

# A Study on Investor's Investment behaviour towards Mutual Funds in Chennai City

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## Abstract

Mutual fund is a trust that pools the saving of a number of investors who share a common financial goal. The money is collected and invested in capital markets such as shares, debentures, and other financial securities. Thus the mutual fund is the most suitable investment for the investors and provides opportunity to invest in a diversified professionally managed of securities at low cost. The structure of mutual fund is determined by SEBI regulations and the four parties are sponsor, board of trustees, an asset management company, and a custodian.

The objectives of the study were to know the investors perception towards mutual fund; to rank the mutual funds based on investors preference; to study the factors influencing investment decision in mutual fund; to identify the reasons for early redemption of mutual fund schemes; to study the problems faced by investors in mutual fund. For conducting study mutual fund investors has chose as the target audience. The data was collected from both primary and secondary sources. Primary data was collected from 104 respondents through a well structured questionnaire with closed ended questions. The secondary data had been collected from books, journals and internet. The study was descriptive in nature with convenience sampling method employed. A well-structured questionnaire was distributed to the respondents. EXCEL and SPSS were the statistical tools used to analyze the data and the findings were presented through graphs and charts with interpretations. Reveals 39 percent of the respondents invest in monthly (SIP), reveals 30 percent of them five or more than five years of investing in mutual fund schemes, reveals 62 percent of the respondents prefer the equity fund, reveals 69 percent of the respondents prefer open ended schemes.

**Keywords:** Mutual fund, investors, investment, capital market, SEBI

## Article History

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## Introduction of mutual fund

Mutual fund is a trust that pools the saving of a number of investors who share a common financial goal. The money is collected and invested in capital market such as shares, debentures, and other securities. Thus the mutual fund is the most suitable investment for the investors and it provides opportunity to invest in a diversified professionally managed of securities at low cost. A mutual fund company is required to

be registered with securities and exchange board of India (SEBI), which regulates securities market before it collect funds from the public. Asset management companies (AMC) normally come out with a number of schemes and with different investment objectives from a time to time.

## The mutual fund industry in India:

The mutual fund industry in India was started in 1963 with formation of unit trust of India (UTI) at initiative of reserve bank of India (RBI) and government of India. The objective was to attract small investors and invest in mutual fund. Since

the history of mutual funds in India can be broadly divided into six phases.

- Phase I (1964-87): Growth of UTI
- Phase II (1987-93): Entry of public sector fund
- Phase III (1993-96): Emergence of private funds
- Phase IV (1996-99): Growth and SEBI regulations
- Phase V (1999-2004): Emergence of a large and uniform industry
- Phase VI (from 2004 onwards): Consolidation and growth

### Structure of mutual funds in India

In India, the mutual fund industry is highly regulated with a view to imparting operational transparency and protecting the investors interest. The structure of mutual fund is determined by SEBI regulations and it operates four tier structure. The four parties that are required to be involved are:

- A sponsor
- Board of trustee
- An asset management company
- A custodian

### Types of mutual funds

#### Based on structure

##### Open - Ended mutual fund

It is a common type mutual fund scheme and its trade unit is net asset value (NAV). In open ended scheme the investors can enter anytime and make pay out.

##### Close - Ended mutual fund

In close ended schemes investors cannot enter nor exit before the schemes ends. The prices based on demand and supply of investment option.

##### Interval funds

It is combination of open ended and close ended schemes

#### Based on asset class

##### Equity funds

In mutual funds majority of investment are equity stock of the company. Equity funds are considered to be risky but they tend to give higher return in long term.

##### Debt funds

Debt funds which usually invest in government securities, corporate bonds, etc Risk is less while comparing in equity funds

##### Money market funds

##### Balanced or hybrid funds

#### Based on investment objectives

##### Growth funds

##### Income funds

##### Liquid funds

##### Tax saving funds or ELSS

##### Pension funds

### NEED FOR THE STUDY

The main purpose of doing this project is to know about mutual fund and its functioning. This helps to know in details about mutual fund industry right from its inception stage, growth and future prospects. It also helps in understanding different schemes of mutual funds as the study depends upon prominent funds in India and their schemes like equity, income, balance as well as the returns associated with those schemes. The project study was done to ascertain the asset allocation, entry load, exit load, associated with the mutual funds. Ultimately this would help in understanding the benefits of mutual funds to investors.

