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CHAPTER I
INTRODUCTION AND DESIGN OF THE STUDY

1.1 INTRODUCTION

Mutual fund is a booming sector at the present time and it has lot of scope to generate income and provide returns to the investor. The mutual fund is one of the ways for the development of a country which helps to mobilize dead money in the economy which in turn helps to develop the economic conditions of the country and the people. It diversifies the risk by investing in different securities of all the investment options available. Mutual fund is the single most important tool in a financial planner's armory.

Mutual funds were established in Europe. It is now the Foreign & Colonial Investment Trust and trades on the London stock exchange. Mutual funds were introduced into the United States in the 1890s. They became popular during the 1920s. These early funds were generally of the closed-end type with a fixed number of shares which often traded at prices above the value of the portfolio\(^1\).

When confidence in the stock market returned in the 1950s, the mutual fund industry began to grow again. By 1970, there were approximately 360 funds with $48 billion in assets. The introduction of money market, funds in the high interest rate environment of the late 1970s boosted the industry growth dramatically. The first retail index fund, First Index Investment Trust, was formed in 1976 by The Vanguard Group, headed by John Bogle; it is now called the Vanguard 500 Index Fund and is one of the world's largest mutual funds, with more than $100 billion in assets as on January 31, 2011\(^2\).

At the end of 2010, there were 7,581 mutual funds in the United States with combined assets of $11.8 trillion, according to the Investment Company Institute (ICI), a national trade association of investment companies in the United States. The Investment Company Institute reports that worldwide mutual fund assets were $24.7 trillion on the same date\(^3\).
The primary objective at that time was to attract the small investors and it was made possible through the collective efforts of the Government of India and the Reserve Bank of India. The Former Finance Minister, T.T. Krishnamachari set up the idea of a unit trust that would be open to any person or institution to purchase the units offered by the trust. However, this institution, as we see it, is intended to cater to the needs of individual investors, and even among them as far as possible, to those whose means are small.

The mutual fund industry in India was started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank of India. At the end of January 2003, there were 33 mutual funds with total assets of Rs. 1, 21,805 Crores. The Unit Trust of India with Rs.44,541 Crores of assets under management was way ahead of other mutual funds.

In February 2003, following the repeal of the Unit Trust of India Act 1963, Unit Trust of India was bifurcated, one is the Specified Undertaking of the Unit Trust of India with assets under management of Rs.29,835 crores as at the end of January 2003, representing broadly, the assets of US 64 scheme, assured returns and certain other schemes. The Specified Undertaking of Unit Trust of India is functioning under an administrator and under the rules framed by the Government of India and does not come under the purview of the Mutual Fund Regulations. The second is the Unit Trust of India Mutual Fund, sponsored by SBI, PNB, BOB and LIC. It is registered with Security Exchange Board of India and functions under the Mutual Fund Regulations. With the bifurcation of the erstwhile Unit Trust of India which had in March 2000 more than Rs.76, 000 Crores of assets under management and with the setting up of a Unit Trust of India Mutual Fund, conforming to the Security Exchange Board of India Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth.
The ride through these 46 years has not been smooth. Investors’ opinions are still divided. While some are for mutual funds, others are against it. Unit Trust of India commenced its operations from July 1964. The impetus for establishing a formal institution came from the desire to increase the propensity of the middle and lower groups to save and to invest. Unit Trust of India came into existence during a period marked by great political and economic uncertainty in India. With war on the borders and economic turmoil that depressed the financial market, entrepreneurs were hesitant to enter capital market.

