



Customer Behavior towards Purchasing Mutual Fund- A Study of Dehradun City

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Abstract:- Mutual Fund is a retail product designed to target small investors, salaried people and others who are intimidated by the mysteries of stock market but, nevertheless, like to reap the benefits of stock market investing. At the retail level, investors are unique and are a highly heterogeneous group. Hence, their fund/scheme selection also widely differs. Investors demand inter-temporal wealth shifting as he or she progresses through the life cycle. This necessitates the Asset Management Companies (AMCs) to understand the fund/scheme selection/switching behavior of the investors to design suitable products to meet the changing financial needs of the investors. With this background a survey was conducted among 200 Mutual Fund Investors in Dehradun city to study the factors influencing the fund/scheme selection behavior of Retail Investors. This paper discusses the survey findings. It is hoped that it will have some useful managerial implication for the AMCs in their product designing and marketing.

Now mutual fund industry is facing competition not only from within the industry but also from other financial products that may provide many of the same economic functions as mutual funds but are not strictly MFs, and in this research project it is discussed which financial product customer like most and the reason why an investor wants that financial product and the reason found with the help of the survey conducted.

Key Words- Mutual Fund, Asset Management Companies (AMCs), financial institutions, investment portfolio.

INTRODUCTION

A mutual fund is a pool of money that is managed on behalf of investors by a professional money manager. The manager uses the money to buy stocks, bonds or other securities according to specific investment objectives that have been established for the fund. In return for putting money into the fund, you'll receive either units or shares that represent your proportionate share of the pool of fund assets. In return for administering the fund and managing its investment portfolio, the fund manager charges fees based on the value of the fund's assets. A mutual fund, by its very nature, is diversified -- its assets are invested in many different securities. Beyond that, there are many different types of mutual funds with different objectives

and levels of growth potential, furthering your chances to diversify.

Hence, a mutual fund can be defined as a trust that pools the savings of a number of investors who share a common goal. The money thus collected is then invested by the fund manager on behalf of the investors in different types of securities. The income earned through these investments and the capital appreciated realized by the scheme are shared by its unit holders in proportion to the number of units owned by them. Mutual Funds and securities investments are subject to market risks and there can be no assurance that the objectives of the mutual fund will be achieved.

STATEMENT OF PROBLEM

A mutual fund is an ideal investment vehicle for today's complex and modern financial scenario. Currently there are more than 530 schemes with varied objectives and AMCs compete against one another by launching new products or repositioning old ones. Now MF industry is facing competition not only from within the industry but also from other financial products that may provide many of the same economic functions as mutual funds but are not strictly MFs, There are many players in the mutual fund industry.

OBJECTIVES

1. What are the reasons while an investor chooses Mutual Fund Company?
2. What different qualities investor looks before selecting a mutual fund company?
3. Which type of scheme generally the investor like the most?

HYPOTHESES

The present research starts with the problem identification, it refers to a detailed understanding of the customer's behavior and perception regarding the purchase of mutual fund, and namely how the residents of Dehradun City engage themselves on going for mutual fund.

Furthermore, the main purpose, the objectives and the hypotheses were established, as follows:

Main purpose: Determining the purchasing behavior of customers underlying characteristics in terms of mutual funds selection.

Objective 1: Determining reasons while an investor chooses Mutual Fund Company.

Hypothesis 1: The investor looks the most company scheme's performance while selecting the mutual fund company.

Objective 2: Determining different qualities investor looks before selecting a mutual fund company.

Hypothesis 2: The investors judge the criteria of selecting any mutual fund company through their fund

performance before investing in any mutual fund company.

Objective 3: Finding out the type of scheme generally the investor like the most.

Hypothesis 3: Those maximum investors prefer growth in their investment as the objective of growth fund scheme is to provide capital appreciation over the medium to long-term.

ASSUMPTIONS AND LIMITATIONS

It is of prime importance to determine the scope of research by asking you the following questions: What do I really want to examine? What are the precise characteristics of the entity in question? Or what exact features make this topic different from other subjects? (Eneroth, 1984). Having the above questions in mind, the authors want to clarify the scope of research. The study done seeks to examine and determining the purchasing behavior of customers underlying characteristics in terms of mutual funds selection.

