



## A Study on Fund Selection Behaviour of Individual Investor Towards Mutuals Funds With Reference to Madurai City

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### ABSTRACT

In the past, a large proportion of the savings has gone into bank deposits and small savings schemes. At present the increase in savings have been in the share, real estate and mutual fund. In future however savings will also flow more into mutual funds, due to its increased return, benefits of diversification and professional management. It is also seen as an easy, resourceful way to invest. Mutual fund provides less risk and safety to the investors. There are many types of scheme in mutual funds, based on the objective and risk appetite of the investor. Behavioural aspect of the investors can be discussed based on four theories namely: heuristic effect, prospect effect, market effect. The heuristic refers the blind belief of the investors, market effect refers to buying with over confident and prospect theory refers to high risk taking investor's who play again and again to get profit. Based on these theories investor's behaviour is categorised. Moreover, the awareness about mutual fund investment is less in India. This is true for the southern part of country as well; hence the researcher administered the present study in Madurai city to assess the awareness level of mutual fund among the investors. For the purpose 11 companies were selected. The present study aims to identify the opinion of the respondents towards factors influencing mutual fund investments.

### KEYWORDS

Mutual Fund, Investment, Behaviour

### 1. INTRODUCTION

A mutual fund is a financial intermediary that pools the savings of investors for collective investment in a diversified portfolio of security. A fund is "mutual" as all of its returns, minus its expenses, are shared by the fund's investors. The securities and exchange established in the form of a trust to raise money through the sale of units to the public under one or more scheme for investing in securities, including money market instruments'.

Financial markets are the backbone of an economic system and aids in the allocation of share capital across the productive sectors of the economy. This allocation of resources helps to sustain healthy climate for savings and investment. The financial system has to be more dynamic than the real system as it has to continuously respond to the needs of the economy to help it to achieve its goals. Mutual fund investment is opted by the investor for various financial goals. The guidance are given to the investors based their financial goal.

In the past, a large proposition of the increase in savings has gone into bank deposits and small savings schemes. At present the increase in savings have been in the share, real estate and mutual fund. In future however the increase in savings will also flow more into mutual funds, due to its increased return and provided the benefits of diversification and professional management and are seen as an easy, resourceful way to invest. From the discussion above it can be observed that, the mutual fund provides less risk and safety to the investors. Most of the salaried investors preferred mutual fund. There are many types of the scheme in mutual funds, based on the objective and risk appetite of the investor. Behavioural aspect of the investors was discussed based on four theories namely: heuristic effect, prospect effect, market effect. The heuristic refers the blind belief of the investors, market effect refers to buying with over confident and prospect theory refers to high risk taking investor's who play again and again to get profit. Based on these theories investor's behaviour is categorised. Moreover, the awareness about mutual fund investment is less in India. This is true for the southern part of

country as well, hence the researcher administered the present study in Madurai city to assess the awareness level of mutual fund among the investors. For the purpose 11 companies were selected. They are: Reliance mutual fund, Prudential ICICI Mutual Fund, HDFC Mutual fund, SBI Mutual fund, Franklin Templeton, Karvy Stock Broking Limited, Kotak securities, IDBI Mutual fund, L and T Mutual fund, TATA Mutual fund, Birla Sun life asset management company Ltd.

### 2. REVIEW OF LITERATURE

Philip (1995) reported that there is a change in financial decision making and investor behaviour as a result of participating in investor education programmes sponsored by employees.

Alexander et al.(1996) reported that only 18.9% of respondents could provide an estimated of expenses for their largest mutual fund holding.57% stated that they did not know what the expenses were even at the time they made the mutual fund purchases. This suggests insensitivity to cost and many investors do not use fund cost and many investors do not use fund costs and many investors do not use fund costs as an evaluative criterion in making investment decision.

K.D.Mehru (2004) 40 documented that the ignorance of the investors about mutual funds coupled with aggressive selling by promising higher returns of the investors have resulted in loss of investors' confidence due to inability to provide higher return. The agents or distributors of mutual funds are more governed by the commissions and incentives they get for selling the schemes and not by the requirements of the investors and quality of the products. They do not explain the risk factors to the investor.