Human wants are unlimited but the resources to satisfy his wants are scarce. Hence even to invest investors have to fight and select the type of investment. Personal investing involves a clear understanding of the investment environment. Investing means the sacrificing of money for the purchase of assets based on a careful analysis of risk and rewards anticipated over a period of time. Investors, now, have a wide variety of opportunities to commit funds. Investment has returns but at the same time involves a lot of risks. An investor has to analyze the various risks attached to an investment. So, experience in the field of investment is necessary for all the individual investments. Small investors cannot have wide experience because they may be new to the field and have no time to study markets. Again, the small investors lack the proper technical knowledge of the capital market and the various techniques used in buying and selling the investments. Hence, some specialized agencies act on behalf of such investors. These agencies pool the savings of such small investors, invest them properly and distribute the profit to the investors. The investors are also relieved from the burden of investment management. These agencies are called mutual funds.

1.2 PROFILE OF THE STUDY AREA

Namakkal District has been selected for study because a place like Namakkal is at a strategic point on the National highway seven. In olden days this place was called “Ramakkal”, and at present it is called “Namakkal”. Namakkal
District\textsuperscript{3} is a newly formed district from Salem District with effect from 01.01.1997. It consists of four Taluks namely Namakkal, Rasipuram, Tiruchengode and Paramathivellore. Namakkal district is also called a transport city because of lorry body-building industries and transport business. It adds pride to Namakkal, so it finds a place of importance in the map of India. It also enjoys a prime place in the poultry industry with almost all the eggs getting moved to all the corners of India and abroad. So, it is also called a poultry town as it contains quite a number of poultry farms. Hence, it is also called Egg city.

The famous Anjaneya Temple (Height 6.7mts) and Narasimhasamy Temple along with Amman temple are situated behind the west of the Rockfort in the heart of town. The Famous Cauvery River flows in the south and west borders of this district. The Garden of Namakkal district is the Kollihills which was ruled by ‘Valvil Ori’, one of the seven kings famous for their generosity and patronage to the poets and the poor. The famous waterfall Agash Ganga and Siva temple (Arappaleeswarar) are situated in Kollihills.

The famous Tamil poet Namakkal Kavingnar Ramalingam Pillai was born in this district. In memory of this poet the State Government of Tamilnadu established an Arts and Science college for women and the most famous Government Veterinary College is also situated near Namakkal town. A number educational institutions have been established in the recent years that have made Namakkal an educational hub.

In this district, large numbers of people are engaged in agricultural and allied activities. The lorry transport in Namakkal overshadows all other activities like handloom, power-loom, silk weaving, village and cottage industries, small-scale and large-scale industries like cement, paper, textile mills, sugar factories, sago factories, rice and oil mills are other important industries in and around Namakkal district of Tamil Nadu.
1.3 STATEMENT OF THE PROBLEM

There are a lot of investment avenues available today in the financial market for an investor with an investable surplus. Investors can invest in bank deposits, corporate debentures and bonds where there is low risk but low return. They may invest in stock of companies where the risk is high and the returns are also proportionately high. The recent trends in the stock market have shown that an average retail investor always loses with periodic bearish trends. People began opting for portfolio managers with expertise in stock markets who would invest on their behalf. Wealth management services are provided by many institutions. However, they proved too costly for a small investor. An appropriate investment media for them is investing in mutual funds.

Mutual fund investment has relatively lesser degree of risk when compared to other types of investments. One suggests to the ordinary layman to invest in any mutual fund and not to invest in share market. This is because there is lower degree of risk and return is assured in almost all the mutual funds. This is because, every fund has their own market research analyst and they suggest best ways to invest the money of investors. But in share market, people have to invest according to their best knowledge of market. This is the main reason for the mentality of the mutual fund investors to invest in the mutual funds willingly. Therefore, in general, they perceive that mutual fund investment is low risky. The researcher wants to study the mutual fund investors’ perception.

After analyzing these risk and return factors in both the cases, investors change their attitude towards mutual fund investment. They carefully analyse with the mutual fund agents, friends and relatives about the different types of schemes of mutual funds, maturity periods, withdrawal facilities, unit-linked policies, tax benefits, possibilities of more savings, future benefits and other criteria. It is very important to study the attitude of the mutual fund investors in pooling their money for capital formation of the country. The researcher also wants to analyse the
attitude of the investors in the study area towards mutual fund investment. Whether to continue a particular mutual fund scheme or not depends upon the satisfaction derived from the same. The investors derive satisfaction from their investment in the mutual funds on different dimensions. This has to be studied to enhance their satisfaction and for the betterment of mutual fund companies. Besides these, there are a lot of inconveniences faced by the mutual fund investors.

