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### PERCEPTION AND AWARENESS OF INVESTORS TOWARDS MUTUAL FUNDS: A TECHNICAL ANALYSIS

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**Shikha Gupta,**

Assistant Professor,

Department of Commerce,

Shaheed Bhagat Singh College, University of Delhi,

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#### ABSTRACT

The last decade has seen an enormous expansion in the size of the mutual fund industry in India. Especially, the private sector has shown galloping growth. With unmatched advances in the information technology front, increased role of institutional investor in the stock market and the role of Securities and Exchange Board of India (SEBI) still in its infancy, the mutual fund industry has gained unparalleled and unchecked power. Ensuring the safety of investment of small investors against whims and fancies of professional fund managers have become need of the hour. With this background in view, the present research was undertaken to know the perceptions of small investors (who are the most exploited lot in the Indian capital market) towards mutual funds.

**Keywords:** *Mutual Fund, Institutional investor, SEBI, Perceptions of investors.*

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#### INTRODUCTION

With the growing emphasis on the adoption of a system based on the capital markets to further economic growth, the role of mutual funds have assumed greater importance. However, the scope and efficiency of mutual funds depends largely on basic economic structure, the interrelationships between the financial and real sectors, the institutional arrangements, overall policy environment and resultant perceptions of investors.

#### OBJECTIVES OF THE STUDY

With this background in view, the study was undertaken to track investor's preferences and priorities (occupation – wise as well as age– wise) towards different types of mutual fund products and to identify key features of a mutual fund for deciphering sustainable marketing variables in the design of a new mutual fund product. Specifically it aims to:

- 1) Analyse investors' awareness and perception towards investment in mutual funds.
- 2) Understand the various factors that affect selection of mutual fund schemes directly or indirectly; and
- 3) Present a summarized picture of different qualitative aspects which are essential to secure investors' patronage to a mutual fund.

#### DATABASE AND RESEARCH METHODOLOGY

**Sample Size:** A questionnaire considering various parameters of perceptions of investors towards mutual funds was constructed and was mailed to 400 investors. 273 responses were received out of which 260 responses were found to be usable. The respondents were further classified on the basis of occupation, age, education and income.

**Period of Study:** 1-Mar-2010 to 28-Feb-2011

#### Statistical Techniques used:

1. **Weighted Average Scores (WAS)** – To find out the weightage given by investors to a given factor rated by them on a five-point scale.
2. **Mean ( $\bar{X}$ ) and Median (Me)** – To find out the extent of investors preference for given investment avenues.

3. *Chi-Square test* ( $c^2$ ) – To find out, do the respondents differ in their preference for different factors, both occupation-wise and age-wise.
4. *Analysis of Variance* (ANOVA) – To find out similar or differential preferences of occupational and age groups both within different factors and between groups also.

## DATA ANALYSIS AND INTERPRETATION

### 1. Investment in Mutual Funds

The investors were asked whether they invest or intend to invest in mutual funds. Their responses have been presented in Tables 1.1 and 1.2 respectively.

**Table 1.1**  
**Investment in Mutual Funds (Present)**

Attribute	No. of Respondents	Percentage (%)
Yes	211	81.15
No	49	18.85
<b>Total</b>	260	100.00

**Table 1.2**  
**Intention to invest more in Mutual Funds (Future)**

Attribute	No. of Respondents	Percentage (%)
Yes	154	59.23
No	106	40.77
<b>Total</b>	260	100.00

Table 1.2 shows the intention of investors to make additional investment in mutual funds in future. Out of total 260 respondents, 106 (40.77%) who had invested in mutual funds in the past do not intend to invest anymore in mutual funds in future. Hence, out of 211 present investors, 105 intend to remain invested or plan to make additional investments, while 106 intend to opt out of them.

It could be inferred that a large number of investors are moving away from mutual funds. Almost half, i.e. 50% of existing investor (106 out of 211) have decided to opt out of mutual fund investment because the investment in mutual funds is being considered as unsafe.

