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    REVIEW OF LITERATURE

    NEED/IMPORTANCE OF THE STUDY

    STATEMENT OF THE PROBLEM

    OBJECTIVES

    HYPOTHESES

    RESEARCH METHODOLOGY

    RESULTS & DISCUSSION

    FINDINGS

    RECOMMENDATIONS/SUGGESTIONS

    CONCLUSIONS

    SCOPE FOR FURTHER RESEARCH

    ACKNOWLEDGMENTS

    REFERENCES

    APPENDIX/ANNEXURE

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CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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BUYING BEHAVIOUR AND PERCEPTION OF RETAIL INVESTORS TOWARDS MUTUAL FUND SCHEMES

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ABSTRACT

It is always a complex process to make a good investment. There are sorts of investment avenues where investors can use their savings and get reimbursement as per their earning. Several investors' purchase mutual fund because it invites the prospective investors to join the fund by offering various schemes according to their requirement. The purpose of this research paper is to find out the importance of those factors which influencing the investment decision of retail investors during mutual fund schemes. In order to obtain the objectives of this study we use both primary and secondary data. The primary data has been collected by questionnaire filled by 200 mutual fund investors. The results of the present study revealed that quality of fund/scheme is the highly important factor considered by the selected mutual fund investors. This study also discovered that Investors related services are least important factor for the selected sampled investors. Findings of the study will have some useful managerial implications for the AMCs in their product designing, marketing and management of the fund and may also help in making cost effective strategic decisions and hence would be of interest to both existing and new mutual fund managers and individual investors.

KEYWORDS

Retail investors, Mutual Fund, Investment.

INTRODUCTION

In financial markets, "expectations" of the investors play a vital role. These 'expectations' of the investors are influenced by their "perception" and humans generally relate perception to action. Mutual fund is a professionally managed firm of collective investments that collect money from investors and invest it in stock, bond and short term money market instrument. By the definition of AMFI "Mutual fund in India is a kind of collective investment that is managed professionally. In Mutual fund in India, the money is collected from a large number of investors and then it is invested in bonds, stocks, and various other securities. The fund manager of Mutual fund in India collects the interest income which is then distributed among the individual investors on the basis of the number of units that they hold". Mutual fund industry is regulated by the Securities Exchange Board of India. In India there are various companies which are dealing in mutual fund such as Reliance Mutual Funds, HDFC , ABN Amro, AIG, Bank of Baroda, Canara Bank, Birla Sun Life, DSP Merrill Lynch, DBS Chola Mandalam AMC, Escorts Mutual, Deutsche Bank, ING, HSBC, UTI , ICICI Prudential and LIC. In order to find out the best performing mutual fund in market, one can use its net assets value (NAV). In current scenario most popular mutual funds are Reliance Growth Fund, HDFC Top 200 Fund, HDFC Equity Fund, ICICI Pru Infrastructure, Reliance Natural Resources, Reliance Vision Fund, DSP-BR India T.I.G.E.R , SBI Magnum Contra Fund, Fidelity Equity Fund, Franklin India Bluechip, UTI Infra-Advantage – Sr 1, DSP-BR Top 100 Equity and Tata Infrastructure Fund etc. The purpose of this study is to find out those factors, investing characteristics, decision making process which influences the behavior of selected mutual fund investors.

