

Article No.

AFFLUENT INVESTORS AND MUTUAL FUND INVESTMENT

Dr.Sindhukumar.N

Assistant Professor, Dept. of Commerce, Sree Narayana College, Varkala

Abstract: A mutual fund, therefore, in its rudimentary conceptualization is a collection of stocks and/or bonds, where in an investor holds a share, which represents a part of the fund holding thereof. The financial institutions, other, industries and companies were vying with one another to get the surplus funds for their requirements. This had culminated into a wide range of investment opportunities. In the light of surfeit of investment opportunities, in view of newly emerging investments and in the face of severe competition for investible funds, the study of the process of investment by the investors in mutual fund market is quite relevant. The investors behavior, their profile, variables influencing them to invest in mutual funds and selection of mutual fund schemes have been focused.

Key Words : Mutual Fund Schemes, Potential Sector, Market Volatility, Liquidity, Risk Capacity, Mutual Fund Product, Brand Equity, Portfolio, Risk Freeness, Speculative Values, Product Innovation, Fund Management

Introduction

Mutual fund in itself deemed to be an institutional entity that encompasses the commonly derived and/or schematically accumulated financial goals of the community of investors. The money collected from a plethora of sources is invested by the fund managers in various types of securities depending on their dulyspecified objectives. The India mutual funds industry has witnessed several structural and regulatory reforms. The people invest in mutual funds, for the purpose of earning higher rate of return by taking minimum risks. With entry of new fund houses and the introduction of new funds into the market, investors are now being presented with a broad array of fund choices. The global players are finding Indian mutual funds industry a potential sector.

Review of the Literature

Chalam (2003) found the important factor influencing the investment on mutual funds are return, capital appreciation, tax saving purpose, liquidity, marketability and safety. Majority of the investors prefer real estate investments, followed by mutual fund schemes, gold and precious metals. Majority of the investors in mutual funds are employees. They preferred only growth options compared to income options. Majority of the investors are very much interested to take the re- investment benefit rather than the regular dividend.

Mohanty (2006) analysed the weakness of mutual funds. There are non – availability of tailor-made schemes, no guarantee of returns, no control over costs, problem of managing large corpus, volatility of return depends on market conditions, which is subject to frequent market volatility and mostly investment period is medium term to long-term where expected return is more market mutual funds scheme is for short period where return is not lucrative and the instruments are lesser in number.

Kaul and Gupta (2006) analysed the investors perception on various reasons to select the mutual fund scheme. These are risk capacity and tolerance, liquidity needs, specific objectives, credibility of the sponsors, investment philosophy of the fund, performance of the scheme, dividends, entry and exact loads, expenses changed to the fund and services offered by the fund.

Panda and Nalini (2001) evaluated the cause and effect relationship between mutual fund investment decision. The buying intent of a mutual fund product by small investor can be due to multiple reasons depending upon customers risk return trade off.

Objectives of the Study

The present study confines its objectives to the following:

- i) To exhibit the investor's preferences and priorities towards different mutual fund products.
- ii) To examine the decision variables regarding mutual fund investment.
- iii) To identify the factors influencing the investment on mutual funds.
- iv) To study the problems encountered by the investors in mutual fund market.

Preferred Mutual Funds among the Investors

The mutual funds are of several types. It is categorized by the structure investment, objective and other interior. The investors prefer the mutual funds according to their willingness. In the present study, the type of mutual are confined to only nine. The investors are asked to rank the nine funds according to their preference. **Garrett's ranking** technique is used to determine the most preferred mutual fund among the investors.

Table No. 1

Mutual fund preferred by the investors Garrett's Ranking

Sl. No.	Nature of mutual fund	Garrett's Score	Rank
1	Balanced schemes	57.1	I
2	Gift schemes	56.42	II
3	Income Schemes	54.02	III
4	Bond schemes	51.33	IV
5	Equity schemes	51.2	V
6	Tax saving schemes	46.75	VI
7	Money market schemes	46.32	VII
8	Sector specific schemes	44.62	VIII
9	Index schemes	42.22	IX

The highly preferred mutual fund scheme among the investors is balanced scheme with the score of 57.1 followed by gift schemes (56.42) and income schemes (54.02). The least preferred mutual fund schemes are sector specific schemes (44.62) and index schemes (42.22).

Sources of Investment on Mutual funds

The sources of investment represents the important sources of money to invest on mutual funds among the investors.

The present study confine the sources of investment on mutual funds to savings, earnings, borrowings and closure of other investments. The investors are asked to mention their important source of investment. The result are illustrated in Table 2.

Table No. 2

Sources of Investment among the Investors

Sl. No.	Source of investment	No. of Respondents	Percentage (%)
1	Savings	43	47.8
2	Earnings	29	32.2
3	Borrowings	12	13.3
4	Closing other investment	6	6.7
	Total	90	100

Source: Primary Data

The important source of investment on mutual funds among the investors are earnings and savings which constitutes 32.2 and 47.8 percent to the total respectively.

