LITERATURE REVIEW ON INFLUENCING FACTORS OF MUTUAL FUNDS IN INDIA

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ABSTRACT

Day by day Indian financial market is becoming competitive and the supply of various financial instruments needs to be in equilibrium to the demand perspectives of the investors. The prime drive of any investment is to get maximum return with a minimum risk and mutual funds provide the opportunity for the investors. The research provides an insight into the types of risks which exist in a mutual fund scheme. The data was collected from mutual fund investors as well as non mutual fund investors of this industry. The research focuses on the relationship between investment decision and factors like liquidity, financial awareness, and demography. It was found low risk funds and liquidity of fund scheme is having impact on the investor's perception for investing in the mutual fund.

Keywords: Financial Instruments, Investors' Decision, factors, Risk Return

INTRODUCTION

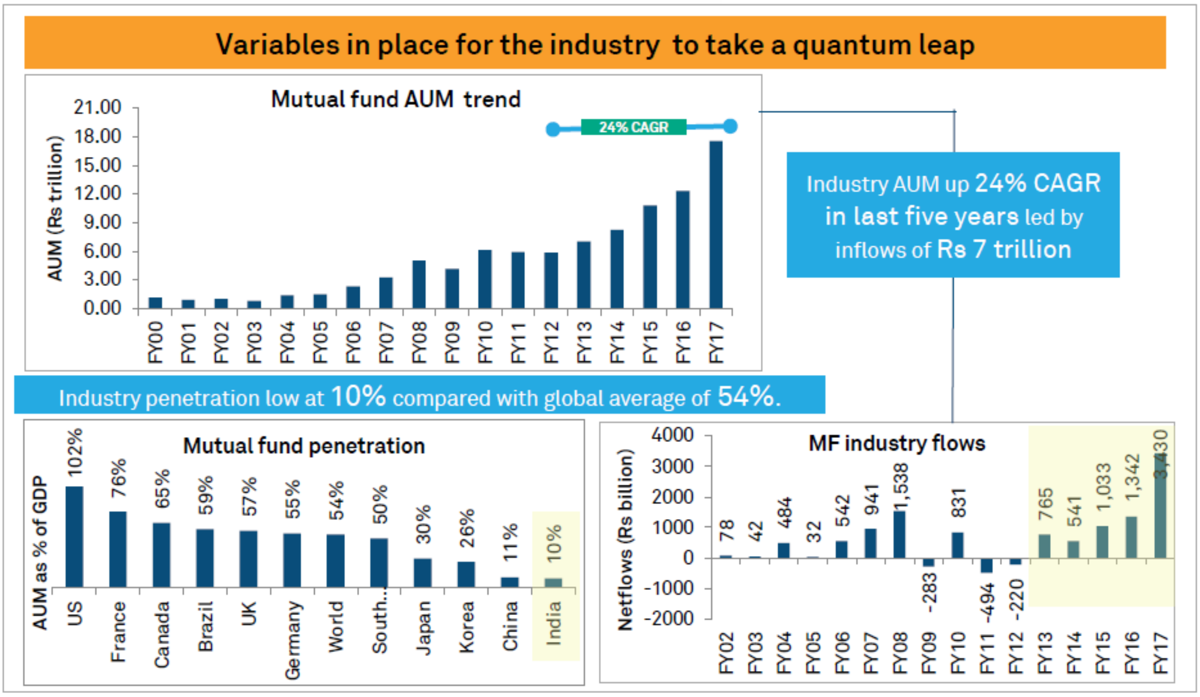
In 21 century, Indian investors are more dynamic and inflation cautious. Investors, to meet their dynamic future financial requirements and beat inflation, are leaving traditional mode of investment avenues and adopting diversifying investment strategies. Mutual funds became vivacious investment avenue among the various available investment options for millennium investors (JijuVardhan, Piyush Gupta, Yatendra Chauhan, Prahlad Salian, AshiahRavalia, and ParthPandya, 2017; J. R. Joshi, 2013; Rajesh Chakrabarti, Sarat Malik, SudhakarKhairnar, and Aadhaar Verma, 2014). Mutual fund humble beginning started in our nation, in 1963, with the establishment of Unit Trust of India (UTI). The mutual fund industry evolved to adopt best practices i.e., removal of entry load, investor awareness and outreach campaigns as part in investor education, penetration in to the nook and corner of the nation, introduction of direct investment plans, adaptation of technology to ease the overall investment process. The following figure shows variables in place for the industry to take quantum leap.

