

## A study of Investor's behaviour towards Indian Mutual Funds in Haryana

Dr. Parul Mittal<sup>1</sup> Mr. Subesingh<sup>2</sup>

**Abstract:** India is experiencing a phase of savings and investment, especially with the growth spurt in its working class. The Indian mutual fund industry is growing rapidly and this is reflected in the increase in Assets under management of various fund houses. Mutual Funds provide a platform for a common investor to participate in the Indian capital market with professional fund management irrespective of the amount invested. Mutual fund investment is less risky than directly investing in stocks and is therefore a safer option for risk averse investors. Mutual Funds have opened new vistas to millions of small investors by virtually taking investment to their doorstep. The success of Mutual Funds depends upon the fund managers and alert investors. This research paper focused attention on number of factors that highlights investors' perception about mutual funds and preferences of investors. The impact of various demographic factors on investors' behavior towards Mutual Funds has been studied. The survey was undertaken of a diversified sample of 100 educated investors of Haryana and Delhi area under NCR, India in Mutual Funds. For this purpose, we have used chi square test and ranking method on the basis of weighted scores. The major findings of the study reveal that demographic factors and knowledge of investors have impact on their investment decisions. The study will be beneficial for researchers & academicians for further research, brokers, dealers, investors and share market officials.

**Keywords:** Mutual Funds, Investors, Attitude, Preferences and Factors.

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### I. Introduction

A wide array of investment instruments is available to an investor like non-marketable financial assets, equity shares, money market instruments, debt instruments, bonds, precious commodities, mutual funds, life insurance, financial derivatives, real estate etc. With reforms in financial sector and the developments in the Indian financial markets, Mutual Funds (MFs) have emerged to be an important investment avenue for retail (small) investors. For all investors, particularly the small investors, mutual funds have provided a better alternative to obtain benefits of expertise-based equity investments to all types of investors. A Mutual fund is a trust that pools the savings of a number of investors' who share a common financial goal. The money collected from investors' is invested in capital market instrument such as shares, debentures and other securities. The income earned through these investments and the capital appreciations realized are shared by its unit's holder in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment to the common man as it offers an opportunity, to invest in a diversified, professionally managed basket of securities at relatively low cost. A mutual fund is an investment company that creates a bridge between individual investors or retail investors & corporate giants. Mutual funds provide an investment options for retail investors or individual investors those who are not aware about stock market still they want to invest their funds in stock market with a small amount of money. A mutual fund is a pure intermediary which performs basic function of buying & selling security on behalf of its investors or unit holders. Mutual funds mobilize saving from a large number of investors & invest these funds in shares and other securities.

Mutual Funds are sine qua non for the development of the capital markets & the creation of the equity cult in an economy. The inception of Unit Trust of India marked the evolution of the Indian mutual fund industry in the year 1963. The basic objective at that time was to attract the small investors or retail investors for investment and it was made possible through the collective efforts of the Government of India and the Reserve Bank of India. The history of mutual fund industry in India can be better understood divided into following stages:

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<sup>1</sup> Assistant Professor, Dept of Commerce, KLP College, Rewari-123401, 9729704037, palakmittal12@yahoo.co.in

<sup>2</sup> Head, Dept. of Commerce, HLG College, Tauru-122105, Nuh, 9416416870

Stage I. Establishment and Growth of Unit Trust of India - 1964-87

Stage II. Entry of Public Sector Funds - 1987-1993

Stage III. Emergence of Private Sector Funds - 1993-96

Stage IV. Growth and SEBI Regulation - 1996-2004

Stage V. Growth and Consolidation - 2004 Onwards

A mutual is a set up in the form of trust, which has sponsor, trustee, assets management company (AMC) and custodian. Sponsor is the person who acts alone or in combination with another body corporate and establishes a mutual fund. Sponsor must contribute at least 40% of the net worth of the investment managed and meet the eligibility criteria prescribed under the Securities and Exchange Board of India (Mutual Funds) regulations, 1996. The Mutual Fund is constituted as a trust in accordance with the provisions of the Indian Trusts Act, 1882 by the Sponsor. Trustee is usually a company (corporate body) or a board of trustees (body of individuals). The main responsibility of the trustee is to safeguard the interest of the unit holders and also ensure that AMC functions in the interest of investors' and in accordance with the Securities and Exchange Board of India (Mutual Fund) Regulations 1996 the provisions of the Trust deed and the offer Document of the respective schemes. The AMC is appointed by the Trustees as the investment Manager of the Mutual Fund. The AMC is required to be approved by SEBI to act as an asset management company of the Mutual Fund. The AMC if so authorized by the Trust Deed appoints the Registrar and Transfer Agent to agent the mutual fund. The registrar processes the application form, redemption requests and dispatches account statements to the unit holders. The Registrar and Transfer agent also handles communications with investors' and updates investor records.

