



Investor Behavior Towards Mutual Fund: A Challenge to Mutual Fund Industry in India

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ABSTRACT

Behavior of the individual is a psychological process and to understand it sometimes become a bit difficult. When there is a involvement of money, people become very conscious and starts comparisons. As investment in Mutual Fund products involve risk so people most of the times avoid investing in these products and move towards safe investments.

So this study is related to understand the behavior of investor in selection of a Mutual Fund product. The objectives of the study are to identify the preference of investor among different alternative investment avenues available to them and to analyze the factors affecting investor behavior in the Mutual Fund investment. The data was analyzed using Correlation Analysis, Regression Analysis, Cronbach's Alpha etc. The study shows that bank deposits are most preferred investment avenue by the investor over other alternatives available, there is a significant positive impact of Fund related qualities, Fund sponsor qualities & Investor related services on behavior of the investor. To influence the behavior of the investor Mutual Fund organization should provide variety of products with customized options so that investor get attract towards investments in Mutual Fund products.

KEYWORDS : Fund Related Qualities, Fund Sponsor Qualities, Investor Related Services, Investor Behavior, Mutual Fund.

1. INTRODUCTION

Mutual Fund investment is the most traditional and historical investment avenue among various competitive options. The history of Mutual Fund in India started when Government of India and Reserve Bank of India jointly started Unit Trust of India in the year 1963. At that time Government was not in the position to provide innovative schemes due to infrastructural constraints and the psychological constraints of the investors (Kavitha Ranganathan, 2006).

The investors in India thought the Mutual Fund scheme as a medium to invest in stock markets so they were very afraid of investing their money in the Mutual Fund scheme due to the variability of returns in the stock market (S. Anand, 2004).

In India, investors generally go for bank deposits or the deposits which generate the fixed returns because they are very price sensitive and don't want to take high risk on their savings. With the help of private players Mutual Fund industry has developed the infrastructure and is able to educate and provide the service at door step of the investors (Madhumathi, 2006).

There are many challenges which Mutual Fund companies in India are facing like Growth versus Governance, administration and distribution, investor education, technological backbone, limited talent pool etc. These challenges are creating obstacles in the growth of Mutual Fund companies. (Shankar S. V., 2005).

2. REVIEW OF LITERATURE

2.1 Reviews on General Financial Behavior of Investors

James Bogle in (1992) reported that the behavior of the investor is the outcome of their level of satisfaction regarding fund and its various dimensions. Investor shows a favorable behavior towards investment in financial asset if they have positive influence towards the information available. M.N. Bhatt in (1993) used 'Cognitive Dissonance Theory (1957)' to describe the behavior of investor. He identify that when the choice to invest in a financial asset is there with the investor, the involvement of ego is very high. Investor preference regarding fund selection is based on their ego satisfaction, so their decisions sometimes become biased decision. Gnana Desigan in (2006) stated that a serious national campaign to promote savings through education and information could have a measurable impact on financial behavior. Investor shows positive attitude when they have the knowledge about investing in various financial assets.

2.2 Reviews on Mutual Fund Selection Behavior

NCAER made an attempt in 1964 to understand the motivation and attitude of the savings of household investor, for which they conducted a survey on household investors. Another study was

conducted by NCAER in 1996 which analyzed the capital market structure and the motivation of individual household investor to invest in capital market. The study observed that investors are very return sensitive and act on the information coming to the capital market. Mark Grinblatt in (1989) conducted a household survey to provide data on investor preference while selecting a fund for investment. He identified that the behavior of investor in investing in a Mutual Fund is based on the fund's past financial performance and future expected growth. Goetzman in (1993) and Grubber in (1996) studied the investor's ability to select a Mutual Fund for the purpose of investment and found that the investor invests in those Mutual Funds in which most of the active investors make their investment. K.L. Rao in (2011) conducted the survey with an objective to understand the behavior of the investor towards Mutual Fund selection in North East Region. They found that salaried and self-employed people generally interested to invest in Mutual Fund schemes due to the tax concessions. The schemes from UTI and SBI were mostly preferred by the investor over other Mutual Fund Institutions.

3. OBJECTIVES OF THE STUDY

- To understand preference of investor among different investment options.
- To analyze the factors affecting behavior of Mutual Fund investor.

4. RESEARCH HYPOTHESIS

Ha1: There is a significant relationship between fund related qualities and investment behavior of investors.

