



A Study on Factors influencing Mutual Fund Investment in India

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Abstract— There has been growing importance of Mutual Fund Investment in India. When compared with other financial instruments, investments in Mutual funds are safer and also yields more returns on the portfolio investment. The focus of the study is to explore the factors that are responsible in increasing the Mutual Fund investment in India. The study also helps to understand the role of demographics in Mutual funds in India. This enables the fund managers to understand investment pattern and preferences of investor's behind investing in Mutual Funds. Further analysis of the study reveals that financial literacy of respondents is very important for making investment in Mutual funds. Therefore Mutual fund companies should promote financial awareness amongst the respondents so as to channelize their income and savings towards Mutual Funds.

Index Terms— Mutual Funds, investment, preferences, companies, awareness, India

I. INTRODUCTION

The Indian mutual fund industry has witnessed significant growth in the Past few years driven by several favourable economic and demographic Factors such as rising income levels and the increasing reach of Asset Management Companies (AMCs) and distributors. A mutual fund accumulates the investments of institutions and individuals having common financial objectives. The funds so accumulated are invested in capital market instruments like the shares, debentures and other securities. Recent developments triggered by the global economic crisis have served to highlight the vulnerability of the Indian mutual fund industry to global economic turbulence and exposed our increased dependence on corporate customers and the retail distribution system. It is therefore an opportune time for the industry to dwell on the experiences and develop a roadmap through a collaborative effort across all stakeholders, to achieve sustained profitable growth and strengthen investor faith and confidence in the health of the industry. The mutual fund firms in India offers a wide variety of mutual funds, each tailor made to suit the need of the investor. Today, there are plenty of mutual fund firms in

India catering to the need of the investors and the numbers of such firms are growing steadily. Mutual Funds offer a relatively less expensive way to invest when compared to other avenues such as capital market operations. The fee in terms of brokerages, custodial fees and other management fees are substantially lower than other options and are directly linked to the performance of the scheme. Investment in mutual funds also offers a lot of flexibility with features such as regular investment plans, regular withdrawal plans and dividend reinvestment plans enabling systematic investment or withdrawal of funds. Even the investors, who could otherwise not enter stock markets with low investible funds, can benefit from a portfolio comprising of high-priced stocks because they are purchased from pooled funds. The investments in mutual funds are not without risks because the same forces such as regulatory frameworks, government policies, interest rate structures, performance of companies etc. that rattle the equity and debt markets, act on mutual funds too. But it is the skill of the managing risks that investment managers seek to implement in order to strive and generate superior returns than otherwise possible that makes them a better option than many others.

II. LITERATURE REVIEW

Chen, Kraft & Weiss (2011) have tested mutual funds that engage in tax planning and how do they respond to changes in the capital gains tax rates was investigated. It was found that there was consistency with tax planning by managers of both open-end and closed-end mutual fund and mutual fund managers may not tax plan like individuals because fund managers have incentives to consider the tax liability of both current and potential investors. Agapova (2011) has examined the cross-sectional differences among money market mutual funds (MMMFs) in the context of sponsoring fund families and found that flows to family non-MMMFs are negatively related to family MMMF flows, and family non-MMMF cash flow volatility is positively related to family MMMF cash flow volatility. The study has further suggested that fund family investors also use family MMMFs as cash centres by utilizing free asset transfers within the family. Application of these strategies can



translate into significant benefits for the fund family and it's invested. Badrinath, S.G & Gubellini, S (2011) have evaluated the return performance of long-short, market-neutral and bear mutual funds using multi-factor models and a conditional CAPM and revealed that Market-neutral funds provide a down market hedge, but bear funds do not generate the returns that investors hope for. Cao, Ghysels & Hatheway (2011) have investigated two types of funds that make more extensive use of derivatives, global funds and specialized domestic equity fund and found that risk and return characteristics of these two groups of funds are significantly different from funds employing derivatives sparingly or not at all and that Fund managers time their use of derivatives in response to past returns. Agarwal, Boyson, Naik & Narayan Y (2009) have examined the performance of these funds relative to hedge funds and traditional mutual funds and found that despite using similar trading strategies, hedged mutual funds underperform hedge funds. Bazo, Javier & Pablo (2009) have examined the market for equity mutual funds and found that Funds with worse before-fee performance charge higher fees and that better fund governance may bring fees more in line with performance. Cao, Ghysels & Hatheway (2011) have investigated two types of funds that make more extensive use of derivatives, global funds and specialized domestic equity fund and found that risk and return characteristics of these two groups of funds are significantly different from funds employing derivatives sparingly or not at all and that Fund managers time their use of derivatives in response to past returns.