Ippolito (1992) reported that fund/ scheme selection by investors is based on past performance of the funds and money flows into winning funds more rapidly than they flow out of losing funds. Based on the review of literature, it was identified that there are lot of study done in the area of mutual fund in India. More over there are studies examining the investment practice of investors in mutual fund. However, stud-

ies examining the opinion of the respondents towards factors influencing mutual fund investments are scarce. Hence, the present study proposes to examine the opinion towards factors influencing mutual fund investments.

**3. RESEARCH METHODOLOGY**

**3.1 Objective of the study**

The present study aims to identify the opinion of the respondents towards factors influencing mutual fund investments.

**3.2 Source & Instrument for data collection**

To study the fund selection behaviour of individual investor towards mutual fund an instrument developed by "Kavitha Ranganathan" was adopted. The questionnaire was divided into two parts, part-A and part-B. The part -A of the questionnaire solicits information regarding the demographic profile of the respondents. it includes Gender,age,academic qualification, marital status, occupation, annual income, annual saving, saving objective, saving avenue. Part- B of the questionnaire solicits information regarding the various aspects of mutual fund. The primary data was collected through survey method using questionnaire. The questionnaire was collected from mutual fund investors from 11 companies situated at Madurai region. The respondents' belong to various profile of different age groups, year of experience, varied income levels, designation and different qualification.

**3.3 Pilot study**

To know about the validity of the instrument a pilot study was conducted among 30 respondents. Based on their suggestions a few changes were made in the instrument. However, the pilot study revealed face validity of the instrument.

**3.4 Sampling techniques**

A multi stage sampling was done for the present study. The researcher has collected data from the investors of mutual funds in Madurai region. There were 15 companies dealing with mutual funds in Madurai. All the 15 companies were contacted. However, only 11 companies were interested in the study. Based on the data provided by the interested companies, a list consisting of 348 investors was developed. To randomize, every second person in the list of investor's were decided to be included in the sample. The researcher meticulously tried contacting everyone in the lists during personal visits; however, it was not possible to reach 41 investors. The researcher contacted the remaining 133 investors. However, only 129 investors gave appointment. The researcher met the investors personally and handed over the questionnaire to them after explaining the purpose of research. A few investors were not able to return the questionnaire within the time period and a few were incomplete. Hence, those response sheets were removed from the sample. After all the omission, the final sample consisted of 123 investors.

**3.5 Limitation of the Study**

- Sample size is limited to 123 educated individual investors in the city of Madurai. The sample size may not adequately represent the national market.
- Period of study is December 2015-July 2016 only. Due to time constraint and financial constraints of the study, it was not possible to collect more samples.

**4. INTERPRETATION AND ANALYSIS**

Section 4. Presents the opinion of the respondents towards factor influencing mutual fund investment.

**Ranking for Attitude towards financial instrument**

In this study, attitude towards 7 financial instruments available in the Indian capital market was measured. Table 4.1 shows the ranking for the instruments. Items were responded to on a 5 point Likert scale ranging from 'Least preferred' to 'Most Preferred'. Ranking has been done based on the mean values.

**Table 4.1 showing the Ranking for Attitude towards financial instrument**

Attitude towards financial instrument	Mean	Std. Deviation
Currencies	4.28	0.672
Share	4.27	0.769
Mutual Funds	4.24	0.728
Debentures	4.22	0.825
Bonds	4.21	0.749
Gold ETFs	4.16	0.814
Commodities	4.11	0.77

**Interpretation**

The table 4.1 shows that "currencies" is the top ranked instrument in the Indian capital market with a mean value of 4.28, "Share" is the second ranked instrument in the Indian capital market with a mean value of 4.27, "Mutual Funds" is the third ranked instrument in the Indian capital market with a mean value of 4.24, "Debentures" is the fourth ranked instrument in the Indian capital market with a mean value of 4.22, "Bonds" is the fifth ranked instrument in the Indian capital market with a mean value of 4.21, "Gold ETF" is the sixth ranked instrument in Indian capital market with a mean value of 4.16 and "commodities" is the seventh ranked instrument in the Indian capital market with a mean value of 4.11.

**Ranking for Mutual Fund product attributes**

In this study, Mutual Fund product attributes consist of thirteen items. They are: Scheme's expense ratio, Innovativeness of the scheme, Favorable rating by a rating agency, Funds reputation or brand name, Withdrawal facilities, Scheme's portfolio of investment, Reputation of the fund management/ scheme, Monthly saving, Fund preference record, Products with tax Benefits, Entry and exit load, Loan facility and Minimum initial investment. The table 4.2 shows the ranking for the attributes comprising the product attributes. Items were responded to on a 5 point Likert scale ranging from the 'Least Influence' to the 'Most Influence'. Ranking has been done based on the mean values.

