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DETERMINANTS OF RETAIL INVESTOR BEHAVIOUR IN MUTUAL FUNDS

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Abstract :

The present research is descriptive and exploratory in nature and aims to provide empirical evidence on the behaviour of the investor's toward mutual funds by considering its relationship with risk perception, return perception, investment criteria, mutual fund awareness, and financial literacy. Data were collected using a questionnaire from Retail mutual fund investors. Sampling technique was used to collect data from Thane District of State of Maharashtra. The Findings of this study provide better information and guidance to investors and policymakers on the factors that affect the behaviour of mutual fund investors.

Key words: Investments, Diversifications, Risk and Return

Introduction:

A mutual fund is one of the professionally well-managed portfolios that typically pool funds. The company invests this pool of money in several financial instruments such as bonds, stocks, etc. This company is the Asset Management Company (AMC), managing all investments. It aims to maximise returns while keeping the risk at a minimum level. However, it is mandatory for the AMC to be registered with SEBI, which regulates all security investments. The Mutual Fund industry in India started in 1963 with formation of UTI in 1963 by an Act of Parliament and functioned under the Regulatory and administrative control of the Reserve Bank of India (RBI). Mutual funds are very important for any market operation since risk control is also the most important issue, and it is important to analyze multiple variables that impact investors. In addition, the mutual fund makes it easier for small investors who do not have adequate knowledge, expertise, and low-risk tolerance to invest their savings in profitable portfolios by more skilled fund managers. To achieve a return for clients, these skilful technical managers target profitable and outperforming financial instruments.

History of Mutual Fund in India:

The mutual fund industry started with the Unit Trust of India (UTI) formation in 1963 by the Parliament Act. Unit Scheme 1964 was the first scheme launched by UTI. Later on, UTI was delinked from RBI in 1978. This was the first phase. The second phase of mutual fund history marked the entry of public sector banks. In 1987, public sector mutual funds were set up by public sector banks, Life Insurance Corporation of India (LIC) and Insurance Corporation of India (GIC). SBI Mutual Fund was the first non-UTI MF started in June 1987. Subsequently, Canara Bank came into existence as Canara Bank Mutual Fund in December 1987. Similarly, some other bank's mutual funds came into existence, such as –

- Punjab National Bank Mutual Fund in August 1989
- Indian Bank Mutual Fund in November 1989
- Bank of India Mutual Fund in June 1990
- Baroda Mutual Fund in October 1992
- LIC Mutual Fund in June 1989
- GIC Mutual Fund in December 1990

The new era of the mutual fund industry began with the introduction of private sector funds in 1993. This gave investors a wide choice of funds. This was the third phase. In 1993, the first set of SEBI Mutual Fund regulations came into existence for all mutual funds except UTI. All the mutual funds were governed and regulated under SEBI. The purpose was to protect the investors' interest. Recognising the lack of penetration of mutual funds in India, especially in Tier II and Tier III cities, SEBI introduced several progressive measures in September 2012. The purpose behind these measures was to bring more transparency and security for the interest of various stakeholders. Also, SEBI's idea was to 're-energise' the Indian mutual fund industry and boost the overall penetration of mutual funds.

During the course, measures were taken to counter the negative trend because of the global financial crisis.

The growth in the MF industry has been possible because of the twin effects of regulatory measures taken by SEBI to re-energise the industry in September 2012. Also, the support from mutual fund distributors in expanding the retail base helped this expansion. Furthermore, these distributors connect with investors in smaller towns. They not only help investors to stay invested during the market volatility but also let them experience the benefits of investing in mutual funds.

Future of Mutual Funds:

The MF industry AUM has been increasing, and we still have a long way to go. It is estimated that Indians save Rs.20-30 lakh crore (approximately) annually. This industry has the potential to grow further if Indians start saving a higher percentage towards mutual funds. Moreover, observers say that many Indians have started shifting a part of their savings from physical assets (gold, land) to financial instruments like equities, bonds, ETFs etc.

