A Study on Factors Affecting Selection of Mutual Fund Schemes Pertaining to Retail Investors of Himmatnagar

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Abstract
A mutual fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a low cost. The risk in mutual fund investment is relatively less as compared to directly investing in stocks and therefore it is safe and secure option for risk-averse investors. The objectives of the study are to enquire or identify the factors affecting selection of mutual fund schemes. Investors are unique and are a highly variant group at the retail levels. Hence, their scheme selection also differs. This necessitates the Asset Management Companies (AMCs) to understand the scheme selection behavior of the investors to design suitable products to meet the changing financial needs of the investors. By adopting convenience sampling, 50 Mutual Fund Investors were selected for this study from Himmatnagar town of North Gujarat. Simple statistical tools are used for analysis of this study. It is observed that the retail investors are now turning more to mutual funds because of safety, liquidity, capital gains and transparency. This paper discusses the survey findings and is useful for managerial implication for the AMC's in their product designing and development.

Key Words
Investor's behavior, Mutual Funds, Motivational factors, Retail investors.

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1 Introduction

Mutual Fund is an investment tool that allows small investors access to a well-diversified portfolio of equities, bonds and other securities. Each shareholder participates in the gain or loss of the fund. Units are issued and can be redeemed as needed. The most common feature of the mutual fund unit is low cost, professional investment management, increased diversification. Today, Mutual funds have already entered the world of exciting innovative products. These products are now tailored to suit specific needs of investors. Mutual fund industry has moved from offering various schemes like equity, debt or balanced funds to liquid, money market, sector specific funds, index funds and gilt-edged funds. Mutual funds have also introduced some special specific funds like children plans, education plans, insurance linked plans, and exchange traded funds. The result is that over the time Indian investors have started shifting towards Mutual funds instead of traditional financial avenues. With the entry of private sector funds in 1993, a new era started in the Indian Mutual fund industry giving the Indian investors a wider choice of fund families. In the course of time the number of Mutual fund houses went on increasing, with many foreign Mutual fund setting up funds in India and also the industry has witnessed several mergers and acquisitions.

2 Literature Review

J.Lilly and Anasuya published a research paper entitled “An empirical study of performance evaluation of selected ELSS mutual fund schemes” published on International Journal of Scientific Research (2014) which examined the performance of 49 selected tax saving ELSS schemes by applying Sharpe ratio, Treynor ratio, Sortino ratio and Jensen’s alpha measure and found out that LIC NOMURA MF GROWTH and dividend schemes have the highest return and are risk borne when compared to other schemes.

Ippolito(1992) told that scheme selection by investors is based on past performance of the funds and money flows into winning funds more rapidly than they flow out of losing funds. Madhusudhan V Jambodekar (1996) conducted a study to assess the awareness of Mutual fund among investors, to identify the information sources affecting the buying decision and the factors affecting the choice of a particular fund. The study revealed that Income Schemes and Open-Ended Schemes are more preferred to Growth Schemes and Close Ended Schemes. Investors look for safety of Principal, Liquidity and Capital Appreciation in the order of importance. Newspapers are used as information source; safety of principal amount and investor services are priority points for investing in mutual funds. Goetzman (1997) states that there is evidence that investor psychology affects scheme selection and switching. 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

3 Motivation or Need for the Study

It is widely believed that Mutual fund is a retail product designed to target small investors, salaried people and others who are intimidated by the stock market but, nevertheless, like to reap the benefits of stock market investing. At the retail level, investors are unique and are a highly heterogeneous group. Hence, designing a general product and expecting a good response will be futile, Indian Mutual fund industry provides reasonable options for an ordinary man to invest in the share market.Therefore, to study investor's behavior regarding the MF investment and most particularly the factor influencing fund selection is quite necessary. Although some studies have been conducted in India and Outside India, the research on factors affecting selection of mutual fund schemes pertaining to retail investors of Himmatnagar is far from adequate and required further attention. Consequently, this study is a modest attempt to fill this gap by identifying factors affecting selection of mutual fund schemes pertaining to retail investors of Himmatnagar town.

