A STUDY ON FACTORS INFLUENCING THE SELECTION OF MUTUAL FUND COMPANY

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ABSTRACT
Mutual Fund in Indian context is a challengeable event at present. It has attained superior heights in the financial and economy scenario of India. The main focus of this study is, on the factors influencing the respondents on their choice of selection of Mutual Fund Company in India. The most important factors consider before investing in the mutual fund are objective of the scheme, past performance of a research team, services provided by the company etc,. The best way of surviving and prospering in the competitive environment is through providing prompt, relevant and efficient information about AUM (Asset Under Management), NAV - (Net Asset Value) and information about the scheme.

Key words: Mutual fund, AUM, NAV, choice of selection, service

INTRODUCTION
A Mutual Fund is a type of professionally-managed collective investment vehicle that pools money from many investors to purchase securities. As there is no legal definition of mutual fund, the term is frequently applied only to those collective investments that are regulated, available to the general public and open-ended in nature. Unit Trust of India is the first mutual fund set up under a separate act, UTI Act in 1963, and started its operations in 1964 with the issue of units under the scheme US-64. In India, mutual funds must be registered with Securities Exchange Board of India (SEBI) is the regulatory body for all the mutual funds. The only exception is the UTI, since it is a corporation formed under a separate Act of Parliament. Mutual funds have both advantages and disadvantages compared to direct investing in individual securities. Today they play an important role in household finances. The first mutual funds were established in Europe in 1774. The first mutual fund outside the Netherlands was the Foreign & Colonial Govt. Trust, which was established in London in 1868. Mutual funds were introduced into the United States in the 1890s. They became popular during the 1920s. These early funds were generally of the closed-end type with a fixed number of shares which often traded at prices above the value of the portfolio. The first open-end MF with redeemable shares was established on March 21, 1924.

MUTUAL FUNDS IN INDIA
Strong participation from retail investors and robust inflow in equity schemes helped the mutual fund industry’s asset base soar by 21.1 per cent to Rs 13.4 lakh crore in 2015. The country’s 44 fund houses together had average assets under management (AUM) of Rs 11.06 lakh crore at the end of December 2014, compared to Rs 13.39 lakh crore registered in December-end last year, as per latest data available with Association of Mutual Funds in India (AMFI). Fund houses are upbeat about the industry’s prospects for the New Year as well. Given the sluggish trends in the real estate market and continued fall in gold prices, the mutual fund (MF) industry expects to attract a larger share of the Indian households’ savings from this year. “On an overall basis, we see positive growth and higher retail participation in 2016,” Reliance Mutual Fund CEO Sundeep Sikka said. The top five fund
HDFC MF continued to hold its numero uno position with an average AUM of ₹ 1.78 lakh crore, a surge in asset base by 18.5 per cent, followed by ICICI Prudential MF, which saw its asset base growing by 26 per cent to ₹ 1.72 lakh crore. Reliance MF’s AUM climbed 24.5 per cent to ₹ 1.57 lakh crore, Birla Sunlife MF’s assets base went up 26.5 per cent to ₹ 1.26 lakh crore and the assets under management of UTI MF increased 21.4 per cent to Rs 1.06 lakh crore. Among others, Kotak Mahindra MF’s assets base shot up by 41.5 per cent to ₹ 54,902 crore, while that of SBI MF zoomed 38.7 per cent to over ₹ 1 lakh crore. In terms of the July-September quarter, the industry saw a growth of just 1.78 per cent in AUM. The mutual funds together had an asset base of ₹ 13.16 lakh crore during the July-September quarter. “MFs witnessed muted growth in Q3 on account of flat Sensex, advance tax and quarter end, which lead to institutional outflow”. Market experts said the yearly rise in AUM is largely on account of huge inflow in equity and equity-oriented schemes. In addition, retail participation increased significantly during the year. Equity assets crossed the ₹ 4 lakh crore mark for the first time in the history of Indian mutual fund industry, signaling the return of domestic investors taking the mutual funds route.

REVIEW OF LITERATURE:
Lots of studies have been conducted on performance evaluation of mutual funds in India. Some of the studies has presented in a chronologically order:

Treynor (1965) presents a new way of viewing performance results. He attempted to rate the performance of mutual funds on a characteristics line graphically. The steeper the line, the more systematic risk or volatility a fund possesses. By incorporating various concepts, he developed a single line index, Tn, called Treynor index. The systematic risk is risk which is common to all securities of the same class in the market. His index measures the risk premium of the portfolio, where risk premium equals the difference between the return of the portfolio and the riskless rate. The risk premium is related to the amount of systematic risk assumed in the portfolio, the higher the value of tn, the better the performance of fund.

