

EMPIRICAL OUTLOOK OF MUTUAL FUND INVESTMENTS IN INDIA: A STUDY WITH REFERENCE TO COIMBATORE CITY

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ABSTRACT

Mutual funds act as a medium for retail investors to invest their savings in the professional funds management system, irrespective of the sum invested. It enables masses to enter the Indian Financial Market with much more ease. Indian Mutual Funds industry is growing rapidly which is reflected with the growth in assets under management under various Asset Management Company's year on year. Investment in mutual funds is less risky when compared to investment in equities market. Less risk combined with moderate returns and professional management act as a magnet for the risk adverse investors to invest their savings in the financial markets. This project aims at finding out the factors affecting investment decision on mutual funds and the impact of behavioral factors on an investor.

Key-words: Mutual funds, Indian Financial Market and Asset Management Company.

PROLOGUE

The Mutual Fund Industry in India was started with a humble beginning by establishing the Unit Trust of India in the year 1963, by the Government of India. "The main aim of the UTI was to enable the common investors to participate in the prosperity of capital market through portfolio management aimed at reasonable return, liquidity and safety and to contribute to India's industrial development by channelizing household savings into corporate investment". By the year 1993, UTI occupied nearly 80 per cent of the market share and developed manifold in terms of number of investors, investable funds, reserves with wide marketing network and efficient leadership.

Mutual funds segment as an investment avenue is playing a significant role in the changing economic scenario of Indian capital and financial markets. Though the penetration of mutual funds is limited to urban areas and not reached to rural and retail investors, it had grown significantly in terms of the asset base and helping to fuel the growth of the economy. For any country, savings play a vital role in investment. India's gross domestic savings are very high, unlike other developed nations. But these savings are not effectively diverted to mutual funds. UTI, the only player till 1987 failed to attract the savings and to fulfill the desires

of investors. The monopoly of the UTI, after two and half decade had broken by allowing commercial banks and insurance companies in the mutual fund industry. With the liberalization of economic policies and deregulation of mutual fund industry, many private and foreign institutional investors entered. Thereafter, competition and efficiency between public and private sectors have grown.

STATEMENT OF THE PROBLEM

Mutual Funds form a part of the Indian financial sector and have gained significant position in the economy since the liberalization process started in 1992. The rapid growth of the mutual fund industry enabled by the capital market reforms and economic growth is a clear direction for the future growth of this industry. Mutual funds today form 1/10" of the banking industry's size. If we compare this an indication in the current interest rate scenario, mutual fund has ample opportunity to grow into an industry like the banking industry in India. Mutual funds thus play a dual role by providing superior returns to investors and act as a key for economic development.

At present, only a small portion of the savings is reaching the capital markets through the mutual fund route. In the future, the percentage of savings reaching capital markets through mutual fund route will rise gradually. Mutual funds have become an overly attractive investment media in the capital market for both corporate and retail investors. They are very cost beneficial, simple and do not require an investor to figure out which securities to invest into. Building a strong mutual fund brand, product innovation, packaging, distribution, customer education and penetration will have to go a long way, in making the mutual fund industry a most preferred investment vehicle, for the investors in our country. Therefore, on the basis of above settings the study is intended to identify the solution for the following research questions.

1. What are the factors determining the mutual fund investments in Coimbatore city?

OBJECTIVE OF THE STUDY

The objective of the study is to assess the factors determining the mutual fund investments in Coimbatore city.

HYPOTHESIS OF THE STUDY

Based on the above objective, the present study attempts to test the following hypothesis;

H₀₁: The factors of mutual fund investment have no difference among the investors based on their demographic classification.

RESEARCH METHODOLOGY

Sample design

The population targeted for this study consisted of mutual fund investors from the Coimbatore city. The city has been divided into five zones based on the administration as East, West, North, South and Central zones. The sampling technique adopted for the study is simple random sampling since the sample respondents are selected on the basis of the accessibility. A sample size of 750 respondents is chosen based on Morgan table (384 samples are enough to represent the population of 1 million). With the current population of 1.9616 million in February 2019 in the city, the current sample limit of 750 has been chosen opting 150 samples from each zone to give balance to the entire zone in the city and to whom the questionnaires were distributed. Among the questionnaires distributed, 26 questionnaires are found incomplete and hence, the total sample of 724 has been considered final.

