

# A STUDY ON THE FUND SELECTION BEHAVIOUR OF MUTUAL FUND INVESTORS OF THIRUVARUR DISTRICT IN TAMILNADU

Dr.S.Suresh,  
Assitant Professor,  
Department of Business Administration,  
Annai Vailankanni Arts and Science College,  
Thanjavur.

## Abstract

Researchers in the field of behavioral finance have compiled an impressive body of analysis suggesting that investors do not act rationally all the time when making investment decisions. These findings have significant implications for the development of the securities market. Adam Smith, who is considered the father of the modern economics states that there is insight to the human psychology, which is further developed today into behavioral finance. For many investors, mutual funds are there first choice of investment vehicle. Mutual funds is pooled fund that is divided into units of equal value that is sold to investing public thus money collected in this process are further invested in capital and money market instrument. In today dynamic environment people go for those investment instruments from which they can get more return (Hemanth.S, 2008). Mutual fund are looked by individual investors as financial intermediaries or portfolio managers who process information, identify investment opportunities, formulate investment strategies, invest funds and monitor progress at a very low cost. Thus the success of mutual funds is essentially the result of the combined efforts of competent fund managers and alert investors. Mutual funds offer the advantage of professional management of money, diversification of risk, portfolio, diversification, reduced transaction cost and liquidity. These benefits cannot be achieved if any one goes for any other type of investment. The researcher collected data by obtaining direct response from 400 individual investors of Mutual Funds from Thiruvavarur District. By means of structured questionnaire and it was analyzed quantitatively. Statistical tools like ANOVA, Chi-Square Test and Garrett Ranking Technique to obtain the results of the study.

Key Words: Investment, Investment Avenues, Behavioral Finance, Mutual funds

## **INTRODUCTION**

Mutual funds are institutions that collect money from several sources-individuals or institutions by issuing 'units', invest them on their behalf with predetermined investment objectives and manage the same all for a fee. They invest the money across a range of financial instruments falling into two broad categories - equity and debt. Individual people and institutions no doubt, can and do invest in equity and debt instruments by themselves but this requires time and skill on both of which there are constraints. Mutual funds emerged as professional financial intermediaries bridging the time and skill constraint. They have a team of skilled people who identify the right stocks and debt instruments and construct a portfolio that promises to deliver the best possible 'constrained' returns at the minimum possible cost. In

effect, it involves outsourcing the management of money. Mutual Fund pools the money of people with certain investment goals. The money invested in various securities depending on the objectives of the mutual fund scheme and the profits and loss are shared among investors' in proportion to their investment. Investments in securities are spread across a wide cross-section of industries and sectors. Diversification reduces the risk because all stocks may not move in the same direction in the same proportion at the same time. Mutual fund issues units to the investors' in accordance with quantum of money invested by them. Investors' of mutual funds are known as unit holders.

### STATEMENT OF THE PROBLEM

Mutual fund markets are constantly becoming more efficient by providing more promising solutions to the investors. The mutual fund industry is responding at a good pace and understanding the investor's perception; still they are continuously following this race in their attempt to differentiate their products responding to the sudden changes in the economy. The need of an hour is to analyze investor's perception and expectations, and share important information to support financial decision making of mutual funds. Financial markets are becoming more exhaustive with financial products looking for new innovations and to some extent innovations are also visible in designing mutual funds portfolio but these changes need arrangement in accordance with investor's expectations the risk they perceive, the knowledge they possess about the mutual fund industry. The risk orientation represents the risk bearing capacity and interest of the investors. Even though, the mutual funds is a risk less investment avenues in the capital market, it is also involved with market risks. The risk orientation among the investors is highly essential to invest on mutual funds and their investment behaviour. Thus, it has become essential to study mutual funds from a different angle, which is to focus on investor's expectations and discover the unidentified parameters that account for their dissatisfaction. Therefore the present study has taken up to analyze the behaviour of retail investors towards mutual funds.

### SCOPE OF THE STUDY

This study throws light on the funds selection behavior of Mutual Fund investors. The study is restricted to Thiruvavur district of Tamil Nadu. This study will be helpful to improve performance of the retail mutual funds investors in the study area and act as a secondary data for further research.

### OBJECTIVE OF THE STUDY

1. To identify the factors that influences the investor's fund/scheme selection
2. To suggest the suitable measures to retail mutual funds investors for increasing their return and reducing risk in mutual funds investment.

