EMPIRICAL ANALYSIS OF INVESTORS' INCLINATION TOWARDS MUTUAL FUNDS AND EQUITY SHARES IN SELECTED CITIES OF UTTAR PRADESH

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Abstract

Investments are primarily financial vehicles meant mainly for wealth building. An investment provides us proper opportunity to put our money in a fund which provides capital appreciation for the investor. Cash cannot provide us any opportunity to increase its value. Under inflationary conditions, it is always wise to invest money in such a way that it acquires appreciation otherwise the investor will not be interested in investing money. The specific objective of this research effort is to find out individual investors' inclination towards investment in mutual funds and equity shares in the presence of various investment alternatives. The relevant population for this study is individual investors at Lucknow, Agra, Varanasi and Allahabad in Uttar Pradesh. A sample of 400 individual investors,   with different backgrounds, is taken to obtain the required data. This paper also cover to find the preferred mode of investment for mutual fund investors, the awareness level about SEBI as regulatory body for securities market, most attracting features of equity shares, and sensitivity of individual investors towards Sensex movement.

Keywords: SEBI, Equity, SENSEX, Capital appreciation, Sensitivity.

Introduction

Household savings constitute an important source of finance for the economy of a country. It definitely boosts   the long term economic growth. It is really very encouraging that the Indian households are depositing a significant portion of their saving with banks. These savings provide banks cheap funds to lend to different   companies for their financial projects. Another important fact is that many of the Indians invest money in gold and real estate. This investment is regarded as non -financial savings which are considered as unproductive assets. 'It is a slow progress but a new generation of Indians who are ready to migrate , move and are more global in their outlook and approach are savvy with new ways of creating wealth. They are increasingly pitting their money into financial instruments.' (Team FBSB India 2017 p.18)

Investing in shares is usually highly rewarding but there are constant ups and downs in stock exchange .Hence the factor of risk always lurks there. "Investing in shares   is one of the most risky and at the same time most rewarding investment." (G. Manju 2010). Hence any investor should be rational enough to select suitable securities for investment. He has to go through a proper evaluation of the past history of the company and should also evaluate the expected future performance of the company, the industry and the economy. Then only, he should think of investment in shares.

Mutual funds are also getting popular by and by. What attracts people towards mutual funds is primarily the convenience in investing money. Truly speaking mutual funds are more connected with the financial as well as the life goals of individuals. "Ease of investing, more access to research, plethora of business news channels that focus on stock markets and mutual funds, stock market tips via social media are some of the reasons there is a definite shift towards financial assets." (Team FPSB 2017) It has been observed that the Indians depends more on those deposits which yields fixed returns and are comparatively secure.

Review of literature

Arathy B., Aswarthy A. Nair (2015) conducted a study on 'Factors Affecting Investment on Mutual funds and its Preference of Retail Investors'. Descriptive research design was chosen for this research work. The sample procedure used in this study is snowball sampling. A sample of 200 retail investors from Ernakulam and Trivendrum has been selected for this study. The study revealed that Tax benefit, high return, price and capital appreciation were the major factors which investors look in to, while investing in mutual funds. The primary source of knowledge about mutual fund as an investment options is sales representatives to most of the retail investors followed by internet, newspapers and from friends/relatives.

Factors which prevent investors from investing in mutual fund, mainly is bitter past experience and difficulty in selection of schemes. For some investors, lack of confidence in service being provided and inefficient investment advisers are preventing factors to invest in mutual funds. It is found that equity based schemes are preferred over debt schemes.

Velmurugan G. et al (2015) have studied 'An Empirical Analysis on Perception on Investors' towards Various Investment Avenues'. Convenience sampling was used to collect the sample of 100 respondents from Vellore city, Tamil Nadu. The findings of the study emphasized that the aged and high income investors prefer to invest in Post office and bank deposits for safety reasons. With the growing risk appetite, rising income and increasing awareness, Mutual funds and shares are becoming preferred investment vehicles like Bank FDs and post office savings that are considered safe. The study concludes that investment done in various investment avenues with the expectation of capital appreciation and short and long term earnings. The basic idea behind investment of all government, private, self-employed and retired persons in this study is to utilize surplus money in favourable plans so that the money will be rolled back as well as it will give high returns also.

