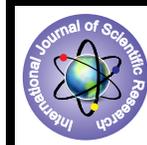


Investors Attitude Towards Mutual Funds Investments



Management

KEYWORDS : Mutual funds, Investors' attitude, investors' behavior, objectives, financial instruments.

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ABSTRACT

It is quite commendable that the mutual fund industry mark of almost 10 trillion INR of assets under management as of May 2014 but participation from metro cities is low if we go by the number of investors and increase in wallet share. This is because of the low customer awareness and financial literacy poses which act as the biggest challenge to channelize the household savings into mutual funds.

This study would describe the different factors that impact the purchase decision of investors' towards Mutual Funds investments. To this end, 300 respondents of Delhi NCR, having different demographic profiles were surveyed. Collected data has been analyzed by using various statistical techniques.

This study would help fund managers in understanding the attitude of investors towards their investments into Mutual funds. With the help of this fund managers would be able to come with different schemes of Mutual funds as per investors' needs and preferences. Further analysis of the study reveals that financial literacy of respondents is very important for making investment in Mutual funds.

I. Introduction

It is quite commendable that the mutual fund industry mark of almost 10 trillion INR of assets under management as of May 2014. The industry has seen net flows of approximately 4900 billion INR from 2001 to 2014 (an average of 352 billion INR per annum). The change in the financial assets (gross financial savings) of the household sector in FY2012-13 was approximately 109,69 billion INR, of which mutual funds attracted 274 billion INR (approximately 2.5%).

Mutual fund penetration in India is low as compared to global and peer benchmarks. The AuM to GDP ratio stands at 7 to 8% as compared to a global average of 37%. Even the SAAAME economy of Brazil, considered a peer emerging economy, is significantly ahead, with an AuM to GDP ratio of 45% (Source – AMFI, ICI FactBook 2013).

This is because of the low customer awareness and financial literacy poses which act as the biggest challenge to channelize the household savings into mutual funds there is also a concern of having investors stay invested in mutual funds and perceives the long-term benefits of the product. Investors need to realize that mutual funds are a way to meet their financial goals and not just a means of short-term financial gain. Given the current scenario of market volatility and uncertainty, the investor perceives investments in the capital market to be risky and unsafe, and hesitates to channelize his savings into mutual fund products. Fund managers need to build confidence in the minds of investors and encourage them to stay invested in funds to derive the desired benefits.

It is well known that mutual funds offer their investors benefits difficult to obtain through other investment vehicles. Benefits such as diversification, access to equity and debt markets at low transaction costs and liquidity are some such advantages.

II. Review of Literature

B.B.S.Parihar, Rajeev Sharma and Deepika Singh Parihar (2009) conducted a study on analyzing investors' attitude towards mutual funds as an investment option and found that majority of investors have still not formed any attitude towards mutual fund investments. The main reason behind this has been observed to be lack of awareness of investors about the concept and working of the mutual funds. They concluded that demographic variables are concerned; age, gender and income have been found influencing the attitude of investors towards mutual funds sig-

nificantly. Whereas, amazingly, the other two demographic variables (education and occupation), have not been found influencing the attitude of investors towards mutual funds. They also analyzed that benefits delivered by the mutual funds are concerned; return potential and liquidity have been perceived to be the most attractive by the investors, followed by flexibility, affordability and transparency.

Barber et al., 2005 argue that the purchase decisions of mutual fund investors are influenced by salient, attention-grabbing information. Investors are more sensitive to salient in-your-face fees, like front-end loads and commissions, than operating expenses; they are likely to buy funds that attract their attention through exceptional performance, marketing, or advertising. They found consistently negative relations between fund flows and front-end load fees. A negative relation between fund flows and commissions charged by brokerage firms was also documented. In contrast, no relation (or a perverse positive relation) was found between operating expenses and fund flows. Additional analyses indicate that mutual fund marketing and advertising, the costs of which are often embedded in a fund's operating expenses, account for this surprising result.