### REVIEW OF LITERATURE:

**Chakarabarti and Rungta (2000)**<sup>1</sup> carried out a survey of mutual fund investors. The study concluded that the brand image factor is basically influencing the investors for investing in mutual fund schemes.

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<sup>1</sup> Chakarabarti, A. and Rungta, H. (2000): "Mutual Fund Industry in India: An In depth Look into the Problems of Credibility, Risk and Brand", The ICFAI Journal of Applied Finance, Vol.6, No.2, pp.27-45.

This brand image cannot be easily captured by computable performance measures. It influences the investor's perception and hence his fund/scheme selection behaviour.

**Syriopoulos (2002)**<sup>2</sup> gave its review on an analysis of investor's risk perception towards mutual funds services. Financial markets are constantly becoming more efficient by providing more promising solutions to the investors. Being a part of financial markets although mutual funds industry is responding very fast by analyze investor's perception and expectations.

**Singh and Vanita (2002)**<sup>3</sup> have examined the investors' preferences and perception towards MF investments by conducted a survey of 150 respondents in the city of Delhi. The findings of the study were that the investors' preferred to invest in public sector MFs with an investment objective of getting tax exemptions and stayed invested for a period of 3-5 years and the investors evaluated past performance. The study further concludes by stating that majority of the investors were dissatisfied with the performance of their MFs and belonged to the category who held growth schemes.

**Rao (2003)**<sup>4</sup> studied the performance evaluation of Indian mutual funds in bear market through relative performance index. He found that most of the mutual fund schemes were able to satisfy investor's expectations by giving excess returns over expected returns.

**Lenard et al. (2003)**<sup>5</sup> empirically investigated investor's attitudes toward mutual funds. The results indicated that the decision to switch funds within a fund family was affected by investor's attitude towards risk, current asset allocation, investment losses, investment mix, capital base of the fund age, initial fund performance, investment mix, fund and portfolio diversification. The study reported that these factors were crucial to be considered before switching funds regardless of whether they invest in non-employer plans or in both employer and non-employer plans.

## RESEARCH METHODOLOGY

Research type: Descriptive Research

Population: Mutual funds retail investors in Thiruvavur District of Tamilnadu

Sampling Technique: Non probability purposive sampling method

Sample Size: 400

## DATA ANALYSIS

The collected data were analyzed and inferences were drawn. To analyse the collected data the researcher used Simple percentage analysis, Chi Square Test and Garrett Ranking Technique

<sup>2</sup> Syriopoulos (2002), Risk aversion and portfolio allocation to mutual fund classes. *International Review of Economics & Finance*, Vol. 11, Issue 4, pp. 427-447, 2002.

<sup>3</sup> Singh, Y.P., and Vanita (2002), "Mutual Fund Investors' Perceptions and Preferences-A Survey", *The Indian Journal of Commerce*, Vol. 55, No. 3, 8-20.

<sup>4</sup> Rao, (2003). Investment Styles and Performance of Equity Mutual Funds in India. *Mutual Funds Insight*, 8(8).

<sup>5</sup> Lenard, M. J., Akhter, S.H., and Alamc, P. (2003). "Mapping Mutual Fund Investor Characteristics and Modelling Switching Behaviour", *Financial Services Review*, Vol. 12, No. 1, pp. 39-59.

**Reliability test - Cronbach's Alpha**

A Reliability test was carried out with a questionnaire to analyze the determinants of investment behaviour of Mutual Fund investors with reference to Tiruvarur District

The data collected on this process has been tested using Cronbach's Alpha for its reliability. The result of the testing and validation revealed that the questionnaire possessed the reliability with the value of 0.746. The questionnaire was best fitted in a normal distribution. So, it was inferred that the questionnaire used for pilot study was highly suitable in ascertaining the responses from the respondents of Mutual Fund Investors.

