

ANALYSIS OF FACTORS INFLUENCING INVESTOR SELECTION OF MUTUAL FUNDS IN THIRUVULLUR DISTRICT

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Abstract

With an increased understanding of financial planning and efforts put in by mutual funds companies to encourage mutual funds as an investment product, mutual funds are slowly becoming a preferred investment avenue. In addition, the availability of a wide variety of schemes of mutual funds makes it easier for an investor to select a scheme which would help him in achieving his financial objectives. As of today, they have become the most common investment avenue. The objectives of this study are to identify the factors which influence investor selection of mutual funds in Tiruvallur District, know the company related factors influencing investment in mutual funds, identify the type of preferred mutual fund schemes, understand the pattern of investments made by investors in mutual fund schemes and to know the association between demographics of investors and their preference for a particular type of mutual fund scheme.

Keywords: Mutual funds, Return, Risk, Safety, AMCs., Types of Schemes.

Introduction

In many cases, just the administration of broad-spectrum systemic antibiotics is necessary to treat a mild postoperative infection. Due to their wide range, ability to penetrate and cure bacterial cells, and limited toxicity to bacteria, these antibiotics are effective against uncomplicated infections while causing minimum harm to the host. Failures in systemic antibiotic treatment are possible, and they may be both costly and harmful ¹.

Mutual funds are among the most common investment avenue for investors. Investing in mutual funds yields higher interest rates for middle-income individuals and comes with a decent principal amount at the end of the maturity period. Another important fact is that with lesser risk, mutual funds are secure, deliver an optimised return on earnings and protect investors' interests. As customers are easily misguided by advertising and offers promoted by various financial institutions, it is necessary to gain a clear understanding of what actually influences investors in investing in mutual funds.

Need for the study

With an increased understanding of financial planning and efforts put in by mutual funds companies to encourage mutual funds as an investment product, mutual funds are slowly becoming a preferred investment avenue. In addition, the availability of a wide variety of schemes of mutual funds makes it easier for an investor to select a

scheme which would help him in achieving his financial objectives. By selecting the right mutual fund an investor would be making the first significant step in achieving his or her financial objective. This being the case, this study has been conducted in order to have an understanding of what factors influences investor behaviour with respect to selection of mutual funds in Tiruvallur District.

Review of literature

Mishra and Chhatoi (2018), analysed the effect of profession of mutual fund investors on selection of mutual fund investments. The samples for the present study consist of around 100 respondents belongs to different professions. It is found from the study that there is an association between profession and mutual fund selection. Further there is no association between the mutual fund knowledge level and professions. The result of the present study proved that profession does not play a major role in selection of mutual fund and its parameters.

Huang et al., (2018) evaluated the performance of hedge funds, fund –of- fund and commodity trading advisor funds based on return smoothing using the Bayesian framework. To forecast the return smoothing the data of these three funds processed with the help of autocorrelation for the period of 1994 to 1995. It is understood from the simulation of the study that sample date processing alters the properties of hedge fund return. Further the returns of the hedge fund fail to detect the persistence performance. High systemic risk and standard deviation of hedge funds increase smoothing whereas fund with minimum systematic risk reveals the smoothing bias when forecast the idiosyncratic volatility.

Deb (2019), portrait the persistence performance of actively managed equity fund. The samples consist of 263 equity funds actively traded in the Indian market during January 2000 to December 2014. In this study research attempted to examined whether the good past performance is supportive for the subsequent performance of the actively managed equity fund. In order to find out the short-term persistence no. of parametric and non-parametric test were applied. It observed from the study that the performance of the equity fund depends upon the investor holding period and fund size. It is interest to note that age and expense ratio is also play major role in determining the performance of the equity fund.