III. RESEARCH METHODOLOGY

A. Research Objective

The primary objective of the research was to understand the preferences of Mutual Fund Investor's in India. The study also helps to understand the role of demographics in Mutual fund investment in India. The paper also aims to explore the factors that are responsible in increasing the Mutual Fund investment in India.

B. Data Collection

Primary data was collected through a structured questionnaire that was distributed among Mutual Fund investors in Mumbai. The questionnaire contained open ended questions as well as it also incorporated various parameters that were identified for analysing the preferences of investor's in Mutual Fund.

C. Sample Size

The sample size consists of 101 respondents who have invested in derivative market. Convenience sampling technique was used for period of two months (Jan – Feb 2011).

D. Research Design

Question wise analysis was made with the help of Excel and SPSS version 12.0. Open ended questions were analysed in form of percentages. Questions based on likert scale and personal details have been analysed by performing various statistical tests on the data collected and hypothesis were formed on basis of above analysis. Techniques like

ANOVA, Friedman Test, and KH Test etc were used for purpose of analysis.

IV. FINDINGS & ANALYSIS

Data Interpretation:

From table I, it can be interpreted that the data is suitable for Factor analysis. The KMO measure for sampling adequacy should not be less than 0.5 which indicates that results from Factor analysis is not useful. Similarly the values in Significance level should be less than 0.05 which indicates that our data is suitable for Factor Analysis. In Table (1), the KMO is 0.830, which shows that our study is quite suitable for Factor analysis. Table II shows that Factor 1 has the Eigen value of 7.735 and explains 35.159% of variance. The Eigen values and percentage of variance for other factors are shown respectively in the table. The Total Variance accounted by 5 factors is 60.663% is acceptable & thus establishes the validity of study.

Table III derives the 5 major factors from Factor Analysis:

Monetary Benefits (F1)

The main reason for an investor to invest in Mutual Funds is the kind of monetary benefits it receives from that particular Mutual Fund. Dividends, NAV of Mutual Fund are some kind of unique characteristics that attract people to invest in Mutual Fund. Moreover Mutual Fund investment does not require high investment of money. It is comparatively safer form of investment than shares since it diversifies the portfolio thus reduces the risk of investor. Growth and Returns from the Mutual fund are another highlighting factor that induces the investment towards Mutual Fund.

Service Quality (F2)

The second factor describes about the kind of Service Quality offered to investors. This factor includes Early Bird Incentives, Prompt Service with regards to investment Issues, Repurchase Facilities and Credit rating of the Fund. Service Quality is important aspect for Mutual Fund investment. The Fund that offers quality services to its customers with regards to the above referred aspects will be preferred more by investors since they provide convenience to investor's.

Investor's Protection (F3)

Financial markets are highly dynamic. Investors Protection should be given a higher priority by all financial Instruments. Thus as per SEBI Guidelines, Mutual Funds are also required to give much weightage towards protection of Investor's. This factor includes settling the grievances of Investors, adhering their rights by following fair and transparent procedures of investment. Therefore Mutual Funds are increasingly becoming more popular form of investment since it considers the rights and tries to provide maximum benefits to investors.

Fund Management (F4)

The fourth factor constitutes the Fund Management. This factor includes size of Fund, Promotional strategies adopted by management to



increase investment in their funds and Disclosure practices followed by the management as per the regulated laws. It is found that Mutual funds management is quite responsible and professional in terms of managing the risk and return portfolio investors. Hence Mutual Fund Company's management is also important factors for attracting investors.

Fund Strength (F5)

The fifth and the last factor is the Strength of the Mutual Fund. A mutual fund is quite cost effective in terms of managing the client's portfolio investment. The unique feature of Mutual Fund does not encourage speculation practices. Thus all these aspects depict the strength of mutual Fund.

