ANALYSIS OF INVESTOR PREFERENCES TOWARDS MUTUAL FUNDS SCHEMES

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ABSTRACT

Professional management and diversity offered by mutual funds gives little comfort to such small investors. Moreover, different companies offering mutual funds offer a lot of flexibility to these investors. They offer a wide variety of schemes that meet the diverse needs of diverse investors. There are investors who prefer stable income and there are those who are not so much in need of stability and are willing to go for extra risk for higher returns. There are schemes that meet the requirements of these different sorts of investors. Moreover, mutual funds also provide some degree of liquidity to such investors. That is why mutual funds are often considered to be a very attractive investment options by many financial market investors.

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Introduction

In today's integrated economy almost every investor is aware of the speed at which financial markets are growing. This growth, undoubtedly, has a positive as well as a negative side to it. Whenever the negative side becomes prominent it gives a jolt to investment scenario and investors appear to be reluctant to invest in stock markets which are often seen as experiencing the most volatile situations. But despite this volatility we can still see many excited investors hoping to make it big in these volatile situations. There are certain investors who prefer to invest directly in stock markets but there is a big chunk of those who lack the ability to go for direct investing. This big chunk usually comprises small retail investors who feel that they are not equipped to evaluate the various stocks. A possible solution for such investors is mutual funds. Though even mutual funds are not a completely safe investment and returns are not guaranteed but still small investors with some risk appetite feel safer to invest indirectly through mutual funds rather than investing directly in stock markets. In this paper we make an attempt to understand how small investors view mutual funds vis a vis other investment options and direct investment in stocks. For this we have included an open ended question in our study. We also make an effort to find out the various factors that are considered to be important by these small investors when they go for investment in mutual funds. For this we have designed a questionnaire (see annexure).

Literature Review

Rajeswari and Moorthy(2002) studied the factors influencing the fund/scheme selection behaviour of Retail Investors. For this a survey was conducted among 350 Mutual Fund Investors in 10 Urban and Semi Urban centers in the year 2000. The survey reveals that the most preferred investment vehicle is Bank Deposits, with MFs ranking 4th in the order among 8 choices. Growth schemes are ranked first, followed by Income Schemes and Balanced Schemes. Based on the duration of operation of schemes, the 1st preference is for open-ended schemes (84.57%) and only 15.43% of the respondents

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favour close-ended schemes. The investors look for safety first in MF products, followed by good returns, Tax Benefits, liquidity and capital appreciation.

Ranganathan(2006)attempted to evaluate the behavioural aspects of fund selection techniques of individual investors and also to assess the conceptual awareness of MFs during the period, July 2004-December 2004.The required data was collected through a pretested questionnaire administered on a combination of simple random and judgement sample of 100 educated individual investors. Savings Objective of the majority of Individual Investors is 'to provide for Retirement' , thus throwing light on the nature of risk averse investors. AMC can attract a pool of investors by designing products for Risk-Averse investors. MF scheme preference for majority of investors is 'Growth Scheme'. The preference for growth or any other scheme is also influenced by stock market conditions prevailing at the time of investment decision. Analysis of scheme preference by nature of operation reveals the popularity of 'Open- Ended' scheme. The study too revealed that 48% of the small investors of Mumbai preferred to invest in MFs .

Stephen D'Silva, Bernadette D'Silva, Roshni Bhuptani (2012) attempt to study the various factors that influence mutual fund investments in India. They find that monetary benefit in the form of dividends and NAV attracts investors towards mutual funds. Small investment requirement and safety are other attributes that attract investors. Convenience is an important factor impacting mutual fund investors and therefore they prefer funds that offer good quality services. Mutual funds are gaining popularity because of their focus on investor protection. Further, these companies hire professionals to manage investments which acts as an important force that attracts small investors. Another important aspect is that mutual funds do not indulge in speculative activities.

V. Rathnamani (2013) examined investor's preferences towards mutual fund industry in Trichy. The author studies the role of investment pattern and preferences of investors while going for mutual fund investment. They found that investors prefer mutual fund because of safety and liquidity attributes and also because it helps them generate higher return at low risk. Most of the mutual fund investors invest only 10% of their income and approximately 39% are around 31 to 40 years of age. Investors usually prefer moderate and low risk levels. Further, there is a need on the part of mutual fund companies to make investors aware of the mutual fund benefits.

Analysing Investor Preferences

To determine the factors that make investors prefer one investment alternative over the other, and the factors that affect the preference of one scheme over the other, we have designed a questionnaire (attached in annexure) that was sent to retail investors.

Also, to understand the factors that affect the preference of investors towards mutual funds vis-a- vis other investment alternatives we have designed an open ended question.

In the first part of our analysis, we have tried to analyze the relation between various parameters that determine the preference of investors towards various investment options.