**Table 4.2 showing the Ranking for Mutual Fund product attributes**

Mutual Fund product attributes	Mean	Std. Deviation
Scheme's expense ratio	4.40	0.686
Innovativeness of the scheme	4.38	0.696
Favourable rating by a rating agency	4.36	0.748
Funds reputation or brand name	4.35	0.713
Withdrawal facilities	4.33	0.695
Scheme's portfolio of investment	4.32	0.750
Reputation of the fund management /scheme	4.31	0.759
Monthly savings	4.29	0.817
Fund preference record	4.28	0.647
Products with tax Benefits	4.26	0.711
Entry and exit load	4.24	0.803
Loan facility	4.10	0.891
Minimum initial investment	4.03	0.809

**Interpretation**

The table 4.2 shows that the "Scheme's expense ratio" is the top ranked Mutual Fund product attribute with a mean value of 4.40, "Innovativeness of the scheme" is the second ranked Mutual Fund product attribute with a mean value of 4.38, "Favourable rating by a rating agency" is the third ranked Mutual Fund product attribute with a mean value of 4.36, "Funds reputation or brand name" is the fourth ranked Mutual Fund product attribute with a mean value of 4.35, "Withdrawal facilities" is the fifth ranked Mutual Fund product attribute with a mean value of 4.33, "Scheme's portfolio

of investment” is the sixth ranked Mutual Fund product attribute with a mean value of 4.32, “Reputation of the fund management /scheme” is the seventh ranked Mutual Fund product attribute with a mean value of 4.31, “monthly savings” is the eighth ranked Mutual Fund product attribute with a mean value of 4.29, “Fund preference record” is the ninth ranked Mutual Fund product attribute with a mean value of 4.28, “Products with tax Benefits” is the tenth ranked Mutual Fund product attribute with a mean value of 4.26, “Entry and exit load” is the eleventh ranked Mutual Fund product attribute with a mean value of 4.24, “Loan facility” is the twelfth ranked Mutual Fund product attribute with a mean value of 4.10 and “Minimum initial investment” is the thirteenth ranked Mutual Fund product attribute with a mean value of 4.03.

**Ranking for Sponsor Qualities**

In this study, Sponsor Qualities consist of six items they are: Sponsor has a well developed research and infrastructure, Reputation of sponsoring firm, Sponsor’s past performance in terms of risk and return, Sponsor has a recognized brand name, and Sponsor has a well developed agency and network and Sponsor’s expertise in managing money. The table 4.2.3 shows the ranking for the items comprising of fund sponsor qualities.

**Table 4.3 showing the Ranking for Sponsor Qualities**

Sponsor Qualities	Mean	Std. Deviation
Sponsor has a well developed research and infrastructure	4.41	0.612
Reputation of sponsoring firm	4.32	0.761
Sponsor’s past performance in terms of risk and return	4.23	0.711
Sponsor has a recognized brand name	4.23	0.913
Sponsor has a well developed agency and network	4.21	0.861
Sponsor’s expertise in managing money	4.16	0.872

**Interpretation**

The table 4.3 shows that the “Sponsor has a well developed research and infrastructure” is the top ranked Sponsor Quality with a mean value of 4.41, “Reputation of sponsoring firm” is the second ranked Sponsor Quality with a mean value of 4.32, “Sponsor’s past performance in terms of risk and return” is the third ranked Sponsor Quality with a mean value of 4.23, “Sponsor has a recognized brand name” is the fourth ranked Sponsor Quality with a mean value of 4.23, “Sponsor has a well developed agency and network” is the fifth ranked Sponsor Quality with a mean value of 4.21 and “Sponsor’s expertise in managing money” is the sixth ranked Sponsor Quality with a mean value of 4.16.

