



A STUDY ON PREFERENCES AND BEHAVIOUR OF INDIAN MUTUAL FUND INVESTOR

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ABSTRACT

Today generation is totally changed. Financial independence become the key. Investment options are considered one of the most efficient and important in the case of fight against the deadly inflation. Mutual funds plays a key role as part of the investment market are becoming increasingly popular among investors due to their convenience and the ability to make easy transactions with good returns. However, very few of them are not preferred because they are highly dependent on volatile stock markets and it is very difficult to differentiate their product range to satisfy retail investors. Therefore, the time has come when we have to understand and also analyse perceptions and expectations of a common investor of mutual fund and to disclose the data which is too very much important to defend the investment decisions of a mutual fund investor and also the asset managers of mutual funds. The ever-expanding financial market offers a large number of financial products, necessitating innovation in investment fund portfolio design. However, these changes need to be consistent with the demand of the investors. Therefore, it is very important to study the mutual funds investment from a different side, focusing on investors' perceptions and demands and disclosing the key parameters that are causing investors' dissatisfaction in investment. This research study keep insights on various factors that highlight investors' demand and also the perception in case of mutual fund investment. Mutual funds have now become known to investors, but investors still rely on bank or gold deposits. Also a huge number of investors are new to it. They have stop investing their money in mutual funds for more than three years and have withdrawn from the fund. SIP investment and Lump Sum Investment are at the top of the investors' priority list. It also shown in the study that most investors do not consider the investment risks and rely on internet or brokers and agents to do so.

Keywords: Analysis of risk-return, Investor behaviour, Investment preference, SIP, Systematic Transfer Plan, psychology of Investment, Investor Education etc.

INTRODUCTION

Mutual funds are generally considered to be retail products that are attracted to market growth and returns other than investing in share market directly due to their unpredictable and volatile nature. Since liberalization policies were announced in 1991, the Indian economy has achieved miraculous growth and per capita income has increased. The increase of the income of Indian households, specially middle class and upper-middle class people in India has also making mark over the past two decades. This is a group whose needs are changing enormously due to rising incomes. Although almost all mutual fund companies have set targets, it has been found that these mutual fund

companies are unable to convert individual investors' savings into their products.

In India, retail investors generally prefer Bank FDs, which is not so very good instrument to fight against the inflation more over sometimes it gives a negative inflation adjusted returns. A retail investor generally has a very less knowledge of hyperactive share market and cannot understand the information until an expert gathered all the information and decoded the terms of the market as per his common terms. He also considers himself an irregular person in the investment market. Mutual funds support these investors in this situation. Mutual funds provide individual investors with a financial intermediary/portfolio manager who processes information, identifies the investment options, develops the investment processes, invests in the funds, and keep track of progress on behalf of him on a bare minimum cost. Therefore, blooming of mutual fund is fundamental outcome of the common work of a skilled fund manager and an individual investor.

The basic idea about mutual funds has existed in a primitive form in the financial world for a long time. To start with we have to know about the history of it. In India, the mutual fund industry was started in 1963 after the establishment of Unit Trusts of India as a joint initiative from the Government of India and the Reserve Bank of India. In India, the acceptance of innovative investment programs lacks due to old investment emotions and also the insufficient infrastructure. Investors who avoid risks are more interested in the options with limited capital risk and return than the usual Bank FDs, which actually holds the inclusion of a bit riskier investment options in the Indian money market.

However, the mutual fund industry's main aim of has evolved over many years. For decades, the funds were serves mainly as a money management product. In the Indian investment market mutual fund have key role in past 35 years. A skilled fund manager must understand investor nature and calculate their demands and expectations in order to tailor a perfect results. With the time being fund managing companies need to recognize the investors' fund selection, shifting behavior and design fund plans according to changing consumer needs, otherwise it will be difficult for funds to survive in the future. In this context, this study sought to provide information on the same, highlighting how this form of investment deeply penetrates Indian society.

