CHAPTER – I

INTRODUCTION AND DESIGN OF THE STUDY

1.1. INTRODUCTION

Savings form an important part of the economy of any nation. With savings invested in various options available to the people, the money acts as the driver for the growth of the country. Indian financial scene too presents multiple avenues to the investors. Though certainly not the best or deepest of markets in the world, it has ignited the growth rate in mutual fund industry to provide reasonable options for an ordinary man to invest his savings.

Investor is a person who invests money to make a profit. Investor, who is not ready to take the risk of capital market volatility, prefer mutual fund as an investment avenue. In India, the mutual fund industry has been in existence since 1963.

Mutual fund raises money by selling shares of fund to the public, as any other company that sell stock to the public, and use it (along with any money made from previous investment) to purchase various investment vehicles, i.e., stocks, bonds and money market instruments. In turn, for the money that public had given to the mutual fund when purchasing stakes, they receive an equity position in its underlying schemes.

Each unit of these schemes reflects the share of investor in the respective fund and its appreciation is judged by the Net Asset Value (NAV) of the scheme. NAV is directly linked to the bullish and bearish trends of markets as the pooled money is invested either in equity shares or in debentures or in treasury bills.
For most mutual funds, stakeholders are free to sell their units at any time, although the price of a unit in a mutual fund will fluctuate daily, depending upon the performance of the securities held by the fund. Benefits of mutual funds include diversification and professional money management. Mutual funds offer choice, liquidity, convenience, and often require a minimum investment.

Intensified competition and involvement of private players in the race of mutual funds have forced professional managers to bring innovation in mutual funds. As the result, products are now tailor-made to suit specific needs of investors, i.e., aggressive growth fund, asset allocation fund, balanced fund, blend fund, bond fund, capital appreciation fund, open end fund, close end fund, equity fund, fund of funds, global fund, growth fund, income fund, hedge fund, index fund, international fund, money market fund, municipal bond fund, prime rate fund, regional fund, sector fund, speciality fund, stock fund and tax-free bond fund. Besides, mutual funds have also introduced some special specific funds like children plans, education plans, insurance-linked plans, and exchanged traded funds.

1.1.1 Features of mutual funds

Features of mutual funds are as follows:

1. Mobilizing small savings

Mutual funds mobilize funds by selling their own shares known as unit. To an investor, a unit in mutual funds means ownership of a proportional share of securities in the portfolio of a mutual fund. This gives the benefit of convenience and satisfaction of owning shares in many industries. Thus, mutual funds are primarily investment
intermediaries to acquire individual investment and to pass on the returns to small funds investors.

2. Investment avenue

One of the basic characteristics of a mutual fund is that it provides an ideal avenue for investment for persons of small means, and enables them to earn a reasonable return with the advantages of relatively better liquidity. It offers investors a proportionate claim on the portfolio of assets that fluctuate in value in comparison with the value of assets that comprise the portfolio.

3. Professional management

It is possible for small investors to have the benefit of professional and expert management of their funds. Mutual funds employ professional experts who manage the investment portfolios efficiently and profitably. Investors are relieved of the emotional stress involved in buying or selling securities because mutual funds take care of this function. With their professional knowledge and experience, they act scientifically with the right timing to buy and sell for their clients. Moreover, automatic reinvestment of dividends and capital gains provide relief to the members of mutual funds. Expertise in stock selection and timing is made available to investors so that the invested funds generate returns.

4. Diversified Investment

Mutual funds have the advantage of diversified investment funds in various industry segments spread across the country. This is advantageous to small investors who
cannot afford having shares of highly established corporate because of high market price. Thus, mutual funds allow millions of investors to have investment in a variety of securities of different companies. Small investors, therefore, share benefits of an efficiently managed portfolio and they are free from problem from keeping tract of share certificates of various companies and tax rules.

