Chapter VIII

Summary and Conclusions

Since the origin with the establishment of *Societe General De Belgique* in 1822 (Tripathy, 2004b), mutual funds have achieved tremendous growth and popularity in global financial system. In the Indian context, according to Securities and Exchange Board of India, mutual fund is defined as ‘a fund established in the form of a trust to raise monies through the sale of units to the public or a section of a public under one or more schemes for investing in securities, including money market instruments or gold or gold related instruments’ (Taxmann SEBI Manual Vol 2, 2008, p. 4.729).

Mutual funds rose to exemplary position due to advantages of professional expertise, provision of diversified portfolio, benefits of economies of scale, liquidity, convenience, flexibility, product range, transparency, tax rebate including incentives, services etc. Passing through four phases of growth, mutual funds have experienced significant increase as part of gross household savings from 1.2% in 1993-94 to 7.7% in 2007-08 (RBI, 2008). As of 31st March, 2009 total assets under management in Indian mutual fund industry were at Rs 4,17,300 crores that have been growing at the compounded rate of 14.08% from FY 1997 to FY 2009. As of March end 2009, mutual fund industry comprised investments from corporate (50.92%), high net worth investors (22.03%) and individual investors (21.27%) managed by 35 asset management companies. Mirroring the growth in the industry, there are large number of schemes today, the sheer presence of which compounds the problem for the investor to select the same.

Most of the initial research on fund selection behavior of the investors focused on return and risk parameters of the mutual funds and accordingly the focus was on performance of the schemes. The later researches especially by Capon *et al* (1996) and Campenhout (2007) argued that return and risk are only the part of the multi attribute framework of mutual fund selection behavior and there is no single theoretical framework of mutual fund selection, which according to the researches can be the complex of portfolio choice framework, behavioral framework and with additional insights from consumer decision framework. Many of the isolated
researches on relationship between variables (other than risk and return) and mutual fund selection behavior have revealed the same. In fact in the Indian context, the comprehensive studies on the fund selection behavior has been of recent origin only. Further they are mainly concentrated on few locations and some of mutual fund options only. Very few studies barely discussed about the selection behavior of non retail investors and hardly any study discussed the perception of intermediaries regarding the fund selection behavior of the investors. Keeping these research gaps in mind, present study was conducted with the following objectives:

1. To identify the sources of information for retail and non retail mutual fund investors.
2. To make a comparative analysis of factors influencing the behavior of retail and non retail investors regarding mutual fund / scheme selection.
3. To study the perception of intermediaries in mutual fund distribution channel regarding the factors influencing the behavior of retail and non retail investor with respect to mutual fund / scheme selection.
4. To explore the implications of fund selection behavior for asset management companies.

8.1 Research Methodology

In order to achieve the objectives of the study, numbers of null hypotheses have been framed partly on the basis of literature reviewed and partly on the basis of intuition. All these hypotheses have been presented in Chapter III. For achieving the objectives of the study, survey method was adopted and primary data for the same was collected during the period during Jan 2009 to August 2009. For the survey, sample of retail mutual fund investors, non retail mutual fund investors and mutual fund intermediaries were collected. Retail and non retail investors have been differentiated on the basis of investment in mutual fund portfolio at the time of the study; for the purpose of study, the retail investor has mutual fund portfolio investment value of less than Rs 6.0 lacs and non retail investor has mutual fund portfolio investment value of more than Rs 6.0 lacs. For both the retail and non retail investors the investment was required to be made during the period from 1st Jan, 2007 to 31st Dec, 2008 in any of mutual fund schemes. The study was conducted in the
three cities of Punjab namely – Ludhiana, Amritsar and Jalandhar and Union Territory of Chandigarh. List of the investors was prepared with the help of intermediaries and asset management companies and from the prepared list 400 retail investors were randomly chosen, with 100 from each city under survey. Similarly list of non retail investors was prepared with the help of asset management companies and 50 non retail investors were chosen randomly from the list. The non retail investors included high net worth investors, public limited companies, sole proprietorship, partnerships and private limited companies. Overall non retail investor sample consisted of 33 high net worth investors and 17 entities.

