

PERCEPTIONS OF INVESTORS ON MUTUAL FUNDS – A COMPARATIVE STUDY ON PUBLIC AND PRIVATE SECTOR MUTUAL FUNDS

Dr. G. Veeramani

Head-Professor, Department of Business Administration, Sri Sankara Arts & Science College, Enathur, Kanchipuram.

M.Karthikeyan

Assistant Professor, Department of Business Administration, Vel Tech Multi Tech Dr. Rangarajan Dr. Sakunthala Engineering College, Chennai.

Abstract

Indian Mutual Fund (MF) industry provides reasonable options for an ordinary man to invest in the share market. The plethora of schemes provides variety of options to suit the individual objectives whatever their age, financial position, risk tolerance and return expectations. In the past few years, we had seen a dramatic growth of the Indian MF industry with many private players bringing global expertise to the Indian MF industry.

Investment in mutual funds is effected by the perception of the investors. Financial markets are constantly becoming more efficient by providing more promising solutions to the investors. Being a part of financial markets although mutual funds industry is responding very fast by understanding the dynamics of investor's perception towards rewards, still they are continuously following this race in their endeavor to differentiate their products responding to sudden changes in the economy. Therefore a need is there to study investor's perception regarding the mutual funds. The study at first tests whether there is any relation between demographic profile of the investor and selection of mutual fund alternative from among public sector and private sector.

Introduction

Mutual funds are recognized as a mechanism of pooling together the investment of unsophisticated investors and turn in the hands of professionally managed fund managers for consistent return along-with capital appreciation. Money collected in this process is then invested in capital market instrument such as shares, debentures and other securities. Finally, unit holders in proportion of units owned by them share the income earned through these investments and capital appreciation. Mutual funds put forward a way out to investors to approach most schemes and get well-diversified portfolio because investors with small savings neither have sufficient expertise nor have access to required diversification.

Mutual funds have already entered into a world of exciting innovative products. These products are now tailor made to suit specific needs of investors. Intensified competition and involvement of private players in the race of mutual funds have forced professional managers to bring innovation in mutual funds. Thus, mutual funds industry has moved from offering a handful of schemes like equity, debt or balanced funds to liquid, money market, sector specific funds, index funds and gilt edged funds. With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry giving the Indian investors a wider choice of fund families. Also, 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993.

The MF industry has evolved as an important financial intermediary in the Indian capital market. As of March 2009, the industry comprising 37 Asset Management Companies (AMCs) managed financial assets of over 4.89 trillions. Domestic MF industry is growing at a CAGR of 30% during the last three years, according to the Associated Chambers of Commerce and Industry of India (ASSOCHAM). According to the ASSOCHAM study, Asset under Management (AUM) as percentage of GDP in India is 4.12% as against those of Australia 88.22%, Germany 10.54%, Japan 7.57%, UK 18.81%, USA 61.27%, Canada 34.33%, France 59.63%, Hong Kong 101.085 and Brazil 19.95%. The entry of commercial banks and private players in the MF industry coupled with

the rapid growth of the Indian capital markets during the past couple of years has fostered an impressive growth in the Mutual Funds. The Indian mutual funds business is expected to grow significantly in the coming years due to a high degree of transparency and disclosure standards comparable to anywhere in the world, though there are many challenges that need to be addressed to increase net mobilization of funds in the sector.

Review of Literature

The existing “Behavioural Finance” studies are very few and very little information is available about investor perceptions, preferences, attitudes and behaviour. All efforts in this direction are fragmented.

De Bondt and Thaler (1985) while investigating the possible psychological basis for investor behaviour, argue that mean reversion in stock prices is an evidence of investor over reaction where investors overemphasize recent firm performance in forming future expectations.

Gupta (1994) made a household investor survey with the objective to provide data on the investor preferences on MFs and other financial assets. The findings of the study were more appropriate, at that time, to the policy makers and mutual funds to design the financial products for the future.