REVIEW OF LITERATURE

This paragraph gives a brief review of literature regarding various studied conducted on investor perception, preferences and behavior. Fitzsimons et al. (1994) conducted a study on approximately 300 affluent investors to understand mutual fund investor's decision making process and the factors they consider while taking a purchase decision about mutual fund. This survey exposed that investors invest in mutual fund due to less risk associate with mutual fund investment. A study related the manner in which investors make their investment decision is conducted by Capon et al. (1996) and carried a study to investigate the manner in which consumers make investment decision for mutual funds. They reported that investors considered many non-performance related factors. A study was carried by Sikidar and Singh (1996) conducted a study to understand the behavioral aspects of the investors of the North Eastern region towards equity and mutual funds investment portfolio. The survey concluded that major investment in mutual fund is by salaried and self employed people due to tax concessions.
Khaneman and Riepe (1998) carried out various aspects of investors psychology and it was concluded that the client should be aware of the uncertainty which is attached with the investment and Broker should communicate realistic odd success to the client before making an investment decision consider the possibility that the trace is based on random factors through historical volatilities and covariance. A study has been done by Rajeswari (1998) to know the factors influencing fund/scheme selection behaviour of retail investors. The main objective of the survey is to understand the saving preference among mutual fund investors, scheme preference of investors and information source. It was revealed that most preferred investment vehicle is bank deposit and mutual fund is not preferred at that time. Chakarabarti and Rungta (2000) carried out a survey of mutual fund investors. The study concluded that the brand image factor is basically influencing the investors for investing in mutual fund schemes. This brand image cannot be easily captured by computable performance measures. It influences the investor's perception and hence his fund/scheme selection behaviour.
Ranganathan (2006) examined the related aspects of the fund selection behaviour of individual investors towards mutual fund in Mumbai city. The major objective behind this study was to assess the saving objectives and identify the preferred saving avenue among individual investors. It was concluded that pension and provident funds is the most popular saving instrument. Bergstresser et al. (2009) conducted a survey to quantify the benefits that investors enjoy in exchange for the costs of these services. It was resulted that broker-sold and direct-sold funds from 1996 to 2004 and fail to find that brokers deliver substantial tangible benefits. It was concluded that brokers deliver substantial intangible benefits that do not observe and there are material conflicts of interest between brokers and their clients. Laibson et al. (2009) studied, why individuals investors invest in high-fee index mutual funds and revealed that investors buy high-fee index funds because of bundled non portfolio services. Fees paid decrease with financial literacy. Interestingly, investors who choose high-fee funds sense they are making a mistake.
Khalid et al. (2010) carried out a research to evaluate the performance of close end mutual funds using two new ratios concluded that the close end mutual are not performing well due changes in the capital market. The managers need to be more efficient to earn good returns and use such strategies which can ensure better returns. Hartzalli et al. (2010) who conducted a research to evaluate the performance of real estate mutual funds concluded that funds which are actively managed by the managers due aggressive and timing market strategy are more likely to generate the higher return for the investors. Moreover, funds whose tendency is not to invest in single segment, for them, other benchmark is selected based on the preferred horizon of investment. Moreover, fund can earn

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superior return on the basis of information available to the fund manager because the manager can use this information to come up with the best diversified portfolio to earn more return.

Sai kishore (2011) conducted a study on mutual funds in India. This study shows that mainly there are two types of funds equity and debt funds. Diversified equity has done very well while sartorial categories have fared poorly in Indian market. Index Funds have delivered much less compared to actively managed Funds. Gilt and Income Funds have performed very well during the last three years. They perform best in a falling interest environment. Since interest rates are now much lower, short term Funds are preferable. Diversified equity – Zurich Equity, Franklin India Bluechip, Sundaram Growth. These Funds show good resilience giving positive results. Gilt Funds – DSP Merrill Lynch, Tata GSF, and HDFC Gilt have done well. Income Fund – HDFC, Alliance, Escorts and Zurich are top performers Short Term Funds – Pru ICICI, Franklin Templeton is recommended.

OBJECTIVES OF THE STUDY

The overall aim is to conduct a study on mutual fund selection behaviour of retail investors. It can be further divided in to the following sub-objectives:

1. To understand the investment avenue preference among mutual fund investors.
2. To know the preference of mutual fund investors regarding investment objectives and mutual fund schemes.
3. To identify the importance of those factors which influencing the investment decision of retail investors.

RESEARCH METHODOLOGY

Data has been collected from both primary and secondary sources. The primary data has been collected by a structured questionnaire filled by two hundred MF investors. The secondary data has been collected from various websites, journal, books and Newspapers etc. A sample of two hundred mutual fund investors belonging to Hisar city has been selected based on convenience. Statistical techniques have been used to analyze the data, such as mean, ranking and chi square test. Mean and ranking have been used to calculate the preference for investment avenues, objective of mutual fund investment, type of mutual fund scheme preference and category of mutual fund etc. Chi square test has been used to check the importance given by mutual fund investors for the various factors such as quality of fund/scheme, Fund sponsor qualities and investors related services. Further these three factors have divided into various sub-factors.

