

# A Study on Investors Behaviour in Selection of Mutual Fund Products with Special Reference to Palakkad District

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**Abstract-** Money has no value unless it is invested. Money will not grow if it is kept in a cupboard. A person has to invest money in some financial asset to achieve a return. To achieve a return, a person has to bear risk also. An investment has to be made with a tradeoff between risk and return. Investors invest in activities with their savings. Investment can be defined as, with the expectation of dividend, capital appreciation and higher return, an investor accumulates his savings. Mutual fund is one of the forms of investment. Mutual fund plays a vital role in the Indian financial system. The objective of every instrument is to encourage the savings investors in capital and money market. Mutual fund was formed in India in the year 1964 with these objectives. Mutual fund is considered as one of the safest mode of investment suited to layman. It invests in diversified instruments and is managed by professional fund managers. Mutual fund benefits the investors by providing possible return with greater flexibility. In India, the regulatory authority of Mutual fund is SEBI.

**Indexed Terms-** Mutual fund, Mutual fund schemes, Savings objectives

## I. INTRODUCTION

Investment is the sacrifice of an individual's savings for the purpose of earning return. In financial markets, there are a lot of business opportunities available for the investors with a surplus. An investor can invest in banks, debentures, and bonds which offers low risk with low return. Mutual fund plays a vital role in the Indian financial system. The objective of every instrument is to encourage the savings investors in capital and money market. With small amount of

money, mutual fund pools investor's savings. Investors with little knowledge about capital market invest their money through professional fund manager. Investors with common goal are brought under one head through mutual funds and pool their savings. This pooled money is then invested in securities such as shares, debentures, bonds and other securities. The profit earned from mutual fund investments and capital appreciation is divided among its fund holders according to the proportion held by each investors. Hence mutual fund is considered as one of the easiest and safest mode of investment for individuals.

Mutual fund is an investment avenue that pools the investors fund possessing same investment objective. Mutual fund invests in different types of securities like shares, debentures, bonds, short term securities etc. there are investors who have high experience in dealing mutual funds and at the same time there are investors who lack experience regarding mutual funds. Investors with no knowledge about mutual funds, seeks the help of professional fund managers. The term 'Mutual' equals returns minus its expenses and the profit is shared by the mutual fund holders. It is a collective investment that pools the savings of investors with the objective of providing an appreciable yield to the holders.

## II. DEFINITIONS OF MUTUAL FUND

SEBI regulation 1993 defines Mutual Fund as follows: "Mutual Fund means a fund set up in the form of a trust by a sponsor to raise money 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."

### III. OBJECTIVES OF THE STUDY

- To find out the saving objectives of investors.
- To know the awareness level of investors towards Equity schemes available in mutual fund
- To identify the factors that influences the selection of Mutual funds.

### IV. HYPOTHESIS USED FOR THE STUDY

- There is no significant relation between gender and amount of savings in mutual fund
- There is no difference in the savings objectives preferred by Respondents
- There is no variation in the mean scores obtained for the “Awareness level of Equity schemes in mutual fund” on the basis of gender.

### V. RESEARCH METHODOLOGY

- Research Design

Research design used for the study is empirical study which is basically considered with testing of Hypothesis. It interprets relationship between various factors based on certain assumptions or guess. It involves a critical evaluation of the study.

- Sources of Data

Primary data is the data which is collected for the first time by the researcher. Hence it is known as the first hand data. The primary data for this research is collected through structured Questionnaire.

- Population/Sample unit

The sample unit of the study is Palakkad District.

- Sample size

The sample size taken for the study is 300 respondents of Palakkad district

### VI. TOOLS FOR ANALYSIS

- Chi-square test
- One-way ANOVA
- Friedman test
- Percentage analysis

### VII. SCOPE OF THE STUDY

The scope of the study is limited to understand the investor’s behaviour in selecting mutual fund products. The variables used for the study was the influencing factors affecting the selection of mutual funds such as mutual funds transparency, transferability options, safety of investment etc. It also considers the impact of mutual funds on the return and risk pattern. The research helped to identify the savings objectives of investors and access the investor’s preference towards mutual fund products. The study was carried out in Palakkad district taking 300 respondents as samples.

