

# Perception And Behaviour Of Mutual Funds Investors In Indore, Madhya Pradesh

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## INTRODUCTION

It is a general belief that Mutual Funds are a retail product which are so designed for those who do not directly invest in the share market because of its unpredictable and volatile nature, but are fascinated by the growth and returns given by the same market. After the announcement of the liberalization policy in 1991, the growth of the Indian economy has been miraculous and the per capita income has also increased. During the past two decades, the growth of the upper middle and middle class in India has also been fabulous, and this is the group, which due to increase in income has enormous and changing needs, and is targeted by almost all mutual fund companies, but it is seen that these mutual fund companies have not succeeded enough to attract individual investors to invest in their products. In India, a small investor generally prefers to park his savings in bank deposits, which do not provide a hedge against inflation and often have negative real returns. The layman investor has a very limited knowledge of the sensitive index, and is inept in understanding financial jargon, if available from some expert, framed in technical and legal lexicon. He finds himself to be a deviant in the investment market. Mutual funds have come as a much needed help for these investors. Mutual funds are looked upon by individual investors as financial intermediaries/ 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.

## INVESTORS' PERCEPTION ABOUT MUTUAL FUNDS

Financial markets are constantly becoming more efficient by providing more promising solutions to the investors. Although the mutual funds industry is fast in understanding the dynamics of investor's perception towards rewards, still, MF companies are continuously following this race in their endeavor to differentiate their products by responding to sudden changes in the economy. Thus, it is high time to understand and analyze investors' perception and expectations, and unveil some extremely valuable information to support financial decision making of mutual funds. Financial markets are becoming more exhaustive, with financial products seeking new innovations and to some extent, innovations are also visible in designing a mutual funds portfolio, but these changes need alignment in accordance with investor's expectations. Thus, it has become imperative to study mutual funds from a different angle, which is to focus on investor's perception and expectations and uncover the unidentified parameters that account for their dissatisfaction. The present research paper focuses attention on a number of factors that highlights investors' perception about mutual funds. These are :

- 1) Form of investment preferred by investors.
- 2) Preference of investors about different investment avenues.
- 3) Mode of investments preferred by investors.
- 4) Knowledge of risk in investment and risk analysis.
- 5) Preference over switching from fund and investment.
- 6) Preference over nature of fund holding.
- 7) Preference upon time of holding of funds and preferred information mode.
- 8) Investment in Mutual funds.

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For the present research, 500 respondents were taken as a sample, and it was found that 363 respondents were investing in mutual funds, and the remaining 137 respondents were not investing in mutual funds.

## RESULTS AND DISCUSSION

**1) Form of Investments Preferred By The Investors :** To study this aspect, the respondents were asked to rank popular investment avenues like Life Insurance Schemes, Currency holdings, PPF/GPF, Bank deposits and FDs, Post Office Savings Schemes, Gold, Units of UTI and Mutual Funds, investment in the Realty sector and investment in Shares, Debentures and Commodities. Respondents were asked to give a rank from 1 - 9 (highest rank as 1 and lowest as 9). On that basis, the following Table 1 was prepared. Weighted average score was used as a statistical tool to find out the form of investment preferred by the investors among various available investment avenues.

Table 1 : Form Of Investments Preferred By The Investors									
	Life Insurance Scheme	Currency Holding	PPF / GPF	Bank Deposit	Post Office Scheme	Gold	Units of UTI & Mutual Funds	Realty Sector	Shares, Debentures & Commodity
Valid	363	363	363	363	363	363	363	363	363
Mean	5.73	3.07	5.05	6.24	5.10	6.36	4.92	4.81	3.67
Rank	3	9	5	2	4	1	6	7	8

It is clear from the Table 1 that Gold was the most likely investment avenue. Bank deposits and Fixed Deposits were ranked 2<sup>nd</sup>, Life insurance schemes were ranked 3<sup>rd</sup>, Post Office Schemes were ranked 4<sup>th</sup>, PPF/ GPF were ranked 5<sup>th</sup>, Mutual funds, Realty Sector and Shares, Debentures and Commodity Markets were ranked 6<sup>th</sup>, 7<sup>th</sup> and 8<sup>th</sup> and Currency Holding was given the last ranking i.e. 9<sup>th</sup> rank. It depicts that the investors were more concerned about the safety of their investments and obtaining high returns from investments came in second.

**2) Preference For Different Investment Avenues By Investors :** The respondents were asked to give points based on the 5 point likert scale (strongly unimportant ..... strongly important, allotting a score from 1 .....5). Respondents were asked about different investment windows preferred by them on the basis of Safety, Liquidity, Reliability, Tax Benefit and High Return. Median values were taken in this regard to find a clear result.