Kumar Vipin and Bansal Preeti (2014) have conducted a study on Investors' behaviour towards Mutual Funds in Rohtak, Haryana .The sample consists of 125 respondents from Rohtak. It was found that mutual funds were not that much known to investors, still investors rely upon bank and post office deposits. Most of the investors used to invest in mutual funds for not more than three years and they used to quit from the fund which were not giving desired results. It was also found that maximum number of investors did not analyse risk in their investment and they were depend upon brokers and agents for this work.

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Prabhavathi Y and Kishore Krishna (2013) have studied 'Investor's Preference towards Mutual fund and Future Investments: a case study of India'. The main focus of the study is to understand the attitude, awareness and preferences of mutual fund investors Hyderabad city of Andhra Pradesh, Bangalore city of Karnataka and Chennai city of Tamil Nadu forms the study area. It is found that 65 per cent of investors preferred equity funds followed by balanced funds. The least preference was given to investment in National saving Certificate (NSC). Respondents' interest towards investment in fixed deposits is increasing not only due to hike in policy rates but also believe that their investment is risk free. The respondents' investment in commodity and currency market is very low because of lack of knowledge towards it and moreover it is highly risky asset to invest, though the returns are high. In this volatile market environment mutual funds play an active role not only promoting a healthy capital market but also increase liquidity in the money market.

Rajasekar D. (2013) has studies on Investor's preference towards mutual funds with reference to Reliance Ltd in Chennai. A sample of 150 individual financial advisors was taken for this study. Primary data was collected through structured questionnaire using Convenience sampling. He concluded that there has growth in the investment avenues however still investors find mutual funds not as such a reliable avenue for investment. Here is tremendous scope owing to the savings and investment pattern of people in this nation however it is not channelized due to unawareness factor. Even one who invests is more convinced with the high rate of return and not the professional management of funds. Indian investors seek for safety, security and performance rather than easy encashment and customer service. Making investors aware of the funds, its operations, its return etc. will improvise its situation as such? Most of the respondents were highly satisfied with the benefits and services rendered by Reliance mutual funds.

Agrawal Gaurav and Jain Mini (2013) conducted a survey in Mathura to study Investors' preference towards mutual fund in comparison to other investment avenues. The sample size of 300 investors was taken for the study. The study point out Bank, LIC, Mutual fund, real estate and NSC are the most preferred investment avenues. All the respondents were aware of investment in Bank and life insurance. More than 80 percent investors are aware of Mutual funds, real estate and NSC investors are least aware

about commodity market, futures and options. The overall and main criterion of investors regarding their investment is return. If the investors have been provided more funds, then 50 percent of investors would like to invest in real estate followed by 23 percent in mutual fund and 12 percent in equity shares.

Mehta, Purnima Umesh (2012) in her doctoral work on profile and perception of investors towards mutual funds; a study of selected cities of Gujarat state concluded that the main factors influencing the selection of mutual fund schemes are high returns ,net asset value, tax benefit and market trends .it was inferred that most of respondent give first preference to child education plan followed by retirement planning .The most popular sources of investment according to respondents are saving account, insurance, mutual fund, PPF and GPF account, gold & silver, qualified persons use internet for getting the information about mutual fund. Female respondents prefer to get the information through professionals. 97% respondents prefer to invest their saving in SIP.

The sample size had 300 respondents. Hundred respondents have been taken from three main cities of Gujarat namely Surat, Ahmedabad and Vadodara. Purposive sampling method has been used to collect primary date through structured questionnaire which consisted of both open ended and close ended questions.

Das Kanti Sanjay (2012) conducted a study on 'Semi urban investors' attitude and preferences in mutual funds investment: A study of Nagao District of Assam'. This study is descriptive in nature. By adopting convenience sampling 250 respondents were selected for this study.chi square test, ANOVA and analysis of co-variance has been employed as statistical tools to study the attitude of the investors.