Mutual fund industry has seen a lot of changes in the past few years with multinational companies coming into the country, bringing in their professional expertise in managing funds worldwide. In the past few months there has been a consolidation phase going on in the mutual fund industry in India. Now investors have a wide range of schemes to choose from depending on their individual profiles. In this context, it is essential to study the attitude and satisfaction of the mutual fund investors to serve them better.

Hence, the researcher wants to know the answers for the following research questions:

- In what way the investors change their attitude according to the perception towards mutual fund investment?
- How investors are satisfied over their preferred mutual fund investment?
- What are the problems faced by the investors while preferring mutual fund investment?

1.4 SCOPE OF THE STUDY

This study covers the subject matters of perception and attitude of mutual fund investors in Namakkal district. This study is concerned with the investors’ perception in terms of size of investment, risk and returns associated with them, terms and conditions, their attitude etc. considering their income, occupation and other factors from the side of mutual fund companies and mutual fund agents. The reason for selecting this particular area for the study is the volume of trade,
business network and circulation of money which are larger among the lines of industrially developed districts in Tamilnadu. In Namakkal district, the people invest their money in several constructive activities and various investment media. There has been growing trends in mutual fund and other investment activities are very significant in this district.

1.5 OBJECTIVES OF THE STUDY

The following are the objectives of the study:

- To study the market trends of mutual fund industry in India.
- To find out the socio-economic conditions, perception and their attitude of mutual fund investors in Namakkal district.
- To study the level of satisfaction of the investors in Namakkal district.
- To find out the problems faced by the mutual fund investors in Namakkal district.
- To suggest suitable measures to mutual fund companies to enhance investors’ satisfaction.

1.6 HYPOTHESES

In addition to the above objectives of the study, the following null hypotheses have been formulated and analysed.

H₀₁: There is no significant difference in the performance of fund mobilization of the public, private and bank sponsored mutual fund investments.

H₀₂: There is no significant difference between growth rate of fund mobilization of the public and private mutual fund Investments.

H₀₃: There is no significant difference between growth rate of fund mobilization of the public and bank sponsored mutual fund Investments.

H₀₄: There is no significant difference between growth rate of fund mobilization of the private and bank sponsored mutual fund Investments.
\(H_0\) 5: There is no association between economic conditions and the selection of mutual fund scheme.

\(H_0\) 6: There is no significant difference between select variables like Risk and return, Savings, Tax Benefit, Scheme, Occupational, Monthly income and the motivation factors for investing in mutual fund

\(H_0\) 7: There is no significant difference between mean ranks for respondent’s purpose and opinion of mutual fund Investments.

\(H_0\) 8: There is no significant difference between mean ranks for overall opinion about problems faced by the mutual fund investors.

1.7 METHODOLOGY

The methodology adopted for the study was as follows:

1.7.1 Sources of Data

The study is based on both primary and secondary data. The primary data were collected from the respondents with the help of the interview schedule and the secondary data were collected from various journals, newspapers, magazines, published sources and mutual fund related websites.

1.7.2 Statistical Tools for Analysis

The collected data have been used for analysis with the help of the following statistical tools.

Chi-Square Test

The \(\chi^2\) test is one of the simplest and most widely used non-parametric tests in statistical work. The quantity \(\chi^2\) describes the magnitude of the discrepancy between theory and observation. It is defined as:

\[
\chi^2 = \sum \frac{(O - E)^2}{E}
\]
The Association between Economic conditions and selection of mutual fund schemes were tested with the help of this tool.

