



Issues and Challenges of Factors In Influencing the Mutual Fund Scheme Selection by Investors – Some EVIDENCES IN Tiruchirappalli District

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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.

Key words : mutual fund Performance, investment, risk-return

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.

Financial markets are the backbone of an economic system and aids in the allocation of share capital across the productive sectors of the economy. This allocation of resources helps to sustain healthy climate for savings and investment. The financial system has to be more dynamic than the real system as it has to continuously respond to the needs of the economy to help it to achieve its goals. In the past, a large proposition of the increase in savings has gone into bank deposits and small saving schemes.

At present the increase in savings have been in the shares, real estate and mutual Fund. In future, however the increase in savings will also flow more into mutual funds, due to its increased return and to the recent tax incentives offered by the government. Mutual fund in Indian context is a challengeable phenomenon. In a short span of less than one decade it has changed the investment pattern of medium and small investors in India. Consequently study of mutual fund has become an essential ingredient of any business and finance program.

Besides, the investors should know how a mutual fund operates and what should they expect from them, if they really want to benefit from this new vehicle of investment.

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.

Mutual fund helps small investors to participate in the securities market indirectly and thus help in spreading and reducing risk. The mutual fund is a vehicle that enables millions of small and large savers spread across the country to participate in and derive the benefits of the capital market growth. It is an alternative vehicle of inter-mediation between the suppliers and the users of investible resources. This vehicle is becoming increasingly popular in India due to higher investors' return, relatively lesser risk and cost. In fact it is a more efficient vehicle for creation of wealth.

MUTUAL FUNDS IN INDIA

Nowadays, Bank rates have fallen down and are generally below the inflation rate. Therefore, keeping large amounts of money in bank is not a wise option, as in real terms the value of money decreases over a period of time. One of the alternate options is to invest the money in stock market. But a common investor is not informed and competent enough to understand the intricacies of stock market. This is where mutual funds come to the rescue. A mutual fund is a group of investors operating through a fund manager to purchase a diverse portfolio of stocks or bonds. Mutual funds are highly cost efficient and very easy to invest in. The biggest advantage of mutual funds is diversification of risk. Diversification means spreading out money across many different types of investments. When one investment is down another might be up. Diversification of investment holdings reduces the risk tremendously. Mutual funds as dynamic financial institutions play a crucial role in an economy by mobilizing savings, and investing them in the capital markets. Thus mutual funds establish a link between savings and the capital market. They mobilize funds in the savings market and act as complementary to banking. At the same time they also compete with the banks and other financial institutions. In

the process, stock market activities are also significantly influenced by mutual funds. However the scope and efficiency of mutual funds are influenced by overall economic fundamentals, the interrelationship between the financial sectors and the investors, the nature of the savings, the development of capital markets, market structure and institutional arrangements. The mutual funds play an active role in promoting a healthy capital market. The mutual funds increase liquidity in the money market. The asset holding pattern of mutual funds all over the world indicates the dominant role of mutual funds in money and capital market. Mutual funds have been identified as one of the important factors pushing up the market prices of securities. Mutual funds in India have emerged as a critical institutional linkage among various financial segments like savings, capital markets and the corporate sectors. Above all, mutual funds have given a new direction to the flow of personal savings and enabled small and medium investors in remote rural and semi-urban areas to reap the benefits. Thus mutual funds are playing a crucial role in allocating resources in emerging market economy.

REVIEW OF LITERATURE

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 NO-MURA 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. MadhusudhanV-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.

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.

FINDINGS

- 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.
- Strong grievance mechanism, regulations and expert advice might turn NMF1 into MF1. However, information about government regulations and training programme would not be of much help in motivating NMF1 towards investment in mutual funds.
- 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.
- 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.

Equity based schemes are preferred over debt schemes SUGGESTIONS AND RECOMMENDATIONS

- 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

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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