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# A STUDY OF PERCEPTION OF INDIVIDUAL INVESTORS TOWARDS MUTUAL FUNDS-WITH REFERENCE TO GUJARAT STATE

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## ABSTRACT

*Indian capital market has been growing tremendously in last decades. The Indian Mutual Fund Industry is growing rapidly as a mechanism of pooling together the investment of unsophisticated investors and turn in the hands of professionally managed fund managers for consistent return along-with capital appreciation. This paper is an attempt to evaluate perception of individual investors towards Mutual Fund investments in Gujarat State. The finding will help mutual fund companies (AMC) to identify the factors that influence the perception of investors, for successful design of the product. It can be inferred from this study that mutual fund investors are moderately aware about mutual funds. Through discriminant analysis it can be stated from the analysis that their perception towards mutual fund differs as their level of experience. From analysis of investors' perception it can be concluded that they consider 'Tax benefits, Regulatory framework, and Comparative advantage of MFs to other investment avenues' as most significant criteria while investing in mutual funds.*

## KEYWORDS

Mutual Funds (MFs), Investments, Perceptions, Risk, Assets Management Companies.

## 1. INTRODUCTION

Indian capital market has been growing tremendously in last decades. In terms of financial market development, India ranks much better than high yielding equity market and most of Emerging market Economies (EMEs). Indian equity market capitalization has increased to Rs. 1.2 trillion as on 2011. Last two decades were of tremendous expansion of financial sector in India, led to growth in Banking, Equity, Insurance as well as Mutual funds Market. In order to channelize the small savings of Indian population, mutual funds took off its spread, supported by high growth of saving and investment rates.<sup>1</sup> Mutual funds are recognized as a mechanism of pooling together the investment of unsophisticated investors and turn in the hands of professionally managed fund managers for consistent return along-with capital appreciation. Mutual funds put forward a way out to investors to approach most schemes and get well-diversified portfolio because investors with small savings neither have sufficient expertise nor have access to required diversification.

## 2. STATEMENT OF PROBLEM

It should be noted that the 'awareness and expectations' of investors play vital role in the financial markets. They influence the price of the securities, the volume traded and various financial operations in actual practice. Investors attitude in market are influenced by their perception and they relate the perception to their investment behaviour. It is imperative that consumer (investor behaviour) is influenced by various factors like personal (age, stage in life cycle, occupation, economic circumstances, etc.) financial education, risk attitude and awareness and most significantly by perception about market.

## 3. LITERATURE REVIEW

Since 1992, a number of articles and brief essays have been published in financial dailies, periodicals, professional and research journals, explaining the basic concept of Mutual Funds and behaviour of investors on them. They underline the importance of mutual funds in the Indian capital market environment. They touch upon varied aspects like regulation of mutual funds investor expectations, investor safety, trend in growth and some other critical views on the performance and functioning of mutual funds schemes.

Ippolito (1992) found that fund/scheme selection by investors is based on past performance of the funds and money flows into winning funds more rapidly than they flow out of losing funds. Gupta (1994) conducted survey of household investors with the objective to provide data on the investor preferences on MFs and other financial assets. The study was more appropriate, at that time, to the policy makers of mutual funds to design the financial products for the future. Kulshreshta (1994) offers certain guidelines to the investors in selecting the mutual fund schemes. Shankar (1996) indicated that the Indian investors do view Mutual Funds as commodity products and AMCs, to capture the market should follow the consumer product distribution model.

Jambodekar (1996) conducted a study to assess the awareness of MFs among investors, with a view to identify the information sources influencing the buying decision and the factors influencing the choice of a particular fund. The study reveals among other things that Income Schemes and Open Ended Schemes are more preferred than Growth Schemes and Close Ended Schemes during the then prevalent market conditions. Sikidar and Singh (1996) conducted a survey with an objective to understand the behavioural aspects of the investors of the North Eastern region towards mutual funds investment portfolio. The study revealed that the salaried and self-employed formed the major investors in mutual fund primarily due to tax concessions.

Lynch and Musto (2003) stated that this decade will belong to mutual funds because the ordinary investor does not have the time, experience and patience to take independent investment decisions on his own. Goetzman and Peles (1997) provided the evidence of investor psychology affecting fund/scheme selection and switching. Khorana and Servaes (1999) had observed that the decision to introduce a new type of fund is affected by a number of variables, including investor demand for the fund's attributes.