Madhusudhan V Jambodekar (1996) conducted a study to assess the awareness of MFs among investors, to identify the information sources influencing the buying decision and the factors influencing the choice of a particular fund. The study reveals among other things that Income Schemes and Open Ended Schemes are more preferred than Growth Schemes and Close Ended Schemes during the then prevalent market conditions. Investors look for safety of Principal, Liquidity and Capital appreciation in the order of importance; Newspapers and Magazines are the first source of information through which investors get to know about MFs/Schemes and investor service is a major differentiating factor in the selection of Mutual Fund Schemes.

Goetzman (1997) state that there is evidence that investor psychology affects fund/scheme selection and switching. Shanmugham (2000) conducted a survey of 201 individual investors to study the information sourcing by investors, their perceptions of various investment strategy dimensions and the factors motivating share investment decisions, and reports that among the various factors, psychological and sociological factors dominated the economic factors in share investment decisions.

Anjan Chakarabarti and Harsh Rungta (2000) stressed the importance of brand effect in determining the competitive position of the AMCs. Their study reveals that brand image factor, though cannot be easily captured by computable performance measures, influences the investor’s perception and hence his fund/scheme selection.

Need of the Study

The mutual funds industry has grown by leaps and bounds in last couple of years. Following the strengthening of regulatory framework there is now greater transparency and credibility in the functioning of mutual funds and has been successful in regaining investor’s faith. But to sustain the momentum it should start focusing on the areas where greater accountability and transparency could propel the industry towards a new growth trajectory. As of now big challenge for the mutual fund industry is to mount on investor awareness and to spread further to the semi-urban and rural areas. In this context, the need of study has been aroused in order to see the preference, awareness and the investors’ perception regarding the mutual funds in public and private sectors.

Objectives of the Study

The study has been undertaken with the following objectives.

1. To test whether the choice of public and private sector mutual funds is independent of demographic profile.
2. To identify the factors affecting investors’ perception and the choice of public and private sector mutual funds.

Research Methodology

In order to achieve the objective of developing an understanding about investor’s perception towards mutual funds, a well-structured questionnaire was designed. Responses of individual investors were collected through filled questionnaire with pre explained objectives of research. Questionnaires were distributed to 400 individual investors-200 each for public and private sector investors, who were selected from different regions of Warangal, which included selective investors who were assumed to be having basic knowledge of financial environment. Main focus of questionnaire was to obtain responses of individual investors regarding how they evaluate mutual funds services in terms of various factors on their investment. For analyzing primary data percentage method, cross tabulation and Chi-Square2 analysis were used.

Results of the Survey

Impact of Demographic Factors on Investment in Public and Private Sector Mutual Funds.

For the purpose of analysis demographic profile of the investors is cross tabulated in relation to choosing of the investment alternative in public and private sector mutual funds by the investors. It provides a view on perception of investors based on their social factors like Gender, Age, Educational Qualification, Marital Status, Occupation and Level of income. Hence an attempt is made to study the impact of demographic profile of the investor on the choice of investment in public and private sector mutual funds.

Gender: Table-1 shows the distribution of the sample respondents based on gender and their investment in public and private sector mutual funds.

Type	Gender		Total
	Male	Female	
Private	179 89.5%	21 10.5%	200 100.0%
Public	168 84.0%	32 16.0%	200 100.0%
Total	347 86.8%	53 13.2%	400 100.0%

(Source; Primary Data)

Table-1 reveals that the percentage of male MF investors of private sector is 89.5% and female MF investors is 10.5%, whereas in public sector it is 84% and 16% respectively. the male constitute 86.8 % (347) and female 13.2 %.(53) It clearly implies that mutual fund investment is more prevalent among men rather women.

Result showing relationship between Gender and Investment Decision in Public and Private sector

Test Statistic	Degrees of Freedom	Significance Level	Calculated Value	Table Value	Result
Chi-Square	1	5%	2.62	3.84	Accept H ₀

To test this saying Chi-Square test is applied and inferences are drawn. The calculated value is 2.62 at 1 degree of freedom and at 5%significance level. The table value is 3.84 which is more than the calculated value. Thus the null hypothesis is accepted indicating that there is no significant difference of opinion of gender on the investment pattern in both public and private sector mutual funds and female investors were not tapped fully in both the sectors.

Age: Table-2 shows the distribution of the sample respondents based on age and their investment in public and private sector mutual funds.