Wattanatorn and Tansupswatdikul (2019) forecasted the market liquidity of mutual fund industry from South East Asia during 2001 to 2017. In the present study researcher analysed the ability of fund manager regarding liquidity timing ability. The present study is undergone three important markets in the Asian countries they are Indonesia, Malaysia, and Thailand. NAV were collected from 329 funds from Thailand, 148 funds from Indonesia and 128 funds from Malaysia. It is found from the study that fund manages of ASEAN Economic Community performance well in market timing and. Well performed portfolios were successfully liquidated in the market at right time. Underperformed portfolios not successfully liquidated in the market at right time.

Research objectives

- To identify the factors which influence investor selection of mutual funds in Tiruvallur District.
- To know the company related factors influencing investment in mutual funds.
- To identify the type of preferred mutual fund schemes.
- To understand the pattern of investments made by investors in mutual fund schemes.
- To know the association between demographics of investors and their preference for a particular type of mutual fund scheme.

Research methodology

The research design adopted for this study was descriptive in nature. The research tool was a structured non-disguised questionnaire. The sampling framework included investors residing in Tiruvallur District. The sample size was limited to 148 respondents. The sampling technique adopted for this study was convenience sampling. A pilot study was conducted by contacting 60 respondents residing in the district.

The reliability of research tool was ensured by calculating Cronbach's Alpha which was found to be more than 0.70 for all the variables of the study. The validity of research instrument was ensured by having detailed discussions had with the Research Supervisor and with AMC professionals.

Data analysis

Table 1 : Demographics of Sample

Gender	Percent	Type of employment	Percent
Male	63.0%	Private sector	41.0%
Female	37.0%	Professional	17.6%
Age	Percent	State Government	10.1%
Below 20 years	2.6%	Central government	2.7%
21 – 35 years	10.1%	Others	8.0%
36 – 50 years	44.7%	Annual Income	Percent
51 – 65 years	10.1%	Less than Rs. 5 lakhs	8.0%
Marital Status	Percent	Rs. 5 – 7.50 lakhs	36.7%
Married	89%	Rs. 7.5 - 10 lakhs	22.9%
Unmarried	11%		

Table 2: Mean and SD of the Factors influencing Selection of Mutual Fund Schemes

Factors Influencing Selection of Mutual Funds	Mean	SD
Performance of the scheme	4.61	0.828
Risk of the scheme	4.31	0.894
Number of assets in the funds	4.04	1.016
Quality of assets in the portfolio	4.00	1.087
Reputation of the fund	4.16	1.161
Reputation of the fund manager	3.94	1.159
Fund size	3.99	1.147

Age of the fund	4.01	1.060
Experience of Fund Manager	4.02	1.179
Investment objective of scheme	4.15	1.089
Expense ratio of the scheme	4.09	1.125
Scheme rating	3.98	1.179
Exit load on the scheme	3.95	1.267

Table 2 highlights the mean and standard deviation of the various factors influencing choice of selection of mutual fund schemes shows that the highest mean score is obtained by performance of the scheme (4.61), followed by risk involved in investing in the scheme (4.31), reputation/brand name of the fund (4.16), investment objective of the scheme (4.15), expense ratio of the scheme (4.09), number of assets in the scheme (4.04), experience/qualification of fund manager (4.01), age of the fund (4.01).

Factors which have a mean score of less than 4.00 include, the fund size (3.99), scheme rating (3.98), Exit load on the scheme (3.95) and reputation of the Fund Manager (3.95). Thus, it can be concluded that most influencing factors with respect to choose of mutual fund scheme are performance of the scheme and risk involved in investing in the scheme and the least influencing factors are Exit load on the scheme and reputation of the Fund Manager.

