



## A study on investor's perceptions towards mutual funds in Andhra Pradesh

Cheemakurthi Nagalakshmi Suneetha

Research Scholar (Part-Time), Department of Commerce and Business Administration, Acharya Nagarjuna University, Nagarjuna Nagar, Guntur, Andhra Pradesh, India

### Abstract

Financial markets are constantly becoming more efficient by providing more promising solutions to the investors. Being a part of financial markets although Mutual Fund (MF) industry is responding very fast by understanding the dynamics of investor's perception towards risk and rewards, still they are continuously following this race in their endeavor to differentiate their products responding to sudden changes in the economy. Thus, it is high time to understand and analyze investor's perception and expectations, and unveil some extremely valuable information to support financial decision making of mutual funds. Financial markets are becoming more exhaustive with financial products seeking new innovations and to some extent innovations are also visible in designing mutual fund portfolio, but these changes need alignment in accordance with investor's expectations. Thus, it has become imperative to study MFs from a different angle, i.e to focus on investor's expectations and uncover the unidentified parameters that account for their dissatisfaction. The study proposes to identify the investor's perceptions towards risk and return and critical gaps in the existing framework for mutual fund services and also to study the investor's perceptions towards risk volatility involved in mutual funds.

**Keywords:** financial markets, mutual fund (MF), Andhra Pradesh

### Introduction

The Indian mutual fund (MF) industry has come a long way since the inception of UTI in 1964. Even though some of the other government-owned institutions like SBI and LIC started their own AMCs in the late 1980s, the real boost came with the liberalization of the sector, as fallout of the economic reforms that began in 1991. The private players with their foreign partners revolutionized the industry. They brought in professional competence and took the mutual funds to the investors. Their aggressive marketing made MFs a household name. The number of mutual funds and the schemes they manage have been growing over the years. As of March 2008, there were about 1,680 schemes offered by 31 mutual funds. The good performance of the economy and the stock markets in the last couple of years contributed to the growth of the mutual funds. Low interest rates on bank deposits and tax concessions on some of the schemes also contributed to the growth. But the penetration of the mutual funds in the retail investor segment is still low compared to the developed world. In India, the size of the industry is just 6% of the GDP, while it is 70% in the US. World over it is around 37%. The contribution from the retail investors to the funds is very low compared to institutions and high net worth individuals. For the growth of the industry, active participation of the retail investor is necessary.

Knowing the perceptions of the customers is very important in any industry. This provides insights into the customer behavior and his expectations from the industry players. A proper understanding of the perceptions would definitely benefit the players.

The number of MFs and the funds managed has also increased

over the years. MFs are seen as an avenue for the retail investor to enter the stock markets and bonds. They provide the professional competence to the retail investor. In India, the retail investor is increasingly seeing MF as an alternative investment avenue to the low-yielding bank deposits. Mutual fund industry has seen a lot of changes in past few years with multinational MFs coming into the country bringing in their professional expertise in managing funds worldwide. In the past few months there has been a consolidation phase going on in the mutual fund industry in India. Now investors have wide range of schemes to choose from depending on their individual profiles.

### Objective of the Study

The main objective of the study is to know the investors' perceptions towards MFs and their investment patterns at district level. The specific objectives are:

1. To know the investment patterns of investors;
2. To analyze the risk perceptions of the investors;
3. To study consumer perceptions about time horizon and tax sensitivity aspect of investing in mutual fund; and
4. To analyze the investor's perceptions towards Mutual fund services.

### Methodology and Scope of the Study

The survey was conducted across six major towns of Warangal District of Andhra Pradesh State. The sample size was 200 per town, and the total sample was divided between two Segments of current and potential mutual fund investors. The total sample for the study was 1200 across Warangal District, of which 910 were current investors and remaining

were (290) potential investors. For the purpose of data collection, convenient sampling method has been adopted. The present study attempts to know the mutual fund investors perception on various alternatives of investment. It examines some interesting choices of the retail investor including the reasons behind investing in MFs and the risk tolerance levels of the investors. The investor's knowledge about the mutual funds and what according to him are the best MFs is also analyzed. It is hoped that this survey in the 6 major towns in Warangal District of Andhra Pradesh state would go a long way in benefitting the mutual fund players.

The general perceptions of the investors towards mutual funds investment has been analyzed in terms of various factors like income and savings, investment objectives, risk-return profile, knowledge of investment etc, and their findings in all the 6 towns are presented below.