Type	Age					Total
	20-30	31-40	41-50	51-60	61 & above	
Private	76	8	0	94	22	200
	38.0%	4.0%	.0%	47.0%	11.0%	100.0%
Public	49	59	15	68	9	200
	24.5%	29.5%	7.5%	34.0%	4.5%	100.0%
Total	125	67	15	162	31	400
	31.2%	16.8%	3.8%	40.5%	7.8%	100.0%

(Source: primary data)

It can be observed from Table-2 that majority of the investors belong to the age group of 20-30 and 51-60 in both the public and private sector mutual funds, followed by the age group of 31-40 where majority investors are from public sector. Very few constitute the middle aged group of 41-50 in public sector and none in private sector. Thus, we can infer that middle aged persons are more cautious in their investment and don't like to take risk.

Result showing relationship between Age and Investment Decision in Public and Private sector Mutual Funds.

Test Statistic	Degrees of Freedom	Significance Level	Calculated Value	Table Value	Result
Chi-Square	4	5%	69.277	9.488	Reject H ₀

We can also conclude with the chi-square result that, as the calculated value is more than the table value, null hypothesis is rejected and there is a significant difference in the investment pattern in both public and private sector mutual funds as people belonging to different age groups have different perception in both the sectors.

Marital Status: Table-3 shows the distribution of the sample respondents based on marital status and their investment in public and private sector mutual funds

Type	Marital status		Total
	Married	Unmarried	
Private	120	80	200
	60.0%	40.0%	100.0%
Public	171	29	200
	85.5%	14.5%	100.0%
Total	291	109	400
	72.8%	27.2%	100.0%

Table-3 shows that, majority of the investors both in public and private sectors are married people. Comparing both the sectors, there is more number of married people in public sector (171) than in private sector (120).

Result showing relationship between Marital Status and Investment Decision in Public and Private sector

Test Statistic	Degrees of Freedom	Significance Level	Calculated Value	Table Value	Result
Chi-Square	1	5%	32.801	3.841	Reject H ₀

The results of the chi-square shows that the calculated value is more than the table value and null hypothesis is rejected implying that there is a significant difference in the investment pattern in both public and private sector investors with regard to the marital status

Occupation: Table-4 shows the distribution of the sample respondents based on occupation and their investment in public and private sector mutual funds

Type	Occupation						Total
	Agri-culturist	Pvt. Employee	Govt. Employee	Business-man	Self-employed	Pensioner	
Private	0 .0%	14 7.0%	23 11.5%	103 51.5%	47 23.5%	13 6.5%	200 100.0%
Public	15 7.5%	9 4.5%	60 30.0%	64 32.0%	15 7.5%	37 18.5%	200 100.0%
Total	15 3.8%	23 5.8%	83 20.8%	167 41.8%	62 15.5%	50 12.5%	400 100.0%

(Source: primary data)

Table-4 shows that, among the total sample respondents, majority were from the business sector (41.8%) in both public and private sector but comparatively the private sector constitutes more number of investors (51.5%), followed by Govt. employees (20.8%) in both the sectors-but majority are from public sector, and then followed by self employed (15.5%).

Result showing relationship between Occupation and Investment Decision in Public and Private Sector

Test Statistic	Degrees of Freedom	Significance Level	Calculated Value	Table Value	Result
Chi-Square	5	5%	69.725	11.071	Reject H ₀

Chi-square result shows that the calculated value (69.725) is more than the table value (11.071) rejecting null hypothesis. Hence concluding that there is a significant difference in the pattern of investment in both the sectors and the perception is not the same. And certainly the level of occupations plays a significant impact on the investment pattern.

Educational Qualification

Table-5: Educational Qualification

Type	Education				Total
	SSC	Inter-mediate	Graduate	Post Graduate	
Private	9 4.5%	10 5.0%	51 25.5%	130 65.0%	200 100.0%
Public	9 4.5%	18 9.0%	69 34.5%	104 52.0%	200 100.0%
Total	18 4.5%	28 7.0%	120 30.0%	234 58.5%	400 100.0%

Table-5 shows that majority (58.50%) investors are from the post graduate level in both the sectors and 30% are graduates. The least percentage goes to the non graduates.