**Analysis of Variance (ANOVA)**

Analysis of Variance (ANOVA) which is a statistical method for partitioning the total variation of a set of data into components associated with recognized sources of variation. The returns on different schemes of different mutual fund companies have been analysed with the help of both one-way and two-way analysis of variance.

**Multiple Regression Model**

The regression is a statistical relationship between two or more variables. When there are two or more independent variables, the analysis that describes such relationship is multiple regressions. This analysis is adopted where there is one dependent variable that is presumed to be a function of two or more independent variables. This model has been applied in this study to find out the influence of motives of mutual fund investors by various factors.

The linear multiple regression problem is to estimate coefficients $\beta_1, \beta_2, \ldots, \beta_j$ and $\beta_0$ such that the expression.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots \ldots \ldots + \beta_j X_j + u$$

Where,

$Y$ - Dependent Variable [Motive on mutual fund investment]

$X_1, X_2$ and $X_n$ - Independent Variables [Risk and Return, Savings, Tax Benefits, Scheme, Occupational, Monthly Income]

**Principal Factor Component Analysis**

There are so many factors which affect while selecting a particular mutual fund scheme. Of them, a few factors play a crucial role. In order to find out these
factors in selecting a mutual fund scheme, the principal factor component analysis has been used.

1.8 PILOT STUDY

In order to collect primary data from the mutual fund investors in the study area, a pre-test market was conducted with a sample of fifty investors. After pre-testing necessary modifications were made in the interview schedule. Based on the interview schedule, data were collected from the Mutual fund investors in Namakkal district.

1.9 SAMPLING DESIGN

The stratified sampling technique has been employed in this study. The Namakkal district was classified into four “Stratum” on the basis of taluks such as Namakkal town, Paramathyvelur, Trichengode and Rasipuram. Then, the researcher identified mutual fund investors in these four stratum with the help of mutual fund agents. A total of one hundred mutual fund investors were selected in each stratum by adopting the simple random method. Thus, a totally four of hundred mutual fund investors were selected as respondents for this study.

1.10 PERIOD OF THE STUDY


1.11 SIGNIFICANCE OF THE STUDY

Many studies have been done previously on mutual fund in India. The present study not only covered the perception but also it covered the attitude of the mutual fund investors. This helps to know in detail about mutual fund industry and its business growth and future prospects. The present study would be much helpful to the policy makers and administrators of the mutual fund companies to draw appropriate policies to enhance the satisfaction of the mutual fund investors and for the betterment of the mutual fund companies. This study would also help the future researchers in carrying out their research in the field of mutual fund and investor attitude in some other areas with multi-dimensional
aspects. The present study helps the people to save and invest their surplus money in various productive purposes. It leads to capital accumulation for the nation and better return to the investor.

1.12 LIMITATIONS OF THE STUDY

❖ The present study is based on the primary and secondary data. The findings and conclusion of study are subject to the data.

❖ This study is restricted to Namakkal district only. It does not deal with the attitude of mutual fund investors in other cities of Tamilnadu.

❖ Reluctance of some respondents to disclose their full investment particulars.

1.13 ORGANIZATION OF THE CHAPTER

The report has been organized and presented in six chapters.

❖ The First chapter deals with the Introduction and Design of the study. It covers the Introduction, Profile of the study area, Statement of the Problem, Scope of the study, Objectives of the Study, Hypotheses, Methodology, Source of data, Techniques analysis, Pilot study, Sampling design, Significance of the study, Limitations of the study and Chapter scheme.

❖ The Second chapter covers a brief description of the available review of the literature.

❖ The Third chapter presents an overview, performance and fund mobilization of the mutual fund companies in India.

❖ The Fourth chapter describes perception and attitude towards the mutual fund investors’ in Namakkal District.

❖ The Fifth chapter identifies level of satisfaction and problems faced by mutual fund investors’ in Namakkal District.

❖ The Sixth chapter summarises the findings, suggestions and the conclusion emerging from this study.
REFERENCES