H₍₀₎ 1: There is no specific preference indicated by respondents for investing in different Mutual Fund Companies.

H₍₁₎ 1: There is specific preference indicated by respondents for investing in different Mutual Fund Companies.

Data Interpretation

From Table V, it has been found that the chi value stands at 341.722 and its p value is 0.00 which is quite lesser than 0.05 at 95% confidence levels. Thus we reject null hypotheses and accept the alternative hypotheses. Friedman Ranking test has been used to derive mean ranks on the basis of investor's preference towards different Mutual Fund companies. Table (4) has ranked different Mutual fund companies on basis of their mean scores. The MF Company with lowest rank i.e. HDFC Mutual Fund has been preferred most by the investors whereas PRINCIPAL Mutual Fund has been preferred least by the respondents since it has highest mean rank. Thus the analysis continues to remain same for the other MF companies too. In Table (4), it has been explained that investors do have their own particular investment preferences while selecting a Mutual Fund. It means that every investor have different criteria and reasons for investment in Mutual Fund. Thus it can be said that investors do have specific and heterogeneous preferences towards selecting a Mutual Fund for purpose of investment.

H₍₀₎ 2: There is no significant difference in ranking of mutual fund investment attributes by investors belonging to different educational backgrounds.

H₍₁₎ 2: There is significant difference in ranking of mutual fund investment attributes by investors belonging to different educational backgrounds.

Data Interpretation:

From the table VI, Kruskal-Wallis's H-test shows that of the twenty two variables rated by investors concerned with the ranking of investment attributes for selecting a Mutual Fund, the difference between the mean ranks of ten variables i.e. Past record (H=6.064, p<0.05), Growth (H=21.08, p<0.05), Credit rating (H=18.07, p<0.05), Speculation (H=15.07, p<0.05), Cost Effective (H=24.33, p<0.05), Size (H=30.42, p<0.05), Portfolio (H=7.32,

p<0.05), NAV (H=21.99, p<0.05), Dividend (H=23.81, p<0.05), and Safety (H=33.473, p<0.05) were found to be significant between the investors belonging to different academic backgrounds under study. Thus, we reject the null Hypothesis for these ten variables and accept the null Hypothesis for remaining twelve variables selected for study.

H₍₀₎ 3: Investment Purpose does not have significant influence on selection of Mutual Fund scheme for investment.

H₍₁₎ 3: Investment Purpose does have significant influence on selection of Mutual Fund scheme for investment

Data Interpretation

From the above table, it has been found that the chi value stands at 44.853. The significance of the hypotheses is 0.000 which is quite lesser than 0.05 at 95% confidence level. Thus we reject null hypotheses and accept alternative hypotheses. It has been found that majority of investors prefer to invest their money in Growth Mutual Fund but there definitely exists varied difference in the investment purpose of the respondents towards investing in Growth Mutual Fund. It has been analysed that nearly 44% of investors invest in Growth Mutual Fund, out of which approximately 33% invest with the expectation of higher returns from the fund, nearly 44% invest for the purpose of safety of their investments and nearly 12% of investors invest in Growth Mutual Fund for risk diversification and to avail tax benefit from the fund. Thus Investment Purpose does have significant influence on selection of Mutual Fund scheme for investment.

H₍₀₎ 4: Investors' belonging to different educational backgrounds do not have significant influence towards Purpose of their Mutual Fund investment.

H₍₁₎ 4: Investors' belonging to different educational backgrounds do not have significant influence towards Purpose of their Mutual Fund investment.

POST HOC TESTS (BONFERRONI TESTS)

Data Interpretation

From the Table IX, it has been found that the there is much difference between the two Mean Squares (9.640 and 1.043), resulting in a significant difference (F = 9.244; Sig. = 0.000). Thus we reject the null hypotheses and accept alternative hypotheses. This means that investment purposes of mutual fund investors with different academic qualifications are not equal. But rejection of null hypotheses does not denote that the average means of the entire population is different. Thus it is necessary to know that which groups within the population have significant difference in their purpose with respect to investment in Mutual funds. Thus Bonferroni Test will help to identify those groups which have led to the significant difference. Therefore Table X has classified the investment purpose of mutual fund investors across different educational level. It has been found that there is significant difference in investment purpose of Undergraduates and Post Graduates



(Sig = 0.00 < 0.05). Similarly is the case with Graduates and Post Graduates since there significance level is 0.016 which is lesser than 0.05. This indicates that Investors' belonging to different educational backgrounds do not have significant influence towards Purpose of their Mutual Fund investment.

