CHAPTER 7

FINDINGS, RECOMMENDATIONS AND CONCLUSION

7.1 INTRODUCTION

Mutual funds are an integral part of the stock market which become the investment avenue for a large number of investors in the recent years. There are a number of investment opportunities available to an investor. Each of these investments has its own risk and return features. This research carries three empirical studies focused on the perception of small investors in mutual funds in Chennai City.

The first empirical study relates to investor perception on mutual funds. To understand the willingness and intention to invest in mutual funds, the study focuses on five aspects, namely Mutual Fund Product Awareness, Awareness of Asset Management Company Reputation, Understanding of Mutual Fund Risks, Quality of Investment Advisors and Understanding Asset Management Company Services.

1) The factors under Mutual Fund Product Awareness are Mutual fund returns, knowledge about entry and exit loads, investment objectives, knowledge on NAV (Net Asset Value) and mutual fund product uniqueness and its feature awareness to investors.

2) The factors under Awareness on asset management companies’ reputation are Company Brand Name, past performance track
record, availability of customized fund planner options to the customers based on their needs and providing the details about future economic growth to the customers.

(3) The third aspect is the Understanding mutual fund risks; it tries to investigate on how mutual funds help to diversify the risks, and how the fund managers can manage their portfolio in a better way, both in the market and currency to decide the investment value.

(4) The fourth is on the Qualities of investment advisors about their needs and qualities, how the investment advisor helps in the development of mutual fund industry.

(5) The fifth aspect is on the investors understanding on Asset management services.

The second empirical study is to develop a business model for next generation mutual funds. Mutual funds as an investment vehicle have gained immense popularity in the current scenario. The existing mutual fund business models face a number of issues characterized by lack of investor awareness, high dependence on corporate sector, low penetration levels and spiraling cost of operations. The study explores the critical factors that influence to restructure the Mutual Funds business models to provide for increased efficiencies and investor satisfaction. The new business model, INSIGHT, focuses on the sustainability of Indian mutual fund industry by considering aspects such as entry load, regulation of distributors, management fees paid to asset management companies, and taxation of mutual funds from the investor’s point of view. Exploratory factor analysis, confirmatory factor analysis and structural equation modeling were used to analyze the data. The results suggest that the model is central to meeting customer needs while streamlining the business processes. The model fits both development and sustainability of Indian mutual fund industry in coming years.
The third empirical study is on designing a fund planner tool. An investor must learn to analyze and measure the risk and portfolio returns. The performance of funds is mainly influenced by characteristics such as size of an asset, turnover ratio and fee structure. Lenders’ highest priority lies in understanding the relation between fund performance and above properties. Currently the lenders depend upon investment advisors for their financial planning and further no customized tools are available for investment decision. In this work, a fund planner tool called Techno-Portfolio Advisor is designed which helps the investors to understand the critical relations and support mutual funds selection across the Asset Management Companies (AMCs) in India. The Techno-Portfolio Advisor is designed based on the fuzzy inference rules by considering the investor preferences like investment amount, age, future goal and return rate. Apart from this, the optimal funds for achieving the investor goal are evaluated based on the quantitative data available from the historical NAV from SEBI/AMFI/AMCs. Thus the Techno-Portfolio Advisor creates awareness among the investor community to choose the optimal mutual fund scheme and achieve their investment goals as well.

The purpose of this study is to improve understanding of willingness and intention to invest in mutual funds and thus identify key factors that determine the next generation mutual funds schemes.

7.2 SUMMARY OF FINDINGS

1. Sixty one percent of the respondents ranked bank deposits as their short term investment as the first preference and thirty six percent of the respondents ranked shares as their short term investment for the last preference.