Result showing relationship between Educational Qualification and Investment Decision in Public and Private sector

Test	Degrees	Signi-	Calculated	Table	Result
Statistic	of	fiance	Value	Value	
	Freedom	Level			
Chi-Square	3	5%	7.875	9.488	Accept H ₀

From the results of the chi-square we can infer that the calculated value is less than the table value, accepting the null hypothesis which implies that, in both the sectors education plays a prominent role and there is no significant difference of opinion in the perception of the investors.

Level of Income

Table-6 shows that majority of investors in both public and private sectors fall in the monthly income group of Rs.10, 000-20,000 (35.8%) followed by Rs. 20,000 – Rs. 30,000 (22.2%) and then 30,000 & above.

Type	Income				Total
	Below	Rs.10,000 -	Rs.20,000 -	Rs.30,000	
	Rs.10,000	Rs.20,000	Rs.30,000	& above	
Private	51	75	38	36	200
	25.5%	37.5%	19.0%	18.0%	100.0%
Public	30	68	51	51	200
	15.0%	34.0%	25.5%	25.5%	100.0%
Total	81	143	89	87	400
	20.2%	35.8%	22.2%	21.8%	100.0%

(Source: primary data)

Result showing relationship between Level of Income and Investment Decision in Public and Private sector

Test	Degrees	Signi-	Calculated	Table	Result
Statistic	of	fiance	Value	Value	
	Freedom	Level			
Chi-Square	3	5%	10.272	15.086	Accept H ₀

Chi-square result shows that at 5% significance level and at 3degrees of freedom the calculated value is less than the table value implying that null hypothesis is accepted and there is no significant difference in the investment pattern in both the sectors and people from middle income level are the highest investors in mutual funds. It is also a known fact that, middle income people tend to take minimum risk and thus might have invested more in mutual funds.

II. Factors affecting investors’ perception towards Mutual Funds

To understand the factors influencing investors’ perception towards mutual funds, the factors identified and considered to compare between perceptions of public and private sector mutual fund investors are Liquidity,

Flexibility, Management fee, Tax benefits, Service Quality, Returns, Transparency and Security. Chi-square test is applied to test and analyse their significance and importance attached in selection of mutual funds in public and private sectors. Table-7 gives a perusal view of the hypothesis framed, the results of the test and inferences drawn from it.

Table 7: Factors influencing investors' perception towards mutual funds		
Hypothesis	Chi Square Value	Remarks
Ho: Perception of Public and private sector mutual fund investors are independent of liquidity factor. Ha: Perception of Public and private sector mutual fund investors is not independent of liquidity factor.	$X^2 = 25.460$ $X^2_{4.005} = 9.488$	Thus, Ho Hypothesis is rejected and it can be said that the Perceptions of Public and Private sector mutual fund investors are not independent of Liquidity factor.
Ho: Perception of Public and private sector mutual fund investors are independent of Flexibility factor. Ha: Perception of Public and private sector mutual fund investors is not independent of Flexibility factor.	$X^2 = 9.534$ $X^2_{4.005} = 9.488$	Thus, Ho Hypothesis is rejected and it can be said that the Perceptions of Public and Private sector mutual fund investors are not independent of Flexibility factor.
Ho: Perception of Public and private sector mutual fund investors are independent of Management Fee factor. Ha: Perception of Public and private sector mutual fund investors is not independent of Management Fee factor.	$X^2 = 7.326$ $X^2_{3.005} = 7.815$	Thus, Ho Hypothesis is accepted and it can be said that the Perceptions of Public and Private sector mutual fund investors are independent of Management Fee factor.
Ho: Perception of Public and private sector mutual fund investors are independent of Tax Saving factor. Ha: Perception of Public and private sector mutual fund investors is not independent of Tax Saving factor.	$X^2 = 16.275$ $X^2_{4.005} = 9.488$	Thus, Ho Hypothesis is rejected and it can be said that the Perceptions of Public and Private sector mutual fund investors are not independent of Tax Saving factor.
Ho: Perception of Public and private sector mutual fund investors are independent of Service Quality factor. Ha: Perception of Public and private sector mutual fund investors is not independent of Service Quality factor.	$X^2 = 28.391$ $X^2_{4.005} = 9.488$	Thus, Ho Hypothesis is rejected and it can be said that the Perceptions of Public and Private sector mutual fund investors are not independent of Service Quality factor.
Ho: Perception of Public and private sector mutual fund investors are independent of Return on Income factor. Ha: Perception of Public and private sector mutual fund investors is not independent of Return on Income factor.	$X^2 = 6.574$ $X^2_{4.005} = 9.488$	Thus, Ho Hypothesis is accepted and it can be said that the Perceptions of Public and Private sector mutual fund investors are independent of Return on Income factor.

