THINK INDIA (Quarterly Journal)

ISSN:0971-1260

Vol-22-Issue-4-October-December-2019

An Individual Level Analysis of Mutual Funds Investment Decision

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Abstract: Mutual Funds provide a platform for a common investor to participate in the Indian capital market with professional fund management regardless of the amount invested. The Indian mutual fund industry is widening quickly and this is reflected in the increase in Assets under management of various fund houses. Mutual fund investment is having less risk than directly investing in stocks and is that is why it is considered a safer option for risk averse investors. However it has been noticed that most of the investors are not aware of the benefits of investment in mutual funds. This is reflected from the study conducted in this research paper. This paper makes an attempt to identify various factors affecting individual level analysis of investors regarding investment in Mutual funds. The end results will be helpful in identifying the areas required for improvement in order to create more awareness among investors regarding investment in mutual funds.

I. INTRODUCTION

The Indian Mutual fund industry has experienced considerable growth since its inception in 1963. A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal.
The money, thus collected, is then invested in capital market instruments such as shares, debentures and other securities.

There are different kinds of securities in which mutual funds exist. Common are cash, stock, and bonds, but there are a lot of sub-categories. The income earned through these investments and the capital appreciation realized is shared by its unit holders in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed securities at a relatively

lesser cost. There is noteworthy amount of research being done relating to investment in mutual funds. However less research has been done to study the point of view of investors regarding investment in mutual funds.

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II. REVIEW OF LITERATURE

A large number of studies have been conducted in India and abroad covering different aspects of Mutual fund. The purpose of this literature survey is to identify the factors that previous research has found to be in the performance of mutual funds. These factors are then used in the design of the questionnaire used for data collection.

1) **D. Rajasekar (2013)** The study was organised with a sample size of 150 respondent by using the statistical tools like percentage analysis, chi square, weighted average, with an objective to know about the investor's perception on their profile, income, savings pattern, investment patterns and their personality criteria. The study was concluded considering various parameters involved in investors decision making keeping in mind investors perception towards mutual fund investment.

2) **R. Vasudevan & Peermohaideen (2012)** The study aimed to understand and interprete investor's perception of such risk and expectation related with specific mutual fund. The research also showcase that investors perceive risk as under performance as risk and return in mutual fund investment are medium and not so satisfactory.

3) **Binod Kumar Singh (2012)** says in his study that the impact of various demographic factors on investor's attitude towards mutual fund for measuring and interpreting different factors responsible for investment in mutual funds.

4) **Simran Saini and Bimal Anjum (2011)** had analyzed the mutual fund investments in relation to investor's behaviour that attract them to invest in mutual funds. Investor's preference and point of view has been studied relating to various issues like type of mutual fund scheme, main objective behind investing in mutual fund scheme, level of satisfaction, role of financial advisors and brokers, sources of knowledge, deficiencies in the services provided by the mutual fund managers, challenges before the mutual fund industry etc.

5) **Singh and Jha (2009)** organised a study on consciousness, knowledge & acceptability of mutual funds and found that consumers basically prefer mutual fund due to strong potential of returns, liquidity and safety and they were not having any knowledge about the systematic investment plan. The invertors' will also consider various factors before investing in mutual fund.

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6) **Madhumita Chakra Borty, P K Jain and Vinay Kallianpur (2007)** explained that the performance of mutual fund on the basis of return rate as well as risk adjusted methods. The performances of the mutual funds are compared with the risk-free returns as well as the benchmark index (BSE 100). The results have to be evaluated in a way that the study has been evaluated for the duration 2005-2007 when the economy was developing at a faster rate (8% GDP growth).The finding of the study was monthly returns have been calculated for all 40 mutual funds in the sample, for BSE 100 index and for 364 day T-bills. The study concludes relating to the capability of mutual fund manager is still elusive.

7) **Sanjay.J.Bhayani and Vishal.G.Patidar (2006)** states Mutual Fund can expand in domestic saving and improve the arrangement of investment through market. The main range of the study is performed top five schemes are balanced fund scheme, Gilt fund scheme, Liquid Money Market fund scheme, Income fund scheme, Equity diversified fund scheme, Tax planning fund scheme.

8) **D.Senthil and Dr.M.Syed Zefar (2005)** had published an article “Mutual Fund Investors Perceptions and realities”. The main aim of the study is to find out the investors point of view and realities in the current situation and measure extend of satisfaction derived by customer towards the performance of mutual fund and willingness to invest in future despite the current prevailing situation of the market. The main purpose of the study is to associate the factors which make them invest and to retain in mutual fund. The study says that investors prefer mutual fund than share because high risk is linked with shares.

9) **Ramamurthy and Reddy (2005)** organised a study to evaluate emerging trends in the mutual fund industry and draw a conclusion that the main benefits for small investors’ due to effective management, widening of scope of investment, easy administration, strong return potential, liquidity, transparency, flexibility, affordability, wide range of choices and a proper regulation governed by SEBI. The study also analyzed about increasing preferences in mutual fund industry like various exit and entry policies of mutual fund companies, various schemes related to real estate, commodity, precious metals, entering of banking sector in mutual fund, buying and selling of mutual funds through internet.