Mutual Funds can be invested in many different kinds of securities. The most common are cash, stock, and bonds, but there are hundreds of sub-categories. Stock funds invest primarily in the shares of a particular industry, such as technology or utilities. These are known as sector funds. Bond funds can vary according to risk (e.g., high-yield or junk bonds, investment-grade corporate bonds), type of issuers (e.g., government agencies, corporations, or municipalities), or maturity of the bonds (short- or long-term). Both stock and bond funds can invest in primarily U.S. securities (domestic funds), both U.S. and foreign securities (global funds), or primarily foreign securities (international funds).

## II. Literature Review

**Ippolito** (1992) states that an investor is ready to invest in those funds or schemes which have resulted in good rewards and most investors' are attracted by those funds or schemes that are performing better over the worst. **Goetzman** (1997) opined that investor's psychology affects mutual fund selection for investment and to withdraw from the fund. **Sahadevan and Thiripalraju** (1997) analyzed the performance of private sector funds they compiled and analyzed the monthly average return and standard deviation of 10 selected private sector funds. The investigation reveals that in terms of the rate of return, 5 funds viz., Alliance 95, ICICI Power, Kothari Prima, Kothari Pioneer Blue Chip and Morgan Stanley Growth Fund outperformed the market, during the period of comparison. The analysis also shows that, by and large, performance of a fund is not closely associated with its size. **Gupta & Sehgal** (1998) tried to find out the investment performance of 80 schemes managed by 25 mutual funds, 15 in private sector and 10 in public sector for the time period of June 1992-1996. The study has examined the performance in terms of fund diversification and consistency of performance. The paper concludes that mutual fund industry's portfolio diversification has performed well. But it supported the consistency of performance. **Shanmugham** (2000) conducted a survey of individual investors with the objective to find out what information source investor depends on. The results explained that they are economical, sociological and psychological factors which control investment decisions. **Singh and Jha** (2009) conducted a study on awareness & acceptability of mutual funds and found that consumers basically prefer mutual fund due to return potential, liquidity and safety and they were not totally aware about the systematic investment plan. The investors' will also consider various factors before investing in mutual fund. **Chandra & Kumar** (2012) concluded that investor behavior is influenced by a variety of psychological heuristics and biases by documenting survey data from 350 individual investors. Their findings underline an asymmetric pattern of information distribution and usage among investors which impacts their investment behavior to a large extent. **Sireesha & Laxmi** (2013) researched the impact of demographics on the investment avenues that are selected by investors in the cities of Hyderabad and Secunderabad. They found that gender, age, and peer group influence the investment decision and also investors are less concerned about money multiplication and liquidity but want their money to be secure and risk free. In this paper, an attempt is made by the author, mainly to study the behavior of investors regarding mutual funds.

### Objectives of the study

- To analyze the impact of various demographic factors on investors' attitude towards mutual fund.
- To study about the factors those influence the most while making investment in Mutual Funds.

- To find out the form of investment preferred by investor and preference of investor about different investment avenues.

### Testing of Hypotheses

The following null hypotheses have been taken for the study of investors' behavior towards mutual funds.

1. There is no association between gender and the attitude of investors towards mutual funds.
2. Factor preferred the most while taking investment decision and age of the investor are independent of each other.
3. Annual income of the investor and amount of investment in mutual fund are Independent of each other.
4. Knowledge about mutual fund and the qualification of the investors are independent of each other.
5. Occupation of individual investor and the feature that allures him the most are independent of each other.

