



INVESTORS' PREFERENCE TOWARDS MUTUAL FUNDS IN COIMBATORE CITY

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Introduction

The economic development model adopted by India in the post-independence era has been characterized by mixed economy with the public sector playing a dominating role and the activities in private industrial sector control measures emaciated from time to time. The industrial policy resolution was introduced by the government in the 1948, immediately after the independence. This outlined the approach to industrial growth and development. The industrial policy statement of 1980 focused attention on the need for promoting competition in the domestic market, technological up gradation and modernization. A number of policy and procedural changes were introduced in 1985 and 1986, aimed at increasing productivity, reducing costs, improving quality, opening domestic market to increase competition and making free the public sector from constraints. Overall, in the seventh plan period (1985-86 to 1989-90), Indian industries grew by an impressive average annual rate of 8.5 percent. The last two decades have seen a phenomenal expansion in the geographical coverage and financial spread of our financial system. The spread of the banking system has been a major factor in promoting financial intermediation in the economy and in the growth of financial savings. With progressive liberalization of economic policies, there has been a rapid growth of capital market, money market and financial services industry including merchant banking, leasing and venture capital. Consistent with this evolution of the financial sector, the mutual fund industry has also come to occupy an important place.

Role of Mutual Funds

Mutual funds perform different roles for different constituencies: Their primary role is to assist investors in earning an income or building their wealth, by participating in the opportunities available in various securities and markets. It is possible for mutual funds to structure a scheme for any kind of investment objective. Thus, the mutual fund structure, through its various schemes, makes it possible to tap a large corpus of money from diverse investors.

Review of Literature

Willen (1999) and Davis and Willen (2000a,b) analyze the social benefits of adding a security to a population of investors who have heterogeneous endowment shocks. Some of the single security results presented here do parallel those in the security design literature. In both cases those providing financial services seek to attract investors through the proper division of a security's payoff. However, once one moves to the multiple security case the models diverge. With fund families, investors must accommodate their portfolio choices to the fact that families differ in what signals they acquire, the number of funds they offer, and the securities their funds trade. For obvious reasons, there are no parallel restrictions in the security design literature.

Chalam , G.V. (2003), used the primary data of about 200 investors to know the determinants of investment in various types of assets including in mutual funds for the five years period (1997-2002). He observed that the return and capital appreciation are the most influencing factors in inducing most of the investors to opt for the MF schemes. Tax savings is another major determinant of the choice. Liquidity is among important determinants in attracting investors. MF distribution network and prompt service enables investors to liquidate their investment in shortest possible time. Factors like marketability and safety are insignificant in influencing the investors' choice.

Kavita Ranganathan's (2004) conducted a survey in Mumbai to capture investors' choice. Principal Component Analysis was used to study 25 variables. All the following Scheme factors were found important: Performance records , brand name, Expense ratio, Portfolio of Investment, Reputation of scheme's portfolio manager(s), Withdrawal/Exit facility , Favourable rating, Innovativeness, Products with tax benefits and Entry and exit load.

Rao and Parashar (2010) conducted a survey in Rajasthan, Gujarat and Madhya Pradesh with a sample of 358 investors based on Stratified Convenience Sampling to understand the factors affecting perception and level of awareness towards Mutual Funds. The data was analyzed using factor analysis for identification of key features preferred by the respondents. Twenty six statements were generated for measuring perception of investors towards Mutual Funds on a 5 point Likert scale.

Statement of the Problem

Mutual funds have their drawbacks and may not be for everyone. No investment is risk free. If the entire stock market declines in value, the value of mutual fund shares will go down as well, no matter how balanced the portfolio. Anyone



who invests through a mutual fund runs the risk of losing money. All funds charge administrative fees to cover their day-to-day expenses. Some funds also charge sales commissions or “loads” to compensate brokers, financial consultants, or financial planners. When he invests in a mutual fund, they depend on the fund’s manager to make the right decisions regarding the fund’s portfolio. If the invests in Index Funds, they foregoes management risk, because these funds do not employ managers. Though these are the problems in the investment of mutual funds, in the recent days most of the investors preferred to invest their funds on mutual funds. In this background, the research has made an attempt to study the investors’ preference for mutual funds in Coimbatore City.

Need

This paper provides Future of Mutual Funds industry information as well as awareness level amongst people for Mutual Funds. Mutual Funds gives an outlook to management as how mutual funds are performing in the current market situation as a result what may be the future of this industry.

This paper on mutual funds is informative the students who want to understand and undertake assignments in the industry. It also facilitates the general people who can understand the importance and explore the new option for investment in Mutual Funds. Different financial institutions provide services that are both complementary to and competitive with each other. A well built financial system directly contributes to the growth of the country.

