CHAPTER I

INTRODUCTION AND DESIGN OF THE STUDY

1.1. INTRODUCTION

The mutual fund market is an important constituent of the financial system. It is a market for long-term funds-both equity and debt. It deals with financial assets, excluding coin and currency. The financial assets comprises of bank accounts, pension funds, provident funds, mutual funds, insurance policies, shares, debentures and other securities. If the stock exchanges are well regulated and operated in a smooth way, then it is an indication of healthy mutual fund market. Stock exchanges provide a good leverage to the mutual funds market and their relationship is directly proportional to the performance of the mutual funds market. India has multi-stock exchange system with 24 stock exchanges functioning across the country. The political changes in the country and policies of Government affect the trends of mutual funds market.

The history of the mutual fund market in India dates back to the eighteenth century, when the securities of the East India Company were traded in the country. Till the end of the nineteenth century, securities trading were unorganized and Mumbai and Kolkata are the only main trading centers. Among them, Mumbai was the chief trading center where in bank shares were the major trading stocks. The Bombay stock exchange was recognized in May 1927 under the Bombay Securities Control Act, 1925. During the 1950's century, Textiles, Tata Steel, Bombay Dyeing, National Rayon, Kohinoor Mills were the favorite investment avenues of the speculators.

In the 1970's, Badla trading was resumed under the disguised form of hand-delivery contracts to revive the market. However, the mutual fund market received another severe setback on 6th July 1974, when the government promulgated the dividend restriction ordinance. In 1980s the mutual fund market witnessed an explosive growth in India. The decade of 1980s was characterized by an increase in the number of stock exchanges, listed companies, and paid-up capital and market capitalization. The 1990s was the most important decade in the history of mutual funds market in India. Liberalization and globalization were the new terms coined and marketed during this decade. Emergence of Securities Exchange Board of India (SEBI) as a regulator of mutual funds market invited more attention of the investors.

1.2. CONCEPT OF ATTITUDE

Attitudes are evaluative statements either favourable or unfavourable concerning objects, people or events. Allport[1] defined attitude as "a mental or neutral state of readiness organized through experience, exerting a direct dynamic influence upon the individual's response to all objects and situations with which it is related". They reflect how an individual feels about something and reacts in a certain manner towards an idea.

Attitudes are made up of three components namely, cognitive, affective, and behavioural. The cognitive component of an attitude makes up the beliefs, opinions,

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[1] G.Allport, 1935,"Attitude" in Muchinson C, ed.Handbook of Social Psycology, Mass Clark University Press.

knowledge or information held by a person. The affective domain is the emotional or feeling segment of an attitude. The behavioural component of an attitude refers to an intention to behave in a certain way toward something. Generally attitude is dominated by the affective component that is the emotional feelings.

Understanding attitude of investors is very essential for the government and institutions to mobilize the savings of the household sector. Schemes should be so offered as to satisfy their needs and preferences. The government should make policies to render it congenial for the investors to invest their funds ensuring safety and profitability. The policies of the Reserve Bank of India (RBI) and the government should encourage companies to tap more resources from the public. Investment is necessary for the economic development of a country.

1.3. THEORIES ON ATTITUDE

According to the instrumental theory, attitudes are formed in response to an inward need of an individual. It views attitude dependent on the level at which the goal object of the attitude is seen as instrumental in achieving some valued state or goal. It means that whether or not an object is liked by a person, is dependent on whether or not it is perceived as having instrumental value in helping him to attain one or more of his goals.

The communication persuasion theory holds that attitudes are formed as a result of forces operating in a person's external environment. According to it some attitudes are inculcated rather than developed on the basis of logical reasoning transmitted through persuasive messages.

The task experience theory holds that, in the process of task performance a person gets acquainted with and forms an attitude toward the various objects a person works with, in accomplishing the task. Thus task experience provides much of the raw material to form attitudes. Attitudes are formed as a result of the mix of all factors operating simultaneously.