This paper reveals that the main objective of the respondents for investing in Mutual Funds is the tax benefit followed by high return and safety of the schemes. The study reveals that the main factors that can win investors' confidence to invest in mutual funds are the minimum assured return followed by transparency and consistency .From the analysis of this study it is revealed that on the basis of qualifications, occupation and annual income, majority of respondents believes that the main challenge before Indian mutual fund industry are providing minimum assured returns to the investors and educating the investors. This investigation outlined that mostly the investors have positive approach towards investing in mutual funds.

Goel Sweta, Sharma Rahul, Mani Mukta (2012) conducted a study of performance and characteristics of open ended mutual fund. A sample for 160 schemes has been selected from 727 open ended schemes. This sampling has been done for 5 year time period i.e. from April 2006 to March 2011. This study established relationship between mutual fund performance and 3 independent variables—return, expense (ratio) and assets size. This study concluded that the return performance is positively related to the past performance. The expense ratio is negatively related to the risk adjusted performance. On the other hand the performance of the funds is directly related to their assets. Regression model is used to analyse data.

Geeta N. and Ramesh M. (2011) in their study on People's Preferences in investment Behavior examined people's choice in investment avenues in Kurumbalur town. The sample size of 200 was taken for the research work. Simple random sampling was used to select the respondents from available database. Data was analyzed using chi-square test and percentage analysis. Researchers concluded that there is significant relation between investment avenues and gender and age group. There is no significant relationship between investment avenues and education and occupation. They concluded that Kurumbalur respondents are medium aware about various investment choices.

Research Methodology

Research Objectives

The major objectives of this research paper are:

1. To find out preference of individual investors for equity shares and mutual funds among various investment alternatives.

2. To find end-scheme (open ended, close ended and interval fund) preference for mutual fund investors.

3. To know the preferred mode of investment (SIP/one time investment) for mutual fund.

4. To know level of diversification in MF schemes in terms of number of schemes chosen for investment.

5. To know the awareness level regarding SEBI as a regulatory body for securities market.

6. To know which feature of equity share, attract investors most .

7. To find out size (no. of cos.) of customers' existing portfolio in equity share investment.

8. To know the sensitivity of customers towards SENSEX movement.

Research Design

Descriptive Research Design has been used, which is concerned with describing the characteristic of certain individuals investors or a groups.This study is typically guided by initial hypothesis.

Sample Design - Sample design consists of a number of items like, Sampling technique, Sampling unit, Size of the sample, sampling area.

Sampling Technique –Convenience sampling

Sampling Unit- Individual Investors investing in equity shares and/or mutual funds with different backgrounds were selected**.**

Sample size – 400.

Sampling Area - Lucknow, Agra, Allahabad and Varanasi of Uttar Pradesh

Sources of data- Primary data for this study has been collected through Structured questionnaire containing mostly closed ended questions. Secondary data for this study has been collected through various books and journals.

Statistical tools - The statistical tools used for the purpose of analysis of this study are chi square test, z test and percentage analysis .

Hypotheses

1. Individual investors give equal importance for various investment alternatives.

2. Individual investors give equal importance/preference to different end schemes (open, closed and interval fund) for investment in mutual funds.

 3. Individual investors give equal importance to SIP and one time investment as a mode of investment in mutual fund.

4 There is no difference between the proportions of customers' awareness and unawareness about SEBI as a regulatory body for securities market**.**

5. Individual investors give equal importance to all the features of equity share that attract investors.

6. Investors are not reactive to SENSEX movement.

Analysis and Interpretation

Table-1. Investment preference for various investment avenues

Investment avenues	No. of respondents giving Rank 1	No. of respondents giving Rank 2	No. of respondents giving Rank 3	No. of respondents giving Rank4	No. of respondents giving Rank5	Weighted rank
Equity shares	44	52	58	59	19	739
Debentures/Bonds	7	25	37	30	59	365
Mutual funds	146	95	55	30	17	1352
NSC/PPF/PF	44	39	57	70	49	736
FDs	55	57	60	58	52	851
Insurance	33	63	77	58	61	825
Real Estate	34	35	32	44	70	564
Gold/silver	27	34	19	41	52	462
Others	9	2	2	10	21	100

Rank 1 for most preferred and rank 5 for least preferred

Let us take the Null hypothesis: Individual investors give equal importance for various investment alternatives.

