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IDENTIFY THE UNDERSTANDING LEVEL OF INVESTORS TOWARD SAFETY, RISK AND RISK RETURN ASSOCIATION OF MUTUAL FUND SCHEMES OF TAMILNADU - WITH SPECIAL REFERENCE TO CHENNAI, COIMBATORE, MADURAI AND TRICHY DISTRICT

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ABSTRACT

The identification of risk return association between any kinds of investment is more important one. So, the researcher wants to identify the understanding level of investors toward safety, risk and risk and return association of mutual fund schemes are described below. The mutual fund investment with respect to the predominant reasons of regular income, growth income, Tax savings, balanced fund, sector fund, pension fund, money market, gift fund and any other, in 4 cities. The identification of risk return association between any kinds of investment is more important one. So, the researcher wants to identify the understanding level of investors toward safety, risk and risk and return association of mutual fund schemes are described below. The mutual fund investment with respect to the predominant reasons of regular income, growth income, Tax savings, balanced fund, sector fund, pension fund, money market, gift fund and any other, in 4 cities.

KEYWORDS

safety, risk and risk return association of mutual fund schemes.

INTRODUCTION

The mutual fund institutions have entered a new era in India. The so-called second phase of reforms has slowly crept in and is almost half way through without any formal say-so. Financial Markets, Financial Institutions, Financial services and financial instruments are playing an important role for smooth economic activities of India and transfer or allocation of funds in an efficient manner. The mutual funds have grown to be an important part of the Indian financial system. The main aim of the Indian financial system is that of providing efficient services to the capital market. Mutual fund is one of the financial mechanisms which play an important role to improve not only economic system of India but also improves financial market, institutions, service and instruments. A mutual fund is a vehicle to pool money from investors, with a promise that the money would be invested in a particular manner, by professional managers who are expected to honour the promise.

Mutual fund is the most suitable investment for the common man, and under the system a pool of money is collected from various individuals based on their trust and who are willing to share a common financial interest, like capital and dividend appreciation. The pooled money is then invested in Wealth Maximization Avenues such as shares, debentures and in foreign markets. The profit gained from investments is shared by unit holders in proportion to the number of units owned by them. According to their investment, the investors get the units as per the unit value which is called as Net Assets Value (NAV). The rich experienced fund managers can manage "risk-return-trade-off" where they minimize the risk and maximize the return through diversification of the portfolio. Mutual fund plays an important role to provide an alternative avenue to the investors who want to diversify their investments in a scientific and professional manner. The Indian mutual fund system has grown at a dynamic speed, influencing various sectors of the financial market and the National economy. The Indian economy is under transition on account of the on-going structural adjustment programs and liberalization. The money market mutual fund segment has a total corpus of $1.48 trillion in the U.S against a corpus of $100 million in India.[1] For many investors, mutual funds are the investment vehicle of choice. And, this is increasingly so. From 1991 to 1999 in the U.S., the value of corporate equities held by mutual funds increased ten-fold, from $309 billion in 1991 to $3.4 trillion in 1999. In contrast, direct ownership of common stock increased only three-fold during the same period, from $2.6 trillion to $7.8 trillion. In 1991, 6.4 percent of common stocks were held indirectly through mutual funds; in 1999, that figure had grown to 18 percent.[2] In 1999, nearly half of all U.S. households owned a mutual fund.[3] Given the size and growing importance of mutual fund investors, it is important to gain a better understanding of their behavior. In India mutual funds are governed by the regulations of Securities and Exchange Board of India (SEBI).

OBJECTIVES OF THE STUDY

1. To understand the Mutual Fund Mechanism in India.
2. To measure investors safety level in investing mutual fund scheme.
3. To measure the Investors' Risk Level in Investing Mutual Fund Schemes.

REVIEW OF LITERATURE

Robert J. Shiller (1993) reported that most of the mutual fund investors don't have the ability of interpretation and data analysis skills. The unreceptive investors elected their investment choices on the basis of information received from scientific avenues.

Phillip (1995) reported that the result of participating in investors' education programme depends upon changes in financial decision-making and investor behavior.