OBJECTIVES

The main aim of this research study is to find out few factors that are playing key roles in terms of the preferences of the retail mutual fund investors in India. So this study has taken these objectives to understand their choices:

1. To understand the investment choice of Investors
2. To rank the invest options as per investment preferences
3. To understand the investment mode
4. To study the knowledge of risk management in investment
5. To understand the factors affecting fund switching
6. To study the nature of funds based on investors' holding
7. To find the investors preferences in mutual fund investment based of holding time

REVIEW OF LITERATURE

In the year 1992 in a study done by Ippolito found that investors are ready to invest in schemes and funds that was giving them good returns. It is also found that maximum number of investors are likely to invest in funds and schemes which performed better than the comparatively worst funds. Another study by Goetzman (1997) finds that investor behaviour and psychology play a key role to choosing a fund for investing and also the time when they withdrawal from the funds. In the study done by De Bondt and Thaler (1985) they proposed the mean reversion of the price of the stocks exists mainly supported by the investor regression. This is primarily based on investors' behaviour and psychology of overestimating a company's new performance when forming expected future results, also known as the endowment effect. Gupta (1994) also done a study of individual retail investors to know more about their choices for investing in the mutual funds and also the multiple financial assets that are available in the market. The findings had more important implications for policymakers and investment funds in designing future financial products. Another study done by Kulshreshta (1994) which suggested few important guidelines for the retail investors which will guide them to select the desire mutual fund schemes as per their requirement.

Shanmugham (2000) has also conducted a study of individual retail investors to figure out which are the

primarily source of information that the investors should depends on. The results come out as the psychological economical and sociological factors plays the key role to influence the investment decision making. On a study by Madhusudhan V Jambodekar (1996) it is shown that the reason behind the mutual fund investment among investors and also it focused on the factors that manipulate the investment decisions by the mutual funds users. This study shows that open systems are most preferred, including revenue systems and permanent systems, and that revenue systems are chosen by the investors over the closed and growing systems. In that study it is shown that local newspapers are become the primary source of the information regarding the mutual funds. Also it become very clear that the security of the capital amount is the most important for the investors. In another study done by S. Sikidar and A. P. Singh (1996), they have given a clear view on the investment behavioural aspect towards the stock market and mutual funds focusing on the North-East regional people. Their study shows that tax befits that can get from investing in stockts and mutual funds are plays a key role to invest for both the self-employed and the employees. Though bank investment and bonds become a very old school option of investment but still the peoples are very fond towards that for the security that available over there.

A study done by Syama Sunder (1998) with an aim for gaining detailed insight into how the operation of a private mutual fund, with specific reference to Kothari Pioneer. This study shows that there was not enough knowledge about the concept of mutual funds in small towns like Visakhapatanam at that time. It also points out that agents help promote the culture of mutual funds, open options are much more popular than other systems. It is also came in light that the fund manager and the brand name of the fund management company plays a key role for choosing the mutual fund. Again on a study by Chakarabarti and Rungta (2000) the significance of brand in determining the competency of a benefit management company is established. To penetrate into the society the mutual funds industry need to be follow the distribution model of consumer goods, a suggestion by Shankar (1996). Secure investment options like post office deposited, Bonds, Bank FDs, PPF have a huge impact on investment decisions. It helps individuals make better decisions especially when they invest in high-risk/low-risk investment options (Senthamizhselvi. A and Vedantam Seetha Ram, 2018).

THE SAMPLE SIZE

For this study, we taken reposes for 293 participants. The participants are categorised into different segments based on various demographic factors such as their age, gender, occupation, and marital status etc.

THE HYPOTHESIS

The basic structure of the research includes structured questionnaire. It is a blueprint to collect all the necessary details from mutual fund investors. Grounded on knowledge, sources and investment decision factors appropriate for selecting particular fund hypothesis:

- i. As a savings basket, major investors prefer investing in mutual funds as they are safe and profitable among the investment options available.
- ii. Most investors select short-term investments in case of mutual funds for tax reasons and depends on on information given by agents and brokers when investing in mutual funds.
- iii. Major investors are aware regarding the risk factors of investing in mutual funds.
- iv. The majority of investors are switching from existing funds/systems to new funds/systems with the aim of gaining more profits from changed market conditions.
- v. Most investors prefer investing in mutual funds.
- vi. Majority investors will never suffer any loss on investments in mutual funds held for more than one year.

