

Investor's Preferences towards Mutual Fund Industry in Trichy

V. Rathnamani,

M.B.A, M.Phil, Research Scholar National College (Autonomous) Trichy 620001 Tamilnadu, India.

Abstract: *A Mutual fund is the ideal investment vehicle for today's complex and modern financial scenario, there has been growing importance of mutual fund investment in India, when compared with other financial instruments. Investments in mutual funds are safer and also yields more returns on the portfolio investment. Mutual fund are said to be the best channels for mobilizing the funds of the small investors and contribute significantly to the capital markets. The present study explains briefly about the mutual fund industry, The study also helps to understand the role of investment pattern and preferences of investors behind investing in mutual fund.*

Key Words: *Mutual fund industry, investor's preference's, investment pattern.*

I. Introduction

Among various financial instruments, i.e., shares, bonds and debentures. Mutual Fund is a special type of financial instrument that pools the funds of investors who seek to maximize ROI. Stocks provide high total returns with commensurate level of risk, while bonds may provide lower risks along with regular income. MFs presently offer a variety of options to investors such as income, balanced, liquid, gilt, index, exchange traded and sectoral funds. Today, there are 36 asset management companies covering Indian public sector, private sector and joint ventures with foreign players. These 36 mutual fund houses put together mobilized about Rs 6, 70,937 Crores worth assets. The total resources mobilized by the private sector institutions is 91.04%, Public sectors institutions other than UTI is 8.49%. The variation occurred in mobilization of funds during various periods is very high with Private sector participations followed by the public sector excluding UTI, and by UTI. There is considerable competition between foreign and domestic owned bodies and within domestic owned bodies. According to the ASSOCHAM (Associated Chambers of Commerce and Industry of India) study, Asset under Management (AUM) as percentage of GDP in India is 4.12% as against those of Australia 88.22%, Germany 10.54%, Japan 7.57%, UK 18.81%, USA 61.27%, Canada 34.33%, France 59.63%, Hong Kong 101.085 and Brazil 19.9

II. Importance Of Mutual Fund

Small investors face a lot of problems in the share market, limited resources, lack of professional advice, lack of information etc. Mutual funds have come as a much needed help to these investors. It is a special type of institutional device or an investment vehicle through which the investors pool their savings which are to be invested under the guidance of a team of experts in wide variety of portfolios of Corporate securities in such a way, so as to minimize risk, while ensuring safety and steady return on investment. It forms an important part of the capital market, providing the benefits of a diversified portfolio and expert fund management to a large number particularly small investors. Now a day, mutual fund is gaining its popularity.

Due to the following reasons:

1. With the emphasis on increase in domestic savings and improvement in deployment of investment through markets, the need and scope for mutual fund operation has increased tremendously. The basic purpose of reforming the financial sector was to enhance the generation of domestic resources by reducing the dependence on outside funds. This calls for a market based institution which can tap the vast potential of domestic savings and channelize them for profitable investments. Mutual funds are not only best suited for the purpose but also capable of meeting this challenge.

2. As mutual funds are managed by professionals, they are considered to have a better knowledge of market behaviors. Besides, they bring a certain competence to their job. They also maximize gains by proper selection and timing of investment.

3. Another important thing is that the dividends and capital gains are reinvested automatically in mutual funds and hence are not fritted away. The automatic reinvestment feature of a mutual fund is a form of forced saving and can make a big difference in the long run

4. The mutual fund operation provides a reasonable protection to investors. Besides, presently all Schemes of mutual funds provide tax relief under Section 80 L of the Income Tax Act and in addition, some schemes provide tax relief under Section 88 of the Income Tax Act lead to the growth of importance of mutual fund in the minds of the investors.

5. As mutual funds create awareness among urban and rural middle class people about the benefits of investment in capital market, through profitable and safe avenues, mutual fund could be able to make up a large amount of the surplus funds available with these people.

