A Study of Relationship Between Actual Investment Behaviour Towards Mutual Funds And Various Determinants Such As Demographic Characteristics, Awareness And Perception About Mutual Funds

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Abstract- *Mutual fund is relatively new form of wealth creation and accumulation tool. It has gained wide acceptance and popularity in the recent years. Due to the consistent and continuous efforts taken by SEBI and AMFI the awareness of mutual funds among retain investors has increased to considerable level, in-spite of this number of milestones are still to be achieved as far as the awareness about mutual funds are concerned.*

In the present study the researcher studied the awareness and level of knowledge of retail investors about mutual funds. Another objective of the study was to understand the buying behavior and to analyze various factors that influence the decision of investing in mutual funds. Apart from these objectives, the researcher has also analyzed the impact of age on risk appetite of retail investors in mutual fund. In this study researcher also analyzed the satisfaction level of retail investors about the information provided by brokers relating to various aspects of mutual funds.

Keywords- Mutual fund, AUM, AMC,SIP, Open ended funds, Closed ended funds, Interval funds, debt funds, money market fund, equity funds, Index fund, ELSS.

I. INTRODUCTION

Investment and wealth creation has a deep-rooted history. It is evident from the economical history of the world that the forms in which wealth is accumulated are changing from time to time. Currencies, metals, precious stones, land, animals, farm produce such as grains, pulses, oil seeds etc. were used and still being used for creation and accumulation of wealth. Mutual fund is relatively new form of wealth creation and accumulation tool. The concept of mutual fund was first floated by Dutch merchant and broker in late 1700s in Europe. He invited subscriptions from investors to form a trust which provided investors an opportunity to diversify their investment with limited means.

In 1963 Reserve Bank of India (RBI) and the Government of India formed Unit Trust of India (UTI) to start mutual fund industry in India. Primary objective of UTI was to attract small investors and introduce them to market investments. Since then, the mutual fund industry in India has evolved many folds. UTI which was initially setup by RBI was delinked from it and it was taken over by IDBI. UTI 1964 was the first scheme offered by UTI. In late 70s and early 80s UTI started innovative schemes. By the end of 1988 the asset under management (AUM) of UTI was grown to Rs. 6700 crores. In the year 1987 public sector banks were allowed to enter in to the mutual fund industry. State Bank of India launched first non UTI mutual fund in November 1987, this was followed by many public sector financial institutions such as LIC, GIC, PNB etc. Due to the emergence of new players in the industry and introduction of innovative products the AUM increased from Rs 6,700 crores to Rs 47,004 crores, in just five years.

Indian investor got a broader choice of fund families when mutual fund industry was opened to private sector in the year 1993. The first set of SEBI Mutual fund regulations was introduced by SEBI in 1993 which was then modified and a new comprehensive set of regulations was came into existence in the year 1996 which are currently applicable. Since then mutual fund industry had witnessed many events such as mergers, slow down, income tax relief on dividends, removal of entry load etc. SEBI and Association of Mutual Funds of India (AMFI) took many steps to create awareness of mutual funds amongst the investors of Tier II and Tier III cities. As a result of these the MF industry receives steady inflow in AUM, the number of investor folios (accounts) are also increasing with higher rate.

In India, at present 43 AMC's are offering wide range of mutual funds.

Mutual funds are broadly categorized into three different categories viz. open ended fund, closed ended funds and interval funds. Further each of these three categories are divided into number of sub categories these categories and sub categories are discussed below:

A) **Open ended funds:** These funds are most popular amongst the investors as they allow them to buy and sell units at any point of time. Funds under this category do not have any fixed maturity date. Debt fund, money market fund, equity fund and balanced fund are prominent sub categories of open ended funds. Major part of the investable amount of ***debt fund*** is invested in debentures, government securities and other debt instruments. Low risk and low capital appreciation is main characteristic such schemes. ***Money market or liquid*** fund is another form of debt fund. This fund is ideal for the retail investor who wants to utilize their surplus fund for short term and earn reasonable returns. ***Equity funds*** are the most popular fund amongst the retail investors. High risk and high returns is characteristic of this fund. The risk in such mutual funds can be minimized by keeping the investment for longer duration. ***Index Scheme, sectoral scheme*** and ***ELSS*** are sub categories of equity based funds. Index schemes are those funds which invest in the stocks of the companies which replicate the movements of benchmark indices like Nifty, Sensex, etc. Sectoral funds are those funds which invest their assets in the companies belonging to specific sectors like, IT, pharmaceuticals, infrastructure, banking and finance etc.. Equity Linked Saving Scheme (ELSS) offers tax benefits to the investors. Savings in such scheme is exempted under section 80c. However savings under such schemes has 3 year lock-in period. AUM of balanced funds is invested in both equities and fixed income securities. The proportion of investment in equities and securities is pre-disclosed in the scheme related documents. These funds are relatively stable in the category however returns earned by these schemes are also relatively low.

