

Risk Factors Of Mutual Fund Investment- An Overview

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ABSTRACT

Capital market plays an important role in mobilizing resources, and diverting them in productive channels. In this way, it facilitates and promotes the process of economic growth in the country. Various functions of capital market are link between savers and investors, encouragement to saving, encouragement to investment, promotes economic growth, stability in security prices and benefits to investors. This chapter introduces the research outline of the study. The chapter begins with an overview of the Indian financial system, followed by brief discussion of the importance, role, benefits, disadvantages mutual funds, their growth and different types of Mutual Funds. Besides that, this chapter also includes the investors' investment behaviors. Systematic Investment Plan (SIP), Systematic Withdrawal Plan (SWP) Regulatory Initiatives also highlighted.

KEY WORDS: Finance, Capital, Fund, Investment, Market.

1. INTRODUCTION

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. Mutual funds go back to the times of the Egyptians and Phoenicians when they sold shares in caravans and vessels to spread the risk of these ventures. The foreign and colonial government Trust of London of 1868 is considered to be the fore-runner of the modern concept of mutual funds. The USA is, however, considered to be modern mutual funds. By the early - 1930s quite a large number of close - ended mutual funds were in operation in the USA. Much later in 1954, the committee on finance for the private sector recommended mobilization of savings of the middle class investors through unit trusts. Finally in 1963, the concept took root in India when Unit Trust of India was set up with the twin objective of mobilizing household savings and investing the funds in the capital market for industrial growth. Household sector accounted for about 80 percent of nation's savings and only about one third of such savings was available to the corporate sector; it was felt that UTI could be an effective vehicle for channelizing progressively larger shares of household savings to productive investments in the corporate sector. Liberalization in the eighties not only brought in dramatic changes in the environment for Indian industries, corporate sector and the capital market but also led to the emergence of demand for newer financial services such as issue management, corporate counseling, capital restructuring and loan syndication. After two

decades of UTI monopoly, some other public sector organizations like LIC, GIC, SBI, Can Bank, Indian Bank, Bank of India and Punjab National Bank have been permitted to set up mutual funds.

2. OBJECTIVES OF THE STUDY

The present study was based on the following objectives

1. To study the growth of mutual fund industry in India
2. To identify the most influential factor which acts as a stimuli for the Investors to select a mutual funds
3. To analyze the retail investors awareness and perception regarding investing in mutual funds
4. To study the satisfaction level of the retail investors towards investment in mutual funds in the study area
5. To find out the investors opinion regarding major deficiencies in the working of the mutual fund industry
6. To offer suitable suggestions to improve the scope of the market of mutual funds and plugging out these deficiencies.

HYPOTHESIS

Based on the objectives, the following null hypothesis was framed for this study:

1. **HO1:** There is no significant relationship between demographic characteristics of the respondents and their level of awareness about mutual fund investments.
2. **HO2:** The demographic variables of the respondents such as gender, age, educational status, occupation and income will not have any influence on their attitude with the investment in mutual funds.

3. RESEARCH METHODOLOGY

The research design for the study is descriptive in nature. The present study attempts to evaluate the investor's awareness and satisfaction towards the mutual fund investments. For the purpose, individual mutual funds investors have been selected. The individual investors' awareness and satisfaction has been confined to the only selected districts of Tamil Nadu.

POPULATION

The population includes all the existing and potential small investors of different mutual funds in selected districts of Tamil Nadu.

PERIOD OF THE STUDY

The researcher collected the required primary data from the selected respondents during period from June 2012 to Dec. 2012. Secondary data were collected for ten years period from 2002-2003 to 2011-2012.

SAMPLING DESIGN

The sample size covered 500 investors of Tamil Nadu who were spread through five different districts namely, Cuddalor, Coimbatore, Chennai, Madurai and Trichy districts of Tamil Nadu. These districts where large numbers of MFs investors are available are identified for this study using Purposive Sampling Method. In order to collect referred information from the retail

investors, the sampling design was carefully decided and properly chosen for the study. From each identified districts, five approved brokers of were chosen and twenty MF investors were contacted with the help of brokers. Thus, this study was based on the responses by 500 selected respondents.

SAMPLE SIZE

The sample size covered 500 retail investors who were spread through of in Cuddalor, Coimbatore, Chennai, Madurai and Trichy districts of Tamil Nadu. The important business centers, where large numbers of MFs investors are available, are identified for this study using Purposive Sampling Method. In order to collect referred information from the retail investors, the sampling design was carefully decided and properly chosen for the study. First important investment centers were identified, from each identified investment centre, ten approved brokers of were chosen and five MF investors were contacted with the help of brokers. Thus, this study was based on the responses by 500 selected respondents.

