

# IDENTIFICATION OF FACTORS INFLUENCING INVESTORS' PERCEPTION TOWARDS INVESTMENT IN MUTUAL FUND

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## ABSTRACT

*Mutual funds have opened new vistas to millions of investors by virtually taking investment to their doorstep. In India, an investor generally goes for such kind of information, which do not provide hedge against inflation and often have negative real returns. He finds himself to be an odd man out in the investment game. Mutual funds have come, as a much needed help to these investors. Thus the success of MFs is essentially the result of the combined efforts of competent fund managers and alert investors. Therefore, in this current scenario it is very important to identify needs of mutual funds investors, their preference for mutual funds schemes and its performance evaluation. In this research paper, researcher has an objective to know perception of investors towards investment in mutual funds. The survey is undertaken of on 100 educated investors of Delhi/NCR and the major findings revealed that the major factors that influence buying behavior of mutual funds investors are fund characteristics, credibility, convenience, success factors, and fund family. The study will be immensely useful to the AMC's, Brokers, distributors and to the other potential investors and last but not least to academician as well.*

**Keywords:** Brokers, Buying Behavior, Investment, Investors perception, Mutual funds.

## INTRODUCTION

From its inception the growth of mutual funds is very slow and it took really long years to evolve the modern day mutual funds. Mutual Funds emerged for the first time in Netherlands in the 18th century and then got introduced to Switzerland, Scotland and then to United States in the 19th century. The main motive behind mutual fund investments is to deliver a form of diversified investment solution. Over the years the idea developed and people received more and more choices of diversified investment portfolio through the mutual funds. In India, the mutual fund concept emerged in 1960. The credit goes to UTI for introducing the first mutual fund in India. Monetary Fund's benefited a lot from the mutual funds. Earlier investors used to invest directly in the stock market and many times suffered from loss due to wrong speculation. But with the coming up of mutual funds, which were handled by efficient fund managers, the investment risks were lowered by a great extent. The diversified investment structure of mutual funds and diversified risk contributed tremendously in the growth of mutual funds. With the passage of time many new mutual funds emerged. Not only this, the methods and ways of selling these funds also changed with time.

But, the growth of mutual funds has not stopped. It is continuing to evolve to a better future, where the investors will get newer opportunities. In this era of globalization and competition, the success of an industry is determined by the market performance of its stock. The investors too like to invest only in the stock of those companies from which they can get maximum gains. In early years of growth of mutual fund industry, investors were

available only with few investment avenues to invest their money. But with the passage of time a lot of opportunities are available to the investors for investing their money in different investment channels. One such channel is to invest in mutual funds along with effective financial management. Mutual funds have seen a tremendous growth in the last few years. This is the result of combined efforts of the brokerage houses and the fund managers who come to one's rescue by educating the investors and making them aware of the mutual fund schemes by different modes of promotion.

## NEED OF STUDY

The present study is proposed to study and identify the factors which influence the behavior of investors in selection of Mutual funds. Various studies have been conducted from time to time on analysis of investor's behavior. The studies gave a mixed outcome regarding investor's perception towards mutual funds. In view of this, there is an ample scope for a new study to analyze and study the investor's latest behavior and perception. The revelations from survey of literature make it evident that investors are improving in awareness and investment choice making and are looking for information for rational decision making. A study on this aspect is necessary to update the knowledge.

## SCOPE

The purpose of the study is to find out the perception of investors towards mutual funds as an investment avenue. Data has been collected from 100 investors only from Delhi/NCR Region.

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## LITERATURE REVIEW

The existing behavioural finance studies are very few and little information is available about investor perceptions, preferences, attitudes and behaviour. All efforts in this direction are fragmented. In this context, the selection criteria that is relatively untouched in vast amount of mutual fund literature is the role played by fund sponsor, fund qualities, factors influencing in selecting mutual fund and specific scheme etc. Although research is limited there are few evidences on the relative importance of the various perception affecting factors. Some related evidences have been summarized below.