Madhusudhan V Jambodekar (1996) evaluated the alertness of Mutual Fund investors. The study showed that the sources of information were authority more the purchasing judgment and the reasons authorizing the selection of a mutual fund. The research revealed that income and open ended mutual fund schemes were offered by many investors than growth and close ended mutual fund schemes at the time of customary market conditions. The investors' order preference was first safety then liquidity and finally capital appreciation. Newspapers and magazines were their first sources of information.

Shanmugham (2000) conducted a study related to the information source of investors and their insight of different investment approach measurements and the factors that motivated to invest in share and psycho and socio factors which dictated the factors of economic in investment in shares.

Elizabeth Howlett, Michael Pagano Kozup, and John C (2008) tested the impact of available information (internal and external) on the understanding altitude of characteristics of mutual fund. The study shows that investors' first preference before going to investment in mutual fund is gathering information. The information may be in the form of graphical layout and oral information from the investors. Hence the information plays significant role on investors' sensitivity and understanding of investment in mutual funds.

ANALYSIS

SAFETY LEVEL OF MUTUAL FUND SCHEMES

The identification of risk return association between any kinds of investment is more important one. So, the researcher wants to identify the understanding level of investors toward safety, risk and risk and return association of mutual fund schemes are described below. The mutual fund investment with respect to the predominant reasons of regular income, growth income, Tax savings, balanced fund, sector fund, pension fund, money market, gift fund and any other, in 4 cities is cross tabbed with measure of safety and presented in the following table.

TABLE 1: INVESTORS' SAFETY LEVEL IN INVESTING MUTUAL FUND SCHEMES

Scheme name	City	Absolute safe	Reasonable safe	Somewhat safe	Insecure	Highly Insecure
Regular income scheme	Chennai	17 (29.31)	31 (53.45)	10 (17.24)	-	-
	Madurai	44 (62.86)	25 (35.71)	1 (1.43)	-	-
	Coimbatore	20 (74.07)	7 (25.93)	-	-	-
	Trichy	53 (58.24)	25 (27.47)	13 (14.29)	-	-
Growth income scheme	Chennai	-	37 (66.07)	14 (25)	5 (8.93)	-
	Madurai	1 (1.47)	21 (30.88)	34 (50)	12 (17.65)	-
	Coimbatore	-	12 (50)	10 (41.67)	2 (8.33)	-
	Trichy	13 (14.61)	32 (35.96)	41 (46.07)	3 (3.37)	-
Tax savings scheme	Chennai	41 (73.21)	15 (26.79)	-	-	-
	Madurai	24 (35.29)	41 (60.29)	3 (4.41)	-	-
	Coimbatore	7 (26.92)	19 (73.08)	-	-	-
	Trichy	30 (32.61)	49 (53.26)	13 (14.13)	-	-
Balanced fund scheme	Chennai	19 (35.85)	22 (41.51)	12 (22.64)	-	-
	Madurai	25 (36.23)	32 (46.38)	12 (17.39)	-	-
	Coimbatore	7 (26.92)	14 (53.85)	5 (19.23)	-	-
	Trichy	40 (45.45)	29 (32.95)	19 (21.59)	-	-
Sector fund scheme	Chennai	15 (26.32)	20 (35.09)	22 (38.6)	-	-
	Madurai	11 (16.92)	15 (23.08)	39 (60)	-	-
	Coimbatore	3 (13.04)	8 (34.78)	12 (52.17)	-	-
	Trichy	3 (3.41)	35 (39.77)	50 (56.82)	-	-
Pension fund scheme	Chennai	6 (10.17)	35 (59.32)	18 (30.51)	-	-
	Madurai	2 (2.82)	40 (56.34)	29 (40.85)	-	-
	Coimbatore	10 (37.04)	12 (44.44)	5 (18.52)	-	-
	Trichy	19 (20.43)	25 (26.88)	49 (52.69)	-	-
Money market scheme	Chennai	7 (13.46)	14 (26.92)	30 (57.69)	1 (1.92)	-
	Madurai	4 (6.67)	10 (16.67)	44 (73.33)	2 (3.33)	-
	Coimbatore	-	3 (15.79)	16 (84.21)	-	-
	Trichy	6 (6.98)	15 (17.44)	63 (73.26)	2 (2.33)	-
Gift fund scheme	Chennai	4 (6.78)	18 (30.51)	37 (62.71)	-	-
	Madurai	5 (7.25)	15 (21.74)	49 (71.01)	-	-
	Coimbatore	2 (8.7)	4 (17.39)	17 (73.91)	-	-
	Trichy	14 (15.22)	27 (29.35)	44 (47.83)	7 (7.61)	-
Any other	Chennai	2 (15.38)	7 (53.85)	4 (30.77)	-	-
	Madurai	1 (5.88)	6 (35.29)	10 (58.82)	-	-
	Coimbatore	-	2 (14.29)	12 (85.71)	-	-
	Trichy	1 (5.88)	1 (5.88)	15 (88.24)	-	-

