AMERICAN JOURNAL OF BUSINESS AND MANAGEMENT RESEARCH ISSN (Online) - 2691-5103
Volume 1, Issue 2 ISSN (Print) - 2693-4108

Investors' Perception about Investment in Mutual Funds: A study in Kolkata

Bikas Chandra Mandal[*], Rajarshi Bose[**], Rahul Ghorai[***]

ABSTRACT:

The present study is based on the savings and investment practices of the investors and preferences of the investors for investment in Mutual Funds in Kolkata. An attempt has been made to understand the investors' preferences in mutual fund investments. It is found that majority of investors are graduate and above and within age group of 30 to 40 yrs. It is surprising that majority investors are from the lower middle income group having income from 1 lakh to 5 lakhs and the most preferred Portfolio is Equity showing high risk appetite of the investors.

Keywords: Mutual Funds, Asset Management Company, Systematic Investment Plan, One Time Investment, Equity, Debt, Net Asset Value, Securities.

---

[*]Assistant Professor, MBA Department, Institute of Engineering and Management, Salt Lake, Kolkata, India

** Tax Analyst, Ernst and Young LLP, Kolkata, India.

*** Financial Analyst(Audit), PricewaterhouseCoopers Pvt. Ltd., Kolkata, India.

Introduction:

A mutual fund is a collective pool of fund which is managed professionally by fund managers and the pool of money are then engaged in different forms of investments like bonds, stocks, short term money market instruments and other forms of securities in a view to appreciate the value of the investors' pool of fund. The main aim of a fund manager, who is also called a portfolio manager, is to trade the funds' underlying securities, realizing capital gains/losses, andis able to collect the interest income or dividend. The proceeds of the investments are passed on to the investors proportionately as per their invested capital. The NAV which is the dynamic value of a share of a specific mutual fund is calculated daily based on the total valuation of the fund divided by the number of shares currently issued and outstanding.

The mutual fund is a financial instrument put in place for the common aim of multiple number of investors who share a common financial goal among themselves. This pool of money is invested in order to meet a fixed objective. The word "Mutual" in mutual fund denotes the joint ownership of the pool of money invested by several investors. The majority of the portfolio of the mutual funds basically is distributed among equity (shares), debentures and other securities. This is turn involves certain amount of financial risk involved in different funds along with probability of getting to the financial goal on that specific time frame. Thus, a Mutual Fund is the most suitable form of investment for investors having different risk appetite and are looking for appreciation of the value of their money spent in the long-term. There are different strategically oriented funds which cater to the needs of the risk appetite of every individual investor. The probability of getting a higher return of the fund is directly proportional to the amount of the risk appetite of the investor.

This is an opportunity for the common man to invest in a professionally managed, diversified pool of securities at a relatively very low cost. A Mutual Fund is an investment tool that allows everyone from very small investors to billionaires to access a well-diversified portfolio of equities, bonds and other securities as per their specific financial goal. The gain or loss of a specific fund involves the pool of money for that specific fund and thus all shareholders are affected by the same financial position. Units that are issued can be redeemed as needed apart from a few exceptions where a specific time limit is in place for redeeming the fund. Investments in securities are well-spread across a wide range of industries and sectors resulting in reduced risk. The main aim of diversification is supported by the fact that all stocks involved in the portfolio will not move in the same direct and in the same proportion at a particular time. The allocation of units to the investors is done specifically based on the quantum of money spent by them.

The ‘unit holders’ are the current investors of the mutual funds. A mutual fund unit holder is a person who has subscribed for certain number of units of a specific fund and he becomes part-owner of the assets of that fund in the same proportion as to the amount of contribution he has made with respect to the total corpus of the fund. The NAV of a particular scheme will be affected by any change in the value of the investments that has been made into capital market instruments (such as shares, debentures, etc.). Net Asset Value is defined as the current market value of a Mutual Fund scheme's assets’ net of its liabilities. NAV of a particular scheme is calculated by dividing the market value of that scheme's assets by the total number of units issued to the investors in respect to that specific scheme.

Literature Review:

The Indian Mutual Fund has three phases. The 1stphase started from 1964 and went on till 1987, and the Unit Trust of India was the only player, which had a total asset value of Rs.6700 crores by the end of 1988. The 2ndphase lies between 1987 and 1993, during which 8 Funds came into existence (6 by different banks and also1 each by LIC and GIC). The total assets under management (AUM) had grown to Rs.61028 crores by the end of 1994 and the number of schemes was 167. The 3rdphase began with the entry of private and foreign sectors in the Mutual Fund industry in the beginning of 1993. Kothari Pioneer Mutual Fund was the first Fund house to be established by the private sector in association with a foreign Fund. By 31st March 2000, 32 Funds were functioning with Rs.113005 crores as total AUM. As of end of August 2000, there were 33 Funds having 391 schemes and AUMwortha staggering Rs.102849 crores. The Securities and Exchange Board of India (SEBI),determined to control the inflow & outflow of the money that the mutual fund industry was operating, came out with comprehensive regulatory provisions in 1993 which defined the Structure of Mutual Fund and Asset Management Companies for the very first time. Mutual Funds operated by several private sectors launched in

1993 and 1994. From that time the share of the private players experienced a rapid raise.Currently, there are 44 Mutual Fund organizations in India managing 20.59 lakh crores (Bhagvandas, 2014).