Problem Statement:

Many schemes have been offered by the mutual fund sector which provides various benefits. This paper aims at analyzing the factors affecting retail investors' mutual fund schemes selection. Considering this, research problem to be addressed in this study is:
"A study on factors affecting selection of mutual fund schemes pertaining to retail investors of Himmatnagar"

4 Methodology

The research was based on both primary data and secondary data. Primary data was collected by using questionnaire and secondary data has been collected from journals, websites and so on. It was not possible for the researcher to study the factors affecting selection of mutual fund schemes in Himmatnagar. So, the researcher has collected only limited respondents i.e. 50 respondents. The researcher has selected the method of convenience sampling.

Objectives of the Study:

This paper has only one specific objective. The key objective of this study is to identify factors affecting selection of mutual fund schemes pertaining to retail investors. Further to give some suggestions based on the findings of the study is another objective of this paper.

Limitation of the Study:

- The area of the study is restricted to Himmatnagar Municipality town area only.
- The researcher has collected data only from 50 responses.

5 Analysis and Interpretations:

Demographic profile of the retail investors, their investment objectives and preferred investment avenues

Table 1 shows the summary of demographic characteristics of the respondents which includes age, gender, educational qualification, marital status, family size and employment status.

Table 1 - Demographic profile of the retail investors

Variables	Categories	Number of respondents	
		(Total =50)	Percentage (%)
Age in Years	Below 30 Years	9	18
	30-40 Years	21	42
	41-50 Years	14	28
	Above 50 Years	6	12
Gender	Male	37	74
	Female	13	26
Educational Qualification	School level	8	16
	Graduate	22	44
	Post graduate	13	26
	Diploma	6	12
	Professional degree	1	2
Marital status	Married	44	88
	Unmarried	6	12
Family size	Up to 3 members	18	36
	4-5 members	25	50
	Above 5 members	7	14
Employment status	Farmer	9	18
	Business	14	28
	Professional	1	2
	Retired	2	4
	Employed	22	44
	Home-maker	2	4

Table 1 shows that 42 percent of the respondents are in the age group of 30-40 years and out of them 74 per cent are male; 44 per cent of them are found to be graduates. 88 per cent of them are married and 50 per cent of the respondents have 4-5 family members. 44 per cent of them are employed. Majority of the respondents (88 per cent) are found to be male, who fall under the category of middle age (30-40 years), married and are employed. They are responsible for their family member's financial needs and also for most of the financial decisions.

Table 2 shows the summary of income profile of the investors which includes source of income, annual income, number of earning members in the family and annual savings.

Table 2 - Income profile of the investors

Variables	Categories	Number of respondents	
		(Total =50)	Percentage (%)
Source of income	Salary	32	64
	House property	9	18
	Capital gains	3	6
	Business/profession	2	4
	Others (interest and dividend)	4	8
Annual income	Below Rs.1,00,000	3	6
	Rs.1,00,001- Rs. 3,00,000	31	62
	Rs.3,00,001- Rs. 5,00,000	12	24
	Above Rs.5,00,000	4	8
Number of earning members	One member	18	36
	Two members	27	54
	Above two members	5	10
Annual savings	Less than Rs.10,000	22	44
	Rs.10,001-Rs.50,000	18	36
	Rs.50,001 to Rs.1,00,000	6	12
	Above Rs.1,00,000	4	8

Table 2 shows that 64 percent of the respondents have income from Salary. 62 per cent of the respondents are earning an annual income between Rs.1, 00,001 and Rs.3, 00,000. 54 per cent of them have two earning members in their family and 44percent of them save less than Rs.10, 000 annually. More than 50 per cent of the respondents have Salary as their source of income and have two earning members in their family.

Table 3 shows Investment profile of the select respondents which includes source of information for investment, percentage of savings invested in mutual fund, channel preference for investment, mode of investment and period of investing in mutual fund.