V CONCLUSIONS

Results from the analysis will help the Mutual Fund companies to understand the expectations of the Retail Investors. The five factors that have been derived through factor analysis will help the companies to get properly acquainted with the customer requirements and accordingly deliver them the maximum value for their investments. Further analysis of the study has revealed that investors do have inherent specific preference towards Mutual Fund investments. It has been found that the investors will prefer that mutual fund company the most which gives maximum attention towards investors needs and requirements. Thus being customer centric not only satisfies the investors but it also increases their loyalty towards the Mutual Fund Company. A loyal and satisfied investor will not only continue to make more investments but will also influence its peer groups towards investment in same Mutual Fund. The study also indicates that predictor variables like educational background of investors significantly influence their pattern of investment in Mutual Fund. There exists a vast difference in purpose of investment of investors belonging to different academic backgrounds. Further it has also been found that investors with different academic qualifications also create a significant difference in ranking the certain parameters towards investment in Mutual Fund. This implies that investors with different educational level have vast difference in their perceptions towards ranking investment attributes of mutual fund. Finally the study also analyses that the purpose of an investor behind investing in

Mutual Fund definitely influence in the selection of the Mutual Fund scheme for investment. Thus the need of the hour for all the domestic mutual fund companies is to expand their investor base which can be possible, only when the companies are determined to understand the value drivers and thus lure retail investors to invest in mutual funds.

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TABLE I
KMO AND BARTLETT'S TEST

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.830
Bartlett's Test of Sphericity	Approx. Chi-Square	1973.955
	Df	231
	Sig.	.000

TABLE II
ROTATED COMPONENT MATRIX

	F1	F2	F3	F4	F5
Dividend	.799				
Returns	.769				
Safety	.735				
Past record	.716				
Growth	.687				
NAV	.655				
Portfolio	.606				
Transferability	.542				
Low Investment	.500				
Prompt Service		.732			
Incentives		.644			
Repurchase		.613			
Credit rating		.519			
Grievance			.790		
Investor			.702		
Lock in Period			.598		
Size				.748	
Promotion				.615	
Disclosure				.501	
Cost Effective					.641
Speculation					.586
Eigen Values	7.735	1.736	1.599	1.199	1.077
Cumulative Percentage	35.159	43.049	50.319	55.767	60.663

TABLE III
MAJOR FIVE DERIVED FACTORS INFLUENCING MUTUAL FUND INVESTMENT

Monetary Benefits	Service Quality	Investor's Protection	Fund Management	Fund Strength
Dividend	Prompt Service	Grievance	Size	Cost Effective
Returns	Early Bird Incentives	Investor Adherence	Promotion	Speculation
Safety	Repurchase Facility	Lock in Period	Disclosure	
Past record	Credit rating			
Growth				
NAV				
Portfolio				
Transferability				
Low Investment				



TABLE IV
MEAN RANKS

	Mean Rank
HDFC MF	4.38
TATA MF	5.55
SBI MF	4.64
RELIANCE MF	5.75
DSP MF	7.84
KOTAK MF	7.12
SUNDARAM MF	7.48
PRINCIPAL MF	8.82
FRANKLIN MF	7.85
BIRLA MF	7.27
ICICI MF	5.22
LIC MF	6.08