Source of Information about mutual funds among the Investors

The sources of information about the mutual funds are too many. The investors give weightage on each source of information. They are not relied on only one source of information. Since the source of information about the mutual funds is an important motivating element to invest on it, the present study has made an attempt to analyse the source of information about mutual funds among the investors. The sources are confined to agents, brokers, friends and relatives, advertisement, other investors financial advisers, news letters and seminars. The investors are asked to rate the above said sources at five point scale. Weightage average method is used to exhibit the important sources of information among the investors.

Table No. 3**Sources of Information about mutual funds**

Sl. No.	Source of information	SA	A	C	DA	SDA	Total Score	Mean Score	Rank
		5	4	3	2	1			
1	Agents	13	15	31	20	11		2.989	V
2	Brokers	65	60	93	40	11	269	2.955	VI
3	Friends Relative	50	84	78	42	12	266	3.766	II
4	Advertisement	31	29	14	10	6	339	3.155	IV
5	Other Investors	155	116	42	20	6	284	3.466	III
6	Financial Advisor	80	76	81	38	9	312	4.011	I
7	News Letters	120	92	60	34	6	361	2.844	VII
		9	12	39	16	14	256		
		45	48	117	32	14	256		

Source : Primary Data

Form of Advertisement among the Investors

Nowadays, the investors are highly attracted by the advertisement to invest on mutual funds. The information about the mutual funds and the issuing companies maybe advertised through so many forms. The present study confine these form of advertisement to total newspapers, magazines, national newspaper, television, phamlets, bill boards, direct mail and radio. Since the form of advertisement is equally important the investors are asked to rate these forms at five point scale. The mean score of each form of advertisement among the investors is computed to exhibit the important form of advertisement.

Table No. 4

Sources of Information about mutual funds

Sl. No.	Form of advertisement	5	4	3	2	1	Total Score	Mean Score	Rank
		SA	A	C	DA	SDA			
1	Local Newspaper	10	28	99	56	20	213	2.366	VI
2		14	16	31	19	10	70	3.055	V
3	Natic	16	19	22	21	12	80	3.066	IV
4		13	8	29	19	21	65	2.7	V
5		10	25	33	12	10	50	3.144	II
6	I	38	36	13	3	0	190	4.211	I
7	I	20	22	28	10	10	100	3.355	II
8.		-	-	39	24	27	-	2.133	VI
		-	-	117	48	27	192		

Source : Primary Data

Bill boards is the main form of advertisement which attracts the investors towards mutual fund with the mean score of 4.211 followed by direct mail with the mean score of 3.355.

Mutual Fund Investment Decision Variables

The present analysis focuses on the mutual fund investment decision function to establish the causal relationship inherently pertinent amongst the factors influencing one's decision to invest in the mutual funds. The decision variable considered were.

- i) Brand equity
- ii) Fund size
- iii) Type of fund
- iv) Type of portfolio and schemes
- v) Risk involved in the mutual fund
- vi) Reputation of fund manager

- vii) Past performance of the fund
- viii) Liquidity factors
- ix) Current market conditions

The investor's attitude on the above said nine variables have been analysed with the help of **Garrett's ranking** method.

Table No. 5

Investors attitude on decision variables-Garrett's Ranking

Sl. No.	Decision variable	Garrett's Score	Rank
1	Liquidity factors	59.45	I
2	Current market conditions	53.46	II
3	Risk involved in MF	50.22	III
4	Depends on the size of fund	49.11	IV
5	Type of fund	48.8	V
6	Type of port folio scheme	48.6	VI
7	Reputation of fund manger	46.51	VII
8	Brand equity	46.35	VIII
9	Past performance of the fund	45.7	IX

Source: Primary Data

The major decision variable which influence the investors to invest in mutual fund is liquidity factor which has the highest score of 59.45, followed by risk involved in mutual funds which has the score of 50.22. Investors give only least importance to brand equity and past performance of the investment which has the score of 46.35 and 45.7.

Variables influencing to Invest on Mutual Funds

The investors, prefer the investment on mutual funds for several reasons. The reasons may be related to diversification, profitability and constant return. The variables leading to invest on mutual funds among the investors are identified by Barua et. Al., (1982), Assocham (2004) Agarwal (1992) and Chander Subash et.al., (1992). The present study confine the variables leading to investment in mutual funds as safety, easy liquidity, stability, speculative values, diversification and low cost of investment regular saving, higher return, risk bearing, feature planning, friends and relatives, financial advisers, brokers and agents and company reputation.

The factors influencing to invest on mutual funds are narrated with the help of factor analysis.

