

Investor's preferences towards Mutual Fund and Future Investments: A Case study of India

Y Prabhavathi, N T Krishna Kishore

Abstract- The advent of Mutual Funds changed the way the world invested their money. The start of Mutual Funds gave an opportunity to the common man to hope of high returns from their investments when compared to other traditional sources of investment. The main focus of the study is to understand the attitude, awareness and preferences of mutual fund investors. Most of the respondents prefer systematic investment plans and got their source of information primarily from banks and financial advisors. Investors preferred mutual funds mainly for professional fund management and better returns and assessed funds mainly through Net Asset Values and past performance.

Index Terms- Mutual Funds, Investors

I. INTRODUCTION

India is undoubtedly emerging as the next big investment destination, riding on a high savings and investment rate, as compared to other world economies. In today's volatile market environment, mutual funds are looked upon as a transparent and low cost investment vehicle, which attracts a fair share of investor attention leading to growth of the industry. The landscape of the financial sector in India is continuously evolving, accredited to regulatory changes being undertaken, which is leading market participants like the asset management companies (AMCs) and distributors to restructure their strategies and adopt business models which will yield sustainable benefits. The advent of Mutual Funds changed the way the world invested their money. The start of Mutual Funds gave an opportunity to the common man to hope of high returns from their investments when compared to other traditional sources of investment. The mutual fund industry is spread all over the world with US alone accounting for over 50% of it. The schemes offered all over the world are similar in their basic structure though they differ in numbers and with some countries having specialized schemes.

Mutual Funds in India

Since the 1990's when the mutual fund space opened up to the private sector, the industry has traversed a long path, adapting itself continuously, to the changes that have come along. The Indian mutual fund industry is passing through a transformation. On one side it has seen a number of regulatory developments, while on the other the overall economy is just recovering from the global crisis of 2008. Growth in Assets under Management (AUM) experience has been unprecedented, growing at a CAGR of 28% over the last four years, slowing down only over the last two years, as fallout of the global economic slowdown and financial crisis.

According to Association of Mutual Funds in India (AMFI), a body that is dedicated to develop mutual fund industry on professional, healthy and ethical lines in India, at present, there are 43 Asset Management Companies (AMCs) functioning in India, which comprises of 32 domestic and 11 foreign fund houses. The Assets Under Management (AUM) of the Indian mutual fund industry as on March 31, 2011 (as per AMFI Monthly data) has witnessed a decrease of 3.54% to Rs. 5,92,250 crores on a year on year basis, on account of substantial outflows from equity, liquid and income schemes. The total number of schemes under operation is 4051 with ICICI Prudential Mutual Fund at the top with 394 schemes and Motilal Oswal Mutual Fund at the lowest with two schemes.

Objectives of the Study

An attempt was made in the present study entitled "Analysis of Mutual Fund Investors" to understand the attitude, awareness and preferences of mutual fund investors, along with the factors influencing the investors in selection of fund and their preferences for various investment avenues. To be specific following are the main objectives of the present research study:

1. Preference of respondents towards mutual funds
2. Investor's preference for future investment avenues

II. METHODOLOGY

Hyderabad city of Andhra Pradesh, Bangalore city of Karnataka state and Chennai city of Tamil Nadu forms the study area. Considering the time and other resource constraints of the researcher, total sample size of the mutual fund investors was fixed as 90 i.e 30 per each city. Personal interview method was employed for collecting the needed information.

The most commonly used tools to analyze the mutual fund investors were Percentage analysis, Garrett ranking.

III. FINDINGS AND DISCUSSIONS

i) Preference of Respondents towards Mutual Funds

S.NO	Variable	Category	Per cent
1	Scheme	Equity fund	65.00
		Debt fund	16.25
		Balanced fund	18.75
2	Scheme	Open – ended	72.50
		Close – ended	27.50
3	Mode of Investment	One time Investment	27.50
		Systematic Investment Plan (SIP)	72.50
4	Levels of Investment	Rs.1000	38.75
		Rs.2000	37.50