Table 2 : Preference For Different Investment Avenues By Investors								
	Gold	FDs	Shares & Debentures	PO Schemes	MFs	Life Insurance Policies	NSS Schemes	PF/GPF
Safety	4	4	1	5	3	4	5	5
Liquidity	5	4	4	3	3	2	1	2
Reliability	4	5	2	4	3	4	5	4
Tax benefits	1	2	3	5	4	4	5	4
High returns	4	3	5	1	4	2	2	2

It is clear from the Table 2 that except for investing for tax benefits, gold was the most preferred investment option. Mutual Funds got an average score in almost all parameters and they also showed consistent performance.

Table 3 : Mode Of Investment Preferred By The Investors			
	Frequency	Percent	Cumulative Percent
Lump Sum Investment	211	58.1	58.1
Systematic Investment Plan	142	39.1	97.2
Systematic Transfer Plan	10	2.8	100.0
Total	363	100.0	

Table 4 : $\chi^2$ Test Of Mode Of Investment Preferred (Occupation - Wise)			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	64.518	8	.000
Likelihood Ratio	48.752	8	.000
Linear-by-Linear Association	.512	1	.474
N of Valid Cases	363		

**3) Mode of Investment Preferred :** For locating the most preferable mode of investment among Lump sum, SIP and STP, frequency was taken including Chi-square test between the mode of investment with age of investors and the occupation of investors. From the frequency Table 3, it is clear that 58% investors selected the lump sum mode and only 2.8% of the investors preferred the Systematic Transfer Plan and 39.1% chose the Systematic Investment Plan. As per the Table 4, it is clear that  $\chi^2(8, N=363) = 64.51$ ,  $p = .05$ , therefore, there is a significant relationship between the occupation of the investors and the mode of investment.

Table 5 : $\chi^2$ Test of MF: Safe Medium Of Investment (Occupation - Wise)			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	13.749	4	.008
Likelihood Ratio	10.282	4	.036
Linear-by-Linear Association	2.720	1	.099
N of Valid Cases	363		

**4) Knowledge of Risks And Returns In Mutual Funds :** To study this factor, Chi-square test was carried out to know whether the respondents thought that mutual fund investments are a safe mode to invest in the share market than direct investments. The Tables 5 and 6 present the results. The Table 5 presents the results of the Chi-square test between occupation of the investors and the perception of investors - whether mutual fund investments were a safe mode to invest in the share market than direct investment. Here,  $\chi^2(4, N=363) = 13.74$ ,  $p = .05$ , therefore, there is a significant relationship. The Table 6 describes the question posed to the respondents that whether they were aware of the risk factors associated with investments in mutual funds. It can be seen from the Table 6 that 73% of the respondents knew about the risk factors associated with investments in mutual funds. It depicts that the investors were *risk aware*.

Table 6 : Knowledge Of Risk Factors In Mutual Fund Investments			
	Frequency	Percent	Cumulative Percent
Yes	264	72.7	72.7
No	99	27.3	100.0
<b>Total</b>	<b>363</b>	<b>100.0</b>	

Table 7 : Risk Analysis Of MF Investments By Investors			
	Frequency	Percent	Cumulative Percent
Yes	194	53.4	53.4
No	169	46.6	100.0
<b>Total</b>	<b>363</b>	<b>100.0</b>	

The respondents were posed the question - whether they analyzed the risks associated with their mutual fund investments and the result are presented in the Table 7.

Table 8 : MF: Safe Mode To Invest In Share Market Than Direct Investment			
	Frequency	Percent	Cumulative Percent
Yes	351	96.7	96.7
No	12	3.3	100.0
<b>Total</b>	<b>363</b>	<b>100.0</b>	

Table 9 : Mutual Funds : Profitable Mode Of Investment			
	Frequency	Percent	Cumulative Percent
Yes	269	74.1	74.1
No	94	25.9	100.0
<b>Total</b>	<b>363</b>	<b>100.0</b>	

It can be seen from the Table 7 that nearly 53% of the respondents analyzed the risks associated with their mutual fund investments, though risk awareness percentage was 73%. It means that most of the investors knew about the risks associated with their investments , but did not have sufficient knowledge to analyze the risks associated with their mutual funds investments.

The next question that was thrown at the respondents was whether mutual funds are a safe mode to invest in the share market. Out of 363 respondents, 351 confirmed it to be a safe mode of investment. Frequency tally was used to show the results and the same are presented in the Table 8 . The Table 8 shows that a huge number of investors thought that mutual funds were a safe medium to invest in the share market as compared to direct investment.