For surveying the intermediaries’ perception, all kind of intermediaries namely individual financial agents or retail agents, corporate agents and asset management companies were surveyed. The sample size of the retail agents was restricted to 100, selected on the basis of proportionate random sampling from all the four cities under survey as per sampling frame of city wise mutual fund agents list on AMFI website as of 31st Dec, 2008. The sample of corporate agents was restricted to 50. Ten corporate agents have been randomly selected from the sampling frame of city wise corporate mutual funds agents list on AMFI website as of 31st Dec, 2008. Corporate agents also included national distributors and banks which also help in distribution of mutual funds. List of the national distributors along with the banks was prepared and 20 national distributors and 20 bank branches were selected randomly from the list thereby making the total sample size of corporate agents as 50. Census of asset management companies was done in all the four cities and finally 39 valid responses were obtained. Thus, in total, valid responses of 189 intermediaries were collected.

Three separate questionnaires were pre-tested, modified and finally used for data collection. Several questions on demographic profile, economic profile, purchase behavior and purchase profile have been included. Questionnaire also includes the questions on attitudes towards objectives and advantages of mutual fund. For factors influencing the selection behavior, major constructs of sources of information, mutual fund companies, mutual fund schemes, investor services and behavioral biasness have been used on five point balanced scale with numerical anchors.

Mean weighted score, standard deviation have been calculated for each variable for all the respondent types. Differences were seen initially on the construct averages between retail and non retail investors. For assessing the significant differences, normality was assessed using Shapiro-Wilk test. If distribution was found
to be normal, t test or ANOVA was applied and if distribution was found to be non normal, Mann Whitney Test (U Test) or Kruskal Wallis (H Test) test was employed. In case ANOVA was found to be significant, Post Hoc procedures of Scheffe test was employed to assess the site of significance. Further significant differences have been assessed between various groups of retail investors (segmented on the basis of profile – demographic, economic, purchase profiles and purchase behavior) using both parametric or non parametric procedures.

In order to assess the difference between retail and non retail investors on various sub scales of the different constructs, factor analysis was applied on the entire sample of mutual fund investors (450) on each of the construct. Using principal component analysis and orthogonal rotation (varimax) procedures several factors have been extracted from each construct. Later factor scores using both non refined methods (average summated scores) and refined methods (Anderson Rubin Scores) have been calculated for each extracted factor under each construct. Significant differences have been assessed using t test (in case of investors – where two categories were retail investors and non retail investors) or ANOVA (in case of intermediaries – where the three categories surveyed were – individual financial agents, corporate agents and asset management companies) using factor scores.

8.2 Profile of Mutual Fund Investors

To achieve the objectives of the study, mutual fund investors were chosen as one of the sampling units. Variety of profile parameters have been studied which mainly include demographic profile; economic profile; purchase behavior and purchase profile.

The average age of the retail mutual fund investor in the sample has been found to be 31 years of age and mainly the investors have been concentrated in the age group of 20 to 30 years. Most of the retail mutual fund investors were males and graduates. They were married and mostly in private service. In contrast the average age of high net worth investors was found to be 42.3 years and highest concentration has been found to be in the age group of 30 to 40 years. Most of the high net worth investors were male, graduates or professional post graduates, married and running their own business. Further the sample of non retail investors consisted of 33 high net worth investors and 17 firms or enterprises.
In terms of economic profile the annual individual income of retail mutual fund investor has been mainly concentrated within the range of Rs 2.0 to 4.0 lac and annual individual savings of less than Rs 1.0 lac. In contrast the annual income of most of high net worth investor was found to be greater than Rs 10.0 lac and annual savings of Rs 3.0 to 5.0 lac. For both retail and non retail investors, the most important category of purchase has been found to be equity funds and with in equity funds, the most preferred category was found to be diversified funds. Further retail mutual fund investors preferred to invest in growth plans using systematic investment plans, were interested in directly buying from AMC and were mostly aware of loads. Most of the portfolios of the retail mutual fund investors were less than Rs 2.0 lac; diversified among less than 5 mutual fund schemes and less than 3 asset management companies. Most of the retail mutual fund investors have investing experience of 1-2 years. In case of non retail mutual fund investors, the most preferred plan of investment was the growth plan; they preferred lumpsum investing and buying through brokers or bank and were mostly aware of the loads. Most of the non retail mutual fund investors have portfolios greater than Rs 10.0 lacs diversified among less than 5 mutual fund schemes and 6 to 9 mutual fund companies. In contrast to the retail mutual fund investors, most of the non retail mutual fund investors have investing experience of 3 to 4 years.

The most important objective of investing was found to be ‘capital appreciation’ and the least important objective was regarded as ‘regular income generation’. No significant difference has been found between retail and non retail mutual fund investor with reference to the importance of objectives of mutual fund investing. In contrast, non retail investors significantly regarded advantages of investing as more important than retail investors. Overall, investors (both retail and non retail) accorded highest importance to the advantage of ‘diversification’ and lowest importance to the advantage of ‘indirect exposure to assets’.