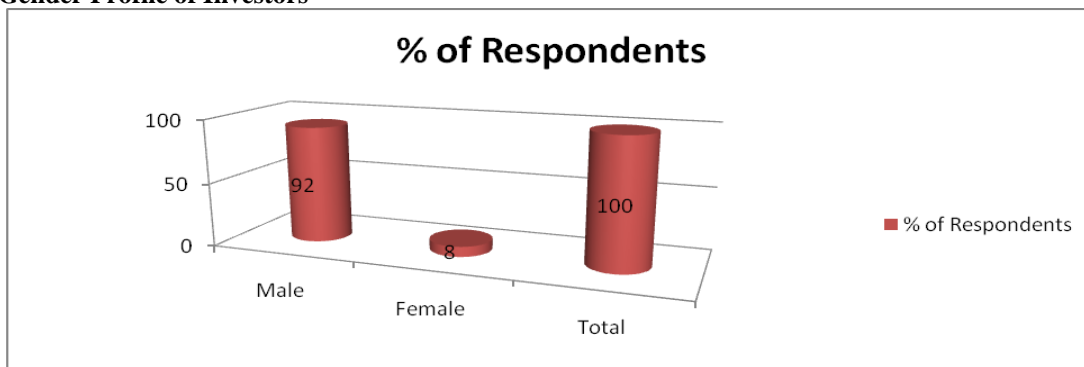
### Research Methodology

The study is empirical and analytical based on survey approach. The design of the study aims to analyze the preferential investment avenue of retail investors and the use of demographical analysis to allocate these preferences through the use of primary data. For this purpose, a diversified sample of 100 educated investors of Haryana and Delhi area under NCR, India in Mutual Funds have been selected by sampling method. All the data required for this analytical study has been obtained mainly from primary sources, but at times, secondary sources of data have also been considered. The secondary data was collected from related research works, published books, journals, and reports of Securities and Exchange Board of India (SEBI), Association of Mutual Fund of India (AMFI), Reserve Bank of India (RBI), website of Mutual Funds of India and other authorized sources of data. The data collection method used to obtain the desired information from primary sources has been through direct interview and structured questionnaire (open and closed ended questions) has been used as an instrument. Judgment and convenient sampling has been used for collecting the sample. For analyzing the collected data, a number of statistical techniques basically descriptive statistics (percentages, frequency and averages) and Chi-square test has been used. For analyzing the various factors responsible for investment in mutual funds, ranking was done on the basis of weighted scores ranking and scoring was done on the basis of scale. Software Package for Social Sciences (SPSS) has been used to analyze the data collected.

### Data Analysis and Interpretation

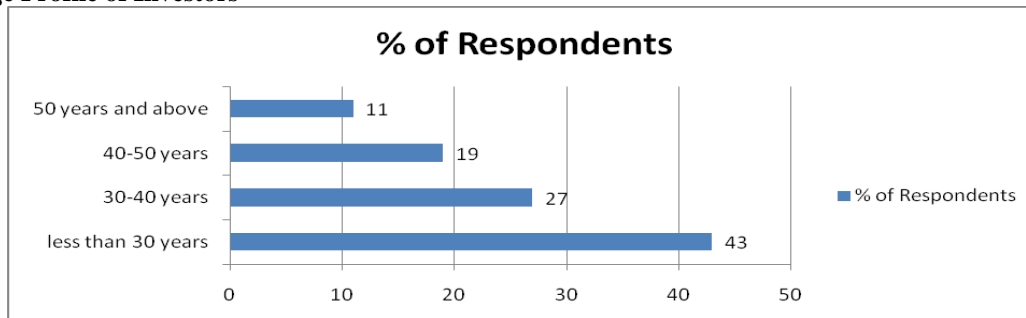
The data collected through the questionnaire is analyzed considering each factor and the analysis is presented below:

#### 1. Gender Profile of Investors



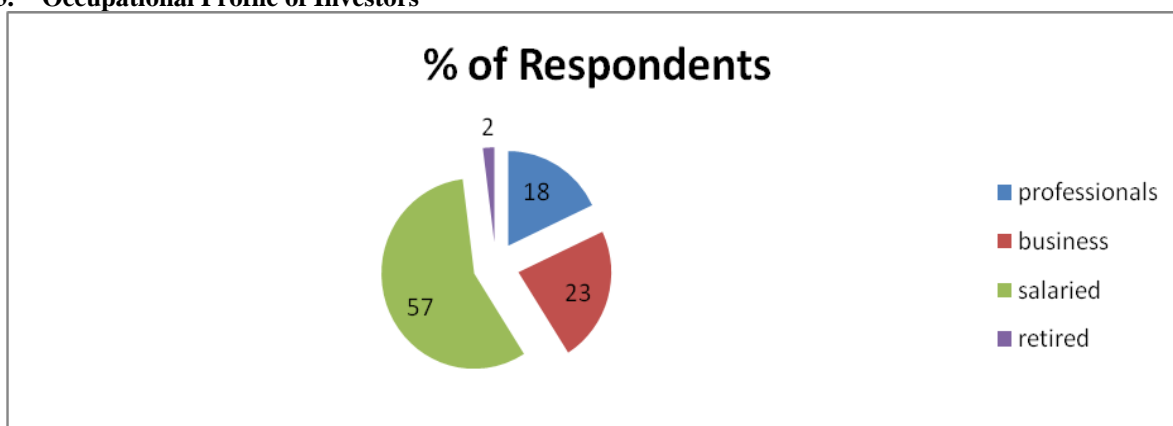
From the above graph, we see that most of the investors (92%) were male members and only 8% were females.

#### 2. Age Profile of Investors



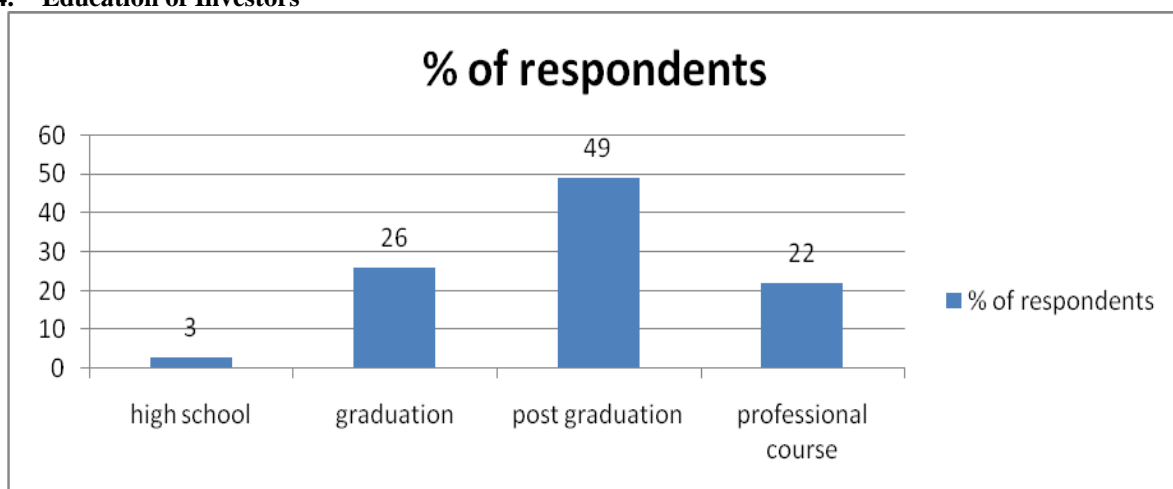
It is clear from the above graph that most of the investors belong to the age group of less than 30 years followed by those belonging to the age group of 30 to 40 years.

### 3. Occupational Profile of Investors



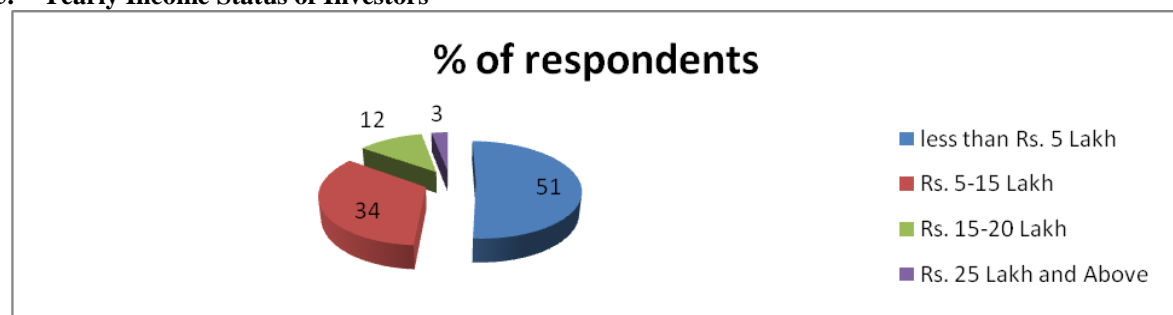
Most of the investors belong to the salaried profile followed by businessmen and others professionals.

