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A Study on Mutual Fund Investor Behavior

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Abstract

Mutual funds plays key roles in achieve both the long-term and short term goals of savings of U.S. households. It represents a significant component of many financial holdings of U.S. households in 2011. Unfortunately, in India it is a fact that most of the investors are not interested in mutual funds. Those who are investing, they are investing only very small amounts. But what is important to be noted here is that when compare to other financial instruments, investments in mutual funds are safer and also yield more returns on the investment portfolio. In addition as an investment avenue mutual fund is available for those investors who are not ready to take any exposure directly in the security market. It also helps such investors to build their wealth over a period of time. Therefore, there is a need to conduct a detailed study on investments in mutual funds in this direction. A review of available literature also revealed that no detailed study on mutual funds has so far been attempted in this direction; hence the present study the behaviour of Mutual Funds is undertaken. In this study, the researcher focused on mutual fund investor behavior. Required data has been collected through structured questionnaire. To analyze the behaviour, chi square test used. The result show that has addressed itself to the questions like how do investors go about in selecting a mutual company fund scheme and to what extent they derive satisfaction from investments made.

Key words: Investor behaviors, Mutual funds selection, Rate of return

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Introduction

Investment is the employment of funds with the aim of achieving additional income of growth in value. The essential quality of an investment is that it involves ‘waiting’ for a reward. It involves the commitment of resources which have been saved from current consumption in the hope that some benefits will accrue in future.

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Investment is the sacrifice of certain present value for the uncertain future reward. It entails arriving at numerous decisions such as type; mix, amount, timing, grade and the like of investment. Further, such decision-making has not only to be continuous but rational too. Broadly speaking, an investment decision is a trade-off between risk and return. Since investments in securities are revocable, investment ends are transient and investment environment is fluid, the reliable bases for reasoned expectations become more and vague as one conceives of the distant future. Investors in securities will, therefore from time-to-time, reappraise and re-evaluate their various investment commitments in the light of new information, changed expectations and ends.

A mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciation realized is shared by the unit holders in proportion to the number of units owned by them. Thus, a mutual fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally-managed basket of securities at a relatively low cost.

Literature Review

Pellinen, A., et al. (2011) in their study, attempted to provide further understanding of the financial potential of mutual fund investors, and compare internet and branch office investors. They tried to observe mutual fund investors' abilities and awareness of the terms and risks of mutual fund investments using a novel capacity instrument. Ability measurement techniques modified from educational and psychological studies were applied in the paper. Empirical survey data was collected in Finland. Findings of the study were differences between different types of investors in terms of financial knowledge. The channel used by the investors in make investments, differentiated the more familiar internet investors from the less knowledgeable branch office investors.

Sharma Nishi (2012), Mutual fund as an investment option would surely tap the savings of common man. Thepresent paper attempts to explore the reasons responsible for lesser appreciation of mutual fund as a prime investment option. It examined the investor’s perception with reference to distinct features provided by mutual fund companies to attract them for investing in specific funds/schemes. The study used principal component analysis as a tool for

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factor reduction. The paper explore three factors named as fund/scheme related attribute, monetary benefits and sponsor's related attribute (having respectively six. four and four variables) which may be presented to investors for securing their patronage. The results were expected to provide fruitful insight to mutual fund companies for tailoring their offers suitable to cater the needs and prospect of Indian investors**.** The researcher has done relevant literature review. The scope of the study is limited to the data collected from 250 respondents. Statistical tools like correlation, standard deviation and mean are used for analysis. Additionally Crone batch Alpha test, Kaiser-Meyer-Olkin measure of sampling adequacy, Bartlett's test of sphericity etc are also used for analysis.

Kumar Manoj (Apr 2013). The author discussed investment as the employ of funds on assets with the aim of earning income or capital appreciation. In the past, investment avenues were restricted to real estates, schemes of the post office and banks. A wide variety of investment avenues are open to the investors to suit their requirements and nature. The required level of return and the risk tolerance level decide the choice of the investor. The researchers have done relevant literature review. The researcher has known a brief introduction of various investment schemes other than Mutual funds. The aim of the researcher was to study investors' preference towards shares and Mutual Funds, investors' preference towards other investment alternatives, objective of investment and important attribute for investment contemplation. The research is based on primary data collected through structure questionnaire using simple random sampling technique, from a sample size of 100 respondents. The scope of the study is limited to 100 respondents located in urban areas of Agra city.

Karthikeyan R & Preetha R (Mar 2014), Mutual Fund is considered as one of the investment avenue which is more ordinary now days. A mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciations realize are shared by its unit holders in percentage to the number of units owned by them. The aim of the research is to find out the factors dependable for selecting an investment avenue, to check awareness of Mutual Funds among investors as an investment option, to study investors' perception regarding Mutual Funds and to analyze the savings behavior of investors. Primary data was collected from 126 respondents through structured questionnaire by using non probability sampling technique.