2. Fifty five percent of the respondents invest in mutual funds from their present income and forty six percent of the respondents invest
in mutual funds from their past savings. Fifty two percent of the respondents expect ten percent to twenty percent returns on mutual funds and fifteen percent of the respondents expect twenty one percent to thirty percent returns from mutual funds. Sixty five percent of the respondents prefer one to two years to invest in mutual funds, twenty seven percent of the respondents prefer less than 1 year to invest in mutual funds and nine percent of the respondents prefer two to three years to invest in mutual funds.

3. Seventy seven percent of the respondents prefer brokers as intermediaries to invest in mutual funds, thirteen percent of the respondents prefer mutual fund website as intermediary to invest in mutual funds, nine percent of the respondents prefer direct investment as intermediary to invest in mutual funds and two percent of the respondents prefer banks as intermediary to invest in mutual funds.

4. Forty two percent of the respondents prefer investments in balanced fund among mutual fund investments, twenty eight percent of the respondents prefer investments in equity fund among mutual fund investments, twenty six percent of the respondents prefer investments in debt fund among mutual fund investments and four percent of the respondents prefer investments in commodity fund among mutual fund investments.

5. Forty three percent of the respondents prefer dividend reinvestment option in mutual fund investments, thirty eight percent of the respondents prefer dividend payment option in mutual fund investments; fourteen percent of the respondents prefer growth option in mutual fund investments followed by four percent of the
respondents prefer monthly income scheme option in mutual fund investments.

6. Seventy one percent of the respondents prefer monthly returns from mutual fund investments, seventeen percent of the respondents prefer quarterly returns from mutual fund investments, eleven percent of the respondents prefer half yearly returns from mutual fund investments, one percent of the respondents prefer annual returns from mutual fund investments.

7. Eleven percent of the respondents prefer sector specific equity fund types in mutual funds, nine percent of the respondents prefer larger cap equity fund types from mutual funds and four percent of the respondents prefer small cap and mid cap specific equity fund types from mutual funds.

8. Sixty seven percent of the respondents prefer IT sector funds, sixteen percent of the respondents prefer FMCG sector funds, nine percent of the respondents prefer Banking and Social Media sector funds and less than one percent of the of the respondents prefer Pharma sector funds.

9. Sixty percent of the respondents ranked tax exemption as their objective of investment in mutual funds in the first place and forty nine percent of the respondents ranked flexibility as their last item in objective of investment in mutual funds.

10. Awareness on Mutual Fund Products

99 percent of respondents either strongly agree or agree to the statement “mutual fund yields / gives maximum return”. For the statement “easy entry and exit to and from mutual funds with minimal initial investment options”, 76 percent of the respondents
strongly agreed, 22 percent of the respondents agreed and about two percent remained neutral to the statement. 88 percent of respondents either strongly agree or agree to the statement “that investment philosophy / objective of the fund are important while investing”. For the statement “fund with good capital appreciation and NAV (Net Asset Value) value is attractive” 76 percent strongly agreed, 20 percent agreed. 98 percent of respondents either strongly agree or agree to the statement “uniqueness of the mutual fund (scheme) and innovative features attracts to invest in mutual funds”.

11. Awareness on Asset Management Company Reputation

Sixty nine percent of the respondents strongly agree that investment in mutual funds will be made based on the AMC reputation or brand name, and thirty one percent of the respondents agree that investment in mutual funds will be made based on the AMC reputation or brand name. Seventy five percent of the respondents strongly agree that investments will be made based on company’s past performance/track record, twenty three percent of the respondents agree that investments will be made based on company’s past performance/track record, two percent of the respondents remain neutral to this statement and nearly one percent of the respondents disagree that investments will be made based on company’s past performance/track record. Eighty percent of the respondents strongly agree that customized goal planner options based on the individual needs are getting provided by AMC and twenty percent of the respondents agree that customized goal planner options based on the individual needs are getting provided by AMC. Seventy four percent of the respondents strongly agree
that guiding investors about projection of economic factors that may affect fund performance in next 12 months and nearly two percent of the respondents remain neutral to this statement.

