

**FACTORS INFLUENCING THE RETAIL INVESTORS TO  
PREFER INVESTMENT IN MUTUAL FUNDS IN PUDUCHERRY:  
AN EMPRICAL STUDY**

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**Abstract**

Mutual funds have emerged as an important segment of financial markets and so far have delivered value to the investors. It has grown by leaps and bounds in last couple of years. But no industry can flourish without a proper regulatory mechanism in the place. These initiatives would help towards making the Indian mutual fund industry more vibrant and competitive. Since, the need of study has been aroused in order to see the factors influencing the retail investors to prefer investment regarding the mutual funds in Puducherry. The study is based on the formulation of the following null hypotheses: There is no significant relationship among the acceptance level of the retail investors belonging to different demographic profile towards factors influencing to invest in mutual funds. In order to study the factors influencing the retail investors to prefer investment in mutual funds in Puducherry, chi square test, analysis of one-way variance, student t-test, analysis of co-efficient of variation, multiple regression analysis, and percentage analysis have been employed. Chi square test was employed to measure the association between the demographic profile of the respondents and their satisfaction with investment in mutual funds and type of fund preferred. The present study looks at the small investors purchase behavior does not have a high level of coherence due to the influence of different purchase factors. If the study provokes the authority concerned to take some positive measures for expanding the scope of mutual funds investment.

**Key words:** Mutual fund; Retail investors; factors influence to selection of mutual funds; Prefer investment

## Introduction

Investment culture among the people of a country is an essential prerequisite for capital formation and the faster growth of an economy. Investment culture refers to the attitude, perception, and willingness of the individuals and institutions in placing their savings in various financial assets, more popularly known as securities. A study on the investors' perceptions and preferences, thus, assumes a greater importance in the formulation of policies for the development and regulation of security markets in general and production and promotion of small and house-hold investors in particular. Mutual funds have emerged as an important segment of financial markets and so far have delivered value to the investors. It has grown by leaps and bounds in last couple of years. But no industry can flourish without a proper regulatory mechanism in the place. SEBI has played a vital role in regularizing the mutual fund business. From time to time it has tried to plug the loopholes prevailing in the system and safeguard the interest of investor who has been the backbone of this unprecedented growth. As of now big challenge for the mutual fund industry is to mount on investor awareness and to spread further to the semi-urban and rural areas. These initiatives would help towards making the Indian mutual fund industry more vibrant and competitive. Since, the need of study has been aroused in order to see the preference, awareness and the investors' perception regarding the mutual funds in Puducherry, this study is an eye-opener, not just for marketers of mutual funds but also for policy and decision-makers in the government.

## Statement of the Problem

It is absolutely essential for India to improve their investments in order to generate sustained economic growth that creates employment opportunities for their growing workforces in the years to come. The biggest challenge before India is to sustain the rapid economic growth. But the public sector investments are negative due to higher fiscal deficit and private sector investments though are on rise, are not sufficient. The pre-liberalized India had a very poor rate of savings and most of the money earned was spent on consumption rather than accumulation. But in the post-liberalization period, India saw an upsurge in volume of savings. Indian mutual fund industry provides reasonable options for an ordinary man to invest in the share market. The plethora of schemes provides variety of options to suit the individual objective whatever their age, financial position, risk tolerance and return expectations. In the past few years, we had seen a dramatic growth of the Indian mutual industry with many private players bringing global expertise to the Indian mutual fund industry. <sup>1</sup>In the recent days most of the investors preferred to invest their funds on mutual funds. Since, the small and household investors constitute a vital segment of the Indian securities market and greater understanding of the perception, and behaviour of these investors is very vital in the policy formulation on development and regulation of securities market to ensure the promotion and protection of interests of small and household investors. In India, though the mutual industry has been in existence

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<sup>1</sup> Syed Tabassum Sultana (2010). Global Journal of Finance and Management, Vol.2, No. 1, pp. 19-33.

since 1964, no major study has been done regarding the investor behavioural aspect with specific reference to mutual funds. It should be noted that the “expectations” of investors play a vital role in the financial markets. They influence the price of the securities, the volume of trade and various other financial operations in actual practice. Besides, mutual fund investment capturing the attention of various segments of the society, like academicians, entrepreneurs, financial intermediaries, investors and regulators for varied reasons. With this background, a humble attempt is made in this work to study the investment behaviour of the retail investors with regards to mutual fund. The issue investigated in the present study include motivating factors, fund selection criterion, attributes of the fund, type of fund preferred and satisfaction level of the retail investors.

