

A Study on the Factors Influencing The Selection of Mutual Fund Company

*R Vijayalakshmi **R Jayasathya

Abstract

Mutual fund in Indian context is a challengeable phenomenon. It has attained commanding heights in the financial scenario of India. The main focus of this study is, on the factors influencing the respondents on their choice of Mutual Fund Company. The most important factors consider before investing in the mutual fund are objective of the scheme, past performance of a research team, services provided by the company etc,. The best way of surviving and prospering in the competitive environment is through providing prompt, relevant and efficient information about Asset Under Management, Net Asset Value and information about the scheme.

Introduction

Financial markets are the backbone of an economic system and aids in the allocation of share capital across the productive sectors of the economy. This allocation of resources helps to sustain healthy climate for savings and investment. The financial system has to be more dynamic than the real system as it has to continuously respond to the needs of the economy to help it to achieve its goals.

In the past, a large proposition of the increase in savings has gone into bank deposits and small saving schemes. At present the increase in savings have been in the shares, real estate and mutual Fund. In future, however the increase in savings will

also flow more into mutual funds, due to its increased return and to the recent tax incentives offered by the government.

Mutual fund in Indian context is a challengeable phenomenon. In a short span of less than one decade it has changed the investment pattern of medium and small investors in India. Consequently study of mutual fund has become an essential ingredient of any business and finance program. Besides, the investors should know how a mutual fund operates and what should they expect from them, if they really want to benefit from this new vehicle of investment.

*Lecturer,SG, Department of commerce, P.S.G.R Krishnammal college for women coimbatore-4

**M.Phil scholar Department of commerce, P.S.G.R Krishnammal college for women coimbatore-4

Mutual fund helps small investors to participate in the securities market indirectly and thus help in spreading and reducing risk. The mutual fund is a vehicle that enables millions of small and large savers spread across the country to participate in and derive the benefits of the capital market growth. It is an alternative vehicle of intermediation between the suppliers and the users of investible resources. This vehicle is becoming increasingly popular in India due to higher investors' return, relatively lesser risk and cost. In fact it is a more efficient vehicle for creation of wealth.

Mutual Funds in India

Nowadays, Bank rates have fallen down and are generally below the inflation rate. Therefore, keeping large amounts of money in bank is not a wise option, as in real terms the value of money decreases over a period of time. One of the alternate options is to invest the money in stock market. But a common investor is not informed and competent enough to understand the intricacies of stock market. This is where mutual funds come to the rescue. A mutual fund is a group of investors operating through a fund manager to purchase a diverse portfolio of stocks or bonds. Mutual funds are highly cost efficient and very easy to invest in. The biggest advantage of mutual funds is diversification of risk. Diversification means spreading out money across many different types of investments. When one investment is down another might be up. Diversification of investment holdings reduces the risk tremendously.

Mutual funds as dynamic financial institutions play a crucial role in an economy by mobilizing savings, and investing them in the capital markets. Thus mutual funds establish a link between savings and the capital market. They mobilize funds in the savings market and act as complementary to banking. At the same time they also compete with the banks and other financial institutions. In the process, stock market activities are also significantly influenced by mutual funds. However the scope and efficiency of mutual funds are influenced by overall economic fundamentals, the interrelationship between the financial sectors and the investors, the nature of the savings, the development of capital markets, market structure and institutional arrangements.

The mutual funds play an active role in promoting a healthy capital market. The mutual funds increase liquidity in the money market. The asset holding pattern of mutual funds all over the world indicates the dominant role of mutual funds in money and capital market. Mutual funds have been identified as one of the important factors pushing up the market prices of securities. Mutual funds in India have emerged as a critical institutional linkage among various financial segments like savings, capital markets and the corporate sectors. Above all, mutual funds have given a new direction to the flow of personal savings and enabled small and medium investors in remote rural and semi-urban areas to reap the benefits. Thus mutual funds are playing a crucial role in allocating resources in emerging market economy.

Statement of the Problem

Mutual funds being an institutional investment agency are treated as a suitable vehicle specifically for small investors, who normally feel shy of the capital market and are unable to predict its conditions. Through different schemes, mutual funds can provide expert advice and portfolio management by reducing unsystematic risk, while offering good returns. As mutual fund is gaining so much of importance and most of the investors preferring mutual funds, it is essential to find out the factors influencing the investors before selecting the mutual fund company.

