

## MUTUAL FUND: ALL TIME SOURCE OF INSPIRATION FOR INVESTOR'S HUB

**Dr. Richa Singhal**

Assistant Professor

S.S.Jain Subodh P G College, Jaipur

### **ABSTRACT**

*During Last few years Indian capital market is changing tremendously due to emerging global economic processes. In Industrial financial sector the result of the government policy develop new financial instruments and occupy mutual fund industry by imparting competitiveness, flexibility and efficiency to the financial sector. According to investors capacity to bear risk and gain will and wishes various types mutual fund product are introduced in Indian Capital Market that proved one of the important investment growth. Fund manager play an important role by prioritization, preference building and close monitoring of mutual funds. According to differentiate choices of investors for high gain and high risk, balanced risk and gain or the minimum risk and minimum gain it became the best possible alternative for the small investors with changes in the bank interest rates, frequent fluctuations in the secondary market and the inherent attitude of Indian small investors to avoid risk.*

*The objective of the article was to analyze the impact of increasing the investment of mutual funds on wealth creation by gather the statistics about the investment of savings in prominent mutual funds. The investor's priority is also judged filled by them a questionnaire and finding out the influencing factors that play a important role in the bending towards mutual fund.*

**Key words:** *Indian Capital market, Bank interest rates, prioritization, preference building and close monitoring.*

### **INTRODUCTION**

**MUTUAL FUND** plays a remarkable role in the development of the financial market. It pools money from many investors and invests it in stocks, bonds, short term money market instruments, and other securities. The fund manager deals with the fund's underlying securities, realizing gains or losses, and collects the dividend or interest income.

According to SEBI, 1993 “ A fund established in the form of the trust by a sponsor to raise monies by the trustees through the sale of units to the public under one or more schemes for investing in securities in accordance with these regulations.”

All mutual funds whether governed by public sector, private sector or foreign entities have to follow the same set of rules regulations set by SEBI. The risks probability is also remains in the same range by all these entities.

## LITERATURE SURVEY

**Roy and Deb (2004)** evaluated Indian mutual funds on the issue of performance persistence by using Fama and MacBeth (1973) methodology. They studied 133 open ended Indian mutual funds over a period 1992–2003 and found that past fund performance predicts the future fund returns significantly [136]. Among the studies conducted on performance persistence during late 2000's,

**Agudo and Magallon (2005)** studied European equity funds in Spain for a period of July, 1994 to June, 2000 by using parametric and non-parametric techniques. The parametric tests indicated scarce existence of persistence in the performance while non-parametric methodology revealed the existence of same [2].

**Christensen (2005)** analysed 47 Danish mutual funds for a period of January, 1996 to June, 2003 by applying both parametric and non-parametric methodologies and concluded that the returns for Danish mutual funds were non persistent [45].

**Sehgal and Jhanwar (2007)** examined a sample of 59 mutual fund schemes for the period of January, 2000 to December, 2004 and found no evidence of performance persistence [138].

However, mixed results were obtained by **Deb. (2008)** when they tested equity mutual funds in India over a period from January 2000 to 55 June 2005 for raw returns, tracking error and information ratio. They found persistence in performance in case of growth funds, but no such evidence was found in case of equity linked saving schemes [50].

## OBJECTIVE OF THE STUDY

The objective of the study is to understand the growth of Mutual Fund Industry in India and to analyze whether this investment tool has substantial effect on wealth creation or not.

In order to examine the issues, this paper has the following objectives before it:

- ☒ To identify the investors increasing interest in Mutual Fund products .
- ☒ To understand the investment preferences among investors.
- ☒ To analyze the substantial effect of mutual fund on wealth creation.
- ☒ To identify the influencing factors of the behavior of investors.

### **SOURCES OF DATA**

#### **. Qualitative Data and or Primary Data**

- ☒ Use of primary data collected through interviews and questionnaire.

#### **. Quantitative or Secondary Data**

- ☒ Print/Electronic Data Sources
- ☒ Monthly reviews of AMCs Magazines and Journals, Website of the Mutual fund companies
- ☒ Other websites related to mutual funds as amfi.com, moneycontrol.com, valueresearch.com etc.
- ☒ Other Data Sources Fact sheets.