### **Objectives of the Study**

The main objective of this study is to examine the investment behaviour of the retail investors on mutual funds in Puducherry. Besides, the study has the following secondary objectives:

1. To study the growth and progress of mutual fund industry in India.
2. To find out the factors influencing the retail investors to prefer investment in mutual funds in Puducherry.
3. To suggest suitable measures for extending the scope for investment in mutual funds based on findings of the study.

### **Testing of Hypotheses**

The study is based on the formulation of the following null hypotheses: There is no significant relationship among the acceptance level of the retail investors belonging to different demographic profile towards factors influencing to invest in mutual funds.

### **Selection of the Study Area**

The Union Territory of Puducherry comprises of four regions namely Puducherry, Karaikal, Mahe and Yanam, which are not geographically contiguous.. As per the 2001 census figure, the literacy rate in the Union Territory of Puducherry was 81.20% as against the National average of 65.38%. Agriculture is the most important occupation in this Union Territory, which provides livelihood for majority of the population. Union territory of Puducherry with 20.89 per cent of households invested in mutual funds, being the leading Union Territory in the matter of household investment in mutual funds among all other states and union territories in India, is purposefully selected for the present study.<sup>2</sup>

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<sup>2</sup> The Hand Book of Statistics on the Indian Securities Market, 2008.

## **Sampling Design**

As the universe of the study is entire Puducherry Union Territory, an attempt is made to stratify the Union Territory into strata. The stratification is done on the basis of geographical and administrative factors. Puducherry Union Territory constitutes four regions, namely, Puducherry, Karikal, Mahe and Yanam divided into 15 communes, divided into 15 communes. In order to collect primary data for the purpose of the study, multi-stage sampling technique is adapted. At the first stage 2 regions out of the 4 regions are selected. In the second stage, 6 communes out of the 13 communes are selected from 2 selected regions i.e. 3 communes from Puducherry Region and 3 communes from Karaikal Region. In the final stage, from each of the commune, modest samples of 100 retail investors were selected on the purposive basis for the study. Therefore, the sample size consists of 600 retail investors.

## **Tools for Data Collection**

The present study is empirical in character based on survey method. As an essential part of the study, the primary data were collected from 600 retail investors. Taking into consideration the objectives of the study, a questionnaire was prepared after a perusal of available literature and thorough consultation with the experts of related fields. Each question was improved for its relevance and meaning by constant interaction with the experts in the areas. The questionnaire was constructed based on Likert scaling technique. Pre-testing of questionnaire was done during August 2009, involving 25 respondents to know the relevance of the questions. In the light of pre-testing, necessary changes were incorporated in the questions and their sequences. The secondary data have been collected mainly from journals, magazines, government reports, books and unpublished dissertations. The more relevant secondary sources of information were collected from the Indian Institute of Management, Bangalore; Documentation Centre, Indian Council of Social Science Research, New Delhi; School of Economics, Delhi University, New Delhi; and Karnataka University, Dharwad. The data so collected have been entered into a master table and tabulated to arrive at useful conclusions.

## **Period of the Study**

As an essential part of the study, the primary data were collected by the researcher for a period of 6 months from September 2009 to March 2010. The secondary data are related to the period of latest 10 years i.e. 2000-01 to 2009-10.

## **Framework of Analysis**

The ultimate object of the study was to examine the investment behaviour of the retail investors in Puducherry. The data collected for the purpose of the study were quantified, categorized and tabulated. In order to study the factors influencing the retail investors to prefer investment in mutual funds in Puducherry, chi square test, analysis of one-way variance, student t-test, analysis of coefficient of variation, multiple regression analysis, and percentage analysis have

been employed. Chi square test was employed to measure the association between the demographic profile of the respondents and their satisfaction with investment in mutual funds and type of fund preferred. The student t-test and analysis of one-way variance are employed to measure the relationship among the demographic profile of the respondents and their perception towards factors influencing to invest in mutual funds, importance level of fund selection criterion, and various attributes of the mutual funds. The coefficient of variation is employed to find out the consistency in the attitude of the respondents towards factors influencing to invest in mutual funds, importance level of fund selection criterion, and various attributes of the mutual funds. Multiple regression analysis is used to measure the effect of selected independent variables on factors influencing to invest in mutual funds, importance level of fund selection criterion, and various attributes of the mutual funds.