Results: The above table shows that 74 per cent, 63 per cent and 58 per cent of investors felt absolutely safe when they invest in mutual fund scheme of regular income in Coimbatore, Madurai and Trichy respectively. The investors in Chennai also agreed as reasonably safe to invest in this scheme at 53 percent.

The investors in Chennai and Coimbatore agreed as reasonable safe to invest in growth income at 66 percent and 50 percent respectively. 50 percent of Madurai investors and 46 percent of Trichy investors agreed somewhat safe.

73 percent, 60 percent and 53 percent of investors in Coimbatore, Madurai and Trichy agreed reasonably safe to invest in tax savings mutual fund scheme respectively whereas the investors in Chennai agreed as absolute safe at 73 percent.

The mutual fund scheme of balanced fund is agreed as reasonably safe by the investors in Coimbatore, Madurai and Chennai at the percent of 53, 46 and 42 respectively. The investors in Trichy alone agreed at 45 percent as absolutely safe.

60 percent, 57 percent, 52 percent and 39 percent agreed that it was somewhat safe to invest in sector fund mutual fund scheme in Madurai, Trichy, Coimbatore and Chennai respectively.

The investors at 59 percent in Chennai and 56 percent in Madurai agreed that it was reasonably safe to invest in pension fund scheme whereas 52 percent investors in Trichy agreed that it was somewhat safe and 37 percent in Coimbatore agreed it as absolutely safe.

In Coimbatore 83 percent, Madurai 73 percent, Trichy 73 percent and Chennai 58 percent of investors agreed that it was somewhat safe to invest in money market mutual fund scheme.

Gift fund scheme was agreed by the investors at 74 percent, 71 percent, 63 percent and 48 percent in Coimbatore, Madurai, Chennai and Trichy respectively as somewhat safe to invest.

88 percent, 86 percent and 59 percent of investors agreed that it was somewhat safe if they preferred any (other) mutual fund scheme among these 9 schemes in Trichy, Coimbatore and Madurai respectively whereas the investors in Chennai agreed as that it was absolutely safe.

Of the safety level perception of mutual fund investors towards 9 kinds of mutual funds, investors in Madurai perceived more safety conscious followed by Trichy, Chennai and Coimbatore.

RISK LEVEL OF MUTUAL FUND SCHEMES

Now, the researcher wants to identify the perception level of risk factor and the mutual fund investment with respect to the predominant reasons of regular income, growth income, Tax savings, balanced fund, sector fund, pension fund, money market, gift fund and any other. In 4 major cities this factor is cross tabbed with measure of risky level computed and is presented in the following table.

