MUTUAL FUND INVESTMENT BEHAVIOUR OF RETAIL INVESTORS IN THIRUVANNAMALAI DISTRICT

***K.Sasikumar*[1], Dr.K.Krishnamurthy[2]**
[1]Ph.D., Research Scholar,PG & Research Department of Commerce,
[2]Assistant Professor and Research Supervisor, PG & Research Department of Commerce,
[1,2]Periyar Government Arts College, Cuddalore – 607001.

Abstract : Savings form an important part of the economy of any nation. Savings represents that part of disposable income that is not spent on final consumption of goods and services. It is defined as the difference between income and consumption. In today's competitive environment, different kinds of investment avenues are available to the investors. All investment modes have advantages & disadvantages. An investor tries to balance these benefits and shortcomings of different investment modes before investing in them. Among various investment modes, Mutual Fund is the most suitable investment mode for the common man, as it offers an opportunity to invest in a diversified and professionally managed portfolio at a relatively low cost. In this paper, an attempt is made to study mainly the mutual fund investment preferred by the retail investors of Thiruvannamalai, and it covers theoretical concept of mutual funds.

***IndexTerms* - Mutual fund, retail investor, risk factor, safety, security**

I. INTRODUCTION

Savings form an important part of the economy of any nation. Savings represents that part of disposable income that is not spent on final consumption of goods and services. It is defined as the difference between income and consumption. During pre-independence period in India, people spent most of their income on consumption and only a small amount of income was left in the form of savings. As a result, the saving rate was very low. Since the attainment of Independence in 1947, the major objective of the government has been the promotion of savings and capital formations. Increase in the savings, increasing the required investment. The saving and investment ratio to income would get stabilized and there would be steady and self-sustained increases in national income and economic welfare.
Investment is the sacrifice of certain present value for the uncertain future reward who have savings. Investment is an activity that is engaged in by people. Savings directed into investment. With the savings invested in various options available to the people, the money act as the driver for the growth of the country.

A Mutual Fund is a trust that collects the savings of a number of investors who share a common financial goal. The money collected from the investors is invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciation realized is shared by its unit holders in part to the number of units owned by them.

II.RETAIL INVESTOR

A retail investor is an individual who purchases securities for his or her own personal account rather than for an organization. Retail investors typically trade in much smaller amounts than institutional investors such as mutual funds, pensions, or university endowments.

A retail investor is a non-professional investor who buys and sells securities through brokerage firms. Retail investors are usually driven by personal goals, such as planning for retirement, saving up for their children's education, or financing a large purchase.

III. STATEMENT OF THE PROBLEM

Mutual fund companies have a number of schemes. The investors decision making, perception, investment strategy, expectations etc are closely related to the behaviour of investors. Mutual fund market is highly influenced by this behaviour and attitude of investors. Hence this study has made an attempt to examine the conceptual framework related towards mutual fund investment behaviour of retail investors in Thiruvannamalai.

A. OBJECTIVE OF THE STUDY

The overall objective of the study is to review the retail investors in mutual fund, attitude towards mutual fund investment, to identify the mode of investment preferred by investors and the factors influencing the choice of mutual fund schemes and risk level of mutual fund.

B.CONCEPT OF MUTUAL FUND

A mutual fund is a fund managed by an asset management company with the financial objectives of make growth. These asset management companies collect money from investors and invest in different stocks, bonds and other financial instruments in a diversified manner. Before investing they do a careful research and detailed analysis of market trends of stock and bond prices. That helps fund managers to invest properly and in the right direction. The income earned through these investments and the capital appreciation realized is shared by its unit holders in proportion to the number of units owned by them. Thus a mutual fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost. The investor who invest their money in the mutual fund or any asset management company (AMC), receive an equity position in that particular mutual fund. When the investors sell the units of the mutual fund after a certain period of time, they receive the returns according to the common market conditions. The investment companies profit by assign people's money in different stocks and bonds according to their analysis of the market trend.

C. TYPES OF MUTUAL FUNDS

There is a wide variety of mutual fund schemes that provide to the needs of investors based on age, financial position, risk tolerance and return expectations.

(A) By Structure

1. Open-Ended Schemes

An open ended scheme accepts funds from investors by offering its units/shares on a continuous basis likewise it permit investors to withdraw funds on a continuous basis under a repurchase agreement.