Table 3 : Mean and SD of the Company Related Factors Influencing Choice of Mutual Funds

Company Related Factors Influencing Choice	Mean	SD
Return on the mutual fund scheme	4.27	0.816
Reputation of AMC	4.19	0.746
Experience of AMC (in years)	3.78	0.986
Location of the AMC	3.91	0.920
Expertise of AMC in Managing the fund	3.68	1.080
Infrastructure of AMC	4.00	1.006
Customer service offered by AMC	4.09	0.904
Performance of the AMC	4.01	0.885
Innovation of AMC in launching schemes	3.93	1.050
Efficiency of Research Wing of AMC	4.30	0.869

Table 3 indicates the mean and SD of the company related factors influencing investment decision made by investors with respect to mutual funds shows that the highest mean score is obtained by efficiency of the Research Wing of the AMC (4.30) followed by return made on the company mutual fund scheme (4.27), reputation of the AMC (4.19), customer service offered by AMC (4.09) performance of the AMC with respect to other AMCs (4.01) and infrastructure of the AMC (4.00).

Company related factors which have a mean score of less than 4.00 include innovativeness of the AMC in launching new schemes (3.93), location of the AMC (3.91) and experience of the AMC in years (3.78). Thus, it

can be concluded that most influencing factors with respect to the choice of AMC are efficiency of the Research Wing of the AMC and return made on the company mutual fund scheme and the least influencing factors are location of the AMC and experience of the AMC in mutual fund business.

Table 4 : Mean & SD of Investor Service-related Factors Influencing Investment in Mutual Funds

Investor Service-related Factors	Mean	SD
Well spelt out risk characteristics in offer document	4.16	0.748
Simple and well explained account statement	4.21	0.854
Quick and easy investment process	3.97	0.960
Provision for multichannel investing avenues	4.14	0.930
Disclosure of NAV on every trading day	4.18	0.871
Efficiency in investors' grievance handling process	4.15	0.930
Prompt response to investor enquiry	4.22	0.888
Well-maintained websites	4.05	1.094
Availability of Call Centres / Toll-Free number	4.61	0.828

Table 3 indicate the mean and SD of the investor service-related factors influencing decision to invest in mutual funds shows that the highest mean score is obtained by availability of Call Centres/Toll Free Numbers for investors (4.61) followed by prompt response to investor enquiry (4.22), simple and well explained account statement (4.21), disclosure of NAV on every trading day (4.18), well spelt out risk characteristics in offer document (4.16), efficiency in investors' grievance handling process (4.15), provision for multichannel investing avenues (4.14) and well-maintained websites (4.05).

The only factor which has a mean score of less than 4.00 includes quick and easy investment process with a mean score of 3.97. Thus, it can be concluded that the most influencing factors with respect to investor service-related aspects are availability of Call Centres/Toll Free Numbers for investors and prompt response to investor enquiry and the least important factor is offering a quick and easy investment process of making investment in mutual fund schemes by investors.

Table 5 : Preferred Scheme of Mutual Fund

Preferred Scheme	Frequency	Percent
Equity	72	48.6%
Debt	62	41.9%
Hybrid	14	9.5%
Total	148	100.0%

Table 4 shows that 48.6% prefer to invest in equity related mutual funds, 49.1% in debt related funds and 9.5% prefer to invest in hybrid or balanced funds.

Table 6 : Preferred Equity Scheme

Preferred Equity scheme	Frequency	Percent
Diversified equity funds	22	30.6%
Mid-cap funds	12	16.7%
Sector Specific Funds	16	22.1%
Tax saving funds	22	30.5%
Total	72	100.0%

Table 5 shows that with respect to type of equity mutual funds schemes preferred for investment majority prefer to invest either diversified equity funds or in tax saving funds.

Table 7 : Preferred Debt Scheme

Preferred Debt Scheme	Frequency	Percent
Gilt Funds	11	17.7%
Income funds	18	29.1%
Short-Term Plans	17	27.4%
Liquid Funds	16	25.8%
Total	62	100%

Table 6 shows that with respect to type of debt mutual funds schemes preferred for investment, majority prefer to invest either in income funds or short-term funds.