### VIII. LIMITATIONS OF THE STUDY

- The result cannot be generalized, as the study was confined only to Palakkad District.
- Only 300 investors were taken as samples under the study. It is impossible to take the whole population due to time constraints.
- There may be possibility of errors in data collection because many of the respondents were not given the correct answers to the questions.

### IX. HISTORY OF MUTUAL FUNDS IN INDIA

- First Phase – 1964-87 (Establishment & Growth of UTI):

UTI Unit Trust of India was set up by the RBI. It was established in 1963. It was functioned under the regulatory framework and control of RBI. Later on IDBI (Industrial Developmental Bank of India) functioned as the regulatory body in place of RBI, as UTI was delinked from RBI. Unit scheme 1964 was the first scheme introduced by UTI. UTI had a balance of Rs.6700 crores of assets at the end of 1988.

- Second Phase -1987-1993 (Entry of Public Sector Funds):

The entry of public sector mutual funds was recognized in the second phase. A lot of public sector banks and institutions were established to set up mutual funds as a result of opened economy. The first Non-UTI mutual fund was established by SBI in November 1987. Later on various financial institutions also established mutual funds like Can Bank Mutual

funds, LIC Mutual funds, Indian Bank Mutual funds, Bank of India Mutual funds, GIC Mutual funds and PNB Mutual funds. The AUM (Asset under Management) has shown an appreciable raise from 6700 crores to 47,004 crores during 1987-1988 to 1992-1993

- Third Phase –1993 to 1996 (Introduction of Private Sector Funds)

The year 1993-1996 marked the entry of private sector in Mutual fund industry, which opens a new era in Mutual fund history. At that time, the presence of private ownership in domestic and foreign players was permitted to carry out operations in mutual fund industry. During the period of 1992-1993, private sector players were allowed to take part in Mutual fund and the permission was given by Government. A wider choice of mutual funds was available to Indian investors with the introduction of private funds. The private mutual fund offers investors with latest innovative products, investment techniques and new service technologies.

- Fourth Phase –1996 to 2003(Era of SEBI Regulations)

The regulation of SEBI (Securities Exchange Board of India) becomes more strong and strict in 1996 even though SEBI issued regulations under which all mutual funds except UTI was covered in 1993. This phase marked an increased mobilization of funds and investors started to invest more in mutual funds. As more investor's participation was found in mutual fund industry, this creates an urgent need to protect the interest of investors. This need was satisfied by SEBI by implementing SEBI (Mutual fund) regulations 1996. The revised and more comprehensive version of mutual fund regulation was introduced in 1996 which substitutes 1993 SEBI (Mutual fund) regulation. It was under SEBI (Mutual fund) regulations 1996; mutual fund industry functions and operates its activities. During this period, a lot of foreign mutual fund was set up in India, increased mutual fund houses and there was also several mergers and acquisitions. There were around 33 mutual funds having a total asset balance of Rs.1, 21,805 crores at the end of January. The UTI was the leading mutual fund with all others with Rs.44, 541 crores of AUM.

- Fifth Phase – Since 2004 (Consolidation – Mergers - Schemes)

There was a considerable increase in the flow of funds after the year 2003. The reason for the increased growth was due to the improved quality of investor's services and tax benefits applicable to holders. Due to the official cancellation of UTI in 2003, UTI was divided into different entities. Thus the fifth phase was also known as the division of UTI into separate entities. As the UTI was separated, the fifth phase faces a harsh experience. The first entity runs under the guideless and rules of Indian Govt, which is named as the specified undertaking of UTI. This does not come under the control of mutual fund regulations. The second one is UTI mutual fund Ltd, which functions under the supervision of control of mutual fund regulations and registered with SEBI. As a result of these separations, mutual fund has entered into a phase of enhanced growth and consolidation.