Objectives

1. To find out the factors influencing the respondents to prefer mutual funds in Coimbatore City.
2. To study the attitude of the investors towards investment on mutual funds in Coimbatore City
3. To offer suitable suggestions to improve the scope of mutual funds.

Scope

In the present study an attempt has been made to study the attitude of the investors towards investment in mutual funds in Coimbatore City. The scope is limited to some prominent mutual funds in the mutual fund industry. I analyzed the funds depending on their schemes like equity, income, balance. But there is so many other schemes in mutual fund industry like specialized (banking, infrastructure, pharmacy) funds, index funds etc. mainly concentrated on equity schemes, the returns, in income schemes the rating of CRISIL,ICRA and other credit rating agencies.

Methodology

This study is descriptive in nature based on survey method. The study aims at finding out the attitude of the investors towards investment in mutual funds in Coimbatore city. This study was based mainly on primary sources. The primary data was collected from the investors of mutual funds with help of the questionnaire. The secondary source also incorporated. By adopting convenience sampling, 250 respondents were selected for this study. The essential data were collected with the help of questionnaire. The data collected from the period of January 2013 to April 2013.

Framework of Analysis

The understanding of the attitude of investors towards investment in mutual funds may help the mutual funds companies to formulate strategies for further expansion in their field. The attitude level of the respondents can be examined with the help of their demographic variables. In order to study the attitude of the investors with the investment in mutual funds, various statistical tools such as chi-square test, analysis of one-way variance, and analysis of co-variance have been employed. The chi-square test and analysis of one-way variance have been employed to study the relationship between the demographic variables of the respondents and their satisfaction with the investment in mutual funds. The co-variance has been employed to find out the variations in the satisfaction of the respondents with the investment in mutual funds.

ANALYSIS

Table 1:Relationship between Gender and Satisfaction

Sl. No.	Gender	Level of Satisfaction			Total	Calculated value	Table value at 5%	Significance
		Satisfied	Partially Satisfied	Dissatisfied				
1	Male	84(33.60)	62(24.80)	46(18.40)	192 (76.80) 58(23.20)	11.72	5.99	Significant
.	Female	26 (10.40)	72 (18.00)	12(4.80)				
2	Total	110 (44.00)	82 (32.80)	58 (23.20)	250 (100.00)			

Source: Primary Data



The calculated value of F^2 test (11.72) is greater than the table value (5.99) at 5 percent level of significance. It is inferred that there is a significant relationship between the satisfaction level of male and female respondents with the investment in mutual funds. Therefore, the null hypothesis is rejected.

Table 3: Relationship Between Education and Satisfaction: Anova

Sl. No.	Source of Variation	Degrees of freedom	Sum of Squares	Mean Squares	Calculated Value	Table Value at 5%	Significance
1.	Between Groups	2	169.34	84.66	2.46	4.26	Not Significant
2.	Within Groups	9	3264.5	362.72			
	Total	11	3433.84				

Source: Primary Data

The calculated F value (2.46) is less than the table value (4.26) at 5 percent level of significance. The test proves that there is no significant relationship between the satisfaction levels of investors belonging to different educational status with the investment in mutual funds. Therefore, the null hypothesis is accepted.

Table 13: Amount of Investment and Variations in the Satisfaction - Co-Variance

Sl. No.	Amount of Investment	Number of Respondents	Average Satisfaction Score	Standard Deviation	Co-variance
1.	Up to Rs.15000	32	2.1	0.81	36.88
2.	Rs.15001-25000	66	9	0.82	36.50
3.	Rs.25001-40000	118	2.2	0.78	36.15
4.	Rs.40001 and above	34	4	0.75	32.69
	TOTAL	250	2.1		
			7		
			2.2		
			9		

Source: Primary Data.

Table 12 shows the variations in the satisfaction level of investors belong to the scale of investment with the mutual funds in Coimbatore City. It is inferred that the variations in the satisfaction level was high among the investors belong to the scale of investment less than Rs.15,000 followed by the respondents belong to the scale of investment Rs.15,001 to 25,000. However, the variation in the satisfaction level was low among the investors belonging to the scale of investment Rs.40001 and above.

