

Determinants of Investment Behavior of Investors Towards Mutual Funds – A Study

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Abstract

The purpose of this paper was to provide empirical evidence on investor behavior towards mutual funds by collecting into account its relationship with age, education, and occupation. A questionnaire was used to collect data from 100 mutual fund investors, and 176 questionnaires were used for the analysis. Furthermore, the simple sampling technique was used to collect data from various locations in Warangal. The findings provide better information and guidance to investors and policymakers on the factors that influence mutual fund investor behavior.

Keywords: Mutual Fund, Identifying best options, Investment behavior,

1. Introduction

India's economy is directly related to the development of the financial sector, which facilitates the efficient mobilization and allocation of resources. They mobilize household savings through various financial instruments, one of which is a mutual fund. A mutual fund is a type of financial intermediary that pools the funds of investors with similar general investment objectives and invests them in a variety of financial claims, such as equity shares, bonds, and money market instruments. These pooled funds provide proportional investment managers to thousands of investors. The term 'mutual' refers to the fact that all of the fund's returns, minus its expenses, are shared by the fund's unitholders. "Mutual Fund is called unit trust or open-ended trust - a company that invests the fund of its subscribers in diversified securities and issues units representing shares in those holdings," says Chandra Prasanna. They issue new shares on a continuous basis at net asset value and redeem shares on demand at net asset value determined daily by the market value of the securities they hold."

2. Review of Literature

Kaur and K. (2015) The study aimed to broaden the demographic of investors for mutual funds in India; it was critical for comprehending the determinants of investors' investment behaviour towards mutual funds. It was discovered that investment behaviour could be explained by awareness, perception, and motivation. Individual investors' socioeconomic characteristics. Better understanding of various aspects of mutual funds would be beneficial to mutual fund investment. Contrary to popular belief, risk perception for mutual funds had no effect on performance investment decision. It was also discovered that investors'

socioeconomic characteristics such as age, gender, occupation, income, and education had an impact on their awareness of mutual funds.

B, Nair, Sai, and N (2015) The research sought to ascertain the factors influencing mutual fund investment decisions and their preference over retail investors. It also sought to learn about the factors that discourage people from investing in mutual funds. Mutual funds were discovered to be an important class of financial intermediaries that cater to the needs of retail investors. Tax benefits, high returns, price, and capital appreciation were the most important factors influencing retail investors' investment decisions. Equity-based plans were the most popular. Furthermore, it was discovered that a bad past experience was the most significant deterrent when making investment decisions. Investor satisfaction with mutual funds was rated average.

Jyothi, (2015) According to the research, the first six factors that investors considered in their selection of fund/scheme were fund/scheme performance record, favourable rating by a rating agency, scheme's portfolio of investments, reputation of the fund manager/scheme, minimum initial investment, and product with tax benefits. It was also discovered that the factors extracted allowed for the identification of the types of investors who prioritised these factors in their fund selection techniques, namely, professional investors and image-conscious investors. The first group of investors identified the reputation of the sponsoring firm, the sponsor's ability to offer a diverse range of schemes, and the brand name as important fund sponsor qualities. The second category of investors, on the other hand, preferred the fund manager's expertise in managing money, as well as a well-developed research wing and other infrastructure, as well as a well-developed agency and network of the sponsoring firm.

Kotishwar and Khan (2014) conducted research to examine individual investors' attitudes towards mutual funds in the Telangana Region of Andhra Pradesh, as well as the performance of selected growth schemes. Income was discovered to be the most important factor influencing investor preferences and behaviour. Every investor had a specific goal in mind when making an investment decision. Every investor's motivation for investing in funds differed depending on the circumstances. The objectives reflected the investor's investment strategy, scheme selection, holding period, and so on. It was also discovered that the savings goals were limited to retirement, contingency, tax savings, asset purchase, and meeting children's educational needs. The nature and intensity of financial needs varied depending on the investor's requirements, objectives, and economic situation.

Vyas, (2012) According to the research, mutual funds are not well known among investors, who still rely on bank and post office deposits. Most investors invest in mutual funds for no more than three years before leaving the fund if the results are not satisfactory. The equity option and the SIP mode of investment were the top priorities for investors. It was also discovered that the majority of investors did not analyse risk in their investments and instead relied on their broker and agent to do so.