**Reliability Statistics - SPSS Output for Cronbach's Alpha**

Table 1

Cronbach's Alpha	N of Items
.746	111

Table 2

**ANALYSIS AND INTERPRETATION:****TABLE SHOWING THE RESPONDENTS CLASSIFICATION BASED ON THEIR PERSONAL DETAILS**

<b>Gender</b>	<b>No. of Respondents</b>	<b>Percentage</b>
Male	310	77.50
Female	90	22.50
Total	400	100
<b>Marital status</b>	<b>No. of Respondents</b>	<b>Percentage</b>
Married	344	86.00
UnMarried	56	14.00
Total	400	100
<b>Qualification</b>	<b>No. of Respondents</b>	<b>Percentage</b>
Upto a HSC level	54	13.50
Undergraduates	147	36.75
Postgraduates	103	25.75
Professionals	96	24.00
Total	400	100
<b>Monthly Income</b>	<b>No. of Respondents</b>	<b>Percentage</b>
Less than 40000	162	40.50
40000-50000	193	48.25
More than 50000	45	11.25
Total	400	100
<b>Occupation</b>	<b>No. of Respondents</b>	<b>Percentage</b>
Self-employed	38	09.50
Professionals	87	21.75

Salaried	248	62.00
Retired	27	06.75
Total	138	100
<b>No. of Dependents</b>	<b>No. of Respondents</b>	<b>Percentage</b>
Less than 3	66	16.50
3-5	134	33.50
More than 5	200	50.00
	400	100
<b>Residential Area</b>	<b>No. of Respondents</b>	<b>Percentage</b>
Urban Area	260	65.00
Rural Area	140	35.00
	400	100

The table 2 reveals that, 77.50% of the respondents are Male and 22.50% of the respondents are Female. 86% of the respondents are Married, 14% of the respondents are unmarried. 37% of the respondents belong to Undergraduate level, 26% of the respondents belong to Post Graduation Level and 24% of the respondents are professionals. 41% of the respondents belong to the Income level of less than 40000, 48% of the respondents belong to the Income level of 40000-50000 and 11% of the respondents belong to the Income level of above 50,000, 62% of the respondents are salaried people 22% of the respondents are Professionals 50% of the respondents have more than five dependents, 33% of the respondents are between 3 and 5 and 17% of the respondents are having less than 3 and 65% of the respondents are in Urban Area whereas 35% of the respondents are residing in Rural Area.

### Null hypothesis

The retail investors' irrespective of individual demographic variables perceive similar perception about mutual fund investments.

### ATTRIBUTES CONSIDERED WHILE MAKING INVESTMENT IN MUTUAL FUNDS

The respondents were asked to rank their important attributes while making investments in mutual funds. The ranks given by them were quantified by using the Garrett Ranking Technique. The formula is given below:

n

$$\text{Per cent position} = \sum_{j=1}^n [(R_{ij} - 0.5) / N_j] \times 100 \dots (1)$$

j=1

Where,

$R_{ij}$  = Rank given for the  $i$ th item by the  $j$ th individual, and

$N_j$  = Number of items ranked by the  $j$ th individual.

The important attributes considered by the investors while making investments in mutual funds is shown in the table

Table 3

**ATTRIBUTES CONSIDERED WHILE MAKING INVESTMENT IN MUTUAL FUNDS**

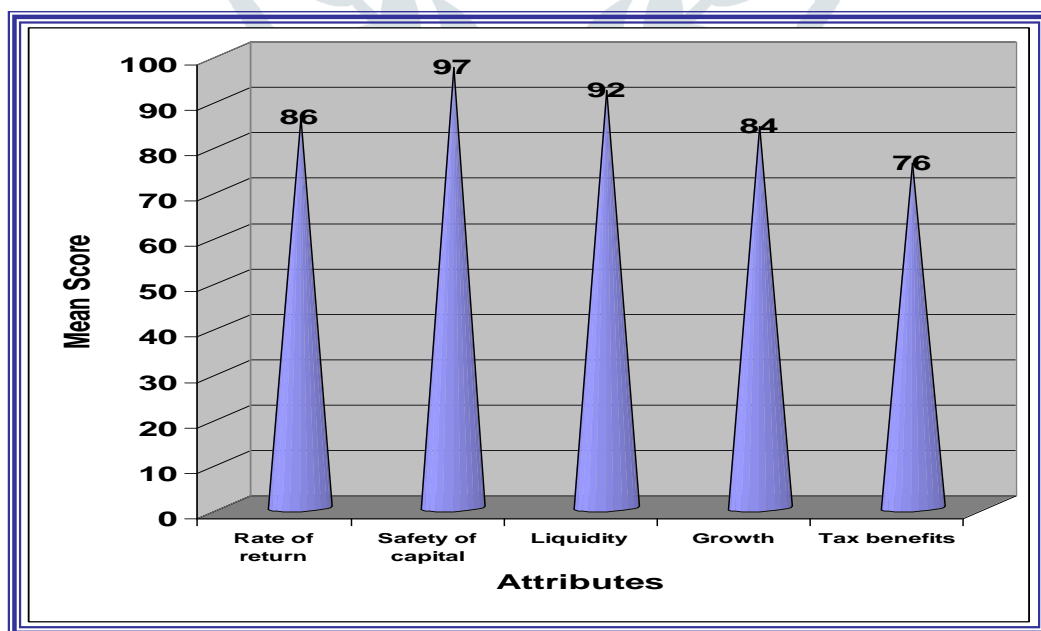
Attributes	Mean score	Rank
Rate of return	86	III
Safety of capital	97	I
Liquidity	92	II
Growth	84	IV
Tax benefits	76	V

