GROWTH, FINANCE AND REGULATION

INVESTORS' PERCEPTION ON MUTUAL FUNDS WITH REFERENCE TO CHIDAMBARAM TOWN

N. GEETHA
Research Scholar
Dept. of Business Administration
Annamalai University, India

M. RAMESH
Associate Professor
Dept. of Business Administration
Annamalai University, India

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Abstract: Mutual funds in India play a vital role in mobilizing funds for capital and financial markets. The role of mutual funds in India felt significant as it generates funds from small investors at large across the country. The main objective of the study is to elucidate the perceptions and behaviours of the small investors located in the town of Chidambaram, Tamil Nadu, South India towards the mutual funds and also suggest some measures to increase the quantum of investors and investments as well.

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Introduction

The origin of Mutual Fund (MF) industry in India is with the establishment of Unit Trust of India (UTI) in the year 1963. It was set up by the Reserve Bank of India (RBI) and functioned under its regulatory and administrative control. The first scheme launched by the UTI was Unit Scheme 1964. The growth rate was slow, but accelerated from the year 1987 when other public sector organization came to the sector. At the end of 1988, UTI had Rs.6,700 crores assets under management (AUM). The entry of public sectors, other than UTI, accelerated the growth further in the succeeding decade. SBI Mutual Fund was the first followed by Canbank Mutual Fund (December '87), Punjab National Bank MF (August '89), Indian Bank MF (November '89), Bank of India (June '90), Bank of Baroda MF (October '92), LIC in 1989 and GIC in 1990. The end of 1993 marked Rs.47,004 crores as assets under management. With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry. Also, 1993 was the year in which the first mutual fund regulations came into existence, under which all mutual funds and UTI were to be registered and governed. The erstwhile Kothari Pioneer, now merged with Franklin Templeton, was the first private sector mutual fund registered in July 1993. The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The number of mutual fund houses went increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. At the end of September, 2004, there were 29 funds which manage assets of Rs.1,53,108 crores. At present there are as many as 33 mutual funds with total assets under management of Rs. 1,21,805 crores.

Significance of investors' perception on mutual funds

The basic purpose of financial reforms of the country was to enhance the generation of domestic funds in order to reduce the dependence of outside funds. This warranted a market based organization which could tap the vast potential of domestic savings and channelize them into profitable investments. Mutual Funds are not only best suited for this purpose but also capable of meeting this challenge. A study on investors' perception on Mutual Fund is significant as it reflects their investment decisions. It is very important for every Asset Management Companies to know the behavior of mutual fund investors as it reveals how far their financial advisors help them to take mutual fund purchase decisions and how the investors actually reacted on their advices. The people who are responsible for molding the investors' behavior and making them aware about mutual funds are the financial advisors. They play important role in the investors' investment decisions. The financial advisors provide all the information to the investors and it is their duty to explain them about pros and cons of investing in a mutual fund or scheme fund. Apart from financial advisors, the investors could find information on mutual funds through brochures, websites, newspapers, articles, magazines etc.

Thus knowing the perception and behavior of investors on mutual fund assumes greater importance as it guide the financial advisors to perform their functions more effectively and efficiently. It would also be helpful to the mutual fund organizations to alter their policies, schemes and marketing strategies to suit precisely the ever changing behaviors and attitudes of mutual fund investors. In a nutshell, the sustainability and acceleration of growth rate in mutual fund investments is very much depending upon the feedback information obtained from the investors.

Review of literature

Somasundaram (1998) found that safety of money invested in mutual funds was considered to be the most important element, followed by regular return and capital appreciation. He also found that the investors at different location did not have common opinion on choice criteria. However, he found not much difference between male and female investors. It was also observed that private sector employees gave more importance to return on investments whereas government employees looked up for tax benefits.

Ippolito (1992) documented the reaction of investors over the performance of mutual fund industry.

It indicates that poor relative performance results in investors shifting their assets into other fund. Therefore, investing in quality products was considered important for mutual companies not only for sustaining reputation but also to gain free flow of profits that may come in the form of premium, which investors will be willing to pay on trusted funds. He also pointed out that mutual fund organizations should exercise extreme cautious while designing and determining the service standards offered to their investors. Service specifications designed by them should match with the customers expected standards or promising standards.