Guha et al. (2007) evaluated the performance of mutual funds and identification of successful fund managers. They emphasized that market timing and stock selection for a portfolio of Remove different mutual fund schemes are essential factors for the high valuation of the fund. Nilsson et al. (2009) explained in their survey how social responsibility and financial returns influence the investment decision of investors. They surveyed 563 SR-investors and classified them in groups that dealt with the level of influence that enhances the chance of an investor investing in current schemes of different mutual funds. Rouwenhorst (2004) did a study of the emergence of mutual funds in the current economic market and traces back the history of different mutual funds. In this study, it is observed that mutual funds have evolved over the last few decades and is the primary option for small investors. The findings of this study also emphasize the fact that in the current financial market mutual funds are treated as a major investment tool. Tripati et al. (2013) conducted research relating to the growth of different mutual funds and observed that different types of mutual funds have evolved themselves during the different phases of development of mutual funds. Also, the private sector mutual funds had developed far better than public sector mutual funds based on Net Asset Value (NAV).NAV = (Total market value of all MH holdings – All MF liabilities)**/(**No. of MF units or shares).

Vyas (2012) has stated in his study different investors have different perceptions about different schemes of mutual funds. It has been found in the study that investors have different areas of focus for investing in financial securities. Thus investors always have the view that the funds should match their scheme of future planning. Only then will the investors decide to invest in certain schemes of mutual funds. Prabhabati et al. (2013) researched the preference of mutual fund investors in different asset management companies. Their study of investor has provided some specific views of different investors who were willing to invest in regular growth as compare to risky growth. Most of the investors preferred systematic investment plans over a one-time investment. Agarwal et al. (2013) found that a common man is willing to invest in mutual funds when other types of fixed and assured returns are available from the market only when the advantages of investing in riskier mutual funds outweigh the advantages. They found that the common man is prepared to invest in mutual funds when he has a record of the performance of those specific mutual funds and when the funds are giving constant higher returns. Prabhu et al. evaluated the behavior of investors taking into mind the preference of individuals with regards to their future planning. It was seen that an individual will invest in mutual funds when other securities are underperforming. When fixed returns are available in the financial market such as savings a/c, fixed deposits, etc. but mutual fund being riskier than this securities gives the prospect of higher returns in long term: the investors are willing to take that risk. Singh (2012) conducted a study where he found that there are different factors for investments by different institutional investors. He surveys different factors from investors and performed chi-square test and other weighted score tests to conclude that some major factors like higher returns, tax-free schemes, etc. attract more number of investors.

Research Methodology:

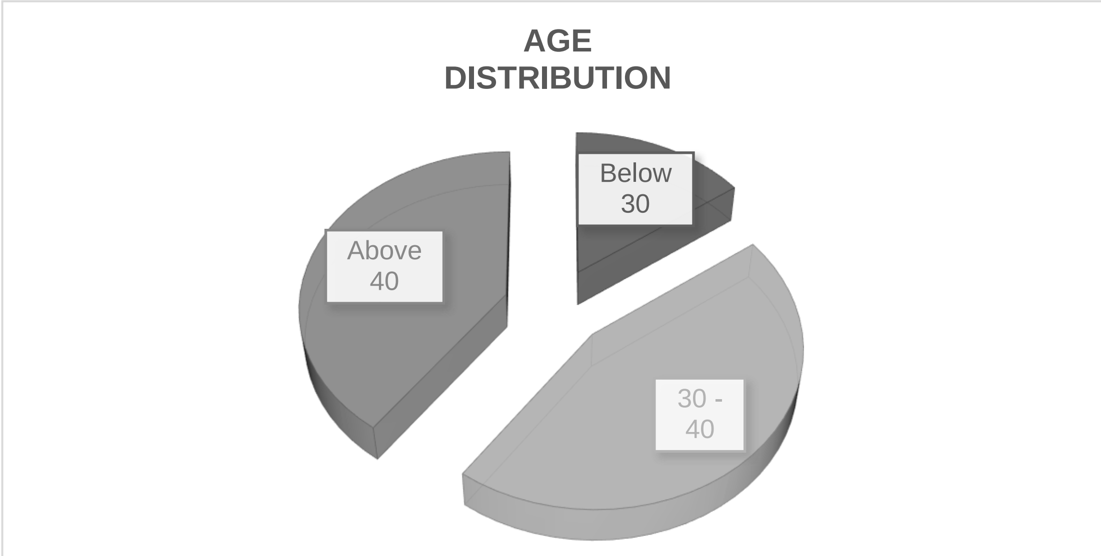
The study is made using questionnaire method and the samples were collected mainly from customers visiting different bank branches. The questionnaires were distributed to 200 samples in Kolkata. The scale used is mainly nominal scale.