Source: Primary data

The above table indicates the important attributes considered by the mutual fund investors while making investment decision. It could be seen from the table that safety of capital is ranked first by the respondents with a mean score of 97 Garrett points. Liquidity and rate of return are second and third attributes considered by the respondents in the study area with a mean score of 92 and 86 Garrett points respectively. Growth and tax benefits are fourth and fifth important attributes of the investors respectively.

The important attributes while making an investment in the mutual funds investments is also exhibited in figure 1

Figure 1

**ATTRIBUTES CONSIDERED WHILE MAKING INVESTMENT IN MUTUAL FUNDS**

**PREFERENCE TO MUTUAL FUND**

**TABLE 4**  
**PREFERENCE TO MUTUAL FUND**

Preference	No. of Respondents	Percentage
Open ended mutual fund	272	68.00
Close ended mutual fund	86	21.50
Both	42	10.50
Total	400	100.00

Source: Primary data

Table 4 shows that out of 400 respondents the majority of the respondents prefer open ended mutual fund for liquidity followed by 22 per cent of the respondents prefers close ended mutual fund. About 11 per cent of the respondents prefer both the open and close ended mutual funds. Therefore, it can be inferred from the table that investors, mostly prefer open ended mutual funds in the study area.

**PREFERENCE TO MUTUAL FUND SCHEMES**

**TABLE 5**  
**PREFERENCE TO MUTUAL FUND SCHEMES**

Preference	No. of Respondents	Percentage
Growth fund	89	22.25
Liquid fund	216	54.00
Balanced fund	08	02.00
ELSS	06	01.50
Mid cap fund	09	02.25
Large cap fund	19	04.75
SIP	53	13.25
Total	400	100.00

Source: Primary data

Table 5 indicates that 54 per cent of the respondents prefer a liquid fund for liquidity and nearly 22 per cent of the respondents prefer growth fund for capital appreciation. About 13 per cent of the respondents prefer systematic investment plan. A few investors prefer a balanced fund, equity linked saving scheme, mid cap fund and large cap fund. Therefore, it can be understood from the table that the investors, mostly prefer liquid fund in the study area.

**TABLE 6**  
**CHI-SQUARE TEST RESULT**

Demographic variable	Chi-Square Test – Value	df	Table value 5% level	Table value 1% level	H <sub>0</sub> Accepted / Rejected	Significance
Gender	12.0	2	5.991	9.210	Rejected	*Significant
Age	41.9	4	9.488	13.277	Rejected	**Significant
Marital Status	0.17	2	5.991	9.210	Accepted	**Significant
No.of Dependents	5.27	4	9.488	13.277	Accepted	Not significant
Educational Qualifications	70.6	6	12.592	16.812	Rejected	**Significant
Occupation	19.3	6	12.592	16.812	Rejected	**Significant
Residential area	53.8	2	5.991	9.210	Rejected	**Significant
Monthly income	56.1	4	9.488	13.277	Rejected	**Significant

\*\* Significant both at 5% level and 1% level.

It is clear from the table 6 that there is no significant difference between Gender and level of perception, age and level of perception, educational qualifications and level of perception, occupation and level of perception, residential area and level of perception and monthly income and level perception about mutual fund investments. However, there is a significant difference between the number of dependents and level of perception about mutual funds investment.