RESULTS AND DISCUSSION

Mutual funds have emerged as an important investment avenue for retail investors. Objective of this study is to understand the buying behavior and perception of mutual fund investors. The respondents were given a list of nine investment avenues in which they would prefer to invest. They were asked to rank 1 for most preferred and 9 for least preferred Investment Avenue. From the responses recorded, mean values were calculated. The analysis of the Table 1 reveals that Bank Deposit and Cash secures the first and second rank respectively among all the investment avenues. Share/Bonds and UTI & Mutual fund both have been carried the same mean rank of 4.63 and taken the same position among preference for investment avenues (3.5).This reconfirms the preference of investors for Bank Deposit, Cash, Share/Bonds and mutual fund schemes because of safety of investment, liquidity available and regular or reasonable return associated with these avenues. Next comes Insurance Scheme (4.76), Gold (5.46), Real Estate (5.50), Postal Scheme (5.59). Pension & PF (5.86) has been least preferred because of less benefit associated with these schemes. To sum up, it can be said that mutual fund preferred at 3.5 ranks by mutual fund investors in all nine investment avenues.

In Table 2 it is observed that majority of the investors prefer 'Growth' scheme as these schemes has feature of capital appreciation boon with Investment Avenue. Balanced schemes stand at second rank because it has the feature of both appreciations in stock as well as regular return in the shape of interest and dividend. A large number of mutual funds have come up with schemes which ensure tax benefits to the subscribers besides some income and small appreciation in value of units so, tax saving schemes gets third rank. Money market schemes catch forth rank. Income scheme has been carried the fifth rank. These funds aim at providing maximum current return/income to the investors. Index fund and fixed maturity plans are least preferred. Thus, the findings from Table No. 2 and 3 reconfirms each other that good return/ capital appreciation, safety and tax benefit are the most important objective of mutual fund investment and that is why growth, balanced and tax saving schemes are most preferred by sample respondents.

The respondents were given a list of 5 objectives of mutual fund investment. The objectives of mutual funds have been ranked on five point scale from most preferred to least preferred. From the responses recorded in Table 3, mean values were calculated. On the basis of these mean ranks the investors give most preference to 'Good return/Capital appreciation' than 'Safety' and tax benefits with mean rank of 1.70, 3.12 and 3.60 respectively That's why they prefer the 'Bank Deposit' and 'Cash' as an investment avenues due to safest avenues and then 'Mutual funds' and 'Share/Bonds' investment avenues because they get reasonable return along with safety and tax benefits. After that, they prefer the liquidity and diversification respectively.

Table 4, presented that quality of the fund/scheme is considered as main factor while investors invest in mutual fund. The quality of fund/scheme consist ten sub factors such as fund performance record, fund reputation/brand, scheme's expenses ratio, scheme's portfolio of investment, reputation of fund manager, withdrawal facilities, favorable credit rating, innovativeness of scheme, product with tax benefit and entry and exit load. After that, they give importance to fund sponsor quality. Fund sponsor quality include a number of variable such as reputation of sponsor, sponsor has a well developed network, sponsor's expertise in managing money, sponsor has a well developed research wing and sponsor's past performance in term of risk and return. Less importance is given to investor related services like disclosure of investment objective in the advertisement; disclosure of method and periodicity in documents, disclosure of NAV on every trading day, mutual fund's investor's grievance redresses machinery and fringe benefits. Further, the investor's preference for these sub-factors has been measured. Investor's decision to invest in a particular mutual fund is most affected by a number of sub factor comprising qualities of fund/scheme.

Five point likert scale of highly important, important, somewhat important, not very important and not at all important were the respondents' choices. The result of table 5 showed that the investors give more preference to fund performance record, fund reputation/brand and scheme's portfolio of investment with mean rank 4.47, 4.30 and 4.22 respectively. Scheme's expenses, favorable credit rating and innovativeness of the scheme are least preferred by sample respondents. Here we made a hypothesis to identify the significant difference for the various factors of quality of mutual fund/scheme and used Chi-square test for testing this hypothesis.

HYPOTHESIS 1:- QUALITIES OF FUND/SCHEME DOES NOT AFFECT THE MUTUAL FUND INVESTMENT DECISION OF RETAIL INVESTORS.

The statistical analysis of the first hypothesis is presented in table 6. The results discovered that at five percent level of significance with the degree of freedom 4, the value of chi-square are 121.85, 178, 156.05 and 179.15 for the factor $F_{1,3}$, $F_{1,5}$, $F_{1,6}$ and $F_{1,7}$ respectively and at the degree of freedom 3 the values are 225.48, 165.72, 99.08, 85.92, 115 and 83.36 for the factor $F_{1,1}$, $F_{1,2}$, $F_{1,4}$, $F_{1,8}$, $F_{1,9}$ and $F_{1,10}$ respectively which is higher than the tabulated value of 9.4 at degree of freedom 4 and 7.82 at degree of freedom 3. The results presented the opinion of the respondents that our hypothesis is rejected. So we concluded that various factors of qualities of Fund/Scheme affect the mutual fund investment decision of retail investors.

