

Study on factors determining investors choice of equity mutual fund through systematic investment plan

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Abstract

The mutual funds act as investors to invest their savings in the professional funds management system, irrespective of the sum invested. It enables masses to enter the Indian Financial Market with much more ease. Indian Mutual Funds industry is growing rapidly which is reflected with the growth in assets under management under various AMC's year on year. Less risk combined with moderate returns and professional management act as a magnet for the risk averse investors to invest their savings in the financial markets. This paper aims at finding out the factors affecting investment decision on mutual funds. This paper also aims at finding about the factors that prevent the people to invest in mutual funds. The findings will help mutual fund companies to identify the areas required for improvement and can also improve their marketing strategies.

It will help the mutual fund companies to create new and innovative product according to the orientation of investors. It is important to understand few basic factors such as level of awareness and impact of date of inception of the fund which play a significant role in guiding the investment decision making process of investor.

Keywords : Mutual Fund, Investors, Financial Market, Fund manager and Systematic investment plan.

Introduction

Indian capital markets have arisen to be at the centre stage of the Indian financial system from a miniscule impact it had upon the financial markets a decade earlier. The capital market in India has also witnessed a significant increase in institutional setup and development. Institutions have evolved and developed in the form of a diversified structure of mutual funds.

The mutual fund is a special purpose institutional setup established specifically for investment purposes and it acts as an investment conduit. Its primary function is to pool and

gather savings from small investors, build a bigger corpus of large resources and invest them into a well-diversified portfolio of sound investments. It aims to maximize returns as much as possible while keeping the quantum of risk associated with equities low. Despite being available in the market less than 10 percent of Indian households have invested in mutual funds. A recent report on Mutual Fund Investments in India published by research and analytics firm, Boston Analytics, suggests investors are holding back from putting their money into mutual funds due to their perceived high risk and a lack of information on how mutual funds work.

Mutual funds issue units (securities) to unit holders (investors) in accordance with the amount of money invested by them. The distribution of profit or loss among unit holders takes place in proportion to their investments. The setup of mutual funds is of a “trust” consisting of

- **Trustees:** The trustees of a mutual fund hold its property for the benefit of the unit holders.
- **Sponsor:** The trust is established by a sponsor who is like the promoter of a company.
- **Asset management company :** The asset management company is responsible for making investment into securities.
- **Custodian:** The custodian is responsible for holding the securities of various schemes of the fund in its supreme custody.

The trustees are persons usually holding the general power of superintendence and direction over the asset management company. They are vested with the powers to oversee the compliance and performance of all guidelines, rules and regulations laid down by SEBI by the mutual fund. The mutual funds as an investment vehicle offers a variety or range of services to marginal or small investors who are limited by their resources and are unable to manage and build a vibrant investment portfolio caused by mainly due to miniscule funds, lack of professional experience and expertise, etc. The mutual funds have many advantages for marginal investors which include convenience, lower risk, expert management, economies of scale.

Review of Literature

Arugaslan et al. (2008) analysed the performance of 50 large US-based international equity funds using risk adjusted returns during 1994–2003. They used risk-adjusted performance

mutual fund to evaluate equity funds. The results indicate that funds with the highest average returns may lose their attractiveness to investors once the degree of risk embedded into the funds is forced into the analysis. Further, some funds in which the average unadjusted returns do not stand out may look very attractive once their low risk is taken into performance.

Kavitha Ranganathan (2004) conducted a study on investor perceptions. Sample size is limited to 100 educated individual investors in the city of Mumbai. She found in her study that Savings Objective of the majority of individual investors is to provide for Retirement, the respondents have good awareness level of mutual funds, Shares are favoured growth scheme and open-ended schemes are favoured and factor analysis is done to analyse the selected factors.

Bala Ramaswamy and Mathew.C.H.Yeung (2003) examined the relative importance of factors considered important in the selection of mutual funds by financial advisors in emerging markets. The survey focuses on Malaysia. The result of the survey point out to three important factors which dominate the choice of mutual funds. These are consistent past performance, size of funds and cost of transaction. Factors which relate to fund managers and investment style are not considered to be relatively important. Conjoint analysis was selected to study the importance of attributes for mutual fund selection.

Need for the Study

The new mutual fund launches has seen many of the equity based funds in the market during this period, primarily to attract investors who would like to take advantage of the low price in the stock market, but majority of the funds launched were debt funds. The investors hesitate to invest in the equity mutual fund when the market is down, but the marketing and distribution costs of these, incurred during this period, do not reflect a rise of investor's choice.