Mehta and Shah (2012) conducted research to learn about mutual fund investors' preferences and performance evaluation of preferred schemes by investors. It was discovered that investors under the age of 30 were more attracted by high returns, followed by low risk, liquidity, and company reputation. Investors between the ages of 31 and 40 had a strong preference for high returns. Investors between the

ages of 41 and 50, on the other hand, were evenly distributed for factors such as liquidity, high return, and low risk. Low risk was preferred by investors over the age of 50 more than any other factor. The mode preferred to receive annual returns and the type of return expected by investors were both dependent on each other. It was also discovered that when investing in mutual funds, investors preferred equity schemes. Among equity schemes, investors preferred Equity tax savings (ELSS), Equity diversified schemes, and Equity sectoral schemes.

According to **Saha and Dey (2011)**, the majority of investors prefer 'growth schemes' followed by 'income schemes' when it comes to mutual funds. The investors desired higher returns rather than consistent safe returns.

The popularity of 'open-ended' schemes was revealed by an analysis of scheme preference by nature of operation. According to the study's findings, investors place a high value on reference groups, followed by published information, and thus prefer newspapers (general and business) and financial magazines. It was also discovered that 44% of Kolkata city respondents preferred to call the office to learn more about MF. 72% of respondents had a high level of knowledge about MFs.

3. Research Methodology

3.1 The need for the Study

As the financial sector has a direct impact on India's economic growth, and according to PWC report 2022, mutual fund gross domestic product contribution was only 16% of GDP, which is very medium when compared to other developing countries, it is important to study investor behaviour in relation to investor awareness and perception of mutual funds.

3.2 Research Design and Sampling

A descriptive research design was used, and 100 investors from Warangal were chosen for the survey. Data was collected using the convenience sampling method and analyzed using the latest version of SPSS. The study proposed that investor behavior towards mutual funds is determined by mutual fund awareness and perception. For research purposes, a Likert scale related to risk perception and mutual fund awareness was developed.

4. Cross Sectional Analysis

4.1 Relationship between Age and Preference of Mutual Funds Scheme to Use/Invest in a Mutual Fund

		Age				Total
		18-25	26-33	34-41	41 & above	
Which mutual fund scheme would you prefer to use or invest in?	Open Ended	25	26	15	4	70
	Close Ended	28	1	0	1	30
Total		53	27	15	5	100

The majority of respondents (26 from the age bracket of 26-33), followed by 28 from the age bracket of 18-25, preferred to invest in Open-Ended Mutual Funds Scheme. There was no response from the age bracket of 34-41 who preferred to invest in Close Ended Mutual Funds Scheme. The highest response from the four age brackets for Open-Ended Mutual Funds Scheme to invest was 70. **There is no association between Income and Reasons for Investing in SIP Funds.**

ONE WAY ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
Preferred Reason you agree for SIP Funds– ‘You want to start early with your investing, and you want to start small.’	Between Groups	3.910	3	1.303	2.710	.042
	Within Groups	46.280	96	.476		
	Total	50.190	99			
Preferred Reason you agree for SIP Funds- ‘You want to build the saving and investing habit.’	Between Groups	1.010	3	.339	.645	.595
	Within Groups	51.145	96	.539		
	Total	52.155	99			
Preferred Reason you agree for SIP Funds– ‘You do not have lump sum amounts to invest.’	Between Groups	2.941	3	.965	.781	.500
	Within Groups	119.476	96	1.247		
	Total	122.417	99			
Preferred Reason you agree for SIP Funds– ‘You want to have convenience and less risk.’	Between Groups	.755	3	.242	.311	.809
	Within Groups	77.731	96	.806		
	Total	78.486	99			
Preferred Reason you agree for SIP Funds– ‘They average the cost of your investments and deliver superior returns with fewer shocks over the long term.’	Between Groups	1.411	3	.465	.507	.641
	Within Groups	88.536	96	.901		
	Total	89.947	99			

According to the above table, the significant value for Reason 'You want to start early with your investing and start small' is 0.042, which is less than 0.05, i.e., $0.042 < 0.05$. As a result, the Null Hypothesis, which states that there is no relationship between income and investors' desire to begin investing early and small, is rejected. Other four reasons, which are 'You want to build the saving and investing habit', 'You do not have lump sum amounts to invest', 'You want convenience and less risk', 'They average the cost of your investments and deliver superior returns with fewer shocks over the long term', showed significant values greater than 0.05, which are $0.595 > 0.05$, $0.500 > 0.05$, $0.809 > 0.05$, $0.641 > 0.05$. So, the Null Hypothesis is that there is no relationship between income and the above reasons for investing in SIP funds. There is no correlation between age and the factors that investors noticed during mutual fund promotional activities.

