

# “A STUDY OF INVESTORS PREFERENCES FOR INVESTMENT AND THEIR INTERESTS WHILE INVESTING IN MUTUAL FUNDS”

**Dr. Shriprakash Soni**

Associate Professor, Department of MBA

Suryadatta Institute of Business Management and Technology (SIBMT), Pune, Maharashtra (India).

## **ABSTRACT:**

*Today, most of the investors want to earn maximum return with low risk on their investment with minimum time. Therefore, it becomes tough task for the investors to select the best option for their investment because different investment avenues are available to the investors in the market. Mutual funds also offer good investment opportunities to the investors. Like all investments, Mutual funds also carry certain risks. Hence, it is necessary investors should compare the risks and expected yields after adjustment of tax on various instruments while taking mutual fund investment decisions. The investors may seek advice from experts and financial consultants including agents and distributors of mutual fund schemes while making investment decisions. Existing study collected the views of investors while investing their money in different investment avenues.*

## **Keywords:**

**Investors, Investment, Returns, Risk.**

## **1. Introduction:**

Today, in the market different investment options are available for the investors. But to select a good option providing better returns with minimum risk becomes very important. Therefore, he should thoroughly evaluate some of the available significant options on the basis of following factors:

- a) Past performance of the option under study.
- b) Risk adjusted returns from the invested plan.
- c) Share in the portfolio policy.
- d) Fund house.
- e) Back Returns i.e. percentage of Interest / Dividend.
- f) Consistency.

When an investor observes the above parameters for the evolution of the financial performance of the option under study, immediate concept that clicks his mind is Mutual Funds.

The investors are investing in Mutual Funds with the belief that the following market conditions are in existence:

- a) The performance of mutual funds is relatively good.
- b) The return on mutual fund is better than the return on fixed deposits with banks.
- c) The performance of mutual funds is good because of proper portfolio and risk management.
- d) The performance of mutual funds is related with stock market.

## **2. Literature Review:**

Gupta Ramesh (1989) evaluated fund performance in India comparing the returns earned by schemes of similar risk and similar constraints. Vidhyashankar S (1990), Bansal L K (1991), Batra and Bhatia (1992), Saha Asish and Rama Murthy Y Sree (1993-94), Shome (1994), Kale and Uma (1995), Jaydev (1996), Krishnamurthi S (1997), Gupta and Sehgal (1998), Irissappane Aravazhi (2000) also identified that there was trend in shift from bank or company deposits to mutual funds due to its superiority and return, liquidity, safety and capital appreciation played a predominant role in the preference of the schemes by investors. Narasimhan M S and Vijayalakshmi S (2001), Roshni Jayam's (2002), Singh, Jaspal and Subhash Chander (2003), Satish D (2004), Sondhi H J and Jain P K (2005), Muthappan P K and Damodharan E (2006), Sanjay Kant Khare (2007), Dr. Vikas Kumar (2011) also studied the performance of various mutual funds schemes and found that mutual funds provided better returns to the investors.

Venugopalan S (1992), Ansari (1993), Kulshreshta (1994), Madhusudhan V. Jambodekar (1996), Satish D (2004), Venkateshwarlu M (2004) conducted the survey of investors and suggested some guidelines to the investors on returns, benchmark comparison, diversification, selectivity and market timing skills. Vaid, Seema's (1994), Tripathy, Nalini Prava (1996), Kumar V K (1999), Gupta Amitabh (2000), Abhishek Kumar (2012) conducted the study on mutual fund industry and studies revealed that the industry showed a continuous growth. Existing study also collected the views of 450 investors while investing their money in different investment avenues as a primary data.

## **3. Pilot Study:**

The researcher personally observed, checked and discussed with the existing mutual fund investors to understand their views and expectations while investing in mutual funds. Hence, before collection of primary data the researcher conducted the pilot study for testing of reliability of questionnaire. In this process the researcher framed a questionnaire and collected data from 25 mutual fund investors. On the basis of observations of pilot study the ratios are decided while designing the hypotheses.

#### 4. Objectives of the Study:

- i) To find out the investors preferences for investment.
- ii) To know the interests of investors while investing in mutual funds.
- iii) To compare the preferences of investors for good returns, frequency of investment and tax benefits.