The purchase decision of a mutual fund is largely depend upon investors' level of savings, investment pattern of the risk profile. As a product manager in the mutual fund market one ought to design mutual fund products which shall combine an optimal mix of return, risk, liquidity and safety for the small investors. Hence it is essential to analyse the profile of investors, investors' preferences and how they rate the mutual fund schemes and what significant factors influence their rating scheme. This study helps the mutual funds and other relevant agencies in designing the new schemes and their marketing.

Statement of the Problem

Mutual fund in itself is deemed to be an institutional entity that encompasses the commonly desired and schematically accumulated financial goals of the community of investors. The money collected from a plethora of sources is invested by the fund manager in various types of securities depending on their duly specified objectives. A systematic investment plan, therefore, in its rudimentary conceptualization, is a collection of stocks and bonds, where an investor holds a share, which represents a part of the fund holding thereof. A proportionate sharing of income earned through such investors and capital appreciation witnessed by the schemes is duly carried out. It must however be mentioned that this proportional sharing by the unit holders is governed by the number of units owned by them. Mutual fund plan is therefore, the most suitable investment option available for a common man as it provides an opportunity to invest in a diversified, yet professionally managed portfolio at a competitive.

Objectives of the Study

- To study the mutual fund systematic investment plan investment decision among the investors.
- To discuss the important discriminate factors among the investors in mutual funds market

Research Design

The research design helps to decide upon issues like what, when, where, how much, by what means etc., with regard to an enquiry or a research study. It is an arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose, with economy in procedure. In fact, the research design is the conceptual structures within which research is conducted, it constitutes the blue print for the collection, measurement and analysis of data.

Analysis and interruption

Table 1 Influencing of mutual fund factors on plan benefit.

Model Summary	Predictors	Unstandardized Coefficients		Standardized Coefficients	t-Value	P-value
		B	Std. Error	Beta		
R=0.960 R²=0.921 Adj R²=0.774 F=6.282 P=0.011	(Constant)	0.840	1.053	--	0.798	0.451**
	Nature of Fund	-3.572	1.738	-2.683	-2.055	0.079*
	Investment Behaviour	-0.222	1.263	-0.170	-0.176	0.865**
	Performance	1.944	0.762	1.333	2.550	0.038*
	Company Service	-5.346	1.982	-3.045	-2.696	0.031*
	Fund Manager	-2.038	1.023	-1.391	-1.992	0.087*
	Personal factor	-1.549	3.118	-0.871	-0.497	0.635**
	Risk Tolerance	-0.599	0.826	-0.372	-0.726	0.491**
	Service and Communication related factor	-1.241	0.813	-1.241	-1.526	0.171*
	Role of advisor	-1.705	0.990	-1.079	-1.721	0.129*
	Advertisement	10.539	4.331	6.234	2.434	0.045*
	Economic Factor	3.021	1.493	2.437	2.023	0.083*
Social	5.413	1.738	3.354	3.116	0.017*	
Cultural Psychological	-3.882	2.091	-2.818	-1.856	0.106*	

Source: Primary data computed. *Significant at One percent level **Significant at five percent level

H0: Have not influence on plan benefit mutual fund factors of the customers.

Regression analysis is carried out to examine the above stated hypothesis. Here, mutual fund factors namely nature of fund, investment behaviour, performance, company service, fund manager, personal factor, risk tolerance, communication related factor, role of advisor, advertisement, economic factor, social factor and cultural psychological factors have been taken as influencing variables. Plan more benefit due to investor choice factor has been taken as a dependent variable. Further, linear regression analysis has been carried out. The result is displayed in the table 1. From the regression model summary result, the calculated adjusted R² value is found to be 0.921 at the corresponding F-value is 6.282, which is significant at one percent level (0.001). It shows that regression model is fit. From this information, it is inferred that independent variables such as mutual fund factor namely nature of fund, investment behaviour, performance, company service, fund manager, personal factor, risk tolerance, communication related factor, role of advisor, advertisement, economic factor, social factor and cultural psychological factors are influencing the investor's choice of equity mutual fund systematic investment plan at 92.1 percent level. Further the regression

coefficient value indicates the strength of relationship between the independent variables and dependent variable. This is expressed by the following equation:

Investor's choice of equity mutual fund through systematic investment plan benefit =
 Constant (0.840) + advertisement factor (10.539) + social factor (5.413) + economic factor (3.021) + performance factor (1.944) – company service (5.346) – nature of fund (3.752) – cultural psychological (3.882) – fund manager (2.038) – personal factor (1.549) – role of advisor (1.705) – communication related factor (1.241) – risk tolerance (0.599) and investment behaviour (0.222).

