



A STUDY ON MUTUAL FUND SPONSER QUALITIES ON INVESTMENT DECISIONS IN HYDERABAD

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ABSTRACT

The concept of 'Mutual Fund' is a new feature in Indian capital market but not to international capital markets. A mutual fund is the most suitable investment for the retail investors as it offers an opportunity to invest in a diversified, professionally managed portfolio at a relatively low cost. In the financial industry, Mutual Funds have become a hot favourite of millions of people all over the world. A mutual fund is a special type of institution, a trust or an investment company which acts as an investment intermediary and invests the savings of large number of people to the corporate securities in such a way that investors get steady returns, capital appreciation and a low risk. It is essentially a mechanism of pooling together the savings of a large number of investor for collecting investment with an avowed objective of attractive yields and appreciation in their values. Investors' mutual fund investment decisions will depend on various factors. The qualities of fund management are one among them. A detailed analysis of qualities of fund management and the statistical model with risk perception of investors, investment specific attitude of investors, characteristics of mutual funds and qualities of fund management as explanatory variables and mutual fund investment decisions as the dependent variable are also discussed in this paper.

KEYWORDS : Perception, Brand Image, Returns, Interest Rate

Introduction:

Concerns about investors' understanding of the costs and risks of mutual funds extend beyond investors who obtain their fund shares through a bank-related channel. For example, a recent survey of pension plan participants (which are mostly 401(k) plan participants) by John Hancock Mutual Life Insurance Co. found that more than one-third of the respondents believed it was impossible to lose money in a bond fund (an additional 12 percent were not sure), while 12.5 percent believed it was impossible to lose money in a stock fund or said they did not know.²² Although the surveys discussed above differ in their construction and scope, the primary difference is methodological. Mystery shopping, in seeking to discover what information a salesperson provides to potential investors, typically focuses on disclosure. A survey of actual investors, in seeking information regarding what they believe about investing in general and their own investments in particular, typically focuses on knowledge. Because the primary function of the joint OCC/SEC survey was to ascertain the level of investor knowledge in order to assist in the formulation of policy, the two agencies decided to survey actual investors.

Factors influencing to invest in mutual fund

The investors prefer the investment on mutual funds for several reasons. The important factors which drive the investors to invest in mutual funds considered were

Brand Equity

Brand equity means the brand value of the particular product. In mutual funds this brand equity represents mutual fund companies like Reliance, SBI, UTI, Franklin Templeton, Birla Sunlife etc. They have high brand image and such fund houses are most likely to have greater investors confidence in their funds. Chakarabarti and Rungta (2000) stressed the importance of brand effect in determining the competitive position of the AMCs. Their study reveals that brand image factor, though cannot be easily captured by computable performance measures, influences the investor's perception.² The investors are asked to rate the brand equity of mutual fund at five point scale according to their importance given on the investment of mutual funds.

Fund Size

Fund size means the total corpus of the particular fund. Fund size may be small, medium or large. It must be ascertained that a larger fund size would mean a higher amount of fund being invested and therefore a higher degree of involvement by the fund family. It would therefore mean one of the most profitable investment decisions that could be undertaken. In the present study, the investors asked to rate the fund size as the discriminant of their

investment on mutual funds at five point scale.

Type of Fund

A mutual fund may be a growth of fund, dividend fund, tax saving fund etc and therefore, their impact on the mutual funds investment decision is largely related to their respective functional intents. In the present study, the investors are asked to rate the type of fund as the discriminate of their investment on mutual funds at five point scale.

Type of portfolio and schemes

The type of portfolio could be mixed, equity, debt etc., which makes a sizeable impact on investment decision on mutual fund. It helps the investors to assess their utmost need to invest in either the mixed fund or equity fund or likewise. In the present study, the importance of type of portfolio and schemes in the investment on mutual fund has been measured at five point scale.

Risk involved in Mutual Funds

Mutual fund investment is having its own risk. There are different types of risks associated with mutual funds. A fund with stable, positive earnings is less risky than a fund with fluctuating total return. A higher risk is normally considered a demodulator for mutual fund investment decision. In the present study, the investors are asked to rate the importance of risk involved in mutual funds in the investment on mutual funds at five point scale.