#### X. ADVANTAGES OF MUTUAL FUND

- Benefits of Diversification
- Low Transaction Costs
- Availability of various schemes
- Professional management
- Liquidity
- Tax benefit
- Well regulated

#### XI. DISADVANTAGES OF MUTUAL FUND

- Fluctuating returns
- No control
- Costs
- Too much diversification

#### XII. TWO WAY TABLE-GENDER AND AMOUNT OF SAVINGS IN MUTUAL FUND

There might exist a relationship between gender and amount of savings in Mutual funds. To evaluate this relationship, a Chi-Square test was applied with the following hypothesis

Ho: There is no significant relation between gender and amount of savings in mutual fund

Gender and Amount of savings

GEN DER	AMOUNT OF SAVINGS				TOT AL
	UPTO 10,000	10,000-25,000	25,000-50,000	ABOVE 50,000	
MAL E	48(22.9%)	96(45.7%)	18(8.6%)	48(22.9%)	210(100%)
FEM ALE	60(66.7%)	24(26.7%)	0(0.0%)	6(6.7%)	90(100%)
TOT AL	108(36.0%)	120(40.0%)	18(6.0%)	54(18.0%)	300(100%)

Chi-Square tests

	Value	df	Sig.
Likelihood ratio	60.364	3	0.000
Pearson Chi-square	56.190	3	0.000

Source: Primary data, significant at 5% level of significance

**INTERPRETATION**

The chi – square statistic shows 56.190 at 5 percent level of significance (P=0.000<0.05). This means that the hypothesis is rejected. Hence, it can be concluded that there is a relation between Gender and Amount of savings in mutual fund. It is evident from the table that majority of male respondents have savings ranging from 10,001-25,000 and female respondents have a savings in mutual fund up to 10,000.

**XIII. SAVINGS OBJECTIVES PREFERRED BY RESPONDENTS**

Respondents may have different savings objective in selecting mutual funds. In order to find their savings objective, a Friedman test was carried out by framing the following hypothesis

Ho: There is no difference in the savings objectives preferred by Respondents

Ranking the savings objectives preferred by Respondents

SAVINGS OBJECTIVE	MEAN RANK	RANK
Families financial security	2.72	1
Medical Emergencies	3.50	2
Children’s education/Marriage	3.97	3
Retirement corpus	4.78	4
Fund Accumulation	5.00	5
House construction	5.40	6
Inflation protection	6.74	7
Repayment of Debt	7.12	8
Tax Planning	7.36	9
Entertainment	8.41	10

Source: Primary Data

Friedman Test

Friedman Test	
N	300
Chi - square	1012.619
df	9
Sig.	0.000

Source: Primary data, Significant at 5 percent level of significance

**INTERPRETATION**

The chi – square statistic shows 1012.619, at 5 percent level of significance (P=0.000<0.05). Hence, it can be concluded that the framed Hypothesis is rejected. This means that the savings objectives preferred by respondents are different. Lower the Rank refers higher the preference. Families’ financial security has given the first rank by majority of the respondents. The least preferred savings objective is entertainment. Respondents may also prefer fund accumulation as their savings objective and ranked in a fifth position.

**XIV. RELATIONSHIP BETWEEN GENDER OF RESPONDENTS AND AWARENESS LEVEL OF ‘EQUITY SCHEMES’ IN MUTUAL FUND**

There might exist a relation between Genders of respondent’s and awareness of Equity schemes in

mutual fund. Level of awareness may be influenced by the gender of respondents. For this, one way ANOVA is used to test significant difference in mean scores.

Ho: There is no variation in the mean scores obtained for the “Awareness level of Equity schemes in mutual fund” on the basis of gender.

Awareness level of ‘equity schemes’ in mutual funds

GENDER	MEAN	STD. DEVIATION	N
Male	1.14	0.351	210
Female	1.13	0.342	90
Total	1.14	0.348	300

Source: Primary data

Estimated Marginal mean

GENDE R	MEAN	STD.ERRO R	95% CONFIDENC E LEVEL	
			Lowe r Boun d	Uppe r Boun d
Male	1.14	0.024	1.10	1.19
Female	1.13	0.036	1.06	1.20

Source: Primary data

One way ANOVA

Source of variables	Sum of Squares	Df	Mean square	F	Sig.
Between samples	0.006	1	0.006	0.047	0.828
Within samples	36.114	298	0.121		
Total	36.120	299			

Source: Primary Data, Significant at 5 percent level of significance

INTERPRETATION

It is clear from the table that Gender wise variation of the mean scores are not statistically significant at 5 percent level of significance (F =0.047, p=.000>.05). Hence, the framed hypothesis “There is no variation in

the mean scores obtained for the “Awareness of Equity schemes in mutual fund” on the basis of gender will be accepted. So, it can be concluded that level of awareness of equity schemes are not influenced by the gender of respondents.