Table 6 showed that sponsor's past performance in term of risk and return and reputation of sponsor is most preferred by investors. Next factor they considered is sponsor's expertise in managing money and sponsor has a well-developed network. Least preference is given to sponsor has a well-developed research wing. Here we made a hypothesis to test whether fund sponsor qualities has impact on purchase decision of mutual fund investors or not. To test it we used Chi-square test.

HYPOTHESIS 2:- FUND SPONSORS QUALITY DOES NOT AFFECT THE MUTUAL FUND INVESTMENT DECISION OF RETAIL INVESTORS.

At the degree of freedom 3 and level of significance 0.05, the chi-square statistical figures are 105.32, 115.68 and 106.32 for the factor $F_{2,1}$, $F_{2,2}$ and $F_{2,3}$ respectively at the degree of freedom 4, and the values are 164.2 and 164.6 for the factor $F_{2,4}$ and $F_{2,5}$ respectively at degree of freedom 3 which is higher than the tabulated value of 7.82 at degree of freedom 3 and 9.4 at degree of freedom 4. It means investors give importance to the factors of fund sponsor quality and null hypothesis will be rejected.

From the table 7, it can be seen that investors give first preference to disclosure of NAV on every trading day. Disclosure of investment objective in the advertisement and disclosure of method and periodicity of in documents gets second and third rank respectively. MF's investor's grievance redresses machinery

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and fringe benefits i.e., free insurance, tax benefits, etc are least preferred. Similarly we use a hypothesis to know the impact of investor's related services on the mutual fund investors' decisions. To test this hypothesis we used Chi-square test.

HYPOTHESIS 3:- INVESTOR'S RELATED SERVICES DOES NOT AFFECT THE MUTUAL FUND INVESTMENT DECISION OF RETAIL INVESTORS.

At the level of significance of 0.05 with the degree of freedom 3, the computed shows statistical figures are 81.96, 132, 138.64 and 77 for the factors $F_{3,1}$, $F_{3,2}$, $F_{3,3}$ and $F_{3,4}$ respectively at the degree of freedom 4 and the value is 153.95 for $F_{3,5}$ at degree of freedom 3 which is higher than the tabulated value of 7.82 at degree of freedom 3 and 9.4 at degree of freedom 4. Result showed that the factors of investor's related services affect the mutual fund investment decision of retail investors.

CONCLUSION

Mutual funds are meant for small investors and their success depends on the knowledge of complex stock market. This study has focused on how investment behavior of fund investors varies in terms of preference and selection of MF schemes. It can be concluded that investors invest their money in mutual fund with the objective of good return, safety and tax benefit. In all nine investment avenues, the most preferred investment vehicle is bank deposit. Investors give equal importance to mutual fund and share/bond. Growth schemes and balanced schemes are most preferred in comparison to other schemes. Fixed maturity schemes are least preferred by mutual fund investors. According to this study it can be said that most important factor considered by mutual fund investors is quality of fund/scheme. It is further revealed that the investors are influenced by the sponsor's past performance of risk and return, the reputation enjoyed by the sponsor and their expertise in managing money when they invest their money in mutual fund scheme. It is hoped that findings of this study can help to AMFI/SEBI to design, marketing and management of their funds. The results of this study will also help to AMC in product designing to meet the investors' need and be alert to capture the changing market moods and innovative. Hence this is helpful for both existing and new mutual funds; funds manager and individual investors.