Reputation of Fund manager

Fund manager is a person who manages the particular fund. A fund manager is a high authority in ascertaining an investor's financial roadmap. The reputation of the fund manager also plays a key role in determining the level and extent of profitable investment one could make in mutual funds.

Methodology:

Research design is a master plan specifying the method and procedure for collection and analyzing needed data. The research design in this study is descriptive. Descriptive research includes surveys and fact-finding inquiries of different kinds. For this study, descriptive research design is used where the data is collected by administering the questionnaire.

Objectives:

- 1) To know considerable factors by consumer before investing in mutual funds.
- 2) To identify the fund sponsor qualities by investors in MF'S.
- 3) To evaluate fund sponsor qualities impact on investment decision.

Scope of the Study:

The mutual fund investors in Greater Hyderabad Zone.

Data Collection:

The secondary data collected from Publications of SEBI, RBI, AMFI and various Published Reports

Primary Data: Primary data – Questionnaires - sample of 400 individual investors. Stratified random sampling method was used to collect data. Four Hundred respondents are taken from the convenient following investor service centers.

1	India Info line Ltd(IIFL)	100
2	Zenith Financial Services Ltd	100
3	SBI Mutual Fund Ltd	100
4	Religare Invesco MF	100
Total		400

Analysis of Fund Sponsor Qualities on mutual fund investment Using Factor Analysis

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.619
Bartlett's Test of Sphericity	Approx. Chi-Square	364.656
	df	15
	Sig.	.000

First Meyer-Olkin sample adequacy test was conducted to check the sample adequacy for factor analysis, if the Kaiser value is greater than 0.06, it means the variables are statistically significant. The results indicate that the value is > 0.06 and also sphericity satisfied with 0.00 significance. This indicates that the sample is adequate and the researcher approached for further analysis.

Total Variance Explained						
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.114	35.226	35.226	2.114	35.226	35.226
2	1.288	21.468	56.694	1.288	21.468	61.694
3	.931	15.518	72.212			
4	.707	11.778	83.991			
5	.571	9.523	93.514			
6	.389	6.486	100.000			

Extraction Method: Principal Component Analysis.

The above total variance table indicates that the variance of total considered 06 variables with the tested factors, which indicate that 0.61. It revealed that 61 % of the variables supporting for the study and remaining 34% of external factors influencing with the considered variable. However, greater than 60 % of variance considered as statistically good. The above table also extracted 2 variables with more than 1 eigen value, which are considered as extracted variables from all the tested 6 factors.

The scree plot is a pictorial representation of Eigen values which is more than 1.0 value, in the above variance table, there are total 2 factors extracted with more than 1 value, the same reflected in scree plot.

Rotated Component Matrixa		
	Component	
	1	2
Reputation of sponsoring firm	-.210	.740
Brand name	-.213	.696
Well developed agency and Network	.703	-.404
Managing money	.801	-.028
Infrastructure.	.674	.024
Risk & Return	-.275	-.671

The above matrix revealed that out of all the tested factors, the most

influencing factors of fund sponsor qualities on investment decision making first one i.e. Managing money with expertise , sponsor should have better tactics that how to manage money , second one is sponsoring firms' reputation in the market.

Fund Sponsor Qualities:

Fund sponsor quality means the quality of the sponsors' of the mutual fund/scheme selected by the investors. Reputation of the sponsoring firm, sponsor has a recognized brand name; sponsor has a well developed agency network, competent performance like the sponsor's expertise in managing money, the sponsor has a well development research and infrastructure, the sponsors' past performance in terms of managing risk and return were the variables identified under fund sponsor quality. To identify which of the sub variable was more important, mean score was computed and ranked based on the magnitude of the rank of each variable. Correlation of these sub variables with fund sponsor quality was done by using Spearman rank coefficient. This will enable us to identify which sub variable is mostly influence the fund sponsor quality. The result is exhibited in Table