Findings:

Age distribution:

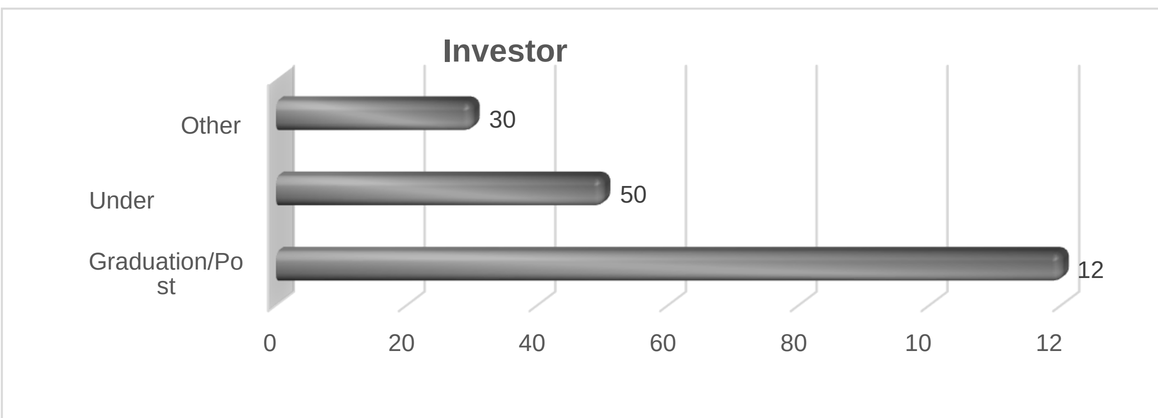
According to the study carried out in Kolkata in 2017, the maximum number of investors falls in the age group of 30-40 years. The second most Investors were in the age group of above 40 years and the least were in the age group of below 30 years.

ISSN (Online) - 2691-5103
ISSN (Print) - 2693-4108



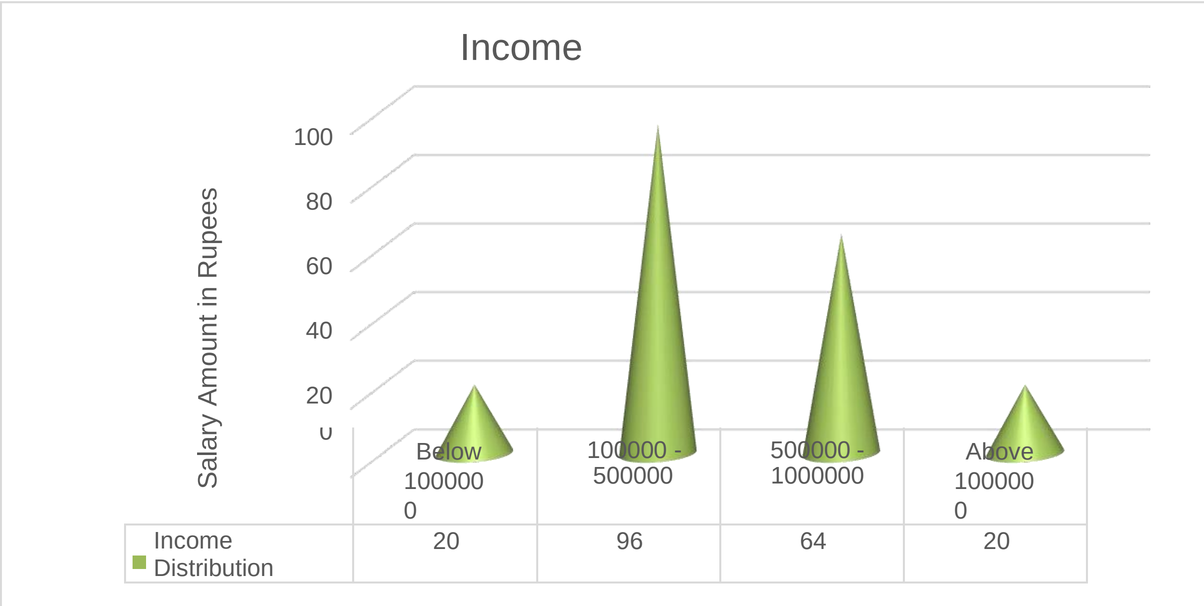
Educational background of the investors:

A Large percentage of the investors were educated with graduation and masters while below HSC were rarely found.