### 8.3 Sources of Information

The first objective of the study were to identify the sources of information for both the retail and non retail investors. Sources of information play a dominant role in fund selection, as they not only provide information regarding the other factors influencing the fund selection, but they themselves also act as fund selection criteria.
Importance of sources of information was asked from both retail and non retail investors on 17 variables. For the entire construct, retail investors ascribed more importance to the sources of information as compared to non retail investors but the difference is not found to be significant. Hence $H_{0.1}$ is accepted. ‘Published return performance’ has been treated as the most important source of information and ‘Advertising – Outdoor Media’ as the least important source of information for the entire base of retail and non retail investors.

Factor analysis was applied on the variables to extract factors of the construct. Sources of information construct can be represented by four factors namely – ‘Advertisement and shows’; ‘Data and information’; ‘Advice and recommendation’; and ‘Published Returns’. Corresponding to these four extracted factors, four summated scales have been created and difference between retail and non retail investors was assessed on the basis of Anderson Rubin factor scores. Both retail and non retail investors assigned highest importance to the ‘Published returns’ factor and assigned lowest importance to ‘advertisement and shows’. Retail investors assigned higher importance to the factor of ‘Advertisements and shows’ as compared to non retail investors and the difference is found to be significant. On the contrary non retail investors assigned higher importance to factor of ‘Published Returns’ as compared to retail investors and again the difference has been found to be significant. That is although $H_{0.1}$ is accepted for the construct of sources of information as whole, yet against two of the factors namely ‘published returns’ and ‘advertisement and shows’ $H_{0.1}$ is rejected. For ‘Data and information’ and ‘Advice and Recommendation’ no significant difference is observed between retail and non retail investors.

8.4 Comparative analysis of Factors influencing the fund selection behavior of retail and non retail investors

The second objective of the study is to assess the comparative analysis of the factors influencing the behavior of retail and non retail mutual fund investors with reference to their fund selection. For the same, many variables grouped as various constructs were assessed on 5 point scale from both retail and non retail investors. The constructs covered were namely mutual fund schemes, mutual fund companies, investor services and behavioral biasness.
Importance for mutual fund schemes was asked for 20 variables from both retail and non retail investors on 5 point balanced scale. Over all non retail investors assigned higher importance to selection criteria related to mutual fund schemes as compared to retail investors but the difference between the two categories is not found to be significant. Hence $H_{0-2}$ is accepted. Over all the total sample base of 450 investors assigned highest importance to variable of ‘return performance of the scheme’ and lowest importance to the ‘third value rankings of the scheme’. Factor analysis was applied on the variables to extract factors of the construct. The mutual fund schemes construct can therefore be represented by four factors or components namely ‘managerial and intrinsic attributes’, ‘performance and asset profile’, ‘third party assessment’ and ‘extrinsic attributes’. Four summated scales were created corresponding to these factors and the difference between retail and non retail investors was assessed on the basis of Anderson Rubin factor scores. Both retail and non retail mutual fund investors accorded highest importance to ‘performance and asset profile’. Retail investors assigned lowest importance to ‘third party assessment’ and in contrast non retail investors assigned lowest importance to ‘extrinsic attributes’. Non retail investors assigned higher importance to ‘managerial and intrinsic attributes’ as compared to the retail investors but the difference is not found to be significant. With respect to ‘performance and asset profile’ factor, non retail investors assigned higher importance with a significant difference from the retail investors. With reference to the factor of ‘third party assessment’, non retail investors valued the construct more as compared to the retail investors but the difference is insignificant. On the contrary, retail investors assigned higher importance to ‘extrinsic attributes’ as compared to non retail investors and the difference is found to be significant. Thus for the entire construct of mutual fund schemes, $H_{0-2}$ is accepted, but for the sub dimensions of the construct namely – ‘performance and asset profile’ and ‘extrinsic attributes’, $H_{0-2}$ is rejected.

