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Safety considerations in mutual fund investments: An empirical overview

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Abstract
This study was conducted among the mutual fund investors to know future prospective of their financial plan and evaluated their awareness about mutual funds schemes and preference. The mutual fund schemes and plans are like an ocean to fetch a pearl in their history. Mutual funds have started in India in 1964. The first scheme was Unit Scheme introduced in the year 1964. In that year UTI has the monopoly over the mutual fund industry up to 1987. In 1987 government institutes were allowed to start mutual funds operations. In 1993 it has opened for private sector. The regulations on mutual funds came in the year 1996. Today there are near about 42 mutual funds companies operated in India. Moreover government is doing every effort to promote the mutual funds in India. In 1999 it has exempted the all dividend incomes in the hands of investors fully tax free. As of 31 December 2013, the Indian mutual fund industry manages assets worth approximately Rs.8,76,522 crores. Investors are the principal to invest their money in mutual funds and fund managers are played their money with effective return. Well structured questionnaire was circulated among mutual fund investors and to collected 125 investor's respondents, Convenience sampling method used to collect the samples. Data source used to describe the interpretation with the help of statistical package of social sciences.

Keywords: safety, mutual funds, investments, investors and factors

Introduction
When Investors decide to invest their money in various investment vehicles for availing income tax rebate, then financial planning is very important for such investment decision. Mutual fund is just the connecting bridge or a financial intermediary that allows a group of investors to pool their money together with a predetermined investment objective. Investors design the goal of income after the retired age and need money for the particular occasions like sons' / and daughters' marriage, education, and his / her monthly commitment after retirement life. The investor expectation is maximum return with minimum risk. Mutual fund provided the benefits like professional management, diversification, convenient administration, return potential, low costs, liquidity, transparency, flexibility, and choice of schemes, tax benefits, well regulated. After investing money in a mutual fund, returns can be earned in two forms; in the form of dividends declared by the scheme and through capital appreciation - an increase in the value of your investments. There are various expenses incurred in a typical mutual fund product, some of which are listed below:

Indirect costs
These costs are charged to the scheme and are accounted for in the computation of Net asset value (NAV). Initial issue expense: These costs include sales and distribution fees. e.g. marketing, advertising, registration, printing, bank charges etc. pertaining to the new fund offer (NFO). Annual scheme recurring expenses: These are operating charges of the scheme. Include management and advisory fees (charged by AMC), registrar and transfer agents' fee, marketing and selling costs etc.

Direct costs
These costs are directly paid by the investors and are over and above NAV. These include: Entry load, Exit load, Securities transaction tax and Income tax.

Review of previous studies
Croson, R., & Gneezy, U. (2009) [1] discussed a number of studies that demonstrated how strongly (and in what direction) social preferences manifest themselves in men and in women. They included evidence on altruism and inequality aversion from ultimatum and dictator game studies. They also included evidence on reciprocity from studies using trust and related games. Finally, they briefly mentioned a large number of older studies using the Prisoners Dilemma game and discussed in more detail various studies using social dilemmas and/or public goods provision games.
Khorana, Ajay and Nelling, Edward (1998) [3] using multinomial profit model identified that, funds with higher ratings had higher risk adjusted performance, lower systematic risk, greater degree of diversification, larger asset base, lower portfolio turnover, managers with longer tenures, lower front load and expense ratios. Persistence in fund performance was statistically significant during short time horizons. Morningstar's mutual fund ratings were based on historic risk and reward. The ratings provided useful information while selecting mutual funds. Funds in the top 10 percent of risk-adjusted scores had five star rating; next 22.55 percent received four star rating; middle 35 percent were assigned three stars, and the last two categories represented the next 22.5 percent and 10 percent. High rated funds performed substantially better than low rated funds after the issue of ratings.

Objectives of the study

- To analyze the factors determining safety in mutual funds investments.

