



A Study on Awareness of Investors Regarding Mutual Funds

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ABSTRACT

In a growing country like India, capital market plays an important role to stabilize the economic growth, strengthen economic performance, and provide various investment avenues to investors to help the various industries and get the profitable return. Among various products, mutual funds ensures the minimum risk and maximum return to the investors, its having its own policies, terms and conditions, that are different from, so the market volitization will not make more effect in return. This paper analysis the various investment pattern preferred by the various investors. An attempt is also made to compare the various investment avenues available for investment in sectors like banking, post offices, share market, etc.

In this paper, the impacts of various demographic factors on investors' attitude towards mutual fund have been studied. For measuring various phenomena and analyzing the collected data effectively and efficiently for drawing sound conclusions, Chi-square test has been used and for analyzing the various factors responsible for investment in mutual funds.

Keywords : mutual funds (MFs), investors, chi square

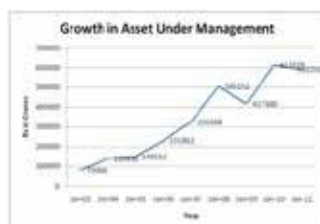
Mutual funds are the most appropriate investment opportunity for all type of investors. As, the financial markets become more sophisticated and complex, the investors would need an intermediary which provide expertise and professional management for managing the investments. Mutual funds is just a connecting bridge or financial intermediary that allows a group of investors to invest their money together with a pre-determined investment objective.

Mutual funds are considered as one of the best available investments as compared to others because they are very cost efficient and also easy to invest in, thus by pooling money together in mutual funds, investor can purchase stock or bonds with much lower trading costs than if they tried to do it on their own. But the biggest advantage of mutual funds is diversification, by minimizing risk and maximizing returns.

Thus, as mutual fund provides an opportunity to invest in diversified and professionally managed securities at a low cost so it acts as most suitable investment for the common man. But, in today's world the scope of mutual funds has become so wide, that people take so long time to decide about the mutual fund type to invest in. although various investment companies are engaged in providing such information to the people regarding the selection of a diversified mutual fund type, each type carrying unique characteristics and different beneficial features.

According to AMFI the asset under mutual fund industry is 60 thousand crore rupees. In the last 5 years (since 2006) the mutual fund industry's AUM has grown by 20% compounded annual growth.

Fig. 1



<http://www.mbaskool.com/business-articles/finance/1143-mutual-fund-industry-analysis.html>

GROWTH OF MF MARKET

The Indian Mutual Fund has passed through three phases. The first phase was between 1964 and 1987 and the only player was the Unit Trust of India, which had a total asset of Rs. 6,700 crores at the end of 1988. The second phase is between 1987 and 1993 during which period 8 Funds were established (6 by banks and one each by LIC and GIC). The total assets under management had grown to 61,028 crores at the end of 1994 and the number of schemes was 167.

The third phase began with the entry of private and foreign sectors in the Mutual Fund industry in 1993. At the end of year 2000 (31st march) 32 MFs were functioning with 1,13,005 as total asset under management. On august end 2000 there were 33 MFs with 391 schemes and asset under management was 1, 02,849 crores. The SEBI comes out with regulation regarding mutual funds in 1993 which defines the structure of MF and asset under Management Company for the first time. After this, various private MF had launched in 1993 and 1994. Thus the share of the private players had risen and now there are 34 MF organizations managing 1,02,000 crores

STRUCTURE OF MUTUAL FUND

A mutual fund comprises of four separate entities namely sponsor, mutual fund trust, AMC and custodian. The sponsor establishes the mutual fund and gets it registered with securities exchange board of India (SEBI). After this, mutual fund needs to be constituted in a form of trust and the instrument of the trust should be in the form of deed, required to be registered under the provisions of Indian registration act, 1908.

The sponsor is required to contribute at least 40% of the net worth (Rs10crore) of the asset management company. The board of the trustees manages the mutual funds and it is the sponsor who executes the trust deed in favor of trustees. It is the job of MF trustees to check out that the schemes floated and managed by AMC appointed by the trustees are in accordance with the trust deed and SEBI guidelines.

MUTUAL FUND OPERATION

A mutual fund is a company that pools investor's money to make multiple types of investments in stocks, bonds, money market called as portfolios. A mutual fund is managed by a professional investment manager who buys and sells the securities for achieving effective growth of the fund. As a mutual fund investor you become a 'shareholder' of the mutual fund company. The fund manager studies the market conditions and identifies the various opportunities available for the mutual funds to grow and then invest all the money into various securities. These securities generate the returns for the mutual funds and these returns are again passed back to the investors. Thus, again the investors invest their money. It is a cyclical process which continues.

REVIEW REGARDING THE PREFERENCE OF INVESTMENTS

This part contains the primary information which is collected using surveys done on 200 common people. It includes 82 businessmen, 36 servicemen, 51 professional and 31 students. This part shows the hypothesis done regarding the preference of investments from the view point of investors in areas of equity capital, debt capital, fd's in bank, real estate, insurance, postal's and metal and stones. This hypothesis was done using the likert scale. Under likert scale the various factors are given rank from 1 to 5, 1 being highly satisfied and 5 being highly dissatisfied.

This section shows the HYPOTHESIS REGARDING THE FACTORS WHICH ARE CONSIDERED IMPORTANT BY THE INVESTORS WHILE INVESTING IN MUTUAL FUNDS.