Research Methodology is a way to systematically solve the research problem. It will assist me in achieving the main objective of the study in an effective and efficient manner. The study will be based on a survey of around 200 respondents through a questionnaire covering different groups of investors out of which an effective sample will be taken. Respondents will be both new clients and existing investors. The data obtained will be analyzed by using frequency analysis, factor analysis and correlation for identification of the key features preferred by the respondents in a mutual fund product. These analysis methods are used because of a number of reasons like:

- ☒ They will help us to know which investment option is the most favored by the investors, What is the income group, age group and occupation of people who are interested in investing,

- ☒ What is the cause of people investing or not investing in mutual funds,
- ☒ What holds a priority in financial decision making i.e. Whether risk or return or both,
- ☒ For people who are investing in mutual fund what factors play an important role while judging a fund and investing in it.

### **LIMITATIONS OF THE STUDY**

- ☒ Sample size is limited to 200 investors in Jaipur only. The sample size may not adequately represent the universe as a whole.
- ☒ This study has not been conducted over an extended period of time having both market ups and downs. The market state has a significant influence on the buying patterns and preferences of investors.

### **FINANCIAL ANALYSIS**

All Said And Done But Until And Unless A Practical Revelation Is Made No Learning Is Complete. For The Same I Have Chosen Mutual Fund: All Time Source Of Inspiration For Investor's Hub As My Study Area, Wherein I Have Compared Mutual Fund With Other Investment Options And Now Will Survey Investors' Preference In This Regard. It Will Involve Both Practical And Theoretical Analysis. This Study Will Help Me In Classifying The Investors In Groups Of Conservative, Moderate And Aggressive And Thus Help Us To Identify Their Needs And Provide Them Solution Accordingly.

This study will involve filling a questionnaire by the clients which will help in profiling the investors on the basis of answers provided by them. This will help to judge the popularity of mutual fund among the various investment options available to the investors nowadays.

### **QUESTIONNAIRE**

The questionnaire designed to get the investors viewpoint on mutual fund and surveying their preference of investment avenues is given in the annexure.

### **ANALYSIS OF PRIMARY DATA**

On the basis of outputs (which are shown in the annexure) the various factors which are taken into consideration while deciding



about buying of a mutual fund can be interpreted. These ranges of factors begin with investor perception, the promised return, the attractiveness of the offer, etc. With references to earlier studies, all the relevant variables in the purchase of a mutual fund were included in the study.

### **RELIABILITY AND VALIDITY**

In order to check the reliability and validity of the data, I had kept some similar kind of variables in the questionnaire like security and attitude towards risk. This would help in judging the accuracy of answers and will also help in making the interpretations. Also I have got the questionnaire verified by the company guide several times before starting to use it in the survey.

In order to increase the reliability and validity, I have excluded the questionnaires filled by those respondents who had a varied opinion on the similar kind of variables. For example someone who's most important criterion for financial decision making is security and his answer for investment option is shares then that is sure a fake answer and who thus should not be included in analyzing or else it would lead to wrong interpretations.

Thus out of a total of 200 samples covered, only 168 is taken to be the effective respondents who are been evaluated. The forms were rejected due to incompleteness, inaccuracy of data, mismatched answers, etc.

### **PRIORITY IN DECISION MAKING**

The tables shown below provide details of ranks allocated to the factors that hold priority in the financial decision making for an individual. The factors considered are RISK, RETURN, SECURITY and LIQUIDITY. They are been given ranks from 1 to 4. Every individual consider them and gives them importance on the basis of their investment objective, risk-return attitude, age, income level, amount invested etc. An analysis of them is given below:-

#### **Priority of Decision Risk**

	<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
<b>valid1</b>	<b>84</b>	<b>50.0</b>	<b>50.0</b>	<b>50.0</b>
<b>2</b>	<b>18</b>	<b>10.7</b>	<b>10.7</b>	<b>60.7</b>
<b>3</b>	<b>12</b>	<b>7.1</b>	<b>7.1</b>	<b>67.9</b>
<b>4</b>	<b>54</b>	<b>32.1</b>	<b>32.1</b>	<b>100.0</b>
<b>Total</b>	<b>168</b>	<b>100.0</b>	<b>100.0</b>	

This frequency table shows the priority that **RISK** carries in making the financial decision. 1-4 are the ranks allocated to this factor. Here we see that 50% of the investors have chosen risk as the most important factor of their decision making. This means that investors consider the risk involved in the investment option before making any investment in it. But for 32.1% people it is also the last thing to be considered i.e. they are aggressive investors who give importance to returns and liquidity.