2. Close-Ended Schemes

A close-ended scheme accepts subscription for a specific period. They invite the investor to invest through a new fund offer and further investments are allowed in a specific period.

3. Interval Schemes

These combine the features of open-ended and close-ended schemes. They may be traded on the stock exchange or may be open for sale or redemption during predetermined intervals at NAV related prices.

(B) By Investment Objective

1) Growth Schemes

Growth schemes' main aim is to provide capital appreciation over the medium to long term. These schemes normally invest a majority of their funds in equities and are willing to bear short term decline in value for possible future appreciation. These schemes are not for investors seeking regular income or needing their money back in the short term. This is ideal for,

- Investors in their prime earning years.
- Investors seeking growth over the long term.
-

2) Income Schemes

Main aim of income scheme is to provide regular and steady income to investors. These schemes generally invest in fixed income securities such as bonds and corporate debentures. Capital appreciation in such schemes may be limited. Ideal for:

- Retired people and others with a need for capital stability and regular income.
- Investors who need some income to supplement their earnings
-

3) Balanced Schemes

Aims to provide both growth and income by periodically distributing a part of the income and capital gains they earn. They invest in both shares and fixed income securities in the proportion indicated in their offer documents. In a rising stock market, the NAV of these schemes may not normally keep pace or fall equally when the market falls. Ideal for:

- Investors looking for a combination of income and moderate growth.
-

4) Money Market / Liquid Schemes

Aims to provide easy liquidity, preservation of capital and moderate income. These schemes generally invest in safer, short term instruments such as treasury bills, certificates of deposit, commercial paper and interbank call money. Returns on these schemes may fluctuate, depending upon the interest rates prevailing in the market. Ideal for:

- Corporate and individual investors as a means to park their surplus funds for short periods or awaiting a more favourable investment alternative.

5) Dividend Scheme

Under this scheme, dividend declared by the AMC for the investor's holdings. The investor can choose dividend payout scheme or dividend reinvestment scheme. Dividends are distributed to the investors immediately, those who choose dividend payout option. The dividend declared, again invested by issuing more units are called dividend reinvestment scheme.

6) Bond Schemes

These are focused debt schemes, investing primarily in company debentures and bonds or government bond. This type of funds carries the advantage of secured and steady income. However, such funds have little chance of capital appreciation and carry no risk. A variant of this type of fund is called. 'Liquid funds' which specializes in investing in short term money market instruments. This focus on liquidity delivers the twin feature of lower risk and low returns.

7) Gilt Schemes

These schemes invest exclusively in government securities and not in equity or corporate debt securities. A portion of the corpus may be invested in the call money market or RBI to meet liquidity requirement. Government securities carry zero credit risk.

C) Other Schemes

1) Tax saving schemes

Tax saving schemes is basically equity schemes. It offers tax benefits to the investors. Under sec 80CC allows a tax incentive up to the limit of 100, 000.

2) Diversified Equity Scheme

These schemes invest most of the money that they collect, in stock markets. A small portion of the money is invested in debt instruments. These schemes do not invest on any particular sector, its portfolio contains the shares of all type of companies. So it is called diversified schemes.

3) Sector Schemes

Sector schemes invest in any particular sector of the market such as Information technology, Banking, FMCG etc. This is beneficial to the investors who have tremendous faith in a particular sector.

4) Index Schemes

An index is nothing but an average of the market prices of certain actively traded equity shares. Index scheme of mutual funds invest in the companies, which form part of the stock market index in the same proportion as these companies constitutes index. The portfolio of the scheme and the weight age of the shares are as same in index. It may be sensex or nifty or midcap etc. For example, an index scheme investing in companies forming the BSE sensex will invest in those companies in the same proportion as they make up the sensex. An actively managed fund attempts to outperform a relevant index.

5) Fund-of- Fund mutual scheme

In this scheme funds of one mutual fund are invested in the units of other mutual funds. There are a number of funds that direct investment into a specified sector of the economy. The investors will benefit from the expertise and the skill of different leading fund managers, as the fund managers have different types of skill sets in their strategies. Convenience is another advantage of fund of funds. Whenever the market is performing well in one component and dull in another, the fund manager of fund of funds will take care of the portfolio.

