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A Strategic Study on Investors Preferences of Mutual Funds in India some Myths and Realities

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ABSTRACT

Emerging economy reflects the health of the nation and its regular growth consolidates its universal economic participation which has multiple impacts due to which stock market changes day by day. There are many internal and external factors which influence the performance of the stock market particularly „risk and return, which ultimately caste deep impact on the perception of the investors to invest. To meet out the challenges of growth after liberalization and globalization GOI adopted continuous reform process which boosted confidence of investors. Economic growth has increased the savings and astonishingly explored the participation of investor in stock market which added a new dimension and explored the potential of the financial sector which has grown many fold and require regular flow of financial resources to meet the desired economic pace which is possible with efficient and effective securities market. Investors in general have appetite to invest in that instrument which may generate maximum return with minimum risk. To avail the advantage of economic growth large number of hybrid financial product came into existence and Mutual Fund is one of them. Thus in the light of these ever-growing developments a careful analysis of the Mutual Fund is inevitable to explore hidden potential of investor preference in Luckhnow city. The present survey based study attempts to analyze the investor preference, influencing factor and awareness in the selected city by using Chi – Square Test on nine most trusted mutual funds irrespective of their size; they are Reliance AMC, ICICI Prudential AMC, Franklin Templeton, UTI AMC, HDFC AMC, Birla Sunlife AMC, Kotak AMC, JM Finance AMC, and SBI AMC. In last concluding remarks and recommendation is been given.

KEYWORDS AMCs, Index, Rank, Mutual Funds, Risk–Return, Chi - Square Test, GOI, SEBI

INTRODUCTION

Industrialization reflects nations self sufficiency's which is herculean task and requires judicious approach to justify factors involve. It can be possible by adopting balance economy structure which largely depends upon sound financial health of the nation and its economy. Liberalization multiplied global competition which translated into growth and resulted high earning and saving. To cater the universal economic and political competition, government has to play parental role in money supply which is possible through sound earning and social saving of the investor and their risk taking psychology. Generally decisions about investment are quiet crucial for an investors as they are influenced by many factors and have considerations like company goodwill, government policies, economics of sales and the trend in a particular sector, economic and social environment, risk and return, level of earning of the individual, his educational background, marital status and demographic variables etc. Traditional finance and economic theory is based on the notion of "rational man" which is based on the assumption that individuals are smart enough to understand complicated puzzles and conduct endless instantaneous optimizations and classical economic literature consider human beings as rational entities with having incredible ability of making right decisions in the situation of complete transparency. Herbert Simon, on the other hand emphasizes that in decision making human beings are suffocated rational not absolute rational.