### 2. Form of Investment Preferred

The respondents were given a list of 10 investment avenues in which they would prefer to invest and were asked to assign ranks from 1 to 5 in the descending order of their preference. From the responses recorded, mean values ( $\bar{X}$ ) were calculated. These are presented in Table 1.3.

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Table 1.3

## Form of Investment Preferred

S.No.	Form of Investment	Mean Value $\bar{X}$	Rank
1.	Real Estate	2.32	10
2.	Shares / Debentures	2.63	9
3.	Mutual Funds	3.09	6
4.	Fixed Deposit	3.13	4
5.	Post Office Schemes	3.42	3
6.	PPF	2.92	8
7.	UTI Schemes	3.03	7
8.	Gold	3.70	1
9.	LIC Policy	3.12	5
10.	NSC, NSS Schemes	3.45	2

The analysis of the Table 1.3 reveals that 'Gold' with mean value (3.70), 'NSC schemes' (3.45) and 'Post-office schemes' (3.42) have been ranked at first, second and third place among different forms of investments available. It confirmed the preference of investor for Gold because of safety of investment. Again 'NSC schemes' and 'Post office schemes' have been ranked above other forms of investment perhaps because of tax benefits and Government backing.

### 3. Factors influencing choice of a mutual fund

There are a number of factors that affect the decision to choose a particular mutual fund for making investment. For this purpose six factors have been considered. Respondents were asked to rate each of these six factors in order of their significance to them. For analysis, **Weighted Average Scores (WAS)** having been calculated as per the following criteria:-

Scale	Weights
Very Significant (VS)	+2
Significant (S)	+1
Neither Significant Nor Insignificant (NSNIS)	0
Insignificant (IS)	1
Very Insignificant (VIS)	2

**Table 1.4**  
**Weighted Average Scores of Factors Influencing Fund Choice**

S.No.	Weights Factors	+2			+1			0			-1			-2			□ WAS
		VS			S			NSNIS			IS			VIS			
		NR	%	WAS	NR	%	WAS	NR	%	WAS	NR	%	WAS	NR	%	WAS	
1	Past Performance	146	56.2	1.124	94	36.2	0.362	17	6.5	0	2	0.8	0.008	1	0.4	0.008	1.47
2	Growth Prospects	127	48.8	0.976	115	44.2	0.442	16	6.2	0	2	0.8	0.008	0	0	0	1.41
3	Credit Rating	80	30.8	0.616	111	42.7	0.427	49	18.8	0	20	7.7	0.077	0	0	0	0.96
4	Market Speculations	46	17.7	0.354	104	40.0	0.40	85	32.7	0	14	5.4	0.054	11	4.2	0.084	0.62
5	Disclosure of Adequate Information	92	35.4	0.708	107	41.2	0.412	74	17.3	0	15	5.8	0.058	1	0.4	0.008	1.05
6	Early Bird Incentives	40	15.4	0.308	70	26.9	0.269	67	25.9	0	69	26.5	0.265	14	5.4	0.108	0.20

NR = No. of Respondents; VS = Very significant; S = Significant, NSNIS = Neither significant nor insignificant; IS= Insignificant; VIS = Very insignificant

An examination of Table 1.4 reveals that the most important feature that attracts the investors while choosing a mutual fund scheme is the past performance of the scheme (WAS 1.47) and the growth prospects that affect stability of returns in future (WAS 1.41). Early bird incentives (WAS 0.20) is considered as least important factor while choosing a mutual fund scheme.

## 2. Preference for Mutual Fund Schemes

The respondents were asked to show their preferences for different types of mutual fund schemes. The responses so collected are presented in the Table 1.5

**Table 1.5**  
**Type of Fund Scheme Preferred**

S.No.	Fund Scheme	Code	Responses	Percentage
1	Growth (Equity)	Type -1	129	49.62
2	Income (Debt)	Type -2	60	23.08
3	Balanced	Type -3	34	13.08
4	Sector-specific	Type -4	3	1.15
5	Tax-benefit	Type -5	12	4.62
6	*Type 1&4		2	0.77
7	Type 1&5		11	4.23
8	Type 2&5		6	2.31
9	Type 3&5		3	1.15
<b>Total</b>			260	100

\* Stands for combination of above referred schemes. E.g. Type 1&4 stands for sector specific growth-oriented mutual fund scheme and soon.

On examining the given Table 1.5, it is observed that majority of the investors' preferred growth schemes (49.62%) followed by income (23.08%) . Sector-specific (1.15%) and Tax-benefit (4.62%) schemes are always floated as one of the combination with growth, income or balanced schemes only but vice-versa is not true.

### 3. Returns from a MutualFund

The respondents were asked to express their experience regarding return received from a fund on their investment in mutual fund over the scale ranging from very high to very low. Out of 260 respondents, responses of present investors (211) have been analyzed. Table1.6 shows the responses.

**Table 1.6**  
**Returns from a Mutual Fund**

S.No.	Returns Scale	Frequency	Percentage
1	Very high	1	0.5
2	High	43	20.4
3	Reasonable	78	36.9
4	Low	50	23.7
5	Very Low	39	18.5
<b>Total</b>		<b>211</b>	<b>100.0</b>

On examining Table 1.6 it could be inferred that 78 (36.9%) respondents said that they have received reasonable returns on their investment.50 (23.7%) respondents said the returns received have been lower than expected. On the other hand 39 (18.5%) respondents received very low returns against their expectations.

### 4. General Perceptions of Investors towards MutualFunds

Funds mobilization by mutual funds in India has been on the increase though the trend has shifted in favor of private sector funds since their inception in 1993. As the money invested in these funds comes out of the hard earned savings of investors, therefore, it becomes relevant to study what they perceived about these funds. For this purpose, **Weighted Average Score Analysis** conducted.The investors were asked to express their level of agreement in relation to fourteen statements / communalities over a five-point scale. These statements were framed considering the developments in the mutual funds industry over time. Weights were assigned to their responses and presented.

Table1.7

## Weighted Average score and Ranking of General Perception of Investors towards Various Facets of Mutual Funds

S.No.	Weights Statements/ Communalities	+2 SA			+1 A			0 NAND A			-1 DA			-2 SDA			□ WAS	Ranks
		NR	%	WAS	NR	%	WAS	NR	%	WAS	NR	%	WAS	NR	%	WAS		
1	MFs are useful for small investors	58	22.3	0.446	11 1	42.7	0.427	61	23.5	0	27	10.4	0.104	3	1.2	0.024	0.74	4
2	MFs give higher return than other investment avenues	19	7.3	0.146	81	31.2	0.312	75	28.8	0	70	26.9	0.269	15	5.8	0.116	0.07	14
3	MFs are healthy for Indian environment	24	9.2	0.184	98	37.7	0.377	92	35.4	0	38	14.6	0.146	8	3.1	0.062	0.35	10
4	Higher tax shield be provided for MFs	48	18.5	0.37	11 0	42.3	0.423	70	26.9	0	29	11.2	0.112	3	1.2	0.024	0.66	6
5	Private sector MFs perform better	11 4	43.8	0.876	88	33.8	0.338	45	17.3	0	10	3.8	0.038	3	1.2	0.024	1.15	1
6	MFs with large corpus performs better	35	13.5	0.27	90	34.6	0.346	84	32.3	0	47	18.1	0.181	4	1.5	0.03	0.40	9
7	MFs having balanced portfolio only gives better returns	46	17.7	0.354	96	36.9	0.369	85	32.7	0	33	12.7	0.127	0	0	0	0.60	7
8	Close-ended MFs are less risky	34	13.1	0.262	83	31.9	0.319	88	33.8	0	47	18.1	0.181	8	3.1	0.062	0.34	11
9	Public sector MFs are more secured than Private sector MFs	37	14.2	0.284	72	27.7	0.277	85	32.7	0	59	22.7	0.227	7	2.7	0.054	0.28	13
10	Open-ended MFs should also be listed on stock exchanges	67	25.8	0.516	10 7	41.2	0.412	62	23.8	0	23	8.8	0.088	1	0.4	0.008	0.83	3
11	NAV of close ended MFs should be disclosed on day-to- day basis	54	20.8	0.416	12 1	46.5	0.465	52	20.0	0	25	9.6	0.096	8	3.1	0.062	0.72	5
12	MFs investment is like owing any other asset	33	12.7	0.254	96	36.9	0.369	68	26.2	0	54	20.8	0.208	9	3.5	0.07	0.34	11
13	MFs investment provides a shield against risk of loss of direct investment in shares	51	19.6	0.392	10 2	39.2	0.392	63	24.2	0	37	14.2	0.142	7	2.7	0.054	0.59	8
14	MFs have better professional expertise than individual investor	89	34.2	0.684	10 5	40.4	0.404	46	17.7	0	17	6.5	0.065	3	1.2	0.024	1.00	2

