

A Study on Investor Perception towards Mutual Funds

***S.Srilakshmi**

****Dr. B. Sekar**

*Ph.D. Scholar of Commerce, Bharathidasan University, Trichirappalli.

**Associate Professor of Commerce, Research Supervisor, National College (Autonomous), Tiruchirappalli – 620 001.

Introduction

The financial markets in India are in the process of maturing. The markets witnessed many structural changes in the years gone by primarily due to the market regulators proactive approach to the changes in the global scenario as well as to meet the needs of domestic investors. The RBI has carried out major reforms in the Indian financial markets in the last few years primarily by reducing Cash Reserve ratio by 4% over three years and Bank Rate by 5% over five years. It is due to measures like these that the Indian economy is currently showing fundamental robustness, with the GDP expected to grow by almost 8%. With rising exports and stable inflation of around 5%, the foreign exchange reserves are at an all time high of \$118 billion. The interest rates in the country are at record lows and have led to an increase in credit flow to the commercial sector. In 1982, a group of Hyderabad-based practicing Chartered Accounts started Karvy Consultants Limited with a capital of rs.1, 50,000 offering auditing and taxation services initially. Later, it forayed into the Registrar and Share Transfer activities and subsequently into financial services. All along, Karvy's strong work ethic and professional background leveraged with Information Technology enabled it to deliver quality to the individual.

A decade of commitment, professional integrity and vision helped Karvy achieve a leadership position in its field when it handled the largest number of issues ever handled in the history of the Indian stock market in a year. Thereafter, Karvy made inroads into a host of capital-market services,-corporate and retail which proved to be a sound business synergy.

The equity markets have passed through a tumultuous phase in the last 3 years. The improving macro-economic fundamentals of the Indian economy have led the market players to expect a bright future. During the year, the equity markets around the world are showing good performance. However the markets in India outperformed the world major scripts showed around more than 75% growth in last 12 months. The year began with resumption of peace process with Pakistan and end of war in Gulf. The market also has welcome robust increase in agriculture production with more-than-normal monsoons. Most of the groundwork for the disinvestment completed over the last few years, the last Government had started disinvestments and new government has already acquired shape and started it is not reluctant of divestment.

Objectives of the study

To study the level of awareness of mutual funds

To analyse the perception of investors towards mutual funds.

To study the factors considered by the investors and those which ultimately influence him while investing.

To determine the type of mutual fund investor prefers the most.

Research Methodology

Primary data is data that is tailored to a company's needs, by customizing true approach focus groups, survey, field-tests, interviews or observation. Primary data delivers more specific results than secondary research, which is an especially important consideration when one launching a new product or service. In addition, primary research is usually based on statistical methodologies. The tiny sample can give an accurate representation of a particular market. Secondary data is based on information gleaned from studies previously performed by government agencies, chambers of commerce, trade associations and other organizations. This includes census bureau information.

Much kind of this information can be found in libraries or on the web, but looks and business publications, as well as magazines and newspapers. Analysis of individual investment patterns can be done by this primary data analysis. In this project I have done a survey with a questionnaire with a sample size of 100 individuals who are employees and tax payers. The questionnaire includes the economic status of the individuals, age group, marital status, investments made etc. As Karvy securities

ltd. distributes several investment products like mutual funds, insurance, shares, debentures etc. This survey will help them in developing marketing strategies for their investment products.

Geographic Scope: The sample used for the study has been taken from the investors of the twin cities Hyderabad and Secunderabad.

Limitations of the study

Frame work: Sampling frame (i.e the list of population members) from which the sample units are selected was incomplete as it takes into consideration only those (target investors) who have made their investments during March and April 2006.

Although adequate care was taken to elicit the accurate information from the respondents, some of them have felt difficulty in crystallizing their feelings into words. Apart from the problem faced in articulating, it is the validity of the feedback can be speculated.

Despite the above limitations the study is useful in that it does point out the trends and helps to identify the dimensions for improving the scope of mutual funds.