Table 3- Investment profile of the select retail investors

Variables	Categories	Number of respondents	
		(Total =50)	Percentage (%)
Source of information for investment *	Offer document	3	6
	Self- analysis	9	18
	SEBI website	6	12
	Newspaper, TV and Radio	4	8
	Broker	16	32
	Website of particular mutual fund	2	4
	Friends and relatives	10	20
Percentage of Savings invested in mutual fund	Less than 20%	24	48
	20-30%	11	22
	31-40%	7	14
	41-50%	5	10
	More than 50%	3	6
Channels preferred for investment in mutual fund	Direct investment	5	10
	Brokers	16	32
	Banks/ financial advisors	22	44
	More than 1 channel	7	14
Mode of investment in mutual fund	One-time investment	9	18
	Systematic Investment Plan (SIP)	41	82
Period of investment in mutual fund	Less than 1 year	5	10
	Up to 2 years	7	14
	Up to 3 years	27	54
	More than 3 years	11	22

Table 3 shows that 32 per cent of the respondents are aware of mutual fund investment schemes through brokers. 48 per cent of the respondents used less than 20 per cent of their annual savings for mutual fund investment. 44 per cent of the respondents preferred to pay through banks /financial advisors. 82 per cent of the respondents have invested through Systematic Investment Plan (SIP) in mutual fund. 54 per cent of the respondents have invested in mutual funds for a period of 3 years.

Table 4 shows mutual fund investment which includes type of mutual fund, number of mutual fund invested by retail investor and mode of investment.

Table 4: Mutual Fund Investments: Type, Number and Mode

Variables	**Frequency**	**Percentage**
Types of Mutual Funds		
Open-ended	21	42
Close-ended	3	6
Both	17	34
Don't Know	9	18
Number of MFs Invested in Simultaneously		
One	12	24
Two	8	16
Three	3	6
More than three	27	54
Mode of Investment		
Yearly	4	8
Half Yearly	0	0
Quarterly	12	24
Monthly	28	56
None of them	6	12

Out of the 50 respondents, 42 per cent have opted for open-ended mutual fund schemes and only 6 per cent individual has invested in close-ended scheme. However, 34 per cent investors have preferred to invest in both open and close-ended schemes, reflecting their balanced and mature investment choice of the individual investors. It is unfortunate that 18 per cent investors who have invested in mutual funds are not aware of the difference between the two types of mutual fund investments. It is interesting to note that 54 per cent of the respondents have invested in more than three mutual funds. This group may be presumed to be those in higher income groups. Correspondingly, those who have invested in just one scheme whose number is no less (nearly 24 per cent of the sample), seem to be those who are new entrants to investing in mutual funds for availing the tax benefit. 56 per cent investors use monthly mode of investment.

Table 5 shows investment decisions by retail investors which include source of information on mutual fund and investment in different mutual funds schemes. In this section, we have made an attempt to probe into the 'scheme selection' dimension of investment decisions of retail investors. The data from questionnaires have been collected and presented in the below Table.

Table 5: Selection and Investment in Mutual Funds

Variables	Frequency	Percentage
Source of Information on MF		
Newspapers-magazines	10	20
TV, Radio, Internet, SMS	3	6
Agents	19	38
Friends	16	32
Peer Group	2	4
Others	0	0
Investment in Different MF schemes		
Growth schemes	11	22
Income schemes	4	8
Tax-saving schemes	5	10
Money market schemes	2	4
Growth & income schemes	4	8
Growth and tax-Saving schemes	3	6
Growth, tax-saving and income schemes	21	42

While there are several sources of information for retail investors to learn about mutual funds as also their various schemes, it seems that the retail investors are greatly affected by ‘agents’. This also indicates the sustained marketing efforts made by a variety of agents on account of the attraction of ‘commission’ and in the process to popularize various mutual fund schemes. Table 5 shows that a little more than 38 per cent of the respondents depend on agents. Alternatively, it may be deduced that retail investors’ decision to invest in mutual fund is significantly affected by ‘agents’. A second important source of information is knowledgeable ‘friends’ who often influence the decision making of individual investors.42 per cent investors group prefer “Growth cum Tax-Saving and Income Schemes”. It must also be mentioned that tax advantage is available to those schemes with a minimum duration of 3 years.

