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Investing in Mutual funds: Does profession matter?

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Abstract:
Purpose
Mutual fund has of late become a prominent saving tool for people of India. The present study aims to determine the effect of profession of mutual fund investors on selection of mutual funds.
Design/methodology/approach
The research involves the collection of data from 94 respondents belonging to different profession as classified by the researcher. The research was performed by purposive sampling method. A structured questionnaire was used to collect data from the mutual fund investors.
Findings
The findings indicate that profession has an effect in choosing the period of mutual fund investment. While in selection of types of funds profession did not have an effect. Knowledge of mutual fund and parameters for selecting mutual fund had no relationship with the profession of the mutual fund investors.
Research limitations
This research has been only confined to a single city of Odisha. Futher there can be a comparative analysis within the state and between other states and Odisha.
Originality/value
This study has incorporated profession as a medium for selection and preference of mutual funds by the mutual fund investors.
Keywords: *Profession, Mutual Fund, Preference, Selection*

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I. Introduction

Investment has become a compulsion for everyone due to the rules and regulations of the government. Income tax payers need to invest a part of their savings allowed by the government and waived out from tax. For others having surplus investments reap profits. There are a lot of investment avenues available today in the financial market for investors. Bank Deposits, Corporate Debentures, and Bonds have low risk but low return. Investing in Stock of companies has high risk and proportionately high returns. The recent trends in the Stock Market have shown that an average retail investor always lost with periodic bearish tends. Investors began opting for portfolio managers with expertise in stock markets who would invest on their behalf. Thus was born wealth management services provided by many institutions. However they proved too costly for a small investor. To fill in the opportunity mutual funds started. The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank. Mutual fund industry has confronted a lot of changes in past few years with multinational companies coming into the country, bringing in their professional expertise in managing funds worldwide. Of late there has been a consolidation phase going on in the mutual fund industry in India. Now investors have a wide range of Schemes to choose from depending on their individual profiles. There are several factors which influence the mutual fund investors to select a proper and befitting mutual fund for themselves.

Types of mutual fund
Various types of mutual funds categories are designed to allow investors to choose a scheme based on the risk they are willing to take, the investable amount, their goals, the investment term, etc.

Let us have a look at some important mutual fund schemes under the following threecategories based on maturity period of investment:maturity period of investment:

I. Open-Ended - This scheme allows investors to buy or sell units at any point in time. This does not have a fixed maturity date.

1. Debt/ Income - In a debt/income scheme, a major part of the investable fund are channelized towards debentures, government securities, and other debt instruments. Although capital appreciation is low (compared to the equity mutual funds), this is a relatively low risk-low return investment avenue which is ideal for investors seeing a steady income.

2. Money Market/ Liquid - This is ideal for investors looking to utilize their surplus funds in short term instruments while awaiting better options. These schemes invest in short-term debt instruments and seek to provide reasonable returns for the investors

3. Equity/ Growth - Equities are a popular mutual fund category amongst retail investors. Although it could be a high-risk investment in the short term, investors can expect capital appreciation in the long run. If you are at your prime earning stage and looking for long-term benefits, growth schemes could be an ideal investment.

3.i. Index Scheme - Index schemes is a widely popular concept in the west. These follow a passive investment strategy where your investments replicate the movements of benchmark indices like Nifty, Sensex, etc.

3.ii. Sectoral Scheme - Sectoral funds are invested in a specific sector like infrastructure, IT, pharmaceuticals, etc. or segments of the capital market like large caps, mid caps, etc. This scheme provides a relatively high risk-high return opportunity within the equity space.

3.iii. Tax Saving - As the name suggests, this scheme offers tax benefits to its investors. The funds are invested in equities thereby offering long-term growth opportunities. Tax saving mutual funds (called Equity Linked Savings Schemes) has a 3-year lock-in period.

4. Balanced - This scheme allows investors to enjoy growth and income at regular intervals. Funds are invested in both equities and fixed income securities; the proportion is pre-determined and disclosed in the scheme related offer document. These are ideal for the cautiously aggressive investors.