6 The mutual fund attracts foreign capital flow in the country and secures profitable investment avenues abroad for domestic savings through the opening of off shore funds in various foreign investors. Lastly another notable thing is that mutual funds are controlled and regulated by SEBI and hence are considered safe. Due to all these benefits the importance of mutual fund has been increasing

The evolution

The formation of Unit Trust of India marked the evolution of the Indian mutual fund industry in the year 1963. The primary objective at that time was to attract the small investors and it was made possible through the collective efforts of the Government of India and the Reserve Bank of India. The history of mutual fund industry in India can be better understood divided into following phases:

Phase I. Establishment and Growth of Unit Trust of India 1964-87

Unit Trust of India enjoyed complete monopoly when it was established in the year 1963 by an act of Parliament. UTI was set up by the Reserve Bank of India and it continued to operate under the regulatory control of the RBI. UTI launched its first scheme in 1964, named as Unit Scheme 1964 (US-64), which attracted the largest number of investors in any single investment scheme over the years. UTI launched more innovative schemes in 1970s and 80s to suit the needs of different investors. It launched ULIP in 1971. By the end of 1987, UTI's assets under management grew ten times to Rs 6700 cores

Phase II. Entry of Public Sector Funds - 1987-1993

The Indian mutual fund industry witnessed a number of public sector players entering the market in the year 1987. In November 1987, SBI Mutual Fund from the State Bank of India became the first non-UTI mutual fund in India. SBI Mutual Fund was later followed by Can bank Mutual Fund, LIC Mutual Fund, Indian Bank Mutual Fund, Bank of India Mutual Fund, GIC Mutual Fund and PNB Mutual Fund. By 1993, the assets under management of the industry increased seven times to Rs. 47,004 cores. However, UTI remained to be the leader with about 80% market share.

Phase III. Emergence of Private Sector Funds - 1993-96

The permission given to private sector funds including foreign fund management companies (most of them entering through joint ventures with Indian promoters) to enter the mutual fund industry in 1993, provided a wide range of choice to investors and more competition in the industry. Private funds introduced innovative products, investment techniques and investor-servicing technology. By 1994-95, about 11 private sector funds had launched their schemes.

Phase IV. Growth and SEBI Regulation - 1996-2004

The mutual fund industry witnessed robust growth and stricter regulation from the SEBI after the year 1996. The mobilization of funds and the number of players operating in the industry reached new heights as investors started showing more interest in mutual funds.

Investors' interests were safeguarded by SEBI and the Government offered tax benefits to the investors in order to encourage them. SEBI (Mutual Funds) Regulations, 1996 was introduced by SEBI that set uniform standards for all mutual funds in India. The Union Budget in 1999 exempted all dividend incomes in the hands of investors from income tax. Various Investor Awareness Programmes were launched during this phase, both by SEBI and AMFI, with an objective to educate investors and make them informed about the mutual fund industry..

Phase V. Growth and Consolidation - 2004 Onwards

The industry has also witnessed several mergers and acquisitions recently, examples of which are acquisition of schemes of Alliance Mutual Fund by Birla Sun Life, Sun F&C Mutual Fund and PNB Mutual Fund by Principal Mutual Fund. Simultaneously, more international mutual fund players have entered India like Fidelity, Franklin Templeton Mutual Fund etc. There were 29 funds as at the end of March 2006. This is a continuing phase of growth of the industry through consolidation and entry of new international and private sector players.

III. Review Of Literature

It is a matter of concern for the investing community that so far no active research has been carried out on the evaluation of performance persistency of Indian mutual fund the researcher has made a pioneering

attempt to evaluate the performance persistency of Indian mutual funds. Since mutual funds have made a strong progress in U.S.A. from 1920 onwards many authors have contributed their thoughts for evaluation of such funds. Though there are a few Indian studies which made an attempt to rank the performance of schemes floated by different mutual fund organizations, they have failed to give any definite clues based on strong statistical significance.

IPPOLITO (1992) says that fund/scheme selection by investors is based on past performance of the funds and money flows into winning funds more rapidly than they flow out of losing funds.

Goetzman (1997) states that there is evidence that investor psychology affect fund/scheme selection and switching.