THE TOOL OF DATA COLLECTION

Both secondary and primary information's are used in this research study. Primary data is collected with the help of questionnaires and secondary data is gathered from relevant research papers, magazines, published books, and reports of Securities, Exchange Board of India (SEBI), Association of Mutual Funds of India (AMFI), Reserve Bank of India (RBI) and other approved data sources.

RESEARCH APPROACH

The study focus on survey approach.

TOOLS USED FOR DATA ANALYSIS

Data that is collected by survey are classified, processed, and tabulated. The results are shown in a systematic manner. Statistical tools are utilised for analysing the data(chi-square test, mean, median and Pearson correlation)

RESULTS AND DISCUSSIONS

Investing in mutual funds – The study took a full sample of 400 respondents and found that 293 respondents have put money into mutual funds and 107 have not invested in mutual funds. Entire data gathered is interpreted and measured based on the investor's employment factors.

- 1) Investment Modes Preferred by Investors – In the survey for this study respondents were asked regarding popular investments such as Life Insurance, Forex Holdings, PPF/GPF/Pension Fund, Bank FDs and FDs, Postal Savings Scheme, Gold, UTI Units etc. You will be asked to rank the options. Mutual funds, bonds, real estate sector investments, investments in stocks, and commodities.

Respondents are said to specify a rank that starts from 1 to 9 (highest rank 1, lowest rank 9). The table below is created on rank based. Weighted averages are applied as a statistical tool to identify the type of investment investors are preferring between the numerous investment options available.

Table: 1 Investment Preferences by Retail Investors (Part 1)

	LIC	Crypto Currency	PPF and Pension Fund	Bank FD	Post Office Scheme	Gold	Mutual Funds	Real Estate	Share and Commodity Market
Valid	293	293	293	293	293	293	293	293	293
Mean	5.73	3.27	5.26	6.54	4.95	6.02	5.96	4.62	4.23
Rank	5	9	4	1	6	2	3	7	8

From Table 1, it can be conclude that Bank FD remains the most likely investment option, followed by gold deposits in place two, mutual funds in place three, PPF/GPF in fourth place, and Life Insurance Scheme is in 5th place. Post Office Scheme, Real Estate, Shares and Crypto Currency Holdings are in 6, 7, 8, 9th place respectively. This shows that investors firstly prefer to invest in safe mode and secondly prefer to earn high returns. After examining the ranking of popular investment options by investors, we came to the conclusion that Bank FD and FDs is the most likely option. Next are Gold deposits. Real Estate, Share and Crypto Currency deposits are in the least preferred form of investment for its volatility and risk factors. So this result reflects that investors primarily still prefer safe and secure forms of investment over the high risky, high return term of investment.

- 2) Investor preferences towards different investment options – In this regard, informants were asked to allocate points based upon a 5-point Likert scale (starting from 1 to 5 very much). The respondents were said to select different investment frameworks based on liquidity, reliability, tax benefits, safety and high returns. To achieve unambiguous results, median values were used in this respect.

Table: 2 Investment Options Ranked by Retail Investors (Part 2)

	Gold	Bank FDs'	Share and Commodity Market	Post Office Scheme	Mutual Funds	LIC	Real Estate	Crypto Currency	PPF and Pension Fund
i) Safety	4	4	1	5	3	4	4	1	5
ii) High returns	4	2	5	1	4	1	2	5	3
iii) Liquidity	1	4	4	3	4	1	1	4	3
iv) Reliability	3	5	3	3	3	3	4	3	4
v) Tax benefits	1	2	2	5	4	4	5	1	5

It can be concluded from table 2, that in safety PO scheme and PPF/GPF score the highest. Even in case of Tax benefits they have scored the highest in this two segments. On the other hand in case of returns Share and Crypto Currency scores the best value. It is also seen that mutual fund has shown moderate rating in all parameters such as reliability, tax benefits, liquidity, safety and high returns.