Source of data

The study is both descriptive and analytical which is based on primary data. The data is gathered from the mutual fund investors as sample respondents through structured questionnaire method. The other data for the study as reviews and sundries are being collected and compiled from various websites, magazines, journals and theses.

STATISTICAL TOOLS USED FOR ANALYSES

The following are the statistical tools used for the analysis of the data collected;

1. Factor Analysis
2. Analysis of variance (ANOVA)

LIMITATIONS OF THE STUDY

The following are the limitations of the study;

1. This research was location specific and was confined to the city of Coimbatore city in the state of Tamil Nadu in India. Hence the results of this research may not be applicable to other parts of globe.
2. The study adopted simple random sampling which was one of the methods of probability sampling and hence the limitations of this technique are applicable.
3. The study has all the limitations of a qualitative research namely subjectivity and personal bias.

ANALYSIS AND DISCUSSION

TABLE 1: FACTOR ANALYSIS FOR DETERMINANTS OF MUTUAL FUND INVESTMENTS – ROTATED COMPONENT MATRIX

Variables	Factor scores for Component					Cronbach Alpha Value	Factor Name
	1	2	3	4	5		
Economic and political situation evaluation	.838	-.008	-.027	-.064	.128	0.857	State of affairs
Analyzing the information of the private equity market	.756	-.049	-.002	.003	-.353		
Own risk tolerance	.744	-.094	.141	.010	-.073		
Market's current volatility analysis	.799	-.081	.053	-.080	-.127		
Historical growth of the market	.728	-.021	.057	.082	-.325		
Anticipated growth of the market	.725	0.258	.068	.098	.377		
Industry's maturity	.701	-.046	.140	-.024	.349		
Media information	-.060	.761	.024	.145	-.243	0.798	Perceptual aspect
Current investors' opinion	.107	.740	.104	-.114	-.224		
Various avenues of growth	-.137	.632	.092	.499	-.223		
Brokers' assistances	-.124	.578	.215	-.036	.388		
Trade volume of the desired avenue	.064	.045	.788	.204	.045	0.723	Financial aspect
Minimum capital expenditure requirements	.118	.044	.729	.049	-.378		
Positive industrial trends	.237	.101	.629	.139	.400		
Monetary source	.352	-.031	.622	.562	.191		
Efficient market condition	.289	-.101	.130	.659	.182	0.710	Prospective aspect
Sustainable competitive advantages	.400	.001	-.001	.686	.198		
Sustainable cash flows	.094	-.119	.013	.677	.228		
Multiple areas to create worth	.195	-.056	.056	.672	.268		
Efficient management team	.282	-.062	-.102	.258	.558	0.638	Administrative aspect

The factor loadings for the five factors extracted were rearranged in the order of the loadings for each of the factors in table 1. The table has indicated that the first seven variables belonged to the factor state of affairs, the next four factors converged as perceptual aspect, the next four variables converged as financial aspect, the next four variables converged as prospective aspect and the last variable is factored as administrative aspect.

Cronbach Alpha test was performed in order to test the internal consistency of the variables under each factor. If the value of alpha is closer to 1, higher will be the consistency and reliability. The alpha value of state of affairs has been 0.857, perceptual aspect being 0.798, financial aspect being 0.723, prospective aspect being 0.710 and administrative aspect being 0.638 which was quite high in explaining the internal consistency and reliability of the variables in each factors.

GENDER-WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS

H₀₅ (i): The factors of mutual fund investment have no difference among the investors based on their gender.

TABLE 2: GENDER-WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS – ANOVA

Factors	Mutual fund Investment	
	F	Sig.
State of affairs	4.638	0.366
Perceptual aspect	6.839	0.473
Financial aspect	5.384	0.023*
Prospective aspect	4.825	0.438
Administrative aspect	3.783	0.754

** Significant at 1 per cent level *Significant at 5 per cent level

The analysis of variance over the factors of mutual fund investments and the genders of respondents is shown in the table above. The financial aspect is the factor that is considered significant among the various factors. Hence, the null hypothesis is rejected for the factor. For the other factors that are considered to be insignificant, the null hypothesis is accepted.

AGE-WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS

H₀₅ (ii): : The factors of mutual fund investment have no difference among the investors based on their age.

