

# INDIAN MUTUAL FUND INDUSTRY AND THE VARIABLES INFLUENCING TO INVEST IN MUTUAL FUND MARKET: AN EMPIRICAL STUDY OF INVESTORS BEHAVIOUR

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## ABSTRACT

*Mutual funds have emerged as an important segment of financial markets and so far have delivered value to the investors. no industry can flourish without a proper regulatory mechanism . These initiatives would help towards making the Indian mutual fund industry more vibrant and competitive. Since, the need of study has been aroused in order to see the factors influencing the retail investors to prefer investment regarding the mutual funds in Rajasthan. The study is based on the formulation of the following hypotheses: Hypothesis 1: gender of the investor and risk orientation are 2 independent attributes of the investors. Hypothesis 2: Increase in age decreases the risk tolerance level. Correlation between age and risk tolerance. In order to study the factors influencing the retail investors to prefer investment in mutual funds in Rajasthan, chi square test, analysis of one-way variance. The present study looks at the small investors purchase behavior does not have a high level of coherence due to the influence of different purchase factors. If the study provokes the authority concerned to take some positive measures for expanding the scope of mutual funds investment.*

**Keywords:** *Mutual fund; Retail investors; factors influence to selection of mutual funds; Prefer investment, Indian investors, variables influencing investors decision, investors profile variables, dependent variables, independent variables, risk orientation.*

## Introduction:

The Indian capital market has been increasing tremendously during last few years. With the reforms of economy, industrial policy, public sector and financial sector, the economy has been opened up and many developments have been taking place in the Indian financial market. As a part of development in the capital market and to help the small investors, the Indian mutual fund industry has come into existence in the year 1963. Particularly in the past five years, it has become an important and dynamic sector of the Indian capital markets.

Mutual Funds (MFs) made investments worth Rs 572.00 crore and sold off Rs 599.50 crore worth of equities on July 1, 2011, according to data released by the Securities and Exchange Board of India (SEBI). Thus, MFs stood as net sellers of Rs 27.50 crore in equities on that day .In the month of July, 2011 MFs have made total investments of Rs 572.00 crore and sold off Rs 599.50 crore worth of equities, so far. In the debt segment, MFs made

investments of Rs 156.10 crore and sold off Rs 40.10 crore on July 1, 2011 as per the details available with SEBI. Thus MFs stood as buyers of Rs 116.00 crore on that day. Further, MFs have poured in total Rs 156.10 crore and have taken out Rs 40.10 crore in debt market for the month of July, so far. The Indian mutual fund industry has evolved from a single player monopoly in 1964 to a fast growing competitive market on the back of a strong regulatory framework.

## Literature Review:

1. Giridhari Mohanta & Dr. Sathya Swaroop Debasish (2011) studied that investors invest in different investment avenues for fulfilling financial, social and psychological need. While selecting any financial avenue they also expect other type of benefits like, safety and security, getting periodic return or dividends, high capital gain, secured future, liquidity, easy purchase, tax benefit, meeting future contingency etc.

2. Agapova (2011) has examined the cross-sectional differences among money market mutual funds (MMMFs) in the context of sponsoring fund families and found that flows to family non-MMMFs are negatively related to family MMMF flows, and family non-MMMF cash flow volatility is positively related to family MMMF cash flow volatility. The study has further suggested that fund family investors also use family MMMFs as cash centres by utilizing free asset transfers within the family. Application of these strategies can translate into significant benefits for the fund family and it's invested.
3. Badrinath, S.G & Gubellini, S (2011) have evaluated the return performance of long-short, market-neutral and bear mutual funds using multi-factor models and a conditional CAPM and revealed that Market-neutral funds provide a down market hedge, but bear funds do not generate the returns that investors hope for.
4. Cao, Ghysels & Hatheway (2011) have investigated two types of funds that make more extensive use of derivatives, global funds and specialized domestic equity fund and found that risk and return characteristics of these two groups of funds are significantly different from funds employing derivatives sparingly or not at all and that Fund managers time their use of derivatives in response to past returns.
5. Syed Tabassum Sultana (2010) concluded that the individual investor still prefers to invest in financial products which give risk free returns. This confirms that Indian investors even if they are of high income, well educated, salaried, independent are conservative investors and prefer to play safe. The investment product designers can design products which can cater to the investors who are low risk tolerant and use TV as a marketing media as they seem to spend long time watching TVs.
6. Agarwal, R K. et al. (2010) have reviewed that since long the performance of mutual funds has been receiving a great deal of attention from both practitioners and academics. With an aggregate investment of trillion dollars in India, the investing public's interest in identifying successful fund managers is understandable. From an academic perspective, the goal of identifying superior fund managers is interesting as it encourages development and application of new models and theories. The idea behind performance evaluation is to find the returns provided by the individual schemes especially growth funds and the risk levels at which they are delivered in comparison with the market and the risk free rates. It is also our aim to identify the out performers for healthy investments. We have also ranked the investment opportunities for better evaluation of these funds based on various adjusted ratios like Sharpe ratio, Jensen Measure, Fama ratio, Sortino ratio, Treynor's ratio and few others. Financial literature has very little studies which concentrate on multiple measures of mutual fund performance evaluation. Therefore, an attempt has been made to capture the

critical measures of performance evaluation of mutual funds.

