



A study on knowledge of investors towards mutual funds

Dr. M Rajarajeswari

Assistant Professor & Head of the Department, PSGR Krishnammal College for Women, Peelamedu, Coimbatore, Tamil Nadu, India

Abstract

A Mutual fund is the ideal investment vehicle for today's complex and modern financial scenario, there has been growing importance of mutual fund investment in India, when compared with other financial instruments. Investments in mutual funds are safer and also yields more returns on the portfolio investment. Mutual fund are said to be the best channels for mobilizing the funds of the small investors and contribute significantly to the capital markets. The present study helps to understand the awareness level and preferences of investors investing in mutual fund.

Keywords: mutual funds, investors, awareness, financial instruments

Introduction

Investment planning is necessary for all individuals to achieve their financial goals. People have to plan their resources to avail the maximum benefit out of them. People plan their investment to full their major needs like financial protection, career planning, assets purchase, children's education, marriage or retirement planning.

There are various investments options for various people. Among various financial instruments, i.e., shares, bonds and debentures. Mutual Fund is a special type of financial instrument that pools the funds of investors who seek to maximize ROI. Stocks provide high total returns with commensurate level of risk, while bonds may provide lower risks along with regular income. Mutual Funds presently offer a variety of options to investors such as income, balanced, liquid, gilt, index, exchange traded and sectoral funds.

Statement of problem

The mutual fund industry in India began with the setting up of the unit trust of India (UTI) in 1964 by the government of India. In 1987 public sector banks and insurance companies were permitted to setup mutual funds and accordingly since 1987, 6 public sector banks have setup mutual banks. Also 2 insurance companies like LIC and GIC established mutual funds. SEBI formulated the mutual fund (Regulations) in 1993, which for the first time established a comprehensive regulatory framework for the mutual fund industry.

The project has been undertaken to find out the reasons as to why potential customers in Coimbatore have chosen mutual funds as an investment option. The project involves assessing the awareness level and preference among investors in the city of Coimbatore about mutual funds as an investment option.

Review of literature

An article that was published in Fund Manager November 2000 has given retail investor information in which MR. Vivek Reddy Ceo, Kothari Pioneer says "mutual funds are goods vehicles for investors seeking to achieve long term

goods. A short term orientation can be very expensive in the future and investors should invest on a regular basis in a quality diversified portfolio in order to derive optimum benefits".

In an article in Investime February 2001, MR. Nikhil Kaatau, CEO of SUN F&C says "there is going to be a number of critical elements to success in the Indian mutual fund industry. The first will be whether or not the industry can develop and maintain a reputation for integrity and develop overtime. A positive image will be significantly aided by competition which will encourage transparency and by sound regulations from SEBI and the RBI. The mutual fund industry whilst young should endeavour to try and be scandal-free by comparison. The greatest single assets can look towards would be the trust an investor puts on to the industry and this is the greatest area of risk and the greatest area of reward for the industry as we move into the future".

In a question and answer session, A.N. Shanbag said, no distribution tax to be levied in respect of any income distributed to unit holders of open-ended equity oriented funds for a period of one year commencing from 1.4.2003. This exemption will continue without any time limit. This is applicable retrospectively from 1.4.2004. This is the one and only redeeming feature of mutual funds in the budget.

Ravi Mehrotra, President Of Franklin Templeton Asset Management (India) Pvt Ltd said that, mutual funds as an investment option are growing in popularity in smaller cities and towns in the country, signalling that investors outside metros have also started to look beyond bank deposits. "The top 6-7 cities in India today account for 70-80% of mutual fund assets and the rest by others. But the smaller cities are growing much faster. He said that appetite for mutual funds growing in Koch Mysore, Surat and Ludhiana an awareness about alternative investment increases and companies had more service networks and points of presence across the country. Interest rates on bank fixed deposits have come down to 5-6% from 10-11% around 3 years ago. Many banks have started distributing mutual fund schemes, and this step too

contributed to the growth of the industry in smaller cities. In an interview, on July 20, 2004 Ajay Bagga, Ceo-Kotak Mahindra Asset Management Co. Ltd. Said tax is not the only advantage offered by mutual funds. They bring in expertise, economies of scale and disciplined approach to investing. In nearly all markets, retail investors rarely make money of their own, as markets are driven by fear and greed rather than a disciplined approach. In that perspective⁴, I would still recommended mutual funds as an investments average over direct trading.

In an interview, on September 21, 1999 MR. Srinivasan, Prudential Icici Said, “The budget this year gave the mutual funds a place in the capital market it deserves. Mutual funds have been performing well since 1996, have introduced new products and have become more transparent and the tax intensives announced in the 1999 budget made mutual fund an investment option has become more attractive”.

During the speech session on February 19, 2000 mr. N.k. Sharma, birlamutual fund said,” mutual funds are being perceived as a complete service provider for the investment public. The stature of mutual funds has been going among the professional investors in recent times unlike earlier times when mutual funds were associated with risk today mutual fund are considered to be vehicles for risk control and the entire focus has been on this theme. Also, as regards risk, the investing community has begun to realize that even debt carried nominal risk.

In an interview on October 25, 2000 Shyam Bhat, Tata Mutual Fund said. “By now the awareness level in investors about what a mutual fund has increased significantly and comparison returns from mutual funds and stocks is a thing of past. I feel that in future the inflows in mutual funds will drive by consistency in performance and if a fund’s track record is good the investor will invest in the mutual funds.