Next, respondents were asked whether they thought that mutual fund investments were a profitable mode of investment. In return, 293 respondents (74.1%) answered in the affirmative, while 94 respondents (25.9%) answered in negative. The results are presented in the Table 9.

Table 10 : Reasons For Switching Investment Options			
	Frequency	Percent	Cumulative Percent
Profitability	215	59.2	59.2
Security	148	40.8	100.0
<b>Total</b>	<b>363</b>	<b>100.0</b>	

**5) Preference For Switching From Mutual Fund Schemes :** To know the reasons which governed the switching mood of the investors from a fund or scheme, the respondents were asked about the factors that made them switch over from one scheme/fund to another. Was it for **(a) Profitability** or **(b) Security** ? The results are shown with tables. Chi-square test was done for the above question with occupation of the respondents. The Table 10 reveals that 59.2% of the respondents switched from a fund/scheme with a view to earn profits from the changing market situation and the remaining 40.8% respondents switched for security of their money invested. Another question that was asked to the respondents was that whether they were ready to invest in existing funds/ schemes or new funds/schemes that were to be launched in the market. The following Table 11 reveals that 85.1% of the respondents wanted to go with their existing fund/scheme and only 14.9% of the respondents wished to move onto new funds/schemes.

Table 11 : Investment And Fund Preference			
	Frequency	Percent	Cumulative Percent
Existing Fund	309	85.1	85.1
New Fund	54	14.9	100.0
<b>Total</b>	<b>363</b>	<b>100.0</b>	

**6) Preference For Nature Of Fund Holding :** To know about the nature of fund holding behaviour of investors, a

question was asked about their present fund holding that, what was the nature of their funds ? Whether it was **(a)** Equity fund, **(b)** Debt fund, **(c)** Balanced fund, or **(d)** Any other fund.  $\chi^2$  test between nature of fund and occupation of investors are shown as follows.

The Table 12 shows that there is a significant relationship in fund holding pattern of investors and their occupation,  $\chi^2$  (12, N=363)=46.70, p=0.05. The Table 13 shows the frequency of fund holding pattern of investors.

Table 12 : $\chi^2$ Test Of Fund Holding Pattern (Occupation -Wise)			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	46.708	12	.000
Likelihood Ratio	65.519	12	.000
Linear-by-Linear Association	.989	1	.320
N of Valid Cases	363		

Table 13 : Nature of Fund Holding			
	Frequency	Percent	Cumulative Percent
Equity Fund	175	48.2	48.2
Debt Fund	86	23.7	71.9
Balanced Fund	96	26.4	98.3
Others	6	1.7	100.0
<b>Total</b>	<b>363</b>	<b>100.0</b>	

The Table 13 reveals that 48.2% investors had invested in equity funds, 23.7% respondents had invested in debt funds, 26.4% had invested in balanced funds and only 1.7% of the total respondents had invested in other types of funds.

**7) Preference For Mode Of Information And Time Of Holding Of Mutual Fund Investments :** To know about the preferred information mode that was popular among the investors and to gain information about the time of their present fund holding, two questions were asked to the respondents. The first question which was asked was the preferable information mode among, **(a)** Friends/Relatives **(b)** TV/Radio, **(c)** Mails, **(d)** Newspapers/Magazines, **(e)** Brokers and Agents, **(f)** Self Decision. The frequency tally Table 14 for the above question is hereunder, describing that 38.6% of the surveyed investors took the help of 'Brokers and Agents', and 28.4% investors invested in the funds/schemes whose information they received from their 'Friends And Relatives'.

Table 14 : Preference For Mode of Information			
	Frequency	Percent	Cumulative Percent
Friends & Relatives	103	28.4	28.4
TV/Radio	35	9.6	38.0
Mails	2	.6	38.6
Newspapers & Magazines	39	10.7	49.3
Brokers & Agents	140	38.6	87.9
Self Decision	44	12.1	100.0
<b>Total</b>	<b>363</b>	<b>100.0</b>	

Respondents were also questioned about the time period of their present fund holding. Correlation was calculated for time holding, age and occupation of investors. The results are as follows :

The Table 15 shows that there is a significant relationship between time of fund holding pattern of investors and their

Table 15 : Correlation Between Time of Holding An Investment And Occupation Of Investors			
		time of holding investment	occupation
time of holding investment	Pearson Correlation	1.000	.313
	Sig. (2-tailed)	---	.000
	N	363	363
occupation	Pearson Correlation	.313	1.000
	Sig. (2-tailed)	.000	---
	N	363	363

