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INFLUENCING FACTORS IN SELECTION OF A MUTUAL FUND – A STUDY

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Abstract
In the present paper researcher tried to study investors' investment preferences and influencing factors in selecting Mutual Funds in this dynamic investment environment with a sample of 200 investors who are actively participating in trading and investment activities. Snow Ball sampling method has been used to collect data by administering structured questionnaire. The study found that that bank deposits, mutual funds, chit funds and LIC are the major investment avenues for the investors. And only very less percentage of investors preferring modern investment avenues i.e share market and commodity market. Guaranteed returns on fund, followed by risk diversion, performance of fund managers, services provided by the company and past performance of fund are the major influencing factors to the investors in selecting mutual fund.

Introduction
The Indian Mutual Fund industry has witnessed significant growth in the past few years driven by favorable economic and demographic factors such as rising income, rising saving rate, rising income earning-spending activity etc. Mutual funds in India was firstly launched in July 1964 by UTI, with the objective of employment of individual savings into gigantic capital formation by investing it in capital market, besides that there was strong need for channelizing household savings for circulation and making it available for corporate for their productive use. At the same time it was felt that UTI could be an effective option to bridge the gap between individual saving and capital formation. A large proposition of the increase in savings has gone into bank deposits and small saving schemes. At present the increase in savings have been in the shares, real estate and mutual Fund. In future, however the increase in savings will also flow more into mutual funds, due to its increased return and to the recent tax incentives offered by the government.

Mutual Funds in India
The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank .The objective then is to attract the small investors and introduce them to market investments. Since then, the history of mutual funds in India can be broadly divided into four distinct phases. First Phase – 1964-87: emergence growth stage by mobilizing 2,175 crores under UTI scheme and with 6,700 crores as Assets Under Management. Second Phase – 1987-1993 (Entry of Public Sector Funds): and able to mobilize Rs.13,021 crores and it ad assets under management of Rs.47,004 crores. Third Phase – 1993-2003 (Entry of Private Sector Funds): The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. As at the end of January 2003, there were 33 mutual funds with total assets of Rs. 1,21,805 crores. Fourth Phase – since February 2003: In February 2003, following the repeal of the Unit Trust of India Act 1963 UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs.29,835 crores as at the end of January 2003 and The second is the UTI Mutual Fund Ltd, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. As at the end of October 31, 2003, there were 31 funds, which manage assets of Rs.126726 crores under 386 schemes. As on 2009-10 assets under management reached to Rs. 4,17,300 crores.

Concept
A mutual fund is a professionally managed type of collective investment scheme that pools money from many small investors and invests it in stocks, bonds, short-term money market instruments and other securities. . Mutual funds are invested in diversified portfolio to spread risk. While it opens an investment channel to small investors, it reduces risks, improves liquidity and results in stable returns and better capital appreciation in the long run.

Review of Literature
Kauhan (1986) mentioned that, financial intuitions are estimated to symbolize the core of truthfulness and their risk-taking determination is well composed by a strong sense of fiduciary charge and that is why economic procedures have always been a part of economic development. Delia-Elena DIACONAŞU (2011) studied the role of mutual fund in the U.S. economy, different macroeconomic indicators and the dynamics of mutual funds in U.S. there was weak correlation ship between balance of payment and global fund and it was also found that higher investment in investment in funds accounts for the purpose of retirement. Madhusudhan & Jambodekar (1996)revealed that investor expect better services while they invest for safety of principal, liquidity and capital appreciation. Syama Sunder (1998) found that the awareness was poor in small

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cities. Brand image and return were the prime factors for investment. Panda and Tripathy (2002) found that investors were unsatisfied except from UTI. Singh and Chander (2004) concluded that poor regulation and control, under–performance and inefficient management are the cause of non investment. Desigan et al. (2006) found that women investors are hesitant for investment in mutual funds. According to Gokarn (2011), Mutual Funds play an important role in the development of the financial system. First, they pool the resources of small investors together, increasing their participation in financial markets, which helps both inclusion and the efficient functioning of markets. Thus, Studies are there to identify the correlation between growth of mutual funds , financial growth and economic growth at macro level variables and also on micro studies regarding investors preferences to choose an investment avenue , influencing factors, preferred schemes of mutual funds. This indicates gap in the literature to study the important factors of investment activity in general and in mutual fund in particular.

Need of the study
It is known that the perceptions, attitudes , opinions , risk appetite factors of an individual are dynamic in nature. In the present economic scenario particularly investment in mutual funds being an institutional investment agency are treated as a suitable vehicle specifically for small investors. Through different schemes, mutual funds can provide expert advice and portfolio management by reducing unsystematic risk, while offering good returns. As mutual fund is gaining so much of importance and most of the investors preferring mutual funds, it is essential to find out the factors influencing the investors before selecting the mutual fund company. Hence at this context, there is a need to study the preferences and determinant factors of investors to invest in mutual fund.. Therefore, researcher made an attempt to study with the following objectives:

Objectives

- To know the investors preferences where they are investing.
- To know the Factors influencing the investor in selecting a mutual fund

Methodology
The study has been conducted in Thiruathi city by adopting Snow ball non-random sampling technique with a sample size of 200 investors . Data has been collected through structured questionnaire. The investors were contacted through various mutual fund distributors, agents and through consultancy agencies. The collected data was analyzed and interpreted using MS-Excel with statistical tools like averages, percentages and charts.

