Advice given by Known	.552				
Better Regulatory Conditions		.925			
Professionally Managed		.857			
Better Asset Mix		.842			
Better Customer Care			.775		
Proper Market Tracking			.636		
Agency Reach Network			.616		
Trading Options Available			.599		
Image of Fund Manager				.837	
Advertisement by company				.679	
Fringe Benefits				.571	
New and Innovative Schemes				.532	
Less Risky					.866
Transparent NAV Disclosure					.623

1.   Monetary Returns (F1):

One of the most important factors that influence the investors to invest in MFs is the kind of Monetary Returns they earn from the particular MF investment. According to the above table, investors believe that the funds with higher performance in respect of Return and Capital Appreciation are better investment. They give due importance to the Brand Name, Liquidity and Tax Incentives given by the fund. Other variables such as Broker/Agent advice and advice by Known are also considered valuable while selecting Mutual Fund.

2.   Regulation (F2):

Financial markets are highly dynamic and so there proper regulation and control is very important. As per the SEBI guidelines, MFs are also required to be properly regulated and managed by professionals and should have better Assets Mix. And thus, it can be said that due to these reasons MFs are becoming popular day by day.

3.   Customer Support (F3):

The third factor describes about the support and services offered to the investors. This factor shows that investor expect better Customer care services, proper Market Tracking, Agent Reach Network and Trading Options available from the Mutual Fund Company. The fund that offers quality services to its customers with regards to the above mentioned aspects will be preferred more by the investors.

4.   Promotional Measures (F4):

The fourth factor constitutes the Promotional Measures. This factor includes Promotional strategies adopted by management in order to increase investment in their funds. The most important variable in this factor is Image of the Fund Manager followed by the Advertisement of MFs by the companies. Both these variables show that nowadays investors give importance to promotional measures used by the companies before investing in funds. Investors also perceive that completely New and Innovative Schemes and various Fringe Benefits offered by the company also attract more investors.

5.   Market Risk (F5):

The fifth and the last factor that affects investment decision of investors is Market Risk in Mutual Fund Investment. Investors' basic motive behind investing in MF is getting higher returns with minimum risk. It is found that MF management is responsible for managing risk and for timely Disclosure of NAV as per the regulated laws.

VII.   CONCLUSION

In financial markets, "expectations" of the investors play a vital role. They influence the price of the securities; the volume traded and determines quite a lot of things in actual practice. This study provides an insight into the factors that affects the investment making decision of the investors. Monetary Returns have emerged to be the most important factor that affects the choice of the investors in selecting Mutual fund scheme in the country. Regulation attributes have emerged to be the second important attribute being followed by Customer Support which is surprisingly at third place. Promotional Measures and Market Risk have emerged to be the fourth and fifth important attributes which affects the choice of the investors. These results will help the MF companies to understand the expectations of the Investors.

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