SEBI has come up with various initiatives for investor awareness and trying to expand its reach beyond top cities. With increasing income, population urbanisation, digitalisation and a better connectivity mutual fund industry have a bright future. Also, the MF industry can grow multi-fold with more encouragement from AMFI and the government.

Various factors affecting mutual funds' performance:

- *Performance of the Securities in the Fund Portfolio* - Since the fund invests in specific securities, the fund's performance is based on how well these securities do.
- *Fund Management Team* - The fund manager and the fund management team can significantly impact the fund's performance.
- *Economic Changes* - Some policy changes made by the government can have a significant impact on different parts of the economy in different ways.
- *Expense Ratio* - All of the costs and fees that go into running and managing a mutual fund, such as management fees and distribution fees, are included in the expense ratio of a mutual fund. It is ideal to find funds with a low expense ratio.
- *Fund Cash Flows* - If investors feel that a fund isn't performing well, they might pull their money out of the fund. As a result, the fund manager will have to sell off some holdings to accommodate the redemption requests. This can hurt the fund's cash flow and impact its performance.
- *Assets Under Management (AUM)* - The size of the mutual fund plays a role in how well it does. Too much or too little funds can impact the fund's performance. To elaborate, if the fund size becomes too big, it becomes difficult for the fund manager to maintain it.

REVIEW OF LITERATURE

Some of the important theoretical and empirical studies related to investors' behaviour regarding mutual fund have been reviewed here. A study has been done by Inderjit Kaur, K.P. Kaushik and published in Journal of Indian Business Research (ISSN: 1755-4195 ; Article publication date: 21 March 2016) on Determinants of investment behaviour of investors towards mutual funds to understand the systematic relation between actual investment behaviour towards mutual funds and various determinants such as socioeconomic characteristics, awareness and attitude (perception) about mutual funds. The research provided that investment behaviour could be explained with awareness, perception and socioeconomic characteristics of individual investors. Better awareness related to various aspects of mutual funds will have a positive effect on investment in mutual funds. Contrary to belief, risk perception for mutual funds had no effect on the investment decision. Further, socioeconomic characteristics such as age, gender, occupation, income and education of investors had an impact on the awareness about mutual funds.

A research study was conducted in northern region of Kerala by Dr. V.Sridevi, Associate Professor, Department of Commerce, Nehru Arts and Science College, Coimbatore, Tamilnadu and her paper, Investor's behaviour towards mutual fund investments, published in July 2019 in EPRA International Journal of Research and Development (IJRD) Volume: 4 | Issue: 7 | July | 2019 ISSN: 2455-7838 also was referred to as a review of literature done. The findings of that research indicates Mutual Fund Investment widely prevalent among Man (78%), there is no relationship between Gender of the Investor and their Behaviour towards Mutual Fund Investments, majority of the Investors (53%) are belonging to the age group of 31-40, there is no relationship between Age of the Investor and their Behaviour towards Mutual Fund Investments, 46% of the investors had studied up to the Graduation Level, there is significant relationship between Educational Qualification of the Investors and their Behaviour towards Mutual Fund Investments and there is no relationship between Occupation of the Investors and their Behaviour towards Mutual Fund Investments .

Further Chakarabarti and Rungta (2000) carried out a survey of mutual fund investors. The study concluded that the brand image factor is basically influencing the investors for investing in mutual fund schemes. This brand image cannot be easily captured by computable performance measures. It influences the investor's perception and hence his fund / scheme selection behaviour.

Karmakar (2000) conducted a study on the investment behaviour of household sector of rural block in west Bengal of 50 investors covering different employment status, age, income and education. The main objective of the study was to investigate the factors, which play significant role in the choice of investment of household i.e. income effect on saving and investment pattern, education effect the choice of investment and individual perception towards risk and return. The finding suggest that life insurance policy is found to be most popular investment avenue followed by recurring deposits in banking, fixed deposits etc. A very few investors who are educated and belong to high income categories only have invested in shares and debentures.

Singh and Vanita (2002) have examined the investors' preferences and perception towards Mutual Fund investments by conducting a survey of 150 respondents in the city of Delhi. The findings of the study were that the investors' preferred to invest in public sector MFs with an investment objective of getting tax exemptions and stayed invested for a period of 3-5 years and the investors evaluated past performance. The study further concludes by stating that majority of the investors were dissatisfied with the performance of their MFs and belonged to the category who held growth schemes.