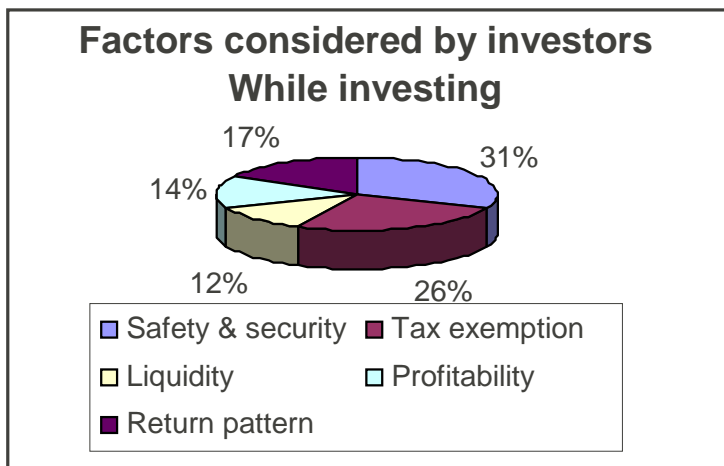
Table 1

Factors Considered By Investors While Investing

Every investor considers several factors while investing in any of the products as it deals with the most important need of life “money”.

The five main factors that were considered are:

1. Safety & security
2. Tax exemption
3. Liquidity
4. Profitability
5. Return pattern



The above graph shows that 31% people consider safety & security as the main factor while investing, 26% goes for Tax exemption, 17% considered return pattern in the investment, 14% went with profitability and 12% showed interest in liquidity.

In a developing country like India most of the people fall in the lower middle class and middle class sectors. The attitude of the investors is of primary concern. As more and more options that warrant high returns are available in the market, investor tends to be more skeptical. So, while investing in any avenue, their first priority is safety and security. Even the age of the investor plays a major role in the decision-making. For example, if the investor is in the age of 50 and above, he usually looks for low or no risks while investing. Therefore, 31% of investors surveyed preferred safety & security. Next is the “tax exemption”; as there is tremendous boom in the corporate sector and the remuneration system for

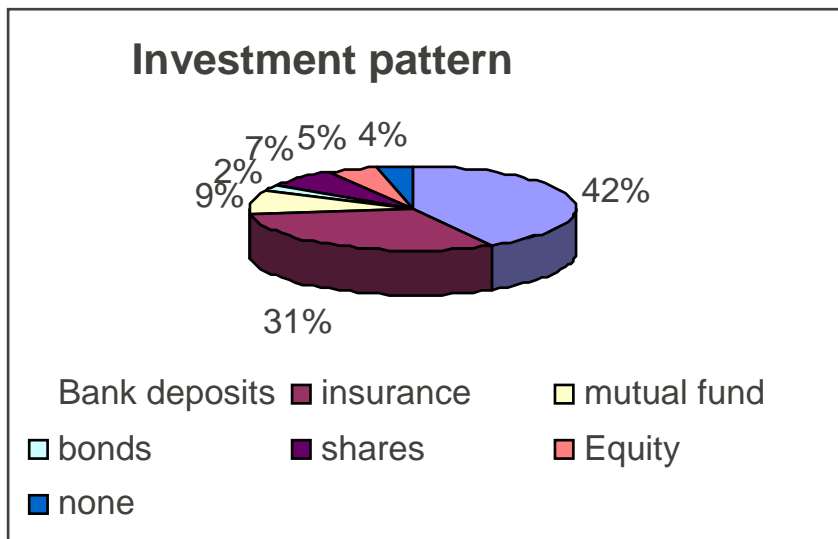
a particular sector has changed. This created a change in income levels and thereby affected the expenditure patterns. In the past, it took employee years of time to reach a five-figure salary. But, gradually the system has changed. Even the employee in the lower level or the middle level of the corporate ladder is receiving a handsome emolument. So, they are opting for the exemption of tax. Therefore, the next preference is for tax exemption that is 26% of the total.

Besides investors going for Safety & security, there are investors who opt for return on investments they made. They are mainly in the age group of 23 and 35. Because these investors are likely to think that, at this age they are mentally more stable and feel that they can cope with financial risks. Any profits made would further bolster their financial stability. And so, 17% went with return pattern of their investment. In the same way, 14% of the investors look for profitability, especially those who are already doing business, i.e. those who are already accustomed to taking risks. Out of the total, 12% of investors preferred liquidity. The main reason for this could be that that making the invested money liquefied as and when required is important, and this is not possible if the investments are made in any insurance, Bank deposits, etc.

Though there are numerous factors that can be attributed to an investor’s psyche, by large, we can conclude that maximum number of investors is investing in those sectors where there is safety & security for their principal. The other factors antecede safety.

Table- 2

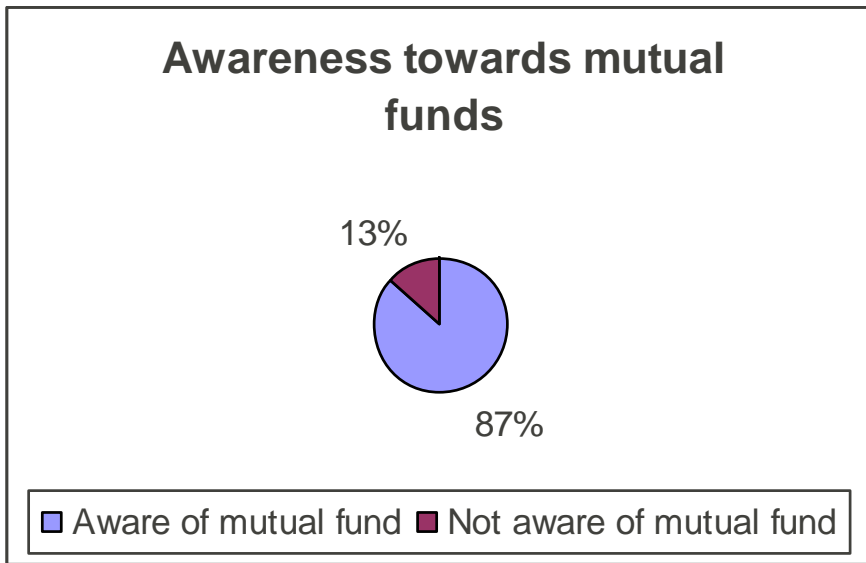
Investment Pattern:



From the above graph, it is clear that 42% opted for an investment in bank deposits, 31% for insurance, 7% for shares, 9% for mutual fund, 2% for bonds, 5% for equity and remaining 4% have invested in some other investments such as real estate’s etc. Here, 42% have invested in bank deposits as it is very safe and risk free. Out of the sample of 100, it is observed that those who opted for an investment in banks in the form of deposits are found to be in the age group of 40 and above and are in government services. The People generally opt for life insurance because it promotes a sense of safety & security for the dependents on the person and even his belongings. So, the next priority is insurance. 7% of the investors went for an investment in shares as it brings quick returns, although shares are prone to high risks. As shown 9% of the investors opted for an investment in mutual funds. From this we can infer that the market of mutual fund is picking up slowly. According to the survey, the people who have invested in the mutual funds belong to high-income range and they want an exemption from tax and a mere 2% opted for bonds, 5% for investment in equity and 4% have invested in other investments such as Real estate to make quick returns on their investments.