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Statistical techniques like correlation, chi- square, percentage analysis etc., were used for analyzing data.

Dash Manoj Kumar (April- June: 2015), According to the researcher mutual fund has been one of the important instrument in all the capital market in the world. At present study show mutual funds play an important role in the growth of capital market in India. Thus, a mutual fund is considered the most appropriate investment for the common people as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost. The researcher has review relevant literature. The researcher has also explained the term Mutual Funds, need for evaluation of Mutual Funds, recent trends in the development of Mutual Funds in India, Mutual Funds schemes, advantages and disadvantages of Mutual Funds. The main objectives of the study was to analyze the growth of the Mutual Funds industry in Odisha, to study the behavior of the risk return and evaluate the performance of selected Mutual Funds schemes and to identify the factors influencing the investment decision. Different statistical tools like Standard deviation Sharpe ratio, R square, Beta Alpha, F test etc

Statement of the Problem

Any investment is it in financial products or non-financial products like real-estate is made by investors based on some information since informed decisions ensure safety of investment. Financial markets are now clearly reflected through variety of media and therefore any individual, with a disposable income and a desire to make returns, can take a decision as to where to lodge his funds. Mutual Funds offer relatively less risky type of investment avenues and media like press, television and the internet provide adequate and timely information on the availability and choice of such funds. Which are the sources an investor makes use of for deciding to invest in mutual funds?

Investors in mutual funds naturally base their decisions to invest on variables like capital appreciation, good return, liquidity and the like. Apart from this, fund scheme selection hinges on host of variables. Return option preference may be determined by social and economic variables. How does an investor go about in selection of a mutual fund? What are the variables does an investors consider while deciding on the choice of a mutual fund scheme? What is the type of return preferred by a mutual fund investor?

To seek solutions to the questions raised, the present study has been undertaken.

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Objectives

The following are the objectives of the study:

1. To ascertain mutual fund investor behaviour and
2. To measure the level of satisfaction of mutual fund investor

Sampling plan and tool

The study is based on primary data. The researcher collected required data from the 200 respondents. Respondents were selected trough convenience sampling method. The data were collected by using well structured questionnaire. To analyse the socio economic factors simple percentage method, Weighted average rank method and Chi-square test used to analyse the mutual fund investor behavior.

Area and period of study

The sample investors have been selected from parts of Udumalpet Taluk. The period of study ranges from July 2017 to November 2017.

Scope of the Study

In the realm of financial literature, investment behaviour has always assumed prime importance. Mutual fund investment has now-a-days picked up a momentum in growth. For such a growing industry, the results of present study would offer a buddle of clues as to how to go about in the market.

Mutual fund operators, no doubt, would be the basic beneficiaries of this study. They would be able to understand the way they should design their product so that it would attract the eyes of potential investors.

Mutual fund investors themselves would stand to gain. They would be able to understand how the market participants behave in the mutual fund market. This would offer them guidelines to be followed to protect their investments.

ANAYSIS OF DATA AND RESULTS

Table 1 Social Profile of the respondents

Variable	Number of investors [Total = 200]	Percentage (%)
Age :		
20 – 30	48	24
31 – 40	99	49.5
Above 40	53	26.5
Sex		

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Male	156	78
Female	44	22
Marital Status		
Married	172	86
Unmarried	28	14
Educational Qualification		
Up to School level	20	10
Undergraduate	102	51
Postgraduate	78	39
Occupation		
Agriculture	18	9
Employed	86	43
Business	70	35
Profession	26	23
Family Members		
Up to 2	23	11.5
3-4	106	53
Above 4	71	35.5
Earning Members		
Up to 2	98	49
Above 2	102	51

Source:Primary Data

It 99(49.50%) are between the age of 31 and 40 and the rest are above 40 years of age. Therefore, most of the investors are middle aged. Out of 200 investors, 156(78.00%) are males. A majority of 172(86.00%) investors are married.102 (51.00%) Most of the investors are undergraduates. 86(43.00%) Most of the investors are employed. 106(53.00%) Majority, whose family member ranges between three and four. 102(51.00%) Most of the investors have more than two earning members in their families.

Table 2 Reasons for Investing in Mutual Fund

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$R_1 \ldots R_6$: $Rank_{1.2\ldots6}$

In order to examine to which reason the investors have assigned first rank, weighted average rank has been computed. Accordingly, it is found that 'Capital Appreciation' is the reason that is assigned rank one; 'Liquidity' is assigned rank two; 'Good Return' is assigned rank three; 'Tax Benefits' is fourth rank; 'Savings' is assigned fifth rank and the last (Sixth) rank goes to the reason for 'Safety'.