### 4. Education of Investors



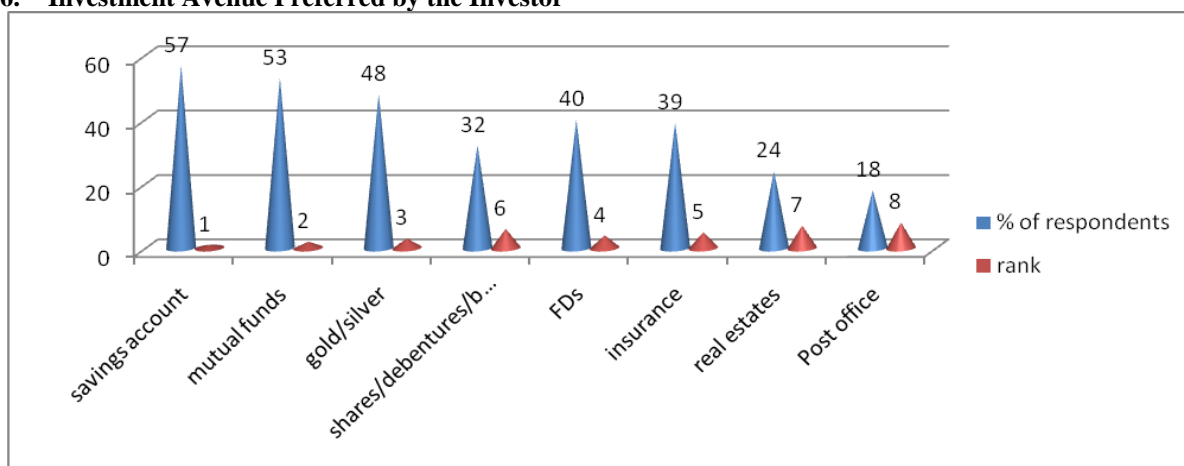
Most of the respondents were post graduated followed by graduated investors and professional degree holders.

### 5. Yearly Income Status of Investors



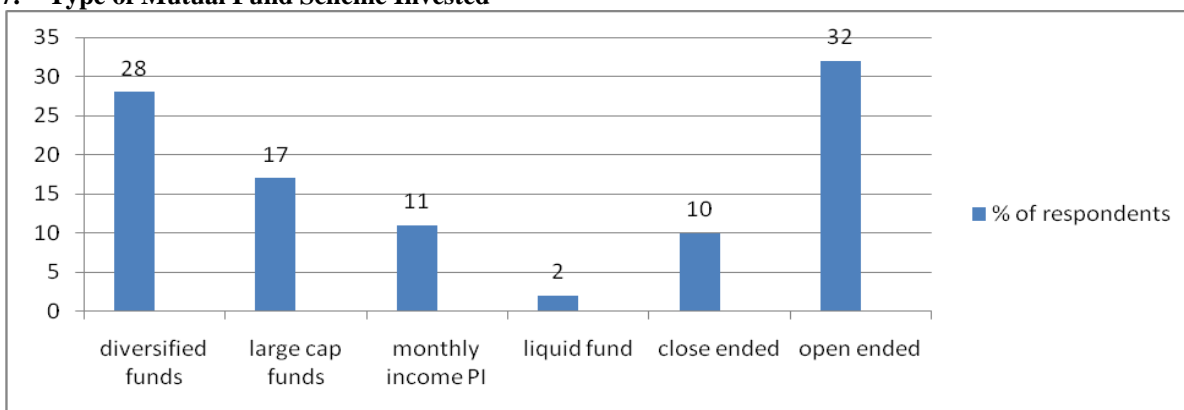
The yearly income profile of the investor reflects that 51% of the investor belongs to the income level of less than Rs 5 Lakh followed by 34% of the investors belong to the income group of Rs 5-15 Lakh.