Saini, Anjum & Saini (2011) in their research study analyzed the mutual fund investments in relation to investor's behavior. Investors' opinion and perception has been studied relating to various issues like type of mutual fund scheme, main objective behind investing in mutual fund scheme, role of financial advisors and brokers, investors' opinion relating to factors that attract them to invest in mutual funds, sources of information, deficiencies in the services provided by the mutual fund managers, challenges before the Indian mutual fund industry etc. Another study related to this but within different dimension has been done by Sharma (2012). In this study researcher attempts to investigate the reasons responsible for lesser recognition of mutual fund as a prime investment option. It examines the investor's perception with reference to distinct features provided by mutual fund companies to attract them for investing in specific funds/schemes. The paper explored three factors named as fund/scheme related attributes, monetary benefits and sponsor's related attributes which may be offered to investors for securing their patronage. The results are expected to provide fruitful insight to mutual fund companies for tailoring their offers suitable to cater the needs and expectations of Indian investors. In this regard, an extensive study by Goel, Sharma & Mani (2012) needs special mention. As in this, researcher has identified the performance indicators of mutual funds and to analyse the impact of these performance indicators on mutual fund's performance. The study also draws attention to the contradictions in the literature in the area of examining these performance indicators which have been identified as per the available literature as performance persistence, turnover, expense ratio, asset size, load fee, investment style, mutual fund managers and the ownership style of the mutual funds. This paper elaborates the impact of these performance indicators. It has been found that each performance indicator affect the return of the mutual fund independently. Another aspect to this has been explored by Radhnamani (2013) and Pandey & Kishore (2013). As they researched to understand the attitude, awareness and preferences of mutual fund investors. Most of the respondents prefer systematic investment plans and got their source of information primarily from banks and financial advisors. Investors preferred mutual funds mainly for professional fund management and better returns and assessed funds mainly through Net Asset Values and past performance. Investor perception has also been worked upon by various researchers.

As Kaur, Batra & Anjum (2013) attempted to know the investors perception towards selection of mutual funds. 200 investors have been taken for survey. The findings of the study revealed that investor consider mutual funds as flexible investment option; they considered asset management companies as efficient and they think investment in stock market is risky and complex. The study has suggested that investors should consider long historical data, size and age of the fund, fund charges and some measure to analysis the funds for investments. Working on the similar lines Agrawal & Jain (2013) attempted to study mainly the investment avenue preferred by the investors of Mathura, and have tried to analyze the investor's preference towards investment in mutual funds when other investment avenues are also available in the market. The present study analyses the mutual fund investments in relation to investor's behavior. Investors' opinion and perception has been studied relating to various issues like type of mutual fund scheme, main objective behind investing in mutual fund scheme, role of financial advisors and brokers, investors' opinion relating to factors that attract them to invest in mutual funds, sources of information, deficiencies in the services provided by the mutual fund managers, Mutual fund, investors' perception, investors' behavior. Reddy & Sudhakar (2016) also analyzed the perception of individual investors towards the performance of mutual funds. The study aims at finding out the perception of the small and household investors towards investment in mutual funds in twin cities of Hyderabad and Secunderabad. The necessary data are collected by administering a structured questionnaire to 200 randomly selected investors based on simple random sampling method. Mane (2016) also explored the area of customer perception with regard to mutual funds that is the schemes they prefer, the plans they are opting, the reasons behind such selections and also this research dealt with different investment options, which people prefer along with and apart from mutual funds. The findings of this study revealed that most of the people are hesitant in going for new age investments like mutual funds and prefer to avert risks by investing in less riskier investment options like recurring deposits and so. Sharma & Agrawal (2015) examined the preference of mutual funds investors and performance evaluation of the preferred schemes by the investors. The survey is undertaken of 50 educated investors of Udaipur city and the major findings reveal the major factors that influence buying behavior mutual funds investors, sources that investor rely more while making investment and preferable mode to invest in mutual funds market. Similar work was carried on by Goel & Khatik (2017) regarding investors' awareness and preference towards Mutual Funds as an Investment option. Primary data using judgment sampling through questionnaire method as well as secondary data from wide range of literature from various journal publications had been utilized. The findings shows that majority of investors have heard about mutual funds but still a important fraction of them have not initiated to investment because of having lacking in full knowledge of mutual funds. The data further reveals that majority of respondents are showing preference towards