The investors are large in number willing to use their holdings which are savings from their earnings in this mutual funds due to limit their exposure to risk.

Whereas individual securities will charge fees and commission from the individuals but these individuals cannot afford to the extra charges so they have observed the concept of mutual funds and are willing to invest in this type.

When investors invest their money in this area the dealers of mutual funds will pool those finance in buying stock, bonds, commodities and options.

Mutual funds will collect the money from investors who like to invest their savings and earn returns from the investments which they invested. The investors will have different perceptions and needs. The amount which was collected by mediators on behalf of mutual funds dealers will be channelized in money and capital markets. To evaluate mutual fund performance, risk-return relationship is acting as corner stone and it was noticed by the organization. During 23 yrs from starting of this mutual fund concept the growth of this industry was slow. After 1990 only serious attempt was done by researchers on the study of mutual funds performance. To evaluate the performance of investment Sharpe and Jensen measures were used. To study about mutual funds performance some more researchers used econometric models. According to the above mentioned details we can understand that this served as investment vehicle and mutual funds has captured an important place in this market.



Mutual fund penetration data as of December 2016 (data pertains to open-ended mutual funds)
Data pertains to month-end AUM as of March; AUM growth pertains to period ended March 2017
Source: AMFI, ICI, IMF, CRISIL Research

THEORETICAL BACKGROUND

Factors Affecting Mutual Fund Decision

The various parameters that affect the decision making of investors in mutual fund industry can be categorized as: 1. Risk factor 2. Return factor 3. Liquidity factor 4. Consistency factor 5. Awareness factor 6. Specialization factor

Risk Factors: All the investments in the mutual fund and securities are subjected to market risk and the NAV of the schemes may vary depending upon the factors and forces affecting the securities market. In this respect, the offer documents/SAI/SID/KIM may be helpful to the investors. All mutual funds also required to disclose the risk factors in their offer documents which are faced by the funds and thus by the investors. All the risks associated in a mutual fund investment can be grouped as:

1. MARKET RISK: Stock prices are always sensitive to what is happening in an economy (local, national, international). Performance of an economy has inverse correlation with the risk involved. Market risk may include

Country risk: The risk in foreign investment changes as per the political instability in a country where the investment was issued. ii) Political risk: The risk in national investment changes because of political instability in home country like political unrest, government regulations, terrorism and other social changes. iii) Interest rate risk: Long term and fixed income securities such as bonds and preferred stocks have the greatest amount of interest rate risk while shorter term securities like treasury bills and money market instruments affected less. iv) Currency risk: It refers to the possibility changes in the price of one currency which will affect another. If the currency of home country declines against foreign currency the investment will lose value. 2. Liquidity risk: Liquidity risk refers to the possibility that an investor may not be able to buy or sell an investment as and when desired or in sufficient quantities because opportunities are limited. The liquidity of a stock depends upon the nature of the fund. Investment in equity funds hold volatility from time to time whereas debt funds hold a risk of interest rates. 3. Credit risk: This refers to the possibility that a particular bond issuer will not be able to make expected interest rate payments and/or principal repayment. Credit risk occurs when bonds of a particular company being downgraded by the rating agencies causing lower price. There is a risk whether the fund has been invested in higher grade investment securities as a company can default in terms of paying interest or principal or both. It can also be tuned as Default risk. A diversified portfolio of investments is the best way to manage risk. There are various ways to mitigate the risks: i) Having equity mutual fund exposure within the risk tolerance. ii) Ensuring that debt mutual fund exposure is well spread out. iii) Having adequate exposure to debt assets outside to mutual fund. iv) Ensuring the general assessment of risk. If the fund's return varies a lot it may be considered a higher risk because its performance can change quickly in either direction.