#### Priority of Decision Return

	Frequency	Percent	Valid Percent	Cumulative Percent
<b>valid1</b>	<b>18</b>	<b>10.7</b>	<b>10.7</b>	<b>10.7</b>
<b>2</b>	<b>33</b>	<b>19.6</b>	<b>19.6</b>	<b>30.3</b>
<b>3</b>	<b>28</b>	<b>16.7</b>	<b>16.7</b>	<b>47.0</b>
<b>4</b>	<b>89</b>	<b>53.0</b>	<b>53.0</b>	<b>100.0</b>
<b>Total</b>	<b>168</b>	<b>100.0</b>	<b>100.0</b>	

This frequency table shows the priority that **RETURN** carries in making the financial decision. 1-4 are the ranks allocated to this factor. Here we see that 53.0% of the investors have chosen return as the least important factor of their decision making. This means that people invest their money not only looking at the return given by investment option but they may also look at the security and liquidity been provided by investing in it. Rank 1, which signifies that it is most important factor, is given by only 10.7% of the investors.

#### Priority of Decision Security

	Frequency	Percent	Valid Percent	Cumulative Percent
<b>valid1</b>	<b>24</b>	<b>14.3</b>	<b>14.3</b>	<b>14.3</b>
<b>2</b>	<b>78</b>	<b>46.4</b>	<b>46.4</b>	<b>60.7</b>
<b>3</b>	<b>48</b>	<b>28.6</b>	<b>28.6</b>	<b>89.3</b>
<b>4</b>	<b>18</b>	<b>10.7</b>	<b>10.7</b>	<b>100.0</b>
<b>Total</b>	<b>168</b>	<b>100.0</b>	<b>100.0</b>	

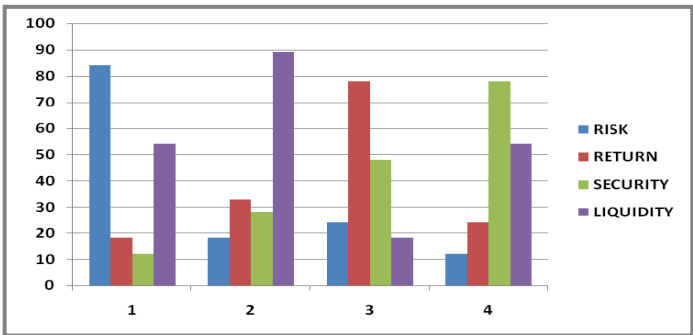
This frequency table shows the priority that **SECURITY** carries in making the financial decision. 1-4 are the ranks allocated to this

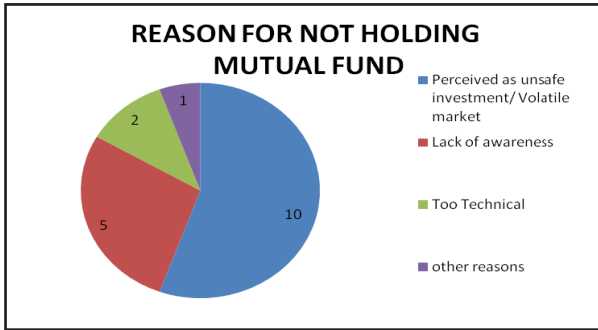
factor. Here we see that out of 168 respondents, 48 i.e. 46.4% of the investors have chosen security as the second most important factor of their decision making. They count security provided by an investment option just after considering the risk associated with it. 28.7% people have considered it the third most important factor also. This factor is given more importance by either a retired person or a middle income group earning individual.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1	12	7.1	7.1	7.1
2	24	14.3	14.3	21.4
3	68	46.4	46.4	67.9
4	54	32.1	32.1	100
Total	168	100.0	100.0	

This frequency table shows the priority that **LIQUIDITY** carries in making the financial decision. 1-4 are the ranks allocated to this factor. Liquidity means the ease provided by the fund in depositing and withdrawing money as and when required. Its importance depends on an individual's requirement of fund and time duration of investment because if a retired person invests money in any of the investment option then he would pay importance to liquidity factor. Out of 168 investors 78, i.e. 46.4% people give it 3rd rank. This is because of the fact that the investors comprises of majorly people of age group 25-35 who want to make long term investments so they rarely think about the liquidity involved in the investment option.

**A collective result of these factors that hold priority in financial decision making for an investor is as follows:**





The above pie graph shows the reasons for not holding mutual funds by certain investors. Some of the reasons that came up while learning about mutual funds were lack of awareness, too technical, perceived as unsafe investment, volatile market, not interested, extra expenses involved, not meant for low earning people, etc. Out of them only lack of awareness, too technical, perceived as unsafe investment, volatile market were taken into consideration and rest were clubbed into other reasons. Here we see that out of 168 respondents only 18 do not know about mutual funds.