REVIEW OF LITERATURE

The existing "Behavioral Finance" studies are very few and very little information is available about investor perceptions, preferences, attitudes and behavior. All efforts in this direction are fragmented.

Ippolito (1992) says that fund/scheme selection by investors is based on past performance of the funds and money flows into winning funds more rapidly than they flow out of losing funds.

De Bondt and Thaler (1985) while investigating the possible psychological basis for investor behavior, argue that mean reversion in stock prices is an evidence of investor over reaction where investors over emphasize recent firm performance in forming future expectations.

Gupta (1994) made a household investor survey with the objective to provide data on the investor preferences on MFs and other financial assets. The short-selling regulation should be operated along with margin trading regulation with substantial initial margin requirement. We would prefer the minimum initial

margin to be fixed at 50% (Finding), the findings of the study were more appropriate, at that time, to the policy makers and mutual funds to design the financial products for the future.

Shanmugham (2000) conducted a survey of 201 individual investors to study the Information sourcing by investors, their perceptions of various investment strategy dimensions and the factors motivating share investment decisions, and reports that among the various factors, psychological and sociological factors dominated the economic factors in share investment decisions.

Madhusudhan V Jambodekar (1996) conducted a study to assess the awareness of MFs among investors, to identify the information sources influencing the buying decision and the factors influencing the choice of a particular fund. The study reveals among other things that Income Schemes and Open Ended Schemes are more preferred than Growth Schemes and Close Ended Schemes during the then prevalent market conditions. Investors look for safety of Principal, Liquidity and Capital appreciation in the order of importance; Newspapers and Magazines are the first source of information through which investors get to know about MFs/Schemes and investor service is a major differentiating factor in the selection of Mutual Fund Schemes.

Phillip (1995) reported that there is a change in financial decision-making of different mutual fund schemes and investor behavior as a result of participating in investor education programmes sponsored by employees.

Berhein and Garnette (1996) affirmed Philip's findings and further stated that a serious national campaign to promote savings through education and information could have a measurable impact on financial behavior.

Some of the Risk to which Mutual Funds are exposed to is given below:-

Source: Google.com



Figure1: Risks in Investment

RESEARCH METHODOLOGY

Method of Sample and Procedure

The data collected with the help of Questionnaire, and the survey was conducted during the month of December 14, January 15, and February 2015 among 200 different individual investors in Dehradun city. The required data was collected through a pre-tested questionnaire which was administered on a judgment sample of 20 educated present retail investors. Judgment sample selection is due to the time and financial constraints.

On the basis of my research I found the following results.

DATA ANALYSIS

➤ Reason for investing Mutual Fund

It has been found that different reason of investor while investing in mutual fund, income level, knowledge, attitude of selecting financial instrument and qualities of mutual fund while selecting a mutual fund company.

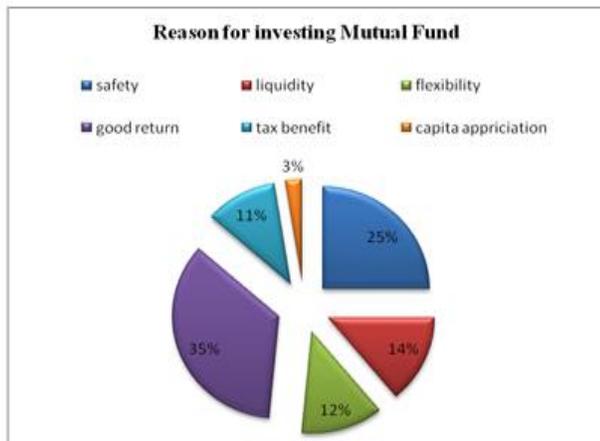


Figure 2: Reason for investing Mutual Fund

The above graph shows that the reason for investing in mutual fund and out of 200 investor 35% invest in mutual fund for good return, 25% invest for safety, 14% invest for liquidity and the least was 3% invest for capital appreciation.

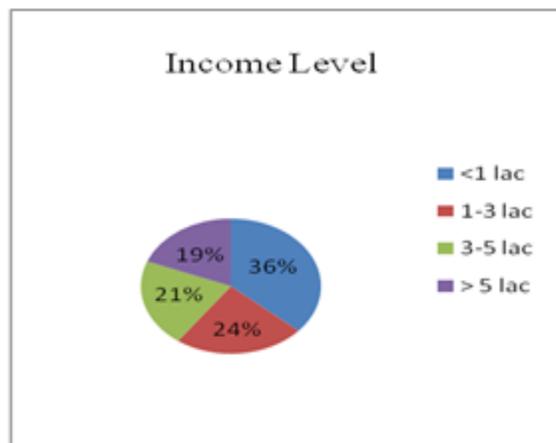


Figure 3: Income Level of investors

➤ Schemes while investing

The reason while selecting schemes it depend upon the investors risk taking ability like high return - high risk, low risk - low return, low risk – high return and high risk – high return. And it also depends upon which age and income group they belong.

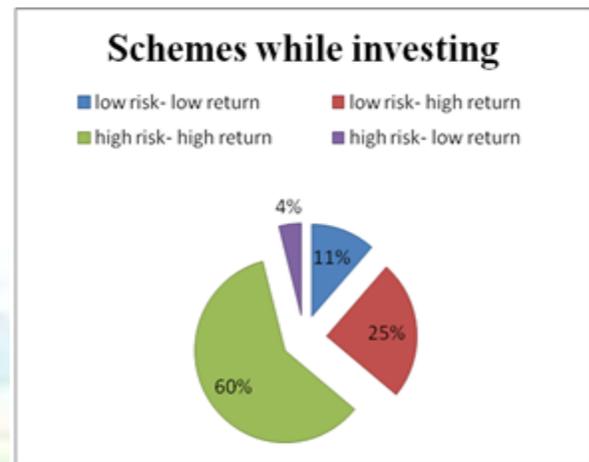


Figure 4: Different Schemes of investment

Investor’s perception towards selecting the schemes, 60% investors wants high risk and high return, 25% investor’s wants low risk but high return and only 4% investor wants high risk low return. It means investors are risk taker they want high return and for that they are ready to take high risk also. If we see the graph of income level of investor 36% of investor belongs to low level of income group and they want low risk – low return as the income level increase they are able to take risk.

Statistical Technique

One-way ANOVA(or single factor) ANOVA: Under the one-way ANOVA, we consider only one factor and then observe that the reason for said factor to be important is that several possible types of samples can occur within that factor. We then determine if there are differences within that factor.

Selecting Mutual Fund Company

Table 2.

Anova: Single Factor

SUMMARY					
Groups	Count	Sum	Average	Variance	
VAR 1	200	441	2.205	1.46028	
VAR 2	200	434	2.17	2.45337	
VAR 3	200	468	2.34	1.10995	
VAR 4	200	676	3.38	1.32221	
VAR 5	200	557	2.785	1.73746	
VAR 6	200	655	3.275	1.45666	
VAR 7	200	658	3.29	2.19688	
VAR 8	200	665	3.325	2.20038	
VAR 9	200	621	3.105	2.79796	

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	416.58	8	52.0725	28.0041	2.5E-41	1.94356
Within Groups	3330.3	1791	1.85946			
Total	3746.88	1799				

Null Hypothesis: $H_0: V1 = V2 = V3 = V4 = V5 = V6 = V7 = V8 = V9$

Alternate Hypothesis: $H_0: V1 \neq V2 \neq V3 \neq V4 \neq V5 \neq V6 \neq V7 \neq V8 \neq V9$

Here V1 means reputation, V2 means Scheme's Performance, V3 means scheme's expense ratio, V4 means rating by rating agency, V5 means withdrawal facility, V6 means innovative schemes, V7 means entry

and exit load, V8 means portfolio manager performance and V9 means tax benefits.

Level of significance = $\alpha = 0.05$

The observed value of F is 28.0041 larger than the F critical value of 1.94356. The null hypothesis is getting rejected and alternate Hypothesis is accepted. It means $V1 \neq V2 \neq V3 \neq V4 \neq V5 \neq V6 \neq V7 \neq V8 \neq V9$.

As the alternative Hypothesis accepted and it shows the lowest average "2.17" of (scheme's performance) it shows the investors look the most company scheme's performance while selecting the mutual fund company, then "2.205" companies reputation then expense ratio and investor least bother about the portfolio manager. If any company is offer new scheme's and if the scheme give good return then the reputation factor if the scheme's not able to give good return then the investor is not willing to invest in that mutual fund company. It's general perception of investor because everyone wants return and whichever company meets their expected return the investor choose that company.

➤ Attitude towards purchasing Financial Instrument in capital market

Table 3

Anova: Single Factor

SUMMARY					
Groups	Count	Sum	Average	Variance	
Share	200	460	2.3	1.236181	
Debenture	200	621	3.105	0.556759	
Mutual Fund	200	473	2.365	1.077161	
Bond	200	411	2.055	0.826106	

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	122.9238	3	40.97458	44.34232	1.67E-26	2.616089
Within Groups	735.545	796	0.924052			
Total	858.4688	799				

Null Hypothesis: $H_0: V_1 = V_2 = V_3 = V_4$
 Alternate Hypothesis: $H_0: V_1 \neq V_2 \neq V_3 \neq V_4$
 Here V_1 means Equity Shares, V_2 means Debenture, V_3 means Mutual Fund and V_4 means Bond.

Level of significance = $\alpha = 0.05$

The observed value of F is 44.34232 larger than the F crit. table value of 2.616089. The null hypothesis is getting rejected and alternate Hypothesis is accepted. It means $V_1 \neq V_2 \neq V_3 \neq V_4$.

As the alternative Hypothesis accepted and it shows the lowest average "2.055" of V_4 (Bond) it shows the investors current preferable instrument of the financial instrument in capital market is Bond, then the lowest average "2.3" of V_3 (Shares) means next preferable instrument was Equity Shares, and the investors least preferable instrument of the financial instrument in capital market was Debenture (V_4) "3.105".

➤ **Qualities affect the selection of Mutual Fund schemes.**

Table 4.

Anova: Single Factor						
SUMMARY						
Groups	Count	Sum	Average	Variance		
fund Performance	200	290	1.45	0.2487		
Scheme's expense ratio	200	416	2.08	0.5966		
withdrawal facility	200	354	1.77	0.4292		
products with tax benefit	200	427	2.135	1.2731		
Entry and exit load	200	479	2.395	0.8231		
ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	106.05	4	26.514	39.328	1E-30	2.3809
Within Groups	670.79	995	0.6742			
Total	776.84	999				

Null Hypothesis: $H_0: V_1 = V_2 = V_3 = V_4 = V_5$
 Alternate Hypothesis: $H_0: V_1 \neq V_2 \neq V_3 \neq V_4 \neq V_5$
 Here V_1 means Fund Performance, V_2 means Scheme's Expense Ratio, V_3 means Withdrawal Facility, V_4 means Products with tax benefit and V_5 means Entry and Exit Load.

Level of significance = $\alpha = 0.05$

The observed value of F is 39.328 larger than the F crit. table value of 2.3809. The null hypothesis is getting rejected and alternate Hypothesis is accepted. It means $V_1 \neq V_2 \neq V_3 \neq V_4 \neq V_5$.

As the alternative Hypothesis accepted and it shows the lowest average "1.45" of V_1 (Fund Performance) it shows the investors judge or the criteria of selecting any mutual fund company through their fund performance before investing in any mutual fund company, then second thing investor looks "1.77" (Withdrawal facility means the time lag after when they can withdrew their money, third thing investor look the expense related to the schemes and the return "2.08" (Schemes expense ratio) it shows the return and the expense ratio, then the qualities investor looks is tax benefit "2.135" (product with tax benefit) and then investors looks "2.395" (Entry and Exit Load). These are the qualities an

investors look before selecting in a mutual fund companies.

Table5

Anova: Single Factor						
SUMMARY						
Groups	Count	Sum	Average	Variance		
Growth Scheme	200	362	1.81	1.762714		
Income Scheme	200	636	3.18	1.947337		
Balanced Scheme	200	809	4.045	1.249221		
Money Market Scheme	200	748	3.74	1.942111		
Tax savings Scheme	200	542	2.71	2.156683		
Index schemes	200	1103	5.515	0.492236		
ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1599.49	5	319.898	200.9767	1.6E-155	2.221595
Within Groups	1900.51	1194	1.591716918			
Total	3500	1199				

Null Hypothesis: $H_0: V_1 = V_2 = V_3 = V_4 = V_5 = V_6$

Alternate Hypothesis: $H_1: V_1 \neq V_2 \neq V_3 \neq V_4 \neq V_5 \neq V_6$

Here V1 means Growth Scheme, V2 means Income Scheme, V3 means Balanced Scheme, V4 means Money Market Scheme, V5 means Tax Savings Scheme and V6 Index Scheme.