10) **Shanmugham (2000)** worked a survey of individual investors with the object to study on what information source does investor depends. The results described that they are an cost-effective, sociological and psychological factor which controls investment decisions.

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11) **Goetzman (1997)** opined that investor's psychology affects mutual fund selection for investment and to withdraw from the fund.

12) **Madhusudhan V Jambodekar (1996)** organised his study to size-up the direction of mutual funds in investors and to recognize factors that make an impact on mutual fund investment decision. The study tells that open-ended scheme is most attractive among other things and that income schemes and open-ended schemes are preferred over closed-ended and growth schemes. Newspapers are used as information source; safety of principal amount and investor services are priority points for investing in mutual funds.

13) **Sujit Sikidar and Amrit Pal Singh (1996)** conducted a survey to peep in to the behavioural aspects of the investors in direction of equity and mutual fund investment. The survey resulted that because of tax advantages mutual funds are preferred by the salaried and self-employed individuals.

14) **Ippolito (1992)** says that an investor is ready to invest in those fund or schemes which have resulted in good returns and most investors' are magnetized by those funds or schemes that are performing better over the worst.

III. RESEARCH METHODOLOGY

1. Statement Of The Problem

Many schemes have been given by the mutual fund sector which provides various advantages. This research aims at analyzing the factors that control and effect the individual level analysis and expenditure decisions with regards to mutual funds.

2. Objectives Of The Study

a) To study the awareness among consumers for mutual funds.
b) To understand the attitude of consumers towards mutual funds.
c) To understand the preference of consumers in mutual funds schemes.
d) To understand the investment pattern of the consumers.
e) To study the factors influencing the investors in selecting mutual fund schemes.
f) To study the level of satisfaction of the mutual fund investors.

3. Research Hypothesis

H01: There is no awareness among consumers for mutual funds.

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H02: Consumers have a negative attitude towards mutual funds.
H03: The factors studied do not influence the investors in selecting mutual fund schemes.
H04: The mutual fund investors are not satisfied with their investment decision.

4. Limitations Of The Study

a) Sample size of the study was limited to 100 only. The sample size may not represent the whole market.
b) The study has not been organised and managed over an extended period of time considering both market ups and downs. The market state has a significant influence on the buying patterns and preferences of investors. The study cannot capture such situations.

IV. DATA ANALYSIS

Table 1: Demographic Profile (N=100)

S.no.	Profile and Responses	Categories	Frequency	Percentage
1)	Gender	Male Female	76 24	76.00 24.00
2)	Age group	18-24 25-32 33-45 46 and above	32 34 19 15	32.00 34.00 19.00 15.00
3)	Occupation	Profession Business Person Agriculturist Others	41 27 11 21	41.00 27.00 11.00 21.00
4)	Monthly Income	Below 15000 15000-30000 30000-45000 45000 and above	28.1 29.1 18.3 24.5	28.10 29.10 18.30 24.50

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Table 2:

S. No.	Categories	Frequency	Percentage
1)	Full Aware	32	32.00
2)	Some Knowledge	46	46.00
3)	No Aware	22	22.00

The study was aimed at identifying awareness among consumers for mutual funds. It is found that most of the consumers are still in doubt about mutual funds, its schemes and benefits.

Table 3:

Sources	No. Of Respondants	% Of Respondants
Fixed Deposits	29	29
Gold/Silver	5	5
Real Estate	8	8
Mutual Funds	34	34
Others	24	24
Total	100	100%

It is also found that 34% respondants have a positive attitude towards investing their savings in mutual funds against others. Another large part of my sample size covering 29% respondants are more interested in investing their savings in fixed deposits.

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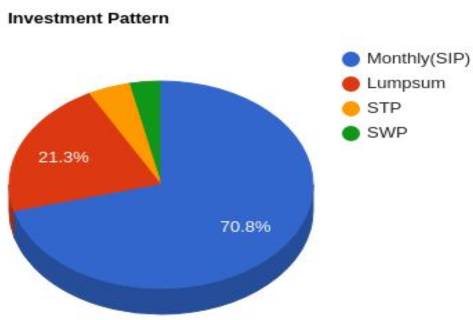
Chart 1

Under the tax regime in India, equity funds enjoy certain tax advantages (such as, there is no incidence of long term capital gains tax on equity shares or equity funds which are held for at least 12 months from the

date of acquisition). Therefore, more than 60% of respondents prefer equity funds over others. In equity fund scheme also, there are so many different types in which investors can invest their savings.

Chart 2



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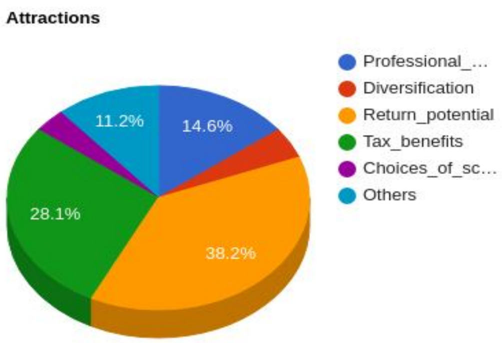
The study also explains the investment pattern of the respondents, and more than half of the respondents go for monthly investment (SIP). Some of them go for lumpsum investment and rest go for Systematic Transfer Plan (STP) and Systematic Withdrawal Plan (SWP).

