CHAPTER - I

INTRODUCTION AND RESEARCH DESIGN

The concept of mutual fund emerged for the first time in Netherlands in the 18th century and was introduced in India by Unit Trust of India (UTI) in 1960s. In the late 80s Indian mutual fund market witnessed entry of number of public sectors and in 1993 private sectors (including foreign fund management companies) were permitted to enter into the market. The entry of private sector led to the availability of more options to the investors and tougher competition to market players. One of the major events in the history of mutual fund industry was the bifurcation of UTI into two separate entities in 2003. A mutual fund is a professionally-managed trust that pools the savings of many investors and invests them in securities like stocks, bonds, short-term money market instruments and commodities such as precious metals. Investors in a mutual fund have a common financial goal and their money is invested in different asset classes in accordance with the fund’s investment objective. Investments in mutual funds entail comparatively small amounts, giving retail investors the advantage of having finance professionals control their money even if it is a few thousand rupees.

Mutual funds are pooled investment vehicles actively managed either by professional fund managers or passively tracked by an index or industry. The funds are generally well diversified to offset potential losses. They offer an attractive way for savings to be managed in a passive manner without paying high fees or requiring constant attention from individual investors. Mutual funds present an option for investors who lack the time or knowledge to make traditional and complex investment decisions. By putting money in a mutual fund, investors permit the portfolio manager to make those essential decisions for investor.

A mutual fund is set up in the form of a trust that has a Sponsor, Trustees, Asset Management Company (AMC). The trust is established by a sponsor(s) who is like a promoter of a company and the said trust is registered with Securities and Exchange Board of India (SEBI) as a Mutual Fund. The Trustees of the mutual fund hold its property for the benefit of unit holders. An Asset Management Company
(AMC), approved by SEBI, manages the fund by making investments in various types of securities.

The trustees are vested with the power of superintendence and direction over the AMC. They monitor the performance and compliance of SEBI regulations by the mutual fund. The trustees are vested with the general power of superintendence and direction over AMC. They manage the performance and compliance of SEBI regulations by the mutual fund.

A mutual fund company collects money from several investors, and invests it in various options like stocks, bonds, etc. This fund is managed by professionals who understand the market well, and try to accomplish growth by making strategic investments. Investors get units of the mutual fund according to the amount they have invested. The Asset Management Company is responsible for managing the investments for the various schemes operated by the mutual fund. It also undertakes activities such as advisory services, financial consulting, and customer services, accounting, marketing and sales functions for the schemes of the mutual fund.

**Procedure of investing in mutual fund**

The first step of investing in mutual fund is to define the objective of investing. You should clearly lay down the purpose for which you desire to invest. There are several schemes tailor made to meet certain personal financial goals (children's education, marriage, retirement etc.) which can be availed of. You should define the tenure of investment and the risk appetite you have. Thereafter, you can select a fund type that best meets your need i.e. income schemes, liquid schemes, tax saving schemes, equity schemes etc. Given the plethora of fund options available to you, you can then choose the particular fund that you are comfortable with.

You can choose the fund on various criteria, but primarily these can be the following factors.

1. The track record of performance of schemes over the last few years managed by the fund
2. Quality of management and administration
3. Parentage of the mutual fund
4. Quality and adequacy of disclosures
5. Service levels
6. The price at which you can enter or exit (i.e. entry load and exit load) the scheme and its impact on overall return
7. The market price of the units of the scheme (where available) to see the discount/premium that the market assigns to the stated NAV of the scheme
8. Independent rating of the schemes

**Benefits of investing in mutual fund**

The emergence of mutual funds in the past decade as a popular investment vehicle is due to the fact that it serves broadly all categories of investors through the plethora of schemes that it offers. The benefits provided by mutual funds far outweigh its shortcomings, and has thus gained wide-spread acceptance.