TABLE 3: AGE-WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS - ANOVA

Factors	Mutual fund Investment	
	F	Sig.
State of affairs	4.789	0.043*
Perceptual aspect	5.739	0.475
Financial aspect	4.822	0.584
Prospective aspect	5.829	0.756
Administrative aspect	4.204	0.473

*Significant at 5 per cent level **Significant at 1 per cent level

The analysis of variance over the factors of mutual fund investments and the age of respondents is shown in the table above. The state of affairs is the factor that is considered significant among the various factors. Hence, the null hypothesis is rejected for the factor. For the other factors that are considered to be insignificant, the null hypothesis is accepted.

RESIDENCE - WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS

H₀₅ (iii): The factors of mutual fund investment have no difference among the investors based on their area of residence.

TABLE 4: RESIDENCE - WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS – ANOVA

Factors	Mutual fund Investment	
	F	Sig.
State of affairs	4.729	0.038*
Perceptual aspect	6.824	0.453
Financial aspect	4.922	0.473
Prospective aspect	5.738	0.484
Administrative aspect	4.839	0.048*

*Significant at 5 per cent level **Significant at 1 per cent level

The analysis of variance over the factors of mutual fund investments and the residence of respondents is shown in the table above. The state of affairs and administrative aspect are the factors that are considered significant among the various factors. Hence, the null hypothesis is rejected for the factor. For the other factors that are considered to be insignificant, the null hypothesis is accepted.

EDUCATION - WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS

H₀₅ (iv): The factors of mutual fund investment have no difference among the investors based on their educational qualification.

**TABLE 5: EDUCATION - WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS
– ANOVA**

Factors	Mutual fund Investment	
	F	Sig.
State of affairs	3.749	0.748
Perceptual aspect	4.829	0.039*
Financial aspect	5.892	0.456
Prospective aspect	4.493	0.024*
Administrative aspect	4.930	0.483

*Significant at 5 per cent level **Significant at 1 per cent level

The analysis of variance over the factors of mutual fund investments and the education of respondents is shown in the table above. The perceptual and prospective aspects are the factors that are considered significant among the various factors. Hence, the null hypothesis is rejected for the factor. For the other factors that are considered to be insignificant, the null hypothesis is accepted.

ANNUAL INCOME-WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS

H₀₅ (v): The factors of mutual fund investment have no difference among the investors based on their annual income.

TABLE 6: ANNUAL INCOME-WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS – ANOVA

Factors	Mutual fund Investment	
	F	Sig.
State of affairs	3.920	0.748
Perceptual aspect	2.749	0.647
Financial aspect	3.949	0.048*
Prospective aspect	4.839	0.875
Administrative aspect	5.928	0.642

*Significant at 5 per cent level **Significant at 1 per cent level

The analysis of variance over the factors of mutual fund investments and the annual income of respondents is shown in the table above. The financial aspect is the factor considered significant among the

various factors. Hence, the null hypothesis is rejected for the factor. For the other factors that are considered to be insignificant, the null hypothesis is accepted.

ASSOCIATION -WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS

H₀₅ (vi): The factors of mutual fund investment have no difference among the investors based on their association with mutual funds.

TABLE 7: ASSOCIATION -WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS – ANOVA

Factors	Mutual fund Investment	
	F	Sig.
State of affairs	4.940	0.848
Perceptual aspect	5.930	0.049*
Financial aspect	4.928	0.793
Prospective aspect	4.892	0.048*
Administrative aspect	3.849	0.748

*Significant at 5 per cent level **Significant at 1 per cent level

The analysis of variance over the factors of mutual fund investments and the association of respondents is shown in the table above. The perceptual and prospective aspects are the factors that are considered significant among the various factors. Hence, the null hypothesis is rejected for the factor. For the other factors that are considered to be insignificant, the null hypothesis is accepted.

YEARS OF ASSOCIATION -WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS

H₀₅ (vii): The factors of mutual fund investment have no difference among the investors based on their years of association.

