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"A study on the perception of investment and the selection behavior of investors towards the mutual funds."

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Abstract:
A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The investment is the process of investing of money on an investment assets like shares, debentures, fixed deposits, gold, real assets, life policies, mutual funds and money market instruments. Investors invest on this with the expectation of future return in terms of interest and the capital gain. Individual investor considers different factors before making any decision to invest the funds on various securities which involves various degrees of risk and return. In the present economic scenario, the investors have different options available for investment and they have varied factors which motivates the investors for investing which is also governed by socio- economic profile which includes the good rate of return and risk tolerance. An attempt has been made to identify the perceptual factors which influence the investors to invest their fund in mutual funds. The proverb says "never put all the eggs in the same basket" which guides the investor for diversifying the risk. Diversification refers to the process where investor invests his funds in more than one investment opportunity which is available for investors. An investor must learn to analyze and measure the risk and return of the portfolio. All the investors may not be in a position to undertake the fundamental and technical analysis before they decide on investment options. In most of the capital markets throughout the world, mutual funds have gained a significant position. The mutual fund industry is playing a significant role in the development of the economy as well. The growth of mutual fund leads to lower intermediation costs, more efficient financial markets, and increased the activity of the capital markets and higher local ownership of the financial assets.

Key words: *Investors Behavior, Investment options, Financial markets, mutual fund, Diversification.*

Introduction:

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. Anyone with an investible surplus can invest in Mutual Funds. These investors buy units of a particular Mutual Fund scheme that has an investment objectives and strategy. The money thus collected is invested by the fund manager in different types of securities. These could range from shares to debentures to money market instruments, depending upon the different scheme's which is an stated objectives. The income earned through these investments and the capital appreciation realized by the varied scheme is shared in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low-cost.

The Mutual funds is offering huge benefits to their investors through diversification of funds, and it is taxation low operating cost higher return to their investors. In the New Financial Order across the world there are dominant regarding the great degree of proliferation in the management of funds around the world. Every rational investor wants to maximize the returns on their investment for the given level of risk. It is understood that the diversified funds would reduce the market risk to a greater extent. In today‘s scenario a common man with mobilization of savings from his income would get only 3% to 4% in a bank‘s savings account or 8% to 9% from an fixed deposits. Investors, who have invested in these assured returns products, are searching for still better returns as the requirements are increasing day by day. Investors have three main objectives before making any investment they are :

- Safety
- Return and
- Liquidity

Investors would like their investment to be absolutely safer, and which generates good returns and with high liquidity. But unfortunately it‘s very difficult for anyone to achieve all the three objectives simultaneously. One of the objectives will trade – off against another. For example, if an investor wants high returns he may have to take up some kind of risk or if he wants high liquidity he may have to compromise on the returns. There are different investment options available for the investors to choose for investing their funds. Each kind of investment differs from the other in their objectives and benefits. They differ on the relative volatility, their value changes when compared to the market as a whole. Each investment option has its own kind of risk associating with it and a corresponding financial return on it. As the investors are having number of investment options, this makes it very difficult for them to decide where to invest, which can fulfill their investment objectives. Every retail investors are not well informed and skilled, so that they can make decision regarding their investment which gives them the desired results. For investment in different options they require the assistance of the professionals so that they do not land in a situation which makes their investment an unfruitful. As each individual have different investment objective and a different requirement. Each investor has different risk profile and also has different disposable income. Before investing his money investor must know the risk profile and also the investment objective. So in this way investors can be categorized into different categories based on their investment objectives, disposable income and requirements in future. We can categorise the investors into various categories based on their Life Cycle Stage, Wealth Cycle Stage.

Now for developing the portfolios for these different investor categories, we are required to analyze the various investment options based on the various factors like Return, Risk, and Liquidity. Analyzing the various investment options it requires for assessment of investment options using different methods like stocks can be assessed by using Compounded Annual Growth Rate; bonds can be analyzed using Yield to Maturity Model. Once if we calculate the return, risk and liquidity which is associated in each of the investment options, we can easily develop the portfolios for the different investor categories which will fulfill the requirements. Portfolio investment involves finding the proportion of the disposable income that should be invested into different investment options so that it can give an required return at required time with the lowest possible risk.