So many conflicts in a person's attitude do exist at times. This makes prediction of behaviour difficult notwithstanding, an understanding of attitudes provides a useful guide to investment behaviour. It is often said that attitudes, even if accurately known, do not provide an infallible guide to investment behaviour. In this regard, Kerby[2] has pertinently remarked that "a guide does not have to be infallible to be useful. Rather the fact that behaviour does not invariably follow attitudes is a complication with which marketers must cope".

1.4. INVESTORS' PSYCHOLOGY - THEORIES

Financial theory is based on the idea that everyone takes careful account of all available information before making investment decisions. But there is much evidence to show that it is not the case. Behavioural finance, a study of the markets that draws on psychology throws more light on why people buy or sell the stocks they do and even why they do not buy stocks at all. This research on investor behaviour helps to explain the various market anomalies that challenge the standard theory.

A) PROSPECT THEORY

It suggests that people respond differently to equivalent situations depending on whether it is presented in the context of a loss or gain. They become considerably more distressed at the prospect losses than they are made happy by equivalent gains. This loss aversion means that people are willing to take more risks to avoid losses

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[2] Kerby,J.K Consumer Behaviour,Dun Donnelley Publication Corporation ,New York ,1975

than to realize gains; even faced with sure gain, most investors are risk-averse, but faced with sure loss, they become risk-takers. According to the related ‘endowment effect’, people set a higher price on something they own than they would be prepared to pay to acquire it.

B) REGRET THEORY

It is about people’s emotional reaction to having made an error of judgement, whether buying a stock that has gone down or not buying one they considered and which has subsequently gone up. Investors may avoid selling stocks that have gone down in order to avoid the regret of having made a bad investment and the enhancement of reporting the loss. They may also find it easier to follow the crowd and buy a popular stock if it subsequently goes down. Going against conventional wisdom is harder since it raises the possibility of feeling regret if decisions prove incorrect.

C) ANCHORING THEORY

It is a phenomenon in which, in the absence of better information, investors assume current prices are about right. In a bull market each new high is anchored by its closeness to the last record and more distant history increasingly becomes an irrelevance. People tend to give too much weight to recent experience, extrapolating recent trends that are often at odds with long-run averages and probabilities.

D) OVER OR UNDER-ACTION THEORY

The consequence of investors putting too much weight on recent news at the expense of other data is market over or under reaction. People show over-confidence.

They tend to become more optimistic when the market goes up and more pessimistic when the market goes down. Hence, prices fall too much on bad news and rise too much on goods news. In uncertain circumstances, this can lead to extreme events.