Importance of selection criteria regarding mutual fund companies was asked for 13 variables on 5 point scale from not at all important to very important. Over all non retail investors assigned higher importance to the construct as compared to retail investors but the difference between the two is found to be insignificant ($H_{0-3}$ accepted). Over all the highest importance was awarded to ‘reputation or brand name of AMC’ and lowest importance has been assigned to ‘intermediaries network’. Factor analysis was applied on the variables to extract factors of the construct. Thus
the broader construct of mutual fund companies is explained by three factors namely – ‘innovativeness and performance’, ‘location and infrastructure’, and ‘experience and reputation’. Three summed scales were created corresponding to these factors and the difference between retail and non retail investors was assessed on the basis of Anderson Rubin factor scores. Both retail and non retail investors assigned highest importance to ‘experience and reputation’ and lowest importance to ‘location and infrastructure’. Non retail investors assigned higher importance to ‘innovativeness and performance’ as compared to the retail investors but the difference is not found to be significant. On the contrary, retail investors assigned higher importance to ‘location and infrastructure’ as compared to non retail investors and the difference is found to be significant. Further non retail investors assigned higher importance to the factor ‘experience and reputation’ as compared to retail investors and the difference is found to be significant. The results are important from the point of view of segmentation as retail investors provide more importance to the location and infrastructural issues and less importance to the experience and reputation as compared to non retail investors. Although $H_{0,3}$ has been accepted for the mutual fund companies construct as the whole, yet is rejected for the factors of the construct. Specifically $H_{0,3}$ is rejected for the factors namely – ‘location and infrastructure’ and ‘experience and reputation’.

The importance of the selection criteria regarding investor services construct was asked for 13 variables on 5 point scale from not at all important to very important. Both the retail and non retail investors assigned almost equal importance to the selection criteria relating to the investor services, and there is no significant difference between the two ($H_{0,4}$ accepted). Over all the highest importance has been awarded to ‘well explained scheme characteristics and risks in offer document’ and lowest importance was assigned to ‘fringe benefits’. Factor analysis was applied on the variables to extract factors of the construct. Thus the broader construct of investor services is explained by three factors namely – ‘responsiveness’, ‘adequate disclosures and easiness in investing’, and ‘fringe benefits’. Three summed scales were created corresponding to these factors and the difference between retail and non retail investors was assessed on the basis of Anderson Rubin factor scores. Retail investors assigned highest importance to ‘responsiveness’ and non retail investors assigned highest importance to ‘adequate disclosures and easiness in investing’. Both retail and non retail investors assigned lowest importance to ‘fringe benefits’. Non retail investors assigned higher importance to ‘adequate disclosures and easier
investing process’ as compared to retail investors and the difference is found to be significant. On the contrary, retail investors accorded higher importance to the factor of ‘fringe benefits’ as compared to non retail investors and the difference is found to be significant. With reference to the factor of ‘responsiveness’ the difference between retail investors and non retail investors is not found to be significant. Hence $H_{0-4}$ is rejected against the factors of the investors services construct namely – ‘adequate disclosures and easiness in investing’ and ‘fringe benefits’.

Behavioral factors play a very predominant role in mutual fund purchase or selection. In fact according to Campenhout (2007), behavioral framework is one of the three frameworks which help in explaining fund selection. Non retail investors have been found to be less biased in their behavior as compared to the retail investors but the difference between the two is found to be insignificant ($H_{0-5}$ accepted). Factor analysis was applied on the variables to extract factors of the construct. Thus the investor’s behavioral biases are represented by six broad factors of ‘planning and rationality’; ‘endowment’; ‘cognitive dissonance’; ‘representativeness’; ‘objectivity’; and ‘external stimulants’. Six summated scales were created corresponding to these factors and the difference between retail and non retail investors was assessed on the basis of Anderson Rubin factor scores. Non Retail investors have been found as more planned and rational in their decision making as compared to the retail investors and the difference between the two is found to be significant. With reference to endowment bias and cognitive dissonance bias, retail investors have been found to be more biased as compared to non retail investors but the difference between the two is not found to be significant. As far as representativeness is concerned, non retail investors were more biased as compared to the retail investors, but again the difference between the two is not significant. Retail investors have been found to be more objective and disciplined as compared to the non retail investors and the difference between the two is found to be significant. Further, non retail investors were more influenced by external stimulants as compared to the retail investors and the difference between the two is found to be significant. Thus $H_{0-5}$ is rejected against the factors of ‘planning and rationality’, ‘objectivity’ and ‘external stimulants’ with in the construct of behavioral biasness factors.
8.5 **Comparison of different subsets of Retail Investors**

Retail mutual fund investors have been further subdivided on the basis of demographic profile, economic profile, purchase behavior and purchase profile. In the sample base of 400 retail investors, 328 were *males* and 72 were *females*. Although different importance has been assigned by both males and females to different selection criteria constructs, but no significant difference has been found against any of the selection criteria construct (H0-6 accepted with respect to gender of respondents). The average age of investors in the sample was 31 years. Hence they were divided into two categories namely – *investors who are less than or equal to 31 years old* and other category of the *investors who are more than 31 years*, and the differences between the two categories have been further assessed in terms of their importance of fund selection criteria. Significant difference has been found in case of sources of information, which was valued more by the young investors and in the case of mutual fund schemes, which was assigned higher importance by the investors greater than the average age of the sample. Thus H0-6 is rejected with respect to age of respondents for sources of information and mutual fund schemes construct.