### IMPORTANCE CHARACTERISTICS OF MUTUAL FUNDS

In the study investors were asked to rate the importance characteristics of mutual funds while investing in it and further they were asked to encircle any number between 1 to 5. The score for 1 = Very Low; 2 = Low; 3 = Moderate; 4 = High; 5 = Very High. The opinion of the investors about important characteristics of mutual funds is shown in table 7.

**Table 7**

### IMPORTANCE CHARACTERISTICS OF MUTUAL FUNDS

S.No	Characteristics	Mean Score	Mean Score (%)	Rank
01	Past performance of mutual fund	4.70	94.00	I
02	Current NAV of mutual fund	2.98	59.60	VI
03	Rating by a research agency Newspaper/Magazine	3.57	71.40	V



04	Reputation of the mutual fund company	4.34	86.80	II
05	Performance of the Fund manager	4.53	90.60	III
06	Portfolio of the scheme	4.12	82.40	IV
07	Entry and Exit load	2.18	43.60	VIII
08	Availability of tax benefits	2.09	41.80	IX
09	Turnover of the mutual fund scheme (Sales during the period)	2.45	49.00	VII
10	Asset size/ Total capital of the mutual fund scheme	2.14	42.80	X

Source: Primary data

Table 7 indicates that opinion of the respondents about important characteristics of mutual funds. The respondents opined that past performance of the mutual fund company is first important characteristics, followed by reputation of the mutual fund company is second important characteristics and performance of the fund manager is third important characteristics of the mutual funds. The Portfolio of the scheme, Rating by a research agency/Newspaper/Magazine, Current NAV of a mutual fund, Turnover of the mutual fund scheme (Sales during the period), Entry and Exit load, Availability of tax benefits and Asset size/ Total capital of the mutual fund scheme are fourth, fifth, sixth, seventh, eighth, ninth and tenth important characteristics of the mutual funds. Therefore, the investor considers the past performance of mutual fund, the reputation of the mutual fund company and performance of the fund manager are the important factors for investing the mutual funds in the study area.

#### **FINDINGS:**

- 77.5% of the respondents are Male and 22.50% of the respondents are Female .
- 86% respondents are Married and 14% of the respondents are Unmarried.
- 37% of the respondents belong to Undergraduate level, 26% of the respondents belong to Post Graduation Level and 24% of the respondents are professionals
- 41% of the respondents belong to the Income level of less than 40000, 48% of the respondents belong to the Income level of 40000-50000 and 11% of the respondents belong to the Income level of above 50,000,
- 62% of the respondents are salaried people 22% of the respondents are Professionals
- 50% of the respondents have more than five dependents,33% of the respondents are between 3 and 5 and 17% of the respondents are having less than 3

- 65% of the respondents are in Urban Area whereas 35% of the respondents are residing in Rural Area..
- the important attributes considered by the mutual fund investors while making investment decision. It could be seen from the table that safety of capital is ranked first by the respondents with a mean score of 97 Garrett points. Liquidity and rate of return are second and third attributes considered by the respondents in the study area with a mean score of 92 and 86 Garrett points respectively. Growth and tax benefits are fourth and fifth important attributes of the investors respectively.
- the majority of the respondents prefer open ended mutual fund for liquidity followed by 22 per cent of the respondents prefers close ended mutual fund. About 11 per cent of the respondents prefer both the open and close ended mutual funds.
- 54 per cent of the respondents prefer a liquid fund for liquidity and nearly 22 per cent of the respondents prefer growth fund for capital appreciation. About 13 per cent of the respondents prefer systematic investment plan. A few investors prefer a balanced fund, equity linked saving scheme, mid cap fund and large cap fund. Therefore, it can be understood from the table that the investors, mostly prefer liquid fund in the study area
- The respondents opined that past performance of the mutual fund company is first important characteristics, followed by reputation of the mutual fund company is second important characteristics

## CONCLUSION

To conclude, the economy like India will make its path for the next few years very successfully. The fundamentals of the Indian economy are relatively strong. The purchasing power of consumers has also increased unbelievably. Mutual funds are going to be a key resource mobilizer for Indian financial system over the next few years. The only thing is the India need just proper structure and strong regulatory framework for the protection of small and retail investors. In short, the Indian mutual fund industry is going to observe good growth rate in the upcoming future. It will achieve the sustainable and profitable growth provided the said improvement measures are applied properly and it would play a key role in financial resource mobilization.

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