### 6. Investment Avenue Preferred by the Investor



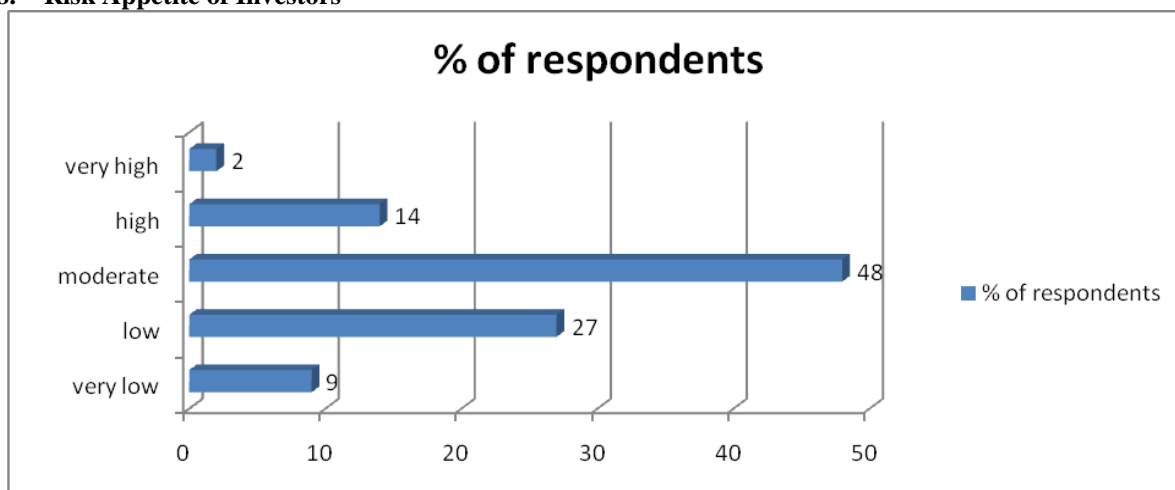
Majority of the investors prefer investing in saving accounts (57%) followed by mutual funds (53%). Only 18 % prefer investment in post office.

### 7. Type of Mutual Fund Scheme Invested



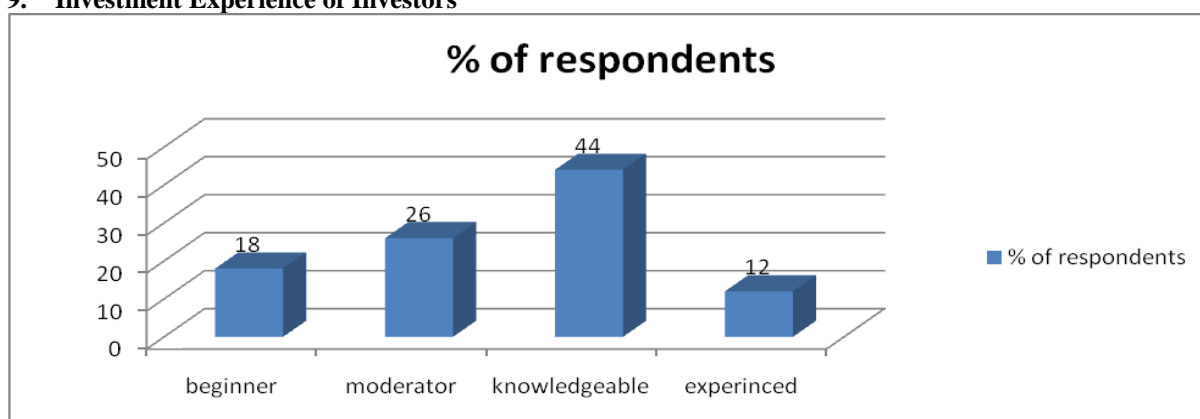
Near about 32% of respondents have invested in open ended mutual funds followed by diversified funds, large cap funds, monthly income PI and close ended funds.