TABLE 2: INVESTORS' RISK LEVEL IN INVESTING MUTUAL FUND SCHEMES

Scheme name	City	Highly risk	Risk	Moderate risk	Risk free	Highly risk free
Regular income scheme	Chennai	-	-	10 (17.24)	31 (53.45)	17 (29.31)
	Madurai	-	-	1 (1.43)	25 (35.71)	44 (62.86)
	Coimbatore	-	-	-	7 (25.93)	20 (74.07)
	Trichy	-	-	13 (14.29)	25 (27.47)	53 (58.24)
Growth income scheme	Chennai	1 (1.75)	5 (8.77)	14 (24.56)	37 (64.91)	-
	Madurai	4 (5.56)	12 (16.67)	34 (47.22)	21 (29.17)	1 (1.39)
	Coimbatore	2 (7.69)	2 (7.69)	10 (38.46)	12 (46.15)	-
	Trichy	3 (3.33)	5 (5.56)	37 (41.11)	45 (50)	-
Tax savings scheme	Chennai	-	-	4 (7.02)	16 (28.07)	37 (64.91)
	Madurai	-	-	25 (35.71)	35 (50)	10 (14.29)
	Coimbatore	-	-	3 (12.5)	15 (62.5)	6 (25)
	Trichy	-	-	13 (14.94)	44 (50.57)	30 (34.48)
Balanced fund scheme	Chennai	-	-	12 (22.64)	22 (41.51)	19 (35.85)
	Madurai	-	-	15 (22.73)	26 (39.39)	25 (37.88)
	Coimbatore	-	-	5 (19.23)	14 (53.85)	7 (26.92)
	Trichy	-	-	19 (23.17)	23 (28.05)	40 (48.78)
Sector fund scheme	Chennai	-	-	22 (38.6)	20 (35.09)	15 (26.32)
	Madurai	-	-	22 (45.83)	15 (31.25)	11 (22.92)
	Coimbatore	-	-	12 (52.17)	8 (34.78)	3 (13.04)
	Trichy	-	2 (2.15)	45 (48.39)	40 (43.01)	6 (6.45)
Pension fund scheme	Chennai	-	-	18 (30.51)	35 (59.32)	6 (10.17)
	Madurai	-	-	29 (40.85)	40 (56.34)	2 (2.82)
	Coimbatore	-	-	5 (18.52)	12 (44.44)	10 (37.04)
	Trichy	-	-	49 (52.69)	25 (26.88)	19 (20.43)
Money market scheme	Chennai	-	1 (1.92)	30 (57.69)	14 (26.92)	7 (13.46)
	Madurai	-	2 (3.39)	39 (66.1)	14 (23.73)	4 (6.78)
	Coimbatore	-	-	16 (84.21)	3 (15.79)	-
	Trichy	-	2 (2.33)	63 (73.26)	15 (17.44)	6 (6.98)
Gift fund scheme	Chennai	-	-	37 (62.71)	18 (30.51)	4 (6.78)
	Madurai	-	-	46 (69.7)	15 (22.73)	5 (7.58)
	Coimbatore	-	-	17 (73.91)	4 (17.39)	2 (8.7)
	Trichy	-	7 (8.05)	39 (44.83)	27 (31.03)	14 (16.09)
Any others	Chennai	-	2 (15.38)	4 (30.77)	7 (53.85)	-
	Madurai	-	4 (20)	10 (50)	6 (30)	-
	Coimbatore	-	1 (6.67)	12 (80)	2 (13.33)	-
	Trichy	-	2 (11.11)	15 (83.33)	1 (5.56)	-

Result: The investors in Coimbatore, Madurai, Trichy agreed as highly risk free when they invest in regular income mutual fund scheme at 74 percent, 63 percent and 58 percent respectively whereas 53 percent of investors in Chennai agreed it as the only risk free mutual fund scheme.

The growth income scheme is agreed as risk free scheme by the investors in Chennai, Trichy, and Coimbatore at 65 percent, 50 percent and 46 percent respectively whereas 47 percent of investors in Madurai agreed it as moderate risky.

63 percent, 51 percent and 50 percent of investors in Coimbatore, Trichy and Madurai agreed that it was risk free scheme to invest in tax savings mutual fund scheme and 65 percent of investors in Chennai agreed it as the highly risk free.

The investors at 53 percent, 42 percent and 39 percent in Coimbatore, Chennai and Madurai agreed balanced fund scheme as risk free scheme respectively but the investors in Trichy agreed it at 49 percent.

52 percent, 46 percent, 48 percent and 39 percent agreed sector fund scheme as moderately risk schemes in Coimbatore, Madurai, Trichy and Chennai respectively.

In Chennai 59 percent, Madurai 56 percent and in Coimbatore 44 percent of investors agreed pension fund scheme as risk free to invest whereas the investors in Trichy only agreed as moderately risk at 53 percent.