Return Factors:

It is the percentage increase or decrease in the value of the investment in a particular period. The return on mutual funds can be calculated in three different degrees: a) Absolute Return (Point to Point Return): Absolute return is the simple increase (or decrease) in investment in terms of percentage. It does not take into account the time taken for this change. The absolute return method is used if the tenure of investment is less than 1 year b) Compounded Annual Growth Rate (CAGR): CAGR method is used to calculate return for the period beyond one year for the investment in mutual funds. These are annualized in compounding effect. Hence it is also known as Annualized Return. Total Return: This method overcomes the limitation of Absolute Return by including dividends.

Liquidity Factors:

Before the global financial crisis liquidity factors of any investment was not on everybody's radar. Liquidity risk can be categorized as: 1. Funding (cash flow) liquidity: It tends to manifest a credit risk that is inability to fund liability produces defaults. The basic ways of its measurement are current ratios and quick ratios. 2.

Market (Asset) liquidity: It tends to manifests as market risks that is inability to sell an asset at time of requirement i.e. the market price indecipherability of a stock. The market liquidity of an investment can be measured in respect of width (bid ask spread), depth (position size) and resiliency. However, Mutual funds are required to fulfill shareholder redemption requests within seven days. As a result, funds must maintain sufficient liquidity in order to meet redemptions, and to minimize the impact on remaining shareholders. (PWC's A Closure Look, Asset Managers: The SEC's road ahead (May 2015).

Consistency Factors:

The investments in mutual funds depend upon the need of the investor. For example, debt investments may not be appropriate for investors of short term objectives. For medium to long term objectives, equity fund investments are advisable. Historical long term performance, while a good indicator of fund's potential, does not guarantee future performance. The consistency of a fund's performance can be measured in terms of its performance with respect to its benchmarks and category average. In a bearish mode market, the returns may be negative, but the funds that fall less than their benchmarks or category average are outperformers. Similarly, in the bull market the outperformers are those that gain more than their benchmarks or category averages. Such funds beat the market and entails superior and advanced fund management skills. CRISIL accords special importance to consistent performers. As such, they have a separate ranking based on consistent returns.

Awareness Factors:

From investor's point of view, the level of awareness of mutual funds can be termed as the first and foremost stage for investment in any such fund. A survey says that if the investors have been provided more funds, 50 per cent of the investors would like to invest in the Real Estate, followed by 23 per cent in Mutual Funds and only 2 per cent in Equity Shares. Another survey stated that high salaried and high incomes self-employed are major investors due to the tax concessions. It was observed that small businessmen, farmers and persons belonging to rural and semi-urban areas in low income group had no awareness about the mutual funds. Considering the importance of investor awareness and protection, more so after the global economic meltdown, the government has decided to set up a committee to increase awareness among investors. "The issue of investor awareness and protection has been one of the main focus areas for regulators, government and other stakeholder...the global financial crisis has further highlighted the importance of financial awareness. It was accordingly decided to set up a committee," the government said in a release. (ET Bureau, 4 April 2009). Where as the newspapers and magazines are another source of information about various mutual fund schemes.

Specialization Factors:

In the context of specialization, financial literacy plays a vital role. Financial literacy is vital if mutual funds are to extend their reach to smaller towns. The financial knowledge is needed to fully participate in the economy or to make informed decisions about own financial futures. A financial ignorant person suffers from financial diseases like underinsurance, debt trap, insufficient retirement funds and low return on investment. Three-fourth of Indian adults do not adequately understand key financial concepts such as inflation, compound interest and risk diversification, Standard & Poor's Ratings Services said. This is lower than the worldwide average of financial literacy, but roughly in line with other BRICS and South Asian nations. In comparison, 57percent of adults in US and 67 per cent in UK are financially literate. (ET Bureau Dec 15, 2015,). The innovations and growing complexities in financial products adds enormous pressure on investors. Hence, it is suggested that financial literacy should be started in a school. There is already the Investor Education And Protection Fund (IEPF) of BSE in which 1rupee of every transaction that takes place on a stock exchange is directed to the financial literacy fund. There is a need to increase the share of money from each transaction that will increase the availability of funds for organizing more seminars and creating financial literacy