investment in mutual funds in near future as to get better returns. The paper suggests that companies and government should come forward in getting investors more literate and train their advisors in a way so to build more confidence among investors for taking initiative to invest in mutual funds. Studies related to different demographic dimensions have also been conducted by various authors. Murugan (2012) in his study analyzed the impact of different demographic variables on the perception of investors towards mutual funds. To this end, 300 respondents of Chittoor region, having different demographic profiles were surveyed. The study reveals that the one-third of respondents has still not formed any attitude towards mutual fund investments. The main reason behind this has been observed to be the lack of awareness of investors about the concept and working of the mutual funds. Singh (2012) in his research studied the impact of various demographic factors on investors' attitude towards mutual fund have been studied. For measuring various phenomena and analyzing the collected data effectively and efficiently for drawing sound conclusions, Chi-square test has been used and for analyzing the various factors responsible for investment in mutual funds, ranking was done on the basis of weighted scores and scoring was also done on the basis of scale.

## OBJECTIVES

- (a) To analyze the investors awareness and perception regarding investment in mutual funds.
- (b) To identify the factors affecting perception of investors towards mutual funds.

## RESEARCH METHODOLOGY

The methodology includes data and sources of data, sample size, area of framework of analysis. Primary data have been collected from 100 respondents through a structured questionnaire covering different groups of investors geographically, demographic basis etc. in Delhi/NCR. As the sample was selected on the basis of prefixed characteristics like only mutual funds investors have been selected for data collection purpose and considering the objectives of the study, purposive sampling technique has been applied for sample selection. Reliability analysis is determined by obtaining the proportion of systematic variation in a scale, which has been done by determining the association between the scores obtained from different administrations of the scale. Cronbach's alpha is the most common measure of internal consistency ("reliability"). Cronbach alpha of total scale came out to be 0.798. This value of reliability statistics shows that all the items of the scale are reliable and can be tested in different settings.

## DATA ANALYSIS AND INTERPRETATION

Demographic analysis allows measuring the dimensions and dynamics of sample respondents. These estimates are often considered reliable standards for judging the accuracy of the population information gathered during the period of research. Population composition is also a very important part of research, especially in context of factor analysis. Information ranging back hundreds of years is not always worthwhile, because the numbers of people for which data are available may not provide the information that is important. Lack of information on the original data-collection procedures may prevent accurate evaluation of data quality. To avoid any data analysis problems a detailed demographic analysis has been done. Data has been collected for 100 respondents. Table 1 shows the classification on various basis of On the basis of age, there were 50 respondents who belong to age group of 20-30 where as 35 respondents belongs to the age group of 40-60 and 15 respondents were in the age category of above 60 years. On the basis of gender there were 58 males and 42 females. Classification of educational background shows that there were 15 professionals where as 45 and 40 respondents were graduates and post graduates respectively. On the basis of occupation 21 respondents were government employees, 43 were private sector employees, 19 were professionals and 12 respondents run their business. On the basis of monthly income 22 respondents had income below 20,000, 50 respondents had income between 20,000-40,000 where as 28 respondents had income between 40,000 & above. On the basis of type of investor 27 respondents were hereditary investors and 73 were new generation investors. Classification on the basis of category of investors shows that 80 respondents were long-term investors where as 11 & 9 respondents were day trader and both respectively. On the basis of experience in investing 33 respondents had experience less than 3 years, 42 respondents had 3-5 years of investing experience and rest 25 respondents had 5 years & above experience in investing. On the basis of approximate size of investment 40 respondents have invested below Rs 1 lakh, 37 respondents have invested between Rs 1 lakh – 2 lakhs and 25 respondents have invested in between 2 lakhs & above. On the basis of source of investment 92 respondents had invested their own savings, 5 respondents had invested borrowed funds & 3 respondents were in the category of both. Classification on the basis of money ever invested in mutual fund shows that 83 respondents have invested in mutual funds where as 17 respondents have not invested ever in mutual funds. On the basis of recommend investing in mutual fund 73 respondents have recommended whereas and 27 respondents have not recommended.

Exploratory factor analysis is a statistical method used to uncover the underlying structure of a relatively large set of variables.