7. Haslem, Baker and Smith (2008) investigate the relation between performance and expense ratios of 1,779 domestic, actively managed retail equity funds. They conclude that superior performance, on average, occurs among large funds with low expense ratios, low trading activity and no or low front-end loads.

#### Need for the Study :

The study is an attempt to know about the profile of the individual investor and the variables influencing to invest on mutual funds. The study also reveal the influence of demographic factors like gender and age on risk orientation of the investor

#### Objective of the Study:

1. To develop a profile of Indian individual investor in terms of their demographic
2. To know the risk orientation of the individual investor
3. To know the dependence/independence of demographic factors (gender and age )of the investor and their risk orientation.

#### Methodology:

On the responses of the questionnaire analyses have been carried out. Various statistical tools like one way Anova have been carried out. In the present study, 5 % per cent level significance of chi-square value satisfy the conditions for validity of data. Correlation is used to know the relationship between the risk orientation and age of the investors.

The questionnaire consists of 34 questions out of which first 14 questions were focused to know the demographic characteristics of the investors. Next 6 questions were to find the risk orientation of the investor and rest of the questions were to find the other objective of the study. The survey was conducted with a sample size of 524 investors.

#### Analysis of the Survey:

The demographic attributes of the investors like gender, age, employment status, monthly income, education level, earning member in the family and occupation have been discussed with the help of the graphs.

#### Graph 1:

It shows that in the demographic the **gender** of the investors is male dominating with 74.80 % male and 25.20 % female. Since the male sector have more financial responsibility as compared to the female sector.

#### Graph 2:

**Age:** In the age group it was found that age group of 30-35 has the maximum number of investor's i.e. 28.44 % which clearly depicts that the youngsters are keen to invest in the mutual fund market.

**Graph 3:**

**Occupation among the Investors:** most of the investors belong to private sector employment which consist of 41.22 %

**Graph 4:**

**Personal Income per Month among the Investors:** more than 50.4% of the investors belong to the income group of 20001-25000. With this income group the investors were able to invest some part of their salary for the investment in mutual fund market.

**Graph 5:**

**Level of education:** most of the investors are undergraduate with 30.92% while only 14.1 % of the investors were having the professional qualification

**Graph 6:**

**Number of Earning Members per Family among the Investors:** majority of the investors i.e.44.85% were having 2 earning members in the family i.e.44.85%

**Risk Orientation:**

The role of uncertainty and lack of financial knowledge about the return over investments avenues among the investors are the important component of any investment .The extend of the investors ability to tolerate these risk of return is referred to as risk tolerance (Schaefer 1978). Risk tolerance tends to be subjective rather than objective. "Two persons may well agree on the riskiness of a set of gamble, but may nevertheless prefer different gambles, rank ordering them differently according to their personal tolerance ." (Schaefer 1978)

There are various methods of estimating the investors risk orientation for example by clear understanding of the investor and his history with the investment securities and by the use of the questionnaire designed to elicit feelings about risky assets and the comfort levels of the investors giving changes in the portfolio or certain investment scenarios, based on to the responses to the questionnaire on the likert scale the scores are given to each investor according to catrgories like 1- Highly Agree-HA; 2-Agree-A;3- Moderate-M;4-Disagree-DA; 5-Highly disagree-HAD. Generally investors with low risk tolerance act differently with regard to risk

**Hypothesis Testing:**

**Hypothesis 1:** Gender of the investor and risk orientation are 2 independent attributes of the investors Conducting the one way anova at 5% level of significance ,it was found that risk leads to return and risk involves pleasure are the two variables with significance level .011 and .027( Table 1) .however the empirical investigation of gender difference in risk orientation is inconclusive (charness and geezy ,2004).most of the research which were conducted

before 1980 conducted that gender difference clearly exists while the recent study gave the mixed results .in the recent study it was found that gender still plays a vital role where investments and risk orientation are concerned generally it is considered that women are more risk averse as compared to males

**Hypothesis 2:** Increase in age decreases the risk tolerance level. Correlation between age and risk tolerance.

There is a strong negative relationship between the age and risk orientation .Age accounts for major difference in risk taking decision .With more experience the investor are in the better position to seem their performance as compared to the youngsters. Overconfidence in investment ability among the youngsters' accounts for the excessive trading resulting in lower return and decline in risk orientation

**Conclusion:**

The present study looks at the perception level of the investors towards investment in mutual funds. The small investors purchase behavior does not have a high level of coherence due to the influence of different purchase factors. The buying intent of a mutual fund product by a small investor can be due to multiple reasons depending upon customers risk return trade off. Presently, more and more funds are entering the industry and their survival depends on strategic marketing choices of mutual fund companies, to survive and thrive in this highly promising industry, in the face of such cutthroat competition. Therefore, the mutual fund industry today needs to develop products to fulfils customer needs and help customers understand how its products cater to their needs. If the study provokes the authority concerned to take some positive measures for expanding the scope of mutual funds investment.