De Bondt and Thaler (1985) while investigating the possible psychological basis for investor behavior, argue that mean reversion in stock prices is an evidence of investor over reaction where investors over emphasize recent firm performance in forming future expectations.

In India, one of the earliest attempts was made by NCAER in 1964 when a survey of households was undertaken to understand the attitude towards and motivation for saving of individuals. Another NCAER study in 1996 analyzed the structure of the capital market and presented the views and attitudes of individual shareholders. **SEBI – NCAER Survey** (2000) was carried out to estimate the number of households and the population of individual investors, their economic and demographic profile, portfolio size, and investment preference for equity as well as other savings instruments. This is a unique and comprehensive study of Indian Investors, for; data was collected from 3,00,0000 geographically dispersed rural and urban households. Some of the relevant findings of the study are: Households preference for instruments match their risk perception; Bank Deposit has an appeal across all income class; 43% of the non-investor households equivalent to around 60 million households (estimated) apparently lack awareness about stock markets; and, compared with low income groups, the higher income groups have higher share of investments in Mutual Funds (MFs)

Gupta (1994) made a household investor survey with the objective to provide data on the investor preferences on MFs and other financial assets. The findings of the study were more appropriate, at that time, to the policy makers and mutual funds to design the financial products for the future.

Kulshreshta (1994) offers certain guidelines to the investors in selecting the mutual fund schemes.

Shanmugham (2000) conducted a survey of 201 individual investors to study the information sourcing by investors, their perceptions of various investments

Madhusudhan V Jambodekar (1996) conducted a study to assess the awareness of MFs among investors, to identify the information sources influencing the buying decision and the factors influencing the choice of a particular fund. The study reveals among other things that Income Schemes and Open Ended Schemes are more preferred than Growth Schemes and Close Ended Schemes during the then prevalent market conditions. Investors look for safety of Principal, Liquidity and Capital appreciation in the order of importance; Newspapers and Magazines are the first source of information through which investors get to know about MFs/Schemes and investor service is a major differentiating factor in the selection of Mutual Fund Schemes.

Sujit Sikidar and Amrit Pal Singh (1996) carried out a survey with an objective to understand the behavioral aspects of the investors of the North Eastern region towards equity and mutual funds investment portfolio. The survey revealed that the salaried and self employed formed the major investors in mutual fund primarily due to tax concessions. UTI and SBI schemes were popular in that part of the country then and other funds had not proved to be a big hit during the time when survey was done.

Objectives Of The Study

- 1) To analyze to what extent the mutual fund is effective as an investment mode to the investors.
- 2) To study the growth of mutual fund industry in India.
- 3) To analyze the investors awareness and perception regarding Mutual fund investment.
- 4) To find preference of investors about different investment avenue
- 5) To find out which factors attracts investors to invest in mutual fund

IV. Methodology

This part explain the methodology used in this study. The methodology includes data and sources of data, sample size, area of the study and framework of analysis. The study is based on primary and secondary data. Primary data have been collected from 100 respondents through a questionnaire covering different groups of peoples in Trichy city area. The secondary data have been collected from various books, magazine, journals, news papers and websites.

Sampling

For the purpose of this study 100 respondents have been chosen on a randomly convenient base in Trichy city. Out of 100 respondent 90 respondents provided full information which is required for this study. The respondents are segregated on the basis of different variables such as income, age, occupation gender, family size, academic qualification and annual saving. All required information from investors of mutual funds have been collected based on their knowledge, information source and investment decision factors related to their selection of a particular scheme fund

Tools Of Data Analysis:

The data and information collected have been classified, tabulated and processed and its findings presented in a systematic manner. Statistical tools as Chi-square test, Pearson Correlation, cross tabulation are employed to analyze the data effectively.

