CHAPTER 7

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7.1 Introduction

A mutual fund is the most suitable investment avenue for the retail investors as it offers an opportunity to invest in a diversified, professionally managed portfolio at a relatively low cost. Mutual funds have opened new vistas to millions of small investors by virtually taking investment to their doorstep. MFs are looked upon by individual investors as financial intermediaries/portfolio managers who process information, identify investment opportunities, formulate investment strategies, invest funds and monitor progress at a very low cost. Thus, the success of MFs is essentially the result of the combined efforts of competent fund managers and alert investors. A competent fund manager should analyse investor’s behaviour and understand their needs and expectations, to gear up the performance to meet investor requirements. Nowadays an increasing number of investors are relying on mutual funds as investment and retirement vehicles. The latent heterogeneity amongst investors in terms of their preferences and beliefs, form the underlying drivers of their behaviour. Over the past two decades, mutual funds have been the focal point of an increasing number of research studies being conducted in the field of finance. The basic issues of research focused by majority of these studies have been performance evaluation of mutual fund with regards to risk and return. The studies available to understand the investment behaviour of mutual fund investors are not adequate. Hence, with this background, the present study attempts to analyse the behavioural aspects of Mutual Fund investors.

The present study applies descriptive as well as an empirical research design based on the survey method. The study primarily depends on the survey data collected from 400 sample mutual fund investors in Kerala. The primary data required for the study have been collected from the mutual fund individual investors in Kerala through a structured questionnaire. The qualitative variables were measured on five point Likert-type scales. A pilot survey was conducted to assess the reliability and validity of the questionnaire. In order to ensure the convergent validity of the instruments, confirmatory factor analysis of each item
in the scale is checked with the help of coefficient called Bentler-Bonett Fit Index.
The universe of the study consists of individual investors (retail investors) of mutual fund products whose names appear in the portfolio records of different Asset Management Companies (AMCs) as on 30-9-2010. The study was confined to individual investors excluding high net worth individuals and institutional investors. The survey was conducted during the period of February 2011 to January 2012. The sample size required for the study has been arrived on the basis of minimum required sample size table and power analysis. The sample required for the study was collected from all the 27 AMCs (sample frame) having three state regional offices in Kerala represented by North, Central and South Zone. Accordingly 400 sample units (individual mutual fund investors) constituted by 100 sample units from north, 160 sample units from central and 140 sample units from southern region were selected for the study. Simple random sampling was used for the selection of sample units from sample frame.

Statistical Package for Social Sciences (SPSS version 20) is used to analyze the data. To understand the investment objectives of mutual fund investors, weighted score ranking of investment objectives and its association with time horizon and demographic features were conducted. For this purpose Weighted score means and Kruskal Wallis test were applied. The saving and investment avenue preferences of mutual fund investors were analysed using box plot. The level of preferences of mutual fund investors with their time horizon, risk perception and demographic factors were tested with chi-square test of independence. In order to identify the key product attributes considered by the mutual fund investor Principal Component Analysis was employed. The fund preferences of mutual fund investors with their investment objectives were tested with the help of Friedman’s test. The dependence of fund preferences of mutual fund investors with time horizon, and risk perception were tested with chi-square. The association between post-buying behavioural factors with time horizon, risk perception and demographic features of mutual fund investors were
tested by using *chi-square* test of independence. The mutual fund product performance satisfaction level of the investors across different funds were analysed with the help of *chi-square* test. Finally, Structural equation modelling with maximum likelihood estimate (AMOS 17) was used to test the structural relationship between the variables and the overall fit of the model developed by the researcher.

7.2 Major Findings of the Study

- *Investment objectives of mutual fund investors across their time horizon, and demographic features.*

- The analysis of investment objectives of mutual fund investors reveals that return of the investment is the prime objective considered by the mutual fund investors. The safety, capital appreciation and liquidity rank second, third and fourth objectives of the investors.

- The investors having time horizon of investment up to three years attach more importance to safety of investments. While, the investors having time horizon of investment more than nine years have given importance to provision for contingencies. But the investors having time horizon of three to six years attach more importance to tax benefits.

- The study reveals that the investment objectives of mutual fund investors vary with their time horizon of investment

- It was found that investment objectives of mutual fund investors do not vary with demographic features.

- *Saving and investment avenue preferences of mutual fund investors, and level of preferences towards mutual fund products*

- The study reveals that gold is the top most investment avenue preferred by the mutual fund investors, whereas, bonds and debentures are the
least preferred investment avenues of mutual fund investors. The mutual
fund investments have got only third priority among the investors.