In capital markets, "expectations" of the investors hold the key position. The power of expectation drives the price of the securities and set the pace of trade volume, ultimately determines the trends which are very much influenced by their "perception" and investor convert perception to action which is largely influenced by the dissonance effect and endowment effect. Investor being human have natural tendency to adjusted belief to justify their past action and have a faith that what they possess is better than what they do not have. However, there are no exclusive models which can justify and explain the influence of these "perceptions" and "beliefs" on "expectations" and "decision making". Due to absence of judicious ability to understand the reason of motivations and expectations we ignore it deliberately. Human being are the most unpredictable and complex creation of Almighty and it is impossible to establish any model in which individual investor beliefs can be adjusted, but can develop some models to test the financial behavior on the principle of social psychology where behavioral patterns, rational or irrational, are developed and empirically tested. Before making any investment investors tried to extract filtered information through their behavioral ability and process it accordingly to take investment decision which lead to systematic errors. It is noted that safe return on investment up to extent act as a key motivator of any individual for making investment which is the exchange of certain present value of money wealth (savings) into some tangible wealth (assets) in expectation of future reward and exclusively involves strategic decisions like, where to invest, when to invest and how to invest. Thus investors want to invest in those safe portfolios which give them the better future return in terms of interest or capital gain. To avail the advantage of saving many hybrids financial instrument came into existence and mutual fund is one of those safe avenues. With passing time it became most preferred and safest investment option among all class especially for the first timer's due to its vibrancy in benefits plus balancing abilities. Mutual fund is an American concept which played instrumental role in bridging the gap between supply and demand of financial resources and now it has worldwide presence. It is structured around a fairly simple concept, the mitigation of risk through the spreading of investments across multiple entities, which is achieved by the pooling of a number of small investments into a large bucket. In India it was introduced in 1964 when the Indian government felt that participation of small savers in growth of the nation is also important for balance growth and channelizes these savings to the capital markets by forming corporation under a separate Act of the Parliament in 1963 which became operational in 1964 with the issue of units under the scheme US-64. Observing its success and growth, in 1987, Government of India took logical step and granted permission to six public sector banks and two insurance companies to promote mutual fund schemes. To make strategic control on capital market Government of India constituted the Securities and Exchange Board of India(SEBI) under the Resolution of the Government of India in the Department of Economic Affairs No.1 (44)SE/86, dated the 12th day of April, 1988, and empowered it to handle the affair of stock market including mutual fund accept UTI. To coordinate, control and ensure smooth functioning of mutual fund the Securities and Exchange Board of India (Mutual Funds) Regulations, 1993 was introduced ("SEBI") and allowed entry of private sector players in the mutual fund industry. In 1995 RBI permitted private players to set up Money Market Mutual Funds (MMMFs).

Functioning of mutual funds is highly regulated and several legal documents are needed to be fulfilled in order to obtain registration as a mutual fund. SEBI requires that all MFs should be registered with SEBI accept UTI on which SEBI regulation are not applicable and is governed by the UTI Act and follow trust approach. SEBI-regulated mutual funds have combined both trust and corporate approaches. It requires that all mutual funds should be set in the form of trust which is to be constituted under the Indian Trusts Act1882, and have several registered legal parties to mutual funds such as sponsor, the trustees, the AMC, the custodians and the investors as beneficiaries. The instrument of trust shall be in the form of a deed between the sponsor and the trustees, all the schemes floated by mutual fund to raise monies through the sale of units should be registered with SEBI under the provisions of the Indian Registration Act, 1908 (16 of 1908) accept those mutual fund dealing exclusively with money market instruments have to be registered with RBI. The actual fund management activity shall be conducted from asset management company (AMC) appointed by the sponsor or by the trustees as a separate body of management from ownership, control and supervision, approved by SEBI and incorporated under the Companies Act, 1956.

REVIEW OF LITERATURE

Manish Mittal and Dr. R. K. Vyas (1) (2007) in their study examined the behavioral finance as a emerging science and its impact which focuses on understanding how psychology affects investment decision and also investigated how investment choice gets affected by the demographics of the investor and reveled that demographic variables play critical role in decision making, **Bazo, Javier & Pablo (2009)** in their study tried to examine the market for equity mutual funds and found that funds with worse decline performance charge higher fees and emphasizes that better fund governance may bring fees more in line with performance, **Boyson, Naik &Narayan Y (2009)** in their study examined the performance of funds relative to hedge funds and traditional mutual funds and found that despite using similar trading strategies, hedged mutual funds underperform hedge funds, **Chen, Kraft & Weiss (2011)** in their study investigated mutual funds that engage in tax planning and how do they respond to changes in the capital gains tax rates and found that there was consistency with tax planning by managers of both open-end and closed-end mutual fund and indicated that the tax planning play important role in selection of the fund, **Manish Mittal and Dr. R. K. Vyas (2) (2009)** in their study stated that men and women differ in their risk and investment styles. Women are more risk averse and prefer low risk fixed income investments. Psychologists suggest the reason for their different investing style is that women are more methodical in information processing strategy, which leads to increased perception of risk as compared, **Dr. Yadav Ajay Pratap (2011),** in his survey based study reveals that private sector mutual funds have now not only captured market share but also mind share of the investors, **Saini Simran, Dr Anjum Bimal, Saini Ramandeep (2011)** in their study analyses the mutual fund investments in relation to investor‟s behavior and examined the investors opinion and perception in respect to financial advisors and brokers, investors‟ opinion relating to factors that attract them to invest in mutual funds, sources of information, deficiencies in the services provided by the mutual fund managers. The study found that investors are highly influenced by the financial advisors and select funds recommended by them without any analysis.