5. Better Liquidity

Mutual funds have distinct advantage of offering to its investors benefit of better liquidity of investment. There is always a ready market available for mutual fund units. In addition, there is an obligation imposed by SEBI guidelines. For instance, in case of an open-ended mutual fund units, it is possible for the investor to divest holdings at any time during the year at NAV. In case of a close-ended mutual fund, it is obligatory that units are listed and traded, thus offering a secondary market for units. Further, a high level of liquidity is possible for fund holders because of more liquid securities in the mutual fund portfolio. These securities could be converted into cash at any time. Moreover, mutual fund schemes provide the advantage of an active secondary market by allowing units to be listed and traded in the stock exchange. This is in sharp contrast to the fact that corporate entities do not have their scripts traded.

6. Reduced Risks

There is minimum risks attached to the principal amount and returns for investments made in mutual fund schemes. This is usually made possible by expert supervision, diversification and liquidity of units. Mutual funds provide small investors
the access to a reduced investment risks resulting from diversification, economies of scale in transaction cost and professional finance management.

7. Investment Protection

Mutual funds in India are largely regulated by guidelines and legislative provisions put in place by regulatory agencies, such as Security Exchange Board of India. The Securities Exchange Commission (SEC) in USA allows for the provision of safety of investments. To protect the investor’s interest, it is incumbent on the part of mutual funds to broadly follow provisions laid down in this regard.

8. Switching Facility

Mutual funds provide investors with many flexible investment opportunities, so that investors can switch from one scheme to another. That is, investors can shift from income scheme to growth scheme, or *vice versa*, or from a close-ended scheme to an open-ended scheme.

9. Tax Benefits

As attractive benefits, Mutual funds offer tax shelter to investors by investing in various tax saving schemes. These schemes are monitored under the provisions provided by the Income Tax Act.

10. Low Transaction Costs

Cost of purchase and sale of mutual fund units are relatively lower because a large volume of money are handled by mutual funds in the capital market. The fees payable,
brokerage fee or trading commission, are lower. This obviously enhances the quantum of distributable income available for investors.

11. Economic Development

Mutual funds make contribution to the development of the country’s economy. For instance, the efficient functioning of mutual funds contributes to an efficient financial system. This in turn pave the way for the efficient allocation of the financial resources of the country, thus contributing to the economic development. This is made possible through the mobilization of more savings and channelizing them in more productive sectors of economy.

12. Convenience

Mutual fund units can easily be traded with little or no transaction costs. No brokerage is incurred.

1.2. NEED FOR THE STUDY

India’s savings rate, over 23 percent, is one of the highest in the world. To accelerate the economic development of our country, it is not only necessary to increase rate of savings but also to improve the holding pattern of such savings. Savings held in the form of currency or physical asset either remain idle or kept unproductive or wasted. Governments’ steps to channelize financial savings are one of the major contribution for the rapid economic growth. Efforts towards financialization of savings and the general reluctance of the investing populous demand the active role of mutual funds. As
investment in equity shares is too risky, mutual funds must become efficient in mobilization and allocation of resources.

Indian household sector’s investment in mutual funds made greater beginning in the second half of the eighties. Though apparent, mutual funds were intended to cater to the needs of the retail investors, there was no sufficient response from them. Mutual funds are the best investment vehicle for small investors and hence there is a need to find out investors’ perceptions and factors influencing their decisions. So there is a dare necessity to identify how far mutual funds satisfy the twin aspirations of investors (steady appreciation of unit value and consistent return on investment).

An average investor is able to take a decision as to which bandwagon should be hop on to. As household sectors share is much larger in the country’s savings, it is utmost essential to guide their deployment in the right direction. Thus, there is a need for this present study to bring out the attitude of investors in mutual funds, which can help the retail investors to make valued judgment in terms of deploying their savings to the capital market through mutual funds vehicle. With the growing institutionalization, retail investors are gradually keeping out of the primary and the secondary market, and looking forward to mutual funds for their investments.