From the regression equation, it is inferred that the advertisement factors, social factor, economic factor and performance factor are positively influenced the plan benefits of the customers to invest of equity mutual fund systematic investment plan. But, company service, nature of fund, cultural psychological factor, fund manager, personal factor, role of advisor, communication related, risk tolerance and investment behaviour are negatively influenced to plan benefit of customers to invest in equity mutual fund systematic investment plan. Further in the regression equation, the unstandardized beta coefficient explains the relative importance of each independent variables on the dependent variable. From the beta value, it is inferred that to have one unit increase or decrease in the plan benefit of investor choice of mutual fund systematic investment plan. To have one unit increase in the plan benefit of the investor choice of mutual fund systematic investment plan, advertisement factor positively determined at 10.539 levels, while other factors remains constant. Similarly to have one unit increase of plan benefit, the social factor is determined at 5.413 levels, the economic factor is determined at 3.021 levels and nature of fund is determined at (3.752) levels . But, the mutual fund other factors like service, nature of fund, cultural psychological factor, fund manager, personal factor, role of advisor, communication related, risk tolerance and investment behaviour factor are having negative impact on plan benefit to investor choice of mutual fund SIP scheme. Here, to have one unit decrease of SIP plan benefit service factor determining at (5.346) levels, the nature of fund factor is determining at (3.752) levels, cultural and psychological factor is determining at (3.82) levels, fund manager factor is determined at (2.038) levels, personal factor is determined at (1.549) levels, role of advisor is determined at (1.075) levels, service and communication related factor is determined at (1.241) levels, risk tolerance factor is determined at (0.599) levels and investment behaviour factor is determined at (0.222) level.

It is pointed that the nature of fund, advertisement factors, social factor, economic factor and performance factors are the factors influenced the plan benefit of the customers to make the decision to invest in the mutual fund through systematic investment plan.

Table 2 Influencing of mutual fund factors on comparisons of the different plan

Model	Predictors	Unstandardized Coefficients		Standardized Coefficients	t-value	P-value
		B	Std. Error	Beta		
R=0.936 R²=0.877 Adj R²=0.648 F=3.831 P=0.041	(Constant)	0.656	1.438	--	0.456	0.662**
	Nature of Fund	-0.764	2.375	-0.525	-0.322	0.757**
	Investment Behaviour	-2.735	1.725	-1.906	-1.585	0.157*
	Performance	0.272	1.042	0.170	0.261	0.002*
	Company Service	-0.654	2.708	-0.341	-0.241	0.016*
	Fund Manager	-0.664	1.397	-0.414	-0.475	0.049*
	Personal factor	3.518	4.260	1.809	0.826	0.036*
	Risk Tolerance	0.887	1.128	0.504	0.786	0.457**
	Service and Communication related factor	-0.979	1.111	-0.895	-0.881	0.408**
	Role of advisor	-1.247	1.353	-0.722	-0.922	0.387**
	Advertisement	-1.225	5.916	-0.663	-0.207	0.001*
	Economic Factor	1.508	2.040	1.112	0.739	0.004*
	Social Factor	3.723	2.374	2.109	1.568	0.001*
Cultural Psychological	-0.800	2.857	-0.531	-0.280	0.001*	

Source: Primary data computed. *Significant at One percent level **Significant at five percent level

H0: Have not influence on comparison different plan benefit of mutual fund factors

In order to examine the above stated hypothesis, linear regression is applied. Here, mutual fund factors namely nature of fund, investment behaviour, performance, company service, fund manager, personal factor, risk tolerance, investor service and Communication related factor, role of advisor, advertisement, economic factor, social factor and cultural psychological factors have been taken as influencing variables. Comparison other plan benefit due to investor choice factor has been taken as a dependent variable. Further, linear regression analysis has been carried out. The result is displayed in the table 2.

From the regression model summary result, the calculated adjusted R^2 value is found to be 0.877. Corresponding F-value is 3.831, which is significant at one percent level (0.001). It shows that regression model is fit. From this information, it is inferred that independent variables such as mutual fund factor namely nature of fund, investment behaviour, performance, company service, fund manager, personal factor, risk tolerance, service and communication related factor, role of advisor, advertisement, economic factor, social factor and cultural psychological factors are influencing to investor's choice of equity mutual fund through systematic investment plan. Where, adjusted R^2 value indicates that independent variables significantly influenced plan benefit for investor's choice at 93.6 percent level. Further the regression coefficient value indicates the strength of relationship between the independent variables and dependent variable. This is expressed by the following equation:

Investors choices to comparison of other plan to mutual fund through systematic investment plan = constant (0.656) + social factor (3.723) + personal factor (3.518) + economic factor (1.508) + performance factor (0.272) + risk tolerance (0.887) – investment behaviour (2.735) – role of advisor (1.247) – advertisement factor (1.225) – service and communication related factor (0.979) – cultural psychological factor (0.800) – nature of fund (0.764) – fund manager factor (0.664) – company service (0.654).