Research methodology

Data collection method

Primary data has been collected from the 125 investors of Bangalore with the help of a structured questionnaire having adopted the simple random sampling technique. It consists of two parts; they are characteristics of the investors and research variables. The secondary data relating to the study resources are mobilized by banks and financial institution sponsored mutual funds, asset management companies. This type of data is collected from different investment periodicals, magazines, various newspapers, RBI reports, AMFI reports, SEBI annual reports; securities market reviews, study of existing literature of different authors in the related field etc.

Statistical tools used

The following statistical tools were administered in this study.

1. Reliability test
2. One sample test
3. Factor analysis.

Analysis and results

Table 1: KMO Measure of Sampling Adequacy & Bartlett's Test of Sphericity

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	0.767	
Bartlett's Test of Sphericity	Approx. Chi-Square	452.232
	d.f.	125
	Sig.	.000

***Source*:** Primary Data.

The significance (0.000) is less than assumed value (0.05). This means that the factor analysis is valid. Inferring the Kaiser-Meyer-Olkin (KMO) coefficient (0.767) the value is more than 0.5. So, this implies that the factor analysis for data reduction is effective. Bartlett's test of sphericity is used to examine the hypothesis that the variables are correlated. This result, less than 0.001 is good, and is an indication can continue with the factor analysis. It is based on chi-square transformation of the determinant of correlation matrix. Bartlett's test of sphericity chi-square statistics is 452, which show the 19 statements are correlated.

Table 2: One Sample Statistics on Safety in Mutual Fund Investment

	Research Variables	Mean	S.D	N
1	Investment in mutual funds guarantees the capital	4.521	0.687	150
2	Risk involved in mutual funds is considerably less than other investment	3.953	0.816	150
3	Investors are comfortable with mutual fund investments due to safe approach	3.911	0.776	150
4	Mutual fund schemes which investment in shares and convertible debentures are risky	3.691	0.654	150
5	The investment in non-convertible debentures is safe	3.126	0.721	150
6	Safety is less in the case of growth scheme	4.672	0.985	150
7	Growth schemes are suitable for long term benefits	4.231	0.881	150
8	Safety and risk are important determinants for good returns	3.616	0.764	150
9	Mutual funds are inter-related objects	3.698	0.927	150
10	Risk and returns are inter-related objects	4.678	0.956	150
11	Mutual funds may give poor returns but principal will always be safe	3.575	0.537	150
12	Investors' interests are well protected by SEBI	4.350	0.699	150
13	Mutual funds are risky as investment in portfolio	3.015	0.991	150

***Source*:** Primary Data.

The above table shows the result of mean and the standard deviation for thirteen research statements, out of which the mean for five variables results approximately to 4.5 and above, which indicates that the respondents have strongly agreed to the research statement. Remaining research statements excluding two statements (mutual funds are risky as investment in portfolio & the investment in non-convertible debenture is safe) was opted and marked by the respondents as "agreed". The statistical values for this six research variables was found to be appropriate and good. Respondents gave their option to "safety is less in the case of growth scheme average is 4.672" as such the growth scheme investment gives more profit considering higher amount of risk, the mindset of the respondents were found to be the same. The least average scores given by the respondents are 3.015 and 3.126 respectively for statements "mutual funds are risky as investment in portfolio" and for "investment in non-convertible debentures is safe" to which the respondents neither agree nor disagree. While taking their investment decision initially, the respondents are found not analyzing and are not aware of the investment portfolio.

Table 3: Principal Component Analysis

Eigen Value is 3.125
Percentage of Variance is 32.456
Cumulative of Variance is 72.814