DEMOGRAPHIC PROFILE OF THE RESPONDENT

Personal Variables	No. of Respondents	Percentage	Cumulative Percentage
AGE (in years)	Under 30	8	9%
	31----40	35	39%
	41----54	20	22%
	55 & above	27	30%
			100%
EDUCATIONAL QUALIFICATION	School level	21	23%
	U.G. level	25	28%
	P.G. level	20	22%
	Profess-level	14	16%
	Others	10	11%
			100%
ANNUAL PERSONAL INCOME (LAKH)	0----2	42	47%
	2.01---5	28	31%
	5.01----10	15	17%
	10.01----20	4	4%
	20 Above	1	1%
			99%
			100%
% OF INCOME TO INVEST	0---10	44	49%
	11----30	31	34%
	31----50	10	11%
	51-Above	5	6%
			49%
			83%
			94%
			100%

Out of 90 respondents, The predominant age group of sample investors comes under the age group 31 to 40 years. A good majority of the remaining respondents are distributed in the age group up to 55 years & above. Thirty nine percent and 30% of the respondents are in the age group up to 31-40 years and above 55 years respectively. The highest literacy rate (28%) of the respondents is U.G level. Twenty three percent and 22% of the respondents have SSLC and P.G qualifications respectively. Sixteen percent and 11% of the respondents are having Professional level and others respectively. forty seven percent, 31%, 17% and 4%,1% of the respondents earn annual family income about up to `0- 2lakh , `2.01-5 lakh, `5.01-10 lakh, `10.01-20 lakh and

above `20 lakh respectively. Out of 90 respondents 49% of respondents invest 0-10 percentage of income investment.

Testing Of Hypothesis

- 1) There is no significant relationship between knowledge about mutual fund and residential area.
- 2) There is no relationship between age range and purpose to invest in mutual fund.
- 3) There is no significant relationship between age range and the level of risk willing to accept.
- 4) There is no relationship between age range and investment style.
- 5) There is no relationship between investment duration and annual personal income.

V. Findings

(1) From the table (1) a. it was found that 20 respondents belong to urban area have full knowledge about mutual fund. And 10% of rural that respondents have full knowledge about mutual fund. Table (1) b shows the result of chi- test at significance level of 001 at 2% degrees of freedom. There is no significant relationship between area and knowledge level

2) The table (2) a. reveals which factor influence the respondents who belong to different investment style in mutual fund. It is found that out of 90 respondents that the 15 respondents belong to aggressive investment style, and they notice only about the company's reputation for their investment avenue. 45 Respondents belong to moderate investment style would like to invest to receive high return at low level of risk. 30 Respondents belong to conservative investment style will see only the liquidity and low level of risk. Table (2)b explains the correlation between investment style and factor influencing for investment and found that there was .890 positive correlation between two variables at 0.01 significant level. Table (2) c. explains about chi- test for two variables and found that there is a significant relationship between investment style and factor influencing for investment at 2% and 3% degrees of freedom.

3) Table (3) a, explains about the age range of respondents and their investment style. Respondents belong to conservative investment style, in this 8 respondents belong to under 30 yrs and 22 respondents belong to 31 to 40 yrs. In moderate investment style 13 respondents belong to 31-40 yrs, 20 respondents belong to 41 -54 yrs, 12 respondents belong to 55 yrs & above. In aggressive investment style only 15 respondents belong to 55 yrs & above. Table (3) b explains about correlation between age range and investment style and .803 there was positive correlation between them at 0.01 significance level. Table (3) c. says about chi-test between two variables at 2% and 3% degree of freedom and there was a significant relationship between age and investment style

4) Table (4) a shows about the age range and level of risk the investors willing to take will invest in mutual fund. Investors under 30 yrs are willing to take (6 respondents) extremely high risk and (2 respondent) high risk. Investors under 31 to 40yrs are willing to take (12 respondents) high level risk and (23 respondents) moderate level risk. Investors under 41 to 54 yrs are willing to take only (20 respondents) moderate level risk. Investors above 55yrs are willing to (1respondent) moderate risk, (14 respondents) will take low risk and (12respondents) were willing to take only extremely low risk. Table (4) b, explains about the correlation between age range and level of risk. And there was .875 correlations at 0.01 significance level. Table (4) c says about the chi-test between two variables at 3% and 4% degree of freedom and there was no significant relationship between these two variables

5) Table (5) a depicts about investment style and the educational qualification of the investor. In conservative style of investment there were 21 respondents belong to school level and 9 respondents belong to u.g level. In moderate investment style they have 16 respondents in u.g level 20 respondents were in p.g level and 9 respondents in professional level. In aggressive investment style they have 5 respondents have professional level and rest of 10 respondents belong to other category of educational level. Table (5) b says about the correlation between educational level and type of investment style. .880 have positive correlations between them at 0.01 significant level.