The reason that holds top priority for not investing is perceived as unsafe investment/volatile market, this may be because of the current fluctuations in the stock market as well as the change in market conditions due to hike in inflation rate. Even 5 out of 28 respondents gave lack of awareness as their answer. This means that still mutual funds are in their initial stage and the Asset Management Companies (AMC's) really need to promote themselves harder to come into the investment purview of people and prove ***“MUTUAL FUND: ALL TIME SOURCE OF INSPIRATION FOR INVESTOR'S HUB”***.

Mutual funds normally come out with an advertisement in newspapers publicize the date of lift off the new schemes. Investors can also contact the liaison and distributors of mutual funds who are spread all over the country for necessary details and application forms. Now a day, the post offices and banks also deal out the units of mutual funds. However, the investors should consider that the mutual funds schemes being marketed by banks and post offices should not be taken as their own schemes and no assurance of returns is given by them. The only role of banks and

post offices is to help in deal off mutual funds schemes to the investors.

Investors should not be bring away by commission / gifts given by liaison / distributors for investing in a particular scheme. On the other hand they must contemplate the track record of the mutual fund and should take objective decisions.

### **CONCLUSION**

Customer orientation is necessary in a market like India where the market is turning competitive due to large number of players with varied financial instruments. This study has made an effort to understand the financial behavior of MF investors in connection with the plan preference and selection.

Running a successful MF requires complete knowledge of the peculiarities of the Indian Stock Market and also the persona of the small investor. This study has also strive to understand the investment behavior of an individual. Hence, surveys similar to the present one need to be performed at intervals to develop useful models. Nevertheless, it is hoped that the survey findings will have some useful managerial implication for the AMC's as well as for the distributing firms in their product designing and marketing.

We see that an investment reward is a function of risk. But mutual funds help to reduce risk through diversification and professional management. The practice and expertise of mutual fund managers in selecting fundamentally sound securities and timing their purchases and sales help them to build a varied portfolio that minimizes the risk and maximizes the returns.

After analyzing all the data I have come to a conclusion that Mutual funds have substantial positive impact on the wealth creation of an individual which is reflected by the huge number of purchases made by them with the increase in the years of their inception and thus the increase in the size of Asset Under Management (AUM).

Also every fund has its unique time of selling and redemptions thus a cycle is meant to be followed and this leads to growth of the Asset Management Companies. The change in equity market, economic conditions, stock movements, weather, rupee appreciation, and various other factors do form a point of concern but still the effect of all of them combined is very little so leas to hamper their performance.

Mutual Funds, a pool of like-minded people allow investors to reap the benefits of a diversified, well researched and an actively managed portfolio, without having to worry about liquidity.

An investor avails an annualized return of 25-30% after considering the inflation. The beauty of the return is that these returns are tax-free. Any income from redemption of Mutual Fund after one year forms part of long term capital gain and thereby income is completely tax free. In fact, the ELSS (Equity linked Saving Schemes) is giving on an average an annualized return of 30-35%, which is tax-free return.

With the structural liberalization policies no doubt Indian economy is likely to return to a high grow path in few years. Hence mutual fund organizations are required to upgrade their competence and technology. Success of mutual fund however would highly depend upon the implementation of changes and adjusting itself to the fluctuations in the external environment.

At last to mention, as long as mutual fund companies are performing with lower risks and higher profitability within a short span of time more and more people will be inclined to invest.

### **SUGGESTIONS**

It is important to study the present industry scenario to gain a better understanding of the impediments to the growth of the industry:

#### **❖ PAUCITY OF INVESTOR AWARENESS:**

Retail investors had a wrong opinion about mutual funds as an investment avenue. The advantages of risk diversification, professional management and ease of administration involved while investing in mutual funds are not clearly established. Knowledge of financial products is inbuilt in school and college curriculum in countries like UK, US and France and the same should be followed in the Indian context too.

#### **❖ INVESTOR RISK APPETITE:**

Equity funds account for 30% of the total AUM in India. This figure is more than 50% in most developed countries. Frequent stock market scams and the bust of technology sector specific MFs have contributed to this worry. The growth in mutual funds has come through the development in contribution in short term instrument like Money Market Mutual Funds which account for 40% of AUM.

### ❖ **HIGHER RETURNS OF ALTERNATIVE DEBT INSTRUMENTS:**

Government guaranteed schemes provide risk free returns at competitive rates of returns. This is why mutual funds are facing difficulty in competing with the retail business. So the companies should compete on this factor and try to overcome it.

### ❖ **CONCENTRATION OF CORPORATE INVESTORS:**

Mutual funds have become overly attractive to corporate investors because of higher returns than bank deposits and ability to share capital gains tax. Corporate investors account for 57% of the AUM (by value). Though the turnover rates have increased the average fund in management has grown by only 25% in the past 4 years which shows the lack of growth in funds under management in India because of the absence of long term investors. Thus it should also be promoted as a retail product for everyone who wants to invest.