#### The objectives of the study are:

1. To study the investors perception towards mutual fund
2. To rank the mutual funds based on investors preference
3. To study the factors influencing investment decision in mutual fund
4. To identify the reasons for early redemption of mutual fund schemes
5. To study the problems faced by investors in mutual fund

**REVIEW OF LITERATURE**

- **Monty kanodiaKirankhinchi (2017)** study done by analysis of performance and comparison of mutual funds in India, in terms of growth size and volume has to be provided to build up a strong study on risk involved and the substantial value of returns incurred through it.
- **Reepu (2017)** The present paper is an attempt to know about Mutual Fund, it's various schemes and analyse the different risk factors involved. Mutual Fund allows investor to pool their money with which the investment manager would instigate investments and hence attempt to attain

results as per the investor's objectives. Diversification and SIP allows investor to manage the risks. Sponsor, Trust, Trustee, Transfer Agent, Asset Management Company etc. forms key element Mutual Fund structure. Moreover, with the investment in Mutual Fund, the investor can avail tax benefits too.

**RESEARCH METHODOLOGY**

The study was exploratory in nature with survey method used to complete the study. The study was conducted during the period. An account of the nature of data used sampling design and frame work of statistical analysis is given below. The study uses both primary and secondary data.

**CHI SQUARE**

The chi square ( $\chi^2$ ) is used to test the statistical significant of the observed association in a cross tabulation. It assists in determining whether a statistical significant association exists between the two variables. The chi square statistical significance of the observed association.