Table 16 : Time Period Of Holding Investments			
	Frequency	Percent	Cumulative Percent
Less than 1 Year	50	13.8	13.8
1 - 3 Years	201	55.4	69.1
4 - 6 years	76	20.9	90.1
7 - 9 years	28	7.7	97.8
More than 10 Years	8	2.2	100.0
<b>Total</b>	<b>363</b>	<b>100.0</b>	

occupation,  $r(363) = 0.147$ ,  $p < 0.05$ . The Table 16 reveals that 36.9% investors held their funds for one-three years and 38.3% percent respondents held their funds for four – six years and only 8.3% respondents held the fund/scheme for less than one year. Out of the 363 respondents surveyed, 3.6% (13) of the total respondents held their funds for more than 10 years.

## MAJOR FINDINGS OF THE STUDY

❖ **Perception Of The Investors Towards Mutual Funds :** As it is known that perception plays a vital role in financial markets, so the present study emphasized on the perception of investors of mutual funds through various aspects, and the major findings of the study are:

**1) Form Of Investment Preferred By The Investors :** On analyzing the ranking given by the investors for popular investment avenues, it was revealed that investing in gold was the most preferred investment option. Then came bank deposits and fixed deposits. Mutual funds were placed at the 6th rank by the respondents, and it reflected that respondents preferred safe options for investment, and the preference for returns came in the second place for investors.

**2) Preference Of Investors For Different Investment Avenues :** Amongst all popular investment avenues, mutual funds got an average score in all parameters like safety, liquidity, reliability, tax benefits and high returns.

**3) Mode Of Investment Preferred :** It was found that a large number of respondents preferred the lump sum mode of investment to invest in mutual funds and the second preference was given to Systematic Investment Plan (SIP) mode of investment.

**4) Knowledge Of Risks Associated With Investments And Risk Analysis :** A large number of investors had the knowledge of risk in investments (about 73% of the investors knew about the risks associated with MF investments), but only 53% investors analyzed the risks associated with their investments in mutual funds, so there was a wide gap among the investors who knew about the risk factors and those who properly analyzed the risk involved in their mutual fund investments.

**5) Preferences Associated With Switching of Funds :** A large number of investors switched funds to gain more from the changing market situations. On the other hand, 85% of the investors preferred to invest in the existing mutual fund schemes available in the market, as they felt that investment in newly launched funds or schemes may involve a high level of risk.



**6) Preference For Nature Of Fund Holding :** The tests applied in the present study revealed that most of the respondents preferred to invest in the equity option in mutual funds.

**7) Preference For Time Holding Of Funds And Preferred Information Mode :** The tests revealed that 69.1% of the respondents preferred to hold the investments in mutual funds for one – three years period ; 20.9% respondents preferred to hold the investments for the four – six years period. Hence, it can be concluded that about 90% of the investors held their investments for not less than six years. On the other hand, 39% of the investors preferred to take the help of brokers and agents, while 28% invested in mutual funds as per the suggestions and information received from friends and relatives.

## CONCLUSION AND SUGGESTIONS

Mutual fund companies should come forward with full support for the investors in terms of advisory services, participation of investors in portfolio design, ensure full disclosure of related information to investors, and ensure that proper consultancy is given by mutual fund companies to the investors in understanding the terms and conditions of different mutual fund schemes, such as - type of fund designing should be promoted that will ensure the satisfaction of the needs of the investors, mutual fund information should be published in an investor friendly language and style, a proper system to educate investors should be developed by mutual fund companies so as to enable the investors to analyze the risks associated with investments made by them, etc. On the other, it is required from the government and regulatory bodies' point of view that more laws should be implemented to secure the funds of investors from getting exploited , tax rebates should be given on mutual fund investments, proper and effective grievance systems should be put in place, and more control on asset management companies should be implemented. The investors should keep their investments for a longer time, keeping in mind the level of risk involved and saving pattern; they should take the help of private financial consultants to get their investment portfolio done so as to reduce risks in investment; they should not invest in highly volatile funds; they should collect all possible information before making an investment. Investors should carry out periodical reviews of the investments made by them and risk analysis should be done regularly. Proper records for each transaction should be maintained. A careful and reasonable diversification of investment in mutual funds should also be done on the investors' part to balance the risks involved in the investment. It is also suggested that the investors should inculcate a habit of saving regularly so that small savings will grow into a bigger capital base. One of the strong suggestions to investors is that they should invest a reasonable part of their investments in liquid security so as to meet any contingency.

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