### ❖ **DISTRIBUTION:**

One of the major factors impacting the growth of mutual fund industry is the absence of any regulation in distribution of mutual funds. Mutual fund investors need to share who are able to inform them about the efficacy of distribution product for a particular risk profile and stage in life cycle. Lack of distributor awareness and the absence of any disclosures from distributors make wrong selling of MF products commonplace. Also penetration in rural areas is a problem. Only 3% of rural households own mutual funds. So the companies so work on this aspect also and try to penetrate this investment option to every village and city to earn revenues and profits along with providing a better investment option to people.

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## **QUESTIONNAIRE FOR SURVEYING CONSUMERS PREFERENCE REGARDING MUTUAL FUND IN INDIA**

**NAME:**

**DATE:**

**MARITAL STATUS:**

**GENDER:**

### **ACADEMIC QUALIFICATION:**

#### **1. What is your age?**

☐ Below 25

☐ 25 to 35

☐ 35 to 45

☐ 45 to 55

☐ 55 and above

#### **2. What is your occupation?**

☐ Govt. Employee

☐ Self Employed

☐ Student

☐ Professional (Doctor, CA, Engineer etc.)

☐ Other

#### **3. How much is your average annual income?**

☐ Below Rs.300000

☐ Rs.300, 000 to Rs.800, 000

☐ Rs.800, 000 to Rs.1300, 000

☐ Rs.1, 300, 000 to Rs.2, 000, 000

☐ Rs.2, 000, 000 and above

#### **4. How much do you save annually?**

☐ 0% to 5%

- ☐ 5% to 15%
- ☐ 15% to 30%
- ☐ 30% to 45%
- ☐ 45% or more

**5. In the next five years, you expect that your income will:**

- ☐ Decrease slightly
- ☐ Remain about the same
- ☐ Increase slightly
- ☐ Increase dramatically

**6. What is your primary objective for investment?**

- ☐ Saving the Principal Amount
- ☐ Current Income
- ☐ Growth and Income
- ☐ Low Growth
- ☐ High Growth

**7. Which of these investment options are you most comfortable with?**

☐ Equity Shares, Preference Shares, Debentures, Public Sector Bonds, Savings Certificates, Gilt-Edged Securities and Money Market Securities

☐ Bank Deposits, Post Office Deposits, Company Fixed Deposits, Provident Fund Schemes, National Savings Schemes and Life Insurance.

☐ Real Estate, Gold & Silver, Precious Stones, Rare Coins & Stamps and Art Objects.

☐ If mix of above, Please specify \_\_\_\_\_

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**8. Are you satisfied with the returns from your investments?**

- ☐ Unsatisfied
- ☐ Somewhat Satisfied
- ☐ Indifferent Satisfied
- ☐ Very Satisfied

**9. What is your appetite for risk and return?**

- ☐ High risk high return
- ☐ Low risk low return
- ☐ High risk low return

☐ Low risk high return

**10. Rank them according to the priority they hold in your financial decision making:**

**(1 being most important and 4 being least important)**

☐ Risk

☐ Return

☐ Security

☐ Liquidity

**11. You would prefer to have:**

☐ Minor rise and fall in the value of your account, but regularly earn a lower return on your investments.

☐ Some rise and fall in the value of your account, but earn a normal return.

☐ Noticeable monthly rise and fall in the value of your account, but earn a higher return. ☐ Noticeable daily rise and fall in the value of your account, but earn the highest possible return.

**12. What is the time horizon for your investment?**

☐ Very short (2-4 weeks)

☐ Moderate (around 1 year)

☐ Long (1 – 5 years)

☐ Very long (more than 5 years)

**13. Have you ever used mutual funds as an investment tool?**

☐ Yes

☐ No

If 'yes' then move to next question or else please move to following questions.

**14. How did you come to know about Mutual Fund?**

☐ Print Media (Newspapers / Magazines)

☐ Electronic media (TV / Internet)

☐ Brokers / Agents

☐ Word of Mouth

**15. For how long have you been investing in mutual funds?**

☐ Less than 1 year

☐ 1 to 3 years

- ☐ 3 to 5 years
- ☐ 5 years or more

**16. What is the reason for not holding Mutual Fund?** Lack of awareness Tool technical Perceived as an unsafe investment/ volatile market Others, please specify\_\_\_\_\_

\_\_\_\_\_

**Suggestions:**\_\_\_\_\_

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\_\_\_\_\_

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