**Table 1: Demographic Description**

<b>Basis</b>	<b>Category</b>	<b>No. of Respondents</b>
Age	20-30	50
	40-60	35
	Above 60	15
Gender	Male	58
	Female	42
Educational Background	Professional	15
	Graduation	45
	Post Graduation	40
Occupation	Government employees	21
	Private Sector employees	43
	Professional	19
	Business	17
Monthly Income	Below Rs 20,000	22
	Rs 20,000 – Rs 40,000	50
	Rs 40,000 & above	28
Type of investor	Hereditary Investor	27
	New Generation Investor	73
Category of Investor	Long - Term Investor	80
	Day Trader	11
	Both	9
Experience in Investing	Less than 3 years	33
	3-5 years	42
	5 years & above	25
Approximate Size of Investment as on Date	Below Rs. 1 lakh	40
	Rs. 1 lakh - Rs. 2 lakhs	37
	Rs. 2 lakhs & above	25
Source of Investment	Own savings	92
	Borrowings	5
	Both	3
Money Invested in Mutual Fund Ever	Yes	63
	No	37
Recommend Investing in Mutual Funds	Yes	73
	No	27

This technique has been used as the researcher had no a priori hypothesis about factors or patterns of measured variables. Measured variables are any one of several attributes of people that may be observed and measured. Exploratory factor analysis comprises of several techniques. Data analysis for this research

work has been done on the basis of all the included techniques. Primarily, Kaiser-Meyer-Olkin (KMO) Test has been applied. It is a measure to test suitability of factor analysis technique on the basis of sample data. KMO values less than 0.6 indicates that the sampling is not adequate and remedial action should

be taken. Next is communality. The sum of the squared factor loadings for all factors for a given variable (row) is the variance in that variable accounted for by all the factors, and this is called communality. This indicates the amount of variance in each variable that is accounted for. Third step is rotation. Rotation methods are either orthogonal or oblique. Simply put, orthogonal rotation methods assume that the factors in the analysis are uncorrelated. In statistics, varimax rotation is used to simplify the expression of a particular sub-space in terms of just a few major items each. Total variance explained gives the ratio, expressed as a percentage, of the variance accounted for by each component to the total variance in all of the variables. The rotated component matrix sometimes referred to as the loadings, which is the key output of principal components analysis. It contains estimates of the correlations between each of the variables and the estimated components.

Table 2 shows the value of KMO is 0.693 which shows sample is adequate to run factor analysis technique. The data yields a value for the chi squared statistic of 736.121 and significance value of 0.00 which shows that the values are independent and there is multicollinearity between the values. Higher communalities are better. The values of communality are all more than 0.5. If communality for a particular variable is low (between 0.0-0.4) then that variable struggled to load significantly on any factor. Thus, in this study all the variables are significantly loaded on factors.

**Table 2: KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	0.693
Approx. Chi-Square	736.121
Bartlett's Test of Sphericitydf	378
Significance at	0.000

Varimax rotation method has been used. It redistributes the variance so that the factor loading pattern and percentage of variance of the factors are different. Eigen values are used to select the number of factors. In table 3 out of eleven factors five factors have shown Eigen value more than 1. Value greater than 1 can be extracted from the principle component to extract solution. Total variance explained by these five factors is 76.328 which is reasonably a good variance explained as it should be more than 50 and also only 23.672 percent information has been lost during the process of rotation.

From rotated component matrix attable 4 it can be seen that the first factor has 5 variables with a factor loading of more than 0.5, where as the second and the third there are 4 and 3 variables respectively with a factor loading is also more than 0.5. The fourth and fifth factor has 3 variables each with a factor loading of more than 0.5.

A collection of total 19 variables have been clubbed into five factors on the basis of their inter-item correlation. Table 5 shows all the identified factors and its underlying variables. This also shows that within the factor all the variables are homogeneous and all the factors are heterogeneous.