Sharpe (1966) explains in a modern portfolio theory context that the expected return on an efficient portfolio and its associated risk (unsystematic risk) are linearly related. By incorporating various concepts he developed a Sharpe index. In this paper he attempted to rate the performance on the basis of the optimal portfolio with the risky portfolio and a risk-free asset is the one with the greatest reward-to-variability. The unsystematic risk is related to particular security due to inefficient management. Moreover he has examined 34 open-end mutual funds (period 1954-63) and finds considerable variability in the Sharpe ratio, ranging from 0.78 to 0.43. He provides two potential explanations for the result that the cross-sectional variation is either random or due to high fund expenses or the difference is due to management skills.

Bharua and Varma (1991) evaluated the performance of master share (1987-91) using CAPM approach from the view point of large investors, small investors and from fund management. The study had used ET Index as a proxy for market behavior. The risk adjusted performance is measured by using Sharpe, Jensen and Treynor measures. They used capital market line to study the risk return relationship of the fund from the prospective of large investors and security market line for small investors. The study concludes that the fund performed better than the market for small investors and fund management but the fund did not do well when compared to CML.

Mishra, et al., (2002) measured mutual fund performance using lower partial moment. In this paper, measures of evaluating portfolio performance based on lower partial moment are developed. Risk
from the lower partial moment is measured by taking into account only those states in which return is below a pre-specified “target rate” like risk-free rate.

NEED FOR STUDY
For retail investor who does not have the time and expertise to analyze and invest in stocks and bonds, mutual funds offer a viable investment alternative. This is because mutual funds provide the benefit of cheap access to expensive stocks. Mutual funds diversify the risk of the investor by investing in a basket of assets. A team of professional fund managers manages them with in-depth research inputs from investment analysts. Being institutions with good bargaining power in markets, mutual funds have access to crucial corporate information which individual investors cannot access. So the present study has taken up to know the extent of awareness about mutual funds and to analyze the investors’ perception towards mutual funds.

SCOPE OF THE STUDY
The scope of the study is to track out the investors’ preferences, priorities and their awareness towards different mutual fund schemes. Keeping in view the various constraints the scope of the study is limited only to the investors residing in Rayalaseema Region of Andhra Pradesh. Data for the study is collected from a sample of 200 investors by using stratified sampling. Out of all the questionnaires 196 questionnaires are considered valid for the purpose of the study.

OBJECTIVES
1. To know about the extent of awareness about mutual funds.
2. To know about the preferences of investors towards mutual funds.
3. To know about the perceptions of investors towards mutual funds.
4. To know about the extent of satisfaction of investors towards mutual funds.

DATA COLLECTION METHODS
For the purpose of the study two sets of data has been used. The first set of data is the primary data. This type of data has been collected from the investors with the help of a Questionnaire. The second set of data used for the study is the secondary data. The secondary data relating to net resources mobilized by banks and financial institution sponsored mutual funds, assets under management, investors mix etc is collected for a period of 1999-2008. This type of data is collected from different investment periodicals, magazines, various newspapers, RBI reports, AMFI reports, SEBI annual reports; securities market reviews, study of existing literature of different authors in the related field etc.

STATISTICAL TOOLS USED
To carry out the research work different statistical tools are used in order to derive certain meaningful information and results. In case of primary data Chi Square tests has been applied and in case of categories where respondents are required to provide ranks to different factors, the relative importance of the respective factor is calculated by assigning scores to them. In case of secondary data exponential growth rates has been calculated.

PROMINENT FINDINGS OF THE STUDY
The main findings of the study relating to the perception of the investors regarding different aspects of mutual funds such as their main objective behind investing in mutual funds, their knowledge about SIP, sources of information, perception about financial advisors and brokers, method of performance evaluation are summarized as under:
LIMITATIONS OF THE STUDY
1. Time is too short to conduct the study. Due to shortage of time only ten schemes has been taken for analysis.
2. Study is based on secondary data.

MAIN OBJECTIVE BEHIND INVESTING IN MUTUAL FUNDS

Every investor has one or more objectives behind their investments in mutual funds. Without any investment objective, the investment is considered as useless. According to table 1 the main objective of the respondents behind investing in mutual funds is the tax benefits offered by it followed by high return and safety of the schemes. Therefore getting tax benefits from the scheme is the main motive of the investors behind their investment in mutual funds.