Table 3 Factors in Selection of Mutual Fund / Scheme

In order to examine to which factor the investors have assigned first rank, weighted average rank has been computed. Accordingly, it is found that 'Fund's Theme' is the factor influences that is assigned rank one; 'Fund's past performance records' is assigned rank two; 'Fund's brand name' is assigned rank three; 'Withdrawal facility' is the reason that is assigned fourth rank and the last (fifth) rank is assigned to Load Structure.

Factors	**R_1**	**R_2**	**R_3**	**R_4**	**R_5**	**Weighted Average Value**	**Rank**
Fund's Past performance records	29	88	48	19	16	2.525	II
Fund's brand name	39	38	31	55	37	3.065	III
Fund's theme	94	23	25	27	31	2.390	I
Load Structure	27	28	14	60	71	3.600	V
Withdrawal facility	11	24	81	40	44	3.410	IV

Table 4 Type of Return Option Preference

Return - option	**Number of investors**	**Percentage (%)**
Dividend – Payout	61	30.5
Dividend- Reinvestment	63	31.5
Growth	76	38.0
Total	**200**	**100**

Reasons	**R_1**	**R_2**	**R_3**	**R_4**	**R_5**	**R_6**	**Weighted Average Value**	**Rank**
Capital Appreciation	11	76	66	18	16	13	2.955	I
Good Return	34	31	37	53	30	15	3.295	III
Liquidity	80	12	21	20	32	35	3.085	II
Safety	26	32	17	20	51	54	4.000	VI
Tax Benefits	26	23	31	53	36	31	3.715	IV
Savings	28	22	29	34	34	53	3.915	V

Out of 200 investor

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s, 61(30.5%) prefer dividend-payout, 63(31.5%) investors prefer dividend reinvestment and 76(38%) investors prefer growth return option by mutual fund / scheme. It can be seen that majority of the investors 76(38%) prefer the return option for growth.

Social variables associated with Return Option Preference

Demographic variables like age, sex, marital status and the like have a significant role in selecting return option choice. To understand the extent to which these variables influence the choice, Chi-square test has been carried out. Results of chi-square analysis are summarized in Table 5

Table 5 Social Profile and Return Option Preference

Variable	DP (n=61)	DR (n=63)	Growth (n=76)	Total (N=200)	Calculated (χ^2) Value
Age					
20-30 Years	14(29.17)	15(31.25)	19(39.58)	48(100.00)	10.149*
31-40 Years	36(36.36)	31(31.31)	32(32.33)	99(100.00)	
Above 40Years	11(20.75)	17(32.08)	25(47.17)	53(100.00)	
Sex					
Male	10(22.73)	13(29.55)	21(47.73)	44(100.00)	2.590
Female	51(32.69)	50(32.05)	55(35.26)	156(100.00)	
Marital Status					
Married	7(25.00)	8(28.57)	13(46.43)	28(100.00)	1.020
Single	54(31.40)	55(31.98)	63(36.63)	172(100.00)	
Educational Qual					
Up to School Level	7(35.00)	6(30.00)	7(35.00)	20(100.00)	5.058
Under Graduate	34(33.33)	36(35.29)	32(31.37)	102(100.00)	
Post Graduate	20(25.64)	21(26.92)	37(47.44)	78(100.00)	
Occupation					
Agriculture	6(33.33)	3(16.67)	9(50.00)	18(100.00)	10.612
Employed	20(23.26)	34(39.53)	32(37.21)	86(100.00)	
Business	29(41.43)	16(22.86)	25(35.71)	70(100.00)	
Profession	6(23.08)	10(38.46)	10(38.46)	26(100.00)	
Family Members					
Up to 2	6(26.09)	9(39.13)	8(34.78)	23(100.00)	2.109
3 – 4	35(33.02)	34(32.08)	37(34.91)	106(100.00)	
Above 4	20(28.17)	20(28.17)	31(43.66)	71(100.00)	
Earning Members					
Up to 2	32(32.65)	30(30.61)	36(36.73)	98(100.00)	0.421
Above 2	29(28.43)	33(32.35)	40(39.22)	102(100.00)	

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*Significant at five per cent level

i. Age

A significant association is found between age and return option preference. Investors between the age of 20 and 30 years go for growth option, those between 31 and 40 years prefer funds with dividend payout option while those above 40 years of age go for growth funds.

ii. Sex

Both male and female investors prefer growth option. However, sex is not significantly associated with return option preference.

iii. Marital Status

Married investors prefer growth option. Unmarried investors prefer dividend-reinvestment option. However, marital status is not significantly associated with return option preference.

iv. Educational Qualification

Those who have studied up to school level have equal preference for dividend-payout option and growth option. Under graduates are for dividend-reinvestment option while post graduates option for growth option. However, educational qualification is not significantly associated with return option preference.

v. Occupation

Agriculturalists prefer growth option. Employed investors prefer dividend-reinvestment option. Businessmen prefer dividend-payout option and professional investors prefer both dividend-reinvestment and growth option. However, occupation is not significantly associated with return option preference.

vi. Family Members

Investors whose size of family members ranges up to two members prefer dividend-reinvestment. Family members' ranges 3 to 4 and above 4 prefer growth return option. However, family members are not significantly associated with return option preference.

vii. Earning Members

Both investors' ranges for up to two and above two earning members prefer growth option. However, earning members is not significantly associated with return option preference.

