



## A STUDY OF FACTORS THAT AFFECT THE SELECTION OF MUTUAL FUND SCHEMES BY INDIVIDUAL INVESTORS – WITH REFERENCE TO PUNE CITY

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### Abstract

*Mutual Fund is a form of investment where a common investor can participate in the Indian capital market with professional fund management irrespective of the amount invested. A large number of people are moving towards mutual fund investments through the route of systematic investment plan. The Indian mutual fund industry is growing steadily and this is reflected in the increase in Assets under management of various fund houses. The investment in Mutual funds is a relatively safer option for risk averse investors as they are less risky than directly investing in stocks. This research paper aims at finding out the factors affecting investment decision of mutual funds and the preference of investors to particular schemes of mutual funds. The findings will help mutual fund companies to identify the parameters which influence the investment decision of the common investor and also the preferences of particular schemes and fund houses by the investors.*

**Key Terms-** *Mutual fund, investment decision, preferences, fund houses.*



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### Introduction

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money, thus collected, is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciation realized is shared by its unit holders in proportion to the number of units owned by them. Thus 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 relatively low cost.

There is considerable amount of research being done regarding investment in mutual funds. However very little research has been done to study the factors affecting investment decision of mutual funds and the preference of investors to particular schemes of mutual funds.

### Literature Review

Sankaran (2004) studied the different types of classes for investment, classification of schemes. The author is of the opinion that mutual fund industry will continue to grow in spite of competition and will be propelled in the right direction because of the investor friendly attitude towards financial markets. Increasing competition with increased growth leads to

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more and more products in the market. On the basis of the study in Andhra Pradesh the investment in Debentures, Mutual fund, Bonds, Post Office Deposits, and Real Estate is found to be comparatively high as compared to investment in shares and gold. The study also revealed six factors affecting the decision of investment in the mutual funds namely Reputation of fund, Flexibility, Transparency, Name of the fund manager etc. Normally, investor investment depends on his short term and long term needs and further on the basis of information available.

Kavitha Ranganathan (2006) in her study states that most of the respondents use Internet facility to know more about mutual funds; however other modes like personally visiting the office, extracting knowledge from friends, relatives are also given equal importance. The awareness and adoption of schemes are increasing with increase in education; the awareness of equity fund schemes is the highest and (35.71 per cent) followed by balanced fund schemes (32.86 per cent). Awareness is not only sufficient but some important factors need to be considered like the reputation of the fund manager and information about the fund is considered to be the important by the Mutual Fund investors.

Rao K. Lakshmana (2011) states that the investors generally consider the recent performance as overall representative of fund future performance.

Rajeshwari T.R and Rama MoorthyV.E (2002) studied the financial behaviour and factors influencing fund/scheme selection of retail investors and reveals that the investors are basically influenced by the intrinsic qualities of the product followed by efficient fund management and general image of the fund/scheme in their selection of fund schemes. The fund selection scheme is based on the past performance of funds and money flows in to winning funds more rapidly than they flow out of losing funds,

Ippolito (1992). Gupta (1994) designed a household investor survey with the objective to provide data on the investor preferences of Mutual Funds and other financial assets. The findings of the previous studies have contributed a lot.

Shanmugham (2001) conducted a survey of 201 individual investors to study the information sourcing by investors, their perception of various investment strategy dimensions and the factors affecting share investment decisions, and stated that psychological and sociological factors dominated economic factors in share investment decisions.

Rajeshwari T.R and Rama Moorthy V.E (2002) studied the financial behaviour and factors influencing investment by retail investors by conducting Factor Analysis using Principal Component Analysis. The findings were grouped into specific market segment for designing of the appropriate marketing strategy.

Kiran D. and Rao U.S. (2004) in their research paper found investor group segments using the demographic and psychographic characteristics of investors using two statistical techniques, namely – Multinomial Logistic Regression (MLR) and Factor Analysis.

### **Objectives of the Study**

- a. To evaluate the mutual fund scheme preference of investors
- b. To identify the most popular mutual fund house.
- c. To study the fund qualities that would affect the selection of mutual funds.