	(monthly)	Rs.3000 Rs.5000	8.75 15.00
5	Tenure of Investment	Below 1 year 1-2 year 2-5 year Above 5 years	13.75 30.00 38.75 17.50
6	Preferred Scheme	New Fund Offer Existing schemes	23.75 76.25
7	Source of Information	Advertisement Information from friends Bank Financial Advisors Canvassing by agents	17.50 18.75 28.75 23.75 11.25
8	Type of AMC preferred	SBI MF UTI AMC HDFC AMC Reliance AMC ICICI Prudential AMC Other AMCs	15.00 13.75 12.50 26.25 21.25 11.25

As per the investor preferences, about 65 per cent of investors preferred equity funds followed by balanced funds (18.75 per cent) and that indicated that more than sixty percent of the respondents were risk takers interested in investment growth. Nearly 72.50 per cent of investors preferred open - ended funds with systematic investment plans (SIP) having a tenure period of two to five years and 38.75 per cent of investors preferred to invest Rs 1000 per month followed by Rs 2000 (37.50 per cent). Thus it is inferred that middle aged, married long term investors preferring having a family size 3-5 preferred SIP. These investors wanted their investments on piece meal basis to meet their need for money in future.

About 28.75 per cent of the investors knew about mutual funds from banks followed by financial advisors (23.75 per cent) as they had access to banking facilities and advice from financial advisors. As per the study 26.25 per cent of respondents preferred Reliance Mutual Fund followed by ICICI Prudential Mutual Fund (21.25 per cent). Transparency of investment and other services provided made investors to prefer the Reliance, ICICI AMCs.

ii) Investor's Preference for Future Investment Avenues

The respondents were asked to rank their investment preferences for various investment avenues they were willing to invest in future. The reasons were analysed using Garrett ranking technique and the results are presented in the table below:

Investor's Preference for Future Investment Avenues

S. No	Kind of Investments	Garrett score	Rank
1	Gold	89.92	1
2	Shares	84.37	2

3	Real estate	79.45	3
4	Mutual funds	74.34	4
5	Fixed deposits	71.27	5
6	Post office Saving	68.63	6
7	Insurance	60.27	7
8	Debentures/bonds	53.76	8
9	ULIPS	51.09	9
10	Commodity market(metals)	49.56	10
11	Commodity market(agri)	47.89	11
12	Currency market	41.64	12
13	National Saving Certificate	40.35	13

It could be seen that investment in gold ranked first, followed by investment in shares, real estate, mutual funds, fixed deposits, post office savings, debentures, ULIPS, commodity market. The least preference was given to investment in National Saving Certificate (NSC). The respondents gave their first preference to gold, because it is not a perishable product and can be bought and sold at any time and preference towards shares is because they are most liquid compared to any other investment vehicle

Respondent's interest towards investment in fixed deposits is increasing not only due to hike in policy rates but also believe that their investment is risk free. The respondent's investment towards commodity and currency market is very low because of lack of knowledge towards it and moreover it is highly risky asset to invest, though the returns are high.

Suggestions

- Comparative performance of various mutual fund schemes offered by different companies should be considered before deciding on the investment in mutual funds.
- Scientific appraisal of professional expertise of fund managers could help the investors in understanding the performance of mutual fund schemes.
- Investors in mutual funds should be aware of status of different sectors like power, infrastructure, banking, pharmaceuticals and health before selecting a scheme.
- Investor's should be aware not only the updates of the scheme selected but also should know the latest SEBI guidelines.

Conclusion

The aggressive market that can tap any individual is financial services. Investors have their individual risk appetite and believe in the market they are entering in. In this volatile market environment mutual funds play an active role not only in promoting a healthy capital market but also increase liquidity in the money market. They have been identified as one of the important factor pushing up the market prices of securities .The analysis of the above study helps us to understand the attitude and behaviour of the investor based on their preferences. Based on the above approach, it can be noted that investors ought to be cautious in selecting the schemes, sectors and various asset management companies. Mutual fund industry which has enormous growth, if better controlled by market regulators with their strict regulations, the resources can be better allocated in an emerging market economy.

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AUTHORS

First Author – Y PRABHAVATHI, MASTER OF AGRIBUSINESS MANAGEMENT,
prabhayanduri@gmail.com.

Second Author – N T KRISHNA KISHORE, MASTER OF AGRIBUSINESS MANAGEMENT.
tarakakishore999@gmail.com