#### 5. Hypotheses:

The study is based on the following Hypothesis –

- i) The investors' preferences for investment in bank deposits, shares, mutual funds and commodity are in the ratio 5:3:8:4.
- ii) The interests of all the investors are equally same while investing in Mutual fund.
- iii) The preferences of investors for good returns, frequency of investment and tax benefits are in ratio of 6:3:1.

#### 6. Research Methodology:

To know the investors' views and expectations while investing in mutual funds, researcher has collected the primary data from existing mutual fund holders. Therefore, to study Investors Preferences for Investment and their interests while investing in Mutual Funds, it is essential for the researcher to understand clearly the behaviour of investors. Methodology adopted for this study was as follows:

Sr. No.	Particulars	Details
1	Type of Data	Primary Data.
2	Population	Mutual Fund Holders (investors).
3	Sampling Area	Mutual Fund Holders (investors) in and around Pune city.
4	Nature of Source of Data	Quantitative.
5	Sampling Methodology	Random.
6	Sample Size	450.
7	Target population	For this study researcher targeted the population i.e. existing Mutual Fund Holders who are self-employed, businessmen, working groups and retired people also.
8	Nature of Data Collection Instrument	Non – disguised Structured Questionnaire.
9	Types of Questions	Closed ended
10	Structure of Questionnaire	Questionnaire is divided into two parts.
11	Section I of Questionnaire (includes)	Personal information related to the investor.
12	Section II of Questionnaire (includes)	Questions regarding mutual fund performance criteria for selection, investment objective, mode of investment, preference, period, purpose etc.
13	Data Collection Methodology	Questionnaire and Personal Interview and discussions and deliberations with experienced persons like Investment Advisors, Chartered Accountants, Financial Advisors, Experts etc.
14	Reliability of Questionnaire	Reliability Test was carried out and the result of the same was 0.737. The answer was > 0.7. Therefore, it was acceptable.
15	Testing of Hypotheses	Chi-square Test

#### 7. Limitations of the Study:

- a) The study is mainly focuses on the Mutual Fund Schemes.
- b) The geographical area of the study is Pune city for Primary Data.

#### 8. Hypotheses Testing:

##### Hypothesis 1:

To analyze the Hypothesis, “The investors' preferences for investment in Bank Deposits, Shares, Mutual Funds and Commodity are in the ratio 5:3:8:4” researcher has applied Chi-square Test for Goodness of fit.

**Table 8.1 Chi-square test for goodness of fit for proportion of Investments is in 5:3:8:4**

Investments Avenues	O <sub>i</sub>	E <sub>i</sub>	O <sub>i</sub> <sup>2</sup>	O <sub>i</sub> <sup>2</sup> /E <sub>i</sub>
Bank Deposits	126	112.5	15876	141.12
Shares	59	67.5	3481	51.57037
Mutual Funds	189	180	35721	198.45
Commodity (Precious Metals)	76	90	5776	64.17778
Total	450	450		455.3181

$$\text{test statistics} = \sum O_i^2/E_i - N$$

$$= 5.3181$$

table value for 3 d.f at 5% l.o.s = 7.815

Calculated value 5.3181 < table value 7.815, So Accept Hypothesis.

##### Result:

By using Chi-square Test for Goodness of fit it is observed that the Hypothesis No. 3, “The investors' preferences for investment in Bank Deposits, Shares, Mutual Funds and Commodity are in the ratio 5:3:8:4” **is accepted.**

**Conclusion:**

It is observed that assumption of this hypothesis is valid / correct i.e. 28% of the investors given preference for Bank Deposits, 13% for Shares, 42% for Mutual Fund and 17% for Commodity.

**Hypothesis 2:**

For analyzing the Hypothesis, "*The interests of all the investors are equally same while investing in Mutual fund*" researcher has applied Chi-square Test for Goodness of fit.

**Table 8.2 Chi-square test for goodness of fit for equal proportion**

Objective	O <sub>i</sub>	E <sub>i</sub>	O <sub>i</sub> <sup>2</sup>	O <sub>i</sub> <sup>2</sup> /E <sub>i</sub>
1. Wealth Creation.	216	112.5	46656	414.72
2. Preserving wealth after accounting for inflation and taxes.	59	112.5	3481	30.94222
3. Regular income to meet commitment and expenses.	95	112.5	9025	80.22222
4. Building corpus to meet specific requirements.	80	112.5	6400	56.88889
Total	450	450		582.7733

$$\text{test statistics} = \sum O_i^2/E_i - N$$

$$= 132.7733$$

table value for 3 d.f at 5% I.o.s = 7.815

Calculated value 132.7733 > table value 7.815, So Reject Hypothesis.