Chi Square

Hypothesis: There is association between demographics of investors and their preference for a particular type of mutual fund scheme

Table 8 : Chi Square Test for association between demographics and preference for a particular type of mutual fund scheme

Demographics	Chi Square Value	P Value	Significance
Gender	3.330	0.020*	Significant
Age	22.519	<0.001**	Significant
Marital Status	4.321	0.004**	Significant
Type of employment	32.059	<0.001**	Significant

Annual income	30.634	0.034*	Significant
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Note: ** denotes significance @1% level

* denotes significance @5% level

The results of Chi Square test shows that there is association between demographics of investors and their preference for a particular type of mutual fund scheme. With respect to age, marital status and type of employment the hypothesis is rejected at 1% level of significance and with respect to gender and annual income the hypothesis is rejected at 5% level of significance. Hence, it can be concluded that there is association between demographics and their preference for a particular type of mutual funds scheme.

Findings with respect to demographics of sample

- 63.0% of the investors are males and the remaining 37.0% are females.
- 44.7% of the investors belonged to the age group of 36-50, 42.6% to the age group of 21- 35 years, 10.1% to the age group of 51 – 65 years and 2.6% were below 20 years.
- 89% were married and 11% were unmarried.
- 41.0% of the investors are employed in the private sector, 20.7% are professionals, 17.6% are self-employed, 10.1% are State Government employees, 8.0% are engaged in other types of work and 2.7% are in Central Government employment.
- Annual income of the investors is between Rs. 5 – 7.5 lakhs in case of 36.7% of the investors. It is between Rs. 7.50 to 10 lakhs in case of 32.4%, and it above Rs. 10 lakhs in case of 22.9% of the investors. Annual salary is less than Rs. 5 lakhs in case of 8.0% of the investors.

Findings with respect to mean and standard deviation of factors

- Most influencing factors with respect to choose of mutual fund scheme are performance of the scheme and risk involved in investing in the scheme and the least influencing factors are Exit load on the scheme and reputation of the Fund Manager.
- Most influencing factors with respect to the choice of AMC are efficiency of the Research Wing of the AMC and return made on the company mutual fund scheme and the least influencing factors are location of the AMC and experience of the AMC in mutual fund business.

Findings with respect to preferred scheme of mutual fund

- 48.6% prefer to invest in equity related mutual funds, 49.1% in debt related funds and 9.5% prefer to invest in hybrid or balanced funds.
- With respect to type of equity mutual funds schemes preferred for investment majority prefer to invest either diversified equity funds or in tax saving funds.
- With respect to type of debt mutual funds schemes preferred for investment, majority prefer to invest either in income funds or short-term funds.

Findings with respect to chi square test

- Results show that there is association between demographics of investors and their preference for a particular type of mutual fund scheme.

Suggestions

On the basis of the study, the following are being suggested to AMCs in order to help investors make an intelligent choice with respect to their investment in mutual fund schemes:

- Ranking may be assigned to the Mutual Fund under their consideration
- Performance of the mutual fund at least for the last 3 – 5 years should be shared with the investors.
- Expense Ratio with respect to the mutual fund under consideration for investment should be made known.
- Tax saving benefit that could be availed by investing in the fund
- Performance of the mutual fund as against an acceptable benchmark.
- Status of the Asset Management Company
- Experience of Fund Managers employed by the AMCs.

Conclusion

Mutual funds are often misunderstood as a complex investment vehicle. However, in reality, they are pretty simple in their investment philosophy and offer investors a host of benefits such as diversification, professional money management, economies of scale, transparency, and liquidity, to mention a few. Mutual fund investment offers an investor with a professional fund manager at a nominal fee. This designated fund manager analyzes, tracks, and transacts various securities on behalf of investors. This can be a major advantage for those who cannot find the time to do their research. Also, the best thing a person can do when he or she wants to start investing afresh is to start with a Systematic Investment Plan (SIP) which will give good returns in years to come provided one has the patience to wait to reap big benefits.

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