Similarly lot of other journals, articles, newspapers and online surveys were referred and reviewed for the study.

OBJECTIVES OF THE STUDY

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The overall aim is to conduct a study on mutual fund selection behaviour of retail investors in Thane District of Maharashtra including Navi Mumbai region. It can be further sub-divided in to the following objectives:

1. To discover the investment objectives of selected mutual fund investors.
2. To identify the types of mutual fund schemes preference by elected mutual fund investors.
3. To identify the investment experience of sampled respondents.
4. To discover the investment frequency of sampled respondents.

LIMITATION

Investment sector is very vast and taking into consideration the feasibility of study and other factors, only Retail investors from Thane district including Navi Mumbai area of Maharashtra state has been considered for study.

RESEARCH METHODOLOGY

Both primary as well as secondary sources have been used for data analysis. The primary data has been collected by a structured questionnaire filled by investors to assess the retail investor psychology, preference and behaviour using a five Likert type scale or selecting options of MCQ. The sampled respondents belonging to Thane District including city of Navi Mumbai were asked to rank the level of investment preference using five Likert type scale wherever required. The data collected were then statistically analysed. Descriptive analysis were used to rank the factors by weighted Mean and percentage distribution vide Pie chart compiled from Google Form Data. Sample size for the questionnaire survey was based on random sampling technique. For collecting secondary data various websites, journal, books and Newspapers etc are used.

ANALYSIS AND INTERPRETATION:

To achieve above objectives, we analysis the data and presents the results here-in - under.

Table 1: Purpose of Mutual Fund Investment of Sample Respondents

Purpose	Percentage	Overall Rank
Tax Benefit / Saving	13%	3
Saving for Retirement	48%	1
Child Education	10%	4
Any Other Purpose	16%	2

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From the responses recorded in Table 1, it is observed that the purpose of Mutual Fund Investment by Investors are mostly aimed for Saving after Retirement and the percentage of respondents showing their preference for this purpose is quite high compared to other purposes.

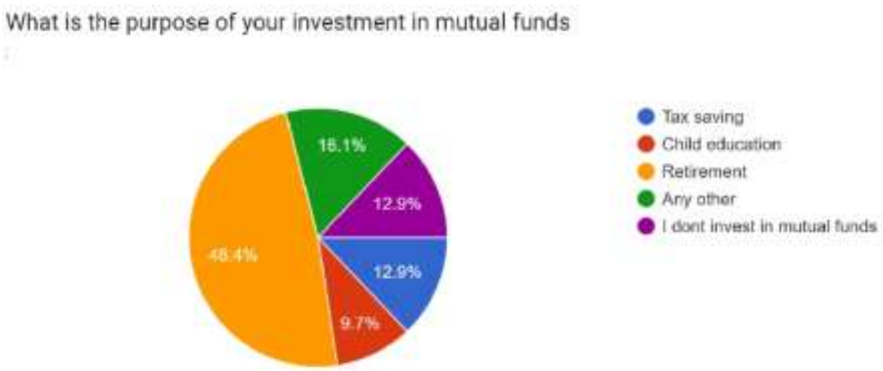
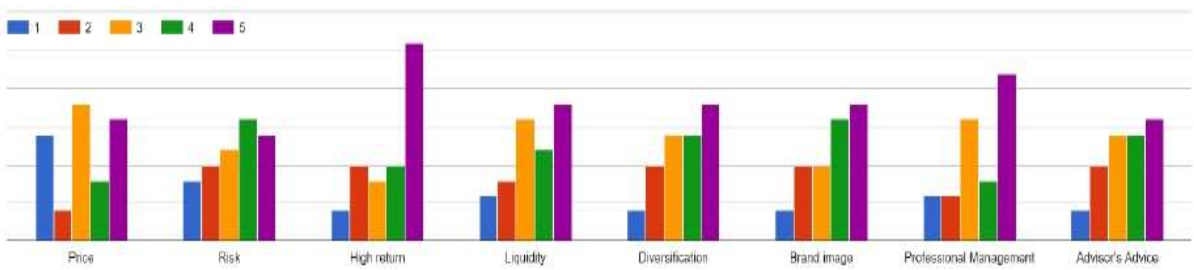