***Source*:** Primary Data.

Table 4: Communalities for Factors Affecting Safety in Mutual Fund Investments

	Factors Affecting Safety in Mutual Fund Investments	Initial	Extraction
1	Investment in mutual funds guarantees the capital	1.000	0.869
2	Risk involved in mutual funds is considerably less than other investment	1.000	0.814
3	Investors are comfortable with mutual fund investments due to safe approach	1.000	0.747
4	Mutual fund schemes which invest in shares and convertible debentures are risky	1.000	0.726
5	The investment in non-convertible debentures is safe	1.000	0.676
6	Safety is less in the case of growth scheme	1.000	0.715
7	Growth schemes are suitable for long term benefits	1.000	0.694
8	Safety and risk are important determinants for good returns	1.000	0.667
9	Mutual funds are inter-related objects	1.000	0.523
10	Risk and returns are inter-related objects	1.000	0.637
11	Mutual funds may give poor returns but principal will always be safe	1.000	0.573
12	Investors' interests are well protected by SEBI	1.000	0.834
13	Mutual funds are risky as investment as in portfolio	1.000	0.738

***Source*:** Primary Data.

Extraction method

Principal Component Analysis. It is observed from the above table that the variance ranges from 0.523 to 0.869. It is implied from the above analysis that 13 variables exhibited the variations from 52.30 per cent to 86.90 per cent. This is statistically significant for derivation of factors influencing the customers to adopt mobile banking services.

Table 5: Showing Variables Explained For Factors Affecting Safety in Mutual Fund Investments

Total Variance Explained						
Component	Initial Eigen Values			Rotation Sums of Squared Loadings		
	Total	per cent of Variance	Cumulative per cent	Total	per cent of Variance	Cumulative per cent
1	3.566	18.266	18.266	3.176	17.521	17.521
2	3.219	17.889	36.155	3.012	16.891	34.412
3	1.888	15.821	51.976	2.754	16.213	50.625
4	1.223	13.475	65.451	2.023	14.826	65.451
5	0.916	7.723	73.174			
6	0.828	6.611	79.785			
7	0.748	5.005	84.79			
8	0.655	4.598	89.388			
9	0.583	3.641	93.029			
10	0.426	2.367	95.396			
11	0.357	1.983	97.379			
12	0.253	1.408	98.787			
13	0.192	1.213	100			

Extraction Method: Principle Component Analysis.

***Source*:** Primary Data.

The above table predicts the total variance explained for 13 factors affecting safety in mutual fund investments. There are 13 variables which were reduced into four most significant factors with individual variable (17.521, 16.891, 16.213 & 14.826). These four factors are responded by the considerable number of underlying variables. These are the four predominant factors that affect the safety of mutual fund investments.

Table 6: Rotated Component Matrix for Factors Influencing Customers' Adoption of Mobile Banking Services

	Component			
	1	2	3	4
08	0.915			
05	0.863			
12	0.811			
03	0.759			
01		0.809		
07		0.727		
06		0.688		
04			0.769	
11			0.722	
02			0.616	
10				0.689
09				0.547
13				0.463

***Source*:** Primary Data.

Extraction Method: Principal Component Analysis
Rotation Method: Varimax with Kaiser Normalisation.

The above table indicates primarily the varimax with Kaiser Normalization values of 13 dependant variables that affect the safety of mutual fund investments. First group has four variables and all the remaining three groups consist of three variables each. Rotated sum of squares shows four components consisting of variables No.08, 05, 12 and 3 which explain 17.521 per cent out of the total variance. The second set in rotated sum of squares explains16.891per cent of the total variance which consists of three variables Investments in mutual fund guarantees capital, Growth schemes are suitable for long term benefits & safety is less in the case of growth scheme. The third factor explains 16.213 per cent out of the total variance comprising three factors viz., schemes investing in convertible shares or debentures are risky, poor returns but principal amount is safe & Risk is less than other investments. The fourth factor explains 14.826per cent of the total variance which has three components namely Risk & Returns are inter-related objects, mutual funds are inter-related objects & mutual funds are as risky as investments in portfolio.