Senthil (2010) observed that among the different investment avenues available for investors, mutual fund offer them good investment opportunities. However, mutual funds also carry certain risks but it is lesser when compared with investments made in stocks. He stressed that the investors should compare the risks and expected yield while making their investment decisions also observed that investments made in stocks would yield more return but at the same time mutual funds are excellent for investor who do not have time or energy to invest in individual stocks.

Sudhakar and Sasikumar (2010) observed that mutual funds have been forced to encounter a multitude factors that undoubtedly turned out to be barriers in their growth process. These factors stymied the efforts of government to make the Indian mutual fund industry as an integral part of the world financial market. One of the bottlenecks in the path of growth has been found to be intense and unhealthy competition among the players of the industry. However, they considered that this should not be taken as a problem because competition is nothing when compared to the size of the market. The size of the market is very large and scope for penetration is too far and wide. Another critical issue that warrants immediate attention is the need for increasing the investors' base and penetrates into unreached areas and unreached categories of persons. The issues that concern the Unit Trust of India are i) product and distribution innovation, ii) ability to develop inward looking approach, iii) strategies to reach the hitherto unreached areas and iv) greater penetration into rural areas.

Objectives and methodology adopted

The primary objective of this study is to capture the perceptions of the mutual fund investors in order to deduce some useful factual information, which can be used for achieving sustainable growth of Mutual Fund industry in Chidambaram.

The primary data for the study have been collected by conducting a survey among the Mutual Fund investors at Chidambaram. The Chidambaram town has been selected as a sample town of Tamilnadu as almost all the small towns in Tamilnadu state resembles it in many aspects like population, educational status, trade, industry etc. Hence, the factual information deduced from the study at Chidambaram can safely be applied to all the towns in Tamilnadu to a great extent.

According to 2001 census Chidambaram had a population of 58,968. Chidambaram has an average literacy of 80%, significantly higher than the national average of 59.5%; with male literacy of 84% and female literacy of 76%. The mutual fund investors' population assessed in the town of Chidambaram is 3,863.

The population size of the Mutual Fund investors at Chidambaram town is estimated at 3,863. By using the formula adopted by Kothari (2004) the sample size of the population has been arrived at 187. The sample respondents have been selected using multi-stage random sampling method. The questionnaire used in the study has been well designed, taking into account, in particular, easiness on the part of the respondents to provide actual information. The questionnaires were distributed in person to all the 187 sample respondents. After repeated persuasion the filled-in questionnaires were received from only 130 respondents out of the sample size 187. Besides, out of these 130 filled-in questionnaires, 7 were liable to be rejected owing to their incompleteness. Hence the sample size has been reduced to 123. The non-response rate and rejection rate totally amounts to 6 percent, which is negligible. The margin of error in the present sample size of 123 is arrived at 0.564 per cent, which is also negligible.

Analysis

The data collected were fed into the computer and processed using the SPSS software. The well processed information has been presented below for making useful analysis.

It is felt important to know whether the personal profile of investors such as age, educational qualifications, professions, savings habits and annual income would have any direct influence over their investment decisions. For this purpose the data have been processed and presented in tables 1 to 5.

It is observed from the Table-1 that, respondent less than the age of 30 years constitutes the maximum number of investors (40.65%), followed by the age group of 31-40 years (37.40%). Only 1.63% of total investors are in the age group of more than 60 years. This clearly reveals that though the concept of mutual fund in India has been in existence since 1963, it has been well received by the young Indian bloods below the age of 40, which constitutes more than 75% of total investor population. At the same it also reveals that the Mutual Fund concept is almost rejected by the people having more than 60 years of age.

It unfolds the fact that the maximum numbers of investors are post graduates, which constitute 30.90%, followed by graduates representing 28.46%. Thus, 59.36% of investors are graduates and post graduates. If we add the professionals (16.26%) to them, it would raise to 75.62%. As a result it may be construed that educational background of the investors plays a vital role in mutual fund investment decisions, contrary to the presumption that the investors are not used to apply their minds by reading the scheme/offer documents in taking investment decisions rather they are induced by the financial advisors/brokers. Hence the study reveals that educational qualifications of the investors contribute a lot in the mutual fund investment decisions.

34.96 percent of total investors come under private sector employee category, followed by businessmen which amount to 21.14%. Contribution from government employees forms the least i.e. 13%. This shows that people in different occupations/ professions endowed with different set of skills and knowledge have influenced their investment decisions. It is obvious from the above data that people from business and private sector employment together comprises more than 55% of total investors.

