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Mutual Fund Investment Criteria of Retail Investors in India: An Empirical Study

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Abstract

In India the investments in mutual fund is actively participating in the expansion of capital Market. Mutual fund is used by the retail investors as a channel for the investment of their money in professional funds management system, no matter what amount is invested. It allows the public to penetrate into the Indian Financial Market much easily. The aim of the study is to analyse the criteria for selecting a fund that is adopted by Mutual Fund Investors of India and the association between the Preference for Investing in Mutual Funds and Level of Financial Literacy. The study is conducted by bringing out the information from 210 Mutual Fund investors and it is concluded that the most significant factor that is considered by the retail investor a heading towards their investment in mutual funds is the performance of the fund in yesteryears and the study shows a significant association between the preference for investing in mutual funds and level of financial literacy.

Keywords: *Mutual Fund, Investment, Retail Investors, Criteria.*

Introduction

Retail investors are investing their money in the professional funds management system through mutual funds, whatever the amount is invested. The mutual fund investment is very easily letting in the public to the Indian Financial Market. The expansion of the Indian Mutual Fund companies is showing the growth of the assets which is managed by so many Asset Management Companies year after year. The risks in the mutual fund investment are less as compared to the investment in equities market. Risk is less and returns are reasonable

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and the brokers are attracting the investors like a magnet to invest their money in the financial market.

Undoubtedly, India is coming up as the epicentre for the investment which is moving on with high rate of savings and investment in comparison to different world economies. In this unpredictable environment of market, mutual fund investments are seems to be a mode of investment which is transparent and attract the investors to share since it costs low to their investors. The Indian Government and its managing bodies knows the importance of circulating the savings of public into the capital market, that is the reason they go on supporting the mutual funds as a source of income for everyone and at the same time capital market is provided with a balanced source for their expansion. Still, in spite of revealing that mutual funds are the source of wealth for the long duration, it has not reached to its attainable destination in India. View of government was to bring up the investments in mutual funds to the general public so as to benefit them from the Indian economy's growth at their best and at the same time providing a stable and strong substantial source of funds which is long lasting for the growth of the capital market.

New perspectives are provided by the mutual funds to the investors who start investing with small savings. Mutual fund investments had reached effectively to their comfort place. The small investors of India in common believe in the information that is not real and are not favourable to them due to this many times they did not get the good returns and therefore they started thinking that they are not there for the game of investment. Mutual funds came into existence just to help the investors. Experts and the investors of the mutual funds are there behind the success of the mutual fund. Their efforts all together bring the mutual fund to a great success. A skilled fund manager needs to study the behaviour of the investors and learn what are their requirements and hopes from the investments; they need to work on their performances to fulfil their needs. At present, it is very essential for the managers to get to know the investor's needs their attitude and choice of schemes of the mutual funds so that they can mature their clients and make up their mind to invest.

For the financial advisor their most important part in the relation between the investor and the advisor is to neutralise the inclinations. The studies shows that all through the process of talking about the financial goals and then selecting a suitable product from the large number of choices which are available, the investors are very much aware of their skill gap that is

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why they had to trust the advisors, brokers and the distributors as well in selecting the fund and then completing all the formalities from the paper work to the documentation and the transactions. Despite of the fact that choosing a fund and transacting it or advising for a particular fund and making its distribution are the two different activities but the investor think of it as a part of same service. However, from the investor's perspective, the advice is suggested in the relation of investor with the advisor or the relation between the investor and the distributor. Also the relation between the investor and the advisor or the distributor is based on the sentimental trust not on the intellectual trust and due to this reason when the investors do not get the outcomes as per his expectations then he is upset with the asset and the product but not by the advisor or the distributor.

For the retail investors whose investments are not that big, mutual funds stood out as an important and easy way to invest. Investment routine of the small investors has taken a drastic change. There are number of sponsors and the house of mutual funds from the government and private sectors there in the market with their inventive plans and schemes to attract the investors and convert them as their potential investors at the national and international level. Mutual funds are offering so many good alternatives to get the benefits by the expertise based equity investments especially for the small investors. Therefore, in the situation where the market is full of various plans and schemes, it is necessary to know the needs of the investors and the determinants that affect the selection criteria of the investors. At the same there are so many factors which are considered by the investors before they select a particular fund to invest in. Investors always want to go with a renowned name and they want to invest in the mutual fund who has given good results in the past in terms of returns, they are also concerned about the risk factors, liquidity and volatility of the fund. Investors also collect the information from the market and also get the advice from the broker, fund manager and the distributor. As the primary reason of the investor is to get the tax implications they take the advice of the fund manager in order to avail the maximum benefits.