### **Methodology**

The research methodology used is exploratory method. A pre-tested questionnaire was administered to 200 individuals who have some knowledge of mutual funds. Simple random and Judgemental sampling techniques were used as selected individuals who have primary knowledge of mutual funds were to be selected. The survey was conducted to understand the behavioural aspects of individual investors mainly their fund selection behavior and the fund qualities that affect the selection of mutual funds. The survey was conducted during the period Aug- Sept 2017 among 200 investors geographically dispersed in Pune city.

### **Findings of the study**

#### **a. Mutual fund scheme preference of investors**

**Mutual Fund scheme preference from liquidity point of view:** There are open ended and close ended schemes of mutual funds. Investors mostly prefer open ended schemes as they can buy and sell units in the open market anytime. There is no restriction of holding period. For close ended funds, there is restriction of holding the funds for a certain period of time. On maturity the investor can sell the units. As open ended funds offer more liquidity, there are most preferred by the investors. 87% of the investors opted for open ended funds. 13% of them opted for close ended funds.

**Mutual fund scheme preference from return & risk point of view:** Equity funds offer greater return as they have higher risk while balanced funds have equal amount of debt and equity component in it. People who do not want to take high risk but want relatively higher

return invest in balanced funds. Those who don't want to take risk but want greater returns than that offered by banks, invest in debt schemes. 47% investors prefer equity funds, 30% prefer balanced funds, 21% opted for debt funds while 2% said they were not sure.

**b. To identify the most popular mutual fund house.**

**Among the Equity Funds :**

Large Cap equity funds: ICICI Pru Focussed Blue chip Equity fund, Kotak Select Focus Fund, SBI Blue chip Fund.

Small & Mid cap Funds: HDFC Mid cap Opportunities Fund, Sudaram Select Midcap

Multi Cap Funds: Franklin India Prima Plus, ICICI Pru Value Discovery Fund

**Among the Debt Funds**

Income Funds: ICICI Pru Income Opportunities Fund, Aditya Birla SL Short Term Opportunities Fund

Liquid funds: ICICI Pru Liquid Plan, Aditya Birla SL Cash Plus.

**Among Hybrid Funds**

Balanced Funds: Franklin India Balanced Fund, HDFC Balanced Fund

**Among Tax Saving Funds**

Tax Saving Funds ( ELSS) : Franklin India Taxshield Fund, IDFC Tax Advantage Fund

**c. Fund qualities that would affect the selection of mutual funds.**

Preferred Quality of Mutual fund investments: The survey shows that the most preferred quality of mutual funds among the investors is good returns followed by safety of capital, liquidity, capital appreciation and tax benefit.

Preferred Savings Instrument: The most preferred savings instrument among the investors is fixed deposit due to the assured return and safety of capital. Next is the mutual funds followed by pension products.

Investment objective: The investment objective of the investors is to provide for regular return in the post retirement years. The other primary objectives are savings for higher studies of children, new house and vehicle.

Attitude of investors: The attitude of investors towards various financial instruments like shares, mutual funds, fixed deposit etc was checked on a 5 point scale and it was found that fixed deposit was found to favourable at 3.80 followed by shares at 3.65. Mutual funds

followed at the slot of 3 which may move ahead considering the risk factor of share market and the low returns on fixed deposits.

Future outlook of investments in mutual funds: The survey reveals a promising future for mutual fund investments. 55% have voted “yes” for future investments in mutual funds. 20% have said “No” and 25% have said “Not Sure”. The AMC should try to convert these “No & Not sure” category into “Yes”. The AMC can also convert the FD investments made by NRI’s into mutual fund investments.

Awareness of mutual funds: From the survey, it was found that 72% of the respondents are aware of mutual funds and they rely on newspaper, financial magazines and online financial portals for information about mutual funds. 28% rely on broker’s advice.

### **Conclusion**

The study conducted shows that most of the investors are aware of various schemes of mutual funds. Investors mostly prefer open ended schemes as they can buy and sell units in the open market anytime. There is no restriction of holding period. For close ended funds, there is restriction of holding the funds for a certain period of time. . 47% investors prefer equity funds, 30% prefer balanced funds, 21% opted for debt funds while 2% said they were not sure. The Mutual Fund investors mainly belong to the age group from 19 years to 55 years and fall in the income group of Rs 30,000 to Rs 70,000 and above. Diversification of portfolio and tax benefit are the main factors of mutual fund that allure the investors. The survey reveals a promising future for mutual fund investments.

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