Table 7: Sampling Distribution

Demographic Variable	No. of Respondents			In per cent		
	Men	Women	Total	Men	Women	Total
Gender	83	42	125	66	34	100
Age Group						
25 years to 35 years	18	16	34	14	13	27
36 years to 45 years	36	19	55	29	15	44
45 years to 55 years	19	7	26	15	06	21
Above 55 years	10	0	10	08	00	08
	83	42	125	66	34	100
Income Level						
Upto INR 2,50,000	6	8	14	05	06	11
INR 2,50,001 – INR 5,00,000	53	27	80	42	22	64
INR 5,00,001 – INR 10,00,000	21	7	28	17	06	23
Above INR 10,00,001	3	0	3	2	0	02
	83	42	125	66	34	100
Level Of Education						
School Level	16	24	40	14	19	33
College Level	42	13	55	33	11	44
Technical Level	22	5	27	17	04	21
Professional Level / Course	3	0	3	02	00	02
	83	42	125	66	34	100
Occupation						
Govt. Employee	3	0	3	02	00	02
Private Sector Employee	45	24	69	36	20	56
Professional	3	0	3	02	00	02
Self Employed / Business	20	8	28	16	06	22
Others	12	10	22	10	08	18
	83	42	125	66	34	100
Savings Account Maintained With						
Private Bank	66	13	79	52	11	63
Nationalised Bank	17	29	46	14	23	37
	83	42	125	66	34	100
Purchase Preference of investing in MF						
Monthly	48	4	52	38	03	41
Quarterly	13	11	24	10	09	19
Half Yearly	12	19	31	10	15	25
Annually	10	8	18	08	07	15
	83	42	125	66	34	100

***Source*:** Primary Data.

Gender distribution shows that majority of the respondents are men investors. At the time of collecting the samples through survey, it was found that men respondents were highly available. And few of the women respondents shown denial while collecting information through survey.

Age Group Distribution denotes that the men respondents in the age group between 45 years to 55 years showed interest in giving the information. Among the women respondents, 47per cent of them from the age group of 25years to 35 years came forward to give their information with boldness.

In the survey conducted, it was understood that the income level of the respondents was divided into four categories on the basis of income tax slab rates. And it was found that majority of the both gender of respondents fall in the second category (i.e.,) between INR 2,00,001 and INR 5,00,000. While making the survey it was observed that respondents in this income earning category are found to investing in mutual funds in order to uplift their economic profile soundly.

The independent variable "Level of Education" tells that all the respondents have completed their education at schooling level and it was found that as many as 24 out of 42 female respondents did not proceed further to take up their collegiate education and further education. It is also found that none of the female respondents pursued any kind of professional course as against male respondents who were available in that organization were very few in number.

The fifth demographic variable in the above table shows that the respondents were more from the private sector and self employed / business rather than the other sectors. And while observing through the survey, the maximum number of respondents was found to be considering mutual fund investment as beneficial source which would enhance their economic status which in turn was reflected in the income category. The 63per cent of the respondents were found to maintain their savings bank account with private banks as the formalities are very less to maintain Demat Account and to easily have a electronic track of transactions made in mutual fund investments. Purchase preference of investing in mutual funds shows that the respondents choosing monthly term of investment as they found to be salaried employees and half year mode of investing was preferred by female respondents.

Conclusion

This part of research work based on the research findings and to summarize and conclude on the based on data analysis of this research on investors' perceptions towards safety in mutual funds which mainly focus on the investors' profile. It gave tremendously comprehensible & well defined conclusion which the respondents' gave their feedback through the questionnaire. The first objective of this research explore that the analysis of investors' profile; Men investors gave their feedback eagerly and know-how about the mutual fund industries. It shows that the male categories invested their money in mutual funds. Female investors were very few of than show their interest to complete the questionnaire. At the age of 35 to 40 years of the respondents, show their curiosity to invest money in mutual fund. Second objective elucidate that the investors' perception towards safety in mutual fund, thirteen research variable were employed to analysis the investors prospect The third and final objective is to draw an overview about factors affecting safety in mutual fund investments and to give clear cut and elucidating result for this research paper. Finally, it is concluded that the favorable results are given by the investors and it was examined that out of 13 research variables, 4 variables were highly preferred by the respondents / investors.

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