6) Gold Exchange Traded Funds

Investors can buy gold linked units that would be traded on the stock exchange. One unit of the gold exchange traded fund is equal to the value of one gram of gold. The daily price of each unit is linked to the prices of gold in physical market. Like any other mutual funds, the investor is able to buy and sell the units of this ETF from the stock market. The underlying asset is gold, which is held by mutual fund house in a physical form through a gold receipt giving the right of ownership.

7) Real Estate Mutual Funds

Real estate mutual fund is a scheme which has an objective to invest directly or indirectly in real estate and is governed by the provisions and guidelines under SEBI regulations. The NAV of the scheme is declared daily and units are listed on the stock exchange. These funds have their own share of drawbacks. Time span for one transaction can be minimum six months or more than that. So evaluation of true value of these assets is really a difficult task. In India these funds have started but not in full flow-Prudential ICICI AMC started a branch called ICICI venture capital which would be investing in real estates. Its main focus is on the high net worth individual clients.

8) Capital Protection Schemes

Investments can be either in debt instruments or government bonds. This strategy prevents the erosion of capital over the investment tenure and achieves capital appreciation to certain extent. CPS has to be close-ended and the investors have no option to exit before maturity. The basic aim is to assess the degree of achieving capital protection.

9) International Fund/Offshore funds

When funds are launched to mobilize the finance from other countries they are known as global funds. It gives an opportunity to the retail investors to be a part of global investment. This fund involves currency risk and country risk.

10) Exchange Traded Funds

Exchange traded funds are open-end funds that trade on exchange. Like index funds ETF's are benchmarked to a stock exchange index.

IV. MUTUAL FUND INVESTORS AND THEIR BEHAVIOUR

Due to the growth of mutual fund industry, the investors prefer mutual funds as an investment. Mutual fund companies offer variety of schemes for all type of investors. Now an investor can start his investments from fifty. Investment in mutual funds has grown very fast and has spread to even the remotest part of the country where a stock exchange does not function. But the big question is the mutual fund investor has a full knowledge about the capital market or not. The main reason for investing in mutual funds are diversification, flexibility, professional management, low cost etc., The investment behaviour of the people is mainly based on the availability of fund, availability of investment avenues, investment objective, duration of investment, risk, nature of investment, selection of fund, attitude towards investment and also the problems encountered in investing on mutual funds. Indian investors have not been completely logical and rational in their investment behaviour and their investment decisions are always affected by the definite behavioural factors. The classical financial theories always suggest that external environmental factors like economic factors, political factors, socio-cultural factors, etc., always affect the performance of capital markets and decision making of the investor is always guided by a change in these factors. The optimum portfolio composition will in general differ among investors. It will depend both on their tastes and preferences that determine their expected utility from return and risks, and on the shape and position of the efficient opportunity available to them.

DIFFERENT PARTIES INVOLVED IN MUTUAL FUND:

- Sponsor: Sponsor is an entity who in arrangement with other corporate led towards the creation of a Mutual Fund. He needs to comply with the criterion set under Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 and must have to throw in at least 40% of the net worth. But the sponsor could never be held accountable for any type of loss as a consequence of scheme operation.
- Trust: Sponsor forms Mutual Fund as a trust as per the provisions of Indian Trusts Act, 1882. Deed is registered under the Indian Registration Act, 1908.
- Trustee: They are accountable to uphold the investor’s interests as well as ensure that AMC works as per the guidelines of SEBI. Among the constituent members of the trustee, at least 2/3 are independent directors, since they do not relate to trustee in any form.
- Asset Management Company: AMC is appointed by the Trustee, which requires approval by SEBI to operate as Asset Management Company of Mutual Fund. Such formation too involves 50% independent directors and net worth of at least 10 cr. all the time.
- Registrar or Transfer Agent: AMC assigns Registrar in order to perform functionaries related to application form, redemption requests etc.