The following results show the relation between savings and investment options, age and investment options, and age and mutual fund schemes.

- **Relation between Savings and Investment Schemes**

Here savings are stated as the annual percentage of income that is saved by investors. We have tried to link the relation between the two, with the underlying theoretical hypothesis that, people who have a higher percentage of their income as savings, may invest in number investment alternatives, including more and less risky. But people, who consume more and save less, may prefer to invest in less risky options.

However, we found out that irrespective of their savings, investors prefer safer investment alternatives like FD and insurance, and mutual funds over options like stocks and real estate. (However, their preference for mutual funds is lesser as compared to FD and insurance).

- **Relation between Age and Investment Options**

We attempt to analyze the relation between age and investment options, with the theoretical hypothesis that, investors in a younger age group would go for investments in riskier alternatives. However, we find that, people in all the age groups prefer to invest in safer investment alternatives like fixed deposits and insurance as compared to investment in stocks.

However, a preference for mutual funds is found only among the younger age group, but they too prefer other safer options to mutual funds.

- **Relation between Age and Mutual Fund Schemes**

The theoretical hypothesis is that investors in a younger age group would have preference towards riskier schemes.

It was observed that mostly people don't prefer to invest in mutual funds, as they prefer other safer alternatives. However, if they are given a chance to make investments in mutual funds, people in all the age groups would prefer investment in equity, then in hybrid instead of debt schemes as they already prefer other safer investment avenues to mutual funds. So, if they are making investments in mutual funds, they are not doing it for safety; thereby preferring other schemes to debt schemes.

In the next part of our analysis, we have tried to determine whether investors have the same preference for all the scheme qualities, AMC qualities and investor services provided by mutual funds. The investors were asked to assign scores to different AMC qualities, Scheme qualities and investor services provided by different mutual funds.

To test, if these qualities and services/ preference for these qualities and services significantly differ from each other, we have applied ANNOVA, and Ztest to analyze the difference between each pair of quality and each pair of service.

The respondents were asked to give marks to each of the different scheme qualities, AMC qualities, and investor services from 1 to 5, where:

1= highly important, 2= Important, 3=moderately important, 4= Less important, 5= Not important at all

The following scheme qualities were asked to be marked:

- Fund's/Scheme's performance records
- Fund's/ Scheme's brand name
- Scheme's portfolio constituents
- Investment/Withdrawal facilities
- Rating by a rating agency
- Innovativeness of the scheme
- Products with tax benefits
- Entry and Exit load
- Safety of Capital

On the basis of mean score of the above stated scheme qualities, we obtained the following ranking for the preference of investors towards different scheme qualities.

Ranking from Highest to Lowest

- Innovativeness of the scheme
- Rating by a rating agency
- Entry and exit load
- Scheme's portfolio constituents and Investment/withdrawal facilities
- Products with tax benefits
- Fund's/Scheme's brand name
- Safety of capital
- Fund's/ Scheme's performance records

ANNOVA was run on the above stated scheme qualities to see if there is any significant difference between the qualities.

Here, the null hypothesis is: There is no significant difference between the above stated scheme qualities

Alternate hypothesis: The scheme qualities significantly differ from each other.

The following result was obtained after applying ANNOVA:

The result rejects the null hypothesis. Thus, we can conclude that the investors view all these services differently, and all of them are not equally important for them while selecting a scheme.

Now, to see the preference of one scheme over the other, we have run z test amongst each pair of scheme qualities. The null and alternate hypothesis is:

Null hypothesis: There is no significant difference between preferences of investors towards the two services

Alternate hypothesis: Preference for one service is significantly higher than preference for the other service.

The results of z test are given below:

- Innovativeness of the scheme is the highest in ranking as per mean scores. The results of z test indicate that, preference for innovativeness of the scheme is not significantly higher than preference for rating by a rating agency, but its preference is significantly higher than preference for all the remaining lower ranked service qualities.

- Next in ranking order is preference for rating by a rating agency. It's not significantly higher than preference for service quality with respect to entry and exit load, but its preference is higher than preference for all the remaining lower ranked service qualities.

- Next in order is preference for service quality with respect to entry and exit load. Its preference is not significantly higher than preference for Scheme's portfolio constituents, Investment/withdrawal facilities, and Products with tax benefits. But its preference is significantly higher than preference for the remaining lower ranked other service qualities.

- After this, next in ranking we have preference for Scheme's portfolio constituents. Preference for this is the same as preference for investment/withdrawal facilities. Also, preference for portfolio constituents is not significantly higher than preference for products with tax benefits and scheme's brand name. Apart from it, its significantly higher than all the remaining lower ranked service qualities.

- Next we see the preference for investment/withdrawal facilities with respect to other lower ranked facilities. Its not preferred over products with tax benefits and scheme's brand name. But is preference is significantly higher than preference for the remaining lower ranked scheme qualities.