Chakarabarti and Rungta (2000) stated the importance of brand effect in determining the competitive position of the AMCs. Their study reveals that brand image factor, though cannot be easily captured by computable performance measures, influences the investor's perception and hence his fund/scheme selection. Shanmugham (2000) conducted a survey of 201 individual investors to study the information sourcing by investors, their perceptions of various investment strategy dimensions and the factors motivating share investment decisions, and reports that among the various factors, psychological and sociological factors dominate the economic factors in investment decisions. Keli (2005) found that past performance and Fund's Investment Strategy continued to be the top two drivers in the selection of a new fund manager

From the above discussion it can be inferred that Mutual Fund as an investment vehicles are capturing the attention of various segments of the society, like academicians, entrepreneurs, financial intermediaries, investors and regulators for varied reasons. Thus this paper makes an earnest attempt to study the perception of the individual investors, a class who got less attention in research, in their selection of the Mutual Funds in an Indian perspective with specific reference to Gujarat State.

## 4. OBJECTIVES OF THE STUDY

1. To evaluate the Perception of Individual Investor towards Mutual fund investments in Gujarat state.
2. To identify the information sources and preferred communication channel for investment in Mutual Funds.

<sup>1</sup> India the Incredible investment destination. 2012. Fact Book. Department of Economic Affairs, Ministry of Finance, Government of India. [www.finmin.nic.in/the\\_ministry](http://www.finmin.nic.in/the_ministry) Nov.2013

Further this study will help mutual fund companies to understand the profile of Indian retail investors and their behavioural pattern. By knowing this, companies can improve their products and can adopt apposite strategy to tap unexplored market in a better way.

## 5. RESEARCH METHODOLOGY

The study mainly deals with the perception of individual investors towards mutual fund investments in Gujarat State. The required data was collected through pretested questionnaire administered on a simple random and judgement sample of 1182 mutual fund investors in Gujarat State. Respondents were screened and inclusion was purely on the basis of their knowledge about financial markets, MFs particular. The purpose of survey was to understand the perception of individual investors towards MF investments. Research design adopted for this specific study is descriptive in nature and respondents were selected across major 10 cities of Gujarat State during the year 2013.

## 6. DATA ANALYSIS AND FINDINGS

To assess the perception of investors about mutual fund investment following analysis had been carried out, viz. discriminant analysis and t-test etc. to understand its impact and association with other variables. The results are as given under:

### 6.1 DISCRIMINANT ANALYSIS<sup>2</sup>:

Discriminant analysis is a multivariate technique used for predicting group membership on the basis of two or more independent variable. Discriminant Analysis is a technique for analysing data when the criterion or dependent variable is categorical and the predictor or independent variables are interval in nature.

The main objectives of discriminant analysis are:

- To develop linear combinations of the independent variables that will best discriminate between the categories of the criterion or dependent variable.
- To test the existence of significant differences among the groups in terms of the predictor variables.
- To identify the predictor variable contributing most to the inter-group differences.
- To classify cases to one of the groups based on the values of the predictor variable.
- To evaluate the accuracy of classification.

The independent variables used were perception of respondents on various factors under the study. The table-1.1(Annexure-1.1) shows 16 variables used for getting the knowledge of the perception level of the respondents:

Discriminant analysis techniques are described by the number of categories possessed by the criterion variable. When the criterion variable has two categories, the technique is known as 'two-group discriminant analysis'. When three or more categories are involved, the technique is referred to as 'multiple discriminant analysis'.

Here, the predictor or the independent variables are taken as the 16 statements. There are three criteria under experience of Mutual Fund investment. Hence, 'Multiple Discriminant Analysis' is carried out.

#### 6.1.1 Multiple Discriminant Analysis (three groups):

In this analysis, three types of respondents' viz.: mutual fund investors having <1 year, 1-3 years and >3 years of experience are considered. Table 1.2 (Annexure1.2) gives 'Tests of Equality of Group Means'.

As can be seen from the last column (of the table) that the Null Hypothesis  $H_0: \mu_1 = \mu_2 = \mu_3$  (Means of all the Groups are equal) does not hold good for a level of significance of 0.05 for the statement numbers 1, 4, 6, 8, 9, 11, 12,14, 15 and 16. So, there is a possibility that these three groups may be discriminated on all or a few of these variables.

To find the factors on which three types of industries are discriminated, a stepwise discriminant analysis using Mahalanobis Distance Procedure was carried out. In this analysis, the predictors (independents) are not entered simultaneously. They are entered sequentially based on their ability to discriminate between groups.