From the regression equation, it is inferred that the social factor, personal factor, economic factor, performance factor and risk tolerance are positively influenced the comparison of other plan benefits are customer to invest of equity mutual fund systematic investment plan. But, the investment behaviour, role of advisor, advertisement factor, service and communication related factor, cultural psychological factor, nature of fund, fund manager factor and company service factors are negatively influenced that comparison with other plan benefits to customer invest in equity mutual fund systematic investment plan. Further in the regression equation, the unstandardized beta coefficient explains the relative importance of each independent variable on the dependent variable. From the beta value, it is inferred that to have one unit increase or decrease in the other plan benefit to investor choice of mutual fund systematic investment plan. To have one unit increase in the plan benefit of the investor choice of mutual fund systematic investment plan, social factor is positively determined at 3.726 level, while other factors remains constant. Similarly to have one unit increase of investor choice of comparison with other benefit, the personal factor is determined at 3.518 levels, the economic factor is determined at 1.508 levels, performance factor is determined at (0.272) levels and risk tolerance factor is determined at (0.887) levels . But, the mutual fund other factors like investment behaviour, role of advisor, advertisement factor, service and

communication related factor, cultural psychological factor, nature of fund, fund manager factor and company service factors are having negative impact on other plan benefit to investor choice of mutual fund SIP scheme. Here, to have one unit decrease of plan benefit of investment behaviour factor determining at (2.735) levels, the role of advisor factor is determining at (1.247) levels, advertisement factor is determining at (1.225) levels, service and communication related factor is determined at (0.979) levels, cultural psychological factor is determined at (0.800) levels, nature of fund is determined at (0.764) levels, fund manager factor is determined at (0.664) levels, company service factor is determined at (0.654) levels.

It is noted that the social factor, personal factor, economic factor, performance factor and risk tolerance factors are influencing the other plan benefit to customers take the decision to invest in the mutual fund through systematic investment plan.

Table 3 Relationship between mutual funds SIP factors and different plan choice

Mutual fund SIP factor	Different plan choices	
	r- value	r- value
Nature of Fund Factor	0.284	0.001*
Investment Behaviour Factor	0.154	0.001*
Performance Factor	0.510	0.001*
Company Service Factor	0.525	0.001*
Fund Manager Factor	0.281	0.001*
Personal Factor	0.553	0.001*
Risk Tolerance Factor	0.382	0.001*
Service and Communication related Factor	0.347	0.001*
Role of advisor Factor	0.089	0.001*
Advertisement Factor	0.328	0.001*
Economic Factor	0.046	0.001*
Social Factor	0.514	0.001*
Cultural and psychological Factor	0.391	0.001*

Source: Primary data computed.

(*Significant at One percent level)

H₀: mutual fund factors are not having relationship with different plan of choice for the investors in the mutual fund SIP scheme.

Pearson correlation test was applied to verify the above stated hypothesis. The result is posted in the table 4.36. The calculated r-values are ranged between 0.553 and 0.046. The P-values are found to be 0.001, which are significant at one percent level. Hence, the stated hypothesis is rejected. It is inferred that mutual fund factors are having the relationship with different plan for investor to choose the mutual fund SIP scheme. From r-values, it is observed that the personal factor is having strong (0.553) and positive relationship with investor to choose the mutual fund through SIP schemes followed by company service factor (0.525), social factor (0.514), performance factor (0.510), cultural and psychological factor (0.391), risk tolerance factor (0.382), service and communication related factor (0.347), nature of fund factor (0.284), fund manager factor (0.281), investment behaviour factor (0.154), role of advisor factor (0.089), economic factor (0.046). Here, personal factor, company service, social factor and performance factors are having strong relationship with investors to different plan for choice of mutual fund through SIP schemes. However, investment behaviour, role of advisor and economic factors are having weak relationship with investor choice for mutual fund through SIP scheme.

Recommendations

Quality of the Fund Manager Quality of the Fund Manager is the key to good performance of any mutual company. A very good performing scheme may suddenly start underperforming because of the change in the managers.

The individual investors and institutional investors vary according to their level of expectation and perception on mutual funds. The factors leading to invest on mutual funds and selection of mutual fund scheme are also differing from each other. The mutual funds company should analyse the need of various investors and design the mutual funds according to the need of various segments.

Conclusion

The present study concluded that the investors are well versed in the mutual fund market. The factors considered to select the mutual fund schemes are the nature of funds, performance, company services, fund manager and personal factor. The important decision variables influencing the investment on mutual funds are liquidity factors, risks involved and current market conditions. The important reasons for switching from one fund to another are consistency in performance, past performance and fund managers efficiency. The important problems identified by the investors are performance,

fund management, company, service and market. The profile of the investors plays its own role in the investors' behaviour. Since the scope of mutual fund market is very under in India, the company realizes the needs of the different class investors and designs the product according to their needs.

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