Applying χ^2 test

$$\chi^2 = \sum \frac{(O - E)^2}{E}$$

Where O = an observed frequency in a particular category

E = an expected frequency in a particular category

E= 5994/9 = 666 in each case, O = 739, 365, 1352,736,851,825,564,462 and 100 (from the table 1)

Chi Square tabulated at degree of freedom 8 and 5% level of significance = 15.51

$\chi^2 \text{ calculated} = 1514.60$

$\chi^2 \text{ cal} > \chi^2 \text{ critical}$

Since calculated value of χ^2 is greater than its critical or tabulated value, the null hypothesis is rejected. Hence Investors do not give equal preference to various investment alternatives for investment consideration. It is revealed that the most preferred investment considerations by customers are Mutual funds, FDs, Insurance and Equity shares.

Table 2 Preference for End Scheme for Mutual fund investors

Preference for End scheme	Open ended	Close ended	Interval fund	Total
No. of Respondents	245	36	64	345

Let us take the Null hypothesis H_0: Individual investors give equal importance to different end schemes for mutual fund investment.

Out of 400 respondents 345 respondents gave response so for χ^2 test n=345.

Applying χ^2 test

O = 245, 36 and 64 (from the table 2)

E = 345/3 = 115 in each case

Chi Square tabulated at degree of freedom 2 and 5% level of significance = 5.99

χ^2 calculated = 223.83

$\chi^2 \text{ cal} > \chi^2 \text{ critical}$

Since calculated value of χ^2 is greater than its critical or tabulated value, the null hypothesis is rejected. Hence Individual investors do not give equal importance to different end schemes for mutual fund investments. The data reveals that respondents prefer open ended schemes for mutual fund investment.

Table 3 Preference for Mode of investment in Mutual funds

Preference for mode of Investment	One time investment	SIP	Equal Preference	Total
No. of Respondents	57	211	77	345

Let us take the Null hypothesis H_0 : Individual investors give equal importance to SIP and one time investment as a mode of investment in mutual fund.

Applying the z statistics:

$$z = \frac{p - P}{\sqrt{(P(1-P)/n)}}$$

Where z= Test statistics

p= Sample proportion

P= Hypothesized value of Population proportion

n= Sample size

Out of 400 respondents 345 invested in mutual funds. Preference for mode of investment (SIP/One time investment) is shown by 268 respondents only since 77 respondents give equal preference so for z test n = 268

After using z – test (two tailed test) , the calculated value of z is 9.56

Since z_{cal} = 9.56 , which is more than its critical value $z_{\alpha/2}$ = 1.96 at $\alpha/2$=.025 significance level ,the null hypothesis Ho is rejected .Hence we conclude that Individual investors do not give equal importance to SIP and one time investment as a mode of investment in mutual fund. Table 3 reveals that respondents prefer SIP as compared to one time investment in Mutual fund.

Table 4 :   Level of diversification in MF schemes

(in terms of number of schemes chosen)

No. Of MF schemes chosen	1-2	3-4	5-10	>10	Total
No. Of respondents	165	98	74	8	345
Percentage	47.82	28.41	21.45	2.32	100

From the above table it is found that only 21.45 percent respondents prefer to have more than five MF schemes in their portfolio, while 47.82 percent respondents have less than three MF schemes. Hence Investors do not prefer high level of diversification in Mutual fund schemes (in terms of number of schemes chosen).

Table 5 Awareness about SEBI as regulatory body

Aware	Not aware	Total
351	49	400
(87.75%)	(12.25%)	(100%)

Let us take the Null hypothesis H_0 : There is no difference between the proportions of individual investors' awareness and unawareness about SEBI as a regulatory body for securities market.

 After using z – test (two tailed test) the calculated value of z is -15.20

Since z_{cal} = -15.20 , which is more than its critical value $z_{\alpha/2}$ = -1.96 at α/2=.025 significance level, the null hypothesis Ho is rejected. Hence there is a difference between the proportions of individual investors' awareness and unawareness about SEBI as a regulatory body for securities market.