- 3) Preferred Investment Type - Frequencies including chi-square test among investor occupation, investment type, and investor age are used to determine the most preferred investment type among Lump Sum, SIP and STP.

Table 3: Type of Payment Choice by Investors

	Freq.	%	Cumulative %
Systematic Investment Plan (SIP)	187	63.8	58.1
Lump Sum Investment	97	33.1	96.9
Systematic Transfer Plan (STP)	9	3.1	100.0
SUM	293	100.0	

Table 3, shows almost 64% investors preferred select Systematic Investment Plan and only 3.1% of the respondents choose STP and 33.1% preferred Lump Sum Investment.

Table 4: Mode of Investment Preferred (Chi-Square Test)

	Values	df	Asymp. Sig. (2-sided)
Pearson Chi-Square Test	58.515	8	.001
Linear by Linear Association	.511	1	.389
Likelihood Ratio	37.456	8	.001
N of Valid Cases	293		

Table 4, shows that $\chi^2(8, N=293) = 58.51, p = .05$, so there is relationship between mode of investment and occupation of investor.

This study shows a huge number of investor prefers Systematic Investment Plan (SIP) investment method in mutual funds and next priority is given to Lump Sum type investment.

- 4) Understanding the changes and returns in mutual fund- To understand risk and returns Chi-square test is done. Statistical tools are used to analyze whether investor wants to invest in mutual fund as a safe mode over direct investment. Table 5 represents the data.

Table 5: Chi-Square Test of Mutual Fund as Safe Medium (occupation based)

	Value	df	Asymp. Sig. (2-sided)
Linear-by-Linear Association	2.683	1	.099
Likelihood Ratio	10.379	4	.032
Pearson Chi-Square	12.879	4	.005

N of Valid Cases	293		
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Chi-square test in the table 5, indicates a significant relationship between thinking of investors and occupation of investors in mutual funds. Here $\chi^2 (4, N=293) = 12.88, p = .05$

Table 6: Mutual Fund Risk Factors Study

	Frequency	Percent (%)	Cumulative Percent
No	76	25.9	100.0
Yes	217	74.1	74.1
Total	293	100.0	

The above table, shows that 74% investors are conscious about the risk factors in mutual funds. It means investors are well aware of the risk.

Table 7: Analysis of risk in Mutual Fund Investment by Investor

	Frequency	Percent	Cumulative Percent
Yes	186	63.5	63.5
No	107	36.5	100.0
Total	293	100.0	

Table 7 shows the result of question whether the investor's analyses risk before investing in mutual funds. Results are astonishing that only 63.5% investor's analyses threat in their mutual fund investment. Whereas threat awareness percentage was 74.1% (from the previous table). This shows that investors do not gather knowledge about risk.

Table 8: Mutual Funds as an Investment Option Safe or Not

Table 8: shows result of the question – “whether the investing in mutual fund is safe?”

	Frequency	Percent (%)	Cumulative Percent
No	21	7.2	100.0
Yes	272	92.8	92.8
Total	293	100.0	

92.8% investor think mutual fund is safe for investment in share market, many investors are avoiding direct investment in share market.

Table 9: Understanding the Profitability Mutual Fund

Table 9 shows the responses of respondent regarding the profitable mode of investment as mutual funds.

	Frequency	Percent (%)	Cumulative Percent
No	46	15.7	100.0
Yes	247	84.3	84.3
Total	293	100.0	

84.3% respondent agreed that mutual fund is a profitable investment mode but 15.7% did not agreed.

- 5) Preference on switching from mutual fund scheme: many investors were switching their mode of investment from mutual funds, profitability and security were two main cause

Table 10: Cause for Funds Switching

	Frequency	Percent (%)	Cumulative Percent
Security	58	19.8	100.0
Profitability	235	80.2	80.2
Total	293	100.0	

Table 10, clearly shows that 80.2% investor's shift from a fund/scheme to gain more profit and remaining 19.8% switches due to secure their money in investment.

Table 11: Choices of Funds

	Frequency	Percent	Cumulative Percent
Existing Fund	252	86	86
New Fund	41	14	100.0
Total	293	100.0	

Table 11 shows 85.1% investors want to invest in existing fund or schemes but 14.9% want to invest on new funds as they will to take more risk.