Level of significance = $\alpha = 0.05$

The observed value of F is 39.328 larger than the F crit. table value of 2.3809. The null hypothesis is getting rejected and alternate Hypothesis is accepted. It means $V_1 \neq V_2 \neq V_3 \neq V_4 \neq V_5 \neq V_6$.

As the alternative Hypothesis accepted and it shows the lowest average "1.81" of V1 (Growth Scheme) it shows that maximum investors prefer growth in their investment as the objective of growth fund scheme is to provide capital appreciation over the medium to long-term. These schemes normally invest a major portion of their funds in equities and are willing to bear short-term decline in value for possible future appreciation in the net asset value of the scheme. Then the lowest average "2.71" of V5 (Tax Saving Scheme) and the reason that tax rebates to the investors under tax laws as prescribed from time to time and these funds is help the taxpaying investors minimize their liability. Then

V2 (Income Scheme) "3.18" aim of such fund is to provide regular and steady income to investors. These funds or schemes generally invest in fixed income such as bond and corporate debentures. And they least prefer V6 (Index Scheme) "5.515" which shows the highest average among the six variable.

RECOMMENDATION

- Return's record must be focused by the sales executives while explaining the schemes to the customer. Pointing out the brand name of the company repeatedly may not too fruitful.
- The target market of salaried class individual has a lot of scope to gain business, as they are more fascinated to Mutual Funds than the self-employed.
- Schemes with high equity level need to be targeted towards self-employed and professionals as they require high returns and are ready to bear risk.
- Salary class individuals are risk averse and thus they must be assured of the advantage of "risk – diversification" in Mutual Funds.

- The choice range of salaried class individuals is too wide, thus the exact requirement of customer must be assessed before advising him for any scheme.
- The major target market for the Asset Management Companies is the persons with the income range of 2 to 8 lakhs and they must be approached to gain investments.
- High end customers with a income of above 8 lakhs are more interested in saving taxes and hence tax saving schemes fit to their requirement.
- Low end customers require more of fixed returns and they can't take high risk because of limited financial resources. Thus income schemes need to be recommended for this segment.
- Balanced schemes must be focused while explaining the schemes to the income segment of 4 lakhs to 6 lakhs.
- Direct sales force can target the self-employed and professionals as they are conversant with Mutual Funds and thus convincing them with the word of mouth won't be a too tough job.
- During my research I found that the consumer wants a quick grievance solving mechanism. Consumer doesn't want to come to the office/branch for solving the grievance. So the Asset Management Company's should have to work upon that.
- Most of the consumer is fascinated towards the open – ended schemes. So the company should have more attention on open –ended scheme.
- Asset Management Company's for its advertisement and promotional activity should go for Newspaper/Magazine and Internet.

CONCLUSION

Running a successful MF requires complete understanding of the peculiarities of the Indian Stock Market and also the psyche of the small investor. This study has made an attempt to understand the financial behavior of MF investors in connection with the scheme preference and selection. The post survey developments are likely to have an influence on the findings. Behavioral trends usually take time to stabilize and they get disturbed even by a slight change in any of the influencing variables. Hence, surveys similar to the

present one need to be conducted at intervals to develop useful models. Nevertheless, it is hoped that the survey findings will have some useful managerial implication for the AMCs in their product designing and marketing.

There is reason to support the mutual funds industry if only for the fact that they increase the investment choices of Indian savers and provide competition to traditional financial assets. It turns out however that the survival of the mutual fund industry largely depends precisely on its ability to compete with its closest substitute.

Studies similar to this, if conducted on a large scale at regular intervals by organizations like AMFI/SEBI, will help capture the changing perceptions and responses of these groups, and thus provide early warning signals to enable implementation of timely corrective measures. It is hoped that the survey findings of the study will have some useful managerial implications for the AMCs in their product designing, marketing and management of the fund. Results of the study may help in making cost effective strategic decisions and hence would be of interest to both existing and new MFs; Fund managers; and individual investors.

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