Objectives

- To ascertain the preference of investors among the various investment avenues.

- To measure the factors influencing the investors while selecting the mutual fund company.

Methodology

The study is related to Coimbatore city. Convenience sampling technique was administered in the study. 150 respondents were selected for the study and information was collected through a structured questionnaire. The investors were contacted through various mutual fund distributors, agents and through consultancy agencies. The collected data was analysed using SPSS software package. The following statistical tools were applied in tune with the objectives.

Percentage Analysis

I Demographic Profile of the Respondents

| S.No | Variable | Category | Number of Respondents | Percent |
|------|--------------------|------------------|-----------------------|---------|
| 1 | Gender | Male | 97 | 64.7 |
| | | Female | 53 | 35.3 |
| 2 | Age | Less than 25 yrs | 19 | 12.7 |
| | | 25-35 yrs | 61 | 40.7 |
| | | 36-45 yrs | 28 | 18.7 |
| | | 46-55 yrs | 23 | 15.3 |
| | | Above 55 yrs | 19 | 12.7 |
| 3 | Educational status | School level | 13 | 8.7 |
| | | Degree/Diploma | 64 | 42.7 |

| | | | | |
|---|---------------------------------|------------------|-----|------|
| | | Post graduate | 60 | 40 |
| | | Professional | 13 | 8.7 |
| 4 | Occupation | Business | 28 | 18.7 |
| | | Professional | 16 | 40.7 |
| | | Private employee | 61 | 10.7 |
| | | Govt employee | 24 | 16 |
| | | Others | 21 | 14 |
| 5 | Monthly family income | Below Rs 10,000 | 27 | 18 |
| | | Rs 10001-20000 | 55 | 36.7 |
| | | Rs 20000-30000 | 34 | 22.7 |
| | | Rs 30000-40000 | 22 | 14.7 |
| | | Rs 40000-50000 | 12 | 8 |
| 6 | Martial Status | Married | 88 | 58.7 |
| | | Un married | 62 | 41.3 |
| 7 | Type of family | Joint | 112 | 74.7 |
| | | Nuclear | 38 | 25.3 |
| 8 | Number of members in the family | Less than 2 | 15 | 10 |
| | | 2-4 | 99 | 66 |
| | | above 4 | 36 | 24 |

Result

Demographic profile of the respondents: majority of the respondents are male (64.7%), of the total respondents 40.7% fall under the age category of 25-35 years. 58.7% of the respondents are married, 66% of the respondents family consists of 2-4 members. 40.7% of the respondents are professionals. 42.7% of them are degree/diploma graduates and 36.7% of the respondents monthly income ranges between Rs 10001-20000.

II Investors Preference For Various Investment Avenues

Investment In Various Avenues

| Particulars | | Nil | Below Rs.10000 | Rs.10001- 20000 | Rs.20001- 30000 | Rs.30001- 50000 | Rs.50001- 75000 | Rs.75001- 100000 | Above Rs.100000 | TOTAL |
|----------------------|-----|------|-------------------|--------------------|--------------------|--------------------|--------------------|---------------------|--------------------|-------|
| Mutual Fund | No. | | 26 | 36 | 30 | 17 | 16 | 13 | 12 | 150 |
| | % | | 17.3 | 24.0 | 20.0 | 11.3 | 10.7 | 8.7 | 8.0 | 100.0 |
| LIC policy | No. | 50 | 31 | 31 | 20 | 12 | 5 | 1 | | 150 |
| | % | 33.3 | 20.7 | 20.7 | 13.3 | 8.0 | 3.3 | .7 | | 100.0 |
| Post- office | No. | 102 | 19 | 15 | 5 | 7 | 1 | 1 | | 150 |
| | % | 68.0 | 12.7 | 10.0 | 3.3 | 4.7 | .7 | .7 | | 100.0 |
| PPF | No. | 129 | 8 | 5 | 4 | 2 | | | 2 | 150 |
| | % | 86.0 | 5.3 | 3.3 | 2.7 | 1.3 | | | 1.3 | 100.0 |
| NSC | No. | 134 | 5 | 4 | 4 | 2 | 1 | | | 150 |
| | % | 89.3 | 3.3 | 2.7 | 2.7 | 1.3 | .7 | | | 100.0 |
| FD | No. | 127 | 7 | 6 | 3 | 2 | 2 | | 3 | 150 |
| | % | 84.7 | 4.7 | 4.0 | 2.0 | 1.3 | 1.3 | | 2.0 | 100.0 |
| Chit fund | No. | 131 | 7 | 2 | 6 | 2 | 1 | 1 | | 150 |
| | % | 87.3 | 4.7 | 1.3 | 4.0 | 1.3 | .7 | .7 | | 100.0 |
| Debenture s/bonds | No. | 118 | 5 | 11 | 9 | 4 | 1 | | 2 | 150 |
| | % | 78.7 | 3.3 | 7.3 | 6.0 | 2.7 | .7 | | 1.3 | 100.0 |
| Shares | No. | 90 | 8 | 19 | 20 | 6 | 4 | 1 | 2 | 150 |
| | % | 60.0 | 5.3 | 12.7 | 13.3 | 4.0 | 2.7 | .7 | 1.3 | 100.0 |
| ULIP | No. | 90 | 17 | 25 | 6 | 6 | 1 | 1 | 4 | 150 |
| | % | 60.0 | 11.3 | 16.7 | 4.0 | 4.0 | .7 | .7 | 2.7 | 100.0 |