Analysis of Fund Sponsor Qualities

S.No.	Fund Sponsor Qualities	Mean	Rank	Correlation
1	Reputation of sponsoring firm	1.25	6	-.142**
2	Sponsor has a recognized brand name	1.44	4	.397**
3	Sponsor has a well developed agency & network	2.74	2	-.393**
4	Sponsor's expertise in managing money	2.47	3	-.101**
5	Sponsor has a well developed research & infrastructure	2.85	1	-.108**
6	Sponsor's past performance in terms of risk and return	2.32	5	.192**

**** Significant at 0.01 per cent level, Source: Primary Data**

From the Table 4., it is clear that investors were looking for Sponsor has a well developed research & infrastructure (mean 2.85) followed by Sponsor has a well developed agency & network (2.74). Sponsor has a recognized brand name and Sponsor's past performance in terms of risk and return and Sponsor's expertise in managing money also influenced the investors while investment decisions were made.

From the correlation, it is clear that Sponsor has a recognized brand name has great influence in the fund sponsor quality (correlation coefficient 0.397) followed by Sponsor's past performance in terms of risk and return and Sponsor's expertise in managing money (correlation coefficient 0.192).

Conclusion

The rotated component matrix revealed that out of all the fund related tested factors, three are the most important fund related quality factors on the mutual investment decision making first one is i.e. fund managers opinions, second one is withdraw facility from the fund whenever required, and the final one is schemes' portfolio. The Rotated matrix revealed that out of all the Fund sponsor related tested factors, the most influencing factors of fund sponsor qualities on investment decision making first one i.e. Managing money with expertise , sponsor should have better tactics that how to manage money , second one is sponsoring firms' reputation in the market.

The Rotated matrix revealed that out of all the investor' service related issues among all the tested factors for investor perception about service related issues, most important issues is disclosure of investment objectives in advertisement, followed by Disclosure of the method and the periodicity of the schemes' sales and repurchases in the offer documents in the market whenever the

investor required money.

It is revealed that for fund related performance, respondents are positively depend on fund reputation and fund manager reputation and innovation techniques followed by fund operator companies. For better manage money by sponsor the factors like brand name of Mutual Fund, company infrastructure and risk and return are positively contributing towards decision making on mutual fund investment.

For better disclosure of objective the investors may attract in so many directions, like NAV, Repurchase factors are supporting positive approach towards decision making on mutual fund investment.

Fund Related Qualities: The study found that investors were more curious about the past performance of the fund (mean score 3.34) followed by the Withdrawal facilities (mean score 3.24). They were least bothered about Favorable rating by a rating agency while making investment decisions on mutual funds. Correlation of these sub variables with fund quality was done by using Spearman rank coefficient. This enabled us to identify which sub variable is mostly influencing the fund quality. Correlation with all the sub variables is found to be highly significant. From the correlation, it is clear that the most influencing variable on fund quality is Scheme's portfolio of investment (correlation coefficient 0.378) followed by Innovativeness of the scheme (correlation coefficient 0.312).

Fund Sponsor Qualities: The study found that investors were giving high preference to Sponsor has a well developed research & infrastructure (mean 2.85) followed by Sponsor has a well developed agency & network (2.74). Sponsor has a recognized brand name and Sponsor's past performance in terms of risk and return and Sponsor's expertise in managing money also influenced the investors while investment decisions were made.

It is concluded that not only the sponsors should develop the good research and infrastructure facilities but also maintain good the agency and network to retain the existing investors..

From the correlation, it is clear that Sponsor has a recognized brand name has great influence in the fund sponsor quality (correlation coefficient 0.397) followed by Sponsor's past performance in terms of risk and return and Sponsor's expertise in managing money (correlation coefficient 0.192).

It is concluded that brand name and past performance in terms of return and risk were playing significant role in attracting the investors

Investor service related issues: The study found that investors were giving importance to MF's Investors grievance redressal machinery because they were expecting to get immediate solution to their grievances (mean score 2.84), Disclosure of NAV on every trading day (mean score 2.54), methods and periodicity of valuation (mean score 2.38), Disclosure of periodicity of valuation in the advertisement (mean score 2.23) and followed by Disclosure of deviation of investments from the original pattern is also influencing their investment decisions.

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