Rajat Jain, Cio, Principal Mutual Funds in an interview on 19 July, 2003 said, “ over the last four years, the mutual fund industry has been selling its product quite well. The industry has been selling its product quite well. The industry has been

very innovative, with the customers driving innovation in the industry. Mutual funds, if managed well and sold well, offer a great value proposition to investors. They offer investors high liquidity, high returns (most of the time) and more transparency, in addition to being tax efficient. Actually people should have come into mutual funds with all these factors working in their favour, but it has not yet happened. The caveat here is that mutual fund products should be sold rightly to the investors”.

On February 21, 2000 Mr. Prakash Dalal, Vice-President 7 Chief Marketing Officer of Kotak Mahindra Assets Management Company said,”SEBI has adopted a very pragmatic and positive attitude towards the mutual fund industry without compromising on investor intreset. Its attitude has been confident, firm and proactive in all respects”.

The Hindu, business line, date: 04/07/2004

In this budget wish-list, the mutual fund industry has mooted exemption from dividend distribution tax for equity funds, a cut in the small savings rate and a provision allowing mutual funds to qualify as eligible investments for exemption from capital gains tax.

Objectives

- To find out the awareness and preference level with reference to mutual funds among potential investors in Coimbatore city.

Research Methodology

The study is based on primary and secondary data. Primary data have been collected from 60 respondents through a question

aire covering different groups of peoples in Coimbatore. The secondary data have been collected from various books, magazine, journals, newspapers and websites.

Tools of data analysis

Simple percentage and Chi-square test are used for analysis.

Analysis and Interpretation

Table 1

Gender	No. of Respondents	Percentage
Sex		
Male	30	50
Female	30	50
Marital status		
Single	22	36.67
Married	38	63.33
Age		
25-40	44	73.33
41-50	10	16.67
51-58	4	6.67
>58	2	3.33
Education		
Hsc/sslc	2	3.33
Graduate	19	31.67
Post graduate	20	33.33
Professional qualification	19	31.67

Occupation		
Salaried	33	55
Professional	13	21.67
Business	11	18.33
Retired	3	5
Monthly Income		
LESS THAN RS.5,000	12	20
RS.5,000-RS.10,000	22	36.67
ABOVE RS.10,000	26	43.33
Interest		
YES	60	100
NO	NIL	NIL
Percentage of Income		
LESS THAN 10%	18	30
10%-25%	35	58.33
25%-50%	7	11.67
ABOVE 50%	NIL	NIL
Investment Horizon		
Up to 3 years	19	31.67
3-5 years	27	45
Above 5 years	14	23.33
Factors Considered For Investment		
Security of capital	20	33.33
Steady income	24	40
Appreciation Of Capital	16	26.67
Returns And Dividends		
Monthly returns and dividends	17	28.33
Quarterly returns and dividends	15	25
Cummulative returns and dividends	13	21.67
Capital appreciation	15	25
Awareness level		
Aware	53	88.33
Not aware	7	11.67
Means of investment		
Advertisement	40	75.47
Friends and relatives	6	11.32
Agents/brokers	6	11.32
Others	1	1.89
Preferred investment pattern		
Diversification	11	23.41
Potential of returns	12	25.54
Liquidity	7	14.89
Well regulated	4	6.67
Tax benefits	13	27.66

Chi- square test – age and awareness level of investors

H₀- There is a significant relationship between the age range and awareness level of investors

Table 2

Variable	Chi-square	DF	Significance
Age	17.467	3	.001
Awareness Level	49.333	4	.000

It's clear from the above chi square result that, there is a significant relationship between the age range and awareness level. Hence the hypothesis is rejected at 5% level of significance.

Chi-square test - age and factors influencing investment

H₀- There is a significant relationship between the age and factors influencing investment.

Table 3

Variable	Chi-square	DF	Significance
Age	17.467	3	.001
Factors Influencing Investment	10.000	3	.019

It's clear from the above chi square result that, there is a significant relationship between the age range and factors influencing investment. Hence the hypothesis is rejected at 5% level of significance.

Findings

The study explains that majority of the respondents are aware of mutual funds and preferred to invest in mutual funds. The people also seem to be more interested and recommending its investment to others. Tax benefit is considered as the important factors by the respondents while investing. Moreover the respondents also prefer a steady income. The risk adverse investors prefer to invest for around 3-5 years on an average.

It has been found that many investors are preferred to invest in mutual fund in order to have high return at low level of risk, safety liquidity and the investors are willing to take moderate and low level risk. In order to have more investors to invest in mutual funds, mutual fund companies have to bring some awareness program about the benefits of investing in mutual funds, and the safety and security provided by mutual fund companies in this changing stock market situation.

Conclusion

The Mutual fund industry is a service industry catering to the investment needs of the people. The study was conducted to make an analysis and preference of investors towards mutual funds. Thus from the study it was possible to find that when investors are properly educated and instilled confidence the scope for mutual funds can be widened in the future. The present investigation outlined that mostly the investors have positive approach towards investing in mutual funds. In order to maintain their confidence in mutual funds they should be provided with timely information relating to different trends in the mutual fund industry. For achieving heights in the financial sector, the mutual fund companies should formulate the strategies in such a way that helps in fulfilling the investors' expectations. Today the main task before mutual fund industry is to convert the potential investors into the reality investors. New and more innovative schemes should be launched from time to time so that investor's confidence should be maintained. All this will lead to the overall growth and development of the mutual fund industry.

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