Objectives of the Study

The specific objective of the study is as under:-

1 To study the extent of awareness about mutual funds.

2 To know the extent of satisfaction of investors towards mutual funds.

3 To find out the various factor affecting the behavior of selection towards mutual funds.

4. To know about the perceptions of investors towards investment in mutual fund.

Scope of the study:

To find out the most preferred Investment Avenue of the investors for investment towards mutual fund. To analyze the investor’s preference towards investment in the mutual funds when other investment avenues are also available in the market. To find the main bases of different investment avenues, an investor thinks before investing. To find out the overall criterion of investors regarding investment.

Research Methodology:

Investor’s main objective is to earn a higher rate returns keeping in mind the risk and liquidity factors. Keeping these objectives in mind, an investor would look out for various investment avenues before

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investing their fund. Mutual funds offer comparatively better returns and have less risk when compared with the direct investment in a stock market. In this research paper, an attempt has been made to evaluate the perception of the investors and the selection behavior of investors regarding the mutual fund investment. The selection of investors was made on the basis of those who have made prior investment in mutual funds and have some knowledge about the basic terminologies involved with the mutual funds. An attempt has been made to find out the perception of the investors regarding investment in mutual fund and to identify the factors that should be considered important by the investors before investing in any mutual fund. The awareness level of investors regarding investment and the behavior of investors regarding investment in mutual fund.

Literature Review:

Investors are generally more careful while making investment decision and the presence of rationality in every investor demands higher return at minimum risk but when markets are efficient it is not possible to gain abnormal returns. Risk is generally, associated with various applications differently but in common it means negative connotation such as harm or loss or some undesirable action.

Puneet Bhushan & Yajulu Medury (2013) concluded that women are more conservative and takes less risk and significant gender differences occur in investment preferences for health insurance, fixed deposits and market investments among employees.

V.R.Palanivelu & K.Chandrakumar (2013) highlights that certain factors of salaried employees like education level, awareness about the current financial system, age of investors etc. make significant impact while deciding the investment avenues.

Lalit Mohan Kathuria & Kanika Singhania (2012) concluded that private sector banking employees were investing a larger portion of their savings into safe and risk-free investment avenues, like employee provident fund, public provident fund and life insurance policy and only forty per cent of the respondents had high level of awareness regarding various investment avenues.

D. Harikanth & B. Pragathi (2012) indicated that there is a significant role of income and occupation in investment avenue selection by the male and female investors. Geographical horizon of the investors, risks bearing capacity, educational level, age, gender and risk tolerance capacity etc, also impacts their selection.

Sanjay Kanti Das (2012) summarized that the bank deposits remain the most popular instrument of investment followed by insurance and small saving scheme to get benefit of safety and security of their life and investment. It was found that there is a need for increasing the financial literacy amoung the middle class households.

Meenakshi Chaturvedi & Shruti Khare (2012) revealed that most investor preferred Bank Deposits as their first choice of investment, secondly small saving scheme followed by the life insurance policies. Giridhari Mohanta & Sathya Swaroop Debasish (2011) states that people were ready to invest for meeting their financial, social and psychological need. But the investor always had a mindset of safety and security, higher capital gain, secured future, tax benefit, getting periodic return or dividends, easy purchase and meeting future contingency.

Findings:

Investors review the information before investing fund on mutual fund shares. In general, they frequently review or ask questions about fund's fees and expenses and also its historical performance. The investors often turn to professional financial advisers for information prior to purchasing the fund shares. Some investors also visit Mutual Fund Company; confer with friends, family, or business associates for the information before investing on any fund shares, while some investors use the Internet regularly. The Internet, with its interactive capabilities, is an effective vehicle for communicating the mutual fund information to all its retail investors. Mutual fund companies should segment their target customers and position their products. The target segment are broadly divided into institutional segment and retail investor segment. The institutional segment consisted of treasury departments of corporate, trusts, etc and suitable products such as institutional income schemes and money market schemes are targeted to them. As far as retail investors are concerned, they can be in turn divided into various segments such as young families with small or no children, middle-aged people saving for retirement and retired people looking for steady income. Suitable products such as growth and balanced schemes for young families and income schemes with certain and steady returns for retired people can be marketed. By proper segmentation and also by targeting the right product to the right customer, the mutual fund companies can hope to win the confidence of their customers and own them for a lifetime. In this way the market scope for mutual funds can be expanded. The attitude score reveals that the respondents are giving more importance to the dividends and their growth. Therefore the mutual funds should improve the scope of dividends and growth of the mutual funds.