TABLE 8: YEARS OF ASSOCIATION -WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS – ANOVA

Factors	Mutual fund Investment	
	F	Sig.
State of affairs	5.813	0.039*
Perceptual aspect	4.863	0.845
Financial aspect	5.284	0.040*
Prospective aspect	4.838	0.738
Administrative aspect	6.729	0.654

*Significant at 5 per cent level **Significant at 1 per cent level

The analysis of variance over the factors of mutual fund investments and the years of association of respondents is shown in the table above. The state of affairs and financial aspect are the factors that are considered significant among the various factors. Hence, the null hypothesis is rejected for the factor. For the other factors that are considered to be insignificant, the null hypothesis is accepted.

AWARENESS-WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS

H₀₅ (viii): The factors of mutual fund investment have no difference among the investors based on their awareness

**TABLE 9: AWARENESS-WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS
– ANOVA**

Factors	Mutual fund Investment	
	F	Sig.
State of affairs	5.930	0.674
Perceptual aspect	4.739	0.038*
Financial aspect	5.930	0.848
Prospective aspect	4.858	0.892
Administrative aspect	3.892	0.654

*Significant at 5 per cent level **Significant at 1 per cent level

The analysis of variance over the factors of mutual fund investments and the awareness of respondents is shown in the table above. The perceptual aspect is the factor that is considered significant among the various factors. Hence, the null hypothesis is rejected for the factor. For the other factors that are considered to be insignificant, the null hypothesis is accepted.

INITIAL INVESTMENT -WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS

H₀₅ (ix): The factors of mutual fund investment have no difference among the investors based on their initial investment

TABLE 10: INITIAL INVESTMENT -WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS – ANOVA

Factors	Mutual fund Investment	
	F	Sig.
State of affairs	3.859	0.758
Perceptual aspect	4.849	0.674
Financial aspect	5.930	0.037*

Prospective aspect	4.738	0.455
Administrative aspect	3.949	0.543

*Significant at 5 per cent level **Significant at 1 per cent level

The analysis of variance over the factors of mutual fund investments and the initial investment of respondents is shown in the table above. The financial aspect is the factor that is considered significant among the various factors. Hence, the null hypothesis is rejected for the factor. For the other factors that are considered to be insignificant, the null hypothesis is accepted.

ANNUAL INVESTMENT - WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS

H₀₅ (x): The factors of mutual fund investment have no difference among the investors based on their annual investment.

TABLE 11: ANNUAL INVESTMENT - WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS – ANOVA

Factors	Mutual fund Investment	
	F	Sig.
State of affairs	4.739	0.759
Perceptual aspect	3.548	0.045*
Financial aspect	4.829	0.044*
Prospective aspect	5.739	0.759
Administrative aspect	3.859	0.658

*Significant at 5 per cent level **Significant at 1 per cent level

The analysis of variance over the factors of mutual fund investments and the annual investment of respondents is shown in the table above. The perceptual and financial aspects are the factors that are considered significant among the various factors. Hence, the null hypothesis is rejected for the factor. For the other factors that are considered to be insignificant, the null hypothesis is accepted.

REINVESTMENT - WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS

H₀₅ (xi): The factors of mutual fund investment have no difference among the investors based on their reinvestment.

TABLE 12: REINVESTMENT - WISE FACTORS OF INVESTORS IN MUTUAL FUND INVESTMENTS – ANOVA

Factors	Mutual fund Investment	
	F	Sig.
State of affairs	4.739	0.759
Perceptual aspect	3.548	0.045*
Financial aspect	4.829	0.044*
Prospective aspect	5.739	0.759
Administrative aspect	3.859	0.658

*Significant at 5 per cent level **Significant at 1 per cent level

The analysis of variance over the factors of mutual fund investments and the reinvestment of respondents is shown in the table above. The perceptual and financial aspects are the factors that are considered significant among the various factors. Hence, the null hypothesis is rejected for the factor. For the other factors that are considered to be insignificant, the null hypothesis is accepted.

CONCLUSION AND RECOMMENDATION

The study integrates constructs from the factors affecting investment in mutual funds into an insightful investment model. The results indicate that the fundamental factors and investor perception play a very vital role in the investment decision making process. The mutual fund product designers should craft strategies to introduce innovative products to improve the scope of the mutual funds market the makers of the fund who decide the various aspects of the scheme should innovate products in order to make a scheme that suits the investor need the most. The mutual funds should disclose the names of fund managers on the fund document itself. The scope of the mutual funds needs to be increased and more and more people should be able to enroll themselves in the schemes.

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