TB - 2

Factors	mean	stdev	Ztab	Zcal	Accept/reject
High Returns	2.3050	1.0546	1.645	-9.3288	accepted
Low Cost	2.728813	1.14214	1.645	-3.368	accepted
Professional Mgt.	2.9322	1.28471	1.645	-0.7466	accepted
Brand Name	3.0338	0.96429	1.645	0.4957	accepted
Risk Profile	2.81355	1.18138	1.645	-2.233	accepted
Past Performance	2.91525	0.97003	1.645	-1.2379	accepted
Transparency	2.0338	0.87031	1.645	-15.723	accepted

It can be analyzed from the hypothesis above that High returns, low cost, professional management, brand name, risk profile of the mutual funds, past performance of various mutual funds and transparency regarding the working of the mutual funds are the factors which are considered to be important by investors before investing in any category of mutual funds. Thus, these all are the factors which play an important role in deciding about the mutual funds investment.

CHI SQUARE REGARDING THE INVESTMENT MOTIVES OF THE INVESTORS IN MUTUAL FUNDS.

It is any statistical hypothesis test in which the sampling distribution of the test statistic is a chi squared distribution when the null hypothesis is true, or asymptotically true. It is test for independence. Here, it is used to find out whether the various investment motives are independent of income or not.

TB - 3

Investment motives	$\alpha = 0.05$	χ^2_{table}	$\chi^2_{calculated}$	Accepted/rejected
Tax benefit	0.05	21.0261	13.535	Accept
Return on investment	0.05	21.0261	16.77	Accept
Liquidity	0.05	21.0261	8.56	Accept
Future benefit	0.05	21.0261	7.27	Accept
Retirement benefit	0.05	21.0261	9.08	accept

TB - 1

Investment	Mean	Std dev	Ztab	Zcal	Accept/reject
Equity cap	2.86	1.169288	1.645	-1.70	accept
Debt cap	3.125	1.1471052	1.645	1.5405	Accept
Fd's in bank	3.025	1.11382	1.645	0.3174	Accept
Real estate	3.15	1.11971	1.645	1.894	Reject
Insurance	2.925	1.14276	1.645	-0.9282	Accept
Postal's	3.075	1.14276	1.645	0.9282	Accept
Metal and stones	2.935	1.15468	1.645	0.7949	Accept

The following hypothesis has been made for the preference of investments. This shows that:

- There is a positive relation between the equity capital and the investor's requirement regarding mutual funds.
 - There is a positive relation between the debt capital and the investors requirement for the mutual funds.
 - The hypothesis done for the fd's in bank is also accepted.
 - The hypothesis for the real estate is rejected.
 - The hypothesis for the insurance sector is also accepted.
 - The hypothesis for the postal's is also accepted.
 - The hypothesis for the metals and stones is accepted.
- It shows that there exist a positive relation between the metal and stones and the investors choice regarding investments.

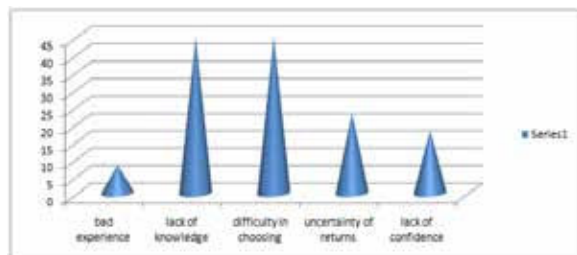
FINDINGS:

The above chi square test shows that all the investment motives, tax benefit, return on investment, liquidity, future benefit and retirement benefit are independent of income because the hypothesis for the same are accepted. This shows that the investors consider all these motives as important for investing in mutual funds. Although, all these part shows the positive aspect of the mutual funds, about the investor's preferences, investment motives of the investors and the factors considered before investing in mutual funds, there are negative aspect of mutual funds also. This shows that why there is still very less percentage of people who invest in mutual funds besides the fact that mutual funds have given good returns in long run. The below graph shows the reasons:

TB - 4

REASON	INVESTORS
Bad experience	8
Lack of knowledge	45
Difficulty in choosing	45
Uncertainty of returns	23
Lack of confidence	18

Fig.2



The above diagram shows the reasons for the non investment in mutual funds. Main reason that why people don't invest in mutual funds is lack of knowledge regarding mutual funds and difficulty in choosing. Other factors also affect the mutual funds requirement decision. Bad experience, uncertainty of returns and lack of confidence are also some of the reasons behind the non investment or less investment pattern in mutual funds. Also, the crisis of 2008, where the market was not in a stable position is also one of the reasons which were told to me by some people. That was the time when most of the people had drawn back their money from mutual funds and after that didn't reinvest in mutual funds because they lost their trust.

CONCLUSION:

The study shows that most of the people are still confused about investing in mutual funds and have not formed any attitude towards the investment in mutual funds. It has been observed that most of the respondents having lack of awareness about the various functions of mutual funds. Also, respondents are not ready to trust again in mutual funds after the crisis of stock market in 2007- 2008. On the other hand, income is one of the demographic features which affect the investment decision of investors regarding the mutual funds. As far as the benefits provided by mutual funds are concerned, return potential, liquidity, professional management has been perceived to be most attractive by the investor's view point followed by flexibility and timely return. Apart from above, there is a large scope of growth of mutual funds in India.

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