Suggestions:

Even though the mutual funds are considered to be the good source of income for many investors, people lack the awareness and required information towards the mutual funds. So the following suggestions were made in order to increase the awareness among the people.

1. Increase the awareness among investors: Many investors are still restricting their choices to the non-governmental options like gold and fixed deposits even though the market is flooded with countless investment opportunities. This is because of lack of awareness about mutual funds which makes many investors restrict their choice to traditional options like gold and fixed deposits. So awareness relating to the mutual funds must be increased among the investors through encouraging them to invest more funds on the mutual funds.

2. Providing the detail information relating to mutual funds: Even among the investors who are investing on mutual funds are unclear about how does they function and how to manage them. So complete information must be provided to all the investors in order to increase the loyalty among the investors for investment of their fund.

3. Investors' fee reduced and also reducing of the paper work: Investors fee includes management fee, distribution fee, and administrative costs, etc., which are generally deducted from the asset value. This can be done if the investment is made without an agent and also reducing the paper work.

4. Commission should be paid to Asset Management Companies: From the past 4-5 years the trust of investors on mutual funds is reduced because of the poor performance of mutual funds in these years. So if better commission is paid to Asset Management Companies which have a huge knowledge for guiding to take a right decision and motivating the investors can improve the distribution system of mutual funds.

5. Subsidized Investments to rural investors: Because of the issue of commercial viability, mutual funds were limited to major cities only. So if mutual funds are offered to rural and semi urban investors at subsidized rates like agricultural loans, the demand for mutual funds can be increased in rural and semi urban areas also.

6. Advertising campaigns must be conducted in the rural areas for increasing the awareness among rural investors.

7. Investors should take into consideration age and size of the fund before making investment in the fund, and they should read the prospectus to find out how long the fund has been operating and the asset size of the fund. Newly created or small funds sometimes have an excellent short-term performance records. Because these funds may invest in only a small number of stocks, a few successful stocks can have a large impact on their performance. Investor can get a better picture of a fund's performance through looking at how the fund has performed over longer periods and how it has affected by the ups and downs in the market.

8. The price at which one can exit from the scheme and its impact on the overall return. Comparison of different scheme with its benchmark and how the scheme has performed in a volatile environment. It is advisable for investors that the longer you stay invested the better and steady return on your investment. Investors should hold the funds at least for 3-5 years.

9. Past performance is not a reliable indicator of future performance. So one should not be dazzled by last year's high returns. But past performance can help to only assess the fund's volatility over time. Assessing how the fund will impact on the diversification of the portfolio. Generally, the success of investment over time will depend largely on how much money have been invested in each of the major asset classes – stocks, bonds, and cash – rather than on the particular securities that investors hold. When choosing a mutual fund, we should consider how the interest rate in that fund would affect the overall diversification of investment portfolio. Maintaining a diversified and balanced portfolio is the key for maintaining an acceptable level of risk.

10. Consider the mutual fund's portfolio turnover rate. A fund's portfolio turnover rate measures the frequency with which investor can buy and sell securities. A fund that rapidly buys and sells securities may generate higher trading costs and capital gain taxes.

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Conclusion:

Mutual fund investments are the good source of returns for majority of the households and it is particularly useful for the people who are at the age of retirement. However, many investors are still restricting their choices to the conventional options like gold and fixed deposits even though the market is flooded with countless investment opportunities, with mutual funds. This is because of lack of information about how mutual funds work, which makes many investors hesitant towards investing in the mutual fund. In fact, many a times, people investing in mutual funds too are unclear about how they function and how one can manage them. So the organizations which are offering mutual funds have to provide complete information to the prospective investors relating to mutual funds. The government also has to taken measures for encouraging people to invest in mutual funds even it is offering the schemes like Rajiv Gandhi Equity Savings Scheme for the investors for investment. It is believed that some of these measures could lift the morale of the mutual fund industry which has been crippled for the last three years. Mutual funds play an increasingly important role in financial intermediation. The popularity of mutual funds traditionally is attributed to the fact that they are professionally managed, small investors can achieve diversification generally which are available to a large investors, and that investors can take advantage of lower transaction costs, primarily in brokerage commissions.

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