Table 2:

Factors influencing Mutual Fund Investment of Sample Respondents

Factors	Mean Rank	Overall Rank
Price	3.13	8
Risk	3.3	7
High Return	3.76	1
Liquidity	3.47	6
Diversification	3.53	4
Brand Image	3.59	2,3
Professional Management	3.59	2,3
Advisor’s Advice	3.48	5



The respondents were given a list of 8 factors of mutual fund investment. They were asked to rank their preference as 5 for strong influence and 1 for least influence. From the responses recorded in Table 2, mean values were calculated. It is observed that on the basis of these mean ranks the investors gave most preference to High Return and

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next comes Brand Image and Professional Management followed by Diversification, Advisor's advice and Liquidity. The overall rank also reveals that Price and risk has got least influence,

Table 3: Type of Factors preventing Sample respondents to invest in Mutual Fund Scheme

Factors	Percentage	Overall Rank
Bitter Past Experience	14%	3,4
Inefficient investment Advisors	14%	3,4
Lack of Knowledge	36%	1
Difficulty in selection of Schemes	32%	2
Lack of confidence in service being provided	4%	5

On examining the Table 3, it is observed that Lack of Knowledge followed by Difficulty in selection of schemes have been the foremost reasons and factors preventing an Investor to invest in Mutual fund Scheme.

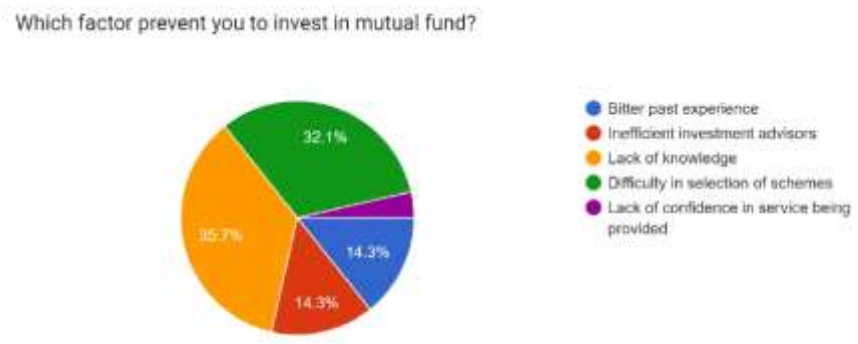


Table 4: Type of Investment portfolio preferred by Sample respondents to invest in Mutual Fund Scheme

Type of Portfolio	Percentage	Overall Rank
Equity dominated	65%	1
Debt dominated	3%	4
Hybrid fund (Equity & Debt combination)	19%	2
Money market fund	13%	3

On examining the Table 4, it is observed that clearly there is a very high preference of Equity dominated Investment portfolio amongst the investors. This is trailed by investments in Hybrid fund although the percentage of such preference is way behind the Equity dominated investment.

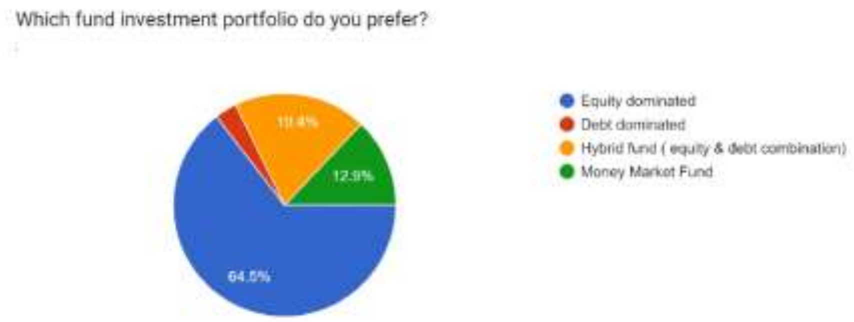


Table 5: Investment Horizon of Mutual Fund Investment of Sample Respondents

Investment Horizon	Percentage	Rank based on below mentioned criteria
1 to 3 years	23%	1
4 to 6 years	10%	2
7 to 10 years	29%	3
Above 10 years	29%	4

Investment horizon of mutual fund investment has been divided in four periods such as 1 to 3 years, 4 to 6 years, 7 to 10 years and above 10 years. One point is given for 1 to 3 years investment and 4 points are given for investment above 10 years. Table 5 shows that out of the respondents, 23% people have invested for less than 3 years period, 10% investors have invested for 4 to 6 years period, and 58% investors have invested for more than 7 years period. Therefore, it can be said that majority of the respondents invest money for above 7 years period.

Table 6: Risk Tolerance of Sample Respondents

Risk Tolerance	Percentage	Overall Rank
High	32%	2
Medium	52%	1
Low	16%	3

The Table 6 shows that out of all respondents Risk Tolerance of investors is medium followed by high risk tolerance. Therefore it can be said that majority of respondents to the tune of 84% have medium to high risk tolerance pertaining to investment in Mutual fund schemes.

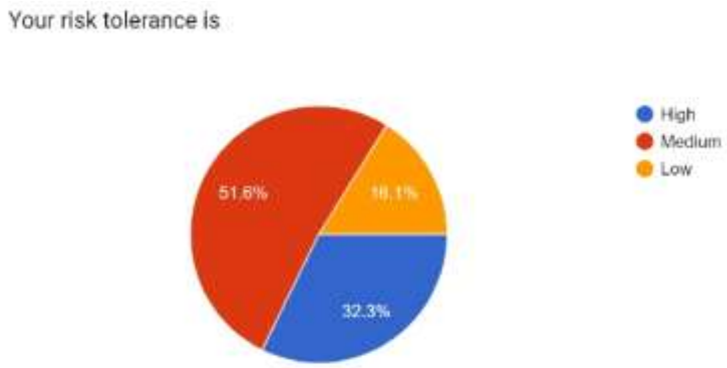


Table 7: Reaction of Sample Respondents to situation when earning returns less than expected

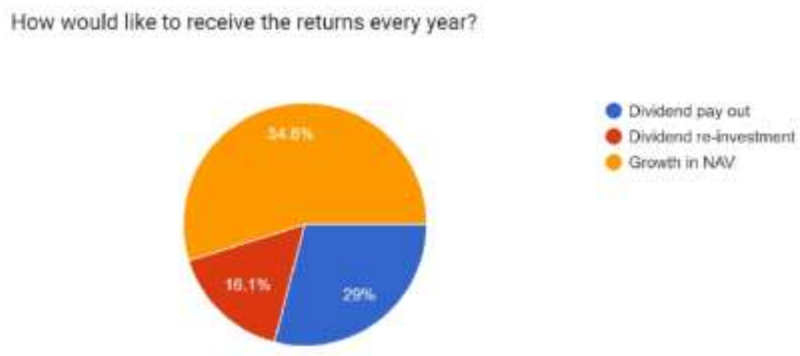
Reaction	Percentage	Overall Rank
Prompt withdrawal	20%	3
Shift to other Mutual fund	53%	1
Hold on for more time	27%	2

The Table 7 shows that majority of investors react to situation when earning less returns l than expected by preferring to switch over to a different Mutual fund scheme from the existing scheme.

Table 8: Preference of the way Sample Respondents want to receive the returns every year

Preference	Percentage	Overall Rank
Dividend Payout	29%	2
Dividend Re-investment	16%	3
Growth in NAV	55%	1

The Table 8 shows that majority of investors prefer growth in NAV to gain returns.



CONCLUSION

The major objective of this paper is to discover the investment objectives of selected mutual fund investors and to identify the types of mutual fund schemes preference by elected mutual fund investors. The results presented that the main objective behind to invest in mutual fund is good return, which has Brand image and professionally managed. The research also suggests that the equity based growth schemes and balanced hybrid schemes are most preferred in comparison to other schemes.