Mutual fund investment decisions of investors in Coimbatore city, Tamil Nadu

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ABSTRACT

Financial investment opportunities for investors include bank deposits, corporate bonds, gold, real estate, stocks and mutual funds. It is sensible to assume that a typical investor wants not only good return on investment but also to minimize risk. Mutual funds offer an opening to an investor with feasibly an optimal investment opportunity to invest in diversified and professionally managed basket of securities relatively at a low cost. In this context the present study was proposed with an objective of finding the investment decision making among mutual fund investors. Coimbatore city was purposively selected due to the presence of large number of asset management companies (AMCs) with different financial instruments and huge investors. Among 25 AMCs in Coimbatore city six were selected based on business potential. Ten samples were drawn from each AMC that made a total sample size of 60. Primary data were collected using well-structured interview schedule. Percentage analysis was used to analyze the socio-economic profile of respondents and chi-square test to analyze the investment decision making behavior of mutual fund investors. Results of the study indicated that majority of the investors were males in the age group of 26 to 40 years, graduates, married, doing private job and in the income group of Rs 2.5 to 5 lakh per annum. Chi-square analysis revealed that there was a significant relationship between occupation and type of mutual fund scheme opted by the investors. There was a significant association between occupation and objective of investment decision made. It was inferred that investors had been expecting their return from mutual fund investments according to their level of risk observed.

Keywords: Mutual fund; investment decision; asset management company; financial sector

INTRODUCTION

The growth and development of an economy depends on its financial sector in many means. Financial sector runs with the utility of capital market where the money collected from the general public is invested in capital market instruments like shares, debentures and other securities. Every investor would like to elect a good option of investment rewarding his criteria of investment and return. In simple terms mutual fund is a money-managing institution that pools the money.

Mutual funds thus can play a key role in mobilization of capitals and their effectual allocation. These funds are seen to have played a significant role in financial intermediation, development of capital markets and advancement of financial sector as a whole. Thus an investigation into performance of mutual funds is of substantial importance.

There are totally 44 asset management companies (AMCs) in India. Thirty five of these AMCs are part of the private segment. All the AMCs are part of association of mutual funds in India (AMFI) (www.amfi.com). According to industry professionals as on 30 January 2019 the mutual fund industry in India had a huge growth potential and managed assets worth Rs 23,37,134 crore (www.fincash.com). The assets under management (AUM) of the industry have grown by six-fold in a period of 10 years and this growth is expected to continue in the coming years (www.bankbazaar.com).

Investor's behavior may change from time to time even if the other variables influencing the behavior are held constant. On the same lines certain models to identify the financial behavior to the extent of the availability of the explanatory variables can be developed. Such models can help to understand the 'why' and 'how'. Aspect of investor behavior can have managerial implications for policy makers.

Identifying the relationship with socio-economic variables and investment behavior can help in designing the mutual fund schemes by the companies. This can facilitate the investment product designers to design mutual fund products which cater to the investor's needs. Hence the present study was proposed with the objective of evaluating the investment decisions of mutual fund investors and their risk patterns along with their socio-economic profile in Coimbatore city of Tamil Nadu.

Sailaja (2018) reported that various respondents didn't know about the shared store items and the sort of common reserve plans and the hazard related with shared store items. So mutual reserve organizations must give finish data of different items to their financial specialists.

If the organization enhances the classifications of venture then client will demonstrate the enthusiasm to contribute more.

Geetha and Vimala (2014) investigated the impact of demographic variables on the investment decisions in Chennai, India. They concluded that the changes in demographic factors such as age, income, education and occupation had an influence on the investment avenue preference.

Sharma (2015) reported that the main motive behind investment in mutual funds is good return, safety and tax benefit. The research also suggested that the growth schemes and balanced schemes are most preferred in comparison to other open- and close-ended schemes.

Saha and Dey (2011) identified that mutual fund market potential can be tapped by closely scrutinizing investors behavior to identify their expectations and design products to suit their risk appetite and return expectations.