Among mutual funds, it is expected that debt-oriented schemes will continue to dominate mutual fund industry satisfying needs of yield, security and liquidity fairly well besides being attractive from tax point of view. While equity-oriented schemes will gain more significance in the future, their popularity will depend on the conditions of stock market and kind of tax relief accorded to them. Hence, it is of utmost importance to study
the performance of growth schemes of mutual funds industry, which is a near substitute for direct investment in shares. Analysis of risks-returns of schemes and its relationship with the market will provide information on performance of sample schemes, fund managers ability in selecting and timing security related transactions in the present scenario of multitudinous mutual fund schemes.

1.3. STATEMENT OF THE PROBLEM

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

Behaviour of investors varies and many factors influence investments. This study on attitude of investors towards mutual funds market is made to identify the effect of mutual funds market and the predominant factors that influence individual investor’s behaviour, to study relationship between personal factors (namely age, earning members in the family, education, income, investment experience, and influence on investment decision) and investor’s attitude to indentify pattern of investment and to explore the nature of response to determine suitability of investment schemes for investors.

Mutual funds have become the choice of investment for millions of investors. The basic idea of a mutual funds is simple. It is an organization whose only business is to invest shareholders money into 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 to manage those
funds more effectively than investors. Numerous investors are using mutual funds to achieve at least some of their investment goals.

Most of the people either employed in the private sector or the public sector, find no time to take active analysis of stock market, which is highly volatile. So they are more interested in investing their hard earned money on mutual funds. Hence, researchers made an attempt to study the attitude of investors who invested their money in different mutual funds. This study is an outcome of that attempt.

1.4. SCOPE OF THE STUDY

This study is confined to investors attitude towards mutual fund investment in Kanyakumari district. It provides details of status of mutual fund investors, and factors motivating selection of mutual fund investment. This study covers various factors motivating success of mutual fund products, and mutual fund organization. It also covers risks and returns of mutual funds and income tax benefits of mutual fund investors.

1.5. OBJECTIVES OF THE STUDY

The main objectives of this study are:

1. To study profile of mutual fund investors and their savings pattern.
2. To examine level of awareness of mutual fund investors about their mutual funds.
3. To analyse investors perception towards risks and returns of mutual funds.
4. To examine impact of income tax benefits on mutual fund investors.
5. To analyse problems of mutual fund investors in their mutual fund investment.
6. To analyse investors overall attitude towards mutual funds.

7. To offer suitable suggestions to overcome problems and improve saving habits of people.

1.6. HYPOTHESES OF THE STUDY

1. There is no significant difference between the rural and the urban investors regarding to level of knowledge about mutual fund.

2. There is no significant difference between the rural and the urban respondents regarding level of awareness about mutual fund markets.

3. Investors perception towards mutual fund has no significant difference between the rural and the urban respondents.

4. There is no significant difference between the rural and the urban respondents regarding the factor determining success of mutual fund.

5. There is no significant difference between the rural and the urban respondents regarding the factor determining the success of mutual fund organization.

6. There is no significant difference between the rural and the urban respondents regarding the factor determining the success of mutual fund scheme.

7. There is no significant difference between the rural and the urban respondents regarding benefits obtained from mutual fund investments.

8. There is no significant difference between the rural and the urban respondents regarding level of grievance of mutual fund.

9. There is no significant difference between the rural and the urban respondents regarding level of satisfaction towards mutual fund.
10. There is no significant difference between the rural and the urban respondents regarding withdrawal of mutual fund.

11. There is no significant difference between the rural and the urban respondents regarding level of expected returns of mutual fund.

12. There is no significant difference between the rural and the urban respondents regarding actual returns of mutual fund.

13. There is no significant difference between the rural and the urban respondents regarding level of risk of mutual fund investments.

14. Level of satisfaction towards risks and returns of mutual fund investment are not significantly associating profile variables such as age, sex, marital status, occupation and annual income.

15. There is no significant difference between the rural and the urban respondents regarding income tax benefits of mutual fund.

16. There is no association between age, sex, marital status, occupation, annual income and level of satisfaction towards income tax benefits announced by the government.

