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A Study on Investor Perception towards Mutual Funds

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ABSTRACT: *The mutual fund business is highly spread across fund wise and scheme wise. The dominant position of the UTI in the industry was happening from long back. Handful of schemes account for a major part of the unit capital. There has been a proliferation or a mushroom growth of mutual funds and their schemes. The ordinary investor is likely to get lost in to too many products of mutual fund industry. It also acts as a lag on the administrative resources of the industry contributing to poor or inferior fund management. Many mutual funds are sponsored by public sector banks and financial institutions so the investors will be getting more confidence on their investment. The mutual funds are used for creating non competitive markets.*

Key words : *UTI, Fund Management,Investment*

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I. INTRODUCTION

Mutual fund is a fund that is professionally managed from various investors and invests them in various securities like money market, shares debentures and various other securities. A mutual fund is a pure intermediary which performs a basic function of buying and selling securities on behalf of its investors. In short we can say that they are doing some king of brokerage work. The investor gets proportional share of fund's profit, loss, income and expense. The value of the mutual fund company depends on the performance of the securities it decides to buy.

Now a day's Mutual Fund has evolved as a tool for ensuring one's financial wellbeing. The growing popularity of mutual funds has not only contributed to the economic well being of our nation but also it has made individual investors to tap new opportunities and capitalize on it. Few years back the idea about mutual funds was not popular among the people but now people are enjoying the benefit of mutual funds. Even though mutual fund is becoming popular the main reason the number of retail mutual fund investors remains small is that nine in ten people with incomes in India do not know that mutual funds exist. Now a day's mutual fund providing companies are doing more campaigning and advertisement to aware the people about the benefits that they could receive by investing in the same.

The role of mutual funds on the stock market has not always been beneficial there is no doubt that because of them larger magnitudes of funds are now available for investment. But at the same time they are also responsible for producing unhealthy speculation and unnatural increase in the share prices on the stock market. The expectation that the mutual funds will bring about more amount of money will create speculation in the stock markets. So the potential investor will wait for such opportunity which in turn leads to unhealthy practices in the market. The experience from a country like US indicates the growth of mutual funds has increased over the period of time. The regulations on mutual funds has to more strict not only for eliminating frauds but also for shielding the whole financial system from the collapse of confidence in mutual funds

Research Methodology

This investigation is descriptive in nature. With the end goal of concentrate 150 investors were chosen and a questionnare was intended to gather the information. Responses were gathered through multistage sampling procedure and investors had a place with various locale of kerala. They are vadakara, koyilandy and calicut. 50 respondents were chosen from every area. So as to achieve objectives of study the investor's perception towards mutual funds as investment option, data collected through preframed questionnaire was interpreted.

II. REVIEW OF LITERATURE

Dr. Kavita Chavali (2009) [1]has done a study on linking mutual funds and other traditional tax saving schemes. Randomly she had picked some equity schemes as well as traditional tax savings and made a comparative study for the same. She has also made an attempt to study the level of awareness of mutual funds among different classes of people. The study also covered risk return preferences of the investors. The study was conducted by using the tools like standard deviation, alpha, beta, Sharpe ratio etc. **SEBI-NCAER Survey (2000)[2]** was carried out to check the number of house hold and population of individual investors, their profile including demographical, geographical and portfolio. This comprehensive study was done in a vast area of 3000000 geographically disbursed people in rural areas. The study arrived at a conclusion that low income group are unaware of mutual fund and the schemes offered by it, but they have pointed out that the high income group have enough idea about mutual funds and their updated products and they are contributing majority share in investment. **R shanmugham(2000)[4]** conducted a study by taking 201 investors as sample.tha study mainly focused on the factors that affect mutual fund investors while making their investment in mutual funds. Samples were randomly drawn from a known population. Apart from so many factors that the study took psychological and sociological factors was the predominant one because they were the constraints that the investors kept in mind. Other factors had very negligible effect on individual investors. **Shyama Sunder (1998**)[5] conducted the study which focused on private institution that provides mutual funds. The study revealed that the awareness about the mutual funds were very poor in cities like Vishakapattanam. The study was done with special reference to Kothari pioneer. The study also found that agents play a vital role in spreading the advantages of mutual funds which in turn leads to more subscription of mutual funds .