On the basis of education also, two categories have been created namely *investors who are graduate and less* and the second category of *investors who are postgraduate and more*. Out of the 400 retail investors, 212 investors were graduates and less as compared to the 188 investors who have attained the post graduation qualification and more. Investors who have higher education (postgraduate and more) considered mutual fund schemes as important selection criteria, significantly important than the investors who were not so highly educated (H0-6 rejected with respect to education of retail investors for mutual fund schemes construct). Further out of the 400 retail investors, 180 investors were unmarried or single and 220 investors were married at the time of study. Single investors assigned significantly higher importance to the sources of information construct and married investors assigned significantly higher importance to the mutual fund schemes (H0-6 rejected with respect to marital status of retail investors for sources of information and mutual fund schemes construct). In terms of occupation, total sample of 400 retail investors has been broadly categorized into two occupations – *service* and *non service*. Investors in service occupation assigned higher importance to the constructs of mutual fund schemes and investor services and at significant difference with the investors.
who were in occupational categories other than the service. Hence $H_{0-6}$ rejected with respect to occupation of retail investors for mutual fund schemes construct.

On the basis of economic profile also investors were subdivided into various categories. Economic profile in the study mainly consisted of annual individual income and annual individual saving. On the basis of annual individual income, the total sample base of 400 retail investors has been divided into two categories namely – investors whose annual income is less than Rs 2.0 lakhs and the other category of investors whose annual income is greater than or equal to Rs 2.0 lakhs. Investors who earn more assigned significantly higher importance to the constructs of mutual fund schemes and investor services and at significant difference with the other category. Thus $H_{0-6}$ rejected with respect to annual individual income of retail investors for the construct of mutual fund schemes and investor services. On the basis of annual savings the total sample base of 400 retail investors has been categorized into two categories of investors who have less than Rs 1.0 lakh annual saving and the other category of investors who have more than or equal to Rs 1.0 lakh annual saving. Investors who save more significantly assigned higher importance to the constructs of sources of information, mutual fund schemes, mutual fund companies and investor services as compared to the investors who save less. Thus $H_{0-6}$ rejected with respect to annual individual savings of retail investors for the construct of sources of information, mutual fund schemes, mutual fund companies and investor services.

Two classes of investors were created on the basis of their most preferred type of scheme. The two classes created were equity investors and non equity investors. Non equity investors were found to be more significantly biased in their behavioral tendencies as compared to equity investors. Therefore $H_{0-6}$ rejected with respect to scheme preference of retail investors for the construct of behavioral biasness. On the basis of preference towards dividend, investors have been subdivided into investors preferring dividend and investors preferring non dividend schemes. Those investors who prefer non dividend or growth schemes assigned significantly higher importance to the sources of information construct as compared to the other investors. Therefore $H_{0-6}$ rejected with respect to dividend preference for the sources of information construct. On the basis of their frequency of investing, investors were divided into two categories namely – investors preferring lumpsum investing and investors preferring SIP investments. Those investors who preferred to invest through SIPs assigned significantly higher importance to the construct of mutual fund schemes and
investor services as compared to the investors who preferred to invest through lumpsum. In addition investors preferring SIP were significantly less biased as compared to the other category. Therefore $H_{0.6}$ rejected with respect to frequency of investment for the constructs of mutual fund schemes, investor services and behavioral biasness.

Investors buy mutual funds using different sources like buying from retail agent, buying directly from asset management company etc and on this basis three categories have been created namely – investors who prefer to buy from AMC; investors who prefer to buy from Individual financial agent and the third category of investors who prefer to buy from other means. Those who preferred to buy from individual financial agent assigned significantly highest importance to the mutual fund schemes construct of selection criteria as compared to the other categories. In addition those investors who preferred to buy from AMC assigned significantly higher importance to the construct of investor services as compared to other categories. Hence $H_{0.6}$ rejected with respect to preference of buying source for the constructs of mutual fund schemes and investor services. Further investors who were aware of the loads assigned significantly higher importance to the sources of information as compared to the investors who were not aware of the loads. Therefore $H_{0.6}$ rejected with respect to load awareness for the construct of sources of information.