TABLE 1: DEMOGRAPHIC PROFILE OF THE RESPONDENTS

PERSONAL VARIABLES		NO.OF RESPONDENTS	PERCENTAGE
Gender	Male	357	71.40
	Female	143	28.60
Age (in years)	Up to 30	58	11.60
	31- 40	145	29.00
	41-50	210	42.00
	Above 50	87	17.40
Educational status	School Final	54	10.80
	Graduate	124	24.80
	Post Graduate	197	39.40
	Professional degree	81	16.20
	Diploma and others	44	8.80
Monthly Family Income (in Rs)	Upto 10000	79	15.80
	10001-20000	191	38.20
	20001-30000	169	33.80
	Above 30000	61	12.20
Occupation	Salaried	198	39.60

	Business	127	25.40
	Professionals	56	11.20
	Agriculturalist	34	6.80
	Retired	62	12.40
	Self employed and others	23	4.60
Family pattern	Nuclear family	348	69.60
	Joint family	152	30.40
Area of residence	Rural	129	25.80
	Semi urban	235	47.00
	Urban	136	27.20
Size of Family Members	1 or 2	77	15.40
	3 or 4	158	31.60
	5 or 6	179	35.80
	7 and above	86	17.20
Earning Members	One	156	31.20
	Two	198	39.60
	Three	79	15.80
	Four and above	67	13.40
	Total	500	100

Source: Primary Data.

Out of the 500 respondents, 71.40 per cent were male and 28.60 per cent were female. The predominant age group (42 per cent) of the sample investors comes under the age group 41-50 years. A good majority (29 %) of the remaining respondents are distributed in the age group up to 31-40 years. 11.60 and 17.40 per cent of the respondents are in the age group up to 30 years and above 50 years respectively. The highest literacy rate (30.40%) of the respondents is post graduate level. 24.80 per cent and 16.20 per cent of the respondents have graduate qualifications and Professional degree respectively. 10.80% and 8.80% of the respondents are having school final education and diploma and others qualifications respectively.

As regards annual income a majority of the respondents 191 (38.20%) have income ranging from 10001-20000 followed by 169 (33.80%) respondents in the monthly income group of 20001-30000. Out of 500 investor 61 (12.20%) of the investors earn above Rs 30,000 per month. Those who earn monthly upto Rs 10000 constitute 15.80 per cent. An interesting feature is that investors earning monthly 10001-20000 too have investments in capital market.

Out of the 500 respondents, 39.60 per cent and 25.40 per cent of the respondents are employed and businessmen respectively. 12.40 per cent of the respondents are retired and 11.20 per cent of the respondents are professionals 6.80 per cent are agriculturalist and 4.60 per cent of the respondents are self-employed and others.

As regards to family pattern 69.60 per cent of the respondents are from nuclear family, 30.40 per cent are from joint family. As regards to area of residence, 25.80 per cent of the respondents are from rural, 47 per cent are from semi urban and 27.20 per cent of the respondents from urban area. 35.80 per cent of the respondents have 5 or 6 family members, about 31.60 per cent have 3 or 4 dependants, 15.40 per cent have 1 or 2 dependents, and 17.20 per cent of the respondents have 7 and above dependants. 39.60 per cent of the respondents have 2 earning members in their family, about 31.20 per cent of the respondents have only one earning member and 15.80 have 3 earning members, 13.40 per cent have 4 and more earning members in their family.

TABLE 2: IDENTIFIED FACTORS

SL. NO.	FACTORS
1	Fringe benefit like free insurance, free credit card, loans on collateral, tax benefits etc.
2	Reputation of a sponsoring firm
3	Mutual Fund Investors' grievance redressal machinery
4	Disclosure of scheme's investments on every trading day
5	Fund's/Scheme's performance record
6	Disclosure of deviation of the investments from the original pattern
7	Fund's/Scheme's reputation or brand name
8	Disclosure of the method and periodicity of the scheme's sales and repurchase in the offer documents
9	Innovativeness of the Scheme
10	Entry and Exit load
11	Disclosure of NAV on every trading day
12	Scheme's expense ratio
13	Sponsor has an efficient research wing
14	Disclosure of investment objectives, method and periodicity of valuation in advertisement
15	Scheme's portfolio of investments
16	Sponsor's expertise in managing money
17	Reputation of scheme(s), portfolio manager(s)
18	Sponsor offers a wide range of schemes with different investment objectives
19	Withdrawal facilities
20	Products with tax benefits
21	Sponsor has a recognised brand name
22	Favourable rating by a rating agency
23	Sponsor has a well-developed Agency Net Work/Infrastructure

Source: Collected from previous studies

The data obtained from the study were analyzed by using factor analysis for identification of the key features preferred by the respondents in the Mutual Fund product selection. Based on theory, past research, and judgment of the researcher, the factors that could influence the investors in their selection of Mutual funds/schemes was first grouped into 3 major factors – Fund/Scheme qualities, fund sponsor qualities and the expected investor services. Then the 23 identified variables were classified under the appropriate group as follows:

TABLE 3 ONE-SAMPLE STATISTICS TEST FOR MOTIVATIONAL ITEMS IN MUTUAL FUND INVESTMENT DECISION

SL. NO	VARIABLES	WMV	SD	SIG. (2-TAILED) TEST VALUE = 3 (P) SCALE	IMPORTANT
1.	PRODUCT QUALITIES				
1.	Products with tax benefits	4.03	.428	.000	Imp
2.	Favorable rating by a rating agency	4.28	.793	.000	Imp
3.	Scheme's expense ratio	4.15	.586	.000	Imp
4.	Withdrawal facilities	3.84	.597	.000	Imp
5.	Entry and Exit load	4.19	.675	.000	Imp
6.	Innovativeness of the Scheme	4.11	.775	.000	Imp
7.	Reputation of scheme(s), portfolio manager(s)	4.46	.943	.000	Imp
8.	Fund's/Scheme's performance record	3.68	.778	.000	Imp
9.	Scheme's portfolio of investments	4.17	.676	.000	Imp
10.	Fund's/Scheme's reputation or brand name	4.08	.667	.000	Imp

4. FINDINGS AND SUGGESTIONS

1. Out of 400 respondents survey include 71.40 per cent were male and 28.60 per cent were female. The predominant age group (42 per cent) of the sample investors comes under the age group 41-50 years. A good majority (29 %) of the remaining respondents are distributed in the age group up to 31-40 years. 11.60 and 17.40 per cent of the respondents are in the age group up to 30 years and above 50 years respectively.
2. It is observed that the highest literacy rate (30.40%) of the respondents is post graduate level. 24.80 per cent and 16.20 per cent of the respondents have graduate qualifications and Professional degree respectively. 10.80% and 8.80% of the respondents are having school final education and diploma and others qualifications respectively.
3. The survey indicated that a majority of the respondents 191 (38.20%) have income ranging from 10001-20000 followed by 169 (33.80%) respondents in the monthly income group of 20001-30000.

4. Out of 500 investor 61 (12.20%) of the investors earn above Rs 30,000 per month. Those who earn monthly upto Rs 10000 constitute 15.80 per cent. An interesting feature is that investors earning monthly 10001-20000 too have investments in capital market.
5. Out of the 500 respondents, 39.60 per cent and 25.40 per cent of the respondents are employed and businessmen respectively. 12.40 per cent of the respondents are retired and 11.20 per cent of the respondents are professionals 6.80 per cent are agriculturalist and 4.60 per cent of the respondents are self employed and others.
6. As regards to family pattern 69.60per cent of the respondents are from nuclear family, 30.40 per cent are from joint family. 25.80 per cent of the respondents are from rural, 47 per cent are from semi urban and 27.20per cent of the respondents from urban area.
7. It is noted from the study that 35.80 per cent of the respondents have 5 or 6 family members, about 31.60 per cent have 3 or 4 dependants, 15.40 per cent have 1 or 2 dependants, and 17.20 per cent of the respondents have 7 and above dependants. 39.60per cent of the respondents have 2 earning members in their family, about 31.20 per cent of the respondents have only one earning member and 15.80 have 3 earning members, 13.40 per cent have 4 and more earning members in their family.
8. It is observed from the present study that nearly 30 to 40 percent of the mutual fund investors are not aware about various aspects of mutual funds. So, investor education is very important factor for investors. Research and awareness programmers' should be conducted for investors. Seminars, conferences and training programs should be arranged for this purpose. Adequate publicity through newspapers, magazines, T.V., radio, pamphlets and brochures should be done.
9. It is found from the study that 'Less security' was the top most problem for invest in the mutual fund, Hence, 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 and the unit certificates are not dispatched in time by mutual fund companies. The mutual fund companies have to focus on good services to the investors. The certificates could be expeditiously dispatched in time to the investors.
10. The 'Slow Growth' of investment was the one of the important problem as pointed out by the investors. So, mutual fund companies should launch new and innovative schemes according to the varied needs of the investors. There is a lack of innovative products in the market. People have the capacity to invest and this capacity has to be explored by the mutual funds companies.
11. It is observed from the present study that nearly 61.4% investors is not aware about expert guidance, Lack of professional management of funds is one of the main factors discouraging investment in mutual fund. Professionals with a good background and record should be appointed to manage mutual fund. This will help to boost investor's confidence, which in turn will encourage investors to save in Mutual fund.

5. CONCLUSION

The financial system in India comprises of financial institutions, financial markets, financial instruments and services. Financial market refers to those places where financial assets are created and traded. Financial assets represent a claim for the payment of principal amount some times in future date and for periodic payment of money in the form of interest or dividends. The Reserve

Bank of India (RBI) as the main regulator of credit is the apex institution in the financial system. Other important financial institutions are the commercial banks (in the public and private sector), cooperative banks, regional rural banks and development banks. Non-bank financial institutions include finance and leasing companies and other institutions like LIC, GIC, UTI, Mutual funds, Provident Funds, Post Office and Banks etc.

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