NR = No. of Respondents; SA = Strongly agree; A = Agree =, NANDA = Neither agree nor disagree; DA = Disagree; SDA = Strongly disagree

On analyzing table 1.7, it is clear that majority of the respondents overwhelmingly feel that mutual funds in private sector perform better (WAS 1.15). It shows the extent of dissatisfaction and disillusionment which the investors feel towards public sector mutual funds like UTI and LIC. This is in spite of the fact that funds in the private sector are perceived to be more risky.

To sum up the above analysis, investors' perception that private sector mutual funds perform better should be a wakeup call for public sector funds. Also, open-ended mutual funds should be listed on stock exchanges has emerged as important requirements for the investors.

### **7. Factors Responsible for Investor Dissatisfaction and their Redressal**

The performance of any mutual fund depends upon two major factors- the trends in the capital markets of the country and, the effectiveness of fund manager to time the market, i.e. how quickly the fund manager moves out of high beta-coefficient investment on sensing the onset of bearish trend in the markets. Whatever have been the reasons, the majority of the mutual funds, so far, have not been able to come up to the expectations of investors. To study the specific factors that lead to overall disillusionment and dissatisfaction of investors, **Weighted Average Score Analysis** was conducted.

The respondents were asked to express their level of agreement to the nine statements / communalities that explain the reasons behind overall dissatisfaction and disillusionment towards mutual funds. Weights were assigned to their responses and presented.

Table 1.8

## Weighted Average Score and Ranking of Factors Responsible for Investors Dissatisfaction from Mutual Funds.

S.No.	Weights Reasons for Dissatisfaction	+2			+1			0			-1			-2			□ WA S	Rank s
		SA			A			NANDA			DA			SDA				
		N R	%	WAS	N R	%	WAS	N R	%	WA S	NR	%	WA S	N R	%	WA S		
1	Returns from MFs have been less than expected	39	36.8	0.736	53	50.0	0.50	12	11.3	0	2	1.90	0.019	0	0	0	1.22	2
2	Regulatory bodies like SEBI and others have not been able to control funds properly	49	46.2	0.924	41	38.7	0.387	12	11.3	0	4	3.80	0.038	0	0	0	1.27	1
3	Professionally expert managers have under-performed	21	19.8	0.396	54	50.9	0.509	27	25.5	0	4	3.80	0.038	0	0	0	0.87	6
4	Growth in the unit value has been very slow	26	24.5	0.490	58	54.7	0.547	19	17.9	0	2	1.90	0.019	1	0.90	0.018	1.02	4
5	Insecurity of investment due to connivance between fund managers and corporatehouses	39	36.8	0.736	42	39.6	0.396	19	17.9	0	6	5.7	0.057	0	0	0	1.07	3
6	Non understanding of certain technical terms and conditions permitting abrupt withdrawal of scheme by thefund	20	18.9	0.378	37	34.9	0.349	38	35.8	0	10	9.40	0.094	1	0.90	0.018	0.61	8
7	Absence of any law regarding participation of fund holders in decisions concerning portfolio selection	27	25.5	0.510	45	42.5	0.425	25	23.6	0	9	8.50	0.085	0	0	0	0.85	7
8	Grievance redressal has not been effective	14	13.2	0.264	45	42.5	0.425	36	34.0	0	11	10.4	0.104	0	0	0	0.58	9
9	Management cost charged to the funds have been high	33	31.1	0.622	41	38.7	0.389	26	24.5	0	5	4.70	0.047	1	0.90	0.018	0.94	5