### Results and Discussion

**Confidence in Mutual Funds vis-a-vis the Stock Market:** There is always a debate on whether to invest in the stock markets directly or through a mutual fund. Direct investment in stocks is risky but at times the returns make it worth it. In the recent Bull Run some individual stock prices doubled in less than 6 months. Some companies, which went for Initial Public Offering (IPO), have seen their share prices soar and the retail investors had a good time in the stock market. The government has also encouraged the retail investors to participate in the stock market by reserving a good part of the public offering for it during the PSU disinvestments. While all this makes investments in stocks a better option, the probability of losses is also very high. Stock market crashes are nothing new to India. In the last few months, during the transition in the Union Government, the stock markets experienced high volatility. There was even talk of a bear hug. Such volatility often results in the retail investor moving away from the stock markets. On the other hand, the MFs might not give returns as some of the stocks. But the retail investor generally feels safe, as he knows that professionals take care of his investment and there is diversity in investments limiting the loss.

The present survey on the level of confidence an investor has in MFs and stock markets. When asked both the current and the potential MF investors the confidence level they have for making investments in MFs and stock markets.

**Views Regarding the Future Performance of Mutual Funds:** In the course of the study the researcher tried to find out from the investors the future assessment of their investments in MFs. How much they are going to invest in MFs as against other investment vehicles. When asked the current investors whether their investment in mutual funds is going to change in the coming future or not. A high number of 44% of the investors said that their investment is going to remain the same in the future. Only a meager 3% of the respondents said that their investment in mutual funds is going to decrease in the future. The survey also inquired regarding the quantum of change in investment that is likely to happen in future. 41% of the respondents said that their investment in future would increase by 11-20%. 23% said that it will decrease by 11-20%. 36% of the respondents said that it will increase by 10%, while only 7% of the respondents said that it will increase by

21-30%.

There are various macro and micro factors that affect the performance of any investment vehicle in the medium to long-term. The study made an attempt to catch what investors think are the major issues going to affect the performance of any MF in long to medium-term. 42% of the investors said that the MF performance is going to be determined by the stock market trends. 21% believe that the fund managers' ability to manage funds is the key behind the performance of the funds. 19% of the investors feel that the interest rate fluctuations will affect the performance of various funds in the future. 4% of the potential investors said that the MF performance is going to be determined by stock market trends. 20% believe that the fund managers' ability to manage funds is the key behind the performance of the funds. 15% of the investors feel that the macro factors like regulations in MFs governance are going to affect the future of MFs and 10% of the investors feel that the interest rate fluctuations will affect the performance of various funds in the future.

The Findings of the Study would go a long way in helping the mutual fund companies better understand not only the existing customers, but also the potential ones particularly from rural areas. The information would also help them shape products suitable for the customers and market them effectively.

### Investor's Risk Perception Analysis

Presence of risk in any investment is a normal feature. Investor's behavior in terms of their willingness to accept risk depends upon their risk appetite or market sentiments that are spread in the market at the time of investment. Moreover, investor's knowledge and their optimism about market volatility also influence their decision to select risky investment. Table values depicting Average Preference Scores (APS) reveals the fact that individual investors admit capital market instruments i.e Shares as the most risky investment in comparison to other investment avenues and mutual funds are opined to be next risky investment. APS also reveals that Investors don't deny the presence of risk in real estate but level of risk admitted is moderate and Government securities are admitted to be the least risky securities.

### Relationship of Investor's income to risk Perception for Insurance:

One of the objectives of study is to analyze risk perception of investors for mutual funds and identify critical gaps that prevail in mutual funds restructuring. In order to identify these gaps researcher is required to compare investors preference for various investment avenues and identify which investor group prefer what sort of investment and reason out the positives of those investment avenues which mutual fund organizations should involve while going for financial innovations in their existed fund schemes. Insurance as an investment preference of investors emerges for uncertainty of future. Although Insurance is not considered as a most risky investment by the majority of investors under the study area and data collected through survey reveals that 47.1% basic investors consider it as least risky investment whereas 65.2% low taxpayers opine it as least risky investment. Fact is further supported by the responses gathered from high-income group investors where 50% High taxpayers give last ranking to risk involved in insurance and 56% wealthy investors also have

last preference for risk involved in insurance. Going to aggregate level indicative facts exposed by survey prove that risk associated in insurance investment is significant for income as a parameter of investment decision-making. It is indicated by chi-square (75.106a), which is significant at 1% level of significance. Chi square test shows that income status of investors and risk perception for insurance as an investment avenue is not independent ( $\chi^2=23.043$ ,  $df=28$ ).