II. Closed-Ended - In India, this type of scheme has a stipulated maturity period and investors can invest only during the initial launch period known as the NFO (New Fund Offer) period.

1. Capital Protection - The primary objective of this scheme is to safeguard the principal amount while trying to deliver reasonable returns. These invest in high-quality fixed income securities with marginal exposure to equities and mature along with the maturity period of the scheme.

2. Fixed Maturity Plans (FMPs) - FMPs, as the name suggests, are mutual fund schemes with a defined maturity period. These schemes normally comprise of debt instruments which mature in line with the maturity of the scheme, thereby earning through the interest component (also called coupons) of the securities in the portfolio. FMPs are normally passively managed, i.e. there is no active trading of debt instruments in the portfolio. The expenses which are charged to the scheme, are hence, generally lower than actively managed schemes.

III. Interval - Operating as a combination of open and closed ended schemes, it allows investors to trade units at pre-defined intervals. (Times of India,2015)

II. Literature Review

Extant literature on mutual fund studies have been concised in this section.Kaur and Kaushik (2016) have shown that socioeconomic characteristics such as age, gender, occupation, income and education of investors had an impact on the awareness of mutual funds.Amiri and Lafuente (2016) have classified mutual fund investors into five types as professional, ambitious, moderate, conservative and cautious basing on the risk they are ready to take up and expectations.Kumar and Bansal (2014) conducted a study in Rohtak, Haryana where most of the respondents invested in equity funds and the time period was 1-3 years.Mohd Akbar Ali Khan & Kotishwar (2014) conducted study on Investors Behaviour Investment in Mutual Funds in Telengana Region in the State of Andhra Pradesh. The study reveals that the investors perception dependent on the demographic profile and the assess that the investors, age, material status and Education has direct impact on the investors choice of investment and factors influencing investors perception on public and private MF's are Management Fee, Return on income, security are the factors which have a higher impact on perception of investors.Singh (2012) conducted an empirical study of Indian investors and observed that most of the respondents do not have much awareness about the various function of mutual funds and they are bit confused regarding investment in mutual funds. The study found that some demographic factors like gender, income and level of education have their significant impact over the attitude towards mutual funds. On the contrary age and occupation have not been found influencing the investor's attitude. The study noticed that return potential and liquidity have been perceived to be most lucrative benefits of investment in mutual funds and the same are followed by flexibility, transparency and affordability.Rao (2011) presents mutual fund investor awareness and option of different schemes with educational level. Theresearch findings showed that with increased level of education is linked with greater risk tolerance.Saini et., al. (2011) analyzed investor's behavior, investors' opinion and perception relating to various issues like type of mutual fund scheme, its objective, role of financial advisors / brokers, sources of information, deficiencies in the provision of services, investors' opinion relating to factors that attract them to invest in mutual and challenges before the Indian mutual fund industry etc. The study found that investors seek for liquidity, simplicity in offer documents, online trading, regular updates through SMS and stringent follow up of provisions laid by AMFI. Saha and Dey (2011) have found that mutual fund is the most favoured instrument for savings. Equity schemes ranked first followed by income and balanced funds. The investors' need for safety is foremost, followed by good return, liquidity, flexibility, tax benefit, capital appreciation, diversification benefits and professional management. Most of the investors were aware of the funds they were investing in. The awareness level was independent of gender and dependent on income and age.Bailey and Kumar (2010) examined the effect of behavioral biases on the mutual fund choices of a large sample of U.S. discount brokerage investors and reported that behaviorally-biased investors typically make poor decisions about fund style and expenses, trading frequency, and timing, resulting in poor performance.Rao and Parashar (2010) conducted a survey in Rajasthan, Gujarat and Madhya Pradesh witha sample of 358 investors based on Stratified Convenience Sampling to understand the factors affecting perception and level of awareness towards Mutual Funds. The data was analyzed using factor analysis for identification of key features preferred by the respondents. Twenty six statements were generated for measuring perception of investors towards Mutual Funds on a 5 point Likert scale.Rajarajan (2009), conducted a study with the objective of analyzing the investors life styles and to analyse the investment size, pattern, preference of individual investors on the basis of their life styles. Data was collected from 405 investors in Madras using questionnaire method. The investors were classified into3groups viz., active investors, individualists and passive investors.ClusterAnalysis,Corresp ondence Analysis and Kruskal Wallis Test were used to study the association between lifestyle groups and the various investment related characteristics. The study revealed that the level of expenses, earnings and investment were associated with the size of the household.Kavitha Ranganathan (2006) conducted a study on investors' perceptions. Sample size is 100 educated individual investors in the city of Mumbai. She found in her study that savings objective of the majority of individual investors is to provide for retirement, the respondents have good awareness level MFs, shares are favoured 'Growth Scheme' and 'open-Ended' Schemes are favoured and factor analysis is done to analyze the selected factorsLu Zheng (1999) examined the fund selection ability of MF investors and found that the investors' decisions are based on short-term future performance and they use fund-specific information in their selection decision.Bogle (1992), and Ippolito (1992) reported that the fund is selected by investors on the basis of its past performance. They also found that generally the money flows into the fund that gives positive return in comparison to those funds having negative return during a particular period of time.Sujit and Amrit (1996) try to find out how behavior of an individual investor impacts the selection of equity and MF investment portfolio. The study was conducted through a survey in the north-eastern region of India. The survey revealed that the salaried and self-employed were the major investors in MFs, primarily due to tax concessions. UTI and SBI schemes were popular in that part of the country during the time the survey was done and other funds had not proved to be a big hit then.Raja (1997a and 1997b; and 1998), in his studies, surveyed a number of investors and found that there exists segmentation among investors based on their characteristics, investment size and the relationship between stage in life cycle and their investment pattern.Syama (1998) conducted a survey to get an insight into the MF operations of private institutions with special reference to Kothari Pioneer. The survey revealed that the awareness about the MF concept was poor during that time in small cities like Visakhapatnam. The survey also revealed that agents play a vital role in spreading the MF culture, open-ended schemes were much preferred ,age and income are the two important determinants in the selection of fund/scheme and brand image and return are their prime considerations.Elton et al. (1996) shows that the funds with the highest average returns may lose their attractiveness to investors once the degree of risk embedded in the fund has been factored into the analysis.McInishand and Srivastava (1984) indicate that specific demographic characteristics are not particularly useful in differentiating among investors holding divergent opinions. The empirical results of evaluating the risk adjusted performance of US based international equity funds by