Table 6 shows factors influencing mutual fund scheme selection by retail investors. It is analyzed by a 5-point scale and obtained responses from retail investors in mutual funds with 1 as the least important and 5 as the most important. Here weighted averages have been worked out, and, based on these averages, ranks have been assigned. It may be pointed out that for the sake of convenience of the respondents, the 12 key factors were identified based on the review of literature by the researcher and the same were included in the questionnaire. The factors, scores, weighted averages and ranks are presented in Table 6.

Table 6:Factors Influencing Mutual Fund Scheme Selection by Retail Investors

Factors	1	2	3	4	5	Score	Average	Rank
High Returns	1	2	6	10	31	218	4.36	2
Investment Convenience	1	5	8	12	24	203	4.06	9
Reputation of Brand name	3	3	15	10	19	189	3.78	11
Liquidity	2	7	14	12	15	181	3.62	12
Past Performance	3	3	6	8	30	209	4.18	6
Risk Aspects	1	2	11	8	28	210	4.20	5
Income Tax Benefit	2	5	3	9	31	212	4.24	3
Timely Information About NAV	2	5	8	5	30	206	4.12	8
Fund Manager	2	6	11	12	19	190	3.80	10
Service	2	3	6	10	29	211	4.22	4
Market Acceptance	2	2	7	15	24	207	4.14	7
Growth Opportunity	2	1	3	11	33	222	4.44	1

From the information provided in Table 6, we present below the following observations regarding the factors influencing mutual fund scheme selection by retail investors. It appears that growth opportunity which is nothing but appreciation of capital is one of the very important factors that go into decision making, as also selection of a mutual fund. This observation is based on the fact that this parameter received the highest weighted average of 4.44 and this factor received the maximum score. It means that respondents considered this parameter as the most important; in a way it conveys the fact that they select a mutual fund, which they think, offers them the best scope for capital appreciation. The second important factor, i.e., 'high return' is closely related to "growth opportunity'. Therefore, these two factors influence the mutual fund investment as also the selection. ‘Income Tax Benefit' of the mutual fund is one of the important factors for their investment decisions.

6 Suggestions:

i) The survey reveals that the investors are basically affected by growth opportunity which is nothing but appreciation of capital is one of the very important factors that go into decision making, as also selection of a mutual fund.Hence, it is suggested that AMCs should consciously design products to meet the investors’ needs and should be alert to capture the changing market moods and be innovative.

ii) It is further revealed that the investors are influenced by 'high return' is closely related to "growth opportunity'. Therefore, these two factors influence the mutual fund investment in their selection of the schemes.

iii) Further, investors are influenced by ‘Income Tax Benefit ' of the mutual fund as one of the important factors for their investment decisions

iv) Mutual fund companies should conduct adequate awareness programs about the usefulness of investment in mutual funds and provide information to public regarding newer schemes. AMFI should frequently conduct short term courses for investor education. Adequate publicity through newspapers, magazines, T.V., radio, pamphlets and brochures should be done.

vi) Mutual fund companies should dispatch their annual report in time to their investors so that the investors are informed about the company's financial position. This will help the investor to know the status of their investment.

vii) Government should see that Mutual Fund companies follow corporate governance regulations. All mutual fund investors want transparency. Strict regulations should be enforced by SEBI with regard to Corporate Governance.

7 Conclusion

It is concluded that the Mutual Fund business in Himmatnagar is still in as embryonic stage. So, concerted efforts are needed for its success. The success depends upon growth opportunity, high returns, and professional competence of Fund managers. Amutual fund brings together a group of people and invests their money in stocks, bonds and other securities.It hasmany advantages such as professional management, economics of scale and the like. The Mutual Fund should be easy tobuy and sell through broker or directly in the market. It also has some drawbacks such as low awareness, toomany formalities to be done, difficultyin selection etc. Finally,MutualFund should have great transparency, prudent accountingnorms, less transaction cost, low management fees. Further thefindings of the research were on factors affecting selection of mutual fund schemes pertaining to retail investors. It revealsthat growth opportunity &high returns are the factors which have a higherimpact onselection of mutual fund schemesby retail investors. These factors give themthe required boosting in the investment process.

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