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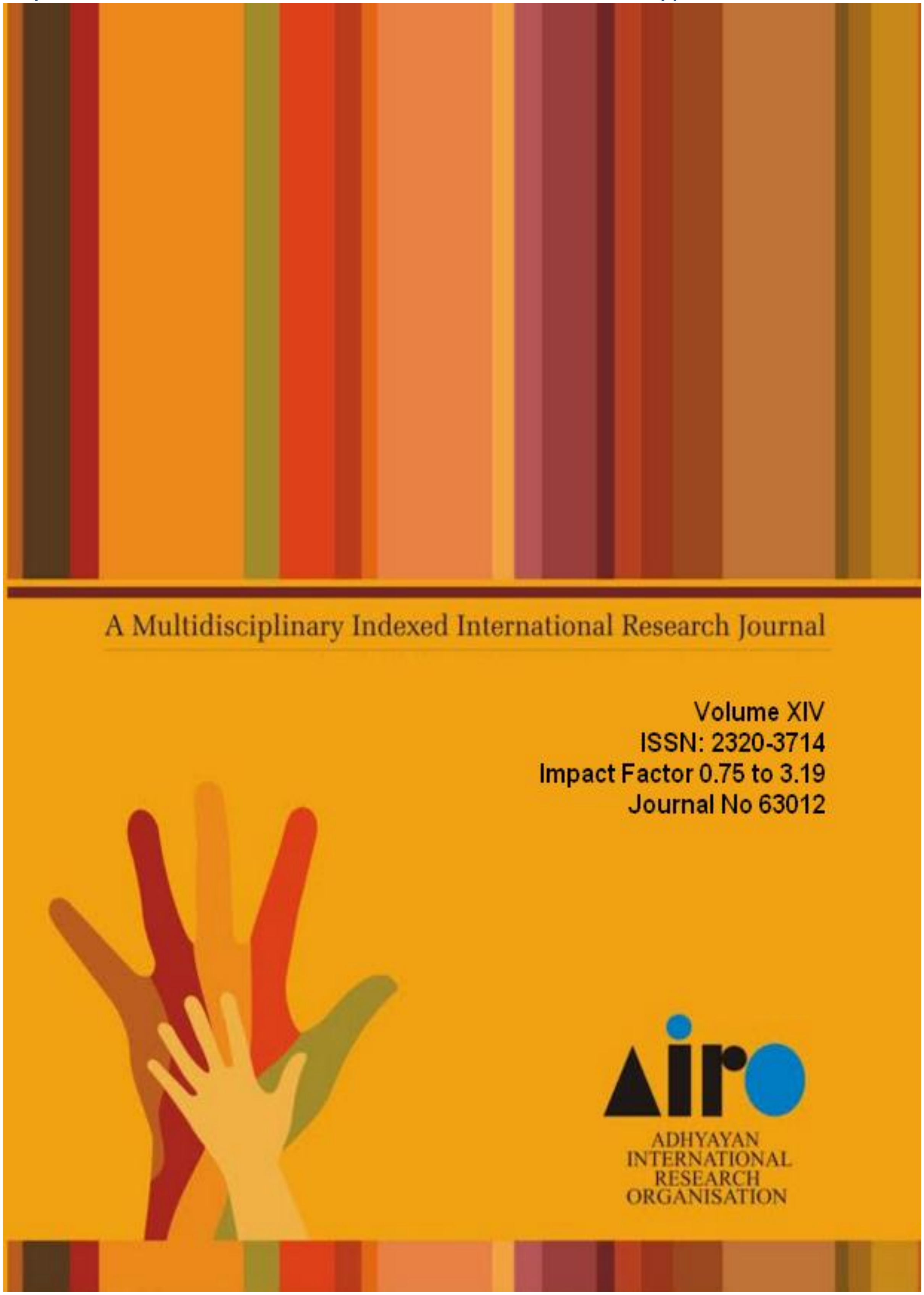

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An Empirical Analysis on Investor's Preference for Mutual Fund with Comparison to Other Investment Options

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Abstract

A mutual fund is a group of investors operating through a fund manager to purchase a diverse portfolio of stocks or bonds. Mutual funds are highly cost efficient and very easy to invest in. In today's competitive environment, different kinds of investment options are available to the investors. All investment modes have their own advantages & disadvantages. An investor tries to balance these benefits and shortcomings of different investment modes before investing in them. Economic growth has increased the savings and astonishingly explored the participation of investor in stock market which added a new dimension and explored the potential of the financial sector. To avail the advantages of economic growth large number of hybrid financial products came into existence and Mutual Fund is one of them. Among various investment modes, Mutual Fund is the most suitable investment mode for the common man, as it offers an opportunity to invest in a diversified and professionally managed portfolio at a relatively low cost. In this paper, an attempt is made to study mainly the investment options preferred by the investors of Kanpur, U.P. and we have tried to analyze the investor's preference towards investment in mutual funds when other investment options are also available in the market.

Key words: Mutual fund, Investment Options, Low risk, Economic Growth.

Introduction

To cater the universal economic and political competition, government has to play parental role in money supply which is possible through sound earning and social saving of the investor and their risk taking psychology. Generally decisions about investment are quiet crucial for an investor as they are influenced by many factors and have considerations like company goodwill, government policies, economics of sales and the trend in a particular sector, economic and social environment, risk and return, level of earning of the individual, his educational background, marital status and demographic variables etc. Investors have different mindset when they decide about investing in a particular avenue. Every individual wants that his saving must be invested in the most secured and liquid avenue, however, the decision changes from individual to individual and his risk taking ability.

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is invested by the fund manager in different types of securities depending upon the objective of the scheme. These could range from shares to debentures to money market instruments. Diversification means spreading out money across many different types of investments. When one investment is down another might be up. Diversification of investment holdings reduces the risk to a great extent. The Assets under Management (AUM) of the Mutual Fund industry of India fell by 5.6% or Rs. 47,638 crores to Rs. 7.06 lakh crores during the quarter that ended in December, 2015. But this industry grew at 11.5% in January 2016 to Rs. 7.52 lakh crores. The rise in AUM was led by heavy inflows into liquid funds, which rose by 53 percent to 1.79 trillion rupees in November 2015, marking the highest inflow into any category of funds over the past six months.

The study was carried on to understand the preference pattern of the investors so as to understand the perception of the investors towards their investment pattern considering the various factors such as demographic factors, savings pattern, and opinions and so on. The whole of the research is based on the response given by the investors and their suggestions are also taken into consideration for further improvement of the company.

Literature Review

Sujit Sikidar and Amrit Pal Singh (1996) in their study examined the behavioral aspect of the investors of the North Eastern region and revealed that the salaried and self employed formed the major investors in mutual fund primarily due to tax concessions. **SEBI – NCAER Survey (2000)** was carried out to estimate the number of households and the population of individual investors, their economic and demographic profile, portfolio size, and investment preference for equity as well as other savings instruments. This is a unique and comprehensive study of Indian Investors, for which data was collected from 3,0,00,000 geographically dispersed rural and urban households. Some of the relevant findings of the study are : Households preference for instruments match their risk perception; Bank Deposit has an appeal across all income class; 43% of the non-investor households equivalent to around 60 million households (estimated) apparently lack awareness about stock markets; and, compared with low income groups, the higher income groups have higher share of investments in Mutual Funds (MFs) signifying that MFs have still not become truly the investment vehicle for small investors.

Shanmugham (2000) in his study found that among the various factors, psychological and sociological factors dominated the economic factors in share investment decisions. **Sehgal and Jhanwar (2007)** examined that, if there is any short-term persistence in mutual funds performance in the Indian context. We find no evidence that confirms persistence using monthly data. Using daily data, we observe that for fund schemes sorted on prior period four-factor abnormal returns, the winners' portfolio does provide gross abnormal returns of 10% per annum on post-formation basis. **Kumar (2011)** explained Mutual funds provide opportunities for small investors to participate in the capital market without assuming a very high degree of risk. An important principle of investment in capital market is that do not put all the eggs in one basket i.e. Diversification.

Sarish and Ajay Jain (2012) concluded that for the purpose of investment or saving, the investors are having options to invest money in mutual funds and other financial instruments like equity shares, debentures, bonds, warrant, bank deposits. A common investor, who invests their savings into the different assets, is not very much aware about the mutual funds. **Gupta (2013)** studied about the equity mutual funds that are offered for investment by the various fund houses in India. Though, there are a plethora of equity mutual fund schemes, but the scope of this study is limited to only five equity mutual funds, namely, Reliance Growth Fund, HDFC Equity Fund, Sundaram Select Midcap Fund, and ICICI Pru. Dynamic Plan and HDFC Tax Saver Fund, which have continuously outperformed, in the market, since their inception.

Research Methodology

Objectives of the Study

- To find out the most preferred Investment Option of the investors of Kanpur.
- To analyze the investor's preference towards investment in mutual funds when other investment options are also available in the market.
- To find the factors influencing investment in mutual funds
- To find out the performance of Mutual fund schemes.
- To find the satisfaction level of investors towards Mutual Funds.

Research Hypotheses

H0: There is no significant relationship between the period of investment and current investment in mutual fund.

H0: There is no significant relationship between sector selection for investment and prefer mutual fund investment.

H0: There is no significant relationship between the age and the level of satisfaction of the investors.

H1: There is a significant relationship between the age and the level of satisfaction of the investors.

Adopted Methodology

For the study, Primary data was collected from investors with the help of a structured questionnaire consisting of various questions related to demography of the investor, the factor which influences the investor to invest in mutual funds etc. which was distributed to 125 people belonging to different areas of the Kanpur city and out of this 90 correctly filled questionnaires of the respondents were considered for further analysis and the secondary data were collected from the various sources "websites and published reports of the respective mutual fund companies, magazines". The satisfaction level of the investors were measured on five point Likert scale. The data was analyzed by using various statistical techniques and tools, such as mean, percentage, frequency and to test the hypothesis chi-square test.

Findings

1. 100% investors are aware of Banks & LIC, while 92% aware about Mutual Funds followed by 91% for the Real Estate, 83% for the NSC,78% each for Gold & KVP, 74 % for PPF, 61% each for Equity Shares & Bonds, 64% for MIS, 56% for Others, and the least aware is Commodity Market & Futures & Options, which clearly indicates that Banks, LIC, Mutual Funds, Real Estate & NSC are the most popular investment options among the investors of Kanpur.

2. 46% of the investors' overall and main criterion for investment is Return followed by Tax Planning (22%), and Safety(27%). It implies that investors generally invest their money for the return.

3. More than 50% of the investors prefer Banks, LIC & MIS for Safety, while more than 35% of the investors prefer Real Estate, Equity Shares, Commodity Market, and Mutual Funds for Return, while more than 30% investors prefer NSC, LIC, and Mutual Funds for Tax Planning.

4. If the investors have been provided more funds, 50% of the investors would like to invest in Real Estate, 23% in Mutual Funds and only 12% in Equity Shares.

5. It is found that majority of investors belong to age group between 20 to 40 which constitute 55.5%. It is found that 91.3% of the male respondents are interested to invest their savings in mutual funds.

6. It is found that large no. of investors in mutual funds belong to the categories of businessmen, private sector professionals and self employed professionals.

7. It is found that majority of the investors are graduate and post graduate which constitute 94.5%. It is found from the analysis that majority of the respondents are investing their saving in between 10,000 up to 1, 00,000.

8. It is evident from the analysis that maximum 60.4% of the respondents purchase mutual funds for both purpose, tax saving and investment to get returns. It is evident from the

analysis that maximum 56.7% of the respondents are satisfied with their current mutual fund company.

9. The top three mutual fund companies rated on the basis of the investment made by respondents are ICICI Prudential, Reliance AMC, UTI & SBI respectively

10. It is evident from the analysis that maximum 45% of the respondents‟ primary objective for purchase of mutual fund is growth & income while 29% of them purchase for conservative growth.

Discussion and Conclusion

With increased income, investors are looking for new avenues to earn more and also diversifying their portfolio for better protected return and mutual funds are available avenue for shedding the risk through diversification, managed by qualified fund managers. Investors individually or through fund manager take decision of investing after collecting relevant information provided to them through prospectus about the fund, its operating limits and costs. Looking from different perspective, it is also evident that the overall and main criterion of the investors regarding their investments is Return. Therefore, on the basis of Safety, Bank & LIC are the most preferred avenues of investment as it provides maximum safety. Therefore it is the Insurance Company to set in programs to create more awareness and remove the myths from the minds of the people about mutual funds being unsafe or mismanagement of funds. Making investors aware of the funds, its operations, its return etc itself will improvise its situation as such.

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Annexure

Graphical Representation of Data

Table1: Awareness of different Investment Options

Investment Options	Percentage	Investment Options	Percentage
Bank	100	Equity Shares	61
LIC	100	Future & Options	48
PPF	74	NSC	83

KYP	89	MIS	64
Real Estate	91	Bonds	61
Commodity Market	56	Mutual Fund	92
Gold	73	Others	56

Table 2: Mode of Investment if surplus Fund

Investment Options	Percentage
Real Estate	50
Mutual Fund	23
Equity Shares	12
Bank	08
Gold	07
Total	100

Table 3: Genders of the respondents

Gender	Percentage
Male	78.1
Female	21.9
Total	100

Table 4: Investment in Banks

Basis	Percentage
Safety	70
Return	10
Liquidity	0
Convenience	16
Tax Planning	4
Total	100

Table 5: Investment in LIC

Basis	Percentage
Safety	52
Return	04
Liquidity	06
Convenience	02
Tax Planning	36
Total	100

Table 6: Investment in Mutual Funds

Basis	Percentage
Safety	15
Return	35
Liquidity	09
Convenience	09
Tax Planning	32
Total	100

Table 7: Investment in Real Estate

Basis	Percentage
Basis	Percentage
Safety	09
Return	66
Liquidity	07
Convenience	03
Tax Planning	15
Total	100