VI. Data Analysis

TABLE (1) a. RESIDENTIAL AREA * KNOWLEDGE ABOUT MF

		KNOWLEDGE ABOUT MF			Total
		IGNORNAT	PARTIAL ABOUT MF	FULLY KNOW ABOUT MF	
RESIDENTIAL AREA	URBAN	5	8	20	33
	RURAL	6	19	9	34

	SEMIURBAN	2	11	10	23
Total		13	38	39	90

TABLE (1) b. CHI- SQUARE TEST FOR KNOWLEDGE LEVEL IN MUTUAL FUND IN ALL AREA.

VARIABLE	CHI-SQUARE	DF	SIGINIFICANCE
AREA	2.467	2	.291
KNOWLEDGE ABOUT MUTUAL FUND	14.467	2	.001

Table (2) a. FACTOR INFLUENCING FOR INVESTMENT * TYPE OF INVESTMENT STYLE

		TYPE OF INVESTMENT STYLE			Total
		CONSERVATIVE	MODERATE	AGGRESSIVE	
FACTOR INFLUENCING FOR INVESTMENT	LIQUIDTY	20	0	0	20
	LOW RISK	10	25	0	35
	HIGH RETURN	0	20	0	20
	COMPANY REPUTATION	0	0	15	15
Total		30	45	15	90

TABLE(2) b. CORRELATION BETWEEN TYPE OF INVESTMENT STYLE AND FACTOR INFLUENCING FOR INVESTMENT

		TPE OF INVESTMENT STYLE	FACTOR INFLUENCING FOR INVESTMENT
TYPE OF INVESTMENT STYLE	Pearson Correlation	1	.889**
	Sig. (2-tailed)		.000
	N	90	90
FACTOR INFLUENCING FOR INVESTMENT	Pearson Correlation	.889**	1
	Sig. (2-tailed)	.000	
	N	90	90

** . Correlation is significant at the 0.01 level (2-tailed).

TABLE (2) c. CHI- TEST FOR INVESTMENT STYLE AND FACTOR INFLUENCING FOR INVESTMENT

VARIABLE	CHI-SQUARE	DF	SIGINIFICANCE
INVESTMENT STYLE	15.000	2	.001
FACTOR INFLUENCING FOR INVESTMENT	10.000	3	.019

TABLE (3) a. TYPE OF INVESTMENT STYLE * AGE RANGE

		AGE RANGE				Total
		UNDER 30 YRS	31- 40 YRS	41-54 YRS	55YRS&ABOVE	
TYPE OF INVESTMENT STYLE	CONSERVATIVE	8	22	0	0	30
	MODERATE	0	13	20	12	45

	AGGRESSIVE	0	0	0	15	15
Total		8	35	20	27	90

TABLE(3) b. CORRELATION FOR AGE RANGE AND INVESTMENT STYLE

		AGE RANGE	INVESTMENT STYLE
AGE RANGE	Pearson Correlation	1	.803**
	Sig. (2-tailed)		.000
	N	90	90
WHICH INVESTMENT STYLE YOU PREFER MOST	Pearson Correlation	.803**	1
	Sig. (2-tailed)	.000	
	N	90	90

TABLE(3) c. CHI-TEST FOR AGE AND STYLE OF INVESTMENT YOU PREFER

VARIABLE	CHI-SQUARE	DF	SIGNIFICANCE
AGE	17.467	3	.001
INVESTMENT STYLE	15.000	2	.001

TABLE(4) a. LEVEL OF RISK * AGE RANGE

		AGE RANGE				Total
		UNDER 30 YRS	31- 40 YRS	41-54 YRS	55YRS&ABOVE	
LEVEL OF RISK	EXTERMELY HIGH RISK	6	0	0	0	6
	HIGH RISK	2	12	0	0	14
	MODERATE RISK	0	23	20	1	44
	LOW RISK	0	0	0	14	14
	EXTREMELY LOW RISK	0	0	0	12	12
Total		8	35	20	27	90

TABLE (4) b. CORRELATION BETWEEN AGE RANGE AND LEVEL OF RISK

		AGE RANGE	LEVEL OF RISK
AGE RANGE	Pearson Correlation	1	.875**
	Sig. (2-tailed)		.000
	N	90	90
LEVEL OF RISK	Pearson Correlation	.875**	1

Sig. (2-tailed)	.000	
N	90	90

** . Correlation is significant at the 0.01 level (2-tailed).

TABLE(4)c. CHI-TEST FOR AGE RANGE AND LEVEL OF RISK

VARIABLE	CHI-SQUARE	DF	SIGNIFICANCE
AGE RANGE	17.467	3	.001
LEVEL OF RISK	49.333	4	.000

TABLE (5) a .EDUCATION QUALIFICATION * TYPE OF INVESTMENT STYLE

		TYPE OF INVESTMENT STYLE			Total
		CONSERVATIVE	MODERATE	AGGRESIVE	
EDUCATION QUALIFICATION	SCHOOL LEVEL	21	0	0	21
	U.GLEVEL	9	16	0	25
	P.G LEVEL	0	20	0	20
	PROFFESTIONAL LEVEL	0	9	5	14
	OTHERS	0	0	10	10
Total		30	45	15	90

TABLE(5) b. CORRELATION BETWEEN EDUCATION LEVEL AND TYPE OF INVESTMENT STYLE

		EDUCATION QUALIFICATION	TYPE OF INVESTMENT STYLE
EDUCATION QUALIFICATION	Pearson Correlation	1	.880**
	Sig. (2-tailed)		.000
	N	90	90
TYPE OF INVESTMENT STYLE	Pearson Correlation	.880**	1
	Sig. (2-tailed)	.000	
	N	90	90

VII. Conclusion

The present study says about the investors preferences towards mutual funds in trichy. The study explains that many investors are preferred to invest in mutual fund in order to have high return at low level of risk, safety liquidity. The world of investment has been changing day to day, so investor's preferences toward investment pattern also changed. In the demographic profile most of the investors are willing to invest only 10% in their annual personal income, around 39% of investors belongs to age range of 31 to 40 years. In this study investors are willing to take moderate and low level risk, most of the investors belong to moderate investment style. In order to have more investors to invest in mutual funds, mutual fund companies have to bring some awareness program about the benefits of investing in mutual funds, and the safety and security provided my mutual fund companies in this changing stock market situation.

Bibliography

- [1] Dr.S Gurusamy (2010) Financial Services and System pp 268-270.
- [2] D. Kandavel (2011) "Factor influencing retail investors to prefer investments in mutual fund in puducherry an empirical study" International journal of exclusive management study, vol 1 Issue 7 Online Issn 2249-2585 pp 1-3
- [3] Dr. Ravi vyas (2012) " Mutual fund investor's behavior and perception in Indore city ", International refereed research journal, vol 3 issue (3) 1 July 2012, pp 68-69, 72.
- [4] Nidhi walia (2005) " An analysis of investor's risk perception towards mutual fund services ", international journal of business and management, vol 4, pp 107.
- [5] Simran saini *, Dr. Bimal anjun **, Ramandeep saini ***, Investors awareness and perception about mutual funds , International journal of multidisciplinary research vol 1, Issue 1, may 2011 pp 14, 17-18
- [6] <http://www.mbaskool.com/business-articles/finance/1082-mutual-fund-industry-in-india-an-investors-perspective.htm>
- [7] <http://www.appuonline.com/mf/knowledge/industry.html>
- [8] http://www.moneycontrol.com/mccode/news/article/article_pdf.php?autono=720918&num=0
- [9] <http://EzineArticles.com/195707>