B) **Closed ended Funds:** Unlike open ended funds these funds do not allow investors to invest and withdraw at any point of time. These funds have a stipulated maturity period; investors can invest only during NFO (new fund offer). Capital protection and fixed maturity plans are two sub categories of closed ended funds. The primary objective of capital protection plan is upholding the investment while attempting to deliver reasonable returns. The investments in these schemes have marginal exposure to equities. Investor may remain invested in such funds even after the maturity date. Fixed maturity plans are the mutual funds with fixed maturity period. Investments under this scheme are normally in debt instruments. These funds are passively managed

C) **Interval funds**: Interval funds are the combination of open ended and closed ended funds they allow investors to buy or sell units at pre- defined intervals.

II. OBJECTIVES OF STUDY

1. To study the awareness and level of knowledge about mutual funds amongst the investors.
2. To understand the mutual fund buying behavior of retail investors.
3. To identify the various factors which investors analyze while investing in mutual funds direct plan.
4. To analyze the effect of age on risk appetite of retail investors in Mutual funds.
5. To analyze the information provided by broker/ agents to the investor about various aspect of mutual funds.

III. LITERATURE REVIEW

Indrajit Kaur and K.P. Kaushik (2016) in their study depicted that investment behavior is correlated with the awareness, perception and socioeconomic characteristics of individual investors. They also inferred that better awareness mutual funds on various aspects a positive effect on investments in mutual funds. Awareness about the associated risk does not have any impact on the investment decision. From their study they also found that socioeconomic characteristics such as age, gender, occupation, income and education of investors had an impact on the awareness about mutual funds.

Ippolito (1992) concluded that the investors analyzes the past performance of mutual funds and prefer to invests in the funds that have given positive returns in the past. He also noticed that the relationship between flow of funds and past performance of a mutual fund is not linear.

According to their study Chander Subash and Mahajan Mukesh (1992) depicts that primary objectives of investments in the mutual funds are benefits in income tax along with the appreciation of the investments. The research also concluded that majority of the investors belongs to salaried and professional category of the occupation variable.

The study conducted by Madhusudhan V Jambodekar (1996) elucidates that safety of principle is the most important factor followed by liquidity and capital appreciation that investors considers before investing in mutual funds.

Dr. Bhagaban Das, Ms. Sangeeta Mohanty (2008) in their study “Mutual Fund vs. Life Insurance: Behavioral Analysis of Retail Investors” depicts that there is a correlation between the investment pattern and demographic variables such as education, sex, occupation and age. They reveal that private sector employees are more inclined towards mutual funds as compared to government sector employees. They also found that male investors are more risk takers than their counter parts.

Arathy B, Aswathy A Nair, Anju Sai, Pravitha N R (2015) in their study concluded that tax benefit, capital appreciation are the most important factors while liquidity, diversification brand image are less important factors that investors considers while investing in mutual funds. The study also resulted that mutual funds has gained popularity amongst investors in the recent years. The key finding of their research depicts that equity based schemes are most popular among all mutual funds.

Dr. Binod Kumar Singh (2012) in his research studied investors’ attitude towards mutual fund as an investment option, found that most of the investors are having little awareness about various function of mutual funds. He also observed that demographic factors such as gender, income and level of education have significant influence on investors’ attitude towards mutual funds. According to his study, return on investment and liquidity have been perceived to be most attractive by the invertors followed by flexibility, transparency and affordability.

Deepak Chawla (2014) in his research study analyses the factors influencing the investments in the mutual funds and found similar results as that of other scholars who did research in the same area. He found that tax-saving funds and growth funds with capital appreciation are the important considerations for investors in a mutual fund.