METHODOLOGY

To fulfill the objectives of the study Coimbatore city was purposively selected since there were more than 25 asset management companies (AMCs) playing a major role in financial investments and more number of investors invested in mutual funds. Study was conducted in 2018-19. Purposive sampling method was used to collect the information from the retail investors who invested in mutual funds of different AMCs. The data were collected using well-structured interview schedule. In order to draw meaningful conclusion percentage analysis was used to analyze the socio-economic profile of respondents and chi-square test was used to analyze the investment decision. The study was undertaken to know about the investment pattern of mutual fund investors with their socio-economic profile and risk-return level of mutual fund.

Percentage analysis

The percentage analysis was carried out to analyse the socio-economic profile of respondents like age, gender, educational status, occupation, income level and investors' preference in different kinds of investments etc.

$$\text{Percentage analysis} = \frac{\text{Number of respondents}}{\text{Total sample size}} \times 100$$

Chi-square test

In this study chi-square test was used to analyse the association between occupation and types of mutual fund, occupation with objective of investment and expected return with risk observed that might influence the investment decision of the sample investors.

The formula used for the chi-square test is presented below:

$$\chi^2 = \sum \frac{(O-E)^2}{E}$$

where O= Observed frequency, E= Expected frequency

$$\text{Expected frequency of any cell} = \frac{\text{Corresponding row total x Corresponding column total}}{\text{Grand total}}$$

It followed a chi-square distribution with (r-1) (c-1) degrees of freedom where 'c' means number of columns and 'r' means number of rows. The test of significance was carried out at five per cent level of probability. If the calculated value was greater than the tabulated value it was concluded that there was a significant association between the attributes.

Occupation of mutual fund investor and type of mutual fund scheme

H_0: There is no relationship between occupation and type of mutual fund scheme

H_1: There is a relationship between occupation and type of mutual fund scheme

Occupation of mutual fund investor and objective of investment

H_0: There is no relationship between occupation and objective of investment

H_2: There is a relationship between occupation and objective of investment

Observed risk and expected return from mutual fund investment

H_0: There is no relationship between risk and expected return

H_3: There is a relationship between risk and expected return

RESULTS and DISCUSSION

The collected data were analysed using percentage analysis and chi-square test.

Demographic profile of the respondents

The details on demographic profile including gender, age, educational qualification, marital status, occupation and annual income were collected and analysed by using percentage analysis (Table 1).

From the data it could be inferred that majority (55%) of the mutual fund investors were males and 45 per cent were females. Majority (62%) of them were in the age group of 26-40 years followed by 18-25 years (25%). All the mutual fund investors were literate and 95 per cent of them were graduates or post graduates. Majority of the respondents were private employees (57%). Forty three per cent were earning Rs 2.5-5 lakh per annum followed by 42 per cent earning Rs <2.5 lakh annually. It depicts that male, young people between the age group of 26 to 40 years, graduates, earning up to Rs 5 lakh per annum in private organizations were involved in mutual fund investments. Rao (2011) also reported that the mutual fund investors awareness and adoption of different mutual fund schemes were related to their educational level.

Occupation and type of mutual fund scheme invested in

The occupation of mutual fund investors was categorized into six types viz private job, government job, housewife, self-employed, student and currently not employed. Type of mutual fund scheme was also classified into six viz growth scheme, tax saving scheme, balanced scheme, money market scheme, income scheme and index scheme. Chi-square analysis was used to find out the association between occupation and type of mutual fund scheme invested (Table 2).

The chi-square value for investment in type of mutual fund scheme with the occupation was 93.267 and thus there was a significant association between occupation and type of mutual fund scheme invested; both were dependent on each other. It shows that investors had been choosing their mutual fund schemes according to their occupational status. Hence there was a significant relationship between occupation and type of mutual fund scheme. Sharma (2015) also concluded that the growth and income schemes were most preferred in comparison to other types of mutual fund schemes.

Occupation and objective of investment

The types of investment purposes were classified into six viz earn high return, tax exemption, provide for retirement, overcome uncertainties, children's education and purchase of assets. Chi-square analysis was used to find out the significant relationship between occupation and purpose of mutual fund investment (Table 3).