Investments made in any avenue are a function of savings and savings itself influenced by income levels. Interestingly, group whose monthly saving is Rs.2,000 or less comprises maximum number of investors i.e. 38 (30.90%). Persons whose monthly saving is more than Rs.20,000 forms the least number as 13 (10.57%). 76.43% of total investors comprise the first three groups put together i.e. monthly saving is 10,000 or less. This clearly reflects the very basic concept of Mutual Fund that pools the savings of small investors at large.

Investors whose income more than Rs.3,00,000 (28.46%) and less than Rs.1,00,000 (25.20%) comprises more than 50% of total investors. This shows that not only lower income group are investing in mutual funds but also sizeable number of higher income people are investing in mutual funds. This fact assumes significant as more concentration needed to be bestowed by the mutual fund companies to attract higher income people as well.

It is imperative to know the mode of investment preferred by the investors so as the mutual fund companies would design appropriate investment plan to suit needs of investors precisely. One time investment, Systematic Investment Plan and Flexi SIP are the investment modes on which the respondents have made their investments. Most of the investors preferred to invest in Systematic Investment plan (52.85%) and Flexi SIP (30.89%). Thus, it indicates that investors preferred more on Systematic Investment Plan and Flexi-SIP than on One Time Investment, which comprises only 16.26%.

Majority of investors' objective lies in getting tax benefits (34.96%), followed by better returns and safety of investments (21.14%). Next, it comes diversification (16.26%) and regular income (14.64%). More fascinatingly the objective reduction in risk and transaction cost forms the least one (13%), which contradicts the most acclaimed principle of the Mutual Funds viz. risk reduction and cost reduction in investments.

It is vital to know the investors' choice of sector in which a mutual fund company exists. The choice would be influenced by many factors in general but in particular the safety of their investments is the foremost one. It is said that Indians are used to be inclined to attach more trust on public sectors than private sectors. But it is revealed a new fact that the people are started trusting private sector mutual funds as well on par with the public sector mutual funds. Just 0.82% of the investors relied more on public sector than the private sector mutual funds. This shows a paradigm shift in the minds of small investors of this largest democracy of the world. Moreover, the others category incorporate foreign companies, which comprises 9.76%, reveals the fact that people are started showing some amount of trust on foreign mutual companies too.

Most of the investors preferred to invest in the mutual funds managed by State Bank of India (21.95%), followed by Unit Trust of India (18.70%). It reveals that only these two companies took almost entire market share of public sector mutual fund companies; thus warrants participation from more number of public sector companies. Housing Development Finance Corporation (HDFC) occupies next position i.e. 14.63%. Reliance Mutual Funds (14.63%) too occupies jointly the third position with HDFC and followed by ICICI (11.38%). It indicates that among the private companies, Reliance and ICICI performed well in attracting more investors towards them.

The choice of investment period by the investors assumes crucial as it would determines the selection of sectors on which the funds can be utilized more profitably by the mutual fund companies. A large number of investors (67%) preferred to invest their savings for a period of 5-10 years. 28.45% of respondents preferred to invest for 11-15 years, followed by 16-20 years (15.45%). Just 2 investors out of 123 preferred to invest on funds having more than 20 years period. This reveals that majority of investors of mutual fund are more inclined to long-term investments up to 20 years but at the same time they do not prefer much to invest for more than 20 years.

Mutual Fund Companies predetermines and informs the investors at the time of launching their schemes, about the sector on which the funds collected will be invested. This enables the investors to select the funds, which is more promising to their investment objectives. Most of the people preferred on infrastructure funds (27.64%), followed by Diversified Equity Fund (20.32%). Moderate response from the investors is noticed for Debt Fund (13%), Oil and Petroleum (12.20%) and Gold Fund (12.20%). A smaller number of people are interested in investing in Real Estate Fund (7.32%) and Banking Fund (5.69%). The Power Sector fund (1.63%) represents the least and seems to be not well received by the investors.

The Table 2 discerns each motivating factor by means of the reasons for making decision to invest in mutual funds. Brokers (38.21%) comprise the highest percentage of motivating factors, followed by Direct from AMCs (30.90%). Long term strategy (33.33%) occupies highest position in terms of reasons for selecting mutual fund for making investments, followed by Reasonable return (29.27%). The values in every cells of the table elucidate the complexity of mutual fund investment decisions.