12. Awareness on Understanding Mutual Fund Risks

Seventy four percent of the respondents strongly agree that investment in mutual fund helps to diversify risks. Seventy seven percent of the respondents strongly agree that fund managers in better place to manage portfolio. Eighty one percent of the respondents strongly agree that the value of its investments may decline because of market risk. Seventy seven percent of the respondents strongly agree that the value of an investment declines because of political changes or instability in the country. Seventy nine percent of the respondents strongly agree that change in currency value against global market may impact investments. Seventy four percent of the respondents strongly agree that disclosure of standard / scheme specific risk factors.

13. Awareness on Qualities of Investment Advisors

Seventy four percent of the respondents strongly agree that an investment advisor needs to have good relationship including good rapport with investors; twenty six percent of the respondents agree that an investment advisor needs to have good relationship including good rapport with investors and nearly one percent of the respondents remain neutral to this statement. Seventy seven percent of the respondents strongly agree that an investment advisor should have general awareness about the markets; twenty three percent of the respondents agree that investment advisor should have general awareness about the markets and less than one percent of the
respondents remain neutral to this statement. Eighty one percent of the respondents strongly agree that an investment advisor should make specific recommendations and tailor plans to suit needs for investing; sixteen percent of the respondents agree that investment advisor should make specific recommendations and tailor plans to suit needs for investing and three percent of the respondents remain neutral to this statement. Seventy seven percent of the respondents strongly agree that an investment advisor should not be biased in his approach; twenty two percent of the respondents agree that an investment advisor should not be biased on his approach and nearly one percent of the respondents remain neutral to this statement. Seventy nine percent of the respondents strongly agree that an investment advisor should redraw the investment strategies from time to time, keeping investor’s preferences; eighteen percent of the respondents agree that an investment advisor should redraw the investment strategies from time to time, keeping investor’s preferences and three percent of the respondents remain neutral to this statement. Seventy four percent of the respondents strongly agree that an investment advisor should disclose of repurchase / redemption / switch procedures / penalties; twenty four percent of the respondents agree that an investment advisor should disclose of repurchase / redemption / switch procedures / penalties and nearly two percent of the respondents remain neutral to this statement.

14. Awareness on Understanding Asset Management Company Services

Seventy five percent of the respondents strongly agree that an asset management company should disclose NAV (Net Asset Value) daily. Seventy eight percent of the respondents strongly agree that
an asset management company should disclose the deviation of investments from the original pattern. Seventy six percent of the respondents strongly agree that an asset management company should have grievance Redressal machinery. Seventy four percent of the respondents strongly agree that an asset management company should leverage the technology by making the investors to invest in mutual funds through online / websites without the help of brokers. Sixty eight percent of the respondents strongly agree that an asset management company should disclose investor’s right and services.

15. Correlation analysis is used between the five aspects considered in the present study, namely Mutual Fund Product Awareness, Awareness of Asset Management Company Reputation, Understanding of Mutual Fund Risks, Quality of Investment Advisors and Understanding Asset Management Company Services.

16. Highest correlation of 0.95 exists between Understanding of Mutual Fund Risks and Quality of Investment Advisors. Second highest correlation coefficient is found between Mutual Fund Product Awareness and Understanding Asset Management Company Services. The third highest correlation coefficient is .61 and it is between Mutual Fund Product Awareness and Quality of Investment Advisors. The fourth in the order is the correlation between Mutual Fund Product Awareness and Understanding of Mutual Fund Risks has a correlation of .53, whereas the correlation between Understanding of Mutual Fund Risks and Understanding Asset Management Company Services is .51.
17. Cluster analysis of the data indicated the prevalence of three distinct groups of people in the present study. About 58 per cent of the people are in the first group, about seven per cent are in the second group and about 35 per cent are in the third group. Members of the second group have very low levels of knowledge and members belonging to the first group have high levels of knowledge in all the five dimensions studied.