**Professional Management**

When invest in a mutual fund, investors money is managed by finance professionals. Investors who do not have the time or skill to manage their own portfolio can invest in mutual funds. By investing in mutual funds, investors can gain the services of professional fund managers, which would otherwise be costly for an individual investor.

**Diversification**

Mutual funds provide the benefit of diversification across different sectors and companies. Mutual funds widen investments across various industries and asset classes. Thus, by investing in a mutual fund, investors can gain from the benefits of diversification and asset allocation, without investing a large amount of money that would be required to build an individual portfolio.
Liquiditiy

Mutual funds are usually very liquid investments. Unless they have a pre-specified lock-in period, investors money is available anytime they want subject to exit load. Normally, funds take a couple of days for returning money to investors. Since they are well integrated with the banking system, most funds can transfer the money directly to your bank account.

Flexibility

Investors can benefit from the convenience and flexibility offered by mutual funds to invest in a wide range of schemes. The option of systematic (at regular intervals) investment and withdrawal is also offered to investors in most open-ended schemes. Depending on one’s inclinations and convenience one can invest or withdraw funds.

Low transaction cost

Due to economies of scale, mutual funds pay lower transaction costs. The benefits are passed on to mutual fund investors, which may not be enjoyed by an individual who enters the market directly.

Transparency

Funds provide investors with updated information pertaining to the markets and schemes through factsheets; offer documents, annual reports etc.

Well Regulated

Mutual funds in India are regulated and monitored by the Securities and Exchange Board of India (SEBI), which endeavors to protect the interests of investors. All funds are registered with SEBI and complete transparency is enforced. Mutual funds are required to provide investors with standard information about their investments, in addition to other disclosures like specific investments made by the scheme and the quantity of investment in each asset class.
The Risks involved in investing in Mutual Funds

Mutual funds securities such as stocks or fixed income securities, depending upon the fund’s objectives. As a result, different schemes have different risks depending on the underlying portfolio. The value of an investment may decline over a period of time because of economic alterations or other events that affect the overall market. Also, the government may come up with new regulations, which may affect a particular industry or class of industries. All these factors influence the performance of Mutual Funds.

Risk and Reward

The diversification that mutual funds provide can help to ease risk by offsetting losses from some securities with gains in other securities. On the other hand, this could limit the upside potential that is provided by holding a single security.

Lack of Control

Investors cannot determine the exact composition of a fund’s portfolio at any given time, nor can they directly influence the securities the fund manager buys.

Key factors for successful mutual fund investments

Mutual funds, generally, do not make investors rich in short-time, but if they have patience, they are the best, most convenient way for building up assets over the years. In this regard, the following suggestions are listed to keep in mind. They are:

1. Higher the investment better will be the return
2. Equities provide the best long-term protection against inflation or purchasing-power risk
3. Money surrendered on highly risky securities is gone forever.
4. Think twice before making extreme moves
5. Do not jump in blindly
6. Do not scatter money too widely
7. Keep complete records on their transactions going back many years.
Statement of the Problem

India is one of the emerging global markets and is considered as an investment destination from all over the world. The liberalization and globalization of Indian economy opened fascinating awareness of investment like share, mutual funds, and debentures. Among these avenues the investors are confused in comparing them on the basis of risk involved, returns and tax benefits. This perceptual difference depends upon investors’ demographics, state and central government policies on tax and other political instability.

In most established financial markets mutual funds are major players but for Indian investors they are relatively new. The first Indian mutual fund scheme (from Unit Trust of India) was offered in 1964, but it was not until the 1990s that the investor was provided with an array of fund choices of varying investment objectives and quality. Given the dearth of longer-term investment options in emerging markets such as India, one would expect mutual funds to become popular once made available. Investments in security related investments, including mutual funds, have hovered around 4% to 5% of household savings for more than a decade despite significant governmental concessions. Physical assets such as real estate and gold and the safer bank deposits continue to be the savings vehicle of choice for Indian investors but mutual funds have not got the attention of the Indian investor.