According to SEBI report(2015) out of the total investors in the various investment avenues 66% have invested in mutual funds The study also depicts that most investors (88 percent) are aware about online that trading of MFs but most of them use traditional methods of investing in MFs i.e. investing through MF distributors, collection centres.
Result also elucidates that SIPs is the most popular mode of investment in MFs

Bard M.Barber and Jerrance Odean (2000) in their study, analyzed the factors influencing the behaviour of MF investor while purchasing and selling decision. The study reveals that buying decision has large impact of past performance of the fund. Study also reveals that investors are very sensitive to the expenses charged by fund houses.
The study, “Investment in Mutual funds: A Customer Centric Analysis”. Conducted by Vanniarajan T. and Gurunathan T., (2007) found that due to fierce competition AMC are offering customized products. The study also throws light on important factors that influenced the investment decision. The outcome of the study shows that monetary gain, product features, fund strength, promotional efforts and service quality are important influencing factors.

IV. RESEARCH METHODOLOGY

In order to study the relationship between actual investment behavior towards mutual funds and various determinants, a descriptive research including survey and fact finding enquiry was chosen. For the purpose of collection of data a well structured questionnaire was prepared. Initial draft of questionnaire is then administered on 30 investors by conducting a pilot survey. On the basis of feedback and difficulties experience by researcher while conducting a pilot survey, initial draft of questionnaire is modified and final draft is prepared. Primary data is then collected by conducting personal interviews through structured questionnaire.

Researcher has used snowball sampling method to select investors of mutual fund. One to one interview method is used to record responses of respondents residing in twin cities Pune and Pimpri Chinchwad. While telephonic interview method is used to record responses of the investors residing in other Tier I, Tier II and Tier III cities of Maharashtra like, Mumbai, Ahmednagar, Satara, Kolhapur, Aurangabad and Nagpur.
A total of 327 investors are interviewed and their responses are recorded.

Frequency distribution, cross tabulation and chi-square test has been applied for the data analysis and to draw conclusions.

Limitations of the Study:

The study has been carried out for urban investors. Study considers only six prominent reasons that affect the decision of investments. However consumer buying is a complex process in which number of factors like social status, economic factors and psychographic factors influence the buying/investment decision.

This is a cross sectional study, and the result and conclusions obtained through this study are based on primary data collected in a specific period. Results may be different if data is collected at different point of time. To study changes in the behavior of investors’ a longitudinal study need to be carried out.

Data Analysis and Results:

To study the relationship between actual investment behavior towards mutual funds and various determinants, the researcher interviewed 319 investors who have invested in their sum in mutual funds. All respondents have invested in mutual funds hence they were aware of mutual funds, to test the level of knowledge researcher asked relevant question the result of the same is represented in the following table:

Table 1 Level of knowledge about mutual fund

Level of Knowledge	Frequency	Percent
Aware but have no knowledge	92	28.84
Have Partial Knowledge	165	51.72
Aware only of any specific scheme	32	10.03
Fully aware	30	9.40
Total	319	100

Source: Primary Data

Table 1 reveals that 92 (28.84%) out of 319 respondents who have invested in mutual fund have no knowledge of it while 165 (51.72%) admits that they have very little or partial knowledge of mutual fund. 32 (10 %) are aware about only those schemes in which they have invested and only 30 (9.4%) of the investors are fully aware about various schemes, their benefits, risk associated with the mutual fund in which they have invested their amount, past returns, entry and exit loads and applicable taxes on the capital gains etc. associated with various mutual funds.

Table 2a Mode of investment in Mutual Fund

Mode of investment	Frequency	Percent
SIP	142	44.51
Lump sum	50	15.68
Both	127	39.81
Total	319	100

Source: Primary Data

From the Table 2a it can be observed that the total 142 (44.51%) out of 319 are investing in mutual funds only thorough SIP and 39.81 % investors who are investing in mutual fund thorough SIP have also invested lump sum. Table also reveals that only 50 (15.68%) investors are lump sum investors. From this data it can be concluded that SIP is the most popular mode of investment of mutual funds.

Table 2b Mode of investment in Mutual Fund

Mode of investment	Average % in portfolio
SIP	66.8
Lump sum	33.2
Total	100

Source: Primary Data

It is also evident from table 2b that SIP is the most favored investment mode of mutual fund. Average investment in the portfolio through SIP is 66.8% while the average Lump sum investment in the mutual fund is only 33.2%.