18. Discriminant analysis has been used for creating mathematical models that would segregate the three groups formed through cluster analysis. Variables used in the analysis are the scores obtained by respondents in the five dimensions studied, viz., Mutual Fund Product Awareness (MPA), Awareness of Asset Management Company Reputation (AMC), Understanding of Mutual Fund Risks (MFR), Quality of Investment Advisors (QIA), and Understanding Asset Management Company Services (UAM). The efficiency of the models evolved is also tested.

Since there are three groups, two discriminant functions are constructed and these are:

\[
Z_1 = -49.009 + 0.080 \times \text{MPA} + 0.117 \times \text{AMC} + 0.022 \times \text{MFR} + 0.238 \times \text{QIA} + 0.059 \times \text{UAM},
\]

\[
Z_2 = -0.099 + 0.130 \times \text{MPA} - 0.086 \times \text{AMC} - 0.052 \times \text{MFR} - 0.102 \times \text{QIA} + 0.111 \times \text{UAM}.
\]

19. Efficiency of the discriminant functions for correct classification is found to be nearly 97 per cent. In other words, if these models were used to find out whether the levels of knowledge in the five dimensions are similar to Cluster 1, 2 or 3, the accuracy of the correct classification will be nearly 97 per cent.
20. To sum up, there are three different types of people having similar opinions or levels of knowledge on Mutual Funds. The first group of people highest level of knowledge, the second group has low level of knowledge, and the third group has average levels of knowledge on Mutual Funds. It is also possible to assess the level of knowledge possessed by a new investor using discriminant functions evolved and the correctness of this assessment would be more than 95 per cent.

7.3 SUMMARY ON HYPOTHESIS TESTING

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7.4 RESEARCH IMPLICATIONS

1. The study helps the investor understand better the mutual fund schemes and their performance based on different ratios.
2. There is no need for Investors to do market research for buying funds as the comparison is done.

3. The proposed work gains the admiration and support from professionals in finance.

4. The proposed work is looked upon as a potential investment analysis for mutual portfolio managers, financial planners, and investors.

7.5 SUGGESTIONS

Based on the analyses and findings of the study, the following suggestions have been made to would help the mutual fund industry as well as mutual fund investors.

1. **Investor Awareness/Services**
   - Creating awareness Campaign on Mutual Funds for the Investors in their regional languages. New fund offer (NFO) applications and other mutual fund applications should be in regional languages besides English. This would help all type of the investors to understand the details and risk factors more clearly.
   - AMC’s Tie up with Cooperative banks / societies to provide fund services to investors
   - Organizing one day camps on Mutual Fund Products and Services for women investors in regular intervals
   - Applications in various regional languages should be given along with the application in English which the investor is filling while making the investments
2. **New Product Design**

- To Design Innovative Products for the Investors on Tax / Pension
- To increase Cash Investment Products for small investors (who may not pay taxes and not having PAN or Bank Accounts)

3. **Streamline Cost**

- Reduce Distribution cost.
- Manpower hiring cost to be reduced.
- Sales and Marketing expenses, such as brokerage which forms large proportion of total costs for AMCs should be managed.

4. **Investment Advisor Discount**

- Conducting Investment Advisor certification Programme in the regional language
- Providing more Discounts to Investment Advisors for attracting Mutual Fund Investors.
- Reputation and quality of the fund manager is the key to the success of any asset management company as well as mutual fund schemes. A very good performing scheme may suddenly under performance because of the change in the managers. Hence the Asset management companies must take utmost care in appointing fund managers and retain them.
5. **Grab Rural Sales**
   - Providing customized fund services to Investors through self-help groups in Rural Areas.

6. **High Distribution Network Model**
   - Increasing the Distribution Strength of Mutual Fund Advisors through postal agents, retired people from the following sectors like government officials, teachers and bank officers.
   - The online channel of distribution should be exploited to its full potential.

   - Training and educating the distributors to strength the network.

   - The tied distribution model could be explored, where the agent is tied to a particular institution.