TABLE V
CHI SQUARE

N	200
Chi-Square	341.722
df	11
Sig.	.000

TABLE VI
KRUSHAL WALLIS H TEST

Particulars	Education	N	Mean Rank	Chi-Square	df	Sig.
Past record	Undergraduate	35	120.2	6.064	2	0.04*
	Graduate	97	93.84			
	Post Graduate	68	99.87			
Growth	Undergraduate	35	139.13	21.080	2	2.64E-05*
	Graduate	97	89.71			
	Post Graduate	68	96.01			
Credit rating	Undergraduate	35	131.59	18.075	2	0.0001*
	Graduate	97	86.04			
	Post Graduate	68	105.13			
Speculation	Undergraduate	35	128.23	15.071	2	0.0005*
	Graduate	97	87.29			
	Post Graduate	68	105.07			
Disclosure	Undergraduate	35	118.3	4.713	2	0.094
	Graduate	97	99.07			
	Post Graduate	68	93.38			
Incentives	Undergraduate	35	94.91	1.622	2	0.444
	Graduate	97	97.74			
	Post Graduate	68	107.32			
Repurchase	Undergraduate	35	104.29	5.186	2	0.07
	Graduate	97	91.52			
	Post Graduate	68	111.37			
Transfer	Undergraduate	35	101.13	1.827	2	0.401
	Graduate	97	95.42			
	Post Graduate	68	107.43			
Prompt Service	Undergraduate	35	108.54	2.976	2	0.225
	Graduate	97	93.62			
	Post Graduate	68	106.17			
Inform	Undergraduate	35	108.33	1.334	2	0.513
	Graduate	97	96.22			
	Post Graduate	68	102.57			



Lock in Period	Undergraduate	35	109.51	1.635	2	0.441
	Graduate	97	101.27			
	Post Graduate	68	94.76			
Grievance	Undergraduate	35	98.29	0.220	2	0.895
	Graduate	97	102.4			
	Post Graduate	68	98.93			
Investor	Undergraduate	35	99.87	0.455	2	0.796
	Graduate	97	98.19			
	Post Graduate	68	104.12			
Cost Effective	Undergraduate	35	137.87	24.334	2	5.19E-06*
	Graduate	97	101.13			
	Post Graduate	68	80.37			
Size	Undergraduate	35	140.77	30.426	2	2.47E-07*
	Graduate	97	102.85			
	Post Graduate	68	76.43			
Portfolio	Undergraduate	35	118.26	7.327	2	0.025*
	Graduate	97	103.07			
	Post Graduate	68	87.7			
NAV	Undergraduate	35	140.23	21.995	2	1.67E-05*
	Graduate	97	93.67			
	Post Graduate	68	89.79			
Dividend	Undergraduate	35	132.47	23.814	2	6.74E-06*
	Graduate	97	82.84			
	Post Graduate	68	109.24			
Returns	Undergraduate	35	130.73	15.869	2	0.0003*
	Graduate	97	87.63			
	Post Graduate	68	103.3			
Low Investment	Undergraduate	35	109.73	1.234	2	0.539
	Graduate	97	99.29			
	Post Graduate	68	97.47			
Safety	Undergraduate	35	148.39	33.473	2	5.38E-08*
	Graduate	97	87.25			
	Post Graduate	68	94.75			
Promotion	Undergraduate	35	104.61	2.929	2	0.231
	Graduate	97	105.69			
	Post Graduate	68	90.98			

TABLE VII
PURPOSE AND TYPE OF SCHEME

		Type of Scheme						Total	
		Open Ended MF	Close Ended MF	Growth MF	Sector Specific MF	ELSS MF	Balanced MF		Others
Purpose	Higher Returns	9	20	29	7	5	3	0	73
	Safety of investment	16	8	38	8	0	0	0	70
	Diversify Risk	4	4	10	2	3	2	0	25
	Tax Benefit	5	4	10	6	0	5	2	32
Total		34	36	87	23	8	10	2	200

TABLE VIII
CHI-SQUARE TESTS

	Value	df	Sig. (2-sided)
Pearson Chi-Square	44.853 ^a	18	.000
Likelihood Ratio	44.484	18	.000
Linear-by-Linear Association	5.464	1	.019
N of Valid Cases	200		



TABLE IX
ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	19.281	2	9.640	9.244	.000
Within Groups	205.439	197	1.043		
Total	224.720	199			

TABLE X
POST HOC TESTS (BONFERRONI TESTS)

(I) Education	(J) Education	Mean Difference (I-J)	Std. Error	Sig.
Undergraduate	Graduate	-.42857	.20136	.104
	Post Graduate	-.88445*	.21244	.000
Graduate	Undergraduate	.42857	.20136	.104
	Post Graduate	-.45588*	.16151	.016
Post Graduate	Undergraduate	.88445*	.21244	.000
	Graduate	.45588*	.16151	.016