COMPARISION BETWEEN INVESTMENT IN BANK AND MUTUAL FUND

Factors	Bank	Mutual Fund
Returns	Low	Better
Administrative Exp.	High	Low
Risk	Low	Moderate
Investment Options	Less	More
Network	High penetration	Low but Improving
Liquidity	At a cost	Better
Quality of Assets	Not transparent	Transparent
Interest Calculation	Minimum balance between 10th & 30th of every month.	Everyday
Guarantee	Maximum Rs. 1,00,000 on deposits	None

FACTORS INFLUENCING TO INVEST IN MUTUAL FUND

The investors prefer the investment on mutual funds for several reasons. The important factors which drive the investors to invest in mutual funds considered were,

i. **Brand Equity**

Brand equity means the brand value of the particular product. In mutual funds this brand equity represents mutual fund companies like Reliance, SBI, UTI, Franklin Templeton, Birla Sunlife etc. They have high brand image and such fund houses are most likely to have greater investors confidence in their funds.

ii. **Fund Size**

Fund size means the total corpus of the particular fund. Fund size may be small, medium or large. It must be ascertained that a larger fund size would mean a higher amount of fund being invested and therefore a higher degree of involvement by the fund family. It would therefore mean one of the most profitable investment decisions that could be undertaken.

iii. **Type of Fund**

A mutual fund may be a growth of fund, dividend fund, tax saving fund etc and therefore, their impact on the mutual funds investment decision is largely related to their respective functional intents.

iv. **Type of portfolio and schemes**

The type of portfolio could be mixed, equity, debt etc., which makes a sizeable impact on investment decision on mutual fund. It helps the investors to assess their utmost need to invest in either the mixed fund or equity fund or likewise.

v. **Risk involved in Mutual Funds**

Mutual fund investment is having its own risk. There are different types of risks associated with mutual funds. A fund with stable, positive earnings is less risky than a fund with fluctuating total return. A higher risk is normally considered a demodulator for mutual fund investment decision.

vi. **Reputation of Fund manager**

Fund manager is a person who manages the particular fund. A fund manager is a high authority in ascertaining an investor's financial roadmap. The reputation of the fund manager also plays a key role in determining the level and extent of profitable investment one could make in mutual funds.

vii. **Past Performance of the Funds**

A good track record of the fund is a reflection of its ingenuity and a high investor's confidence in it. Singh, A past performance is generally undertaken through ascertaining the annualized returns for the last five years and comparing it to benchmarks like BSE, NSE, etc.

viii. **Liquidity Factors**

Liquidity factors have their own relevance especially when the investor wishes to rotate the profits for various investments for maintaining ones financial obligations. A liquidity factor simply denotes their pace of convertibility into cash which therefore serves as a major discriminant of the mutual fund investment. Gangadhar V (1992) studied about mutual funds liquidity, In his study he found majority of the investors opted for mutual funds with the expectation of liquidity.

ix. **Current Market Conditions**

An investor should have a clear idea about the market. This is possible only by keen watching of the movements of the market. This is very helpful to the investors to take suitable decision in his investment. The investors are asked to rate the importance of current market conditions in investing on mutual funds . The investors attitude on the above said variables have been analysed with the help of its mean scores among the small and large investors separately in order to exhibit the importance of the variables involved in decision variables involved in decision function. To find out the significant difference among the two group of investors regarding their perception on nine variables, the't' test has been executed.

Mutual Fund Risks

Investing in mutual fund is not only spending and making money, it is a commitment of funds in financial market. The following risks are inherent in mutual funds.

1. **Market Risk**

The prices of shares are subject to wide price fluctuations depending upon market conditions over which nobody can control. This is called market risk. It can be reduced but cannot be completely eliminated even by a good investment management. Every economy has to pass through a cycle, boom, recession, slump and recovery. The phase of the business cycle affects the market conditions to a large extent.

2. **Political Risk**

Successive governments bring with them new economic ideologies and policies. It is often said that many economic decisions are politically motivated. Changes in the government bring in the risk of uncertainty which every player in the financial service industry has to face.

3. **Industry Risk**

This risk arises from the possibility that a group of stocks in a single industry will decline in price due to changes in the industry. For example , if any bad news comes from software industry, it will affect the software companies share price. This is a common risk.

4. **Manager Risk**

This risk arises from the possibility that an actively managed mutual fund's investment adviser will fail to execute the fund's investment strategy effectively, resulting in the failure of the stated objectives.

5. **Currency Risk**

This risk arises from the possibility that returns could be reduced for Indians investing in foreign securities because of a rise in the value of the Indian rupee against dollar, yero or yen etc. This is also known as exchange rate risk.