**Ranking for Investor Related Services**

In this study, Investor Related Services consist of eight items. They are: Disclosure of the method and the periodicity of the schemes sales and repurchases in the offer documents, Prefer MF to avoid problem ,i.e., bad deliveries and unnecessary follow up with brokers and companies, Disclosure of investment objective in the advertisement, Disclosure of deviation of investment from the original pattern, investor’s right and obligation are framed to protect investors, MF’s investor’s grievance redressed machinery, Disclosure of NAV on every trading day and Disclosure of periodicity of valuation in the advertisement. The table 4.4 shows the ranking for the items comprising of investor related services.

**Table 4.4 showing the Ranking for Investor Related Services**

Investor Related Services	Mean	Std. Deviation
Disclosure of the method and the periodicity of the schemes sales and repurchases in the offer documents	4.32	0.75
Prefer MF to avoid problem ,i.e., bad deliveries and unnecessary follow up with brokers and companies	4.27	0.769

Disclosure of investment objective in the advertisement	4.27	0.725
Disclosure of deviation of investment from the original pattern	4.19	0.909
Investor’s rights of obligations are framed to protect investor.	4.18	0.941
MF’s investor’s grievance redressed machinery	4.17	0.786
Disclosure of NAV on every trading day	4.14	0.935

**Interpretation**

The table 4.4 shows that the “Disclosure of the method and the periodicity of the schemes sales and repurchases in the offer documents” is the top ranked Investor Related Service with a mean value of 4.32, “Prefer MF to avoid problem ,i.e., bad deliveries and unnecessary follow up with brokers and companies” is the second ranked Investor Related Service with a mean value of 4.27, “Disclosure of investment objective in the advertisement” is the third ranked Investor Related Services with a mean value of 4.27, “Disclosure of deviation of investment from the original pattern” is the fourth ranked Investor Related Service with a mean value of 4.19, i.e., “ investor’s right and obligation are framed to protect investors” is the fifth ranked Investor Related Services with a mean value of 4.18, “MF’s investor’s grievance redressed machinery” is the sixth ranked Investor Related Services with a mean value of 4.17, “Disclosure of NAV on every trading day” is the seventh ranked Investor Related Services with a mean value of 4.14 and “Disclosure of periodicity of valuation in the advertisement” is the eight ranked Investor Related Services with a mean value of 4.13.

**Ranking for Influence of environmental forces**

In this study, Influence of environmental forces consists of nine items. They are: Television, Self evaluation, financial magazines, Broker/agents, AMC’s Influence, Newspaper (general), Mail, Newspaper (business) and Reference group. The table 4.5 shows the ranking for the items comprising of environmental factor. Items were responded to a 5 point Likert scale ranging from the ‘Least Influence’ to the ‘Most Influence’. Ranking has been done based on the mean values.

**Table 4.5 showing the Ranking for Influence of environmental forces**

Influence of environmental forces	Mean	Std. Deviation
Television	4.36	0.726
Self evaluation	4.33	0.741
Financial magazines	4.27	0.83
Broker/agents	4.26	0.798
AMC’s Influence	4.18	0.83
Newspaper (general)	4.17	0.817
Mail	4.17	0.827
News paper(business)	4.12	0.845
Reference group	4.11	0.838

**Interpretation**

The table 4.5 shows that “Television” is the top ranked environmental force item with a mean value of 4.36, “Self evaluation” is the second ranked environmental force item with a mean value of 4.33, “Financial magazines” is the third ranked environmental force item with a mean value of 4.27, “Broker/agents” is the fourth ranked environmental force item with a mean value of 4.26, “AMC’s Influence” is the fifth ranked environmental force item with a mean value of 4.18, “Newspaper (general)” is the sixth ranked environmental force item with a mean value of 4.17, “Mail” is the seventh ranked environmental force item with a mean value of 4.17, “Newspaper (business)” is the eight ranked environmental force item with a mean value of 4.12 and “Reference group” is the ninth ranked environmental force item with a mean value of 4.11.

**Ranking for Routine and Special Information**

In this study, Routine and Special Information consists of four items .They are: I prefer to telephone the office, I prefer automated response, I prefer to personally visit the office and I have no preference. The table 4.6 shows the ranking for the items comprising of routine and special information.