An F ratio is calculated for each predictor by conducting a univariate analysis of variance in which the groups are treated as the categorical variable and the predictor as the criterion variable. The predictor with the highest F ratio is the first to be selected for inclusion in the discriminant function, if it meets certain significance and tolerance criteria. A second predictor is added based on the highest adjusted or partial F ratio, taking into account the predictor already selected. Each predictor is tested for retention based on its association with other selected predictors. The process of selection and retention is continued until all predictors meeting the significance criteria for inclusion and retention have been entered in the discriminant function.

When Discriminant Analysis, with all the 16 variables was carried out, the following Table 1.3 emerged as a result thereof. This table gives the list of variables, which were entered at different steps.

TABLE-1.3 VARIABLES IN THE ANALYSIS

Step	Statement	Tolerance	F to Remove	Residual Variance
1	S.5.14	1	20.148	
2	S.5.14	0.981	15.339	2.926
	S.5.6	0.981	11.459	2.906
3	S.5.14	0.947	11.363	2.887
	S.5.6	0.965	9.149	2.874
	S.5.12	0.943	6.273	2.857
4	S.5.14	0.946	11.095	2.872
	S.5.6	0.961	8.489	2.857
	S.5.12	0.918	7.778	2.846
	S.5.11	0.972	5.268	2.835

It can be seen that Statement 14 was entered first at step 1, and then followed by Statement 6, Statement 12, and Statement 11 at steps 2, 3, and 4 respectively. Hence, during the process, four statements were finally entered. The statistical information pertaining to these four statements and other related aspects are reflected in Table 1.4 on the next page.

As can be seen from the table, there are only four variables viz. statement numbers 14, 6, 12, and 11, which are considered in the analysis. The other 12 variables (statements) are not in the analysis. Hence, it may be concluded that these three categories of investors are discriminated on the given four statements.

TABLE-1.4: VARIABLES ENTERED/REMOVED<sup>a,b,c,d</sup>

Step	Entered	Residual Variance
1	S.5.14	2.906
2	S.5.6	2.857
3	S.5.12	2.835
4	S.5.11	2.82

At each step, the variable that maximizes the Mahalanobis distance between the two closest groups is entered.

a. Maximum number of steps is 32.

<sup>2</sup>Many theoretical details in this section are taken from the book of Naresh K. Malhotra. Malhotra Naresh K., Marketing Research: An Applied Orientation. Delhi: Addition Wesley Longman (Singapore) Pte. Ltd., Indian Branch, 2001.



- b. Minimum partial F to enter is 3.84.  
 c. Maximum partial F to remove is 2.71.  
 d. F level, or tolerance or VIN insufficient for further computation.

These statements are:

- Statement number 14: SEBI should ensure full disclosure by the funds.
- Statement number 6: Some categories of MF provides tax benefits
- Statement number 12: AMFI protects interest of unit holders.
- Statement number 11: ULIP is preferred over MF Schemes

Since, there are three types of experience groups, maximum two functions can be extracted. Following Table No. 1.5 gives Eigen values and the parameters associated with these two functions:

TABLE-1.5: EIGEN VALUES

Function	Eigen value	% of Variance	Cumulative %	Canonical Correlation
1	0.070 <sup>a</sup>	93.3	93.3	0.255
2	0.005 <sup>a</sup>	6.7	100	0.07

a. First 2 canonical discriminant functions were used in the analysis.

The Eigen value associated with the first function is 0.07 and this function accounts for 93.3 percent of variance. The second function has Eigen value of 0.005 only and accounts for 6.7 percent of variance.

It is now necessary to see whether these two functions are able to significantly discriminate among the three types of investor categories. For this purpose, Wilks' Lambda, Chi-square, and level of significance are to be obtained.

Next, Table 1.6 gives Wilks' Lambda. Wilks' Lambda (also called the *U*-statistic) is the ratio of the sum of squares to the total sum of squares within groups for each predictor. It varies between 0 and 1. It is used to determine if the group means are equal. Large values (near 1) of lambda indicate that the group means may be similar. Small values (near 0) indicate that the group means may be different.

TABLE-1.6: WILKS' LAMBDA AND STATISTICAL SIGNIFICANCE

Test of Function(s)	Wilks' Lambda	Chi-square	Df	Sig.
1 through 2	0.93	85.247	8	0.000
2	0.995	5.86	3	0.119

The value of Wilks's lambda is 0.930 and 0.995. These values transform to a Chi-square of 85.247 and 5.860 respectively with eight and three degrees of freedom. Only first value of Chi-square is significant beyond the level of significance of 0.05. Thus, one function significantly discriminate the three groups.