Table 15: Factors Influencing with the Mutual Funds

Sl. No.	Level of Satisfaction	Satisfied	Partially satisfied	Dissatisfied	TOTAL
1	Respondents' Satisfaction With The Tax Benefits Percentage	100 40.00	82 32.80	68 27.20	250 100
2	Respondents' satisfaction with the brokerage/ sales commission Percentage Respondents'	76 30.40	82 32.80	92 36.80	250 100
3.	Satisfaction With the Safety Protection Percentage	112 44.80	74 29.60	64 25.60	250 100
4	Respondents' Satisfaction With the Reliability Percentage	152 60.80	68 27.20	30 12.00	250 100

Source: Primary Data

The satisfaction level of the sample investors with the tax benefits. Out of the 250 respondents, 40%, 32.80% and 27.20% of the respondents were satisfied, partially satisfied and dissatisfied respectively with the tax benefits. The satisfaction level of the sample investors with the brokerage or sales commission. Out of the 250 respondents, 30.40%, 32.80% and 36.80% of the respondents were satisfied, partially satisfied and dissatisfied respectively with the brokerage or sales commission. The satisfaction level of the sample investors with the investors' safety and protection in mutual funds. Out of



the 250 respondents, 44.80%, 29.60% and 25.60% of the respondents were satisfied, partially satisfied and dissatisfied respectively with the investors' safety and protection in the investment of mutual funds. The satisfaction level of the sample investors with the market information. Out of the 250 respondents, 41.60%, 25.60% and 32.80% of the respondents were satisfied, partially satisfied and dissatisfied respectively with the market information. The satisfaction level of the sample investors with the reliability in mutual funds. Out of the 250 respondents, 60.80%, 27.20% and 12% of the respondents were satisfied, partially satisfied and dissatisfied respectively with the reliability of investment in mutual funds.

Discussion

On the basis of results of the study, the following elements are required.

1. **Try to understand where the money is going:** It is important to identify the nature of investment and to know if one is compatible with the investment. One can lose substantially if one picks the *wrong* kind of mutual fund. In order to avoid any confusion it is better to go through the literature such as offer document and fact sheets that mutual fund companies provide on their funds.
2. **Don't rush in picking funds, think first:** one first has to decide what he wants the money for and it is this investment goal that should be the guiding light for all investments done. It is thus important to know the risks associated with the fund and align it with the quantum of risk one is willing to take. One should take a look at the portfolio of the funds for the purpose. Excessive exposure to any specific sector should be avoided, as it will only add to the risk of the entire portfolio. Mutual funds invest with a certain ideology such as the "Value Principle" or "Growth Philosophy". Both have their share of critics but both philosophies work for investors of different kinds. Identifying the proposed investment philosophy of the fund will give an insight into the kind of risks that it shall be taking in future
3. **Be regular:** Investing should be a habit and not an exercise undertaken at one swishes, if one has to really benefit from them. As we said earlier, since it is extremely difficult to know when to enter or exit the market, it is important to beat the market by being systematic. The basic philosophy of Rupee cost averaging would suggest that if one invests regularly through the ups and downs of the market, he would stand a better chance of generating more returns than the market for the entire duration. The SIPs (Systematic Investment Plans) offered by all funds helps in being systematic. All that one needs to do is to give post-dated Cheques to the fund and thereafter one will not be harried later. The Automatic investment Plans offered by some funds goes a step further, as the amount can be directly/electronically transferred from the account of the investor.
4. **Do your homework:** It is important for all investors to research the avenues available to them irrespective of the investor category they belong to. This is important because an informed investor is in a better decision to make right decisions.
5. **Find the right funds:** Finding funds that do not charge much fees is of importance, as the fee charged ultimately goes from the pocket of the investor. This is even more important for debt funds as the returns from these funds are not much. Funds that charge more will reduce the yield to the investor. Finding the right funds is important and one should also use these funds for tax efficiency. Invest important and one should also use these funds for tax efficiency. Investors of equity should keep in mind that all dividends are currently tax-free in India and so their tax liabilities can be reduced if the dividend payout option is used. Investors of debt will be charged a tax on dividend distribution and so can easily avoid the payout options.
6. **Know when to sell your mutual funds:** Knowing when to exit a fund too is of utmost importance. One should book profits immediately when enough has been earned i.e. the initial expectation from the fund has been met with. Other factors like non-performance, hike in fee charged and change in any basic attribute of the fund etc. are some of the reasons for to exit. Investments in mutual funds too are not risk-free and so investments warrant some caution and careful attention of the investor

Conclusion

Investors of Coimbatore become more cautions after they lost their savings with unincorporated bodies, Nidhis, Benefit Funds and some Non-Banking Finance Companies. They are now turning more to mutual funds because of safety, liquidity, capital gains and transparency. Moreover they wish to route their investments through mutual funds.



Most of the investors rely on investment consultants to choose the right fund for them. They monitor their investments periodically. They find a need to increase the public awareness of mutual funds. According to the investors' Opinion, the main reason for the quick popularity of the mutual funds is the guaranty to redeem at net asset values. The investors have realized the benefits of investing in mutual funds. They find that there is a necessity to establish more mutual funds in India to decentralize the concentration of mutual funds from metro to semi urban and rural areas. They determine to go for new funds for their further investments. Thus mutual fund industry has a good prospect in Coimbatore. It is likely to show a remarkable progress in the coming years.

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