**Result:**

By using Chi-square Test for Goodness of fit it is observed that the Hypothesis No. 4, "*The interests of all the investors are equally same while investing in Mutual fund*" **cannot be accepted.**

**Conclusion:**

It is observed that assumption of this hypothesis is not valid because the objectives of all the investors are not same while investing in Mutual fund. It is deferring from person to person depending upon their priorities and requirements.

**Hypothesis 3:**

To analyze the Hypothesis, "*The preferences of investors for good returns, frequency of investment and tax benefits are in ratio of 6:3:1*" researcher has applied Chi-square Test for Goodness of fit.

**Table 8.3 Chi-square test for goodness of fit for equal proportion 6:3:1**

Reason for investment in Mutual Funds	O <sub>i</sub>	E <sub>i</sub>	O <sub>i</sub> <sup>2</sup>	O <sub>i</sub> <sup>2</sup> /E <sub>i</sub>
1. Good Returns.	257	270	66049	244.6259
2. Frequency of Investment.	126	135	15876	117.6
3. Tax Benefits.	67	45	4489	99.75556
Total	450	450		461.9815

$$\text{test statistics} = \sum O_i^2/E_i - N$$

$$= 11.98148$$

table value for 2 d.f at 5% I.o.s = 5.991,

Calculated value 11.98148 > table value 5.991, So Reject Hypothesis.

**Result:**

By using Chi-square Test for Goodness of fit it is observed that the Hypothesis No. 5, "*The preferences of investors for good returns, frequency of investment and tax benefits are in ratio of 6:3:1*" is **rejected.**

**Conclusion:**

It is observed that assumption of this hypothesis is invalid because the ratio of investors on the basis of Good Returns, Frequency of Investment and Tax benefits is not same. It is changing from person to person as per their understanding and reason for investing in mutual fund. The actual ratio as per the primary data is 57:28:15.

**9. Findings:**

- Age, gender, occupation had significant impact on the investors financial dependence, investment objectives, willingness to take risk and on the extent of acceptability for investment volatility. Educational qualification affected financial needs and investment objectives of investors.
- 42% of the respondents preferred Mutual Funds as an Investment Avenue followed by 28% for Bank Deposits. Only 25% investors are interested to divert their investments to mutual funds.
- 35% of the respondents received information about mutual funds from their Friends & Colleagues followed by 27 % from relatives and 23 % from Advertisement in Newspaper, Magazines and Banks.
- According to 48 % investors' main investment intension while investing in Mutual is Wealth Creation, followed by 21 % regular income to meet commitment and expenses and building corpus to meet specific requirements in future.
- Almost 50% of the respondents preferred Individual Mutual Fund Agents / Brokers as a distribution channel for Mutual Fund Investment.

- vi) 36% of the respondents invest through monthly investment plan i.e. Systematic Investment Plan (SIP). 25% of the respondents invest in Mutual Funds whenever new issue opens because at the time of new issue the face of mutual fund scheme is less as compared to existing mutual funds NAV.
- vii) The 39% investors had first choice for mutual fund investment is Equity Schemes followed by Balanced Schemes, Debt Schemes and Money Market Schemes.
- viii) 39% of the respondents select Dividend Payout while investing in Mutual Funds where as 30% of the respondents selects Growth Option for dividend. Mostly the retired people and the people of age group 41 to 50 years prefer the Dividend Payout while investing in Mutual Funds. Whereas the people of age group 31 to 40 years prefer the Growth Option for dividend.
- ix) 40 % of the respondents Size of Mutual Fund Investment Up-Till Now is Rs. 1.00 lakh to 3.00 Lakhs followed by 27% in Rs. 50000 to 1.00 lakh and 26% Up to Rs. 50,000.
- x) 58% of the respondents prefer Long Term Plan for investment i.e. more than 3 years time frame while investing in Mutual Funds followed by 34% Medium Term i.e. 1 to 3 years and 8% Short Term i.e. Less than one year.
- xi) Only 4 % of the respondents are keeping track of Net Asset Value (NAV) on daily basis whereas 6 % of the respondents are keeping track of Net Asset Value (NAV) on weekly basis.
- xii) It is found that the frequency of switching from one scheme to another scheme of Mutual Funds is not on regular basis. 46% of the respondents switching from one scheme to another of Mutual Funds as per the advice of their Broker / Agent / Financial Advisor.
- xiii) 23% of the respondents are invested their money in Mutual Funds since last more than five years.
- xiv) According 57% of the respondents' investment in Mutual Funds is better than other investment avenues, because of Good Returns.
- xv) According to 26% of the respondents SBI Mutual Fund is most reliable Mutual Fund Company followed by 21% TATA Mutual Fund, 18% Reliance Mutual Fund and 16% Birla Sun Life Mutual Fund. 42% of the respondents given preference as reliable Mutual Fund on the basis of Good Returns on Investment followed 34% Performance.
- xvi) 59% of the respondents are satisfied with the performance Mutual Funds where as 22% of the respondents rated the average performance.
- xvii) 44% of the respondents are not interested to invest in mutual funds in future where as 17 % of the respondents are not yet decided.