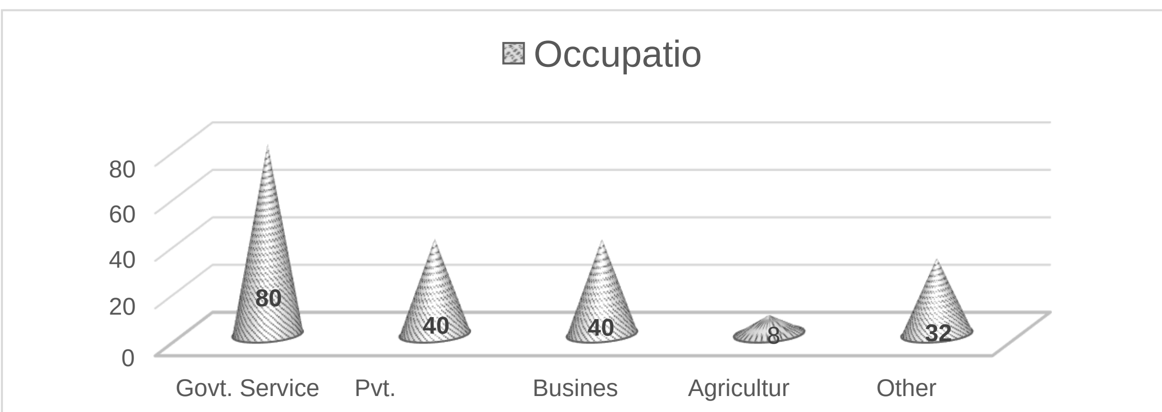
Income distribution of the investors:

In the annual Income group, between Rs.100,000 - Rs.500,000 were more in numbers invested in a mutual fund, the second most were in the Income group between Rs.5-10lakh while remaining were in the range of below Rs. 1lakh.



Occupation of Investors:

Out of 200 investors, 80 were in service with the Government sector, 40 were into Private sector companies, 40 had their own business, 8 were involved in agricultural activities, 32 investors were from other various sectors.

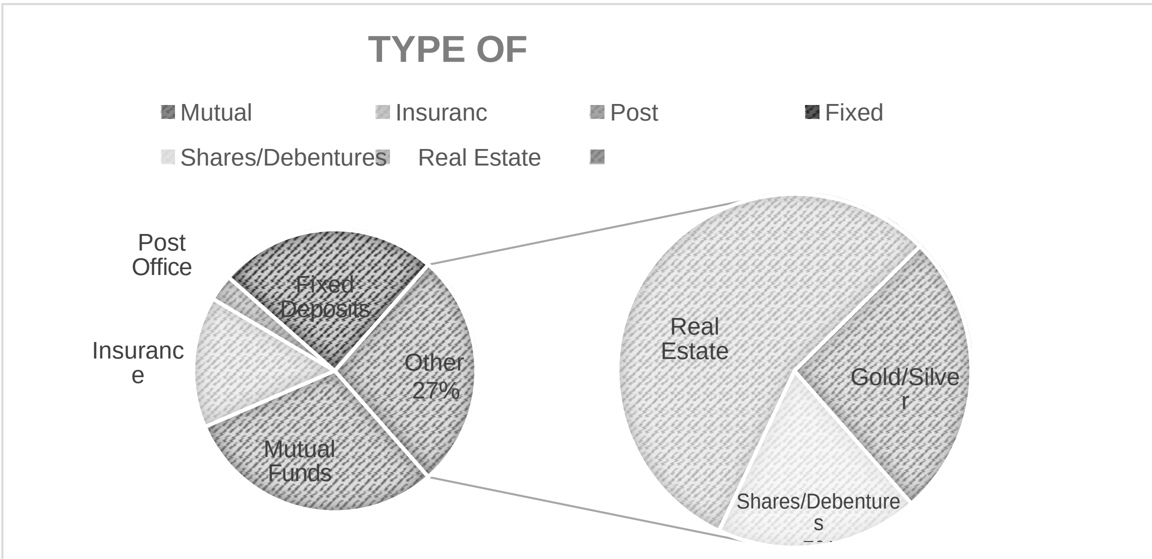


Customer preference for type of investments:

Out of 200 investors, 30% were already investing in different Mutual fund schemes, 15% were investing in Insurance products, 25% were investing in fixed deposits at different banks, 3%

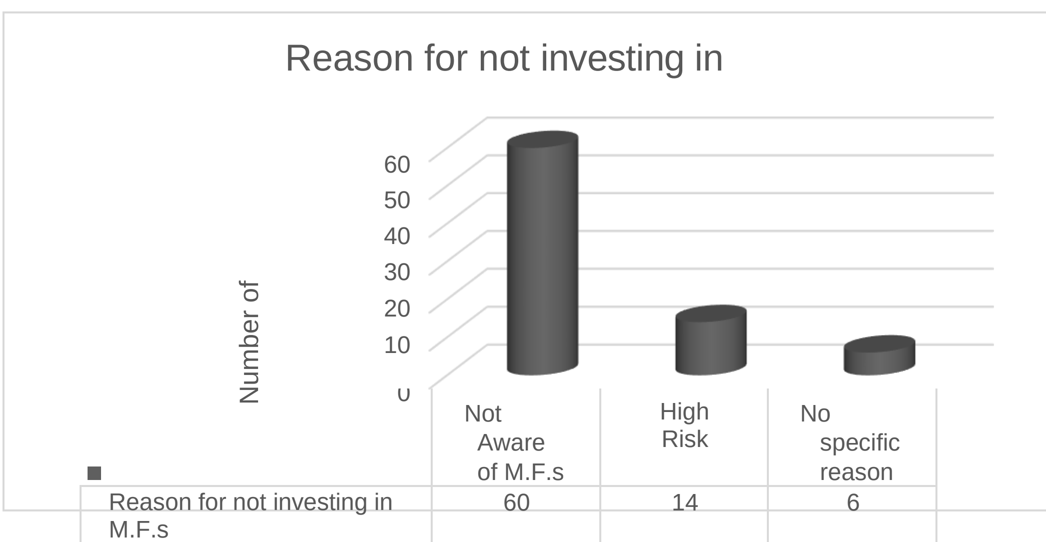
ISSN (Online) - 2691-5103
ISSN (Print) - 2693-4108

were investing in Post Office deposit schemes, 7% were in investing in gold assets, 15% were investing in real estate, 5% were investing in shares and debentures.



