

# A Study on Factors Affecting Investment on Mutual Funds and Its Preference of Retail Investors

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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 irrespective of the amount invested. The Indian mutual fund industry is growing rapidly and this is reflected in the increase in Assets under management of various fund houses. Mutual fund investment is less risky than directly investing in stocks and is therefore a safer option for risk averse investors. This project aims at finding out the factors affecting investment decision on mutual funds and its preference over retail investors. This project also aims at finding about the factors that prevent the people to invest in mutual funds. The findings will help mutual fund companies to identify the areas required for improvement and can also improve their marketing strategies. It will help the MF companies to create new and innovative product according to the orientation of investors.

**Index Terms-** mutual fund Performance, investment, risk-return

## I. INTRODUCTION

The Indian Mutual fund industry has witnessed considerable growth since its inception in 1963. The impressive growth in the Indian Mutual fund industry in recent years can largely be attributed to various factors such as rising household savings, comprehensive regulatory framework, favorable tax policies, and introduction of several new products, investor education campaign and role of distributors.

The driving force of mutual fund is the safety of principal guaranteed, plus the added advantage of capital appreciation together with the income earned in the form of interest or dividend people prefer mutual funds to bank deposits, life insurance, chit funds and even bonds, because with little money they can get into the investment game. One can own a string of blue chips like ITC, TISCO, Reliance etc through mutual funds. Thus mutual funds act as a gateway to enter into big companies hitherto inaccessible to an ordinary investor with his small investment.

In financial markets, "expectations" of the investors play a vital role. They influence the price of the securities; the volume traded and determines quite a lot of things in actual practice. These 'expectations' of the investors are influenced by their "perception" and humans generally relate perception to action. We find ample proof for the wide prevalence of such a psychological state among Mutual Fund (MF) investors in India. It is widely believed that MF is a retail product designed to target small investors, salaried people and others who are intimidated by the stock market but, nevertheless, like to reap the benefits of

stock market investing. At the retail level, investors are unique and are a highly heterogeneous group. Many products are offered in the mutual fund industry. This heightens the consumer confusion in his selection of the product. He is confused as to how to sift the grain from the chaff? Unless the MF schemes are tailored to his changing needs, and unless the AMCs understand the fund selection/switching behavior of the investors, survival of funds will be difficult in future.

To understand investor's perception and preference a survey has been conducted among 200 mutual fund investors from two different cities. This paper will highlight the factors influencing the fund/scheme selection behavior of Retail Investors. It will also help the mutual fund company to adopt new and innovative marketing techniques.

The findings of the study will help the mutual fund companies to improve upon their weak areas regarding the factors that influence investor's decision making as regard to choice of a mutual fund, the facilities or options they expect from a mutual fund.

## II. LITERATURE REVIEW

A large number of studies have been conducted in India and abroad covering different aspects of Mutual fund.

J.Lilly and DrAnasuya published a research paper "An empirical study of performance evaluation of selected ELSS mutual fund schemes" published on International journal of scientific research (2014) which examined the performance of 49 selected tax saving elss schemes by applying Sharpe ratio, Treynor ratio, Sortino ratio and Jensen's alpha measure and found out LIC NOMURA MF GROWTH and dividend schemes has the highest return and are risk borne when compared to other schemes.

Lonnie L. Bryant, Hao-Chen liu published a research paper "Mutual fund industry management structure, risk and the impacts to share holders" published on Global finance journal(2011) investigates the effects of a multiple fund management structure on the risk volatility of the funds managed with the help of Sharpe ratio. They found out the impacts that mutual fund management structure has in fund risk volatility using a sample of 1480 funds managed by 407 managers. They also found out that the multiple fund management structure appears to be motivated by the need to achieve economies of scale and reduce cost of the shareholders, fund managers which are driven by strategic reason.

Shanmugham (2000) conducted a survey of individual investors with the objective to find out what information source

investor depends on. The results explained that they are economical, sociological and psychological factors which control investment decisions.

Madhusudhan V Jambodekar (1996) conducted his study to size-up the direction of mutual funds in investors and to identify factors that influence mutual fund investment decision. The study tells that open-ended scheme is most favored among other things and that income schemes and open-ended schemes are preferred over closed-ended and growth schemes. News papers are used as information source, safety of principal amount and investor services are priority points for investing in mutual funds.

### III. STATEMENT OF THE PROBLEM

Many schemes have been offered by the mutual fund sector which provides various benefits. This project aims at analyzing the factors that influence the investment decisions with regards to mutual funds and the retail investors perception and awareness towards Mutual funds.

### IV. OBJECTIVE OF THE STUDY

#### PRIMARY OBJECTIVE

- To analyze the factors influencing investments decisions of retail investors in Mutual funds.
- To study the investors perception and preference towards Mutual funds.

#### V. SECONDARY OBJECTIVE

- To identify the factors which prevent the investors from investing in mutual funds?
- To find out the motivating factors which encourages the investors to invest in mutual fund industry.
- To analyze the performance of various mutual fund schemes and suggest the best one.

### VI. SCOPE OF THE STUDY

This project is limited to the study of certain selected factors and its effect on retail investors in their investment on mutual funds, analyzing retail investor's perception towards the mutual fund industry. The study is limited to Trivandrum and Ernakulam

### VII. RESEARCH METHODOLOGY

- **RESEARCH DESIGN:-** For obtaining complete and accurate information, descriptive research is chosen.. Descriptive research includes surveys and fact finding enquiries of different kind.
- **RESEARCH APPROACH:-** The approach adopted in this study is survey approach.