Perception of investors on mutual fund

The respondents were asked to indicate their perceptions of investors on mutual funds in a five-point scale ranging from 'strongly agree' to 'strongly disagree'. The table-3 presents the factors that would comprise various dimensions of investors' perception and the opinion given by the respondents. The table presents that majority of investors (36.6%) 'some-what disagree' that mutual funds generates best returns for its investors, while 34.1% 'somewhat agree' with that proposition. 28.5% of respondents 'somewhat agree' that money invested in mutual funds is very secure while 26.8% expressed 'no opinion', which seems that they have no idea whether their money is secure or not in mutual funds. 33.3% of respondents 'strongly agree' and 34.1% 'somewhat agree' with the statement that mutual funds has met the objectives for which it is established. Majority of respondents (39%) 'somewhat agree' with the statement that majority of the schemes of mutual funds have outperformed the market returns. Conversely a large number of respondents (41.5%) 'somewhat disagree' that mutual funds are helpful in the development of Indian capital market. It reveals that 31.7% of respondents 'strongly agree' with the statement that mutual funds discloses all the relevant information to its investors from time to time while 32.5% of respondents 'somewhat agree'.

Family Income and Investors' Perceptions on Mutual Funds

Chi-Square test has been performed in table-4 to establish association between family income and the perceptions of investors on mutual funds. Since the level of significance for all the perception factors are more than 0.000, and are not significant. The test reveals that there exists association between these two variables.

Relationship between Family Income and Criterions for Choice of Mutual Funds

It is also necessary to ensure that there exist an association between the family income of the investors and their choice of mutual fund criterions in table-5. Family income includes salary of respondents, spouse income and other incomes. To show the association, chi-square test has been performed on the collected data and found that there exist significant associations except for the variable "Investment Factors of the Investors".

Conclusion

Mutual funds are one of the fast growing industries in the financial sector. It has recorded an exponential growth in the post liberalization period particularly in the last decade during which it registered 11% compounded annualized growth rate. The perception of investors over mutual funds is found to be essential in order to sustain as well as increase the growth pace. The study enlightens many facts which would be inevitable for mutual fund companies to alter or modify their present strategies in order to sustain the existing pace and also to penetrate more areas of vast potential market prevailed in this country. The study reveals that the personal profiles of investors such as age, educational qualification, profession, annual family income and quantum of monthly savings have direct influence over the investors in making mutual fund investment decisions. Thus the mutual fund companies must endeavor to design their schemes and promotional activities in such a way to attract the most promising segment, based on personal profile, of investors as well as to find ways and means to reach the non-promising segments too.

The study also analyses the relationship between motivating factors and reasons for making investments in mutual funds and found vital information which would help the industry to adjust tactics adopted by their motivating agencies, in order to achieve more investments. It is found that investors are not much sure that the mutual fund investments are secure. Most of the investors disagree that mutual fund investments generate better returns. It is also perceived by the investors that majority of mutual fund schemes outperformed market returns. The study also discloses that a greater part of investors are either strongly agree or somewhat agree that mutual fund companies are disclosing relevant information to their investors from time to time. The sustainability and acceleration of growth pace of mutual fund investments depends on how far the mutual fund organizations design, alter or modify their policies, schemes and marketing strategies, according to the perceptions of the investors revealed through this study.