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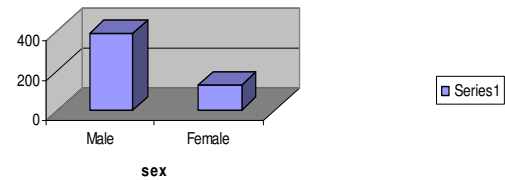
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Appendix 1:

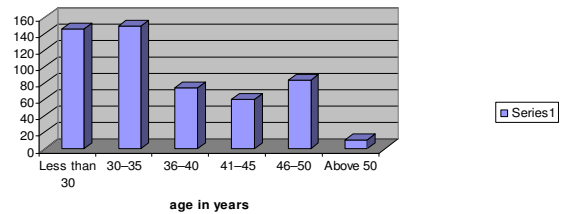
Graphs:

**Graph 1**  
sex among the investors



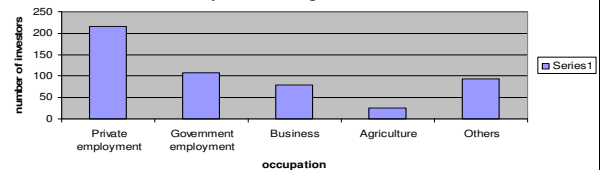
**Graph 2**

age among the investors



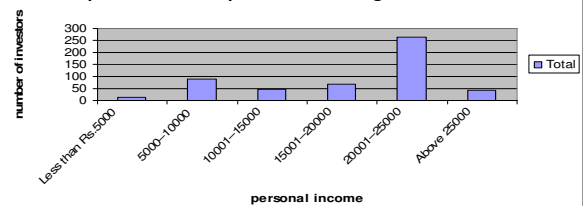
**Graph 3**

occupation among the investors



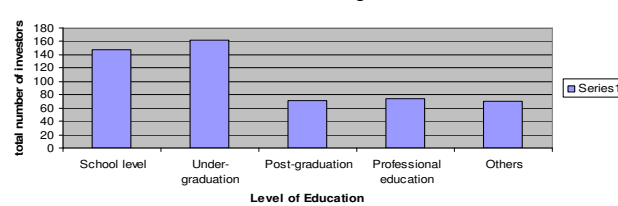
**Graph 4**

personal income per month among the investors



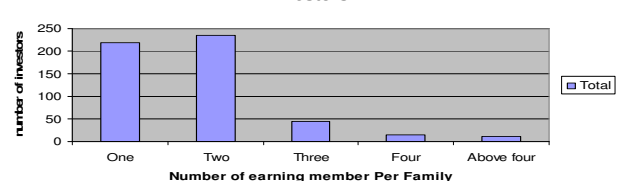
**Graph 5**

Level of Education Among the investors



**Graph 6**

Number Of Earning Member Per Family Among the investors



## Appendix 2

## Tables

Table 1: Gender and Risk Orientation  
ONE WAY ANOVA

ANOVA						
		Sum of Squares	Df	Mean Square	F	Sig.
Risk is everywhere	Between Groups	1.501	1	1.501	1.653	.199
	Within Groups	474.011	522	.908		
	<b>Total</b>	<b>475.511</b>	<b>523</b>			
Risk leads to return	Between Groups	4.837	1	4.837	6.542	.011
	Within Groups	385.993	522	.739		
	<b>Total</b>	<b>390.830</b>	<b>523</b>			
Risk is always rewarded	Between Groups	.107	1	.107	.103	.749
	Within Groups	543.550	522	1.041		
	<b>Total</b>	<b>543.656</b>	<b>523</b>			
Risk bearing is a required quality of investors	Between Groups	1.061	1	1.061	.979	.323
	Within Groups	565.738	522	1.084		
	<b>Total</b>	<b>566.800</b>	<b>523</b>			
Risk involves pleasure	Between Groups	7.904	1	7.904	4.928	.027
	Within Groups	837.292	522	1.604		
	<b>Total</b>	<b>845.197</b>	<b>523</b>			

Table 2: Correlation between Age and Risk Tolerance  
ONE WAY ANOVA

ANOVA						
		Sum of Squares	Df	Mean Square	F	Sig.
Risk is everywhere	Between Groups	.581	5	.116	.127	.986
	Within Groups	474.930	518	.917		
	<b>Total</b>	<b>475.511</b>	<b>523</b>			
Risk leads to return	Between Groups	2.217	5	.443	.591	.707
	Within Groups	388.614	518	.750		
	<b>Total</b>	<b>390.830</b>	<b>523</b>			
Risk is always rewarded	Between Groups	6.362	5	1.272	1.227	.295
	Within Groups	537.294	518	1.037		
	<b>Total</b>	<b>543.656</b>	<b>523</b>			
Risk bearing is a required quality of investors	Between Groups	15.690	5	3.138	2.949	.012
	Within Groups	551.110	518	1.064		
	<b>Total</b>	<b>566.800</b>	<b>523</b>			
Risk involves pleasure	Between Groups	9.972	5	1.994	1.237	.290
	Within Groups	835.225	518	1.612		
	<b>Total</b>	<b>845.197</b>	<b>523</b>			

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