Reasons for not investing in mutual funds:

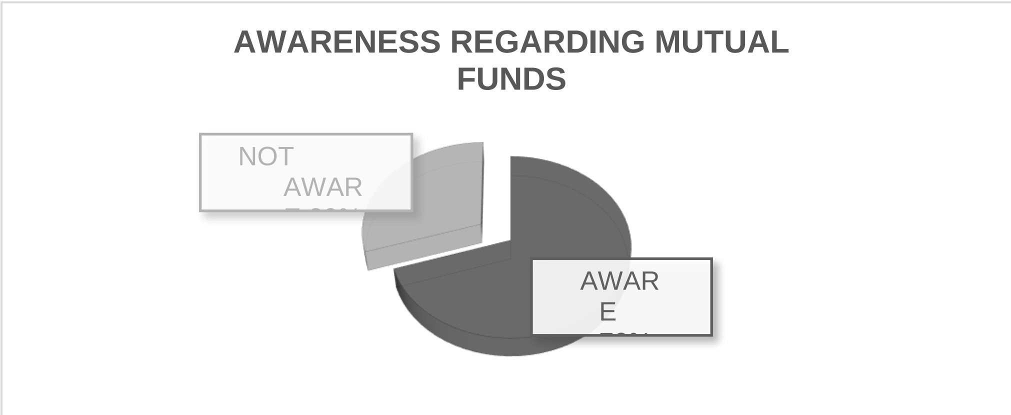
Only 70% of respondents were aware of mutual funds and out of that only 43% invested in Mutual funds. Mostly Respondents preferred High Return while investing, the second most preferred was Low-Risk funds and then liquidity and the least preferred was 'Trust'. Among 200 Respondents only 30% had invested in Mutual Fund and 70% did not invest in Mutual fund. Out of 140 people, 39% preferred One Time Investment, and 61% preferred SIP out of both types of Mode of Investment.



ISSN (Online) - 2691-5103
ISSN (Print) - 2693-4108

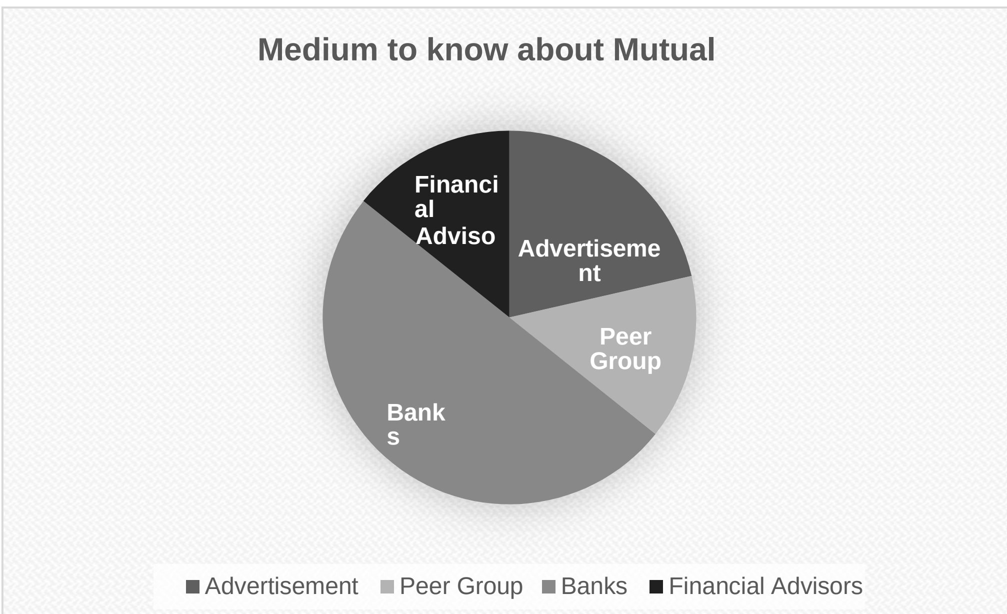
Awareness regarding Mutual Funds:

Out of 200 customers surveyed, 70% were aware of mutual funds but 30% had no idea of the existence of mutual funds.