1.7. OPERATIONAL DEFINITIONS OF CONCEPTS

Mutual Fund

Mutual fund is a fund established in the form of trust by a sponsor to raise money by trustee through sale of units to the public under one or more schemes for investing in securities in accordance with SEBI regulations.
Mutual Fund Scheme

Mutual fund scheme refers to IMFI product launched representing a category with specific objective and varied options. A scheme can belong to an open or a close-end type of operation. Objective of scheme can relate to any category like income, growth, balanced money market and equity-linked savings scheme.

Open-End Funds

Open-end funds are schemes of a mutual fund offering units for sale on continuous basis directly from fund and does not specify any duration for redemption or repudiation of units.

Close-End Fund

Close-end fund accepts subscription for a specific period. They invite investor to invest through a new fund offer and the further investments are allowed for a specific period.

Nest Asset Value

Nest Asset value (NAV) is the current market worth of a mutual fund scheme, calculated on a daily basis considering total assets and any accrued earnings, after deducting liabilities, remainder is divided by number of units outstanding. NAV is considered as the most reliable indicator of mutual fund performance.
Unit

Unit means share of holding of an investor in a mutual fund scheme. Each unit represent one undivided share in assets of a scheme.

Unit-Holder

Unit-holder is a participant in a mutual fund scheme.

Growth Schemes

Growth schemes of a mutual fund scheme is an option for long-term growth of resources mobilized as it invests primarily in shares with significant growth potential. Dividend is not paid to investors but ploughed back into fund increasing NAV of units.

Investment Plan

Investment plan refers to the practice of investing a constant amount regularly, generally every month for a predecided period of time. When market goes up, then money invested in that period gets translated into a fewer number of units for investor. If market goes down, then the same money invested gets translated into more units. Systematic investment plan (SIP) helps investors to average the cost of investment over the period and thus overcome the short-term fluctuations in the market.

Dividend

Asset management companies (AMC), distribute returns of schemes to investors as dividend when they make profits from investment. Some schemes declare dividend in regular intervals. Mostly tax saving schemes offer higher dividend every year.
New Fund Offer

If a mutual fund company introduces a new scheme in market it is called new fund offer (NFO).

1.8. METHODOLOGY

This study is an empirical one, by using the primary and secondary data to know investment habits of mutual fund investors in Kanyakumari district. The primary data are collected by conducting a survey from the mutual fund investors through a structured questionnaire about their preference in mutual fund products.

The secondary data are collected from books, journals, newspapers, stock brokers, reports, Ph.D theses, internet, AMC and magazines.

1.9. TOOLS FOR COLLECTION OF DATA

A well-prepared structured interview schedule is used by the researcher to elicit relevant information from the mutual fund investors in Kanyakumari district. Collection of data were conducted to ensure validity of schedule. Collection of data were made by using personal interview method in which precoded schedules were used to obtain relevant data from the sample respondents.

1.10. TOOLS FOR ANALYSIS

Collected data are analysed with the help of the following statistical tools.
**t-Test**

*t-Test* is based on T-distribution and is considered as an appropriate test for judging significance of a sample mean or for judging significance of difference between means of two samples.

\[
t = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{\frac{(n_1 - 1)\sigma_1^2 + (n_2 - 1)\sigma_2^2}{n_1 + n_2 - 2}}} \times \sqrt{\frac{1}{n_1} + \frac{1}{n_2}}
\]

where,

- \(\bar{x}_1\) - Mean of First Sample
- \(\bar{x}_2\) - Mean of Second Sample
- \(\sigma_1\) - Standard Deviation of First Sample
- \(\sigma_2\) - Standard Deviation of Second Sample
- \(n_1\) - Number of Observation of First Sample
- \(n_2\) - Number of Observation of Second Sample

**Factor Analysis**

Factor analysis is the most used multivariate technique of research studies, especially pertaining to social and behavioral sciences, Mathematical basis of factor analysis concerns a data matrix termed as score matrix, symbolized as \(S\). Matrix contains scores of \(N\) persons of \(K\) measures.
Multiple Regression