Social variables associated with Opinion about Rate of Return

Demographic variables like age, sex, marital status and the like have a significant role with opinion about rate of return preference. To understand the extent to which these variables

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influence the opinion, Chi-square test has been carried out. Results of chi-square analysis are summarized in Table 6

Table 6 Social Profile and Opinion about Rate of Return Preference

Variable	H (n=108)	M (n=72)	L (n=14)	Total (N=200)	Calculated (χ^2) Value
Age					
20-30 Years	30(52.50)	16(33.33)	2(4.17)	48(100.00)	9.061
31-40 Years	51(51.51)	39(39.39)	9(9.09)	99(100.00)	
Above 40Years	27(42.86)	15(23.81)	11(17.46)	63(100.00)	
Sex					
Male	27(61.37)	14(31.82)	3(6.81)	44(100.00)	1.412
Female	81(51.92)	58(37.18)	17(10.90)	156(100.00)	
Marital Status					
Married	20(71.43)	8(28.57)	0(0.00)	28(100.00)	5.586
Single	88(51.17)	64(37.21)	20(11.62)	172(100.00)	
Educational Qual					
Up to School Level	7(35.00)	7(35.00)	6(30.00)	20(100.00)	11.273*
Under Graduate	59(57.85)	34(33.33)	9(8.82)	102(100.00)	
Post Graduate	42(53.85)	31(39.74)	5(6.41)	78(100.00)	
Occupation					
Agriculture	8(44.44)	8(44.44)	2(11.12)	18(100.00)	3.422
Employed	45(52.33)	34(39.53)	7(8.14)	86(100.00)	
Business	41(58.57)	20(28.57)	9(12.86)	70(100.00))	
Profession	14(53.84)	10(38.46)	2(7.70)	26(100.00)	
Family Members					
Up to 2	11(47..83)	9(39.13)	3(13.05)	23(100.00)	3.830
3 – 4	53(50.00)	40(37.74)	13(12.26)	106(100.00)	
Above 4	44(61.97)	23(32.39)	4(5.64)	71(100.00)	
Earning Members					
Up to 2	48(48.98)	39(39.80)	11(11.22)	98(100.00)	1.954
Above 2	60(58.82)	33(32.35)	9(8.82)	102(100.00)	

*Significant at five per cent level

i. Age

As the calculated chi-square value (9.061) is less than the table value (9.488) at five per cent level, there does not exist any significant association between age and rate of return. Therefore, the null hypothesis is accepted.

ii.Sex

As the calculated chi-square value (1.412) is less than the table value (5.991) at five per cent level, there does not exist any significant association between sex and rate of return. Therefore, the null hypothesis is accepted.

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iii. Marital Status

As the calculated chi-square value (5.586) is less than the table value (5.991) at five per cent level, there does not exist any significant association between marital status and rate of return. Therefore, the null hypothesis is accepted.

iii. Educational Qualification

As the calculated chi-square value (11.273) is greater than the table value (9.488) at five per cent level, these exists a significant association between educational qualification and rate of return. Therefore, the null hypothesis is rejected.

iv. Occupation

As the calculated chi-square value (3.422) is less than the table value (12.592) at five per cent level, there does not exist any significant association between occupation and rate of return. Therefore, the null hypothesis is accepted.

v. Family members

As the calculated chi-square value (3.830) is less than the table value (9.488) at five per cent level, there does not exist any significant association between family members and rate of return. Therefore, the null hypothesis is accepted.

vi. Earning Members

As the calculated chi-square value (1.954) is less than the table value (5.991) at five per cent level, there does not exist any significant association between earning members and rate of return. Therefore, the null hypothesis is accepted.

CONCLUSION

Analysis carried out reveals that 'Capital Appreciation' is the reason for investing in mutual fund as it is assigned rank one. 'Funds Theme' influences investment in mutual fund as it is assigned rank one. Majority of the investors (38%) prefer return option to growth option. A significant association is found between age and return option preference. A significant association is found between educational qualification and opinion about rate of return option preference. A significant association is found between year of investment and opinion about rate of return option preference. A significant association is found between level of risk and opinion about rate of return option preference.

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