The chi-square value for purpose of investment with the occupation was 121.50 which showed that there was a significant association between occupation and type of mutual fund scheme invested. So both were dependent on each other. It could be inferred that investors had been choosing their investment objectives according to their occupational status. This proved that there was a significant relationship between occupation and objective of investment.

Table 1. Demographic profile of sample respondents (n= 60)

Component	Category	Respondents	
		Number	Percentage
Gender	Male	33	55
	Female	27	45
Age (years)	18–25	15	25
	26–40	37	62
	41–55	05	8
	56–60	03	5
Educational qualification	PUC/HSC	3	5
	Graduate	30	50
	Post graduate and above	27	45
Marital status	Married	38	63
	Unmarried	22	37
Occupation	Private job	34	57
	Government job	5	8
	Housewife	3	5
	Self-employed	9	15
	Student	7	12
	Currently not employed	2	3
Annual income (lakh rupees)	<2.5	25	42
	2.5–5	26	43
	>5	9	15

Table 2. Occupation vs type of mutual fund scheme of sample respondents (n= 60)

Occupation	Type of mutual fund scheme						Total
	Growth scheme	Tax saving scheme	Balanced scheme	Money market scheme	Income scheme	Index scheme	
Private job	28	2	0	0	3	1	34
Government job	1	4	0	0	0	0	5
Housewife	0	0	1	0	1	1	3
Self-employed	1	1	2	4	0	1	9
Student	1	0	0	0	3	3	7
Currently not employed	0	0	0	1	1	0	2
Total	31	7	3	5	8	6	60

χ^2 value= 93.267, df= 25; Sig= 0.000

Table 3. Occupation vs purpose of investment of sample respondents (n= 60)

Occupation	Purpose of investment						Total
	Earning high return	Tax exemption	Provision for retirement	Overcome uncertainties	Children's education	Purchasing assets	
Private employee	29	3	0	0	0	2	34
Government employee	0	1	0	1	0	3	5
Housewife	0	0	0	0	0	3	3
Self employed	1	0	1	7	0	0	9
Student	2	0	0	0	5	0	7
Currently not employed	1	0	0	1	0	0	2
Total	33	4	1	9	5	8	60

χ^2 value= 121.50, df= 25, Sig= 0.000

Observed risk and expected return from mutual fund investments

Expected return from mutual fund investments was categorized into regular income, good and steady return, high short term return and maximum return. Chi-square analysis was used to find out the significant association between observed risk and expected return from mutual fund investments and the data are given in Table 4.

The chi-square value for expected return from mutual fund with observed risk in mutual fund investment was 44.305 and it could be concluded that there was a significant association between observed risk and expected return from mutual fund investments. Hence both were dependent on each other. The investors expected their return from mutual fund investments according to their level of risk observed. Hence there was a significant relation between risk observed and expected return from mutual fund investments. In their study Saha and Dey (2011) also suggested that mutual fund market potential could be tapped by closely scrutinizing investor behavior to identify the expectations and design products to suit their risk appetite and return expectations.

The study showed that the male, young people between the age of 26 to 40 years, graduates, private employees, earning between Rs 2.5 to 5 lakhs per annum invested more in mutual funds. Occupation influenced the type of mutual fund scheme invested and purpose of the investment scheme. The return expected from the mutual fund was highly associated with the level of risk observed while investing in mutual funds. Results would help the investment product designers to design mutual fund products which can cater to the investor's needs. Reddy and Reddy (2013) also suggested that mutual fund companies should allow the investors to participate in giving information regarding the design of the products and to reveal their attitude and preferences towards the investment.

Table 4. Observed risk vs expected return of sample respondents (n= 60)

Risk	Expected return				Total
	Regular income	Good and steady return	High short term return	Maximum return	
Extremely risk averse	4	2	1	0	7
Low	1	11	1	1	14
Medium	1	3	19	8	31
High	1	1	3	3	8
Total	7	17	24	12	60

χ^2 value= 44.305, df= 9, Sig= 0.000

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