6) Preference over the nature of mutual fund holding-

Table 12: Chi-square test of Fund holding pattern (occupation based)

	Value	Degree of freedom	Asymp. Sig. (2- sided)
Likelihood Ratio	64.617	12	.001
Pearson Chi-Square	43.693	12	.002
Linear-by-Linear Association	.965	1	.332
N of Valid Cases	293		

A question was asked to investors to find out if their occupation has an impact with their mutual funds invest holding. As per table number 12 it is clear that, there is a significant relationship. $\chi^2(12, N=293) = 43.69, p = 0.05$.

Table 13: Type of Mutual Funds as per Holdings

	Frequency	Percent	Cumulative Percent
Balanced Fund	77	26.3	98.7
Debt Fund	70	23.9	72.4
Equity Fund	142	48.5	48.5
Others	4	1.3	100.0
Total	293	100.0	

From the survey (table 13) it is clear that more of the people are choosing the equity finds (48%). Balance funds and debt funds comes as second and third popular option with 26% and 24% respectively. Other type of fund is the least preferred option

7) Study on Information gather and time of holding-

Table 14: Preference for Information

	Frequency	Percent	Cumulative Percent
Friends & Family	73	24.9	24.9
TV/Radio	17	5.8	30.7
Mails	3	.1	30.8
News Papers & Magazines	28	9.5	40.3
Internet	128	44.2	84.5
Agents	44	15.5	100.0
Total	293	100.0	

From table 14, it is clear that most of the people like to gather knowledge from internet (44.2%). Friend and Family (25%) and the Mutual Fund Agent (15.5%) are coming after that. Email (0.1%) becomes the least prefer choice for information.

The next question was also asked to find out the priority of investment holding time.

Table 15: Relationship of Investment Holding Time and Occupation

		Investment holding time	Working type
Investment holding time	Pearson Correlation	1.000	.377
	Sig_(2-tailed)	---	.000
	N	293	293
Working Type	Pearson Correlation	.377	1.000

	Sig_ (2-tailed)	.000	---
	N	293	293

In Table 15, the results are very clear that there is positive relationship between occupation and tenure of fund holding pattern of investor.

Table 16: Mutual Funds Holding Time

	Frequency	Percent (%)	Cumulative Percent
<1 Year	33	11.3	11.3
1 – 3 Years	174	59.4	70.7
4 – 6 years	65	22.2	92.9
7 – 9 years	13	4.4	97.3
More than 10 Years	8	2.7	100.0
Total	293	100.0	

Table 16, reveals most of the investors (59.4%) like to hold the investment for the tenure of one to three year. Again 22.2 % preferred to hold for third category period i.e. four – six year tenure. It can be concluded from the above analysis that almost 90% investor prefer to hold investment for at least six years.

CONCLUSION AND SUGGESTIONS

This study comes with some basic conclusion regarding the preference and the behavior of the users. The study shows that, still now Bank Deposits, Gold are the top two preferences of investment followed by mutual funds. Share Market and currency investment though giving higher return but still the investors like to go with the safer options till to date. In the other hand Mutual fund is equally chosen by the high return taking investors and also by the safe investors.

The risk taker investors are more likely to choose mutual fund over share market as a safer option from share market. The investors also faced some issues with the liquidation of the fund. It is also find that the occupation of the investors have a lot of significant relationship with the risk taking ability of the users.

Out of the mutual fund investors, most of the user choose systematic investment plan. Lump- sum investment options is the second most chosen investment options. It also has a significant relationship with the occupations of the investors. The study also shows that many investors are aware regarding risk in investment but surprisingly they don't have interest to analyses the risk while investing in mutual fund.

Investors like to switch their funds on the bases of profitability and safety is the second priority. But interestingly, they are not that much interested to choose a new one. Investors are also more likely to invest in an equity fund. Balanced fund comes second and debt fund is in third option. One important findings from the study that most of the investors are invest for less than 8 years. Also it is shown that the investment period have a positive correlation with the occupation of the investors.

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