Research Paper Commerce

Factor Affecting Selection of Mutual Fund - A Case Study of Navsari District

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ABSTRACT

Financial system comprises financial institutions, services, market and instruments. Financial institutions mobilize resources, purchase and sell instruments and render various services in accordance with the practices and procedures of law. Investing in financial securities is a complex one involving knowledge of various investment tools, terms, concepts, strategies and process. The success of a financial investment activity depends on the knowledge and ability of investors to invest the right amount, in the right type, at the right time. Investor has to use his intellect, which is an art to acquire by learning and experience. Knowledge of financial investment principles and the art of investment management are the basic requirements for a successful investment.

The financial securities include ownership securities (like shares, mutual fund units) and creditorship securities (like debentures, bonds). Ownership securities are more risky than creditorship securities. Investment decisions relating to ownership securities involve planning of investment strategies according to the extent of diversification desired by individuals. Investors can reduce risk and maximize returns by way of mutual fund investments, enjoying the expertise of professional fund management. In India, Mutual fund industry is an organised financial system, accessible to individual investors having varied needs and options. In order to identify important factors which affect the selection of mutual fund, a careful collection of primary data through questionnaire was made.

KEYWORDS | Mutual Funds, Important factors, Investors' satisfaction.

INTRODUCTION:

Mutual funds have come as a much needed help to these investors. It is a special type of institutional device or an investment vehicle through which the investors pool their savings which are to be invested under the guidance of a team of experts in wide variety of portfolios of corporate securities in such a way, so as to minimise risk, while ensuring safety and steady return on investments. It forms an important part of the capital market, providing the benefits of a diversified portfolio and expert fund management to a large number, particularly small investors.

In India, a Mutual Fund is required to be registered with Securities and Exchange Board of India (SEBI) which regulates securities markets before it can collect funds from the public.

In short, 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 its 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. Buying a mutual fund is like buying a small slice of a big pizza.

REVIEW OF LITERATURE

A large number of evaluation studies have been conducted by several experts and academicians, at the national level in the form of paper presentation. Taking into account the importance and growth prospects of the mutual fund industry in the national economy, a number of researchers have worked on the various aspects of mutual fund industry, such as:

➢ To analyze an "Empirical Study on Factors Influencing the Mutual Fund/Schemes Selection by Retail Investors", T.R. Rajeswari et al. (2000) conducted a survey among 350 geographically dispersed present investors spread over 10 urban and Semi-urban cities. They found that the most preferred investment vehicle is Bank Deposits, with Mutual Funds ranking 4th in the order among 8 choices. Growth schemes were ranked first, followed by Income Schemes and Balanced Schemes. Based on the duration of operation of schemes, the first preference was for open-ended schemes (84.57%) and only 15.43% of the respondents favoured close-ended schemes. The investors look for safety first in Mutual Fund products, followed by good returns, tax benefits, liquidity and capital appreciation.

➢ In "A study of fund selection behaviour of individual investors towards Mutual Funds – With Reference To Mumbai City", Kavitha Ranganathan (2004) has made an attempt to examine the related aspects of the fund selection behaviour of individual investors towards Mutual funds in the city of Mumbai. The study mainly deals with the financial behaviour of Individual Investors towards Mutual funds in Mumbai city. The required data was collected through a questionnaire of 100 educated individual investors. She found that: Savings Objective of the majority of Individual Investors is 'to provide for Retirement'. The study reveals that 'Pension and Provident Fund' is the most popular savings instrument among individual investors of Mumbai. Analysis of scheme preference by nature of operation reveals the popularity of 'Open- Ended' scheme. The study also shows the investors' need for 'Good Return' is highest among other features, followed by Safety, Liquidity, Tax Benefit, Capital Appreciation, Professional Management and Diversification Benefits. Investors attach high priority to published information, thereby preferring Newspapers, Journals and Business & Financial Magazines.

➢ To analyze "The perception of investors towards investments in mutual fund", Nandagopal R. et al. (2011) took 103 respondents from Coimbatore district. They collected the data by interview schedule. The research was built on a De-

scriptive research design. They found that majority of investors had stated lack of knowledge as the primary reason for not investing in mutual funds. The second foremost reason for not investing in Mutual fund was difficulty confronted by investors in selection of schemes. Diversification of portfolio, Minimization of risk, greater tax benefits were the top most factors that motivate investors to invest in mutual funds respectively. Regarding the reason for investing, majority of the investors gave first rank to returns, second rank to savings and third rank to liquidity. They concluded that the mutual fund business in Coimbatore city was still in the growth phase. So, concentrated efforts are needed for its success.

➢ To analyze "Mutual funds: an investment option from investors' point of view" Jay R. Joshi(2013) made main focus on to know investor's view about the investment preference, motivational factors and the main reasons for investment in mutual fund. The target population was investor in Anand (Gujarat). The survey was based on convenience sampling and took 100 investors as sample size. Researcher found that 34% of respondent have already invested their money in mutual funds. The second best option for customer's/investor's point of view is equity securities. Majority investors have stated that their reason for investment in mutual fund is to generate constant return. Diversification of portfolio was the top most motivating factor for investors to invest their money in mutual fund. Most of investors have stated the lake of knowledge and availability of information as the primary reasons for not investing in mutual funds

OBJECTIVES OF THE STUDY

1. To find out important factors which affect the selection of mutual fund
2. To find out the investors' satisfaction with their mutual fund performance

HYPOTHESES

The following null hypotheses are made in the study:

1. There is no important factor which affects the selection of mutual fund.
2. Investors are not satisfied with their mutual fund performance.