In multiple regression, we form a linear composite of explanatory variables in such a way that it has maximum correlation with a criterion variable. Variable is appropriate when researcher has a single, metric criterion variable.

\[ Y = B_1X_1 + B_2X_2 + \ldots + B_kZ_k \]

In practice, \( Y \) and \( X \) variables are converted to standard scores, \( z_y, z_1, z_2 \ldots z_k \) each \( z \) has a mean of 0 and standard deviation of 1. Then the problem is to estimate constants \( B_i \) such that

\[ Z_y' = B_1Z_1 + B_2Z_2 + \ldots + B_kX_k = A \]

Where,

\( Z_y' \) stands for predict value of standardized \( y \) score, \( z_y \).

Chi-Square Test

Chi-square value is often used to judge the significance of population variance, i.e., we can use this test to judge if a random sample is drawn from a normal population with mean (\( \chi \)) and with a specified variance (\( \sigma_p^2 \))

This test is based on \( \chi^2 \) distribution

\[ \chi^2 = \sum \frac{(O-E)^2}{E} \]
\( O \quad = \quad \text{Observed Frequency} \\
\( E \quad = \quad \text{Expected Frequency} \)

**Friedman Ranking Test**

Friedman test is a non-parametric statistical test developed by Milton Friedman. This test is used for one-way repeated measures analysis of variance by ranks.

1.11. PERIOD OF THE STUDY

This study covers a period of two years from 2012-13 to 2013-2014. Data relating to these years were collected through fieldwork directly by researcher.

1.12. SAMPLING DESIGN

In the present study, multistage random sampling techniques are adopted. In the first stage, of nine blocks in Kanyakumari district, three blocks are randomly selected, viz, Agasteeswaram, Thovalai and Kurunthencode. There are thirty seven village panchayats and twenty three town panchayats in blocks selected in the first stage. In the second stage, six village panchayats and three town panchayats are randomly selected from each block. There are 62 mutual fund agents from the selected village panchayats and 84 agents from the selected town panchayats. In the third stage, 25 agents from village panchayats and 25 agents from town panchayats are selected. In the fourth stage, six clients from each selected village panchayat agents and eight clients from each town panchayat agents are selected.
1.13. LIMITATIONS OF THE STUDY

The present study is subjected with the following limitations.

- This study is mostly based on the primary data, so shortcomings in use of primary data are inevitable.
- Performance evaluation of the scheme is only based on NAV of growth category schemes with growth option alone.
- Respondents are not ready to discuss their full investment details due to many reasons.
- Respondents are not having complete knowledge about mutual fund investments.

1.14. CHAPTER SCHEME

The present study entitled “A Study on Attitude of Investors Towards Mutual Fund in Kanyakumari District is organized in seven chapters.

The first chapter titled, “Introduction and Design of the Study” covers introduction, statement of the problem, need for the study, objectives of the study, scope of the study, operational definition of concepts, methodology, method of data collection, period of the study, hypothesis, operational definition of concepts, tools for collection of data, tools for analysis, limitation of the study and chapter scheme.

The second chapter titled “Review of Literature” covers research findings of various studies undertaken by the different researchers, which were relevant to the present study.
The third chapter titled “Theoretical concept of mutual fund” deals with details of mutual funds and its schemes, assets management companies and net asset value.

The fourth chapter titled “Demographic profile of investors and their savings pattern” deals with different socio-economic profile of mutual fund investors and purpose of savings.

The fifth chapter titled “Investors’ attitude towards mutual fund” deals with factors determining success of mutual funds and mutual fund organization, factors motivating selection of mutual fund, level of knowledge and awareness and problems of mutual fund investment.

The sixth chapter titled “Investors’ attitude towards risks and returns of mutual fund and income tax benefits” deals with assessment of risks and returns, attitude of investors towards risks and returns of mutual fund products and income tax benefits that attract mutual fund investment.

The seventh chapter titled “Summary of findings, suggestions and conclusion” highlights the list of findings of the study, followed by some suggestions and conclusion.