6. **Risk in Change of Management**

It is not uncommon for a mutual fund to have changes in its management. The change in the funds management may affect the achievement of the objectives of the fund. The fund company may, for various reasons, replace a fund manager or may be the fund manager himself may resign from his job for any reason. This change will be significant since the fund manager controls the fund investments.

7. **Investor Psychology Risk**

The investor psychology is such that most of the investors, be it mutual fund, behave like reactionaries. E.g. they enter the market when the market starts rising and they get panicky and exit as soon as market starts falling.

Investors resort to selling their investments when market starts looking down. Because of this, there will be a pressure to mutual fund manager to redeem the units. As a result of this, along with the redeeming unit holders, all the other unit holders who have invested in the fund suffer.

8. **Choice Risks**

There are a number of schemes available in the market like equity schemes, sector schemes, index schemes, balanced schemes etc. The investor should select the right scheme at the right time. Sometimes, all sectors are not performing well in bull market. If the investor did not select the right scheme in the right time it affects the return of his investment. This is an important risk in mutual funds.

9. **Risk of Changes in Regulatory Norms**

Mutual Funds are constantly regulated by SEBI and AMFI. SEBI introduce various regulatory norms time to time. This is mainly for the protection of investors and avoids fraudulent activities in market. Investors are subject to risk of the changes in the norms for the mutual funds. The above risks are common in mutual funds.

FACTORS FAVOURING INVESTMENT MODEL

Favourable activities relating to investment consist of acquisition of assets, their maintenance and the liquidation of assets. A good investment market should facilitate these investment activities and foster their growth. There are certain factors which are conducive to the growth of investment market. There are-

i. **Legal Protection:** As investment is the result of savings, the government should introduce adequate measures to encourage savings accumulation. The privileges of the investors who have invested their excess in assets should be protected against any possible intrusion.

ii. **Well Organised Monetary System**: Existence of a well organised monetary system is vital for the growth of investment market. Investment consists of channelization of surplus funds in specific form of assets. Payment of these assets in terms of currency of the country calls for the existence of a proper monetary policy.

iii. **Role of Financial Institutions**: Financial institutions mobilise savings and channelize them for productive use in the industry. There are two types of financial institutions in the Indian capital market, namely, developmental institutions and Institutions and investment institutions.

iv. **Forms of Business Organisation**: most of the businesses are organised in the form of joint-stock companies. Perhaps the public limited companies are regarded as the most useful form for the investors in view of their quality such as limited liability of shareholders, perpetual succession and free transferability of shares unlimited liability.

ADVANTAGES OF MUTUAL FUND

Following are some of the advantages:

1. Professional Management
2. Diversification
3. Convenient Administration
4. Tax Benefits
5. Liquidity
6. Transparency
7. Affordability

DISADVANTAGES OF MUTUAL FUND

The disadvantages include:

1. Dilution
2. Cost

CONCLUSION

In today's volatile market environment, mutual funds are looked upon as a transparent and low cost investment vehicle, which attracts a fair share of investor attention helping incite the growth of the industry. Investment is encompassing with risks like business, credit, default, currency, interest rate, market etc. Mutual Fund allows investor to pool their money with which the investment manager would initiate investments and hence attempt to attain results as per the investor's objectives. Diversification and SIP allows investor to manage the risks. Sponsor, Trust, Trustee, Transfer Agent, Asset Management Company etc. forms key element Mutual Fund structure. Moreover, with the investment in Mutual Fund the investor can avail tax benefits too. The mutual fund industry today needs to develop products to fulfil customer needs and helps to customers understand how its products cater to their needs.

BIBILIOGRAPHY

- Anthony Saunders and Marcia Millon Cornett, (2007), Financial Markets and Institutions,
- McGraw-Hill Publishing Company Limited, New Delhi.
- Bhalla V.K., (2007), Investment Management, S.Chand &Company Ltd, New Delhi.
- Daryab Singh, (2003), Mutual Funds in India, Rajat Publications, New Delhi.
- Eric Tyson, (2010), Mutual Funds for Dummies, Wiley Publishing, Inc., Indianapolis, Indiana.
- Gurusamy, S., (2004), Financial Services and System, Vijay Nicole Imprints Pvt. Ltd., Chennai.
- Lalit K Bansal, (1997), Mutual Funds Management and Working, Deep & Deep Publications, New Delhi.