Since the awareness among the investors is low and financial literacy affects a lot to the task of keeping in the investors into their investment routine for a longer period of time and continue their chain of small savings and investing them in the mutual funds. It is essential for the investors to understand that the investing in mutual funds is no way a short term method of investment to achieve their financial targets but it is process to be continued to

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meet up their financial goals for the longer period of time. At present, the market is volatile and uncertain at the same time, the investors are unsafe and their investment is at risk, therefore, they are comfortable in investing their hard earned money in the mutual funds. Here comes the role of the fund managers who had to gain the trust of the investors and build up their confidence and keep them boosting to invest in the mutual funds to acquire the benefits what they expect from the market. It is the fact that it is easy to obtain the benefits through the mutual funds related to different investments. Some of the gratuities of the mutual funds are diversification, debts the market at low transactions costs, access to equity and liquidity.

By using their capability of interaction and observing things around them, investors try to collect all the information regarding the market and the schemes of the various mutual funds and take the decision of investing and take the process further but this ends with systematic error. It is seen that when the investors receives safe and good returns they are motivated to invest more which helps them to exchange their savings to an assets with an expectation to get a reward in the future and it also gives the rise of the strategies such as where they should invest, what is the right time to invest and what is the way to invest. Hence, the investors prefer to invest in the portfolios which are secure and are able to give them good returns as interest and capital gains. There are so many hybrid financial instruments are coming into limelight to get the gratuities from their savings like the mutual funds which are safest destination of the investors. Day by day the mutual funds are becoming the first choice of the investors of all the classes particularly who are investing in it for the first time as it has a number of benefits along with the balancing abilities.

The investor who had small savings they can invest in mutual funds and convert their money in securities. Divisibility and maturity of the mutual funds are the 2 dimensions. Mutual funds can offer securities in different sizes after monitoring their denominations which are favourable to the saver. There are different parameters that show an impact on the decision of the investors to invest in mutual fund industry. Few of them are discussed below:

1. **Risk factor:** mutual funds may be risk free or risky. Risk free mutual funds generally invest bonds and government securities. Hybrid or equity linked funds invest in stock markets. The hybrid mutual funds are those mutual funds which have government

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securities also and stocks also in their portfolio. Overall market risk always affects the prices of units in mutual funds which are hybrid or equity linked.

2. **Return factor:** Return is a must have factor. Without return**,** investment objectives are not complete. The investors commit their funds as per their expected returns. As per the natural risk return trade-off, mutual funds with high equity blend give more returns as compared with the mutual funds having low equity blend.
3. **Liquidity factor:** Liquidity risk means that there is the possibility for the investors that since there are fewer opportunities they are not able to sell out an investment when they want or they have a sufficient quantity.
4. **Consistency factor:** The mutual fund investments are mostly depending on the investor's need. The consistency of the performance of the funds can be tested by its performance referring to its standards and category average.
5. **Awareness factor:** The first step of investment in mutual funds is the alertness. If the investor is aware about the mutual fund it helps him to invest**..**
6. **Specialization factor:** As far as specialization is considered, financial literacy plays a crucial role. Financial literacy is important if the mutual fund is expanding to smaller cities.

This is the era is of innovative investment, investors are best for innovative investments and are they are more focussed for the digital transactions, online banking, shopping and investment through the digital modes, they are capable enough to solve the matters related to investment. Savings in the bank, PPF through bank and the savings in the post offices were the preferred options for the investors for their investments but at present as the investors are more aware and they had a good knowledge in the field of investment they know how to diversify their savings and convert it in investment for better returns for which most of them would rather invest in the mutual funds in comparison to different option of investment. Mutual fund investment allows their investors to communicate with capital market indirectly. Selection of mutual fund can be done on the basis of various preferences such as age of the investor, financial situation of the investor, capacity of the investor to take risk and the expectations of the investor in terms of returns from their investment in mutual funds. Mutual funds are always systematized by the experts, they give high liquidity, they provide saving schemes which are linked with equity for saving the taxes along with the investment.