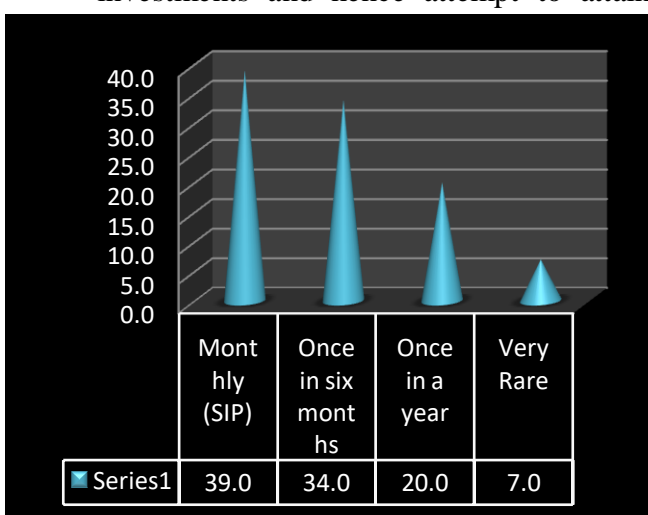


Figure 1 Investment patterns

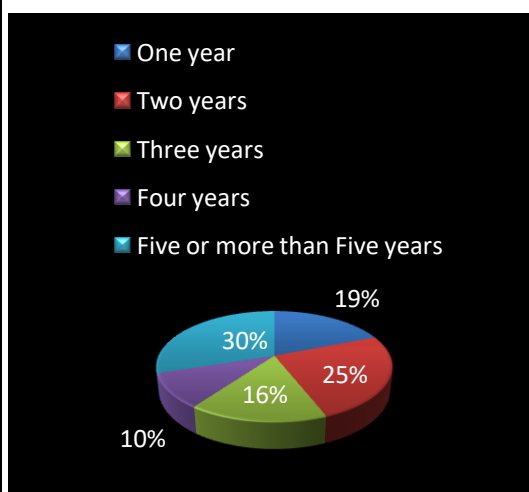


Figure 2 Years of investing mutual funds

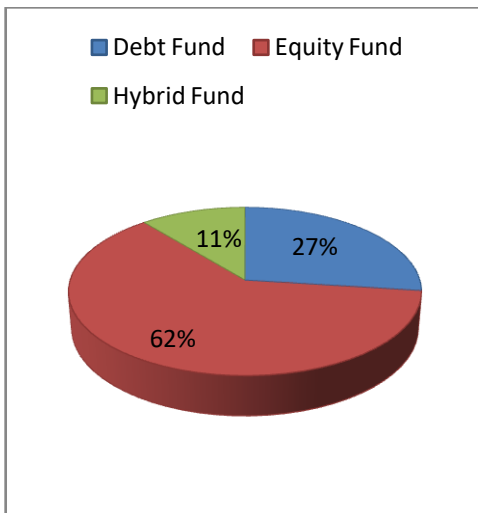


Figure 3 Preference of investment

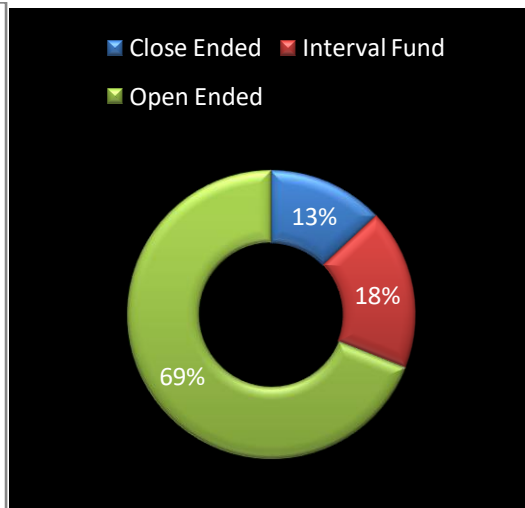


Figure 4 Preference of schemes

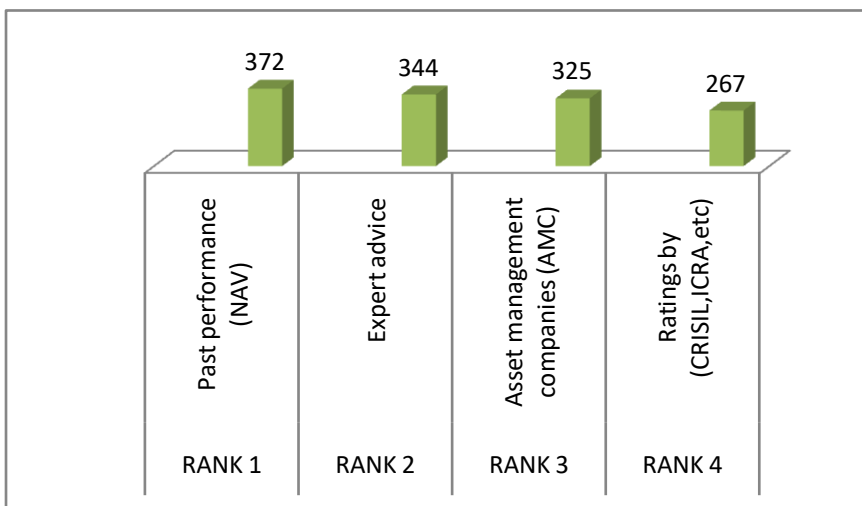


Figure 5 Investor's preference in selecting mutual funds

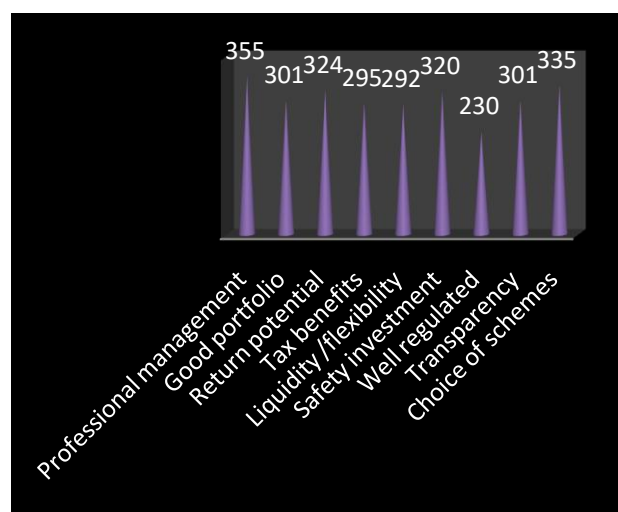


Figure 6 Factors Influencing Investment Decision In Mutual Funds

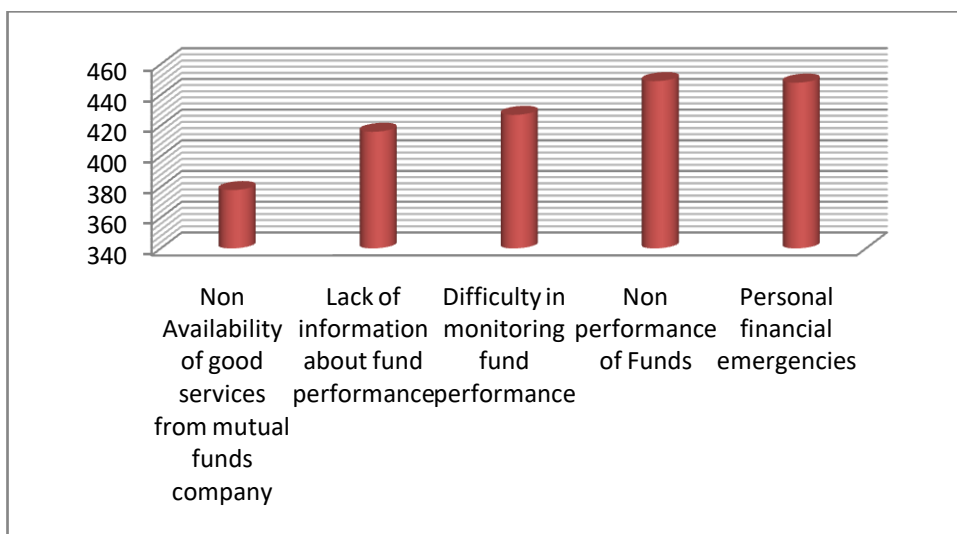


Figure 7 Reasons For Early Redemption

**RELATIONSHIP BETWEEN DEMOGRAPHICS AND INVESTORS INVESTMENT BEHAVIOUR TOWARDS MUTUAL FUNDS IN CHENNAI CITY:**

A non-parametric chi-square test was performed on the summarized cross tabulation to determine if there is an association between selected demographics and investor’s investment behaviour towards mutual fund.