ONE WAY ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
You agree on the factor you noticed during	Between Groups	3.371	3	1.121	2.481	.061
	Within Groups	43.593	96	.442		
	Total					

promotional activities of Mutual Funds investment - 'Goodwill/Name.'	Total	46.964	99			
You agree on the factor you noticed during promotional activities of Mutual Funds investment - 'Size/Volume of Business.'	Between Groups	7.151	3	2.371	4.782	.003
	Within Groups	47.821	96	.482		
	Total	54.972	99			
You agree on the factor you noticed while promotional activities of Mutual Funds investment - 'Its Aim.'	Between Groups	10.601	3	3.522	4.839	.003
	Within Groups	69.874	96	.711		
	Total	80.475	99			
You agree on the factor you noticed during promotional activities of Mutual Funds investment- 'Active Client.'	Between Groups	8.003	3	2.651	3.111	.024
	Within Groups	81.920	96	.841		
	Total	89.923	99			
You agree on the factor you noticed during promotional activities of Mutual Funds investment - 'Direct Portal.'	Between Groups	2.121	3	.709	.826	.472
	Within Groups	82.031	96	.832		
	Total	84.152	99			

According to the above table, significant values for the factors 'Goodwill/Name' and 'Direct Portal' are greater than 0.05, i.e., $0.061 > 0.05$, $0.472 > 0.05$. So, the Null Hypothesis states that there is no relationship between age and the two factors mentioned above that investors notice while participating in mutual fund promotional activities. Other three factors, namely 'Size/Volume of Business,' 'Its Aim,' and 'Active Client,' showed significant values less than 0.05, namely $0.003 < 0.05$, $0.003 < 0.05$, and $0.024 < 0.05$. So, the null hypothesis that there is no association between age and the three factors mentioned above that investors noticed while participating in mutual fund promotional activities is rejected.

4.2 Age and Preference Investing in Mutual Fund from Total Income Cross Tabulation

		Age				Total
		18-25	26-33	34-41	41 & above	
Percentage of savings do you prefer investing in mutual funds from your total income	$\leq 25\%$	41	18	10	3	72
	$\leq 50\%$	10	7	3	1	21
	$\leq 75\%$	2	2	2	1	07
Total		53	27	15	5	100

Respondents' behaviour in relation to their preference for investing in mutual funds from total income, as shown in the above table, revealed that the majority of respondents, 41 from the age bracket of 18-25, preferred to invest $\leq 25\%$ of their savings from total income in mutual funds. Following that, 18 respondents aged 26-33 preferred to invest a minimum of 25% of their savings from their total income in mutual funds.

4.3 Education Qualification and Preference Investing in Mutual Fund from Total Income Cross Tabulation

		Educational Qualification				Total
		Schooling	Graduate	Post-Graduate	Doctorate	
Percentage of savings do you prefer investing in mutual funds from your total income	<=25 %	0	20	41	10	71
	<= 50 %	0	6	11	3	20
	<= 75 %	0	1	6	2	9
Total		0	27	58	15	100

According to the above table, the majority of respondents (41 Post Graduates) preferred to invest a minimum of 25% of their savings from their total income in mutual funds. Following that, 20 Graduate respondents preferred to invest =25% of their total income savings in mutual funds.

4.4 Occupation and Preference Investing in Mutual Fund from Total Income Cross Tabulation

		Occupation						Total
		Student	Home maker	Professional	Government Service	Private Service	Business/Entrepreneurship	
Percentage of savings do you prefer investing in mutual funds from your total income	<=25 %	15	2	7	4	36	13	77
	<= 50 %	4	1	1	1	8	2	17
	<= 75 %	1	0	0	1	4	0	6
Total		20	3	8	6	48	15	100

According to the above table, the majority of respondents (36 from the private service sector) preferred to invest a minimum of 25% of their savings from their total income in mutual funds. Following that, 15 students preferred to invest a minimum of 25% of their savings from their total income in mutual funds.

5. Conclusion

The majority of investors in the private sector and postgraduates preferred to invest less than 25% of their total income in mutual funds. The majority of the children were invested in mutual funds for less than three years, whereas adults were invested in open ended mutual funds schemes for a longer period of time. According to the research, mutual funds and regulators should focus more on females in order to raise mutual fund awareness. This would increase the number of investors and the flow of funds into a mutual fund.

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