84 percent, 73 percent, 66 percent and 58 percent agreed money market scheme as moderately risk scheme in Coimbatore, Trichy, Madurai and Chennai respectively.

74 percent, 70 percent, 63 percent and 45 percent of investors in Coimbatore, Madurai, Chennai and Trichy agreed respectively agreed that the mutual fund scheme of gift fund scheme as moderately risk investment.

The investor in Chennai at 54 percent agreed that any mutual fund scheme among these 9 schemes is risk free scheme whereas the investors in Trichy, Coimbatore and Madurai agreed that they are moderately risk at 83 percent, 80 percent and 50 percent respectively.

The risk level perception of investors towards 9 kinds of mutual funds in four cities is different. But maximum investors' perception in all the cities is that investment in Mutual Fund is risk free.

RISK RETURNS ASSOCIATION BETWEEN MUTUAL FUND SCHEMES

The measure of risk returns association with specific reasons of regular income, growth income, Tax savings, balanced fund, sector fund, pension fund, money market, gift fund and any other, in the 4 major cities are cross tabbed and presented in the following table.

TABLE 3: INVESTORS' RISK RETURNS ASSOCIATION LEVEL IN INVESTING MUTUAL FUND SCHEMES

Scheme name	City	Absolutely association	Association	Some extent association	No association	Absolutely no association
Regular income scheme	Chennai	-	55 (94.83)	2 (3.45)	-	1 (1.72)
	Madurai	-	26 (100)	-	-	-
	Coimbatore	1 (1.47)	38 (55.88)	17 (25)	12 (17.65)	-
	Trichy	10 (10.99)	55 (60.44)	8 (8.79)	18 (19.78)	-
Growth income scheme	Chennai	-	1 (1.75)	54 (94.74)	2 (3.51)	-
	Madurai	-	-	25 (100)	-	-
	Coimbatore	4 (6.45)	1 (1.61)	47 (75.81)	9 (14.52)	1 (1.61)
	Trichy	5 (5.43)	17 (18.48)	45 (48.91)	13 (14.13)	12 (13.04)
Tax savings scheme	Chennai	-	1 (1.75)	54 (94.74)	2 (3.51)	-
	Madurai	-	-	24 (100)	-	-
	Coimbatore	-	-	42 (66.67)	18 (28.57)	3 (4.76)
	Trichy	-	15 (16.48)	55 (60.44)	13 (14.29)	8 (8.79)
Balanced fund scheme	Chennai	1 (1.82)	50 (90.91)	4 (7.27)	-	-
	Madurai	-	25 (100)	-	-	-
	Coimbatore	4 (5.8)	51 (73.91)	7 (10.14)	7 (10.14)	-
	Trichy	11 (12.22)	51 (56.67)	15 (16.67)	5 (5.56)	8 (8.89)
Sector fund scheme	Chennai	1 (1.72)	1 (1.72)	54 (93.1)	2 (3.45)	-
	Madurai	-	-	22 (100)	-	-
	Coimbatore	-	22 (30.99)	39 (54.93)	10 (14.08)	-
	Trichy	10 (11.24)	5 (5.62)	54 (60.67)	7 (7.87)	13 (14.61)
Pension fund scheme	Chennai	-	26 (46.43)	30 (53.57)	-	-
	Madurai	1 (4)	23 (92)	1 (4)	-	-
	Coimbatore	6 (8.57)	41 (58.57)	19 (27.14)	4 (5.71)	-
	Trichy	12 (12.77)	50 (53.19)	16 (17.02)	8 (8.51)	8 (8.51)
Money market scheme	Chennai	-	-	-	55 (96.49)	2 (3.51)
	Madurai	-	-	-	20 (100)	-
	Coimbatore	-	-	14 (21.21)	50 (75.76)	2 (3.03)
	Trichy	6 (6.9)	13 (14.94)	8 (9.2)	56 (64.37)	4 (4.6)
Gift fund scheme	Chennai	-	-	-	55 (96.49)	2 (3.51)
	Madurai	-	1 (3.7)	-	26 (96.3)	-
	Coimbatore	8 (13.11)	4 (6.56)	14 (22.95)	34 (55.74)	1 (1.64)
	Trichy	-	7 (10)	9 (12.86)	51 (72.86)	3 (4.29)
Any others	Chennai	-	-	-	55 (96.49)	2 (3.51)
	Madurai	-	-	-	12 (100)	-
	Coimbatore	2 (3.23)	10 (16.13)	11 (17.74)	30 (48.39)	9 (14.52)
	Trichy	7 (8.14)	12 (13.95)	4 (4.65)	57 (66.28)	6 (6.98)