Peles, Nadav (1997) in his research on "Cognitive dissonance and mutual fund investors", suggests that purchase decisions for financial assets should be made on the basis of investor beliefs regarding the future return and risk of those assets other wise it leads to cognitive dissonance. We find ample proof for the wide prevalence of such a psychological state among Mutual Fund (MF) investors in India. The growing middle class in many mature and emerging market economies is also expected to support the expansion of mutual fund sales in the future. From an institutional perspective, the privatization of pension systems and increasing market penetration of the insurance industry—especially in emerging markets—is also expected to increase the demand for mutual fund products.

Ippolito (1992) and Chander Subash and Mahajan, Mukesh (1992) says that investors basically invest in MFs for tax benefits, growth and for availing professional expertise. The research highlights that major portion of investment is from professional and salaried class. Madhusudhan V Jambodekar (1996) a study reveals that investors look for safety of Principal, Liquidity and Capital appreciation in the order of importance. Peles, Nadav (1997) in his research work on "Cognitive dissonance and mutual fund investors" provide evidence that investor psychology may

affect the fund-switching decision.

III. Objectives

The two major objectives of this study are:

- To study and analyze the impact of various demographic variables on investors' attitude towards mutual funds; and
- To study and rank the factors responsible for the selection of mutual funds as an investment option.

IV. Hypothesis

Null Hypothesis (Ho) demographic factors (like age, gender, income, education level and occupation etc.) of the respondents and their attitude towards mutual funds are independent of each other.

V. Data Collection

The study is primarily based upon primary data collected from questionnaire. The survey was administered on 300 respondents of Delhi NCR.

VI. Data Analysis

The collected data was analyzed through simple statistical tools like chi-square test. To measure the reliability of the data Cronbach Alpha test has been employed. After that Bartlett's Test and factor analysis has been used to reduce the width.

VII. Findings

Cronbach Alpha As commonly accepted rules of thumb the minimum acceptable score of alpha is 0.70 (George and Mallery 2003). In the present study it is found to be 0.791 which is sufficient enough to precede the study.

Kaiser-Meyer-Olkin and Bartlett's Test The Kaiser-Meyer-Olkin measure of sampling adequacy is an index for comparing the magnitudes of the observed correlation coefficients to the magnitudes of the partial correlation coefficients. Bartlett's test is applied to measure strength of relationship among variables of population correlation matrix i.e. whether they are uncorrelated or not. The minimum acceptable value of KMO is 0.50. Generally the cut-off value of Bartlett's test is less than or equal to 0.05. In the present study KMO value is .658 and Bartlett's value is 0.000 which permits the factor analysis to the data.

Factors Responsible for Investment in Mutual Funds

During the study, it was found that the investors generally invested in mutual funds due to the reasons like, return potential, transparency, liquidity, flexibility, and affordability.



During the survey, the respondents were asked to rank these factors and the data obtained is presented in Table 1. For analyzing the various factors responsible for investment in mutual funds, ranking is done on the basis of weighted scores. Scale for ranking is:

Rank 1 - 5 Weights, Rank 2 - 4 Weights, Rank 3 - 3 Weights, Rank 4 - 2 Weights and

Rank 5 - 1 Weights

Table 1: Factors Responsible For Investment in Mutual Funds

Factors	Rank					Weighted Score	Percentage	Rank
	1	2	3	4	5			
Return Potential	200	70	12	18	0	1358	29.81994	1
Transparency	11	51	42	94	102	664	14.58059	5
Liquidity	40	80	78	60	42	948	20.81686	2
Flexibility	27	75	101	50	47	888	19.49934	3
Affordability	30	18	78	60	114	696	15.28327	4
						4554	100	

As far as the factors responsible for investment in mutual funds are concerned, 'return potential' has got first rank, 'liquidity' has got second rank, and 'flexibility', 'affordability' and 'transparency' have been ranked third, fourth and fifth, respectively.