Investors were also subdivided on the basis of purchase profile. No significant difference has been found between the investors who preferred to maintain concentrated portfolio of mutual fund schemes and investors who preferred to maintain diversified portfolio for any selection criteria construct ($H_{0.6}$ accepted). Investors who preferred to maintain diversified portfolio with respect to AMCs assigned significantly higher importance to the construct of mutual fund schemes and significantly lower importance to the construct of investor services as compared to the other category. Hence $H_{0.6}$ rejected with respect to AMC diversification for the constructs of mutual fund schemes and investor services. Higher experience investors (greater than 2 years) assigned significantly higher importance to the constructs of sources of information; mutual fund companies; mutual fund schemes and investor services as compared to investor who have lower than 2 years of investing experience. Hence $H_{0.6}$ rejected with respect to investing experience of the retail investors for the
constructs of sources of information, mutual fund companies, mutual fund schemes and investor services.

8.6 Perception of Intermediaries

The third objective of the study deals with the assessing the perception of intermediaries regarding mutual fund selection behavior of the investors. All the types of intermediaries in the mutual fund distribution channel were surveyed. Final sample consisted of 100 individual financial agents, 50 corporate agents and 39 asset management companies. The corporate agents included individuals registered as corporate agents, national distributors and banks. The most important sale category of mutual funds as perceived by the intermediaries was found to be the category of equity funds and out of the equity funds; diversified funds have been treated as most important sale category for the intermediaries. According to most of the intermediaries; investors mainly prefer to invest in growth plans, largely using systematic investment plans and through brokers. Further according to the intermediaries the most important objective of investing in mutual funds considered by the investors is ‘capital appreciation’ and the least important objective considered is ‘parking of excess funds’. In addition, intermediaries regard ‘diversification’ as the most important advantage of investing in mutual funds and the least important advantage is that of ‘indirect exposure to assets’. Intermediaries perceived that among the sources of information construct, investors accord highest importance to the ‘published return performance’ and lowest importance to the ‘TV shows’. Among the constructs of mutual fund schemes, intermediaries perceived that investors provide highest importance to ‘return performance of the scheme’ and the lowest importance to ‘expense ratio of the scheme’. Among the variables of mutual fund companies, intermediaries perceived that highest importance by the investors is assigned to the variable of ‘reputation or brand name of AMC’ and lowest importance has been assigned to ‘international collaboration of AMC’.

For the variables of investor services construct, intermediaries perceived that highest importance by the investor is assigned to ‘responsiveness to enquiry’ and the lowest importance is assigned to ‘well informed website’. According to intermediaries, investors are strongly biased by the immediate historical performance of the mutual fund schemes and on the contrary, investors also like to remain in fund, when it is performing well, which is a desired behavior.
8.7 Comparison of Intermediaries on basis of Extracted factors

For carrying out the comparison between various types of intermediaries, several factors were extracted using factor analysis on different selection criteria constructs. From the 18 variables under sources of information construct, four factors have been extracted namely – ‘Reference and knowledge sources’, ‘Advertising and shows’, ‘Professional advice and recommendations’ and ‘Peer recommendations’. No significant difference was found between intermediaries on any of the extracted factors ($H_{0-7}$ accepted). The construct of mutual fund schemes consisting of 20 variables yielded five factors namely ‘managerial and fund characteristics’, ‘extrinsic attributes’, ‘risk and asset quality’, ‘rankings and ratings’ and ‘reputation and return performance’. Intermediaries in their perception regarding the investors mutual fund selection behavior significantly varied only with the extracted factor of ‘reputation and return performance’, where AMC assigned the highest importance and at significant difference with other set of intermediaries ($H_{0-8}$ rejected against the factor of ‘reputation and return performance’).

The construct of mutual fund companies is finally represented by four factors namely ‘innovativeness and representativeness’, ‘range and reputation’, ‘service orientation and performance’ and ‘location and infrastructure’. Intermediaries significantly differ in their perception towards ‘range and reputation’ and ‘service orientation and performance’. AMC’s perceived both ‘range and reputation’ and ‘service orientation and performance’ significantly more important than the other set of intermediaries. Hence $H_{0-9}$ rejected against the factors of ‘range and reputation’ and ‘service orientation and performance’.