1.5. INVESTMENT PYRAMID

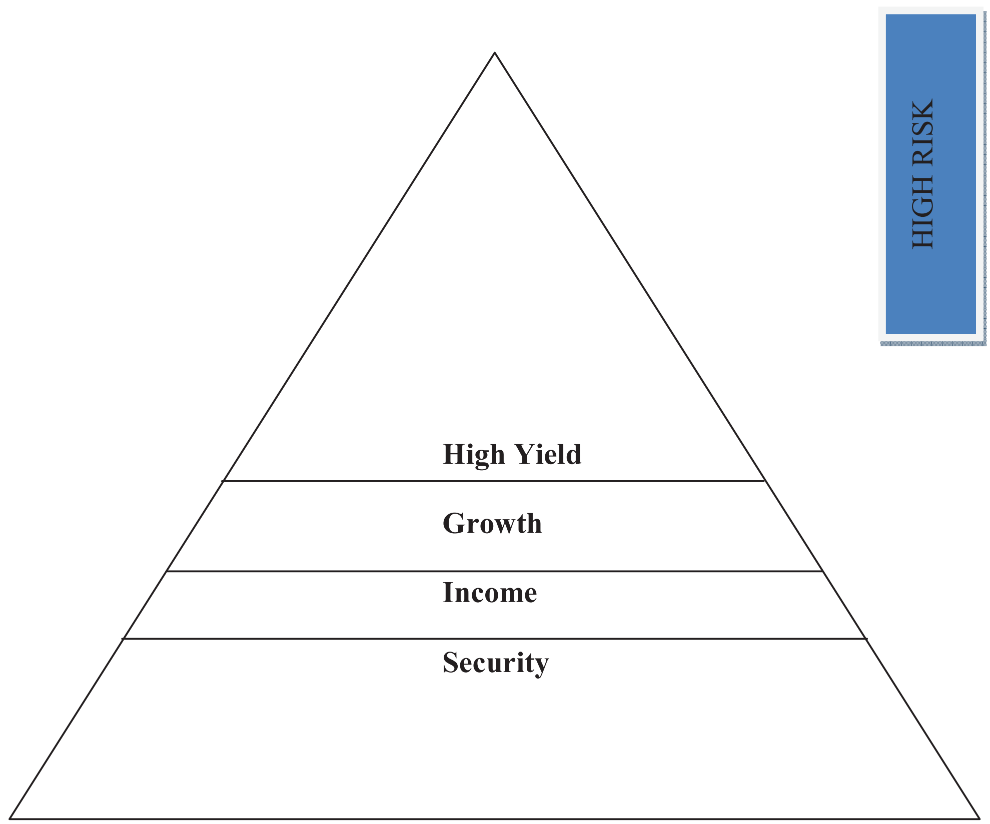

Figure 1.1

Experts urge investors to visualize the financial needs as a kind of pyramid, with each new level built upon, the one beneath it. It is a gradual process. As the net grows the investor moves to the next level increasing both the amount of risk and the potential for gain.

LEVEL 1: SECURITY STAGE

The foundation of the pyramid represents security needs – a retirement plan, life, health, and disability insurance and some cash in money market fund that can be quickly tapped for emergencies.

LEVEL 2: INCOME STAGE

This represents taking some more risks but ensuring safety of funds. So safe income-producing securities are preferred such as treasury and corporate bonds. It also involves finding a tax shelter of the incomes. Hence tax saving investments are chosen.

LEVEL 3: GROWTH STAGE

This level moves to accomplish investing money for growth. The investor takes more risks in the hope of reaping higher gains. Investments are made in blue chips growth stocks, convertible bonds and conservative mutual funds to hedge against inflation.

LEVEL 4: HIGH RISK- HIGH YIELD

At this level money is invested in relatively risky investments in speculative stocks such as high yielding, high-risk shares or stocks.

1.6. INVESTORS' LIFE CYCLE

The investor's life cycle is a series of four phases. Each is characterized by different investment objectives and constraints.

FIRST PHASE - ACCUMULATION PHASE

This is characterized by young investors seeking aggressive growth. The investment objectives are long term with the exception of marriage, planning a family and buying a house.

SECOND PHASE - CONSOLIDATION PHASE

This phase is characterized by middle-aged investors that have generally accumulated considerable assets. Retirement planning is more critical.

THIRD PHASE - SPENDING PHASE

This is generally characterized by retired or semi-retired investors who still have a long investment horizon and need to manage their retirement accounts to achieve a desired life style yet not to outline the wealth.

FOURTH PHASE – GIFTING PHASE

The prime objective in this phase is estate planning, since it is not likely that the investor outlives the wealth.

The world economy is passing through the fifth wave of economic revolution characterized by an emphasis on intangibles and innovation in the areas of info-tech, biotech, services, entertainment and media. The success of an investor depends on his catching the point of inflection of the new wave at the right moment and earning a disproportionate income. Innovation and speed are very essential for successful investments.

1.7. STATEMENT OF THE PROBLEM

The purpose, for which investments are made, varies from individual to individual. More number of investors may prefer capital appreciation, a few many opt for a regular income, some may be interested in getting tax concessions and the rest may try to mitigate the risks. The preference of the investor and the investment pattern also decided accordingly.