III. Gap identification

The above literature has research on various aspects of mutual funds. The influence of demographics as well as other factors on mutual fund preference and selection has been dealt with. In demographics the influence of age, gender and income has been studied. But there is a dearth on the influence of profession on the selection and preference of mutual fund investors. This has been identified as a gap. To fulfil the gap the following objective and hypotheses have been proposed.

IV. Objective

To determine the selection of mutual fund across profession.

Hypotheses

Ho1.There is no association between the selection of mutual fund and profession of investors.

Ho2.There is no association between selection of mutual funds investment period the profession of investors.

Ho3.There is no relationship between the profession of investors and their assessment of risk associated with mutual funds.

Ho4.There is no relationship between the profession of investors and their knowledge level of mutual funds.

Ho5.There is no relationship between the selection of mutual fund parameters and profession of investors.

V. Research Methodology

The research design is exploratory and descriptive by nature. The collection of data includes both from primary and secondary sources. Investors of mutual funds in the city of Cuttack were taken as the population of the study. 94 respondents were selected randomly as the sample respondents. The respondents were segregated on the basis of their profession. Profession was categorised into four types as government, private, professional and business. The data was collected through deliberate sampling. The major data collection tool was a structured questionnaire.

VI. Analysis & Findings

The collection of data led to the following findings.

Ho1.There is no association between the selection of mutual fund and profession of investors

Table 1. Mutual fund selection and profession

Profession/Type of mutual fund (%)	Balanced fund	Equity fund	Money market	Debt fund
Govt.	50	19.4	16.7	13.9
Private	65.2	8.8	13	13
Professional	55.6	23.2	13.6	5.6
Businessman	53.3	13.3	20	13.4

'Chi-Square test' Result of association between selection of mutual fund and profession of investors.