NR = No. of Respondents; SA = Strongly agree; A = Agree; NANDA = Neither agree nor disagree; DA = Disagree; SDA = Strongly disagree



An analysis of the responses shown in Table 1.8 indicates that investors assign great significance to the reasons 'Regulatory bodies like SEBI and others have not been able to control funds properly' (WAS 1.27), 'Returns from MFs have been less than expected' (WAS 1.22) and 'Insecurity of investment due to connivance between fund managers and corporate houses' (WAS 1.07). They have been rated as most important in that order that has resulted in repulsion towards investment in mutual funds. During the course of discussions the investors were asked about the role of financial advisors and brokers in assisting their choice of mutual fund house and scheme. It was revealed that majority of respondents perceived these financial advisors and brokers as intermediaries who are more interested in their own incentives provided to them by mutual fund houses. They are least bothered about the interest of investors.

On concluding this discussion it could be said that investors generally feel that regulatory bodies like SEBI and others have not been able to control the working of mutual funds properly and the legal framework is not appropriately designed. Moreover, the funds have under-performed as against expectation and management has been inefficient, thereby discouraging investors to keep their funds parked in mutual funds and leading to overall dissatisfaction and disillusionment.

### MAJOR FINDINGS OF THE STUDY

1. A large number of investors are moving away from mutual funds because they are being considered unsafe along with low return provider.
2. Investors consider fixed deposits with the banks and gold to be the most safe investment avenues.
3. The most important feature that attract the investors while choosing a mutual fund scheme is its past performance and the growth prospects that affect the stability of returns in future.
4. 'Return' provided on investment by a fund has emerged as the most significant criteria of appraising performance of any mutual fund. The research has also confirmed some earlier studies that the investors do not rate a fund's performance based on its size.
5. Majority of the investors base their investment decisions on the advice of brokers, professionals and financial advisors.
6. Majority of investors prefer growth schemes followed by income and balanced schemes. Sector-specific and tax benefit schemes are always floated as one of the combination with growth, income or balanced scheme but vice-versa is not true.
7. People prefer to invest in private sector mutual funds, despite the fact that they are presumed to be more risky.
8. Investors want more transparency in the working of mutual funds. 'Open-ended mutual funds should also be listed on stock exchanges' and 'NAV of close-ended mutual funds should be disclosed on day-to-day basis' have shown high factor loadings.
9. Investors generally feel that regulatory bodies like SEBI and others have not been able to control the working of mutual funds properly and the legal framework is not appropriately designed.

### SUGGESTIONS

The findings of this research may prove to be of great use to the government for streamlining the working of capital markets through its regulatory bodies like SEBI to check the exploitation of small investors who are one of the major reservoir of capital needed for economic growth of the country. The mutual funds, too, can earmark and try to improve upon their weak areas keeping in mind the factors that influence investors decision making as regards choice of a mutual fund, the facilities or options they expect from a mutual fund, their general perceptions towards mutual funds at present and the problems which they have encountered that resulted in development of aversion in the minds of investors. Mutual funds should extend full support to the investors in terms of: (a) Investment advisory service, (b) Participation in investment decision-making, (c) Ensuring full

disclosure of relevant information to investors, and (d) Consultancy regarding understandability of terms of issue of different schemes.

The above steps will go a long way in securing confidence of common investor and funds that are required for development of Indian capital market. As seen, the enormous growth of mutual fund industry, if controlled effectively, could be channelized for achieving better economic growth.

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