The behaviour of the investors is varied and the factors influencing their investments are many. This study on investors' preferences towards mutual funds market is made to identify the effect of mutual fund market, identify the predominant factors which influence the individual investor's behaviour and to study the relationship between the personal factors (namely Age, Earning Members in the family, education, income, Investment Experience, and influence on investment decision) and the investor's behavior to identify the pattern of investment and to study the nature of response to determine the suitability of investment schemes for investors.

Mutual funds have become the investment of choice for millions of investors. The basic idea of a mutual fund is simple. It is an organization whose only business is the investment of its shareholders money in to cash equivalents, stocks, bonds or a combination of stocks and bonds for the purpose of achieving specific investment goals. It attracts funds from many individual and institutional investors. It attempts to invest and manage those funds more effectively than investors could do on their own. More and more investors are using mutual funds to achieve at least some of their investment goals.

The most of the people either employed in private sector or public sector, find no time to take active analysis of stock market which is of highly volatile. So they are more interested in investing their hard earned money on mutual funds. The researcher from Thoothukudi district developed a natural urge to the attitude of investors who have invested their money in different mutual funds. The study is the outcome of that attempt.

1.8. SCOPE OF THE STUDY

The study covers all types of individual investors in mutual fund market. It includes the investors in the District of Thoothukudi in the State of Tamilnadu, India, without any discrimination regarding family life cycle, age, education, income and occupation. The scope of the study has been limited to certain important aspects of investors like evaluation of mutual funds market, preferences in investments and the like.

1.9. OBJECTIVES OF THE STUDY

Following are the specific objectives of the study:

a) To examine the role of mutual funds.

b) To identify the features and prospects of mutual funds.

c) To bring out the socio-economic profile of investors of mutual funds in the study area.

d) To analyze the attitude of investors towards mutual funds in thoothukudi district.

e) To offer concrete and suitable suggestions for better investment climate in the study area.

1.10. HYPOTHESES

The following null hypotheses have been framed and tested statistically.

- There is no significant relationship between sex of the investors and attitude towards mutual funds.
- There is no significant relationship between age of the investors and attitude towards mutual funds.
- There is no significant relationship between qualification of the investors and attitude towards mutual funds.
- There is no significant relationship between marital status of the investors and attitude towards mutual funds.
- There is no significant relationship between occupation of the investors and attitude towards mutual funds.
- There is no significant relationship between experience of the investors and attitude towards mutual funds.
- There is no significant relationship between annual income of the investors and attitude towards mutual funds.

1.11. METHODOLOGY

Both primary and secondary data have been used in this study.

A) COLLECTION OF PRIMARY DATA

Regarding primary data the researcher designed an interview schedule consisting of various questions relating to attitude of investors. A pre-test was conducted with 20 respondents to study the variability of factors affecting attitude. The questions were modified and adopted, in the light of the test results. Later a pilot study with 20 respondents was conducted to determine the sample design. For the study, 455 respondents were selected by random sampling. All these respondents were personally interviewed by the researcher.

B) SAMPLING DESIGN

The investors' population is spread all over District of Thoothukudi. The researcher approached share brokers to collect the list of investors. As per the list obtained from these people, the size of the population was restricted to 45,500.The researcher took approximately one per cent of the population as random sample size. The researcher had used only 455 investors for this study. The details of the sampling plan is given in the Table 1.1.

Table 1.1

DETAILS OF DATA COLLECTION

S.No	Name of the Taluk	Name of the Leading Broker	Total Number of Investors	Random Sample Size (1%)
1	Vilathikulam	Karvy Financial Services Ltd.	4200	42
2	Ettaiyapuram	Religare Enterprises Ltd.(REL)	1300	13
3	Kovilpatti	Geojit BNP Paribas Ltd	10700	107
4	Ottapidaram	India Infoline Ltd (IIFL)	2500	25
5	Thoothukudi	Karvy Financial Services Ltd.	12300	123
6	Srivaikundam	Angel Broking Ltd	7000	70
7	Tiruchendur	Religare Enterprises Ltd.(REL)	3200	32
8	Sathankulam	Share khan Securities Ltd	4300	43
Total			45500	455

Source: Primary Data

SECONDARY DATA

Secondary data were collected from reports, journals, magazines, thesis, dissertations, internet and books. Magazines like Southern Economist, Business India, Business Today, Chartered Financial Analyst and so on were referred to.