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APPENDIX

TABLE 1: INVESTMENT AVENUE PREFERRED BY SAMPLE RESPONDENTS

Investment Avenue	Mean Rank (Overall Rank)
Cash	4.11 (2)
Insurance Schemes	4.76 (5)
Share	4.63 (3.5)
Postal Schemes	5.59 (8)
Real Estate	5.50 (7)
Bank Deposit	3.72 (1)
Pension & Provident fund	5.86 (9)
Mutual Fund	4.63 (3.5)
Gold	5.46 (6)

TABLE 2: MUTUAL FUND SCHEMES PREFERRED BY SAMPLE RESPONDENTS

Type of Scheme	Mean Rank (Overall Rank)
Growth	2.37 (1)
Balanced	2.90 (2)
Income	4.28 (5)
Money Market	4.27 (4)
Tax Saving	3.85 (3)
Index	5.64 (7)
Fixed Maturity	4.69 (6)

TABLE 3: OBJECTIVES OF MUTUAL FUND INVESTMENT OF SAMPLE RESPONDENTS

Objective of MF	Mean Rank (Overall Rank)
Safety	3.12 (2)
Good Return	1.70 (1)
Tax Benefit	3.60 (3)
Liquidity	4.00 (4)
Diversification	4.78 (5)

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TABLE 4: IMPORTANCE OF FACTOR AFFECTING THE MUTUAL FUND SELECTION BY SAMPLE RESPONDENTS

Factors (Factor Code)	Mean Rank (Overall Rank)
Quality of Fund/Scheme (F_1)	1.46 (1)
Fund Sponsor Quality (F_2)	2.10 (2)
Investor's Related Services (F_3)	2.48 (3)

TABLE 5: STATISTICAL ANALYSIS OF SUB-FACTORS RELATED TO QUALITY OF FUND/SCHEME

Quality of Fund/Scheme (Sub-Factor Code)	Mean Rank (Overall (Rank)	Chi Square	Degree of freedom (df)	Asymp. Sig.
Fund Performance Record ($F_{1,1}$)	4.47 (1)	225.48	3	.000
Fund Reputation/Brand ($F_{1,2}$)	4.30 (2)	165.72	3	.000
Scheme's Expenses Ratio ($F_{1,3}$)	4.02 (8)	121.85	4	.000
Scheme's Portfolio of Investment ($F_{1,4}$)	4.22 (3)	99.08	3	.000
Reputation of Fund Manager ($F_{1,5}$)	4.21 (4)	178	4	.000
Withdrawal Facilities ($F_{1,6}$)	4.06 (7)	156.05	4	.000
Favorable Credit Rating ($F_{1,7}$)	3.99 (9)	179.15	4	.000
Innovativeness of Scheme ($F_{1,8}$)	1.8 (10)	85.92	3	.000
Product with Tax Benefit ($F_{1,9}$)	4.19 (5)	115	3	.000
Entry and Exit Load ($F_{1,10}$)	4.10 (6)	83.36	3	.000

TABLE 6: STATISTICAL ANALYSIS OF SUB-FACTORS RELATED TO FUND SPONSOR QUALITIES

Fund Sponsor Qualities (Sub-Factor code)	Mean Rank (Overall Rank	Chi Square	Degree of freedom (df)	Asymp. Sig.
Reputation of Sponsor ($F_{2,1}$)	4.18 (2)	105.32	3	.000
Sponsor has a well Developed Network ($F_{2,2}$)	4.12 (4)	115.68	3	.000
Sponsor's Expertise in Managing Money ($F_{2,3}$)	4.17 (3)	106.32	3	.000
Sponsor has a well Developed Research Wing ($F_{2,4}$)	4.10 (5)	164.2	4	.000
Sponsor's Past Performance of Risk and Return ($F_{2,5}$)	4.19 (1)	164.6	4	.000

TABLE 7: STATISTICAL ANALYSIS OF SUB-FACTORS RELATED TO INVESTOR'S RELATED SERVICES

Investor's Related Services (Sub-Factor code)	Mean Rank (Overall Rank	Chi Square	Degree of freedom (df)	Asymp. Sig.
Disclosure of Investment Objective in the Advertisement ($F_{3,1}$)	4.08 (2.5)	81.96	3	.000
Disclosure of Method and Periodicity of in Documents ($F_{3,2}$)	4.08 (2.5)	132	3	.000
Disclosure of NAV on Every Trading Day ($F_{3,3}$)	4.33 (1)	138.64	3	.000
MF Investors' Grievance Redresses Machinery ($F_{3,4}$)	4.06 (4)	77	3	.000
Fringe Benefits , Free Insurance, Tax Benefits, etc ($F_{3,5}$)	4.05 (5)	153.95	4	.000

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Sd/-

Co-ordinator

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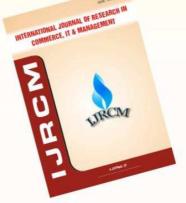www.ijrcm.org.in

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