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Literature review

Devi & Joseph (2017) studied that past performance of the funds is the basic factor which is considered by the investors. Even though the performance of the past is not the assurance of future performance, it is one of the most important factors which are considered before investing in mutual funds. Since there is great influence of the print media as the source for the investors of mutual funds in taking their decisions, companies of mutual fund can create awareness and provide information which is required by the investors through the print media. The study explores a significant relation betwixt the sources of information and the criteria of the selection of fund by the investors. Although the relation between these two is seems to be low, the dimension of the advise by the experts has a correlation with the factors of the selection of fund. **Singhal & Manrai (2018)** found that the awareness of the investor and the fundamental factors had a very crucial part in the process of decision for the investment in mutual funds. **Trivedi, Swain & Dash (2017)** studied that funds with low risk and the schemes for the liquidity of fund has a great influence on the knowledge of the investor for their investment in mutual funds. The research is analysing the relation betwixt the decision of the investment and the factors such as liquidity, awareness of finance, and demography. **Zafar, Maqbool & Khalid (2013)** found the ways which can help the companies of mutual fund to understand and judge the expectations of the investors of the retail field in the city of Lucknow. The survey gives the facility to the mutual fund companies to learn the expectations and preferences of their customers so that they can provide and offer the better services as per their demands. **Gangwar & Singh (2017)** reveals the behaviour of investors for their investments in mutual funds in the city Allahabad. Saving their money and fighting with the downturns of life is the first and foremost aim of the investors. Others are investing in plans which save their tax and increase their returns also. Majority of investors use to save 10-25% of their income. According to their research, there are investors who are not aware of mutual funds but they invest in mutual funds by relying on the advice of others. Investors decide to invest in various plans of mutual funds and in bank savings also. The most common plans preferred by the investors are tax saving plans and balance plan. When investing in mutual funds the most preferred one is the systematic investment. Most of the investors like to invest by the physical means in comparison to investing online. **Kothari and Mindargi (2013)** explore the influence of various demographic factors on the investor's opinion for the mutual funds. The study also throws light on the advantages of mutual funds.

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They reveal that in general investors had no opinion for their investments in mutual funds. **Prabhavathi and kishore (2013)** studied the opinion, awareness and the mutual fund investor's preferences. The most preferred plan is the systematic investment and financial advisors and banks are their primary source to get the information. Investors choose the mutual funds mostly for professional fund management and to get good returns and took the funds mostly by the Net asset Values and their performances in the past. Through the study it is easy to understand the investor's view and behaviour derived from their preferences. It is seen that the investors are very careful in choosing the schemes, sectors and different asset management companies. There is a great expansion in the industry of mutual funds, if it is coordinated in a good way by the market regulators with their strict rules and regulations, they can be established well in the developing market economy. **Raju, Manjunath & Sachin (2018)** reveals that with the aim of savings the investors having low earning prefer to choose the systematic investment plan and the investors who had good earnings prefer to invest their money in mutual funds. This clearly shows the expansion of Indian mutual fund industry. Due to the lack of awareness and knowledge of mutual fund investment the low income investors do not invest in them. **P.R and Murthy (2013)** studied that the investors had a positive opinion for mutual fund investment. Most of the investors preferred to invest in mutual funds as they think that it is a safe mode of investment to get good returns. In terms of socio economic factors such investor's age, their gender, qualification, earning and occupation encourages the perspective of investors for the mutual funds. The savings of the investor does not influence the investor's attitude. **Amsaveni and Ranjini (2018)** studied the attitude of the investors for mutual funds. It is found that the investors had positive and good opinions for the mutual fund investment. Majority of investors feels that there is a high risk in mutual fund investment and the same time they feel that the returns are also good. The investors had positive opinion since they are not aware of the risk factors. **Wadhwa, Vashist & Kaur (2015)** reveals that the most concerned factors by the investors of mutual funds are the returns and ratings given by the credit agencies. It is analysed that the financial literacy plays an important role in taking the decision to invest in mutual funds.

Objective of the study

- To find out the factors considered by the investors for the mutual fund investment in India.

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- To find out whether the factors Influencing the Mutual Fund Investment are significant or not.
- To find out the association between the Preference for Investing in Mutual Funds and Level of Financial Literacy.