Medium to know about Mutual Funds:

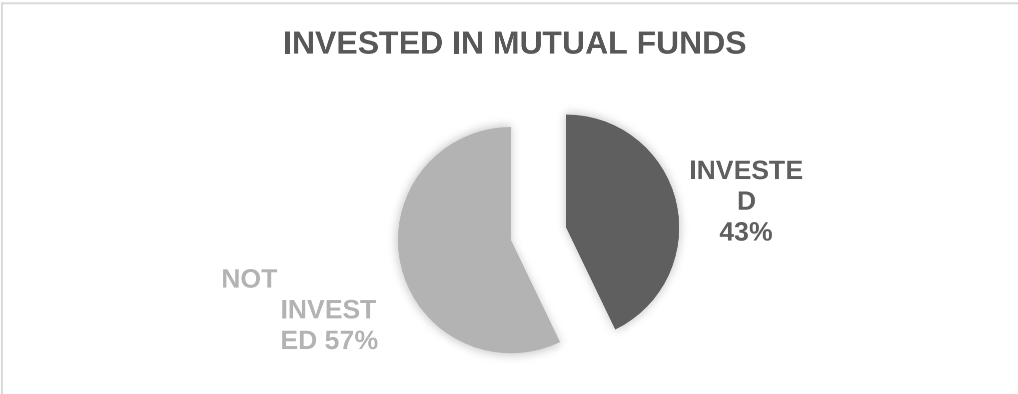
Out of 140 investors who were aware of mutual funds, 30 (22%) of them knew about Mutual Funds from advertisements, 20 (14%) of them knew from their peer group, 70 (50%) came to know about M.F.s from banks and 20 (14%) knew from their Financial Advisors.



ISSN (Online) - 2691-5103
ISSN (Print) - 2693-4108

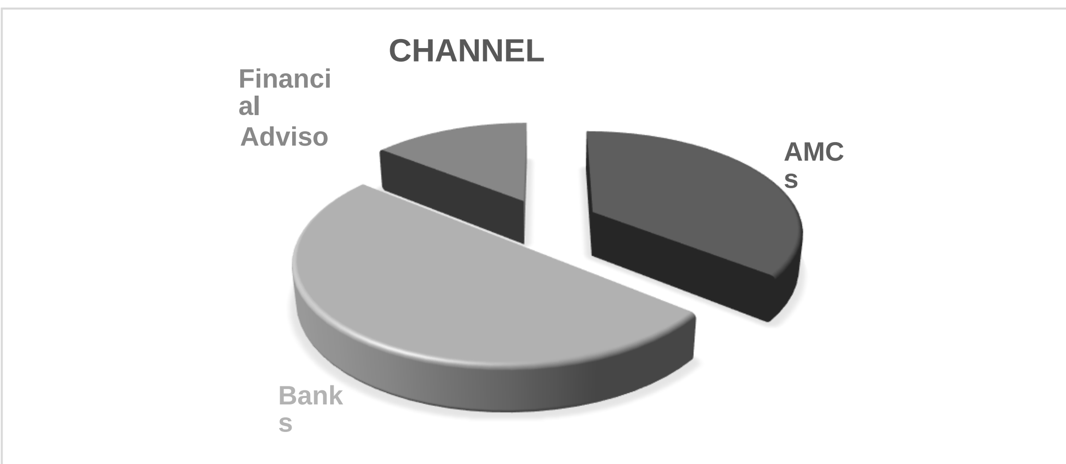
Invested in Mutual Funds:

Out of 140 customers who were aware of mutual funds, only 60 (43%) of them actually invested in Mutual Funds but 80 (57%) of them were reluctant to invest in Mutual Funds.



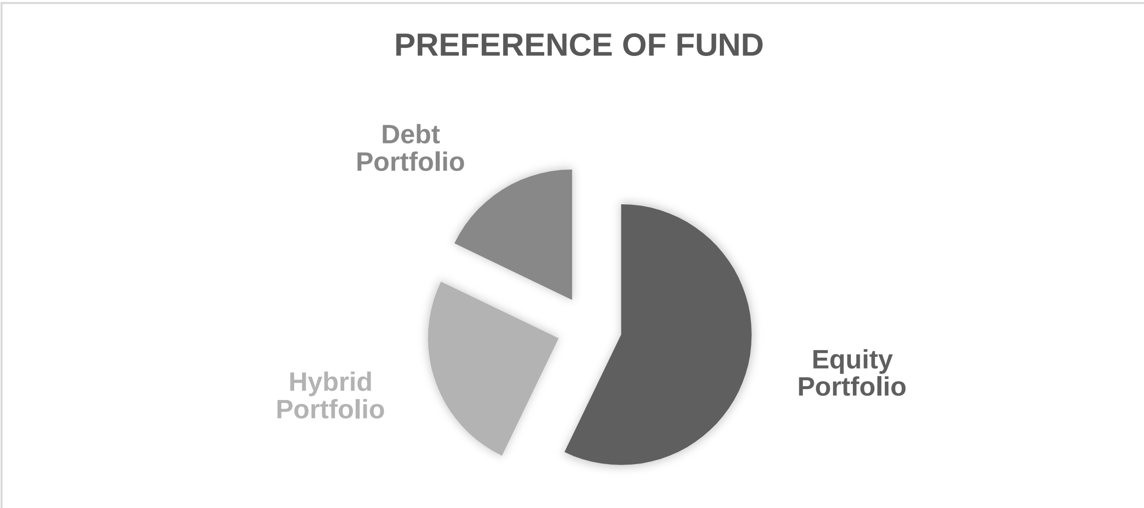
Preference of channels for investment into Mutual Funds:

Out of 140 customers who were aware of mutual funds, 50 (36%) will prefer AMCs, 70 (50%) will prefer Banks & 20 (14%) will prefer Financial Advisors.