✓ It was found that the investors’ level of preferences towards mutual fund
products and their time horizon of investment are dependent of each
other. Most of the mutual fund investors have shown moderate level of
preferences towards mutual fund products. The moderate level of
preferences was reported among the investors having time horizon
between of one to six years. High level of preferences towards mutual
fund products has been observed among the investors having time
horizon of six years and above. It was observed that the investors’ level of
Preferences towards mutual fund products and their Risk perception are
independent of each other.

✓ The study reveals that the investors’ level of preferences towards mutual
fund products are influenced by educational status, occupational status,
average monthly savings and net wealth of the investors. Whereas,
locality, gender, age, marital status, family size and average monthly
income are not influencing the level of preferences towards mutual fund
products. It was observed that highly educated investors have given more
preferences towards mutual fund products. The occupational status
reveals that private sector employees and professionals have shown more
preferences towards mutual fund products. The investors having average
monthly saving of ₹ 10000 to 25000 have given more importance to
mutual fund products. The investors having net wealth of ₹ 1 lakh to 25
lakhs have given more preferences to mutual fund products.
Key features of mutual fund products influencing fund selection behaviour of mutual fund investors (Pre-buying behaviour)

The study reveals that there are six factors (product attributes) influence the fund selection behaviour of mutual fund investors. Among the six factors, service quality is the Key factor influences the fund selection behaviour. The fund quality, core of the product, promotional mix, investors confidence and fund sponsor quality are the second, third, fourth, fifth and sixth factors affecting the fund selection behaviour of mutual fund investors respectively.

Fund preferences of mutual fund investors (Pre-buying behaviour)

It was found that majority of the investors preferred growth/equity fund on the basis of investment objectives, and opted open-ended schemes on the basis of maturity period.

The study reveals that fund preferences of mutual fund investors are not affected by investment objectives.

It was observed that fund preferences of mutual fund investors depend on their time horizon of investment. A significant association between fund preference and time horizon has been observed among the different funds opted by the investors. The investors having time horizon between one to six years preferred open-end and growth-fund, whereas long-term investors have opted close-end, income, balanced and tax saving funds.

The study indicates that the risk perception of investors affect the fund preferences of mutual fund investors in respect of open-end, growth-fund, income-fund and balanced-fund schemes. The investors having moderate and high level of risk perception have opted these schemes.
It was found that image of AMCs and electronic media are playing vital role in persuading the investors to invest in mutual fund products.

Post-buying behaviour of mutual fund investors

It was found that majority of the mutual fund investors have engaged in redemption, switching and additional buying of mutual fund units during the period of the study; whereas majority of the investors have not expressed future buying intention of mutual fund products.

The study indicates that time horizon of investment influences redemption behaviour and future buying intention of mutual fund investors, whereas switching of funds and additional buying of units are not affected by time horizon of investments. It has been observed that majority of the investors who have redeemed mutual fund units belong to the time horizon of one to six years. Majority of the investors who have not expressed future buying intention belong to the time horizon of one to three years.

The study shows that risk perception of mutual fund investors and their post buying behaviour are independent of each other.

It was found that educational status, occupational status and net wealth of investors influence the additional buying behaviour of mutual fund investors. It was observed that highly educated investors, private sector employees, and investors having net wealth of ₹ One lakh to 50 lakhs have shown interest in additional buying of mutual fund units.

The future buying intention of mutual fund investors depends on their educational status, family size, average monthly savings and net wealth of the investors. It was observed that highly educated investors, investors having dependants more than three, investors having average monthly
savings of ₹ 10000 to 25000, and investors having net wealth of ₹ one lakh to 50 lakhs have shown interest in future buying of mutual fund products.

✓ It was found that switching behaviour of mutual fund investors has an association with locality and educational status of the investors. The study reveals that most of the investors who have opted for switching of funds belong to urban areas; and highly educated groups.

❖ Product performance satisfaction level of the investors

✓ The analysis of product performance satisfaction level of mutual fund investors indicates that overall performance of the product is one of the major indicator of satisfaction level of the investors followed by the professional management of AMCs, service qualities, liquidity, transparency, return and safety.

✓ The product performance satisfaction level of mutual fund investors vary in accordance with the fund opted by the investors. It was observed that most of the investors have only low level of satisfaction about the overall performance of the funds opted by them. High level of satisfaction was observed among the investors who have opted balanced-fund, income-fund and close-end funds; and moderate level of satisfaction reported among the investors who have opted tax saving fund, growth-fund and open-end fund.