7. **Technology Usage**
   - SMS / Social Media based marketing strategy to promote mutual fund products

   - Empowering Sales Channels to reach customers through digital strategies (mobile, tablets) for value added services

   - Daily updates on Fund/AMC/investor related alerts through Mobile SMS and on Websites

   - Customized Goal Planner options for Investor by AMC through Mobile SMS

   - Set up of e-fund Information Centre’s

   - Centralized data to be maintained across AMC’s to avoid the fraud during Transmission of Units
8. There is a need for a special legal care to investors in mutual fund industry. At present the legal provisions relating to redress the investors grievances are mingled with various laws like Companies Act 1956, Securities Contract Act 1956, Consumer Protection Act 1986 and SEBI Act 1992. It is necessary to construct and implement a new law for the protection of mutual fund investors.

9. Poor portfolio management is the major problem of investors in mutual fund. This is in spite of the professional management of the funds. Hence efficiency audit should be made mandatory.

10. Asset management companies collect feedback from the investors and study the investor’s problems, opinion etc. in frequent intervals, this will help to give better service to the investors and also create and maintain a good relation with the investors.

11. To educate the investors, asset management companies and SEBI can arrange seminars, training programs, workshops etc. especially during the time of market fluctuation, economic recession, when new products are introduced in the market etc. This would reduce the misperception of investors and create a confidence about the market.

12. Necessary training programs should be arranged to the financial advisors/agents/distributors. AMFI should ensure the certification of financial advisors and the certificate should be renewed once in 3 years instead of 5 years.

13. At present SEBI operations are based on regional basis. For the speedy settlement of mutual fund issues, SEBI can organize a grievance cell at every state headquarters, so that the investor’s grievance can be resolved within at the earliest.
14. Government should give more tax concession to ELSS schemes and extent the tax benefits to other schemes also. This would prompt the investors to invest more in mutual funds.

15. The asset management companies should give top priority to mutual fund investors. For, without investors there is no fund, and subsequently no asset management company. Documents should be dispatched to the investors on time.

16. The asset management companies should focus on the small investors. With drops of water can make a mighty ocean; the small investors are the backbone of the industry. So much care should be taken to solve the needs of small stakeholders.

17. All asset management companies give more importance to metros and cities. It is necessary to give recognize to the investors in rural area and expand their service to these areas. Only then the industry can show a balanced growth. Asset Management Companies need to introduce products for the semi-urban and rural markets that are affordable and yet competitive against low-risk assured returns of government sponsored saving schemes such as post office saving deposits.

7.6 CONCLUSION

In today’s precarious market environment, mutual funds are looked upon as a transparent and low cost investment vehicle, attracting a fair segment of lender attention, helping spur the growth of the industry. AMCs therefore need to reorient their business towards fulfilling customer needs. As customers seek reliable investment advisors, the manufacturer-distributor-customer relationship is expected to be centered not on the sale of products, but for collectively promoting the
financial success of customers across all facets of their professional and personal lives. This requires creating a shared network of experts in funds management along with financial advice, innovative product offerings, efficient service delivery and technology support.

The mutual fund industry today has to develop products to fulfill the needs and help customers understand how these products cater to their requirements. Performance of the industry has been strong and it is well-placed to achieve sustainable growth levels. The next couple of years will see the mutual fund industry influenced greatly by the journey undertaken till this point of time and by the changing demographic profile of investors.

7.7 SCOPE FOR FURTHER RESEARCH

The present study is an attempt to analyze the attitude and behavior of mutual fund investors in Chennai. Several areas have been identified that warrant for further research, such spaces or areas are stated below:

1. A study of this nature can be extended to all the states in India.

2. Investor’s attitude towards a particular asset management company’s funds may be analyzed.

3. Performance of mutual fund industry in India.

4. Investor’s attitude on investing towards particular type of funds like sector funds, tax funds, index funds etc,

5. Further research can be made to analyze the behavior patterns of institutional investors.