Result: The above table shows that 100 per cent, 95 per cent, 60 per cent and 56 per cent of investors in Madurai, Chennai, Trichy and Coimbatore respectively agreed that regular income scheme has risk and return association.

The investors in Madurai, Chennai, Coimbatore and Trichy agreed at 100 percent, 95 percent, 76 percent and 49 percent respectively that growth income scheme has some extent risk return association.

100 percent, 95 percent, 67 percent and 60 percent agreed that tax savings scheme was having some extent risk return association to by the investors in Madurai, Chennai, Coimbatore and Trichy respectively.

100 percent, 91 percent, 74 percent and 57 percent of the investors in Madurai, Chennai, Coimbatore and Trichy respectively agreed that balanced fund scheme has risk return association.

100 percent, 93 percent, 61 percent and 55 percent of the investors agreed that sector fund scheme has some extent risk return association by the investors in Madurai, Chennai, Trichy and Coimbatore respectively.

92 percent, 59 percent and 54 percent of the investors in Madurai, Coimbatore and Trichy respectively agreed that pension fund has risk return association. Whereas 53 percent investors in Chennai agreed that it was to some extent risk return association.

100 percent, 96 percent, 76 percent and 64 percent of the investors in Madurai, Chennai, Coimbatore and Trichy respectively agreed that money market scheme has no risk return association.

96 percent, 96 percent, 73 percent and 56 percent of the investors in Chennai, Madurai, Trichy and Coimbatore respectively agreed that gift fund scheme has no risk return association.

100 percent, 96 percent, 66 percent and 48 percent of the investors in Madurai, Chennai, Trichy and Coimbatore respectively agreed that other schemes has no risk return association.

The investors' perception of risk return association towards 9 mutual fund schemes, except Money Market Scheme, Gift Scheme and Others Scheme, is mean wise accepted by all investors in the four cities.

FINDINGS SAFETY LEVEL OF MUTUAL FUND SCHEMES: Of the safety level perception of mutual fund investors towards 9 kinds of mutual funds, investors in Madurai perceived more safety conscious followed by Trichy, Chennai and Coimbatore.

RISK LEVEL OF MUTUAL FUND SCHEMES: The risk level perception of investors towards 9 kinds of mutual funds in four cities is different. But maximum investors' perception in all the cities is that investment in Mutual Fund is risk free.

RISK RETURNS ASSOCIATION BETWEEN MUTUAL FUND SCHEMES: The investors' perception of risk return association towards 9 mutual fund schemes, except Money Market Scheme, Gift Scheme and Others Scheme, others are mean wise accepted by all investors in the four cities.

SUGGESTIONS

1. Investors must know that the superstitious approaches in investments give temporary winning and rational approach gives sustainable winning.
2. Try to avoid quit the market immediately after earning as much as profit possible in a short period.
3. Continuous observation, self evaluation and regulated reaction levels are necessary traits for ideal investors.
4. An ideal investor should not be a person satisfied with temporary decision taken in haste and must try to be a conventional investor aiming to maximize profit or minimize risk.

CONCLUSION

It may be concluded that like any other behavioral or social science, behavioural finance concept is based on certain assumptions; the concept is only a statement of general tendency or general behaviour of investors. The identification of risk return association between any kinds of investment is more important one. So, the researcher wants to identify the understanding level of investors toward safety, risk and risk and return association of mutual fund schemes are described below. The mutual fund investment with respect to the predominant reasons of regular income, growth income, Tax savings, balanced fund, sector fund, pension fund, money market, gift fund and any other shceme of four major cities.

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