The construct of investor services is explained by the four factors namely – ‘extrinsic services and responsiveness’; ‘adequate disclosures’; ‘back office support’ and ‘fringe benefits’. Here also AMC’s perceived ‘extrinsic service and responsiveness’ to be significantly more important as compared to the perceptions of the other set of intermediaries. Hence $H_{0-10}$ rejected against the factors of ‘extrinsic services and responsiveness’. The construct of behavioral biases is represented by five factors namely ‘cognitive dissonance’, ‘planning and rationality’, ‘representativeness’, ‘AMC’s representativeness’ and ‘Objectivity and discipline’. Individual financial agents perceived that investors are significantly more biased with respect to ‘cognitive dissonance’ as compared to the perceptions of other set of intermediaries. Hence $H_{0-11}$ rejected against the construct of ‘cognitive dissonance’.

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Intermediaries have been further classified on basis of their perception towards investors’ mutual fund purchase profile and purchase behavior like the type of majority sales, preference for type of scheme; preference for frequency of investment; preference for value added choice and preference for type of intermediary. No significant difference is found against any construct of selection criteria between the perceptions of intermediaries sub divided on the basis of major sales (equity versus non equity). Similar results were evident for preference of type of scheme (dividend versus non dividend scheme); preference for frequency of investing (SIP versus lumpsum investing) and preference for mutual fund intermediary (purchase through IFA versus purchase through Non IFA). It was only in the case of preference for value added choice (systematic withdrawal plan versus systematic transfer plan) that significant difference is found between the perceptions of intermediaries. Those intermediaries who think that investors prefer systematic withdrawal plan assigned high importance to the sources of information construct as compared to the intermediaries who think that investors provide higher preference to systematic transfer plan. Hence $H_{0.12}$ rejected only with respect to value added choice for the construct of sources of information.

8.8 Implications and Recommendations for Asset Management Companies

Fourth objective of the study deals with the study of implications of mutual fund selection behavior of retail and non retail investors and intermediaries for asset management companies and the same along with recommendations have been covered in detail in Chapter VII. This section only deals with the synoptic view of the same.

Out of all the extracted factors from all the constructs the most important factor for both the retail and non retail investor has been found to be ‘experience and reputation’ followed by ‘scheme performance and asset profile’. Therefore the study especially recommends that asset management companies should highlight their experience in managing money, should try to build up their repute and brand name and invest more in customer service orientation. The extracted factor of ‘Advertisement and Shows’ was considered as the least important selection criteria by both retail and non retail investors. The study therefore recommends that asset
management companies should rethink their media strategy, try to optimize the resources on advertising and shows and at the same time should try to focus on more differentiating points in order to make them more effective in the context of scheme selection.

It has been observed that retail investors assigned significantly higher importance to the factor of ‘advertisement and shows’ and non retail investors assigned significantly higher importance to ‘published return’. The study therefore recommends that asset management companies should develop their advertising contents keeping in mind the retail investor and emphasize more on return and its various related parameters while targeting non retail investors. In view of the significant higher importance given to ‘extrinsic attributes’ by retail investors, study recommends that targeted efforts towards retail investors should highlight more on minimum initial investment; scheme growth prospects and tax benefits. The study also further recommends lowering of minimum initial investment than the present amount of Rs 5000 (in most of the schemes) provided the cost of servicing such investments is controlled. At the same time seeing the importance of tax benefits to the retail investors, AMC’s should consider launching more tax friendly products.

Observing the difference in the preference for the factors under the construct of mutual fund companies, study recommends the development of more accessibility in terms of location and infrastructure for the retail investors and at the same time developing and reflecting more expertise in fund management and strengthening reputation or brand name of AMC for non retail mutual fund investors. Further seeing the significant importance of ‘adequate disclosures’ factor for the non retail mutual fund investors, study recommends that asset management company should ensure the disclosure of NAV on every trading day and at the same time that should be broadcasted to the non retail investors.

Observing the impact of behavioral biasness on retail investors, the study recommends that asset management companies and their intermediaries should train the retail investors regarding asset allocation and financial planning concepts so that investors take investment decisions incorporating more planning and rationality. Since non retail investors have been found to be less objective as compared to the retail investors, largely due to the higher mutual fund portfolio churning. The study therefore recommends that AMC’s should discourage widespread churning of the
portfolios and should encourage the non retail investors to invest in accordance with the scheme objectives rather than under the influence of intermediaries.