### 8. Risk Appetite of Investors



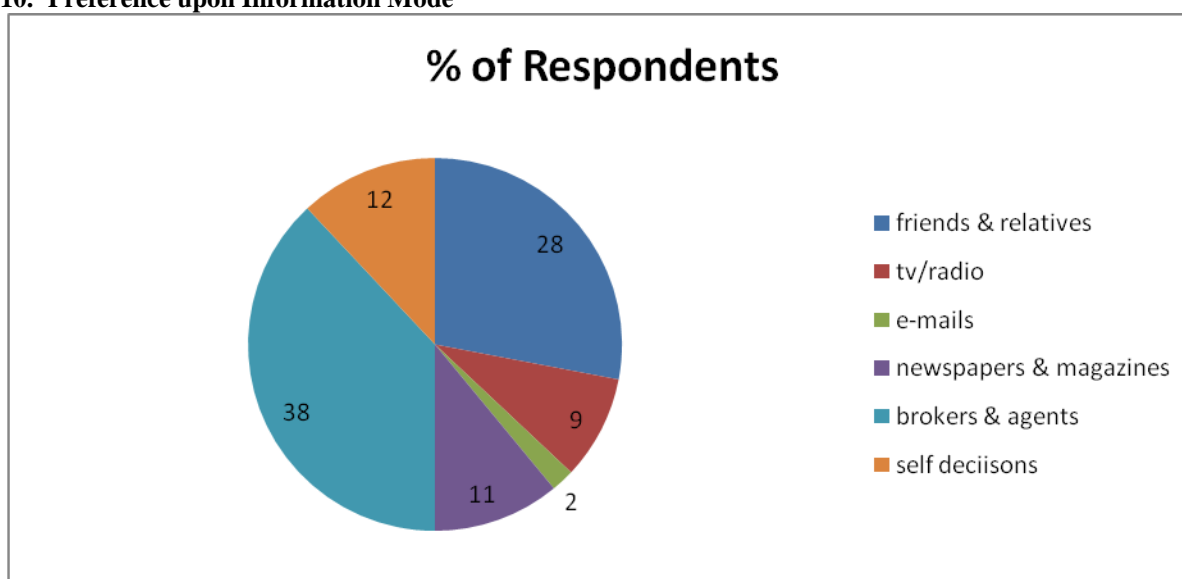
The risk appetite of the investors was divided into very low, low, moderate, high and very high. Majority of the investors have moderate risk capacity while those falling into the low risk category fall close second.

### 9. Investment Experience of Investors



The investors' experience in terms of exploring and investing in the various alternatives was also analyzed. Lack of proper knowledge and unawareness of avenues available is the reason why only 12% of the investors are experienced in investing.

### 10. Preference upon Information Mode



Only 38% investors took help of brokers & agents and 28% investors invest in mutual funds as per the suggestions and information received from friends and relatives.

### 11. Association between Gender and Attitude towards the Mutual Fund

Gender	Attitude Level (in %)			Total
	Positive	Neutral	Negative	
Male	32	45	15	92
Female	0	7	1	8
<b>Total</b>	<b>32</b>	<b>52</b>	<b>16</b>	<b>100</b>

The calculated value of  $\chi^2 = 4.9566$  and tabulated value of  $\chi^2 = 5.991$  at 5% level of significance. We accept the null hypothesis. There is no relation between gender and attitude of investors towards mutual fund investment. There is a highest positive attitude towards the mutual funds in male against the female.

### 12. Age of Investors and Factors Preferred most while making Investment

Age	Factors Preferred the Most (in %)				Total
	Liquidity	High Return	Low Risk	Reputation of the Company	
Less than 30 Years	8	21	9	5	43
30-40 years	7	14	5	1	27
40-50 years	5	6	5	3	19
50 Years & Above	2	3	5	1	11
<b>Total</b>	<b>22</b>	<b>44</b>	<b>24</b>	<b>10</b>	<b>100</b>

The calculated value of  $\chi^2 = 7.11$  and tabulated value of  $\chi^2 = 16.91$  at 5% level of significance. We accept the null hypothesis. Factors preferred the most while taking investment decisions and age of the investors are independent of each other.

### 13. Income of Investors and Amount of Investment in Mutual Funds

Annual Income	Amount of Investment (in Rs.)			Total
	Less than 50000	50000-100000	More than 100000	
Less than 5 lakh	29	22	0	51
5-15 lakh	4	22	8	34
15-25 lakh	2	6	4	12
More than 25 lakh	0	1	2	3
<b>Total</b>	<b>35</b>	<b>51</b>	<b>14</b>	<b>100</b>

Chi square calculated value is 30.169 and tabulated value for the same is 12.592. As calculated value is less than tabulated value,  $H_0$  is rejected. Annual income of the investor and amount of investment in mutual fund are dependent of each other.