Scope & Limitations of the Study
The study is carried out in Thirupathi city with a sample size of only 200 investors. The study is no way exception to the limitation of Time and money like other studies.

Profile of the investors
The profile of the respondents in the study are given in table-1

Table-1 Profile of the Investors

Variable		Number of respondents	Percentage of Respondent (%)	Cumulative percentage (%)
Age (yrs)	Young (20-30)	65	32.5	32.5
	Middle (30-50)	90	45	77.5
	Old (> 50)	45	22.5	100
Gender	Male	160	80	80
	Female	40	20	100
Education	Upto Intermediate	30	15	15
	Under Graduate	85	42.5	57.5
	Post Graduate	70	35	92.5
	Above Post Graduate	15	7.5	100
Occupation	Agriculture & allied activities	14	7	7
	Business/ Self-employment	110	55	62
	Employee (Govt. & Private)	30	15	77
	Others	46	23	100
Income	Upto Rs.1 lakh	62	31	31

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(Rs.)				
	Rs. 1 lakh - Rs. 3 lakh	45	22.5	53.5
	Rs. 3 lakh – Rs. 5 lakh	78	39	92.5
	Above Rs. 5 lakh -	15	7.5	100

Table-1 exhibits that majority of the respondents are male (80%) investors in the age group of youn (32.5%) and middle aged (45%) having educational qualifications - undergraduate and post graduates comprising (54%) doing business/ self employment occupation (55%) with an income range of Rs. 1 lakh to Rs. 5 lakh per annum. Hence, it is clear that the investors have sufficient knowledge to take financial decisions and to carryout investment activity.

Investors preferences

Researcher tried to know the investment preferences of the respondents . The results have been presented in the following table -2

Table-2 Investors Investment Preferences

Investment	No. of Respondents	Percentage of Respondents
Bank deposits/postal deposits	188	94
LIC	110	55
PPF	50	25
Small Saving Schemes (,NSC & other schemes)	70	35
Mutual Funds	160	80
Shares	48	24
Debentures/Bonds	39	19.5
Trading	60	30
Chit funds	140	70
Commodity markets	20	10

Source: Field Survey; Note: percentages are calculated with n=200 respondent for each avenue..

The above table clearly shows that bank deposits (94%) emerged as first investment instrument (4940%) and mutual funds occupied second position (80%) followed by chit funds (70%), LIC (55%). Further investors park their savings into small saving schemes accounted (35%) followed by trading activity (30%), PPF (25%) . The table also reveals that only 10 per cent and 24 per cent of the sample choosing commodity markets and share market. Thus, on the whole it can be conclude that even though investors having high education levels they are still prefer to invest in safe and security places . However, Comparing to mutul funds and traditional investment instruments, investors preferring to invest in moderate avenue like mutual funds. It can be seen in fig.2

Factors influencing the investor in selecting a mutual fund

Investors before investing their funds in a particular mutual fund company , will look into many factors viz., fund performance, fund manager performance, reputation of the company services provided to the investors, diversification of risk etc., Review of literature evidenced many such variables which influences the decisions of the investors in selecting and investing in a particular mutual fund . Therefore, the researcher selected 10 factors from the existing literature and tried to know which factor is the most influencing factor based on rank as well as percentages. The responses of the respondents are given in table-3 as under

Table-3 Factors influencing the investor in selecting a mutual fund

Factors	No. of Respondents	Percentage of Responses
Past performance of fund	120	60
Dynamism of fund manager	80	40
Performance of fund managers	160	80
Total corpus fund	105	52.5
Reputation of the company	95	47.5
Services provided	140	70
Transparency of investment	175	87.5
Minimum investment required	80	40
Guaranteed Returns on fund	180	90
Risk Diversion	168	84

Source: Field Survey; Note: percentages are calculated with n=200 respondent for each avenue..

Table -3 results shows that 90 per cent of the respondents have been influenced by guaranteed returns on fund and it is the major factor in selecting a mutual fund followed by risk diversion (84%), performance of fund managers (80%), services provided (70%) by the company and past performance of fund. Further total corpus fund stands at sixth position (52.5%), followed by reputation of the company. However, dynamism of fund managers and minimum investment required to invest stands at equal position with 40 per cent of the respondents. On the whole it is clear that most of the investors looking guaranteed return base don analyzing the performance of fund managers in the company. Therefore, it is concluded that the investors worried about returns, transparency of investment of funds by the fund manager, the risk involved and diversification of risk in the fund as well as performance of fund managers are the major dominating factors comparing to remaining factors to the investors.

Summary & Conclusion

On the whole it is found in the study that bank deposits, mutual funds, chit funds and LIC are the major investment avenues for the investors. And only very less percentage of investors preferring modern investment avenues i.e share market and commodity market. Guaranteed returns on fund, followed by risk diversion, performance of fund managers, services provided by the company and past performance of fund are the major influencing factors to the investors in selecting a mutual fund. However, dynamism of fund managers and minimum investment required to invest are less influencing factors to choose a mutual fund. Therefore, it can be conclude that though Mutual funds have existed almost 5 decades in India for various reasons, mutual funds have not been the investment of choice for Indian investors and if it is there, the percentage of investors in mutual fund is very less. Government estimates suggest that investments in security related investments, including mutual funds, have hovered around 4–5% of household savings for more than a decade despite significant governmental concessions. Therefore, still efforts are needed to innovate instruments which suits to the investors requirements.

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