- Next in order we have preference for products with tax benefits. Its not significantly higher than preference for brand name, but its significantly higher than preference for all the remaining lower ranked scheme qualities.

- After this in ranking we have, preference for the scheme's brand name. Its not significantly higher than preference for safety of capital, but its preferred over scheme's performance records.

- Lastly, the results indicate that preference for safety of capital is higher than preference for scheme's performance records.

The following AMC qualities were asked to be marked:

- Private Sector/ Public Sector ownership
- Reputation of the company
- Range of schemes with different qualities
- Efficiency of research wing
- Company's expertise in managing money

The ranking that was obtained is as follows:

(Ranked from highest to lowest)

- Private/Public sector ownership
- Efficiency of research wing
- Range of schemes with different qualities
- Company's expertise in managing money
- Reputation of the company

ANNOVA was also run on the above stated AMC qualities to see if there is any significant difference between the qualities.

Here, the null hypothesis is: There is no significant difference between the above stated AMC qualities

Alternate hypothesis: The AMC qualities significantly differ from each other.

The following result was obtained:

- Results eject the null hypothesis. Thus, it can be seen that investors have significantly different preferences for different AMC qualities.

- After this, to see the preference of one AMC quality over every other AMC quality, we have run Z test on each pair of AMC qualities. The following are the null and alternate hypothesis:

Null Hypothesis: There is no significant difference between preferences for one AMC quality over another.

Alternate hypothesis: One AMC quality is significantly preferred over the other AMC quality.

The results of Z test are given below:

- The highest AMC quality in order is Private/public ownership. The results indicate that preference for it is not significantly higher than preference for efficiency of research wing and range of schemes with different qualities. But, it is significantly preferred over AMC qualities with respect to reputation of the company and company's expertise in managing money.

- Next in ranking we have AMC quality regarding efficiency of the research wing. Results indicate that, this quality is not significantly preferred over AMC quality regarding range of schemes with different qualities. But its preferred over the remaining lower ranked AMC qualities.

- Next in ranking is AMC quality regarding range of schemes with different qualities. It is preferred over the remaining lower ranked AMC qualities.

- Lastly, the results indicate that Preference for AMC quality regarding company's expertise in managing money is significantly preferred over AMC quality regarding reputation of the company.

The following investor services were asked to be marked:

- Disclosure of investment objectives
- Disclosure of deviation of investments from expected pattern
- Disclosure of investments at regular intervals

As per the mean scores, the following ranking was obtained:

(Ranking from highest to lowest)

- Disclosure of deviation of investments from expected pattern
- Disclosure of investment objectives
- Disclosure of investments at regular intervals

Again, **ANNOVA** was applied with the following Null and Alternate hypothesis.

Null Hypothesis: All the investor services are not significantly different from each other

Alternate Hypothesis: All the investor services are significantly different from each other.

The following result was obtained for ANNOVA:

- We accept the the null hypothesis. Thus, we can conclude that investors attach almost equal importance to all these services.

Now, again to determine the preference for one investor service over the other, Z test was run on each pair of services. The results are given below:

- Preference for investor service regarding disclosure of deviation of investments from expected pattern is not significantly higher than preference for the remaining lower ranked investor services.

- Preference for disclosure of investment objectives is not significantly higher than preference for disclosure of investments at regular intervals

The last part of our analysis is concerned with the open ended question.

A different set of people (some of them also responded to our questionnaire) was contacted and asked ' What is your view about investing in mutual funds vis-a-vis direct investment in stocks and other investment alternatives?' . With this question we wanted to assess whether or not mutual funds are preferred by small investors and what are the various factors that attract investors towards mutual funds. The table below gives some abstracts from the responses obtained and our conclusion on the basis of those statements.

Abstracts	Conclusion/Inference
"Investment in mutual funds is beneficial to retail investors…" "I think investment In mutual fund is a better option as compared to direct investment In stocks…" "Investing in mutual funds is a safe option.." "As a risk averse individual, I would prefer to invest in mutual funds rather than directly investing in stock market." "I would prefer mutual funds to direct investment in stocks."	Most of the investors prefer mutual funds over direct investment in stocks.
"…mutual fund investment is also not free from risk and indirectly depends upon the share market risk." "But as an investor I don't even want to go for market related investments like mutual funds. I want to play safe by investing in safe securities …"	There are some investors who feel reluctant to go for mutual funds as its returns are related to stock market movement.
"Retail investors do not have up to date knowledge about share market.." "For a layman like me who does not know jargons of stock market…" "If you have the knowledge and time to track your investments then do it directly or else go for a mutual fund." "…you don't have much knowledge about direct investment…"	The main reason because of which small investors hesitate to directly invest in stock market is lack of knowledge.
"It gives an option to get good returns on your investments without devoting much time as required in stocks." "If you have the knowledge and time to track your investments then do it directly or else go for a mutual fund."	Time factor is also very important for investors. Since many investors do not have time to keep an eye on stock market they prefer to go for mutual funds.
"These mutual fund companies are staffed with professional and experienced personnel." "…it is an option to indirectly invest in good stocks which is decided by experts of MFs." "…there is advantage of professional management of funds." "…managed by experts which an individual can't do."	Small investors turn to mutual funds because of professional management of funds done by experts.
"..mutual fund brings diversification…" "…as mutual funds diversify risk.." "Reason for investing in MF is that your investments are diversified."	Diversification offered by mutual funds attracts small investors.
"…people invest in mf as they are also a part of the tax exemption." "We can also get tax benefits through mutual funds."	Some investors are also interested in tax benefits associated with mutual fund schemes.