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.79	9	.972

From the last row of the Table 1, Pearson Chi-Square statistic, $X^2 = 2.79$, and $p > 0.05$; i.e a very highprobability of the observed data under the null hypothesis have relationship**.** The null hypothesis was accepted. This shows that there is no association between the selection of mutual fund type and profession.

Ho2.There is no association between selection of mutual fund investment period the professionofinvestors.

Table 2. Mutual fund investment period and profession

Profession/Investment period (%)	1-3 years	4-6 years	7-10 years	>10years
Govt.	30.6	33.3	19.4	16.7
Private	17.4	39.1	26.1	17.4
Professional	16.7	44.4	22.2	16.7
Businessman	33.3	29.3	24	13.4

'Chi-Square test' Result of association between selection of mutual fund investment period and profession of investors.

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	5.21	8	.001

The last row of the Table 2 represents Pearson Chi-Square statistic, $X^2 = 5.21$, and $p < 0.05$; i.e a very high probability of the observed data under the null hypothesis do not have relationship**.** The null hypothesis was rejected. This shows that there is association between mutual fund investment period and profession.

Ho3.There is no relationship between the profession of investors and their assessment of risk associated with mutual funds.

Table 3. Risk assessment and profession

Profession/risk assessment (%)	Low	Moderate	High
Govt.	2.8	75	22.2
Private	8.7	78.3	13
Professional	5.6	77.7	16.7
Businessman	6.7	77.3	20

'Chi-Square test' Result of association between risk assessment of mutual fund and profession of investors.

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.69	6	.946

From the last row of the Table 3, Pearson Chi-Square statistic, $X^2 =1.69$, and $p > 0.05$; i.e a very high probability of the observed data under the null hypothesis have relationship**.** The null hypothesis was accepted. This shows that there is no association between risk assessment of mutual fund and profession.

Ho4.There is no relationship between the profession of investors and their knowledge level of mutual funds.

Table 4. Knowledge of mutual fund and profession

Profession/knowledge of Mutual fund (%)	Fully aware	Totally ignorant	Partial knowledge	Aware of specific scheme
Govt.	55.6	5.6	19.4	19.4
Private	65.2	4.3	13	17.4
Professional	50	5.6	22.2	22.2
Businessman	53.3	6.7	20	20

'Chi-Square test' Result of association between knowledge of mutual fund and profession of investors.

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.23	9	.999

From the last row of the Table 4, Pearson Chi-Square statistic, $X^2 = 1.23$, and $p > 0.05$; i.e a very high probability of the observed data under the null hypothesis have relationship**.** The null hypothesis was accepted. This shows that there is no association between the knowledge level of mutual fund and profession.

Ho5.There is no relationship between the selection of mutual fund parameters and profession of investors.

Table 5. Parameters of mutual fund selection and profession

Profession/Mutual fund selction parameters (%)	Returns	Inflation	Low risk factor	Brand	Credit rating	Lock in period
Govt.	66.7	8.3	8.3	6.6	5.6	5.6
Private	60.9	8.7	4.3	7.7	8.7	8.7
Professional	94.4	-	5.6	0	-	-
Businessman	80	-	-	6.7	6.7	6.7

'Chi-Square test' Result of association between parameters mutual fund selection and profession of investors.

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	10.53	15	.785

From the last row of the Table 5, Pearson Chi-Square statistic, $X^2 = 10.53$, and $p > 0.05$; i.e a very high probability of the observed data under the null hypothesis have relationship**.** The null hypothesis was accepted. This shows that there is no association between the selection of mutual fund parameters and profession.

VII. Conclusion

The study has tried to prove if there is an association between the profession of investors and selection of mutual funds. It was found that profession doesnot play a major role in selection of mutual fund and its parameters. But in case of investment period it has some role. The companies into mutual fund business can use this finding as trump cards while marketing.

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