❖ Comprehensive model of mutual fund investors’ behaviour

✓ Mutual fund investors’ behaviour is contributed by four factors such as investment factors, pre-buying behaviour, post-buying behaviour and portfolio revision. Investment factors are represented by time horizon, risk perception and financial literacy. Pre-buying behaviour is constituted by environmental forces and product attributes. Post-buying behaviour is
constituted by additional buying, future buying and redemption factors whereas; the portfolio revision is constituted by switching factors. Out of these four factors, investment factor is one of the dominant factors influencing mutual fund investors’ behaviour such as pre-buying behaviour, post-buying behaviour and portfolio revision. The study establishes the relationship between pre-buying behaviour and post-buying behaviour. Further, it indicates that portfolio revision is also influencing the post-buying behaviour of mutual fund investors.

✓ The structural relationship between the latent variables of the model was found to be significant. The structural path from investment factor to pre-buying, post-buying and portfolio revisions were found to be very strong and significant. Similarly, the structural path between pre-buying behaviour to post-buying was found to be strong and significant. The structural path between PFRV and PSTB was also found to be significant. The mediation analysis indicates that pre-buying behaviour and portfolio revision do not have any mediating role in the relationship between investment factors and post-buying behaviour. On the basis of the analysis of structural relationship between the variables, the researcher has developed a comprehensive model of mutual fund investors’ behaviour. The analysis of model fit indices reveals that the values of all the parameters used for measuring model fitness is satisfactory, and it can be concluded that the measurement model developed by the researcher shows fair goodness of fit.

7.3 Conclusion

Mutual fund in an emerging market has become highly competitive which necessitates that MF marketers must fully understand the buying behaviour to be able to effectively market their mutual fund schemes. Mutual fund investment is considered as one of the investment avenues preferred by the investors. The first
priority is given to gold investments whereas; mutual fund investments are ranked as third. Long-term investors are showing more preferences towards mutual fund products. The investment objectives and investor’s level of preferences towards mutual fund products vary with their time horizon of investment. It is evident that return and safety of investment are the prime objectives of the investors. Short-term investors attach more importance to safety of their investment, whereas long-term investors have given more importance to provision for contingencies. The medium-term investors invest in mutual funds for the sake of tax benefits. Demographic features such as educational status, occupational status and economic status of the investor’s influence the preferences of investors towards mutual fund products. Highly educated investors, private sector employees, professionals and middle income groups have been showing more preference towards mutual fund products.

The key factors influencing fund selection behaviour of mutual fund investors are service quality, fund quality, core of the product, promotional mix, investor’s confidence and fund sponsor quality. The service quality is the dominant factor influencing fund selection behaviour. The fund preference of mutual fund investors depends on their time horizon and risk perception. Mutual fund investors in Kerala give more preferences towards open-ended and growth oriented (equity funds) schemes. The time horizon of investment also influences post-buying behavioural factors such as redemption and future buying intention. The short-term investors are not interested in future buying of mutual fund products. Demographic features such as educational status, occupational status and economic status of investors influences post-buying behaviour of mutual fund investors. The product performance satisfaction level of mutual fund investors differs in accordance with the fund/scheme opted by the investors. Moreover, the study indicates that most of the investors have not selected right type of mutual fund schemes/ funds in accordance with their investment objectives, time horizon
and risk perception due to the lack of financial literacy and proper financial planning.

The study proposes a comprehensive model of investment behaviour of mutual fund investors to explain the pre-buying and post-buying behaviour. The mutual fund investors’ behaviour is constituted by four factors such as investment factors, pre-buying behaviour, post-buying behaviour and portfolio revision. The investment factors comprising of financial literacy, time horizon and risk perception are the generic factors that affect the pre-buying behaviour, post-buying behaviour and portfolio revision of mutual fund investors. The pre-buying behaviour of mutual fund investors is influenced by product attributes and environmental forces. The Post buying behaviour is represented by redemption factors, additional buying factors and future buying intention. The portfolio revision refers to the switching behaviour of mutual fund investors. There is a relationship between pre-buying behaviour and post-buying behaviour; while the portfolio revision is directly related with post-buying behaviour of mutual fund investors. However, the pre-buying behaviour and portfolio revision do not have any mediating role in the relationship between investment factors and post-buying behaviour.

7.4 Implications

The current state of knowledge about the Mutual Fund investor behaviour is inadequate when applied to understand the buying decision process and post-buying behaviour of MF investors. The fundamental normative model of investment behaviour considers only risk and return as crucial variables impacting the investors’ buying behaviour. Most of the well known empirical studies in the field of mutual fund investment behaviour are based on secondary data which does not capture the important behavioural stimulus like level of purchase decision involvement and factors contributing the behaviour, which can be captured by the primary study conducted on the actual investors. Hence, this study will provide an insight to the AMCs, financial intermediaries, regulators and
policy makers regarding the investment behaviour of mutual fund individual investors. The factors identified in the study provide key information inputs regarding investor’s preferences and priorities that will guide future mutual fund product managers in designing attractive mutual fund products for the Indian market.

The findings of fund selection behaviour of MF investors allow the AMCs to identify which combination of variables has significant influence on the Fund selection behaviour of investors. The AMC can then apply this knowledge for developing marketing strategies for all types of investors, present and potential, and also identify significant drivers that govern an investor’s selection to MFs/Schemes. Hence, the largest gap between investor expectations and service delivery can be bridged with competent performance, flexible investment opportunities, reputation and fringe benefits or tangibles, if provided by the AMC. The 21st century investors look for value added services i.e. personalized attention, tailor-made investment packages, skills and infrastructure for understanding the needs of a common investor rather than plain vanilla products.

A comprehensive model that captures the essence of traditional finance, behavioural finance and consumer behaviour is likely to provide more insight into the buying decision process of MF investors. This has more relevance in the current context as, today shopping for financial instrument has become increasingly like shopping for any other consumer items. Therefore, a new comprehensive model of MF investment behaviour explains the impact of investment factors such as perceived risk, financial literacy and time horizon; pre-buying behaviour such as fund selection behaviour and fund preferences; and post buying behavioural factors such as portfolio revision, redemption and additional buying factors on their MF investment behaviour. The study makes the following contributions. Firstly, it is one of the few studies which have proposed a comprehensive investment behaviour model to understand the buying behaviour of MF investors and empirically validated it on the sample of MF investors.
Secondly, this study is likely to improve consumer behaviour theory by deepening our understanding of how investors make buying decisions for the intangible financial goods. Thirdly, the MF regulators across the globe want to encourage the participation of individual investors with MF product. The small investors purchase behaviour 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. Due to the reduction in the bank interest rates and high degree of volatility in Indian stock market, investors are looking for an alternative for their small time investments which will provide them a higher return and also safety to their investments. So, mutual funds offer the best alternative to the small investors in India.

7.5 Suggestions

- The study observed that mutual fund investor’s prefer safety of funds; and hence, AMCs can design mutual fund products by combining the needs of safety as well as excellent returns.

- The study reveals that the investors are considering key factors such as service quality, followed by fund quality, core of the product and other factors at the time of investing in mutual fund products. Strong customer orientation is necessary in a market like India where the market is turning competitive due to large number of players with varied financial muscle powers and expertise of reinvestment. A prudent product design by adding the features expected by investors and the key attributes spelt out in this research will make the new mutual fund products attractive for the Indian investors.

- It has been found that environmental forces, financial literacy of investors and promotional mix of marketers have persuaded the investors to invest
in mutual fund products. Therefore, it is advisable to take the following measures:

a) Strengthen the existing policy of certification and training of distribution channels/financial advisors to ensure that these professionals are adequately equipped and motivated to guide investors in selecting appropriate Mutual Fund schemes.

b) Encourage investors to actively engage in investment decision by advancing their knowledge on various facets of financial planning.

c) Reduce ambiguity surrounding mutual fund products through effective mass communication media, so that investors are rightly able to appreciate the risk associated with Mutual Fund products.

d) Put a mechanism in place so that financial education program can be introduced at the school level which ultimately will influence the financial well being of individuals.

➤ It was found that the service quality in terms of disclosure and transparency in the operation of mutual fund is one of the key factors considered by the investor at the time of investment. Therefore, it is worthwhile to take measures to enhance the transparency in the working of mutual fund industry and to put a check on mis-selling.

7.6 Scope for Further Research

1. To analyse the Post-buying behavioural effects such as disposition effect, heuristic effect, cognitive dissonance, herding behaviour etc of mutual fund investors.

2. To examine the risk tolerance and the related perception of mutual fund investors.

3. To test the efficacy of behavioural finance theory postulates of mutual fund investors on an Indian platform