## 10. Conclusions:

- i) It is found that investors' preferences for investment in Bank Deposits, Shares, Mutual Fund and Commodity are in the ratio of 28:13:42:17.
- ii) The main intension of investors while investing in Mutual is Wealth Creation followed by regular income to meet commitment and expenses and building corpus to meet specific requirements in future.
- iii) The preferences of investors on the basis of Good Returns, Frequency of Investment and Tax benefits are in the ratio of 57:28:15.

## 11. Suggestions:

### 11.1 Suggestions to Investors:

- i) Investors should invest in any top rated equity schemes of mutual funds.
- ii) Before investing in mutual fund scheme investors should read the brochure of the mutual fund scheme and offer document, rules and regulations, channeling of money, objectives of schemes, probable returns in future.
- iii) Investors have to carry out self-analysis of as per their individual objective of investment, future needs and requirements, risk-bearing capacity, compare the existing returns of mutual fund and interest rate offered by the banks before selection of mutual fund scheme for investment.
- iv) Investors should also watch the NAV of mutual funds on regular basis and take the decision of withdrawing or continuation of investment for better returns.
- v) Mutual funds are linked with share market. If performance of mutual fund will decline, investors should wait and watch and also keep patience and do not take the decision of withdrawal of investment from the fund immediately.
- vi) If investors are not well worse with the different schemes of mutual funds available in the market and their performance, carry out analysis on basis of their past record and performance or take help of reliable mutual fund advisor before taking decision of investment in mutual fund.
- vii) As a safer side investors should diversify their portfolio into different investment avenues. They should not totally depend on the mutual fund.

### 11.2 Suggestions to Brokers:

- i) Brokers should suggest the appropriate mutual fund scheme to the investors as per their needs and preferences.
- ii) Before suggesting any mutual fund scheme to the investors, brokers should first thoroughly study and carry out technical analysis of mutual fund which includes the past performance, pros and cons, risk involved in that mutual fund scheme.
- iii) They should also provide the updated information of mutual funds schemes regarding their performance, dividend, NAV etc. to the investors periodically.

### 11.3 Suggestions to Indian Mutual Fund Industry:

- i) It is absolutely necessary to harness the savings of the nation especially from rural and semi-urban areas. For this, mutual fund companies required wide spread and efficient network of operations.
- ii) Most of the potential investors are not fully aware of the modes of investments and its operations, maximum numbers of investor who have invested in mutual fund are not fully aware of their rights and obligations. Therefore, Mutual Fund Companies, Government and SEBI should jointly organize the awareness programmes, exhibitions and training programme for portfolio management of individual investors for encouraging people of rural, urban and semi urban areas.

- iii) They should also publish the above information in detail in English, Hindi and other vernacular languages through document like '*Mutual Fund Investors Guide*'. It would be more enlightening and effective if these awareness programmes will be organized at the collegiate level. So that students will also aware of investment avenues even before they start earning.
- iv) SEBI and AMFI should carry out research works on regular basis to know the performance of mutual fund schemes.
- v) Government of India or SEBI should appoint 'Mutual Fund Ombudsman' for fast settlement of disputes.

## 12. Scope for further Research:

- i) To know the performance and efficiency of Mutual Fund House (Company), comparative study of these companies need to carry out.
- ii) Market survey / research should be carried out to identify better distribution strategies to attract the potential investors.
- iii) Research on role of money market mutual funds as a short-term financial instrument.

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