The following offices were visited:

1. Computer Age Management Services Pvt Ltd. (CAMS), Thoothukudi.
2. Various Stock Brokers Office in Thoothukudi District.
3. Various Insurance Agents Office in Thoothukudi District.

The following internet and websites were visited:

www.deanlebaron.com.

www.seminvest.com

www.moneycontrol.com/mutualfundindia

1.12. PERIOD OF THE STUDY

The data pertaining to the study had been collected during the year 2010. During this period, necessary steps were taken to collect sources from both primary and secondary, then it is thoroughly analysed before concluding.

1.13. TOOLS OF ANALYSIS

In order to the attitude of the investors statements were given on a 5-point scale, Likert type scaling technique was used. Further to examine the factors that influenced the level of satisfaction, chi square test was applied.

Factor analysis was used to analyze the attitude of investors towards mutual funds. Standard deviation and percentages were also used.

Chi-square test was calculated by adopting the following formula

$$\textbf{Chi-square} \quad x^2 = \frac{\sum (O-E)^2}{E}$$

Where O = Observed Frequency

E = Expected Frequency

$$E = \frac{\text{Row Total X Column Total}}{\text{Grand Total}}$$

R = Number of Rows

C = Number of Columns

With (r-1) (c-1) degrees of freedom

The theoretical profitability value was used to find out the level of significance.

ANALYSIS OF VARIANCE (ANOVA)

The aim of analysis of variance is to divide the total variance of the experiments into various component variances and to test the hypothesis about these component factors and provide the estimates. With the help of ANOVA, one is able to know whether the variances due to particular component is significantly more than the variance due to experimental error or not. In this way, the researcher tested various factors and to have their estimates.

$y_{ij} = \mu + \alpha_i + e_{ij}$ Where $i = 1, 2 \ldots k$

$j = 1, 2 \ldots n$

y_{ij} : j^{th} observation on i^{th} class

μ : General Mean

α_i : Effect due to class

e_{ij} : Errors which are supposed to be normally and independently and identically distributed with Zero mean and variance.

GARRET RANKING

The researchers ranked securities according to the preferences of investors and the various factors affecting the securities for investments. For ranking purpose garret ranking has been used. In this technique the ranks were converted into percentile scores on a scale of 100 using the formula.

$$PR = 100 - (100R - 50)/N$$

Where

PR= Percentile Position

R= Rank Assigned

N =Total Number of Ranks

The percentile positions were converted into scores by obtaining the corresponding values from the conversion table and finally the ranks were assigned in order.

FACTOR ANALYSIS

Factor analysis aims at explaining the relationship among numerous variables in terms of relatively few underlying factor variables. Factor scores are composite variables that represent the status of factor dimensions. The organizational climatic dimensions were separately processed to arrive the cluster of factors.

1.14. CHAPTER SCHEME

The present study has been organized and presented in six chapters.

- The first chapter titled "Introduction and Design of the Study" deals with the concept of the attitude, theories of investors psychology, statement of the problem, objectives of the study, hypotheses, methodology and chapter scheme.

- The second chapter entitled "Review of Literature" presents the studies already made, which are relevant to the present study.

- The third chapter titled "Profile of the Study Area" highlights the thoothukudi district. It covers eight taluks in Thoothukudi District.

- The fourth chapter entitled "Role of Mutual Funds" explains the concept of mutual funds, classifications, advantages and recent trends in mutual funds.

- The fifth chapter entitled "Attitude of Investors towards Mutual Funds" analyses about the investors attitudes and their relationship with socio-economic factors.

- The sixth chapter titled "Summary of Findings and Suggestions" summarizes the findings along with the suggestions to the investors to frame the investment strategies.