In order to study 3rd objective, 'To identify the various factors which investors analyze while investing in mutual funds direct plan', the researcher identified 6 prominent factors that investors of mutual fund direct plan analyses before investment. In order to test the significance between the number of investors that considers the factor and those who do not consider the factor before investing, the researcher applied chi-square test; the result of chi-square test is represented in the following table:

Table 3 Factors considered before investments

Factor	No	Yes	Total	Asymp. Sig.
Past Performance	49	46	95	0.758
Rating by Different agencies	62	33	95	0.003
Sector of investment	62	33	95	0.003
Recommendation of peers	33	62	95	0.003
Lock in period	74	21	95	0.000
Advertisement	76	19	95	0.000

Source: Primary Data

Out of the total 319 respondents only 95 respondents have invested in mutual fund without any mediator. 46 out of 95 who purchased mutual fund plan directly from AMC have analyzed past performance of the fund while investing and 49 does not consider the same. The difference between the number of investors who analyzed past performance and those who do not analyzed the same is not significant and same is confirmed by the chi-square test. Rating by different agencies and sector of investment of mutual fund were analyzed by only 33 out of 95 investors against 62 have not analyzed these two factors. The result of chi- square test confirms that the difference among those who consider these two factors and those who do not consider these two factors is significant. Similarly the difference between the investors who considers lock in period and advertisement and those who does not considers these two factors before investment is significant. Table reveals that very few investors consider lock in period and advertisement before investing in mutual fund direct plan. On the other hand from tabe it can be concluded that recommendation of peers have highly positive impact on the buying decision of mutual fund direct plan. More number (62 out of 95) considers recommendation of peers is very helpful while investing in mutual fund direct plan and the same is confirmed by chi-square test.

To study the impact of age on the risk appetite of retail investors the researcher divided the respondents in to four age groups viz. 20-30 years, 30-40 years, 40-50 years and more than 50 years. The responses about their risk appetite are then recorded. Following table represents cross tabulation of age category and the risk appetite.

Table 4 Age wise risk appetite:

		Risk Appetite				
Age		Low	Medium	High	Don't Know	Total
20-30	n	0	18	0	55	73
	%	0	24.66	0	75.34	
30-40	n	6	49	0	9	64
	%	9.37	76.56	0	14.06	
40-50	n	0	111	0	46	157
	%	0	70.70	0	29.30	
More than 50	n	0	25	0	0	25
	%	0	100	0	0	
Total		6	203	0	110	319

Source: Primary Data

From the Table 4 it can be seen that 18(24.66%) out of 73 investors of the age group 20-30 years have medium risk appetite and 55 (75.34%) of the investors of this age group don't know about the risk associated with their investments in the mutual fund. This reflects the less awareness of the investors of age group 20-30 years about the risk and returns associated with the investments in mutual funds. However this percentage is low in the age group of 30-40 years and 40-50 years and in the age group more than 50 year this percentage is zero. Small number (9.37%) of the investors in the age group 30-40 have low risk appetite and majority of the investors (76.56%) have medium to moderately high risk appetite. The table also reveals that all investors in the age group more than 50 years have medium risk appetite.

In order to cross verify the actual risk appetite and perceived risk appetite of the investor, the researcher inquired about the type of mutual funds the investors have in their portfolio. The analysis of responses of this question is given in the following table:

Table 5 Type of mutual fund in the portfolio

Type of Mutual fund	Yes	No
Money Market fund	0	319
Fixed income fund	9	310
Equity Fund	313	6
Fixed Fund	0	319
Speciality fund	0	319
Funds of Funds	0	319
Balanced Fund	37	282

Source: Primary Data

Table depicts that almost all (313 out of 319) investors have equity funds in their portfolio. Which makes their investment high risky to moderately high risky. No investor has their investments in money market fund, fixed fund, specialty fund and funds of funds. Only 37 investors has balanced fund in their portfolio and negligible number (9) of investors have invested in fixed income funds.

Form the results derived from table 4 and table 5 it can be derived that, though investors feels that their risk appetite is low or medium, but their fund selection make their portfolio moderately risky to highly risky. This reflects the lack of awareness about the risk and returns associated with the funds in which investors have invested their amount.

Thus one can conclude that the risk appetite perceived by the investor is not aligned with the fund selection. To get more insights about this, during interaction the researcher asked various questions related to the investment and the factors influencing the investment decisions. From the discussion held between researcher and investors researcher identified the reason behind the gap between perceived risk appetite and actual risk appetite. Researcher found the investment decisions are mostly taken on the basis of brokers' or peers' recommendations.