The next stage is to find out as to what extent each of the four statements is more closely associated with one function or the other. For this purpose, first Standardised Canonical Discriminant Function Coefficients are obtained. These functions are depicted in the following Table 1.7.

TABLE-1.7: STANDARDIZED CANONICAL DISCRIMINANT FUNCTION COEFFICIENTS

Statement	Function	
	1	2
S.5.6	0.472	0.237
S.5.11	-0.28	0.899
S.5.12	0.454	-0.39
S.5.14	0.536	0.416

The Standardized Canonical Discriminant Function Coefficients indicate large coefficients for statements 6, 12, and 14 on function 1; whereas function 2 has relatively larger coefficients for statement 11. To fortify the accuracy of this finding, an alternative method of coefficients under 'Structure Matrix' was applied. The coefficients associated with two functions are depicted in Table 1.8 on the next page.

In this table, variables with large coefficients for a particular function are grouped together. These groupings are shown with asterisks.

TABLE-1.8: STRUCTURE MATRIX

	Function	
	1	2
S.5.14	0.693*	0.371
S.5.6	0.626*	0.199
S.5.12	0.592*	-0.132
S.5.15 <sup>a</sup>	0.307*	0.178
S.5.9 <sup>a</sup>	0.296*	0.126
S.5.2 <sup>a</sup>	0.287*	0.038
S.5.13 <sup>a</sup>	0.259*	0.137
S.5.8	0.229*	0.055
S.5.1 <sup>a</sup>	0.222*	0.045
S.5.4 <sup>a</sup>	0.206*	0.016
S.5.16 <sup>a</sup>	0.189*	0.055
S.5.3 <sup>a</sup>	0.125*	0.083
S.5.5 <sup>a</sup>	0.107*	0.045
S.5.11 <sup>a</sup>	-0.229	0.831*
S.5.10 <sup>a</sup>	0.133	0.156*
S.5.7 <sup>a</sup>	0.029	0.089*

Pooled 'within-groups correlations' between discriminating variables, and standardized canonical discriminant functions.

Variables ordered by absolute size of correlation within function.

\* Largest absolute correlation between each variable and any discriminant function.

a. This variable is not used in the analysis.

Thus, except statements 11, 10, and 7, all statements have asterisks for function 1 because these statements have coefficients, which are larger for function 1 than for function 2. These statements are associated primarily with function 1. On the other hand, statements 11, 10 and 7 are predominantly associated with function 2, as indicated by asterisk.

Table 1.9 shown below gives the values of Group Centroids of three categories of investors for functions 1 and 2:

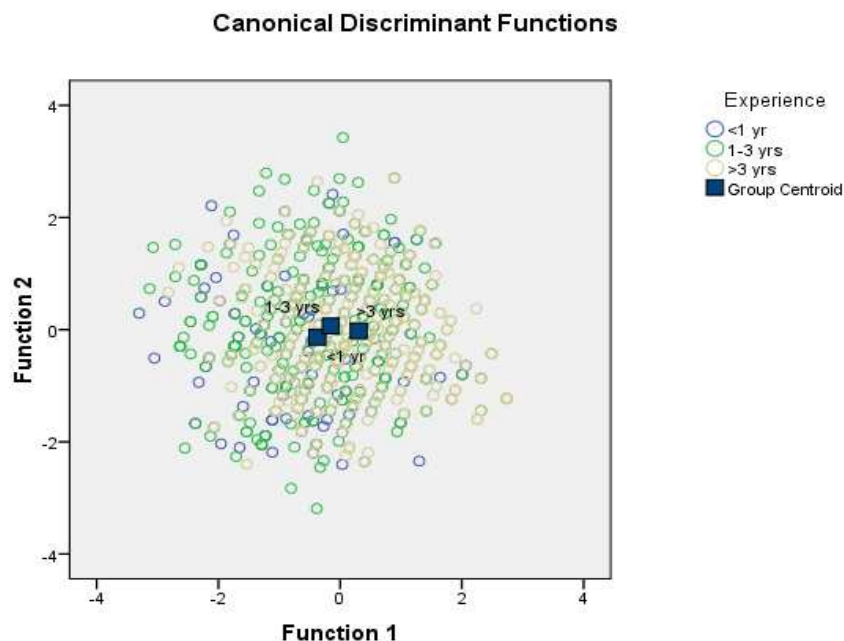
TABLE-1.9: FUNCTIONS AT GROUP CENTROIDS

Years of Experience in MFs Investments	Function	
	1	2
<1 year	-0.375	-0.135
1-3 years	-0.154	0.067
>3 years	0.306	-0.024

Un-standardized canonical discriminant functions evaluated at group means.