Factors	Factor Loading
Return Potential	.852
Transparency	.659
Liquidity	.813
Flexibility	.759
Affordability	.693

As per Factor analysis reduces the number of variables to such a small number which could be capable of explaining the observed variance in the large number of variables.

The feature of returns carries maximum communalities.

After that Chi square test has been applied to test the hypothesis i.e. demographic factors (like age, gender, income, education level and occupation etc.) of the respondents and their attitudes towards mutual funds are independent of each other.

Result of test is as follows:

This study reveals that out of 300 respondents surveyed, 85 (i.e., 28.3%) respondents have a positive attitude towards mutual funds, 143 (i.e., 47.7%) have a neutral attitude and 72 (i.e., 24%) have a negative attitude towards it.

Age and Attitude towards Mutual Funds Investments: chi-square calculated (41.2) > chi-square tabulated at 4 d.f. (9.48), the null hypothesis is rejected and it is concluded that there is a significant association between the age of respondents and their attitude towards mutual funds investments it means age of the investor influences its decision towards mutual funds. Moreover, 31% (i.e., 43 out of 138) of respondents of '25 and Below' age group, 31% (i.e., 53 out of 107) of '26-45' age group and 16% (i.e., 09 out of 55) of 'Above 45' age group have a positive attitude towards mutual funds.

Gender and Attitude towards Mutual Fund Investments: Here chi-square calculated (19.86) > chi-square tabulated (5.99), the null hypothesis is again rejected and it is concluded that there is a significant association between the gender of respondents and their attitude towards mutual funds investments. i.e., the respondents' gender influences their attitude towards mutual funds significantly. Moreover, 35% (i.e., 72 out of 208) male respondents and 15% (i.e., 13 out of 92) female respondents have a positive attitude towards mutual funds.

Income and Attitude towards Mutual Funds Investments: Here also chi-square calculated (49.00) > chi-square tabulated (9.47), the null hypothesis is rejected and it is concluded that there is a significant association between the income of respondents and their attitude towards mutual funds. The respondents' income influences their attitude towards mutual funds significantly. Moreover, 12% (i.e.,

08 out of 68) respondents of 'Below 10,000' income group, 25% (i.e., 43 out of 175) respondents of '10,000-25,000' income group and 60% (i.e., 34 out of 57) respondents of 'Above 25,000' income group have a positive attitude towards mutual funds.

Education and Attitude towards Mutual Funds Investments:

Since chi-square calculated (3.9) < chi-square tabulated (9.49), the null hypothesis is accepted and it is concluded that there is no significant association between the education of respondents and their attitude towards mutual funds. The respondents' education does not influence their attitude towards mutual funds significantly.

Occupation and Attitude towards Mutual Funds Investments:

Since chi-square calculated (18.95) > chi-square tabulated (12.59), the null hypothesis is rejected and it is concluded that there is a significant association between the occupation of respondents and their attitude towards mutual funds. i.e., the respondents' occupation influences their attitude towards mutual funds significantly.

VIII.Conclusion

There has been growing importance of Mutual Fund Investment in India. When compared with other financial instruments, investments in Mutual funds are safer and also yields more returns on the portfolio investment. Study also reveals that the feature of return from the investments and rating by credit agency is the upmost concern of the investors. Analysis of the study reveals that financial literacy of respondents is very important for making investment in Mutual funds. Therefore Mutual fund companies should promote financial awareness amongst the respondents so as to channelize their income and savings towards Mutual Funds. For achieving heights in the financial sector, the mutual fund companies should formulate the strategies in such a way that helps in fulfilling the investors' expectations. Today the main task before mutual fund industry is to convert the potential investors into the reality investors. New and more innovative schemes should be launched from time to time so that investor's confidence should be maintained. All this will lead to the overall growth and development of the mutual fund industry.

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