**Relationship of Investor's income to risk Perception for Government Securities:** Government securities are admitted as most secured securities and they have always been at the foremost preference of those investors who want to play safe game. When compared with other investment avenues nobody among the sample investor opined it as most risky investment. Data collected through survey revealed that 41.2% basic investors rank it at sixth position in terms of risk involved whereas 34.8% low tax payer support this position of government securities in comparison to all other investment avenues. Further the fact is supported by opinion of high taxpayers where even 50% of them strongly agree to the fact that government securities are least risky investment and even they rank it at the sixth position but outlook of wealthy investors reveal that 66.7% of them have their opinion that government securities are least risky investment. Significance test as applied through chi square test although government securities are considered to be risk free investment but still income of investors and preference for government securities because of risk association are closely related as indicated by  $\chi^2=61.540a$ ,  $df 24$ . This value of chi square is significant at 1% level (asymp.sig .000).

**Relationship of Investor's income to risk Perception for Shares/Bonds:** Risk and Return for any investment are parallel to each other. Higher the risk, higher the return. Whereas in case of shares and bonds have been observed as the first preference of those investors who are willing to take risk. Capital market instruments being most risky investment are expected to yield above normal return that can be expected from any other investment avenue. Data collected from survey has proved this hypothesis that income of investors and risk perception for shares/ bonds are related parameters of investment. 70.6% basic investors admit capital market instrument as most risky investment and rank it as first risky investment. 62.6% low taxpayers also opine that maximum risk is involved in shares and debentures when compared with other financial avenues whereas 100% high taxpayers and wealthy investors consider it as most risky investment. This statement is further tested by chi square test, which prove it to be significant at 1% level ( $\chi^2=32.251a$   $df 16$ ).

**Relationship of Investor's income and Risk Perception for Mutual Funds:** Responses collected from individual investors reveal the fact that reflection of risk on mutual funds is not as high as it was in case of shares and bonds. Although risk perception for mutual funds is also comparatively on higher side as 58.8% basic investors consider it as second risky investment and 65.2% low taxpayers consider it at the same position. Fact is further supported by the opinions of high taxpayers whereby 71.4% admit it as high risk involved and

66.7% also opine the same. The hypothesis was further tested at chi-square that shows that there is no close association of investor's income and their risk perception for mutual funds ( $\chi^2=11.061a$ ,  $df=18$ ), which is not significant at 1% level. Thus, results of above data analysis make it clear that majority of individual investors don't consider mutual funds as highly risky investment but on a ranking scale it is considered to be on higher side when compared with other financial avenues. (Table 1(A) & 1(B)).

**Table 1(A): Risk Wise Average Preference Score and Standard Deviation Coefficient**

Investors		Insurance	Govt. Securities	Shares	Mutual funds
Basic Investors	APS	5.1176	5.8824	1.4118	2.6471
	SD	1.57648	1.40900	1.06412	1.27187
Low Tax Payers	APS	5.6522	6.0435	1.3913	2.5652
	SD	1.19121	1.10693	1.26990	1.34252
High Tax Payers	APS	5.1429	6.1429	1.0000	2.4286
	SD	1.06904	1.06904	.00000	.78680
Wealthy Investors	APS	4.3333	6.6667	1.0000	2.6667
	SD	2.30940	.57735	.00000	1.15470
Total	APS	5.3200	6.0400	1.3200	2.5800
	SD	1.39152	1.17734	1.05830	1.21370

**Analysis of investor's Perception towards MFs Services**

Technological gadgets are extending their demand even in mutual funds market because of the proven solutions they are putting forward fund managers to tailor their fund schemes as per customer's desires. Information and Communication Technology enabled software programs are making it easier for fund managers to concentrate on individual needs of investors and come up with newly fangled financial innovations every time. Behind every financial innovation the two dominating forces where a trade off is required are minimizing the risk and maximizing the returns. Despite the major innovations recently introduced in MFs dissatisfaction among investors is clearly reflected which can be traced from their opinion towards mutual funds services. 61.11% basic investors admit that mutual funds completely disclose the risk involved in their investment whereas 30.4% low tax payers don't admit that mutual funds completely disclose presence of risk element. Opinion of high tax payers is also quite different and only 33.33% investors admit about mutual funds practice to disclose risk. Results obtained at aggregate level through ANOVA clearly reveal that average investors from all different categories don't differ in their opinion towards risk disclosure (F value=2.675,  $df=99$ ) which is significant at 5% level.