Table 1 - Ranking and scoring of factors considered by investors while investing in mutual funds

<table>
<thead>
<tr>
<th>Factors</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>Total F (S)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expertise</td>
<td>5</td>
<td>5</td>
<td>10</td>
<td>15</td>
<td>13</td>
<td>27</td>
<td>53</td>
<td>68</td>
<td>196 (511)</td>
</tr>
<tr>
<td>Safety</td>
<td>43(344)</td>
<td>34(238)</td>
<td>15(90)</td>
<td>14(70)</td>
<td>32(128)</td>
<td>20(60)</td>
<td>25(50)</td>
<td>13(13)</td>
<td>196 (993)</td>
</tr>
<tr>
<td>Liquidity</td>
<td>32(256)</td>
<td>31(212)</td>
<td>21(126)</td>
<td>20(100)</td>
<td>27(108)</td>
<td>29(87)</td>
<td>22(44)</td>
<td>14(14)</td>
<td>196 (947)</td>
</tr>
<tr>
<td>Diversification</td>
<td>13(104)</td>
<td>20(140)</td>
<td>17(102)</td>
<td>11(55)</td>
<td>21(84)</td>
<td>32(96)</td>
<td>38(76)</td>
<td>44(44)</td>
<td>196 (701)</td>
</tr>
<tr>
<td>Tax Benefits</td>
<td>48(384)</td>
<td>41(287)</td>
<td>43(258)</td>
<td>25(125)</td>
<td>18(72)</td>
<td>13(39)</td>
<td>4(8)</td>
<td>4(4)</td>
<td>196 (1177)</td>
</tr>
<tr>
<td>Regular Income</td>
<td>10(80)</td>
<td>25(175)</td>
<td>38(228)</td>
<td>41(205)</td>
<td>29(116)</td>
<td>28(84)</td>
<td>15(30)</td>
<td>10(10)</td>
<td>196 (928)</td>
</tr>
<tr>
<td>Regular Savings</td>
<td>9(72)</td>
<td>18(126)</td>
<td>25(150)</td>
<td>42(210)</td>
<td>23(84)</td>
<td>30(90)</td>
<td>24(48)</td>
<td>25(25)</td>
<td>196 (805)</td>
</tr>
<tr>
<td>High Returns</td>
<td>38(304)</td>
<td>22(154)</td>
<td>28(168)</td>
<td>29(145)</td>
<td>34(136)</td>
<td>15(45)</td>
<td>14(28)</td>
<td>16(16)</td>
<td>196 (996)</td>
</tr>
</tbody>
</table>

Note: S- Scores, Figures in parentheses ( ) are scores
Factors that can win back the investors’ confidence to invest in mutual funds

Gaining the confidence of the investors is very essential for successful working of the mutual fund industry. In order to strengthen the investor’s confidence to invest in mutual funds they must be offered transparency in services, tax benefits, minimum assured returns, consistency in performance etc. The study reveals that on the basis of qualification, occupation and annual family income the main factors that can win back the investor’s confidence to invest in mutual funds are the minimum assured returns (32.14 per cent) followed by transparency (28.58 per cent) and consistency (22.44 per cent). Table 2 shows that the demographic factors like qualification, age and annual family income have no significant relation with the factors that win back the investors’ confidence at 5 per cent level of significance whereas the age of the respondents have significant relation with the factors that win back the investors’ confidence.

Table 2 - Factors that can win back the investors’ confidence (Chi Square results)

<table>
<thead>
<tr>
<th>Demographic Factors</th>
<th>d.f</th>
<th>Chi Square value</th>
<th>Sig or Not Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualification</td>
<td>12</td>
<td>0.554</td>
<td>Not sig</td>
</tr>
<tr>
<td>Age</td>
<td>12</td>
<td>0.375</td>
<td>Not sig</td>
</tr>
<tr>
<td>Occupation</td>
<td>16</td>
<td>0.038</td>
<td>Sig</td>
</tr>
<tr>
<td>Annual family income</td>
<td>12</td>
<td>0.864</td>
<td>Not sig</td>
</tr>
</tbody>
</table>

Features that attract the investor’s most while choosing a mutual fund scheme

A lot many features are available in different mutual fund schemes that attract the investors to invest in mutual funds. These features may be their past performance, past dividend record, stability of returns etc. From the ranks assigned by the investors, it is found that, the most important feature that attract the investors while choosing a mutual fund scheme is the past performance of the scheme and the stability of the scheme which is followed by the past dividend records, the portfolio of the scheme, entry/exit load and the fund managers name as exhibited by table 3.