Objective of the Study

The core objective of the study in emerging economy of the nation is to analyze the investor perception, their buying behavior, their awareness of the various MF products, influencing factor in preferring particular brand among various schemes of different Mutual Fund Companies along with comparing and finding out the market leader in all the Mutual fund companies on certain parameter.

Findings

- It is found from the analysis that most popular category of funds is balance which constitutes 45%, equity link tax saving 27% and equity funds 26%.
- On the basis of essential Services all the AMCs were almost the same.¬ The top five mutual fund companies Preferred by respondent are ICICI Prudential,¬ Reliance AMC, SBI, UTI & HDFC respectively
- The most important variable for selling mutual fund is the awareness, past¬ performance of related scheme, risk factor and brand name of AMC.
- The most important variables while investing in mutual funds are fund performance,¬ fund assets size and age of the fund.
- There is no significant relationship between the age and the level of satisfaction¬ towards investors.

Suggestions

It is a fact that MF is a retail product designed with an objective to target small investors, salaried people and middle and lower income groups in order to mobilize their savings and providing them protective opportunities to multiply their wealth by acquiring property in the form of shares. But it has failed in providing safety, liquidity and returns on investment made by the small investor and are facing problem at every stage. To achieve this holistic objective many decisions are to be taken aggressively. The Indian Trusts Act, 1882 needed to be modified as it deny perpetual succession, on the other hand the Companies Act, 1956 permit perpetual succession but incapable in protecting the interest of the investor due to privilege of limited liability. For the betterment of MF separate mutual fund act with transparent structure declaring the right, duties and obligations of all the legal constituents of MF in order to provide uniform regulatory framework with common opportunity to all FM including UTI have to be implemented by the legal parent body. To promote the MF, confidence of the investor is to be protected and boosted as most of the investor problems arise due to confused awareness, unethical practices of middleman, absence coordinated communication with poor after sales service to the investors by the funds promoters. The past track record of all the funds should be made readily available along with updated information. Compensation provision should be imposed heavily on all the fund promoters including agent and the distributer as they are largely concerned about their commission and incentives on selling schemes and ignore the investor requirement. Without greater transparency, increased innovations, flexible schemes tailored to investors changing needs, better services to the investors, judicious analysis of AMCs to understand the fund selection/ switching behavior of the investors, liquidity and higher returns, survival of funds will be difficult in future. To make mutual fund schemes more popular and investor‟s friendly all the investigated and suggested points need attention and rectification with prompt and judicious futuristic view.

Conclusion

The economical growth architected under the ages of liberalization and globalization has created positive environment and explored the hidden desire of the investor and motivated them to participate in creating wealth through investing their surplus reserves in financial market. With increased income investors are looking for new avenues to earn more and also diversifying their portfolio for better protected return and mutual fund are available avenue for shedding the risk through diversification, managed by qualified fund managers. Investor individually or through fund manager take decision of investing after collecting relevant information provided to them through prospectus about the fund, its operating limits and costs. Later fund managers operate within the specified boundaries which is critical to achieve expected results. The mutual funds are protected option to get conservative growth of the principle and are easy to buy and sell; individual investor can buy them in open market directly from Fund Company or through third party. The finding of the study will provide adequate help to the mutual fund companies to understand and adjudicate the investor expectations of the retail investor in Luckhnow city. The conducted survey for the study was done to facilitate MF companies to identify their customer's expectations and to bring improvement in the quality of the provided service according to desired expectations.

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