The above table depicts the investment pattern of the respondents among different avenues and the quantum investment. Majority of the respondents (24.07%) were found to have invested in mutual funds around Rs 10001-20000, same investment range is found in LIC policy also. The usages of other avenues were found to be very negligible.

Thus the study has been made to ascertain the various factors influencing the investors in the selection of Mutual Fund Company

III Factors Influencing the Respondents

The following table has analyzed the factors influencing the respondents while selecting the mutual fund company.

Factors influencing the respondents

| Particulars | | Very important | Important | Neutral | Not much important | Not at all important | TOTAL |
|-----------------------------------|-----|----------------|-----------|---------|--------------------|----------------------|-------|
| Past performance of other schemes | No. | 94 | 53 | 3 | | | 150 |
| | % | 62.7 | 35.3 | 2 | | | 100 |
| Dynamism of fund manager | No. | 36 | 82 | 24 | 8 | | 150 |
| | % | 24 | 54.7 | 16 | 5.3 | | 100 |
| Performance of research team | No. | 56 | 61 | 23 | 10 | | 150 |
| | % | 37.3 | 40.7 | 15.3 | 6.7 | | 100 |
| Total corpus of the scheme | No. | 53 | 59 | 17 | 15 | 6 | 150 |
| | % | 35.3 | 39.3 | 11.3 | 10 | 4 | 100 |
| Objective of the scheme | No. | 50 | 66 | 19 | 6 | 9 | 150 |
| | % | 33.3 | 44 | 12.7 | 4 | 6 | 100 |
| Reputation of the company | No. | 52 | 64 | 13 | 6 | 15 | 150 |
| | % | 34.7 | 42.7 | 8.7 | 4 | 10 | 100 |
| Services Provided | No. | 72 | 56 | 19 | 3 | | 150 |
| | % | 48 | 37.3 | 12.7 | 2 | | 100 |

A Study on the Factors Influencing The Selection of Mutual Fund Company

| | | | | | | | |
|------------------------------------|-----|------|------|------|------|-----|-----|
| Transparency of investment | No. | 38 | 75 | 18 | 10 | 9 | 150 |
| | % | 25.3 | 50 | 12 | 6.7 | 6 | 100 |
| Number of schemes available | No. | 34 | 65 | 31 | 6 | 14 | 150 |
| | % | 22.7 | 43.3 | 20.7 | 4 | 9.3 | 100 |
| Minimum investment Required | No. | 31 | 70 | 26 | 14 | 9 | 150 |
| | % | 20.7 | 46.7 | 17.3 | 9.3 | 6 | 100 |
| Collaboration with foreign players | No. | 27 | 49 | 43 | 20 | 11 | 150 |
| | % | 18 | 32.7 | 28.7 | 13.3 | 7.3 | 100 |
| Redemption Required | No. | 36 | 57 | 38 | 8 | 11 | 150 |
| | % | 24 | 38 | 25.3 | 5.3 | 7.3 | 100 |

Descriptive Statistics

| Particulars | N | Mean |
|------------------------------------|----------|-------------|
| Past performance of other schemes | 150 | 4.6067 |
| Dynamism of fund manager | 150 | 3.9733 |
| Performance of research team | 150 | 4.0867 |
| Total corpus of the scheme | 150 | 3.9200 |
| Objective of the scheme | 150 | 3.9467 |
| Reputation of the company | 150 | 3.8800 |
| Services provided | 150 | 4.3133 |
| Transparency of investment | 150 | 3.8200 |
| Number of schemes available | 150 | 3.6600 |
| Minimum investment required | 150 | 3.6667 |
| Collaboration with foreign players | 150 | 3.4067 |
| Redemption required | 150 | 3.6600 |

Results

The table has listed the order of preference of the various factors considered by the respondents while selecting the mutual fund company. The prime priority is attached to the past performance of the other schemes, next to the services provided by the company, followed by performance of the research team and to the dynamism of the fund manager. The other factors in the order of priority are objective of scheme, total corpus of scheme, reputation of the company, transparency of investment, number of schemes available and the redemption period, least importance is given to foreign collaboration.

It is concluded that past performance of the company along with the services provided by them are primarily considered by the respondents while selecting the mutual fund company.

Suggestions

Based on the observation made during the study the following suggestions are submitted for the betterment of the mutual funds.

- Updates about the fund and schemes should be dispatched to the investors at least once in a month.
- It is found from the study that only to a certain extent the AMCs are following SEBI guidelines. It should be overcome by AMCs by following the SEBI guidelines, which will create more confidence in the investors.

Conclusion

Mutual funds as an investment option have become very attractive for retail investors who are interested in the financial markets but do not have the time, expertise and experience in good stock picking. The problems faced by small investors in the share market have been solved by the emergence of mutual funds. An average Indian investor is a greenhorn when it comes to financial markets, the causes may be many: the lack of opportunity, lack of conceptual understanding and the influence of a fixed-income orientation in Indian culture. At present a salaried person's savings are more often deposited in mutual funds as they are found to be a better investment avenue. Mutual funds too can eanmark and try to improve upon their weak areas regarding the problems faced by the investors. As seen, the enormous growth of mutual fund industry, if controlled effectively, could be channelised for achieving better economic growth.

Reference

- Avadhani V.A., " Security Analysis and Portfolio Management", 1997 edition, Himalaya publishing house.
- Donald e. fisher, Ronald j. Jordan-"Security Analysis and Portfolio Management" sixth edition. PHI Publisher.
- Gupta S.P "Statistical Methods", 28th edition, Sultan Chand & sons publisher.
- Kothari C.R."Research Methodology", reprint (1999), H.S.Poplai for New Age International P(Ltd) Publisher.

- Kulshreshtha C.M.-"Mastering Mutual Funds- Opportunities and Risk Management For The Individual Investor" edition 1994, Vision Investment Books Publisher
- Madhusudhan V Jambodekar, "Awareness Of Mutual Funds"-Portfolio Management", vol 1, Feb. 1996.
- Sujit Sikidar and Amrit pal Singh, "Investors Behavior in Equity and Mutual Funds Investment"- Journal of Applied Finance, Mar-1996.
- P.K.Muthappan, "Problems and Prospectus of Mutual Funds an empirical analysis"-SMART Journal Of Business Management Studies, vol 2, No 1, Jan-June 2006, pp. 98-101.
- Prasada Rao and Venkatam Sai Kai, "Mutual Funds Exploring the Retail Customer Expectations". The ICFAI Journal of Service Marketing, Feb 2006, Vol. IV, No: 2, PP 25-33.
- T.Vanniarajan and P.Gurunathan, "Mutual Funds: A Customer Centric Analysis"-Indian Journal of Accounting, vol. XXXVII (2) June 2007, pp. 9-17.
- Yogeshwari phatak and others, "A Study of Performance Evaluation of Private and Public Sponsored Mutual Funds"-NMIMS Journal, Jan-July 2007, pp. 23-29.
- T.C Thomas "A Study of Service Quality on Investment Attributes of Equity Oriented Mutual funds", Journal of Contemporary Research in Management", Jan-June 2007, Vol. 1, No: 1,2, PP 1-8.
- M.Babu and Indumathi, "Indian Mutual Fund Industry"- an overview, SMART Journal Of Business Management Studies, Jan-Jun 2008,vol.4, No.1, pp.72-79.