Conclusion

In the first part of our analysis, we tried to analyze the relation between various parameters like savings, age that determine the preference of investors towards different investment options.

We found out that;

- Irrespective of their savings, investors prefer safer investment alternatives like FD and insurance and mutual funds over options like stocks and real estate. (However, their preference for mutual funds is lesser as compared to FD and insurance).

- People in all the age groups prefer to invest in safer investment alternatives like fixed deposits and insurance as compared to investment in stocks. However, a preference for mutual funds is found only among the younger age group, but they too prefer other safer options to mutual funds.

- The above point shows that, people don't prefer to invest in mutual funds, as they prefer other safer alternatives. However, if they are given a chance to make investments in mutual funds, people in all the age groups would prefer investment in equity, then in hybrid instead of debt schemes as they already prefer other safer investment avenues to mutual funds. So, if they are making investments in mutual funds, they are not doing it for safety; thereby preferring other schemes to debt schemes.

The second part of the analysis, with the help of ANNOVA and Z test shows that investors do not view all the service qualities and AMC qualities equally. In fact, they do have a preference for one quality over the other. Thus, The AMCs and fund managers must focus on providing those qualities that are preferred by investors. But, the analysis shows that, investors do not differ in their preference for one investor service over the other.

The last part of our analysis deals with the open ended question. Analysis of responses shows that small investors choose to invest in mutual funds because they lack knowledge and time, believe in the professional management offered by mutual fund managers, want tax benefits, and are interested in diversification. They sometimes feel reluctant because mutual fund returns are related to market movements.

References

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Annexure

The following questionnaire was used to conduct the survey:

Name:

E Mail I.D.:

Please Tick Mark the Relevant Option:

I   GENDER: MALE __   FEMALE __

II AGE: BELOW 25 __   25-40 __   40-50 __   ABOVE 50 __

IV OCCUPATION:

SALARIED GOVT. EMPLOYEE   __

SALARIED PRIVATE EMPLOYEE   __

SELF EMPLOYED   __

RETIRED   __

Please Fill in the following:

Savings = _____ % of Income

Please rank the following questions in order of your preference

(Give rank 1 for the most preffered option)

- In what order do you prefer to make your investments? (rank from 1 to 7)

MUTUAL FUNDS   __

FIXED DEPOSITS   __

STOCKS   __

INSURANCE   __

POST OFFICE   __

GOLD/SILVER   __

REAL ESTATE   __

- What kind of mutual funds schemes do you prefer to invest in? (rank from 1 to 4)

EQUITY   __

DEBT   __

HYBRID   __

SECTOR SPECIFIC   __

For the following questions, tick the appropriate option for each of the attributes for their importance while making an investment decision:

1   For: Highly Important Factor

2   For: Important

3   For: Moderately Important

4   For: Less Important

5   For: Not Important at All

Schemes Qualities

1.	Fund's /scheme's performance record	1	2	3	4	5
2.	Fund's/scheme's brand name	1	2	3	4	5
3.	Scheme's portfolio constituents	1	2	3	4	5
4.	Investment/withdrawal facilities	1	2	3	4	5
5.	Rating by a rating agency	1	2	3	4	5
6.	Innovativeness of the scheme	1	2	3	4	5
7.	Products with tax benefits	1	2	3	4	5
8.	Entry and exit load	1	2	3	4	5
9.	Safety of capital	1	2	3	4	5

AMC Qualities

1.	Private sector/ public sector ownership	1	2	3	4	5
2.	Reputation of the company	1	2	3	4	5
3.	Range of schemes with different qualities	1	2	3	4	5
4.	Efficiency of research wing	1	2	3	4	5
5.	Company's expertise in managing money	1	2	3	4	5

Investor Services

1.	Disclosure of investment objectives	1	2	3	4	5
2.	Disclosure of deviation of investments from the expected pattern	1	2	3	4	5
3.	Disclosure of investments at regular intervals	1	2	3	4	5

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