We found that 87.75 percent of individual investors are aware about SEBI as a regulatory body for securities market.

Table 6: Preference for attracting features of equity shares.

Features of equity shares	Market value	EPS	High low value	PE Ratio	Market capitalization
No. of responses	84	89	23	43	41

Let us take the Null hypothesis: Individual investors give equal importance /consideration to all the features of equity shares that attract investors most.

Applying χ^2 test

E= 280/5=56 in each case, O = 84, 89,23,43,41. (from the table 6)

 Chi Square tabulated at degree of freedom 4 and 5% level of significance = 9.49

$\chi^2_{calculated}$ =59.94

$\chi^2_{cal} > \chi^2_{critical}$

Since calculated value of χ^2 is greater than its critical or tabulated value, the null hypothesis is rejected. Hence Investors do not give equal preference to various attracting features of equity shares, for investment consideration.

Table 7 Size of customers existing portfolio in equity share investment

No. Of cos. in portfolio	<5	5-10	11-15	>15	Total
Responses	105	82	27	11	225
Percentage	46.67	36.44	12	4.89	100

It is found from the above table that 46.67 percent customers have less than five companies in their existing portfolio in equity share investment. While only 16.89 percent respondents prefer to have more

than ten companies in their portfolio. Hence size of customers existing portfolio is not wide in case of equity share investment.

Table 8. Investors' reaction in case of fall in Stock market (Sensex movement)

Reaction	Withdraw	Wait and Watch	Invest more	Total
No. of respondents	21	140	64	225
Percentage	9.33	62.22	28.44	100

Let us take the Null hypothesis H_0 : Individual investors are not reactive to sensex fall

Out of 400 respondents 225 respondents gave response so n=225..

Applying χ^2 test

O = 21, 140 and 64 (from the table 8)

E = 225/3 = 75 in each case

Chi Square tabulated at degree of freedom 2 and 5% level of significance = 5.99

χ^2 calculated = 96.82

$\chi^2_{cal} > \chi^2_{critical}$

Since calculated value of χ^2 is greater than its critical or tabulated value, the null hypothesis is rejected. Hence respondents are reactive to sensex movement. They react differently when stock market falls.

Findings

- It is found that the most preferred investment considerations by customers are Mutual funds, FDs, Insurance and Equity shares. The weighted ranking is highest i.e. 1352 for MF followed by 851 for FDs, 825 for insurance and 739 for equity shares.

- It is revealed that respondents prefer open ended mutual fund schemes as compared to close ended and interval funds.

- It is found that majority of individual investors prefer SIP as a mode of investment as compared to one time investment.

- It is found that majority (87.75 percent) of the respondents are aware about SEBI as a regulatory body for securities market.

- Investors do not prefer high level of diversification in terms of no. Of schemes chosen for mutual fund investment .Majority of respondents have less than five mutual fund schemes in their portfolio.

- It is revealed that EPS and Market value are the two most attracting features for equity share investment.

- The size of customers' existing portfolio is narrow in case of equity share investment.

- Respondents are reactive to sensex movement. They react differently when stock market falls. Majority of respondents (62.22 per cent) prefer to wait and watch option instead of withdrawing money.

Conclusion

This study revealed that Mutual funds, fixed deposits, insurance and equity shares are most preferred investment avenues by individual investors, in comparison to other investment avenues available, in selected cities of Uttar Pradesh, India. Debentures, Bonds and Future & Options are least preferred investment alternatives by the investors. NPS, Atal Pension Yojna are gaining momentum in middle age investors. Income, gender, age and tax benefits played a key role in investment decision. Majority of respondents prefer to opt for to wait and watch option instead of withdrawing money if share market falls. 28.44 percent respondents prefer to invest more in this situation. Hence respondents are reactive to SENSEX movement. There is slow but remarkable change observed in investment pattern of new generation of investors, from physical assets to financial assets like mutual funds and equity shares. The shift towards financial assets is due to ease of investing, popularity of business news channels and more access to research. Large scale financial literacy is necessary so that investors realize that investing in financial assets is not only beneficial for them in long run but also helps in nation building.

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