It is observed that though the mutual fund industry has grown significantly since 2004, it is relatively small (for e.g., the Indian equity mutual funds account for only 3% of the total market capitalization while the US equity funds account for 30%. ) despite the investor-friendly taxation and regulatory framework in the country. There is a tendency of Indians to trade short-term in equities rather than invest in mutual funds with a long term view. However, despite the short-term uncertainty with better awareness and investor education, investment in equity mutual funds was going to increase significantly over the coming years.

On more important issue is of poor financial literacy of the Indian investor, and equity as an asset class being viewed in a short term manner. The issue of
financial literacy has to be addressed globally by bringing more investments into the capital markets through long term core savings.

Another fact that there is a lack of objective, scientific research on Indian mutual funds to help investors, unlike in developed countries such as the US

Summarize with challenges are the need of long term investments in mutual funds, need of financial literacy, work on lack of objective, scientific research on Indian mutual funds to help investors

Investments are acknowledged as powerful tools in the alleviation of poverty. Investing, even a small amount, can produce considerable rewards over the long-term. But, there will be confusion among the people for the selection of best investment avenues and this is the major problem of the investors.

While investing money, the investors have a lack of awareness of investment alternatives. When they take investment decisions, they have to pay more attention to safety, liquidity, returns, risks, tax benefits and so on in addition to the investments option. The above factors confuse the investors while investing the money. The investor should be careful in selecting the investment avenue. The investors exercise their skill, knowledge and experience in choosing the investment opportunity. In this context, the present study becomes highly essential to fill the research gaps in the field of mutual fund investments and also add ample research findings to the existing literature in the field.

**Need for the Study**

Indian economy is growing significantly. It has various investment options. This study has been undertaken to analyze the preference and attitude of investors and the various factors influencing them. Against this backdrop of the research, the researcher tries to find out the investors perception, attitude and their investment preference towards mutual funds.
Scope of the Study

The study is confined to the factors considered by the investors while making their investment. Their level of Preference towards mutual fund investment in public and private sector, the various aspects of investment factors available, is considered for the study.

Research Objectives

The following objectives are framed to fill the research gaps.

1. To identify the socio economic profile of mutual fund investors in Chennai city.

2. To analyze the mutual fund investment details of investors in the study areas.

3. To examine the perception and attitude of the investors towards the mutual funds.

4. To analyze the factors influencing the investors preference towards mutual fund investment.

5. To find out the influence of demographic factors on the mutual fund investment.

Limitations of the Study

The present study is based upon the results of survey conducted on 500 individual mutual fund investors. The implications of the study are subject to the limitations of sample size, psychological and emotional characteristics of the surveyed population. The researcher has analysed only the perception, attitude and the preference of the mutual funds investors.
Methodology

The study is conducted using both analytical and descriptive type of methodology. The study primarily depends on primary and secondary data.

Study area

Survey is conducted in Chennai which is the capital of Tamil Nadu. Chennai is one of the leading job providers across all sectors. This makes Chennai the source for investors across all income groups. Chennai has a fairly diverse urban economy. It is mainly based on the software, automobile, hardware, manufacturing, financial services and healthcare industries. It has diversified economic base anchored by the automobile, software services, medical tourism, hardware, manufacturing and financial services. Other important industries include petrochemicals, textiles and apparels.

Also, Chennai has been tagged as the Banking Capital of India, for its vibrant banking culture and trading. The city has emerged as an important centre for banking and finance in the World Market. The city boasts of having a transaction volume which serves 900 million people across the World through back office operation. At present, it is a home to four large national level and commercial banks and many regional and state level co-operative banks. Several large financial companies and insurance companies have head quarters in Chennai. Prominent financial institutions, various leading global banks have back office and development center operations in the city. The city serves as a major backup centre for operations of many banks and financial companies of the world. This helps to study the investors’ perception, attitude and preference towards mutual fund investment.