Table-3

Awareness towards Mutual Funds:

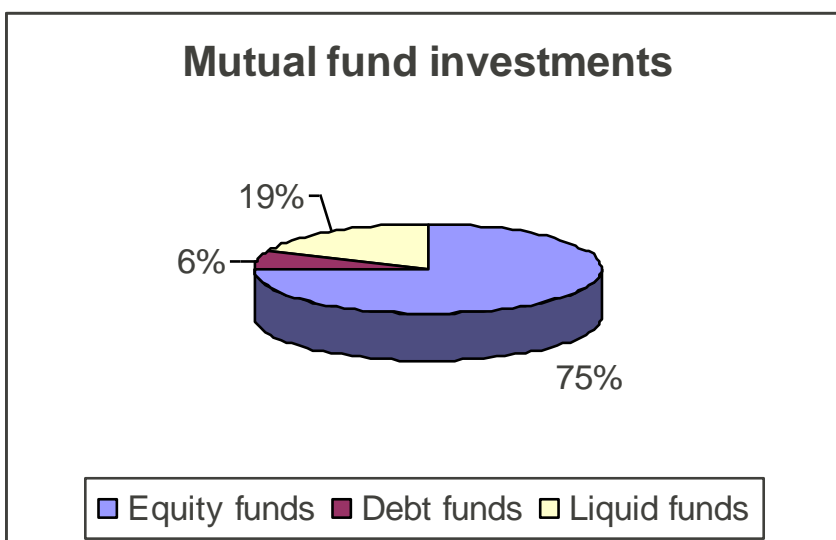


In the above pie chart, we can observe that nearly 90% of investors are aware of mutual funds and only 13% people are not aware of it. This shows that most of the investors know about mutual funds in one or the other way. Of the sample surveyed, almost all of the people are aware of mutual funds. They are aware of the term “mutual fund”. Though the questionnaire cannot identify the extent of the awareness. Through the interaction it is found that they are not actually aware of the advantages in investing mutual funds, various types of mutual funds and different schemes offered in it. It is found that People often have an inhibition that investments in mutual funds can be done only by those who have surplus amount of money with them and want to avail tax redemption.

Table-4

Mutual Fund Investments:

Mutual funds are medium risk investments. Though Investing in mutual fund doesn't assure a fixed amount of returns, nevertheless, they are not low. The awareness about mutual funds is the primary criterion.



From the graph, it is clear that only 16 out of 100 invested in mutual funds. From those 16, 12 have invested in Equity funds, 3 in liquid funds and the remaining 1 in debt funds. Only 16 out of 100 invested in mutual funds this can be mainly attributed to the low level of awareness, various inhibitions

and a not so clear idea about the mutual funds. It is very important to have a clear perception of mutual funds, how they work and how the money is invested in different portfolios according to the investors' choice. Investors who opted for equity funds are 12 of 16 percent. Equity funds being the majority preference can be reasoned as they want their investments to be put in various sectors i.e. DIVERSIFIED FUNDS so that they can make profits out of it easily. Even some went for INDEX FUNDS as the investments are made in Bench Mark Index Stock like BSE, NSE.

A few (3% of 16%) investors made investments in liquid funds as they want a Short term investments where the investor need not wait for much time for the return. These are also called as Money Markets for short term. Only a single investor went for debt funds where investments are in various debt products like Certificate of Deposits (CD's), Commercial papers and call money as the investor want a secured investment, which he can avail in Debt Funds.

Findings

- Many of the investors are aware of mutual funds but most of their perception towards them is not positive.
- Investors are mainly concerned with the risk factors of mutual funds and are not directing towards them.
- The investors who have invested in mutual funds mainly go for it because of the Liquidity matter and Tax exemption.
- Most of the people don't know the advantages of mutual funds and the various types of mutual funds.
- There are nearly 1173 schemes of mutual funds offered by various mutual houses, which an ordinary person is not aware.
- A common investor basically looks for the Tax exemption and Safety & security while investing.
- Investors often feel that those people, who have surplus amount with them and invest to avail Tax exemption, can do investing in mutual funds.

Conclusion

Mutual funds are still and would continue to be the unique financial tool in the country. One has to appreciate the fact that every aspect of life as its periods of high and lows. This has been the case with the stock markets. Why not apply the same logic to mutual funds? Mutual funds have not failed in any country where they worked with regulatory frame work. Their future is bright. The poor performance of many mutual funds schemes may be mostly attributed to the quality of personal involved and their matter of fund management.

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