Hypothesis of the Study:

Ho The factors influencing mutual fund investments are not significant
Ha The factors influencing mutual fund investments are not significant
Ho There is no difference between the preferences for investing in mutual funds and level of financial literacy
Ha There is a significant difference between the preferences for investing in mutual funds and level of financial literacy

Methodology

The present study is exploratory cum descriptive study is conducted in order to explore the factors those are considered by the investors for the mutual fund investment in India. A standard questionnaire was developed to collect the information from the investors to analyse the factors. A survey was conducted to collect the data from a sample of 210 respondents (139 male and 71 female) through the circulation of forms. The sampling method was purposive sampling. The questionnaire was got filled only from those who have invested in mutual funds a lump-sum amount of minimum Rs. 50,000 or have a running SIP of at least Rs. 3000 per month. Mean Score, T-test and Chi-square test have been applied to analyse the data including hypotheses testing.

Findings of the study

Table1. Demonstrates the demographic profile of the respondents that are surveyed. It shows their gender, age, qualification, occupation, area and monthly income. The total number of the participants is 210 in which 66.2% are males and 71% are females in which 14.8% are below 30 yrs of age and others are 25.2%, 32.8%, 27.2% from the age group of 31-40 years, 41-50 years, above 50 years respectively. Among these 31.8% are under graduates, 24.3% are graduates, 33.8% are post graduates and 28.1% hold other degrees in which the salaried are 36.2%, 38.6% are self employed and 25.2% are retired from their job. As their monthly

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income 15.7% earns below Rs.10, 000, 24.3% had a monthly income of Rs. 10,000-20,000, 32% earns Rs. 20,000-50,000 and 28% of them earn more than Rs. 50,000 per month. Out of these 37.6% lives in urban area, 41.4% in the semi urban area and 21% lives in the rural area of India.

Table 1.Demographic Profile of the respondents

Variables	No. of respondents	%age
Gender		
Male	139	66.2%
Female	71	33.8%
Total	**210**	**100%**
Age Groups		
Below 30	31	14.8%
31-40 years	53	25.2%
41-50 years	69	32.8%
Above 50 years	57	27.2%
Total	**210**	**100%**
Qualifications		
Under graduate	27	13.8%
Graduate degree	51	24.3%
Post Graduate degree	73	33.8%
Others	59	28.1%
Total	**210**	**100%**
Occupation		
Salaried	76	36.2%
Self employed	81	38.6%
Retired	53	25.2%
Total	**210**	**100%**
Area		
Urban	79	37.6%
Semi urban	87	41.4%
Rural	44	21%

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Total	**210**	**100%**
Monthly income		
Below 10,000	33	15.7%
10,000-20,000	51	24.3%
20,000-50,000	67	32%
Above 50,000	59	28%
Total	**210**	**100%**

Table 2 Mean values of Factors to Consider for Investing in Mutual Fund

SI. No.	Factors to Consider for Investing in Mutual Fund	Degree of Freedom
1.	My Investment Objectives	4.09
2.	Performance of the fund in past	4.71
3.	Experience & tenure of fund manager in this field	4.33
4.	Investor's expense ratio	2.75
5.	Considering what will be exit load	2.83
6.	Services offered by fund houses	3.04
7.	Transparency between investor & fund sponsors	3.59
8.	Liquidity of the fund	4.03
9.	Considering Returns before investment	4.19
10.	Awareness of the risk factors	4.18
11.	Considering what will be the tax implications	4.40
12.	Advise of broker	3.93
13.	Proper balance of the Portfolio	3.02
14.	Considering the Volatility of the fund portfolio	3.87
15.	Considering the Brand name	4.20

Table2. Shows the Mean values of Factors to Consider for Investing in Mutual Fund. The most important factor which is considered by the investor before they invest in mutual fund is they want to know the "Performance of the fund in past" with mean value 4.71 and "what

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will be the tax implication" with mean value 4.40, they like to know the "Experience & tenure of fund manager in this field" with mean value 4.33, the "Brand name" mean value 4.20 is also one the major preference before investment and they also would like to get the complete information regarding the "returns" and the "risk factors" having the mean value 4.19 and 4.18 respectively. The factor with mean value 4.09 is "My Investment Objectives" and 4.03 is "Liquidity of the fund" which is also considered by the retail investors before they invest in mutual funds. "Advice of the broker" mean value is 3.93, "Considering the Volatility of the fund portfolio" with mean value 3.87 and "Transparency between investor & fund sponsors" with mean value 3.59 is some other factors which are preferred. There are investors who enquire about and it is important for them to know the "Services offered by fund houses" mean value 3.04 and "Proper balance of the Portfolio" with mean value 3.02. Factors like "Investor's expense ratio" with mean value 2.75 and "what will be exit load" mean value 2.83 are also there but they are less considered by the investors.