Sampling Size and Design

The primary data are collected through survey method. Survey is conducted using a well formulated questionnaire. Multistage Random Sampling is applied for generating data. Chennai City is divided into four regions, namely South, North, East and West. From each zone one popular Mutual fund Agent (Broker) is selected. From each broker 150 Mutual fund investors are identified by following Random Sampling
Method. Questionnaires were circulated to the 600 respondents across all zones. From the total 600 respondents only 547 filled in questionnaire were returned. During the scrutiny of questionnaires 47 of them found to be unusable due to insufficient information. 500 questionnaires only used for the Study. Hence, the sample size is 500.

**Questionnaire Design**

The primary data is collected through questionnaire survey. First part of the questionnaire comprises profile of investors in mutual fund investment. The second part includes statements relating to mutual fund investment details. The Third part consists of questions relating to investors perception, attitude and preference towards mutual fund investment with likert’s 5 point scale measure.

**Scaling Technique in the Questionnaire**

The questionnaire used comprises both optional type and statements in Likert’s 5 point scale; which ranges as follows:

5 – Strongly Agree 4 – Agree 3 – Neutral 2 – Disagree 1 – Strongly Disagree

**Secondary Data**

The Secondary data was collected from Journals, Magazines, Publications, Books, Dailies, Periodicals, Articles, Research Papers, Websites, Company Publications, Manuals and Booklets.

**Pilot Study**

A pilot study was conducted to validate the questionnaire and to confirm the feasibility of this study. The filled up questionnaires are collected from 100 respondents and key investors to express their responses pertaining to safety, returns, transparency, tax benefits, liquidity and services provided. The responses are obtained from mutual fund investors through likert point 5 scales are subject to the reliability. The cronbach alpha method is applied and the values are determined as 0.938, 0.916, 0.894, 0.921, 0.897, and 0.910 proving the reliability of the instrument. All the
Cronbach Alpha values were above 0.75 and it implies the questionnaire is highly reliable the conduct the research. The variables considered for the analysis are satisfying the normal probability distribution. Based on the pilot study, the questionnaire was modified suitably to elicit response from the sample group.

**Data analysis**

The Primary data collected are analyzed using the SPSS (Statistical Package for Social Sciences) computer packages. The statistical tools used for obtaining results are as follows:

Percentage analysis tool is applied for detailed analysis of socio profile of mutual fund investors and investment details of investors.

1. T test is applied to ascertain the investors’ perception and attitude towards mutual fund characteristics and type of mutual funds. Significant difference among the various factors of mutual fund investment.

2. K-means Cluster Analysis is exploited to classify factors of investors preference based on their perception.

3. Karl Pearson’s Co-efficient of Correlation is brought into the context to explore the parametric relationship among the various factors of investment towards mutual fund.

4. Factor Analysis by Principal Component Method is used to identify the factors of safety, return, transparency, tax benefit, liquidity and services.

5. Cross tab analysis is to ascertain an association between cluster of investor preference and influencing factors of mutual fund investment.
6. One way Analysis of Variance (ANOVA) is applied to ascertain the significant relationship between influence of demographic variables and investment details on their factors of preference.

7. Regression analysis tool is used for the investigation of relationships between variables and to ascertain the influence of investment details of mutual fund investors on their investment behavior.

**Chapter Design**

The thesis consists of six chapters.

Chapter one gives an introduction to the study, Statement of the study, need, scope, objectives, limitations and methodology.

Chapter two deals with review of literature related to mutual funds are discussed.

In Chapter three, origin of mutual fund industry at the global level is traced along with the evolution of the industry in India under various phases. It also presents mutual fund schemes, Types and investment options.

Chapter four begins with the data analysis and interpretations on Perception and attitude of the investors towards mutual fund.

Chapter five presents the data analysis and interpretations on Preference of investors in mutual fund investments.

Chapter six presents the Summary of the study, findings, Suggestions and Conclusion to investors as well as mutual fund companies.