## Demographic Profile of the Respondents

**TABLE 1**  
**Demographic Profile of the Respondents**

Personal Variables		No. of Respondents	Percentage
Gender	Male	417	69.50
	Female	183	30.50
Age (in years)	Up to 25	125	20.84
	26-35	203	33.83
	36-45	186	31.00
	Above 45	86	14.33
Education status	Primary education	70	11.67
	S.S.L.C	140	23.33
	H. Sc	206	34.33
	Degree	119	19.83
Annual Family Income (in Rs)	P.G and above	65	10.84
	Up to 100000	106	17.67
	100001-150000	225	37.50
	150001-200000	193	32.16
Occupation	Above 200000	76	12.67
	Business	94	15.67

	Employed	216	36.00
	Professionals	205	34.16
	Agriculturalist	85	14.17
Family pattern	Nuclear family	392	65.33
	Joint family	208	34.67
Value of wealth owned (in Rs.)	Up to 500000	79	13.17
	500001-750000	226	37.67
	750001-1000000	212	35.33
	Above 1000000	83	13.83

Source: Primary Data.

Out of the 600 respondents, 69.50 per cent were male and 30.50 per cent were female. The predominant age group (33.83 per cent) of the sample investors comes under the age group 26-35 years. A good majority of the remaining respondents are distributed in the age group up to 36-45 years. 20.84% and 14.33% of the respondents are in the age group up to 25 years and above 45 years respectively. The highest literacy rate (34.33%) of the respondents is H.Sc level. 23.33 per cent and 19.83 per cent of the respondents have SSLC and degree qualifications respectively. 11.67% and 10.84% of the respondents are having primary education and P.G and above qualifications respectively.

17.67%, 37.50%, 32.16% and 12.67% of the respondents earn annual family income about up to Rs.100000, Rs.100001-150000, Rs.150001-200000, and above Rs.200000 respectively. Out of the 600 respondents, 15.67% and 36% of the respondents are businessmen and employed respectively. 34.16% of the respondents are professionals and 14.17% of the respondents are engaged in agricultural activities.

65.33% per cent of the respondents have joint family system and 34.67% per cent of the respondents have nuclear family system. 13.17 per cent of the respondents have wealth value about Rs. 500000. 37.67%, 35.33% and 13.83% of the respondents owned wealth about Rs.500001-750000, Rs.750001-1000000, and above Rs.1000000 respectively.

### Findings:

1. No significant relationship is found between in the acceptance level of the respondents belonging to different gender, age groups, educational status, and occupation towards motivating factors for investment in mutual funds. However, a significant relationship is found different annual family income group and amount of wealth owned towards motivating factors for investment in mutual funds.

2. Male respondents, respondents in the age group 36-45 years, respondents having primary education, respondents belonging to annual family income up to Rs.100000, respondents of businessmen category, and respondents who have wealth value Rs. 500001-750000 are strongly motivated to invest in mutual funds.
3. There exists consistence in the acceptance level of the female investors, among the investors in the age group up to 25 years, among the investors having S.S.L.C qualification, among the investors who have annual family income above Rs.200000, among the investors of the agriculturist category, and investors who have wealth value above Rs.1000000 towards motivating factors for investment in mutual funds.
4. Gender and educational status have no significant effect on the acceptance level of the respondents towards factors motivating to invest on mutual funds in Puducherry. Age (at 1 per cent level) and annual family income and value of wealth owned (at 5 per cent level) have significant effect on the acceptance level of the respondents towards factors motivating the respondents to invest on mutual funds in Puducherry.
5. Out of the 600 respondents, 12%, 24.50%, 22.17%, 28.50%, and 12.83% of the respondents are strongly agree, agree, neither agree nor disagree, disagree and strongly disagree respectively towards various factors that motivating them to invest on mutual funds in Puducherry . The average acceptance score reveals that the respondents are strongly motivated by less capital to invest (3.83) followed by quality of the portfolio (3.64), and lesser the management fee payable to fund manager (3.30). However, with regard to assurance of allotment of units and loan facility on pledging the unit, the respondents have lower acceptance score (2.87).
6. No significant relationship is found between the attitude of the respondents belonging to different gender, educational status, annual family income, occupation, and amount of wealth owned towards importance level of the fund selection criterion. A significant relationship is found among the attitude of respondents of different age groups towards importance level of the fund selection criterion.
7. Male respondents, respondents in the age group 36-45 years, respondents having P.G and above qualification, respondents who have annual family income up to Rs.100000, businessmen, respondents having wealth value up to Rs. 500000 are giving more importance to fund selection criterion.
8. There is a consistency among the attitude of the investors in the age group up to 25 years, among the investors having S.S.L.C qualification, among the investors who have annual family income above Rs.200000, among the professionals, and investors who have wealth value up to Rs.500000 towards importance level of the fund selection criterion.



9. Gender and educational status have no significant effect on the attitude level of the respondents towards importance of the fund selection criterion. Age (at 1 per cent level) and annual family income and value of wealth owned (at 5 per cent level) have significant effect on the attitude level of the respondents towards importance of the fund selection criterion.