In analysis of the comparison between investors and intermediaries regarding the importance assigned to the extracted factors (here extracted factors have been taken in accordance with the investors and same factors statistics were computed for the intermediaries) in many of the extracted factors of selection criteria, intermediaries accord higher importance to the constructs than actually assigned by the investors. The study therefore recommends that intermediaries should try to assess their investors more precisely and ensure that their perception about the investor’s behavior should match with that of the investors. Further the study recommends that intermediaries and AMCs should try to understand their investors more and should highlight those issues which are really important to the investors.

Retail investors differ from their non retail counterparts (high net worth investors) in demographic features like age, education and occupation, this study recommends that asset management companies should try to develop customized solutions – products, services, literature, communication, advertising and training for catering to different needs of the investor sub sets. Retail and non retail investors (high net worth investors) also differ in their economic profile, which also leads to the same set of recommendations for the asset management companies. Non retail investors differ from the retail investors in their preference for frequency of investing, where non retail investors have higher preference for the lumpsum investing and retail investors have higher preference for the SIP investing. This also leads to the recommendation that asset management companies should focus more on selling SIPs to the retail investors and facilitate their investment in the products and accordingly provide the services to the investors. At the same time for the benefit of the non retail investor, AMCs should try to facilitate their investment through lumpsum buying.

Further retail and non retail investor differ in their perception towards importance of investing in mutual funds. Non retail investors treated transparency as the most important advantage and retail investors treated diversification as the most important advantage. This knowledge is beneficial to the asset management companies and they can improve their processes on transparency and should get more communicative with the non retail investor in addition to developing more diversified products for the retail investor.
One of the interesting outcomes of the study is the fact that intermediaries wrongly perceived that the least important objective of the investors is ‘parking of excess funds’, this is important as the least important objective according to investors (both retail and non retail) themselves is ‘regular income generation’. Therefore the study recommends that intermediaries should carry out more precise assessment of the investor’s perception and should try to defocus on regular income generation characteristic of the mutual funds.

Sources of information construct has been found to be significantly important for investors less than 31 years old, single investors, those investors who have annual individual savings greater than Rs 1.0 lakh, investors preferring non dividend schemes, investors who are aware of the loads and investors who have higher investing experience. Similarly mutual fund schemes construct is significantly important for the investors with age more than the average age of 31 years, for the investors who are postgraduates and more, for married investors, for investors in service occupation, investors with annual individual income greater than Rs 2.0 lakhs, investors with annual individual savings greater than Rs 1.0 lakh, for investors who prefer to invest through SIP, for investors who want to buy from AMC, who maintain diverse portfolio with respect to number of AMCs in their portfolio and for higher experienced investors.

The construct of mutual fund companies has been found to be significantly important for the investors with annual individual savings greater than Rs 1.0 lakh, for investors preferring non dividend schemes, and for higher investing experienced investors. The construct of investor services is found to be significantly important for investors in service occupation, for investors with annual individual income more than Rs 2.0 lakhs, for investors with annual individual savings greater than Rs 1.0 lakh, for the investors who prefer to invest through SIP, for the investors who prefer to buy from AMCs, who maintain diverse portfolio with respect to number of asset management companies in their portfolios and investors with higher investing experience. Behavioral biasness is found to be significant factor for non equity and lumpsum investment preferring investors. In view of all the above, this study recommends development of customized products, services and solutions for the different subsets of the investors.
8.9 **Scope of future research**

This research on mutual fund selection behavior has opened up new vistas for future research. Since mutual fund is not very old instrument in Indian financial services industry (especially if considered its growth after 1993), a lot of research may be performed on different issues of fund selection. Although the study has done something in regard to impact of demographic and economic profile on the fund selection behavior, the same may be studied in detail especially taking in consideration different regions and at different times. Time series research and analysis may be done after studying the fund selection behavior at different times. This research has been carried out in the era of agent’s load and commissions which have been discontinued from 1st August 2009. As a result significant proportion of individual financial agents have either wiped out their business or significantly scaled them down. So, further research may be carried out by studying the perceptions of the investors in changed paradigm of mutual fund industry. Moreover with the increasing financial literacy, increasing investor awareness, the selection criteria may change or increase or decrease in intensity, which calls for further introspection.

The fund selection behavior of different types of mutual funds like fund selection behavior of equity mutual fund investors in comparison with fund selection behavior of bond mutual fund investors may also be studied. Moreover this research may further be supplemented with inclusion of more cities, larger sample, more options etc.