During pilot study, researcher personally feels that the investors are not properly educated by agents/ brokers. Very less or no information is provided by brokers to the investors. To study more on this aspect the researcher identified seven important parameters of mutual fund, about which every investor must know before investing his amount in to that mutual fund. Researcher asked about the degree of information about each of those seven parameters provided by agent/broker to the investors. The result is represented in the following table:

Table 6 Information provided by broker on various parameters of mutual funds:

	Not at all	Partial	Full	Total
Various categories of Mutual funds	276 (86.5)	43 (13.5)	0	319
Best fund in each category	301 (94.3)	18 (5.7)	0	319
Risk associated with each fund	146 (45.8)	173 (54.2)	0	319
Past Returns	37 (11.6)	268 (84)	14 (4.4)	319
Lock in period	63 (19.8)	243 (76.2)	13 (4.0)	319
Entry load and Exit load	262 (82.1)	57 (17.9)	0	319
Applicable taxes	155 (48.6)	164 (51.4)	0	319

Source: Primary Data

Table 6 represents the degree of information provided by broker/agent of mutual fund of the seven parameters identified by researcher. 276 (86.5%) responded that no information about various categories of mutual funds was given their broker. And 43 (13.5%) told that partial information about the same was given by their broker. No information about the best fund in each category of the mutual fund was given to 301 (94.3%) and partial information was given to only 18(5.7%) investors by their brokers. Table reveals that brokers provides information about risks associated with the funds, past performance of the fund and lock in period of the funds however they provide partial information about those three parameters to the investors. Only 14 (4.4) are of opine that their broker had given full information of past returns of the mutual fund in which they have invested. While only 13 (4%) says that full information about lock in period of the mutual fund purchased by them was provided by their broker.

Table also reveals that brokers provide either no information or partial information to the investors about the parameters Entry and Exit load as well as information about the taxes applicable on the capital gains through the investments in the mutual funds.

V. DISCUSSION AND CONCLUSIONS

Investment and wealth creation has a deep-rooted history in the world as well as in India. The forms of wealth creation and wealth accumulation tools are changing with the time. Relatively newer form of wealth creation tool viz. Mutual fund has gained large popularity amongst the investors, especially in the last few years the investments in the mutual funds has been increased exponentially. The exponential growth of the mutual fund industry in the recent years attracted the attention of researcher and he tried to know more about mutual fund industry. Initial inquiry of mutual fund industry leads to surprising and interesting outcomes. Hence researcher decided to take up the study to know more about the awareness and the level of knowledge amongst mutual fund investors'. He also decided to study buying behavior, various factors analyzed by investors while investing in mutual fund without any mediator, impact of age on risk appetite of retail investor.

All respondents of the study have invested in the mutual fund; hence all were aware about mutual fund. The study concludes that in spite of having awareness of mutual fund 29% of the investors have no knowledge about the mutual fund, 52% investors admitted that they have very little knowledge, 10% of them are fully aware about the fund in which they have invested and only 9% of the investors are of the opinion that they have full knowledge of the mutual fund industry. The study also concluded that SIP is preferred mode of investment. The average share of investment in the portfolio through SIP is about 67% and that of through lump sum investment is noly33%.

One of the key finding of the study is majority of the investors who have invested in mutual fund have invested through some broker or mediator. Only 30% of the investors have invested in mutual fund directly i.e. without any broker. Recommendation by peers is most influencing factor followed by past performance of the fund that investors of mutual fund consider before investment. On the other hand lock in period and advertisement neither have positive nor have negative impact on the decision making process for investment in mutual funds.

The study reveals that age does not have any impact on the risk appetite of investors. However the study concludes that the majority of the investors in the age group 20 -30 years are not aware about the risk associated with the mutual funds in which they have invested their amount.

Study reveals that, all investors have invested in mutual fund through some mediator, few of them have also purchased the mutual funds directly from AMC's. In spite of this almost all investors are not satisfied about the information given by their broker on various factors that investor need to know before investment. Investors have no knowledge or very little knowledge about the factors such as various mutual fund categories, best fund in each class, risk and returns, lock in period, entry and exit load and applicable taxes.

Scope for Future Research:

The study can be extended to more number of demographic variables such as different income groups, gender, different education qualification, and different personality traits and lifestyles of consumers. The future studies may further investigate to find out reasons behind brokers do not provide full information about various factors associated with the mutual funds.

Implications of the study:

This study discusses the factors influencing decision of investing in the mutual funds. Hence this study would be helpful to the AMC's offering various mutual fund products. The study also reveals that advertisement has very little impact. This will be helpful to the AMC's in framing their marketing strategies and promotional efforts can be made more focused. This study would be useful to the various financial institutions who offer various investment schemes. This study would also be helpful to SEBI to laid down new norms for issuing license to individuals for practicing in mutual fund industry as a broker.

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