### **Suggestions:**

1. The average attitude score reveals that the respondents are giving more importance to rating by the rating agency (3.53) followed by the fund performance record (3.52) in the fund selection. These are mainly determined by the innovative fund products. Therefore, the mutual fund product designers have to craft strategies to introduce innovative products to improve the scope of the mutual funds market. In this context, AMCs should endeavour to design suitable schemes to meet the multiple needs of adequate returns, safety and liquidity in a reasonable proportion as these features have been rated high by the respondents. Further, AMCs should open more investor service branches or arrange with other banks to provide over-the-counter redemption facility across the country through their banking network.
2. Mutual fund companies should segment their target customers and position their products. The target segment can be broadly divided into institutional segment and retail investor segment. The institutional segment consisted of treasury departments of corporate, trusts, etc and suitable products such as institutional income schemes and money market schemes can be targeted at them. As far as retail investors are concerned, they can be in turn divided into various segments such as young families with small or no children, middle-aged people saving for retirement and retired people looking for steady income. Suitable products such as growth and balanced schemes for young families and income schemes with certain and steady returns for retired people can be marketed. By proper segmentation and by targeting the right product to the right customer, mutual fund companies can hope to win the confidence of their customers and own them for a lifetime. In this way the market scope for mutual funds can be expanded.
3. Investors usually review a range of information before purchasing mutual fund shares. In general, they frequently review or ask questions about a fund's fees and expenses and its historical performance. They most often turn to professional financial advisers for information prior to purchasing fund shares. Some investors also visit Mutual Fund Company; confer with friends, family, or business associates for information before buying fund shares, while others use the Internet regularly. The Internet, with its interactive capabilities, is an effective vehicle for communicating mutual fund information to retail investors. Negative perceptions about mutual funds require to be tackled through appropriate investor education measures. It is suggested that AMFI may set aside a percentage of membership fee that



it collects from the AMCs and create a fund for retail investor education programmes. AMC/AMFI/Sponsors should circulate investor education literature in vernacular language to suit the regional needs to create / increase the awareness level of the investors.

4. Whenever a mutual fund is launched, it states its portfolio according to the objectives of funds, but is experienced that many mutual fund operators ignored the basic objective of fund portfolio; particularly those mutual funds which are income oriented required investing their many mainly in debt instrument of high yielding. A large part of resources of these funds is invested in IPOs, small and mid cap stocks which are the not traded frequently at stock exchanges. The retail investors are big losers by investing in these funds as the net asset value of these funds has liquidated to great extent of their original investments. It is suggested that the mutual fund operators must understand the basic objective of fund portfolio and accordingly shall launch funds in the market.
5. The respondents state that mutual funds have not been able to provide quick service and adequate service. Therefore, it is suggested that the mutual fund companies should improve their service quality to attract more retail investors. At present, electronic sale of financial products is gaining volumes with the widespread acceptability of e-buying. There is a likelihood of the volumes reaching a significant size, thereby spawning a new distribution paradigm. Therefore AMCs should establish friendlier and easily accessible 'Automated Response Systems'. These systems should not only effectively convey information on products and services but also efficiently redress retail investor grievances. It will reduce the turnaround time for services like investments, redemptions and transfers and bring them on par with banks in turnaround time.
6. When the entire stock market declines in value, the value of mutual fund units will go down as well. Therefore, the retail investors encounter fewer risks when they invest in mutual funds than when they buy and sell stocks on their own. With the stable and growing capital market trend it is possible to stabilize and thus the risks in the investment of mutual funds could be reduced.
7. Sometimes some funds are involving in high volume of transactions in one go just to inflate the market price of a particular scrip. It creates the unnecessary speculation in such shares. In such transactions original investors of the fund as well as other investors lose their money. It brings frustration in prospective investors. Therefore, the SEBI should take necessary care that such transactions are not made by mutual funds.

## Conclusion

The present study looks at the perception level of the retail investors towards investment in mutual funds. The small investors purchase behavior does not have a high level of coherence due to the influence of different purchase factors. The buying intent of a mutual fund product by a small investor can be due to multiple reasons depending upon customers risk return trade off. . Presently, more and more funds are entering the industry and their survival depends on strategic marketing choices of mutual fund companies, to survive and thrive in this highly promising industry, in the face of such cutthroat competition. Therefore, the mutual fund industry today needs to develop products to fulfil customer needs and help customers understand how its products cater to their needs. If the study provokes the authority concerned to take some positive measures for expanding the scope of mutual funds investment.

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