**Table 4.6 showing the Ranking for Routine and Special Information**

Routine and Special Information	Mean	Std. Deviation
I prefer to telephone the office	4.33	0.741
I prefer automated response	4.22	0.774
I prefer to personally visit the office	4.2	0.877
I have no preference	4.15	0.779

**Interpretation**

The table 4.6 shows that "I prefer to telephone the office" is the top ranked Routine and Special Information item with a mean value of 4.33, "I prefer automated response" is the second ranked Routine and Special Information item with a mean value of 4.22, "I prefer to personally visit the office" is the third ranked Routine and Special Information item with a mean value of 4.20 and "I have no preference" is the fourth ranked Routine and Special Information item with a mean value of 4.15.

**Ranking for Awareness level of technical aspects of mutual fund products**

In this study, the technical aspects of mutual fund products are categorized into five items. They are: Entry load/exit load, AMC, Open-end /closed –end fund, NAV (net asset value) and Type of fund/scheme. The table 4.7 shows the ranking for the item comprising of the technical aspects. Items were responded to on a 5 point Likert scale ranging from the 'Least Awareness' to the 'Most Awareness'. Ranking has been done based on the mean values.

**Table 4.7 showing the Ranking for Awareness level**

Awareness level	Mean	Std. Deviation
Entry load/exit load	4.54	0.59
AMC	4.33	0.719
Open-end /closed –end fund	4.32	0.717
NAV(net asset value)	4.31	0.78
Type of fund/scheme	4.29	0.721

**Interpretation**

The table 4.7 shows that the "Entry load/exit load" is the top ranked item in the technical aspect of mutual fund with a mean value of 4.54, "AMC" is the second ranked item in the technical aspect of mutual fund with a mean value of 4.33, "Open-end /closed -end fund" is the third ranked Awareness level factor with a mean value of 4.32, "NAV(net asset value)" is the fourth ranked Awareness level factor with a mean value of 4.31 and "Type of fund/scheme" is the fifth ranked Awareness level factor with a mean value of 4.29.

**Ranking for satisfaction on the performance of mutual funds**

In this study, satisfaction on performance of mutual fund consists of five items. They are: Liquidity, Service quality, Transparency/communication of up to date market information, Return/dividend/capital appreciation and Safety of investment. The table 4.8 shows the ranking for the items comprising of the performance of mutual fund. Items were responded to on a 5 point Likert scale ranging from 'Excellent' to 'Extremely Poor'. Ranking has been done based on the mean values.

**Table 4.8 showing the Ranking for satisfaction on the performance of mutual fund**

Satisfaction on performance of mutual fund	Mean	Std. Deviation
Liquidity	4.38	0.659
Service quality	4.36	0.691
Transparency/ communication of up to date market information	4.25	0.731
Return /dividend/capital appreciation	4.20	0.799
Safety of investment	4.14	0.739

**Interpretation**

The table 4.8 shows that the investors were satisfied with the liquidity aspect of mutual funds in which they have invested in with a mean value of 4.38. "Service quality" is ranked second with a mean value of 4.36, "Transparency/communication of up to date market information" is ranked third with a mean value of 4.25, "Return/dividend/capital appreciation" is the ranked fourth with a mean value of 4.20 and "Safety of investment" is the ranked fifth with a mean value of 4.14.

**5. DISCUSSIONS AND CONCLUSION**

Philip (1995) reported that there is a change in financial decision making and investor behaviour as a result of participating in investor education programmes sponsored by employees. Similarly, Ippolito (1992) reported that fund/ scheme selection by investors is based on past performance of the funds and money flows into winning funds more rapidly than they flow out of losing funds. These studies highlight the importance of behavioural aspects of mutual fund investments. The present study used ranking method on the data collected from 123 respondents and identified that, currencies is the top ranked instrument in the Indian capital market with a mean value of 4.28, Scheme's expense ratio" is the top ranked mutual fund product attributes with mean value of 4.40, sponsor has a well developed research and infrastructure is the top ranked sponsor quality with mean value of 4.41, Disclosure of the method and the periodicity of the scheme sales and repurchases in the offer documents is the top ranked investor related service with a mean value of 4.32, Television is the top ranked environmental force item with a mean value of 4.36, I prefer to telephone the office is the top ranked routine and special information item with a mean value of 4.33, investor were satisfied with the liquidity aspect of mutual fund in which they have invested in with a mean value of 4.38. The above findings support the previous studies highlighting the important of psychological aspects of investment. However, studies (K.D.Mehru, 2004) highlight the awareness about mutual funds is still poor. As its identified that behavioural aspects are important for mutual fund investments and awareness is poor, future researches can be done in the above area.

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