**Table 1 ASSOCIATION BETWEEN AGE AND YEARS OF INVESTING IN MUTUAL FUND SCHEMES**

YEARS OF INVESTING MUTUAL FUNDS \ AGE	One year	Two years	Three years	Four years	Five or more than five years	Total	Chi-square value	Significance value
BELOW 25	9	11	4	0	1	25		
	(36)	(44)	(16)	(0)	(4)	(100)		
25 – 35	6	1	4	1	4	16		
	(38)	(6)	(25)	(6)	(25)	(100)		
36 – 45	2	9	3	4	8	26		
	(8)	(35)	(12)	(15)	(31)	(100)		

46 – 55	2	3	2	2	7	16	35.779	.003*
	(13)	(19)	(12)	(12)	(44)	(100)		
ABOVE 55	1	2	4	3	11	21		
	(5)	(10)	(19)	(14)	(52)	(100)		
TOTAL	20	26	17	10	31	104		
	(19)	(25)	(16)	(10)	(30)	(100)		

**Source:** Primary data;\* denotes 5 percent level of significance

Figure in parenthesis ( ) represent row wise percentage.

As observation shows that the chi-square test on the summarized cross tabulation reveals that there is a association between age and years of investing in mutual fund statistically significant relationship at 5% level.(chi-square value = 35.779and p = .003). The association shows that both age highly prefer with years of investing in mutual fund like five or more than five years , as their best investment pattern followed by one year ,two years, three years, and four years .

## FINDINGS

### Percentage of savings from total income

majority of respondents 14% have invested below 10% of their annual saving in mutual fund , 44% of the respondents have invested between 10% to 20% ,22% of the respondents have invested between 21% to 30 % and 20% of the respondents have invested above 30 %.

### INVESTMENT PATTERN

39 percent of the respondents invest in monthly (SIP), 34 percent of the respondents invest once

in six months , 20 percent of respondents invest once in a year, and only 7 percent of the respondents invest in very rare investment pattern.

### Years of investing in mutual fund schemes

19 % of the respondents have been investing in mutual fund for one year, 25percent of them for two years, 16 percent of them for three years,10 percent of them for four years and 30 percent of them five or more than five years.

### PERCEPTION OF INVESTORS TOWARDS MUTUAL FUNDS

62 percent of the respondents prefer the equity fund, 27 percent of the respondents prefer the debt fund, and 11 percent of the respondents prefer hybrid fund.

### PREFERENCE OF SCHEMES

69 percent of the respondents prefer open ended schemes, 13 percent of the respondents prefer close ended schemes and 18 percent of the respondents prefer interval fund schemes.

### Investor preferences in selecting mutual funds

most preferred sources of information is from Past Performance of the mutual fund scheme, followed by expert advice, Asset management companies (AMC) ranked third and ratings by credit rating

agencies (CRISIL,ICRA,etc) have least preference in selecting the feasible scheme.

### **Factors Influencing investment decision in Mutual funds**

The most important factor professional management (WS =355), choice of schemes (WS =335), Return Potential (WS =324), Safety Investment (WS =320), Transparency (WS =301), Good Portfolio (WS =301), Tax Benefits (WS =295), Liquidity/ Flexibility (WS =292), Well Regulated (WS =230).

### **Reasons for early redemption**

The most important reason non- performance of funds (WS =449), personal financial emergencies (WS =448), difficulty in monitoring fund performance (WS =427), lack of information about fund performance (WS =416), non-availability of good services from mutual funds company (WS =378).

### **Problems faced by investors**

The most important reason no knowledge about how to invest/where to invest (WS =453), no safety for funds invested (WS =437), returns are not guaranteed (WS =431), risk investment instrument (WS = 414).

### **Suggestions**

Mutual fund investors should choose the right mutual fund schemes which suits their requirements. The offer document of the mutual fund scheme be read thoroughly before investing mutual funds. Investors education is important factors for investors. The company should provide annual report to known about the financial position

### **Conclusion**

The study has found today a lot of investment opportunities available to the investors in a financial market and help the investors to protect

the small and big investment. The study also points that services are costly the mutual fund company should formulate the strategies in such a way helps to fulfilling the investors expectations. The main task of mutual fund company is to convert the potential investors into the reality investors and new schemes should been launched from a time to time.

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