Table 3 - Ranking and scoring of features that attracts the investors most while choosing a Mutual Fund

<table>
<thead>
<tr>
<th>Factors</th>
<th>Ranks and Scores</th>
<th>Total F(S)</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Past performance</td>
<td>1 2 3 4 5 6</td>
<td>196 (904)</td>
<td>1</td>
</tr>
<tr>
<td>Fund managers Name</td>
<td>14 6 21 25 40 90</td>
<td>196 (451)</td>
<td>6</td>
</tr>
<tr>
<td>Portfolio</td>
<td>25 25 50 50 26</td>
<td>196 (661)</td>
<td>4</td>
</tr>
<tr>
<td>Past dividend</td>
<td>15 45 39 29 20</td>
<td>196 (702)</td>
<td>3</td>
</tr>
<tr>
<td>Entry/Exit load</td>
<td>15 35 30 46 196</td>
<td>49 (595)</td>
<td>5</td>
</tr>
<tr>
<td>Stability of returns</td>
<td>58 41 26 18 9</td>
<td>196 (854)</td>
<td>2</td>
</tr>
</tbody>
</table>

Note: S-Scores, Figures in parentheses () are scores
SOURCES OF INFORMATION

For good and efficient decision making investors rely on different sources of information. The sources may be newspaper, brokers, tax consultants etc. Keeping the investors up to date with the latest information is very essential, so that they should be aware of different happenings in the mutual fund industry. The study reveals that for majority of the respondents newspapers (23.97 per cent) are the main source of information followed by brokers (22.96 per cent), internet (22.96 per cent), and tax consultants (17.86 per cent) and friends/relatives (10.74 per cent). Table 4 exhibits that based on the chi square tests all the demographic variables have no significant relationship at 5 per cent level of significance with the respondent’s sources of information on which they rely for adequate information.

Table 4
Sources of information (Chi Square Results)

<table>
<thead>
<tr>
<th>Demographic Factors</th>
<th>d.f</th>
<th>Chi Square value</th>
<th>Sig or Not Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualification</td>
<td>15</td>
<td>.761</td>
<td>Not sig</td>
</tr>
<tr>
<td>Age</td>
<td>14</td>
<td>.674</td>
<td>Not sig</td>
</tr>
<tr>
<td>Occupation</td>
<td>20</td>
<td>.463</td>
<td>Not sig</td>
</tr>
<tr>
<td>Annual family income</td>
<td>15</td>
<td>.681</td>
<td>Not sig</td>
</tr>
</tbody>
</table>

SUGGESTIONS

✓ Many investors took keen interest in providing valuable suggestions. On the basis of the findings of the study the important suggestions are listed below:
✓ Mostly the investors are more interested in those schemes that can easily provide them liquidity. The suggestion makers have emphasized that the fund managers should invest the investor’s money in secure income related schemes so that liquidity must be ensured.
✓ Generally the offer documents and reports of various mutual fund companies are not free from technicalities. So the investors opined that the information contained in the offer documents should be simple and free of technicalities so that a lay investor can easily understand them.
✓ The periodical statements of mutual fund companies are considered as a very important source of information to the investors. So it is very essential and it contains all the relevant information, and managers must ensure that these are reach to the investors in time.
✓ Due to changing scenario, the need for online trading of securities is felt. Efforts should be made to promote or enhance online trading of mutual funds. This will save time and cost. On a click of button investors get all the required information quickly. They can easily sell or purchase any number of funds whenever they want.
✓ Some investors suggested that the fund values of fund should be informed to the investors through SMS on fortnightly basis. This will help the investors in keeping themselves up to date with the latest information and latest NAV’s of different funds.
✓ Winning the investor’s confidence and protecting their rights is the common objective of all the mutual fund companies. In this context the AMFI and SEBI should make strict rules and regulations for safeguarding the interests of the common investors. If these rules are not being followed properly, a provision of punishment should be made who violates the same.
Steps should be taken to boost the confidence and morale of the investors. This can be done through appropriate communication and by educating investors to invest in MFs. Timely and right information should be provided to them by different communication modes so that they come to know about the latest trends in the market.

CONCLUSION

Today a lot of investment opportunities are available to the investors in the financial markets. Investors can invest in corporate bonds, debentures, bank deposits, post office schemes etc. But nowadays investors opt for portfolio managers to invest money on their behalf. 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, level of satisfaction, 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.

This study is very important in order to judge the investors’ behavior in a market like India, where the competition increases day by day due to the entry of large number of players with different financial strengths and strategies.

REFERENCES: