



A study on the attitude of the Investors towards Investment in Mutual Fund

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Abstract: *It is important to note that today Mutual Fund industry is growing very fast and it has more than ten trillion INR of assets under management till May-2014. However, contribution of investors from metro cities is low if we see it with respect to no. of investors. It is so, because of less customer awareness and financial literacy among them. It is one of the greatest challenges to channelize the savings of household into mutual funds. This research paper describes various factors that affect the investor's buying decision while investing in Mutual Fund. To conduct this study 300 respondents from Ahmedabad City are surveyed with different demographic profiles. To analyze collected data, various statistical techniques are used. This research paper would help fund managers to understand customers' perception and their attitude towards mutual fund industry.*

Keywords: *Mutual Fund, INR, Investors, Households.*

I. INTRODUCTION

It is important to note that today Mutual Fund industry is growing very fast and it has more than ten trillion INR of assets under management till May-2014. However, contribution of investors from metro cities is low if we see it with respect to no. of investors. The industry has seen net flows of aprx. 4900 Billion Rupees from 2001 to 2014 (average of 352 billion rupess/ annum). The change in the financial assets in Financial Year 2012-13 was about 10969 billion Rupees of which only 2.5 percent were attracted by mutual fund which is 274 Billion Rupees. Mutual fund penetration in India is low as compared to world and peer benchmarks. The AuM to GDP ratio stodd at 7 percent to 8 percent as compared to a world average of 37 percent. The SAAAME economy of Brazil too, considered as a peer emerging economy is mostly ahead, with an AuM to GDP ratio of 45 percent. . It is so, because of less customer awareness and financial literacy among them. It is one of the greatest challenges to channelize the savings of household into mutual funds. Investors should realize and understand the need to meet their financial requirements. According to the current scenario of capital market volatility, the investors perceive investments in the capital market to be risky and unsafe through mutual fund products.

To overcome these types of issues, the fund managers try to build confidence in the minds of investors and motivate them to make investment in mutual fund for the future benefits. It is observed that mutual funds provide benefits to their investors which are difficult to obtain through other investment alternatives. Benefits like diversification, access to both equity and debt markets at less transaction costs and also liquidity are some advantages to the investors.

II. OBJECTIVES OF THE STUDY

The two main objectives of the research study are as under;

1. To study and analyze the influence of various demographic factors on investors' attitude towards mutual funds.
2. To study and rank the variables affecting or responsible for the selection of mutual funds as an investment option.

III. REVIEW OF LITERATURE

B. B. S. Parihar, Rajeev Sharma & Deepika Singh Parihar (2009) in their study they have mentioned that majority of investors have still not formed any attitude towards mutual fund investments. For this they have observed lack of awareness among investors and how mutual fund works is major reason behind this. They have also concluded that demographic facets like age, income, sex have been found influencing the attitude of investors towards mutual funds mostly. Whereas, amazingly, the other two demographic variables i.e. education & occupation, have not been found affecting the attitude of investors towards mutual funds. They have mentioned the benefits of investment in mutual funds as return on investment and liquidity have been perceived to be the most attractive by the investors, followed by affordability, flexibility & transparency.

Barber et al., (2005) has argued that the buying decisions of investors are affected by prominent, thrilling information. They have found that investors are likely to purchase mutual funds that attract their attention through outstanding performance, or advertising and marketing. They found always negative relations between fund flows and front-end load fees. A negative association between fund flows and commissions charged by brokerage firms was also documented. In contrast, no relation (or a



perverse positive relation) was found between operating expenses and fund flows. Additional analyses indicate that mutual fund marketing and advertising, the costs of which are often embedded in a fund's operating expenses, account for this surprising result.

Peles, Nadav (1997) in his study on "Cognitive dissonance and mutual fund investors", has mentioned that buying decisions for financial assets should be made on the basis of investor beliefs regarding the potential return and risk of those assets otherwise it will create cognitive dissonance. We find number of proofs for the range of incidence of such a psychological state among the investors in India. The increasing middle class families in many emerging market economies are too expected to support the increase in the sales of mutual fund in the future. From an institutional viewpoint, the privatization of pension systems and increasing market penetration of the insurance industry generally in upcoming markets is the factor which will increase the demand for mutual fund in India.

Ippolito (1992) and *Chander Subash and Mahajan, Mukesh (1992)* says that investors normally invest in Mutual Funds for getting tax benefits, growth and also for getting expertise in this field of investment. The research conducted by him, highlights that key portion of investment is from both professional and salaried class of investors.

Madhusudhan V Jambodekar (1996) in his study mentioned that investors look for safety of Principal, Liquidity and Capital appreciation in the order of importance. *Peles, Nadav (1997)* in his research work on "Cognitive dissonance and mutual fund investors" provide evidence that investor psychology may affect the fund-switching decision.

IV. RESEARCH METHODOLOGY

1. Null Hypothesis (H₀):

Demographic variables like age, income, gender, education level and occupation of the respondents and their attitude towards mutual funds are independent of each other.

2. Collection of Data:

This research paper is mainly based on primary data collected through structured questionnaire. For this 300 respondents of Ahmedabad City were surveyed.

3. Analysis of Data:

The data collected was analyzed by using simple statistical tools like chi-square test. To measure the reliability of the data Cronbach Alpha test has been used. To reduce the width Bartlett's Test and factor analysis has been used.