RESEARCH METHODOLOGY

The nature of the study is descriptive research. The study is mainly based on primary data and primary data has been collected by interacting with various people, getting the questionnaires filled by them. The data was collected by means of questionnaire and was classified and analyzed carefully. Questionnaire is constructed so that the objectives are clear to the respondents. In this research, the questionnaire was formed as a direct and structured one. The questions were mostly close-ended questions. Open-ended question has been used only for deriving suggestions from the respondents.

The method used for collecting requisite data is 'Convenience Sampling', which is a type of non-probability sampling technique.

Research Problem

As mentioned earlier, Mutual fund schemes are attractive to small investors. More and more investors today are investing in mutual funds expecting high return and low risk coverage. Mutual fund investments generate returns on the basis of the state of market conditions. The idea is to understand important factors which affect the selection of mutual fund, and give some suggestions for developing this industry.

Design of the Study

Out of 33 districts in the State of Gujarat, the Navsari district was selected for the study. Data were collected from 300 investors of Navsari district of which 80 investors were found to be non-interested in mutual fund and 20 did not provide 100% information. The effective sample size, thereby, for the study in hand is 200. The data has been collected from rural and urban areas of Navsari District.

Tools and Techniques of Data Analysis

The Statistical Analysis carried out in the study is being done using MS-EXCEL AND SPSS (Statistical Package for Social Science) Software. Appropriate statistical tools were used to analyze the data. Analyzed & interpreted data have been presented in the form of tables, charts and figures.

HYPOTHESIS TESTING

One Sample t-test

One sample t-tests have been performed for two times. First, to identify the important factor which affect the selection of mutual funds and second, to find out the investors' satisfaction with their Mutual fund performance. t-test has been run with a cut-off point of three (3).

(A) Important Factor which Affect the Selection of Mutual Fund

H0: Factor is not important ($\mu < 3$)
H1: Factor is important (μ 3)

Table 1

One Sample t-test – 1
Test Value = 3

Factor	t	N	Mean	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
							Lower	Upper
Safety	25.847	200	4.58	199	.000	1.580	1.46	1.70
Easy Liquidity	6.254	200	3.53	199	.000	.530	.36	.70
Stability Income	20.299	200	4.17	199	.000	1.170	1.06	1.28
Capital Growth	24.884	200	4.44	199	.000	1.440	1.33	1.55
Transferability	18.293	200	4.08	199	.000	1.080	.96	1.20
Tax Planning	-5.546	200	2.36	199	.000	-.640	-.87	-.41
Status	-.946	200	2.91	199	.345	-.090	-.28	.10
Flexibility	10.546	200	3.81	199	.000	.810	.66	.96
Speculative Value	2.849	200	3.28	199	.005	.280	.09	.47
Diversification	14.870	200	4.00	199	.000	1.000	.87	1.13
Low cost of Investment	-3.557	200	2.63	199	.000	-.370	-.58	-.16
Regular Saving	17.191	200	4.21	199	.000	1.210	1.07	1.35
Higher Return	19.683	200	4.28	199	.000	1.280	1.15	1.41
Risk Bearing	13.344	200	3.85	199	.000	.850	.72	.98
Future Planning	19.914	200	4.38	199	.000	1.380	1.24	1.52
Friends & Relatives	-1.254	200	2.86	199	.211	-.140	-.36	.08
Financial Advisors	-11.522	200	1.98	199	.000	-1.020	-1.19	-.85
Brokers & Agents	-2.754	200	2.71	199	.006	-.290	-.50	-.08
Company Reputation	1.690	200	3.15	199	.093	.150	-.03	.33
Any Other	-69.471	200	1.04	199	.000	-1.960	-2.02	-1.90

Here, $P \leq 0.05$, for all the factors excluding status, friends & relatives and company's reputation which provides a strong evidence for rejection of a null hypothesis and acceptance of an alternative hypothesis. Therefore, it can be concluded with 95% confidence that all the factors are important excluding those three. Moreover, for these three factors, p is greater than 0.05 which indicates that these factors are not important.

(B) Investors' Satisfaction with their Mutual Fund Performance

H0: Investors are not satisfied with their mutual fund performance ($\mu < 3$)
H1: Investors are satisfied with their mutual fund performance (μ 3)

Table 2

One Sample t-test – 2
Test Value = 3

	t	N	Mean	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
							Lower	Upper
Satisfaction level	11.066	200	3.80	199	.000	.800	.66	.94

Here, P≤0.05, which provides a strong evidence for rejection of a null hypothesis and acceptance of an alternative hypothesis. Therefore, it can be concluded with 95% confidence that investors are satisfied with their mutual fund performance.

CONCLUSIONS

1. Investors consider all the factors important when purchasing a mutual fund excluding status, friends & relatives and company's reputation.
2. The investors are satisfied with their mutual fund performance.

SUGGESTIONS

Majority investors' purpose of investing in mutual fund is 'Wealth Creation' and 'Safety' is a more important factor for them. AMC should incorporate 'Wealth Creation' and 'Safety' criteria under tax saving schemes so that benefit should be accessed to not only investors but to the Government also by generation of more capital in the economy.

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