Table No. 6 : Factors influencing to invest in Mutual Funds

S.No	Factor	No of variables	Eign Value	Percent of Variation explained	Percent of variation explained
1	Risk Freeness	3	3.017	11.204	11.204
2	Income	2	1.610	8.946	20.150
3	Savings	2	1.413	7.852	28.003
4	Cost	2	1.400	7.781	36.783
5	Growth	2	1.265	7.025	42.809
6	Motivation	3	1.196	6.642	49.450
7	Value added gains	2	1.116	6.201	55.651
8	Security	2	1.062	5.898	61.549

Source : Primary Data

The important factors leading to invest on mutual funds are „risk freeness“ and „income“ since their Eign values are 2.017 and 1.610 respectively. The risk consists of 3 variables with percent of variation explained of 11.204 percent. It reveals that the security factor explain the variables influencing to invest on mutual fund to the extent of 11.204 percent. The „income“ factor consists of two variables with the percent of variation explained of 8.946 percent. The next factors are „savings“ and „cost“ since their respective Eign values are 1.413 and 1.100 the percent of variation explained by these two factors are 7.852 and 7.781 percent.

Problems Encountered by Investors in Investment on Mutual Funds

The investors may perceive some problems in investing their funds in mutual funds. The nature and degree of problem among the investors may differ from investors to investors. Even though the problems faced by the investors are too many the present studies confine these problems to sixteen. These problems are drawn from the reviews.

The investors are asked to rate the sixteen problems at five point scale from 5 to 1 respectively. The mean score of each problem among the small and large scale investors have been computed to exhibit the importance of the problem among the investors. Regarding the perception on the problems, the significant difference among the two group of investors have been examined with the help of „t“ test. The resulted mean scores of each problem and the respective „t“ statistics are shown in table.

Table No.8

Problems encountered in investing on Mutual Funds

Sl. No	Problems	Mean scores		'T' statistics
		Small scale investors	Large scale investors	
1	Poor fund management	3.1712	3.8589	-1.9902*
2	Inefficient fund management	3.1244	3.9617	-2.4417*
3	Poor selection of port folio	3.1017	3.9903	-2.3078*
4	Low performance of funds	3.9148	3.1718	2.1903*
5	High volatility	3.9027	3.2162	2.1981*
6	Higher expense ratio	3.8143	3.1344	2.2706*
7	Dissolution of the company	3.2768	3.9044	-2.0441*
8	Non-publication of daily managers	3.0147	3.9697	-2.5148*
9	Frequent change of fund manager	3.2455	3.8917	1.9319
10	Load structure	3.1416	3.8713	-1.9801*
11	Delay on redemption	3.8644	3.1713	2.1036*
12	Lesser accessibility	3.8586	3.1602	2.0234*
13	Lack of adequate information	3.7871	3.0233	1.9807*
14	Recession in the bond market	3.1447	3.8789	-1.9033
15	Reduction in bank rate	3.0563	3.9233	-2.4803*
16	Uncertainly in capital market	3.1081	3.9097	-2.4709*

*Significant at five percent level.

The highly viewed problems among the small scale investors are higher volatility, low fund performance and delay in redeeming request since its means scores are 3.9027, 3.9148 and 3.8644 respectively. Among the large scale investors three problems are poor selection of portfolio non-publication of daily NAV and reduction in bank rate since their respective mean scores are 3.99.3, 3.9697 and 3.9233 respectively Regarding the perception on problems encountered by the investors, the significant difference among the small scale and large scale investors have been identified in the case of perception on fund performance, dissolution of the company, poor fund management, poor selection of portfolio, in efficient fund manager, delay in redemption request, lack of adequate information, lesser accessibility, non-publication of daily NAV, higher expenses ratio, higher volatility, load structure, reduction in bank rate, recession in bond market and uncertainty in capital market since their respective „t“ statistics are significant at five percent level.

Policy Implications

With a view to increase the effectiveness of savings allocation and financing the heavy infrastructure needs of the Indian economy, particular attention should be paid to the long term strategy. The following suggestions can be guiding force in this regard.

Since the success of mutual fund business largely depends on the product innovation, marketing, customer service, fund management, committed man power etc, the following measures in these areas have to be taken on priority basis to achieve the success of mutual fund business in future.

Transparency of Investment

In many cases, the NAV of the scheme is not disclosed to the public. There is a need to make it mandatory to every mutual fund to make transparency of the problem of investment and the NAV of the schemes it launched at periodic intervals. This transparency of the fund operation will also create confidence in the minds of the investors and enable them to take suitable decisions at right time to continue or liquidate their investment.

Efficient Branch Network to Rural areas

With liberalization and competition, it has become necessary for all mutual funds to market the scheme just as a new issue. In fact, mutual funds are not still able to tap large savings from the rural population just because of the lack of proper branch network. Now, time has come to spread the branch network to remote rural areas to mobilise more resources.