XV. FACTORS INFLUENCING THE SELECTION OF MUTUAL FUNDS

Mutual funds are influenced by various factors. Some factors have direct influence on investors buying behaviour, while others have an indirect influence. The following table shows the different factors influencing the buyer’s behaviour in the selection of mutual funds.

Factors influencing the selection of Mutual funds (HI-Highly influence, I-Influenced, N-Neutral, NI-Not Influenced, HNI-Highly Not Influenced)

FACTORS	HI	I	N	NI	HN I	TOT AL
Mutual Funds Transparency in Operation	78(26%)	156(52%)	66(22%)	-	-	300(100%)
Professional Fund Management	72(24%)	204(68%)	24(8%)	-	-	300(100%)
Diversification of Portfolio	114(38%)	150(50%)	18(6%)	6(2%)	12(4%)	300(100%)
Fund Transf erability Options	66(22%)	90(30%)	126(42%)	18(6%)	-	300(100%)
Low Risk	54(18%)	90(30%)	120(40%)	36(12%)	-	300(100%)

Tolerance						
Stable and Regular Income	72(24%)	84(28%)	84(28%)	54(18%)	6(2%)	300(100%)
Safety of Capital Invested	66(22%)	72(24%)	114(38%)	42(14%)	6(2%)	300(100%)
High Return with Low Risk	54(18%)	120(40%)	96(32%)	24(8%)	6(2%)	300(100%)
Capital Appreciation	30(10%)	96(32%)	120(40%)	48(16%)	6(2%)	300(100%)
NAV update on daily basis	30(10%)	54(18%)	126(42%)	90(30%)	-	300(100%)

Source: Primary data

**INTERPRETATION**

From the table, it is clear that 38% of the respondents are highly influenced by diversification of portfolio. 68% were influenced by professional fund management. 42% investors are neither or nor influenced by Fund transferability options and NAV update on daily basis. Only a very few of them are not highly influenced by different factors related to mutual fund. It is clear that 2% are not highly influenced by factors like stability of income, safety of capital, higher return with low risk and capital appreciation.

**XVI. FINDINGS**

- There exist a significant relationship between gender and amount of savings in mutual fund. Male respondents saves up to 25,000 and female has a savings up to 10,000
- There exists a significant difference between savings objective preferred by respondents. This

means that savings objective have an influence in mutual fund. Here families’ financial security is given the first rank by majority of the respondents. Entertainment has ranked 10th position. Fund accumulation is also preferred and has given 5th rank by the respondents.

- There is no significant variation in the mean scores among male and female respondents obtained for knowing the awareness level of Equity schemes in mutual fund. It was found that the level of awareness about the equity schemes is higher for male investors than the female one.
- Majority of the respondents were influenced by mutual fund’s professional fund management and its transparency in operation.

**XVII. SUGGESTIONS**

- Awareness is lacking in mutual fund market. To increase the awareness of mutual funds among investors, various programmes like seminars, workshops, conferences etc to be conducted on a regular basis.
- Mutual fund industries should provide appropriate training programmes to their clients. This helps the clients to communicate the benefits as well as future scope of mutual fund with the investors.
- Female investor’s participation in mutual fund is less in Palakkad district. To encourage their participation, special programmes must be coordinated by mutual fund industries.

**XVIII. CONCLUSION**

Now a day the savings habit of people in India is rising due to high life expectancy of individuals. A lot of investment opportunities are available for investors to invest their money. While investing the money, individuals are more conscious about the safety of their money and the risk element involved in the investment. One of the safest and riskless modes of investment is Mutual fund. The project was undertaken to analyze the investor’s behaviour towards various mutual fund projects in Palakkad district. Mutual fund plays a vital role in the economic development of a nation. Mutual fund involves pooling of investors savings in diversified securities with the objective of providing the investors with

higher return with lower risk. It is evident from the study that, the mutual fund industry is still in its growing stage. The findings of the study reveal that male investors are mostly interested in mutual fund investment. The study also reveals that majority of the investors are not willing to take higher risk due to fear of loss. From the analysis, we can say that the study undertaken to know the investors behaviour towards mutual fund products in Palakkad district shows a positive sign for the mutual fund companies to grow in future.

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