Preference for type of fund in selecting a Mutual Fund scheme:

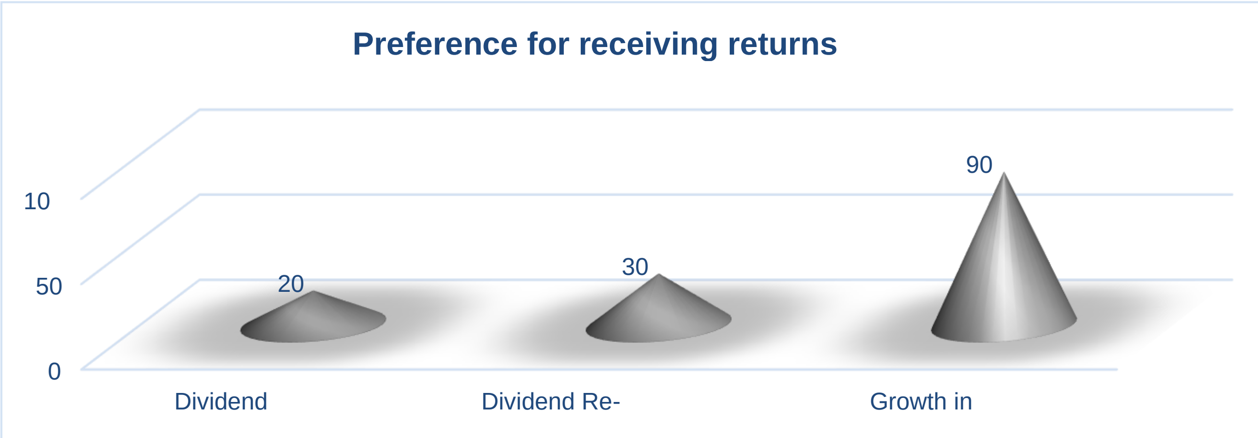
Out of 140 customers who had either already invested or were willing to invest, 80 (57%) preferred equity based portfolio, 35 (25%) preferred hybrid funds which have a mix of equity & debt; and 25 (18%) preferred debt based portfolios.



Preferences for type of returns:

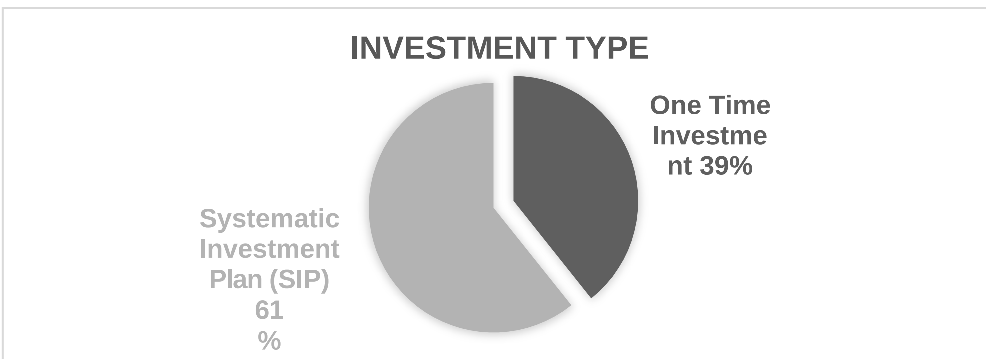
The most preferred Portfolio was Equity, the second most was Balance (a mixture of both equity and debt), and the least preferred Portfolio was Debt portfolio. Out of 140 customers who had either already invested or were willing to invest, 20 preferred Dividend Pay-out option, 30 preferred Dividend Re-investment; and 90 would prefer Growth in NAV. Thus, the maximum number of Investors preferred Growth Option for returns, the second most preferred was Dividend Pay-out and then Dividend Reinvestment.

ISSN (Online) - 2691-5103
ISSN (Print) - 2693-4108



Preference for type of investment:

Out of 140 customers who had either already invested or were willing to invest, 55 (39%) preferred One Time Investment options whereas 85 (61%) preferred Systematic Investment Plans (SIPs).



Discussion:

Mutual funds offer a lot of benefits that no other single option could offer. But most people are not even aware of what a mutual fund is? For them it is just a secondary investment option only. So it's a huge chance and challenge for the advisors to put a try on them and make them aware about mutual funds. The young investors should be the main target for the advisors. The young investors andthe persons at a height of their careermostly look after a good and knowledgeable advisors due to lack of expertise and time. Mutual Fund Companies must be assure that their Financial Advisors are well trained and fully sound about the Fund/Scheme and its objects along with the track record of different fund performance because they are the main source to influence and convince the investors.