Customer service and Investor Relations

Investor's service is likely to become the key area of concern of mutual funds in future with the fast increasing number of unit holding accounts. These mutual funds need to take advantage of computer technology in a major way to extend efficient service. Investor's relations should be given top priority by mutual funds to protect the interest of the mutual fund investors.

Promotional Techniques

The mutual funds companies should increase their advertisement budget. They should distribute the pamphlets and brochures among walk in the banks. Since, proper counseling by banks, asset management companies and agents will motivate the investors, the companies should train their relevant people to promote the investment on financial market. Seminars and presentations should be held regularly

to make the people aware of mutual funds proper hoardings should be displayed on high ways and public places, so that more and more people should come to know about mutual funds.

Quality of the fund manager

Quality of the fund manager is the key to good performance of any AMC. A very good performing scheme may suddenly start under-performing because of the change in the managers. Since the investors review the changes in manager and collect some information about the manager before investing on mutual funds, the AMC must try to appoint efficient fund manager and try to engage them for a long period.

Differentiated Product

With mutual fund company should analyse the need of various investors and design the mutual funds according to the need of various segments.

Motivating financial consultants

Mutual fund companies should motivate financial consultants or other word of mouth sources as they have to act as catalysts.

Introducing Innovative Schemes

With the increasing awareness among the retail investors about capital markets, the mutual fund companies should come with innovative schemes to meet the requirements of the retail investors.

Attracting household investors

In the developed countries like US, the percentage of net assets held by the house hold investors is more than 80% of the total funds, but in India it is just around 40%. This signifies that the mutual fund companies in India should try to attract more number of household investors towards investments in mutual fund.

Conclusion

If mutual funds ensure good returns, quick liquidity and safety and create a good rapport with the investors, their future will be very bright. They act as a via media between bank deposit and share in the sense it involves a higher risk than a bank deposit and hence a better return, but a lower risk than a share and hence more safety. Hence soon it would become an ideal vehicle for investment in India. It is

time for the mutual funds to act as mutual friends by creating a good rapport with the investors by rendering efficient and prompt services, no doubt there is a bright future for mutual funds in India.

Reference

- Gordon.E, K.Natarajan “Financial Markets and Services”, Himalaya publishing House, 1999.
- Gurusamy, S., “Financial Services and System”, Vijay Nicola Imprints private Limited, Chennai, 2004.
- HABSG, Consulting, “Mutual funds” Mumbai, 2006.
- Joseph anbarasu, D., Ganaraj, G “Financial Services”, Publication Chennai,2003.
- Agarwal G.D., (1992) “Mutual Funds and Investors Interest”, Chartered Secretary, 22(1).
- Ajay Kumar Mohanty (2006), “ABC of Mutual Funds The Indian Way” portfolio Organiser, 7(7) July.
- Assocham (2004), “Investment in Mutual Funds still low”, Business line, Internet Edition Sunday, June 27.
- Barua S.K. and Srinivasan, G., (1982) “Experiment on Individual Investment Decision Making Process”, working paper, No. 423 (April-June) Indian Institute of Management, Ahmedabad.
- Capon Noel, Gavan, J.Fitzsimons and Rick Weingarten (1994) “Affluent Investors and Mutual Fund Purchases” International Journal of Bank marketing.
- Chalam, G.V.(2003) “Investors behavioural pattern of investment and their preferences of mutual funds” Southern Economist 41(19)
- Chander Subash and Mahajan Mukesh (1992), perception of Investors towards Mutual Funds An Emprical Investigation” Indian Journal of commerce 4(1), June.
- Chauhan and Rengarajan, R., (2000), “Analysis of Investors” behavior pattern in Tamil Nadu”. Indian Journal of Accounting vol.32, June.
- Faisal Ahmed Maneesh Kumar Ahuja (2006). “Decision Function and the Decisional matrix for mutual fund Investment”, Review of professional Management, 4(2) July – December.
- Grana Design.C (2006) “Investors perception towards Equity share investment – An Emprical Study” Organisational Management 22(1) April – June.
- Gupta Amitaph (2000), “Investment performance of India Mutual Funds An Empirical Study”, Finance India, 14(13) K September.
- Hanumanthra Rao and Vijay, K.S.Mishra (2007), “MFs Industry in India Attaining Maturity”, Portfolio Organiser 8(3) March.
- Kuldip Kaul and Rachand Gupta (2006) “Mutual Funds : Mutually yours” Portfolio Organiser 7(9) November.
- Meenu Verma (2006) “Mutual Funds can AMC’s sustain their biggins”,Portfolio Organiser 7(12) December.
- Prasad.G.T.V.V., Plani Kumar and Umesh Maiya “Growth of Mutual Fund Industry in India”, Southern Economist, Vol.46, April 1 & 15 2006.