AUTHOR	YEAR	ANALYSIS
MARCIN KACPERCZYK, STIJN VAN NIEUWERBURGH, LAURA VELDKAMP	2016	Here the question was in which way mutual fund managers will provide any suggestions or any important services to their clients is the one which attracts and motivates them is one of the famous literature in finance. One candidate has explained in this way that funds process information about future asset values and will be used that information to invest in high valued assets.
ARNO RIEDL, PAUL SMEETS	2017	It discuss about the understanding that why investors invest their money in holding socially responsible mutual funds. Then they linked administrative available data to survey responses and in various experiments
JAEWON CHOI, MATHIAS KRONULD	2017	Here examination on US corporate bond mutual funds was made and how to reach for yield was examined i.e. reaching for yield. It defined reaching for yield as tilting

		portfolios toward bonds with yields higher than the bench marks. It was found that funds are generating higher returns and attract more inflows when they reach for yield especially when interest rate was less.

PAUL SCHULTZ, SOPHIE SHIVE	2015	They found that bonds which are hold by mutual funds are having more liquidity in over time situation and cross sectional case. The relation was weaker for the bonds which are owned by most distressed funds. Mutual fund bond sells to dealers low inventory positions for their accommodation.
GEORGE O ARAGON, LEI LI	2019	During 2007-2008 financial crisis has aroused in market then mutual funds which was held by corporate companies has increased their selling range of credit protection in the form of the credit default swaps. The funds which sold credit protection during the period of crisis experienced greater credit market risk and superior post crisis performance, consistent with higher expected returns from liquidity provision. Suggesting that funds which have opportunity, trading in credit default swaps were made

		investors to counter party risk
JAVIER VIDAL GARCIA, MARTA VIDAL, MAJDI HASSAN	2017	Around the world, short term market efficiency of the mutual fund industry has observed and discussed as the data which was collected through worldwide domestic equity funds were unique. It employs a parametric and non-parametric approaches

Review of Literature Perception varies from person to person, and each person assigns different meaning to the same situation as per his experience. It is commonly presumed that different people perceive the same situation or thing in different ways due to the past experiences and various demographic variables like gender, age, etc. One has to appreciate that mere launching of schemes by the institutions alone will not be sufficient to bring in necessary performance improvement and to get the competitive edge. It is the fund manager, who is to play the crucial role in selectivity and timing of the issues. According to a report of KPMG (2009) 'Indian Mutual Fund Industry – The Future in a Dynamic Environment Outlook for 2015' they found that brand equity of a mutual fund includes factors like perception of the brand capability drawn from its performance in other sectors. Hung, A., J. Yoong and E. Brown (2012), found in their INFE member survey that even within a fairly small group of countries, perceptions, needs and policies regarding gender disparities in financial literacy are quite diverse. Mitra (1997) observed the perception of the investors on the MF industry as a whole, scheme-wise and market wise marketing strategy adopted by the MF companies. Singh and Vanita (2002) found in the study that the investor's preferred to invest in public sector mutual funds with an investment objective of getting tax exemptions and stayed invested for a period of 3-5 years and the investors evaluated past performance. It was found that majority of the investors were dissatisfied with the performance of their mutual fund and belonged to the category who held growth schemes. Crosnan and Gneezy (2004) in his disclosed that there is no significant difference in the way men or women managers think of performance, risk and other fund characteristics. Women are risk averse than men as far as financial instruments are concerned. Singh and Chander (2004) conducted the study and established that middle class salaried investors and professionals perfected to have disclosure of net asset value on a day to day basis and wanted to invest in mutual funds in order to get higher tax rebates. Further it was evidenced that small investors perceived mutual funds to be better investment alternative and public sector investments to be less risky.

CONCLUSION

The research is carried out to understand the factors influencing investors towards MF's. From the present study we can summarize that the investors usage perceive a product as per the way it has been promoted to them. There can be ample number of factors or variables which are the major reasons for generation of the perception in the investors'. Investors' usually consider various factors like professional advice, low transaction costs, etc as the reasons for investment in MF's. Investors' are having the perception of the specific product due to the way they visualize the product and understand the product. There is a scope of further research wherein a detailed analysis about the various demographic variables which creates the perception can be found out and understood.

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