ISSN (Online) - 2691-5103
ISSN (Print) - 2693-4108

Over the last decade, Mutual Funds have emerged as a tool for ensuring one's financial well-beings. Mutual Funds have not only contributed to India's growth story but have also helped general people tap the success of the Indian Industry. As information and awareness of mutual funds are rising, more and more people are availing the benefits of investing in mutual funds. The main reason for which the number of retail mutual fund investors remains small is that nine out of ten people with incomes in India do not know that mutual funds exist. But once people are aware of mutual fund investment opportunities, the number of people who decide to invest in mutual funds increases by 10%. The way to convert a person with zero knowledge of mutual funds to a new Mutual Fund Investor is to educate them by make them understand about the various mutual fund schemes and their track record till date.

Conclusion:

It is observed that majority of investors are graduate and above and within age group of 30 to 40 yrs. It is surprising that majority investors are from the lower middle income group having income from 1lakh to 5 lakhs followed by income group between Rs.5-10 lakh.The most preferred Portfolio is Equity showing high risk appetite of the investors followed by balanced portfolio. Only 70% of respondents were aware of mutual funds and out of that only 43% invested in mutual fund. The most important reason is lack of proper knowledge about the mutual funds. They require education about various aspects of mutual fund.

The results of this study will help the organizations to design certain strategies for the funds which are still underperforming and are in their nascent stages. It would help the organization, the financial consultants, and the marketing team to provide a strategy for the investors who can now easily decide where to invest and where not to. The Research performed gave an insight into the actual investors, their investment behavior, and their investment trends which would again help the company to make correct strategies to attract more customers and provide them with what they are comfortable with. The most vital problem spotted is of ignorance. Investors should be made aware of the benefits. If the investors are not satisfied or not been convinced with a proper investment scheme, then they might not invest. Investors should be made to realize that the delay of time may result into lesser return and early investment gives more returns for a longer span of investment. Young educated investors between 28 to 35 age groupwill be a key new customers for future, so putting more efforts on young investors who show some interest in investing may give good results. SIP is easy for a monthly salaried person as it provides the facility to do the investment in EMI. However, most of the prospects and potential investors are still not aware of the different schemes of SIP, which provides a large scope for the companies to convince the salaried persons.

Limitations and Future Directions:

This study was confined to Kolkata. The results are based on convenience sampling and therefore has certain limitations. An empirical study using simple random sampling may be conducted to find the detailed behavior and perception of mutual fund investors throughout India. The study can be made to find out what innovative schemes and products the company should offer to expand over the largest customer base. The other research questions that can be raised are: Do the investor's preference depends upon any particular Asset Management Company (AMC)? Why has mutual fund become one of the largest financial instrument? How much influence has the mutual fund industry in India has affected on the economy compared to the influence of foreign mutual funds on the economies of their respected countries from which it belongs? Should the inflow of offshore mutual funds be allowed in India to boost the Indian economy? How much competent are the existing mutual fund schemes with the upcoming schemes?

Reference:

1. Agarwal, G., Jain, M. (2013). Investor's preference towards mutual fund in comparison to other investment avenues: Journal of Indian Research (ISSN: 2321-4155) Vol.1, No.4, pp.115-131.
2. Deb, S.G., Banerjee, A, and Chakrabarti, B.B. (2007). "Market Timing and Stock Selection Ability of Mutual Funds in India: An Empirical Investigation". VIKALPA, Vol.32, No. 2, pp.39-51

3. Nilsson, J. (2008). "Investment with a conscience: Examining the impact of pro-social attitudes and perceived financial performance on socially responsible investment behavior". Journal of Business Ethics, Springer Netherlands, Volume 83, Issue 2, pp.307-325
4. Prabhavathi, Y., Kishore, K, T, N. (2013) Investor's preference towards mutual fund and future investments: A case study of India, International Journal of Scientific and Research Publications (ISSN 2250-3153), Volume 3, Issue 11
5. Prabhu, G., Vechalekar, N, M. (Year) Perception of Indian Investor towards investment in mutual funds with special reference to MIP Funds: IOSR Journal of Economics and Finance (IOSR-JEF) e-ISSN: 2321-5933, p-ISSN: 2321-5925.PP 66-74 www.iosrjournals.org
6. Rouwenhorst, K. G.(2004). The Origins of Mutual Funds . Yale ICF Working Paper No. 04-48. Available at SSRN: https://ssrn.com/abstract=636146
7. Singh, B, K. (2012). A study on investors' attitude towards mutual funds as an investment option: International Journal of Research in Management (ISSN 2249-5908), Issue2, Vol. 2
8. Tripathi, D., Shukla, A. (2013). Mutual Fund in India. IJMRR,Volume 3, Issue 11/Article No.-9/3765-3776
9. Vyas, R. (2012). Mutual fund investor's behaviourand perception in indore city: -Journal of Arts, Science and Commerce ■ E-ISSN 2229-4686 ■ ISSN 2231-4172

..........x.....o.....x...........