### 14. Qualification of Respondents and Knowledge about Mutual Funds

Qualification	Knowledge about Mutual Funds				Total
	Ignorant	Partial Knowledge	Aware of specific schemes	Fully Aware	
High School	0	0	3	0	3
Graduation	3	7	14	2	26
Post Graduation	0	29	15	5	49
Professional	0	1	18	3	22
<b>Total</b>	<b>3</b>	<b>37</b>	<b>50</b>	<b>10</b>	<b>100</b>

The calculated value of  $\chi^2 = 288.779$  and tabulated value of  $\chi^2 = 16.919$  at 5% level of significance. We reject the null hypothesis. So, knowledge about mutual fund and the qualification of the investors are dependent of each other. Usually it is referred that the qualification of an individual would also affect his knowledge about various avenues for investment

### 15. Occupation of Investors and Features that allures Investors the most while making Investment in Mutual Funds

Occupation	Features that allures the investors most while investing in Mutual Funds					Total
	Diversification	Better Return & Safety	Regular Income	Tax Benefits	Reduction in risk & Transaction Cost	
Professionals	5	7	1	3	2	18
Businessman	2	13	2	6	0	23
Salaried	7	15	8	24	3	57
Retired	0	2	0	0	0	2
<b>Total</b>	<b>14</b>	<b>37</b>	<b>11</b>	<b>33</b>	<b>5</b>	<b>100</b>

Chi square calculated value is 17.369 and tabulated value for the same is 21.026. As calculated value is less than tabulated value  $H_0$  is accepted. Occupation of individual investor and the feature that allures him the most are independent of each other.

### 16. Various Factors Responsible for Investment in Mutual Funds

Factors	1	2	3	4	5	Total
Return Potential	59	24	6	9	2	100
Transparency	10	16	14	28	32	100
Liquidity	16	20	28	16	20	100
Flexibility	8	28	32	18	14	100
Affordability	7	12	20	29	32	100
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>-</b>

During the study, it was found that the investors' basically invested in mutual funds due to high return potential, transparency, liquidity, flexibility and affordability.

### 17. Ranking of Various Factors

Factors	Weighted score	Percentage (%)	Rank
Return Potential	429	28.89	1
Transparency	244	16.43	4
Liquidity	281	18.92	3
Flexibility	298	20.07	2
Affordability	233	15.69	5
<b>Total</b>	<b>1485</b>	<b>100.00</b>	<b>-</b>

Respondents were asked to rank the factors according to the preference and assigned ranked from 1 to 5. For analyzing the various factors responsible for investment in mutual funds, ranking is done on the basis of weighted scores and scoring is done as rank 1 was given 5 weightage and rank 5 was given 1 weightage. In case of the factors responsible for investing in mutual funds is concerned return potential has got first rank, flexibility has got second rank, liquidity, transparency and affordability have been ranked third, fourth and fifth respectively.

### **III. Findings of the study**

The findings of the study indicate that as far as factors responsible for investing in mutual funds is concerned, return potential has got first rank, flexibility has got second rank, liquidity, transparency and affordability have been ranked third, fourth and fifth respectively. Most of the investors belong to the salaried profile followed by businessmen and others professionals. Majority of the investors prefer investing in saving accounts (57%) followed by mutual funds (53%). Majority of the investors have moderate risk capacity while those falling into the low risk category fall close second. Only 38% investors took help of brokers & agents and 28% investors invest in mutual funds as per the suggestions and information received from friends and relatives. Factors preferred the most while taking investment decisions and age of the investors are independent of each other and the knowledge about mutual fund and the qualification of the investors are dependent of each other.

### **IV. Suggestions**

There are some suggestions for better investing for investors that they should keep their investment for long time keeping in mind the level of risk involve and saving pattern, they should take help of private financial consultants' to have investment portfolio so as to reduce risk in investment, they should not invest in high volatile funds, they should collect all possible information before investment, periodical review should be done for investment and risk analysis should be done regularly and properly, maintain proper records for each transaction. A careful and reasonable diversification of investment in mutual fund should also be there on investor's part to balance the risk involved in investment. It is also suggested that investor should have a habit of regular saving to earn some more extra consistently through changing market scenario since small savings will grow into bigger capital base. One of the strong suggestions is that to invest a reasonable part of investment in to liquid security so that to meet any contingency.

### **V. Conclusion**

The study has brought to light the differences in the patterns of investment among various classes of investors based on demographical differences. The study conducted shows that the investors are aware of various schemes of mutual funds. Better return & safety and tax benefit is the main factors of mutual fund that allure the investors. The mutual fund industry in the country has a lot to explore and look forward to. Despite the challenges it faces in terms of lack of awareness and low financial literacy, there is a growing importance of the industry with the increase in the youth population and the working class of the country.

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