Ha2: There is a significant relationship between fund sponsor qualities and investment behavior of investors..

Ha3: There is a significant relationship between investor related services and investment behavior of investors.

5. RESEARCH METHODOLOGY

This research work is a Descriptive Research Study. In order to make study more reliable, data from both primary and secondary sources is collected. The primary data has been collected from the selected study sample, using the appropriate sampling techniques in **Agra and Mathura** region. The total sample size for the study was 95 respondents. The data so collected was analyzed using Cronbach's Alpha, Rank order, Correlation and Regression Analysis.

6. RESULTS AND DISCUSSION

Reliability Analysis of Scales:

Cronbach's Alpha for different constructs

Constructs	Cronbach's Alpha
Fund Related Qualities	.737
Fund Sponsor Qualities	.723
Investor Related Services	.688

For identifying the preference given by the investor to the investment avenue while making investment decision has been calculated using rank order method.

Table 1: Investor preference towards different investment avenues

Preference of Different Investment Avenues by the Investor			
S. No.	Investment Option	Mean Score	Rank Based on Preference
1.	Bank Deposits	2.73	1
2.	Life Insurance	5.58	7
3.	Mutual Fund	5.06	5
4.	Provident Fund	4.54	2
5.	Real Estate	5.95	8
6.	Share	7.58	9
7.	Gold/Silver	4.8	3
8.	Postal Savings	5.02	4
9.	Currency	8.42	10
10.	Bonds/Debt	5.24	6

To test the hypothesis I Investor Behavior has been taken as a dependent variable which is affected by three independent variables i.e. Fund related qualities, Fund sponsor qualities and Investor related services.

Table 2: Correlation between investor behavior, FRQ, FSQ & IRS

		IB	FRQ	FSQ	IRS
Investor Behavior	Pearson Correlation	1	.812**	.652**	.650**
	N	95	95	95	95
Fund Related Qualities	Pearson Correlation	.812**	1	.244*	.258**
	N	95	95	95	95
Fund Sponsor Qualities	Pearson Correlation	.652**	.244*	1	.302**
	N	95	95	95	95
Investor Related Services	Pearson Correlation	.650**	.258**	.302**	1
	N	95	95	95	95

** Correlation is significant at the 0.05 level (2-tailed).

Hypotheses 1, 2 and 3 has been accepted as relationship between dependent and independent variables are significant (>0.5).

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3$$

Where, Y indicates Investor Behavior, X₁ indicates coefficient of Fund related qualities, X₂ indicates coefficient of Fund sponsor qualities and X₃ indicates investor related services.

Regression Model Summary

R	.972
R Square	.944
Adjusted R Square	.943
Std. Error of the Estimate	0.8196

Table 3: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.308	.082		3.766	.000
FRQ	.503	.019	.659	26.345	.000
FSQ	.233	.017	.362	13.743	.000
IRS	.188	.015	.327	12.684	.000

Interpretation: The above table is showing the regression coefficients of FRQ, FSQ & IRS on investor behavior. All the values are significant. FRQ has the highest coefficient (.659) which shows that FRQ is the having very high impact on investor behavior.

7. FINDINGS

The most preferred investment avenue from investor perspective is Bank deposits due to security of returns and the trust they have on banks.

Mutual Fund has ranked 4th by the investor out of 10 alternative investment options available to them.

The combined impact of FRQ, FSQ & IRS on investor behavior is 0.944 which shows that 94.4% of total influence on investor behavior is due to FRQ, FSQ & IRS only.

Fund related qualities have greater influence on investor behavior because it has highest regression coefficient (0.503) with investor behavior.

The role of financial advisor in suggesting Mutual Fund investment option is also having a high positive correlation (.765) which shows that the advice given by financial advisor to their clients have positive influence on behavior of investor towards investing in Mutual Fund.

8. CONCLUSION

Investment in Mutual Funds schemes is not so preferred option by the investor because they feel there will be no safety of principle by investing in Mutual Fund schemes. Based on the above findings it is concluded that for influencing the behavior of the investor towards investing in Mutual Fund, companies need to appoint well qualified, skilled and experienced fund manager so that they can help in improving the performance of Mutual Fund schemes. Companies should provide constant training to their financial advisor and should launch different investor education program.

At last, Mutual Fund investment is a good option for the purpose of investing money for different financial needs but for influencing the behavior of the investor towards investing in Mutual fund schemes companies needs to improve on their different physical resources and services which they are providing to their customers.

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