Table 4:

Attractions	No. Of Respondants	% Of Respondants
Past Performance	37	37
Ratings (CRISIL, ICRA)	25	25
Asset Management Company	10	10
Expert Advice	16	16
Others	12	12
Total	100	100%

The study also explains the most alluring factors which attracts the investors towards mutual funds.There are a variety of reasons that mutual funds have been the investor's vehicle of choice for decades. The overwhelming majority of money in employer-sponsored retirement plans goes into mutual funds.

Chart 3:



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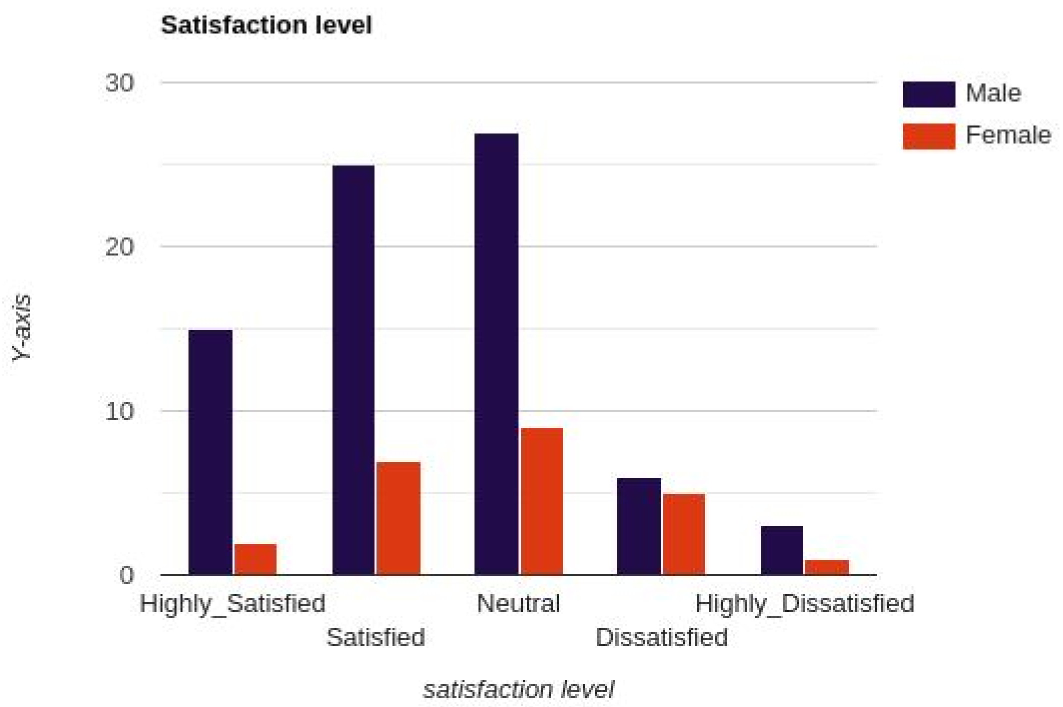
There are many clear advantages of investment in mutual funds. According to the primary data collected from questionnaire,
investors are more attracted towards mutual funds because of its return potential. Around 38% of all the respondants invests in mutual funds because of its return potential. Also around 28% respondants are attracted towards mutual funds because of the tax benefits attached to it.

Chart 4:



The concept of 'customer satisfaction' is always seen as a widely accepted area of research amongst the academicians. Studies on customer satisfaction have showed that customer satisfaction is strongly dependent on the perceived experience and prior expectation of the customers. The gap between the level of expectations and the level of experience act as

ISSN:0971-1260

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an indicator of the success or the future prospects of a product. A product is expected to satisfy the needs and expectations of the customers. Similarly, mutual funds are expected to fulfil the investment needs of the investors. Lastly, my study presents the satisfaction level of all the respondents investing in mutual funds.

VI. SUGGESTIONS

- As there is no detailed law to regulate the mutual fund in India, uniform coordinated regulations by a single agency would be formed which would provide the shelter to the investors.
- Secondly, as the investors are not willing to invest in mutual fund unless a minimum return is assured, it is very essential to create in the mind of the investors that mutual funds are market instruments and related with market risk hence mutual fund could not offer guaranteed income.
- To increase the genuinity and faith among the investors, proper information and knowledge should be provided to them.
- Lastly, mutual funds need to take advantages of modern technology like computer and tele-communications to render service to the investors.

VII. CONCLUSION

Running successful Mutual Fund requires complete understanding the functioning and regulation of the Indian Stock Market and also the awareness of the small investors. The mutual funds are considered as one of the important class of financial intermediaries which cater to the needs of the investors. The study will be useful to the mutual fund industry to understand the investor's perception towards mutual fund investments and the study would also be informative to the investors.

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