Table 3. Determination of Important Factors Influencing the Mutual Fund Investment (Results of One Sample t-test on a test value of 3)

SI. No.	Factors to Consider for Investing in Mutual Fund	Degree of Freedom	t Value	Sig
1.	My Investment Objectives	4.09	16.074	0.000
2.	Performance of the fund in past	4.71	23.716	0.000
3.	Experience & tenure of fund manager in this field	4.33	17.989	0.000
4.	**Investor's expense ratio**	**2.75**	**-2.888**	**0.002**
5.	**Considering what will be exit load**	**2.83**	**-2.061**	**0.020**
6.	**Services offered by fund houses**	**3.20**	**0.547**	**0.293**
7.	Transparency between investor & fund sponsors	3.59	8.381	0.000
8.	Liquidity of the fund	4.03	16.183	0.000
9.	Considering Returns before investment	4.19	17.791	0.000
10.	Awareness of the risk factors	4.18	17.756	0.000
11.	Considering what will be the tax implications	4.40	22.572	0.000
12.	Advise of broker	3.93	14.238	0.000
13.	**Proper balance of the Portfolio**	**3.02**	**0.248**	**0.402**
14.	Considering the Volatility of the fund portfolio	3.87	11.895	0.000
15.	Considering the Brand name	4.20	17.046	0.000

Table3. Show the determination of Important Factors Influencing the Mutual Fund Investment. T test is applied to analyse the data and it is seen that factors like "My

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Investment Objectives", "Performance of the fund in past" and "Experience & tenure of fund manager in this field" along with "Transparency between investor & fund sponsors", "Liquidity of the fund", "Considering Returns before investment", "Awareness of the risk factors", "Considering what will be the tax implications", "Advise of broker", "Considering the Volatility of the fund portfolio" and " Considering the Brand name" are the most important and significant factors which are considered by the retail investors before they invest in mutual funds and the factors like "Investor's expense ratio", "Considering what will be exit load", "Services offered by fund houses" and "Proper balance of the Portfolio" are less significant. Wherever the p value (significance) is below .05 the null hypothesis is rejected and alternate hypothesis - ***The factors influencing mutual fund investments are not significant*** is accepted.

Association between the Preference for Investing in Mutual Funds and Level of Financial Literacy

Mutual Funds investment Preference	**Level of Financial Literacy**			
	Beginner	**Mediocre**	**Proficient**	**Total**
Mutual Funds are the best	20	54	36	**110**
Mutual funds are moderately good	15	33	27	**75**
Mutual Funds are not a good Investment	12	7	6	**25**
Total	**47**	**94**	**69**	**210**
Value of Chi-square	11.2504			
Degree of freedom	4			
p value	.023			

The above table shows that the value of chi square is 11.2504 and at degree of freedom of 4 the p value is .023, which is below 0.05, hence the null hypothesis is rejected and alternate hypothesis is accepted that ***There is a significant difference between the preferences for investing in mutual funds and level of financial literacy.***

The frequency count in the table shows that those who are more financial literature, consider the mutual funds investments better.

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Conclusion

The expansion of mutual fund investment in India had a great importance. In comparison to other investments in financial instruments, mutual fund investment is found to be safer and gives better returns. The study concluded that the most important factor that is considered by the retail investor before investing in mutual funds is the performance of the fund in past and the study shows a significant association between the preference for investing in mutual funds and level of financial literacy.

The mutual funds investment has also been preferred by the investors because investment through SIP – systematic investment plan is also possible in them. SIP gives benefits of rupee cost averaging and in long term it also gives the benefit of power of compounding. SIP returns generally beat the returns of fixed deposits of banks in the long term.

To expand the financial sector, it is important for the mutual fund companies to create the strategies so that it can satisfy the investor’s expectations. At present the biggest challenge for the mutual fund industry is to attract the investors and make them invest in real. New and innovative schemes are required to expand and develop the mutual fund industry.

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