Results obtained from survey regarding investor's opinion towards disclosure of entry/exit load by MFs at the time of selling fund scheme shows that 41.1% basic investors admit it and 43.47% low tax payers also admit this. It has been observed that 28.57% high tax payers and 33% wealthy investors have positive response for mutual funds disclosure practices towards entry/exit load. It is evident from the above responses that majority of investors are not satisfied from mutual funds disclosure practice towards entry/exit load (F value=4.888,  $df=99$ ) which is significant at 1% level. Investor's responses towards MFs services for disclosing the

fund portfolio are also not found to be satisfactory as 35.29% basic investors and 34.78% low tax payers are found to be satisfied and agree that they were completely disclosed content of fund portfolio. Moreover responses of high tax payers (33.33%) give their consent towards this practice. Evidences obtained are highly significant at 1% level (F value=3.008, df=99).

**Table 1(B): Chi-Square Test for Risk Perception**

Variable	Likelihood Ratio	Linear Association	Chi-Square	df	Significance
Insurance	28.654	0.45	75.106 <sup>a</sup>	28	0.000
Government Securities	22.406	3.39	61.54 <sup>a</sup>	24	0.000
Shares/Bonds	17.554	0.192	32.251 <sup>a</sup>	16	0.001
Mutual Funds	12.158	.054	11.061 <sup>a</sup>	18	0.892

Majority of investors get tempted by any fund scheme when illustrative examples are shown to them and puffed statements are given to give a lift to investor's optimism. Responses of investors towards whether they were disclosed that illustrative examples do not assure any guaranteed return yield the result that only 35.29% basic investors and 29.16% low tax payers admit it. Where responses of high tax payers (33.33%) are quite similar to other responses wealthy investors are a bit different in their opinion as 67% of them admit that they were explained the concept. Results are verified by ANOVA that proves that average responses of investors towards MFs practice to disclose difference between hypothetical assumptions of market volatility and varied actual return are not different (F-value=4.378, df=99) which is significant at 1% level.

**Table 2: Investor's Perception towards Mutual Fund Services**

Variable	Mean	Variance	F value	Sig
Risk Disclosure	2.64	0.969	2.675	0.019
Entry/Exit Load	2.4	0.7744	4.888	0.000
Portfolio contents	2.8	0.855	3.008	0.010
Illustrative examples	2.9	1.02	4.378	0.001
Maturity/Liquidity	2.36	0.765	1.958	0.06
% Fund Allocation	3.06	1.56	2.868	.013

Maturity and liquidity is one of the major concerns of every investor while investing. Investor's responses regarding disclosure of this practice by mutual funds yield the results that 64.7% basic investors and 69.56% low tax payer admit that they were clearly explained about maturity and liquidity of their investment. Responses from high tax payers are also quite close to above said categories whereby 66.67% admit this statement. Hypothesis testing by ANOVA has shown that on aggregate level majority of investors are satisfied from MFs disclosure practice. (F value=1.958, df=99) which is significant at 1% level (table 2).

## Conclusion

The present study endeavored to give a look on investor's perceptions towards risk-return trade off for mutual fund services. Understanding of investor's expectations from mutual funds has become necessary issue to study due to mutual funds inability to accelerate the required pace of

growth. Moreover, volatility influencing stock market movements is turning most of investors to hold stocks with calculated risk, in the shape of mutual funds. Thus mutual funds can prove to be most preferred financial avenue provided it is put forth before investors in the desired form. Facts revealed in this study highlight the preferences of varied investors who desire to invest in mutual funds but also require some innovations and added quality dimensions in existing services. The critical gaps identified in the study also provide the key information input regarding the discrepancies in existing framework of mutual funds which can be extremely beneficial to AMCs in designing more lucrative solutions to suit investor's expectations. Survey findings of this study have got significant managerial implications that can be used by AMCs in restructuring their existing practices and finally innovating new ways of service delivery.

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