## FINDINGS

Findings of the study are:

- (1) 73% of respondents recommend investing in mutual funds to their peer group as they consider it as a profitable source of investment.
- (2) 40% of respondents have investment valuing less than Rs 1 lakh, which shows that investors with less investing capacity opt for mutual funds.
- (3) Major finding of this research is that perception of investors regarding non conventional investment avenues have changed and that too in positive and progressive direction.
- (4) Major factors considered by investors while investing in mutual funds are the characteristics of fund, its credibility, Convenience of the process, various success
- (5) Factors, and brand value of the fund family to which the fund belongs.(explain individually along with their variance explained %)
- (6) First identified factor is fund characteristics which has a variance explained of 35.410%. This factor includes variables like tax benefits, high returns, price, capital appreciation, liquidity and minimum initial investment.
- (7) Second identified factor is credibility which has a variance explained of 16.736%. This factor includes variables like brand image, information source preferred, past performance and transparency.
- (8) Third identified factor is convenience which has a variance explained of 10.902 %. This factor includes variables like switching option, quick grievance mechanism and quick service.
- (9) Fourth identified factor is success factors which has a variance explained of 8.544 %. This factor includes variables like quality of service, research and simplicity of offer document.
- (10) Fifth identified factor is fund family which has a variance explained of 7.379%. This factor includes variables like management structure, large fund and outsourcing.

**Table 3: Total Variance Explained**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.564	36.972	36.972	3.564	36.972	36.972	3.236	35.410	35.410
2	1.929	16.186	52.158	1.929	16.186	52.158	1.835	16.736	51.146
3	1.774	10.446	62.604	1.774	10.446	62.604	1.659	10.902	61.048
4	1.584	8.544	70.148	1.584	8.544	70.148	1.659	8.544	70.950
5	1.370	6.525	76.672	1.370	6.525	76.672	1.549	7.379	76.328
6	0.989	5.974	81.046						
7	0.975	5.956	86.403						
8	0.948	4.751	90.154						
9	0.911	4.337	94.491						
10	0.879	3.188	97.679						
11	0.805	3.835	100.000						

Extraction Method: Principal Component Analysis.

**Table 4: Rotated Component Matrix**

	1	2	3	4	5
Tax Benefits	0.758				
High Returns	0.694				
Price	0.662				
Capital Appreciation	0.633				
Liquidity	0.571				
Minimum Initial Investment	0.528				
Brand Image		0.738			
Information Source		0.735			
Past Performance		0.602			
Transparency		0.569			
Switching Option			0.744		
Quick Grievance Mechanism			0.630		
Quick Service			0.612		
Quality Of Service				0.762	
Research				0.665	
Simplicity of the Offer Document				0.597	
Management Structure					0.761
Large Fund					0.699
Outsourcing					0.621

**Table 5: Factor Analysis Results**

<b>Factor1:Fund Characteristics (35.410)*</b>	<b>Factor2: Creditability (16.736)*</b>	<b>Factor3:Convenience (10.902)*</b>	<b>Factor4:Success Factors (8.544)*</b>	<b>Factor5:Fund Family (7.379)*</b>
Tax Benefit	Brand Image	Switching Option	Quality of service	Management structure
High Returns	Information Source-credit rating agency	Quick grievance mechanism	Research	Large fund
Price	Past Performance	Quick Service	Simplicity of the offer document	Outsourcing
Capital Appreciation	Transparency			
Liquidity				
Minimum Initial Investment				

Note: \* Variance Explained

## CONCLUSION

From this study it can be concluded that the MFs business is still in an embryonic stage. So, concerted efforts are needed for its success. The success depends upon high returns, professional competence of Fund managers. The MF should be easy to buy and sell through broker or directly in the market. Mutual Funds have emerged as an important segment of financial markets and so far have delivered value to the investors. The study reveals that the investors' perception is depends on various demographic factors like gender as the demographic composition reveals that female segment is not fully tapped and also there is low target on higher income group people. Hence, fund managers should take steps to tap the female segment and higher income group segment to enhance more investment in this investment avenue which would really help the industry to flourish.

Further, the findings of the research were on the factors influencing investor's perception. It reveals that fund characteristics, creditability, convenience, success factors, and fund family are the factors which have a higher impact on perception of investors. These factors give them the required boosting in the investment process. Therefore, it becomes imperative on part of the fund managers to enhance these features for attracting more investors and also to retain the trust, the investors have in them. The present study has only 100 respondents for studying investing behavior. This research can be further extended by incorporating a larger sample size and more attributes which may be considered relevant in the Indian mutual fund industry. The primary data collection for studying the attitude and perception of investor's towards mutual funds as an investment option is limited to Delhi-NCR, which can be further extended to other parts of the country so that the investing attitude of more investors can be studied.

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