It can be observed from the above table that investors with highest experience (>3 year) has the highest value on function 1 and the group of investors with <1 year experience has the lowest value on function one. Therefore, investors seems to attach 'tax benefits and regulatory protection' as compared to other investors.

FIG. 1.1



Investors with experience of 1-3 years have highest value on function 2 and the investors with experience of less than 1 year have the lowest. Investor with 1-3 years of experience, therefore, seems to attach 'ULIP is preferred over MFs' as compared to other group of investors.

Validity of Discriminant Analysis is carried out on the basis of the classification results. Table 1.10 gives the classification results:

TABLE-1.10: CLASSIFICATION RESULTS

		Experience	Predicted Group Membership			Total
			<1 year	1-3 years	>3 years	
Original	Count	<1 year	95	29	53	177
		1-3 years	208	115	201	524
		>3 years	121	94	266	481
	%	<1 year	53.7	16.4	29.9	100
		1-3 years	39.7	21.9	38.4	100
		>3 years	25.2	19.5	55.3	100

a.40.3% of original grouped cases correctly classified.

The classification results based on the analysis sample indicated that  $95 + 115 + 266 = 476$  out of  $1,182 = 40.3\%$  of original grouped cases were correctly classified. This indicates a satisfactory validity. It may, therefore, be assumed that the interpretations made in the earlier paragraphs on the basis of Multiple Discriminant Analysis (three groups) for types of investors are valid.

## 7. CONCLUSION

Investors main objective is to earn return from investment into capital market in general and mutual funds in specific. Through survey of 1182 mutual fund investors in Gujarat State, it was found that awareness level of investors in Gujarat is at moderate level. It was observed that their perception about mutual fund investment is favourable. Investors can be classified on the basis of their experience of investment into mutual funds. Their perception about Mutual fund is differing on the basis of two important criteria, first is 'Tax benefits and Regulatory framework', secondly on the 'Comparative advantage of MFs over ULIPs'. Thus it can be concluded that investors are having favourable perception for tax and regulation as an important attributes if they are having experience of less than one year. While, investors with higher experience had exhibit favourable perception towards comparative benefits of MFs investments over other investments avenues. Thus, it can be inferred from this study that the Companies introducing new schemes and competing in market should understand perceptive value and attributes of investor's decisions.

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## ANNEXURE

### ANNEXURE 1.1

TABLE–1.1: INDEPENDENT VARIABLES USED FOR PERCEPTION LEVEL

Item no.	Item
1	Mutual Funds are ideal option for small investors
2	Mutual Funds are ideal for all categories of investors
3	Mutual Funds are risky investments
4	Mutual Funds cannot guarantee returns
5	Investments In Mutual Funds are having low liquidity
6	Some categories of MF provides tax benefits
7	People invest in mutual funds just to save taxes
8	Investment in mutual funds is preferable than investing in direct Equities in present condition.
9	Returns from mutual funds depend upon the market performance
10	Returns from mutual funds are generally higher than that of FDs in Banks
11	ULIP is preferred over MF Schemes
12	AMFI protects interest of unit holders
13	SEBI should maintain an effective system of self-governance.
14	SEBI should ensure full disclosure by the funds.
15	SEBI should ensure that the transfer of units is done within 30 days from the date of issue of certificate
16	Role of SEBI is effective

### ANNEXURE 1.2

TABLE-1.2: TESTS OF EQUALITY OF GROUP MEANS

	Wilks' Lambda	F	df1	df2	Sig.
S.5.1	0.994	3.746	2	1,179	0.02
S.5.2	0.995	2.777	2	1,179	0.06
S.5.3	0.999	0.52	2	1,179	0.6
S.5.4	0.992	4.884	2	1,179	0.01
S.5.5	0.999	0.646	2	1,179	0.52
S.5.6	0.973	16.23	2	1,179	0
S.5.7	0.999	0.531	2	1,179	0.59
S.5.8	0.989	6.407	2	1,179	0
S.5.9	0.983	10.16	2	1,179	0
S.5.10	0.998	1.085	2	1,179	0.34
S.5.11	0.993	4.183	2	1,179	0.02
S.5.12	0.976	14.46	2	1,179	0
S.5.13	0.995	3.073	2	1,179	0.05
S.5.14	0.967	20.15	2	1,179	0
S.5.15	0.986	8.412	2	1,179	0
S.5.16	0.994	3.581	2	1,179	0.03

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