<p>Ho: Perception of Public and private sector mutual fund investors are independent of Transparency factor. Ha: Perception of Public and private sector mutual fund investors is not independent of Transparency factor.</p>	<p>$X^2 = 11.622$ $X^2_{4.005} = 9.488$</p>	<p>Thus, Ho Hypothesis is rejected and it can be said that the Perceptions of Public and Private sector mutual fund investors are not independent of Transparency factor.</p>	
<p>Ho: Perception of Public and private sector mutual fund investors are independent of Security factor. Ha: Perception of Public and private sector mutual fund investors is not independent of Security factor.</p>	<p>$X^2 = 4.314$ $X^2_{4.005} = 9.488$</p>	<p>Thus, Ho Hypothesis is accepted and it can be said that the Perceptions of Public and Private sector mutual fund investors are independent of Security factor.</p>	
<p>(Source: primary data)</p>			

From the analysis it is clear that the significantly influencing factors on the investment made by the investors of public and private sector mutual funds are liquidity, flexibility, savings on tax, service quality and transparency. As per the table-7 above, at 5% significant level and at 4 degrees of freedom, the calculated values of all these factors were greater than the table values, which implies that the perception of investors are dependent on these factors and there is no significant difference in the opinion of both the public and private sectors mutual fund investors. As far as the other factors like Management Fee, Return on Income and Security are concerned, there is a significant difference in the perceptions of the investors of the public and private sector mutual funds and needs to be concentrated on.

Management fee is the minimum fee charged by the AMC for floating different investment schemes, and from the study the investors opine that private sector mutual fund companies charge more fees compared to that of public sector mutual fund companies and thus there is dissatisfaction regarding this factor among the private sector investors. Hence fund manager of the private sectors should concentrate on this aspect.

Investor's investment in any particular fund scheme of mutual funds depends upon anticipated **return** that will accrue from that particular investment. The analysis shows that there is a significant difference in the perception of the investors of public and private sector mutual funds and feel that the returns from the public sector are not satisfactory and up to their expectations. It is a known fact that most of the public sector MF companies invest in safe instruments which have less returns but surer returns, whereas the private sector MF companies invests in equities which are highly risky but get greater returns.

Security is one area where investors like to bank on. The main reason behind saving and investing in any of the financial investments is to secure for the future. As per the analysis it is quite evident that there is a significant difference in the perception of the investors on public and private sector mutual funds. The investors of the public sector feel more secured compared with that of private sector mutual funds even though the returns are not that much expected because they feel that the public sector MF's are well regulated and are less risky compared to that of private sector MF's.

Conclusion

Mutual Funds have emerged as an important segment of financial markets and so far have delivered value to the investors. The study reveals that the investors' perception is dependent on the demographic profile and assesses that the investors Age, Marital status and occupation has direct impact on the investors' choice of investment. The study further reveals that female segment are not fully tapped and even there is low target on higher income group people. Hence fund managers should take steps to tap the female segment and higher income group segment to enhance more investment in mutual fund Investment Avenue which would really help the industry to flourish. Further the findings of the research were on the factors influencing investors' perception on public private MF's.

It reveals that Liquidity, Flexibility, Tax savings, Service Quality and Transparency are the factors which have a higher impact on perception of investors. These factors give them the required boosting in the investment process. Therefore it becomes imperative on part of the fund managers to enhance these features for attracting more investors and also to retain the trust, the investors have in them.

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