- **RESEARCH INSTRUMENT:-** The research instrument used in the study is Questionnaire and Personal interview method. The questionnaire consists of both open end and close end questions.
- **DATA SOURCE:-** The data used for the study is Primary data. Primary data is the data collected for the purpose of study by the samples taken. The primary data was collected by conducting a personal interview through a structured questionnaire.
- **SAMPLING AREA:-** Ernakulam and Trivandrum
- **SAMPLE SIZE:-** The sample size of the study is limited to 200 investors.
- **SAMPLING PROCEDURE:-** The sampling procedure used in this study is Snowball sampling and Random sampling. Snowball sampling is a non-probability sampling technique where existing study subjects recruit future subjects from among their acquaintances. Thus the sample group appears to grow like a rolling snowball. A simple random sample is a subset of individuals chosen from a larger set. Each individual is chosen randomly and entirely by chance, such that each individual has the same probability of being chosen at any stage during the sampling process, and each subset of  $k$  individuals has the same probability of being chosen for the sample as any other subset of  $k$  individuals

### VIII. LIMITATIONS OF THE STUDY

- Sample size of the study was limited to 200 only. The sample size may not represent the whole market.
- The study has not been conducted 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.
- The study is limited to the investors of Ernakulam and Trivandrum cities. Therefore the inferences cannot be generalized.

### IX. FINDINGS

**Findings for objective 1:** *To analyze the factors influencing investments decisions of retail investors in Mutual funds.*

1. Tax benefits, high return, price and capital appreciation are some of the major factors which the investor will look into while investing in mutual fund. Liquidity, diversification, risk and brand image also have influence on the final mutual fund purchase decision of the investor but not as much as the former.

2. Prospective retail investors seem to seek expert advice and rely on it the most while taking their investment decision. Some investors depend on the ratings given by CRISIL, ICRA etc to decide as to where to invest. And a few investors seem to analyze about the past performance (NAV) or the asset management company.
3. Retail investors' gathers information about the performance of various mutual funds mainly from brokers, financial consultants, financial institutions, internet, TV channels and magazines/newspapers respectively.
4. The primary source of knowledge about mutual funds as an investment option is from sales representatives to most of the retail investor followed by internet, newspaper/journals, television and from friends /relatives.

**Findings for objective 2:** *To study the investors' perception and preference towards Mutual funds.*

1. Mutual funds are gaining popularity. Even though the total money invested is small, but the number of investors are large and they would like to invest more in these in future.
2. Strong grievance mechanism, regulations and expert advice might turn NMFI into MFI. However, information about government regulations and training programme would not be of much help in motivating NMFI towards investment in mutual funds.
3. Investors have started to invest in mutual fund the most since three years, one year, two years, five years and four years respectively. Only a few investors have investment in mutual fund since more than five years.
4. Most of the investors invest once in a year, some invest once in six months and some on monthly basis investors with investment pattern as very rare are least .This infers that almost all investors follows a regular investment pattern .
5. Mode of communication for receiving updates and performance of the portfolio of mutual fund investment is e-mail /internet for most of the investors, they also prefer telephone and personal visit and direct mail is the least preferred mode of communication.
6. The level of satisfaction of investors regarding mutual fund on the basis of risk exposure is average and that of overall experience is also average.
7. Most of the investors accept the fact that investing in mutual fund will lead to economic development.

**Findings for objective 3:** *To identify the factors that prevent the investors from investing in mutual funds*

1. Factors which prevent investors from investing in mutual fund mainly is bitter past experience .Difficulty in selection of schemes is another preventing factor. For some investors lack of confidence in service being provided and inefficient investment advisers prevents them from investing and a few investors think that it is lack of knowledge that prevents them from investing in mutual fund.

**Findings for objective 4:** *To find out the motivating factors that encourages the investors to invest in mutual fund industry*

1. Tax benefit, return potential, liquidity, low cost and transparency are the major factors that motivate a retail investor to invest in mutual fund. Economies of scale are also a motivating factor to a certain extent.

**Findings for objective 5:** *To analyze the performance of various mutual fund schemes and suggest the best one*

1. The mutual fund plan which is considered the best is equity plan followed by income plan, balanced plan and other sector specific or special plans.
2. Equity based schemes are preferred over debt schemes

## X. SUGGESTIONS AND RECCOMENDATIONS

- The mutual fund product designers have to craft strategies to introduce innovative products to improve the scope of the mutual funds market
- The retail investors may be divided into various groups so that right product shall be served to the right customer
- To increase the loyalty and trust among the investors, proper information and knowledge should be provided to them.
- Financial consultants must ensure transparency and responsibility and they should be capable of catering the needs of the retail investors as well as marketing the mutual fund products

## XI. CONCLUSION

- The mutual funds have emerged as one of the important class of financial intermediaries which cater to the needs of the retail investors
- The major factors influencing the investment decision of retail investors are tax benefits, high return, price and capital appreciation
- Equity based schemes are the most preferred
- Bitter past experience is the major preventing factor while considering investment decisions

- Investors satisfaction with regard to mutual fund investors may be rated to average

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