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Appendix

TABLE 1. RESPONDENTS PROFILE

Age			Investment Objectives		
> 30	50	40.65	Diversification	20	16.26
31 – 40	46	37.50	Better returns & safety	26	21.14
41 – 50	12	09.75	Reduction in risk & cost	16	13.00
51 - 60	13	10.57	Regular Income	18	14.64
> 60	2	01.63	Tax benefit	43	34.96
Educational Qualification			Investors choice of MF Company sector		
School	14	11.38	Public	56	45.53
Graduate	35	28.46	Private	55	44.71
Post Graduate	38	30.90	Others	12	09.76
Professional	20	16.26	Investors choice of MF Company		
Others	16	13.00	State Bank of India	27	21.95
Occupation			Unit Trust of India	23	18.70
Professional	19	15.45	HDFC	18	14.63
Govt. employee	16	13.00	Reliance	18	14.63
Businessmen	26	21.14	ICICI	14	11.38
Pvt. Sector emp.	43	34.96	JM	08	06.50
Others	19	15.45	Others	15	12.20
Savings (Rs.)			Investment Period		
< 2,000	38	30.90	5 – 10	67	54.47
2,001 – 5,000	34	27.64	11 – 15	35	28.45
5,001 – 10,000	22	17.89	16 – 20	19	15.45
10,001 – 20,000	16	13.00	> 21	02	01.63
> 20,001	13	10.57	Choice on deployment of Mutual Funds		
Annual Income (Rs.)			Infrastructure	34	27.64
< 1,00,000	31	25.20	Oil & Petroleum	15	12.20
1,00,001 – 2,00,000	24	19.51	Gold fund	15	12.20
2,00,001 – 2,50,000	18	14.63	Diversified Equity fund	25	20.32
2,50,001 – 3,00,000	15	12.20	Power Sector	02	01.63
> 3,00,001	35	28.46	Debt fund	16	13.00
Investment Mode			Banking fund	07	05.69
One time investment	20	16.26	Real Estate fund	09	07.32
Systematic Investment Plan	65	52.85			
Flexi SIP	38	30.89			

TABLE 2. MOTIVATOR AND REASONS FOR SELECTION OF MUTUAL FUNDS

Motivator/ Reasons	Higher Return/ Lower risk	Long term Strategy	Higher Return/ Higher risk	Reasonable Return	Total
Direct from AMCs	11 (8.94%)	10 (8.13%)	03 (2.44%)	14 (11.38%)	38 (30.90%)
Brokers	13 (10.57%)	13 (10.57%)	09 (7.32%)	12 (9.76%)	47 (38.21%)
On-line	05 (4.07%)	08 (6.50%)	01 (0.81%)	03 (2.44%)	17 (13.82%)
Others	01 (0.81%)	10 (8.13%)	03 (2.44%)	07 (5.69%)	21 (17.07%)
Total	30 (24.39%)	41 (33.33%)	16 (13.01%)	36 (29.27%)	123 (100%)

TABLE 3. INVESTORS' PERCEPTIONS ON MUTUAL FUNDS

Perception Criterions	Strongly agree	Some- what agree	Some- what disagree	Strongly disagree	No opinion
MF generates the best returns for its investors	19 (15.4)	42 (34.1)	45 (36.6)	11 (8.9)	6 (4.9)
Money invested in MF is very secure	17 (13.8)	35 (28.5)	19 (15.4)	19 (15.4)	33 (26.8)
MF has a well diversified portfolio of securities	41 (33.3)	42 (34.1)	11 (8.9)	12 (9.8)	17 (13.8)
MF has met the objectives for which it is established	41 (33.3)	44 (35.8)	31 (25.2)	4 (3.3)	3 (2.4)
Majority of the schemes of MF have outperformed the market returns	36 (29.3)	48 (39.0)	22 (17.9)	11 (8.9)	6 (4.9)
MF has been helpful in the development of Indian capital market	18 (14.6)	26 (21.1)	51 (41.5)	17 (13.8)	11 (8.9)
MF discloses all the relevant information to its investors from time to time	39 (31.7)	40 (32.5)	32 (26.0)	5 (4.1)	7 (5.7)

TABLE 4. CHI-SQUARE TEST-1

Variables	Chi-square value	Level of Significance	Significant/Not Significant
MF generates best returns for its investors	07.363	0.833	Not significant
Money invested in MF is very secure	14.516	0.269	Not significant
MF has a well diversified portfolio of securities	17.210	0.142	Not significant
MFs has met their objectives	06.098	0.911	Not significant
Majority of schemes of MFs have outperformed the market returns	08.597	0.737	Not significant
MFs has been helpful for the development of India capital market	14.450	0.273	Not significant
MFs discloses all the relevant information to its investor from time to time	11.078	0.522	Not significant

TABLE 5. CHI-SQUARE TEST-2

Variables	Chi-square value	Level of Significance	Significant/ Not Significant
Perceptions of the Investors towards current status of MFs	12.072	0.739	Not significant
Reasons for choice of MFs	09.394	0.669	Not significant
Investment factors of the Investors	39.990	0.000	Significant
Schemes preference of the Investors	23.943	0.245	Not significant
Choice patterns of MF schemes	15.958	0.193	Not significant
Receive the returns every year	06.104	0.636	Not significant