V. MAJOR FINDINGS

According to George and Mallery (2003), Cronbach Alpha as generally accepted rules of thumb the minimum acceptable score of alpha is 0.70. In this study it is found 0.791 which is sufficient to conduct the further study.

Kaiser-Meyer-Olkin and Bartlett's Test, the "Kaiser-Meyer-Olkin" measure of sampling adequacy is a comparative index for comparing the magnitudes of the observed correlation coefficients to the magnitudes of the partial correlation coefficients. Bartlett's test is used to measure strength of relationship among factors of population correlation matrix that is whether they are uncorrelated or not. The minimum acceptable value of Kaiser-Meyer-Olkin is 0.50. Normally the cut-off value of Bartlett's test is less than or equal to 0.05. In this study Kaiser-Meyer-Olkin value is .658 and Bartlett's value is 0.000 which allows us to conduct factor analysis.

Factors Responsible or influencing the Investment in Mutual Funds during the study, from this study it is found that investors consider various factors like, return expectation, flexibility, transparency, affordability, and liquidity. While conducting the survey, the respondents were asked to give rank these factors and the data obtained is presented in below Table-1. To analyze the different factors responsible for investment in MFs, the ranking of the factor is done on the basis of weighted scores. Following scale was used for ranking the factors.

Rank	Weightage
1st	5
2nd	4
3rd	3
4th	2
5th	1

Table-1
Variables affecting investor’s while investing in mutual fund

Variables	Ranking					Wgt. Score	Percentage	Ranking
	1	2	3	4	5			
Return	200	70	12	18	0	1358	29.81%	1
Liquidity	40	80	78	60	42	948	20.81%	2
Transparency	11	51	42	94	102	664	14.58%	5
Affordability	30	18	78	60	114	696	15.28%	4
Flexibility	27	75	101	50	47	888	19.49%	3
Total Weighted Score						4,554	100%	

Variables	Variables Loading
Return	.852
Liquidity	.813
Transparency	.659
Affordability	.693
Flexibility	.759

From the above table it is concluded that ‘return’ has got 1st rank, ‘liquidity’ was ranked second, and ‘transparency’, ‘affordability’ and ‘flexibility’ have been ranked third, fourth and fifth, respectively. As per Factor analysis reduces the number of variables to such a small number which could be capable of explaining the observed variance in the large number of variables.

VI. ANALYSIS OF RESULT

From this study it is found that out of 300 respondents surveyed, 85 respondents (28.3%) have a positive attitude towards mutual funds (MFs), 143 respondents (47.7%) have a neutral attitude and 72 respondents (24%) have a negative attitude towards MFs.

1. **Gender and Attitude:** the chi-square test is calculated (19.86) which is greater than chi-square tabulated (5.99), the null hypothesis is rejected and it is observed that there is a significant relation between the gender of respondents and their attitude about FMs Investment. It means the gender of respondents affects their attitude towards investment in MFs significantly. Besides, 72 respondents out of 208 respondents were male and 13 respondents out of 92 respondents were female and they have positive attitude towards investment in MFs.
2. **Age and Attitude:** chi square calculated (41.2) which is greater than chi-square tabulated at 4 d.f. (9.48), the null hypothesis is rejected and it is found that there is a significant relation between the respondents age and their attitude towards MFs investments hence we can say that age of the investor affects its decision towards MFs. 43 respondents out of 138 respondents i.e. 31% of ‘25 and Below age group, 53 respondents out of 107 respondents i.e. 31% are of ‘26-45’ age group and 09 respondents out of 55 respondents i.e. 16% of ‘Above 45’ age group have a positive attitude towards MFs.
3. **Education and Attitude:** for this chi-square is calculated (3.9) which is less than chi-square tabulated (9.49), hence the null hypothesis is accepted and it is found that there is no significant relation between the respondent’s education level and their attitude towards MFs. The education level of respondents does not affect their attitude towards MFs significantly.
4. **Income and Attitude:** Here also chi-square is calculated (49.00) which is again greater than chi-square tabulated (9.47), so, the null hypothesis is rejected and it is observed that there is a significant relation between the respondent’s income and their attitude towards MFs. The respondents’ income affects their attitude towards MFs significantly. Moreover, 08 respondents out of 68 i.e. 12% are of ‘Below 10000’ income group, 43 respondents out of 175 i.e. 25% are of ‘10000-25000’ income group and 34 respondents out of 57 i.e. 60% are of ‘Above 25000’ income group have a positive attitude towards MFs.
5. **Occupation and Attitude:** the chi-square is calculated (18.95) which is greater than chi-square tabulated (12.59), therefore, the null hypothesis is rejected and it is found that there is a significant relation between the respondent’s occupation and their attitude towards MFs. i.e., the respondents’ occupation affects their attitude towards MFs significantly.

VII. CONCLUSION

Today investors are investing in various investment options available to them. Even mutual fund industry is getting positive response in India as an investment option. In compare to other investment options, the investment in mutual fund is safe and yields more return on the investment. This research study reveals that the financial literacy among the new investors is vital to promote mutual fund industry. Hence, the fund manager should create awareness among the investors regarding mutual fund so that they can diversify saving of the household to their industry.



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