Roy and Deb(2003) [6] used different genre of technique to study the fund performance and timing. The study pointed out that Treynor's technique has some shortcomings and so they used historical average returns to complete the study. Sample of 89 funds were taken for the study consisting of equity and balanced funds. They used alpha technique over the period from January 1999 to July 2003.even though they have used some different approach of study; their study was weak as they were having poor statistical significance.

Mutual Fund Industry In India

As mutual funds manage the portfolios of millions of investors, by using their funds, its apt to set out an analysis of the mutual funds and their schemes in India; an attempt is made to do this in this chapter as it is a relevant subject for portfolio management.

In India, the only mutual fund operating for a long period since 1964 was the Unit Trust of India. It is an open-ended mutual fund, whose units can be sold and repurchased at any time. UTI enjoys a monopoly position and some unique tax concessions such as exemption from income-tax of its entire income. UTI has offered many number of schemes to its investors, income declared by its to unit holders is not subject to any tax deduction at source and is exempt from income , since 1995-96, there was a TDS, if the annual income is more than Rs. 10,000,which was removed in 1999-2000.

Mutual Funds have been set up since 1987 by the public sector banks following an Amendment to the banking Regulation act in 1983, which empowered the RBI to permit the banks to do non-banking business such as leasing, mutual funds, etc. under section 6 of this Act. Since then, the SBI, Canara Bank, Punjab National Bank and some other nationalized banks have set up their own mutual funds. The business of mutual funds has a predominant role in the imagination of the financial community and has a rapid growth in India. These kinds of funds mainly targets individual and small scale investors. It was thrown open to private sector and foreign sector in 1992-93.During 1996 to 2002, This Mutual Fund business was in a bad shape due to depressed conditions in the capital market. There was a pick-up in mutual fund business after 2003

Regulatory Framework For Mutual Funds

The structure and provisions for regulation of MFI cannot be discussed in detail here because of space constraints. Some of them have been indicated in chapter 5 and 7. Only a few most recent changes in this respect are highlighted below.

The working of MFs is governed by UTI Act, 1963; Indian Trust act, 1992; relevant provisions of the companies Act, 1956; and Securities contracts Act, 1956; and various tax laws. The overall regulation overseeing and supervision of MFI is done by the Ministry of Finance (MOF) of the GOI, the RBI and the SEBI. Initially, the RBI had issued guidelines for bank-sponsored MFs in 1987.Then followed the guidelines from the MOF in 1991. Thereafter, the SEBI issued guidelines in1991 and a comprehensive set of regulations in 1993. With the growth of MFI, it become necessary that all MFs follow uniform norms for valuation of investments and accounting practices so that anyone could judge their performance on a comparable basis.Therefore, the SEBI

issued new mutual fund regulations in December 1996, based on the recommendations of the Mutual Fund 2000 report prepared by it.

The new (1996) SEBI regulations are uniformly applicable to all the existing mutual funds in all the sectors, including the UTI. Offshore funds are governed by the MOF, GOI and the RBI. MMMFs are governed by the RBI. The regulations aim at improving investor protection, facilitating competition, imparting a greater degree of flexibility, and promoting innovation. The SEBI is the principal Regulatory Authority for the MFs. We list below some of the rules, regulations, guidelines, norms issued by the SEBI from time to time till 2003:

- The existing AMCs should increase their net worth from Rs five crore to Rs 10 crore within one year of notification of the regulations.
- AMCs can have cross trusteeship and directorship provided there is no conflict of interest.
- AMCs can undertake other fund-based business such as providing investment management services. They have now been permitted to diversify into management of pension funds, offshore funds, and VCFs.
- AMCs can charge 1.25 per cent of weekly average NAV up to Rs 100 crore, and one per cent of NAV above Rs 100 crore. They have been made accountable to the investing public by linking up their remuneration to the performance of MFs.
- The consent of investors must be obtained by MFs for making any change in the "fundamental attributes" of a scheme on the basis of which the unit-holders had made initial investments.
- As said earlier, MFs can pay early bird incentive provided it is viewed as interest payment for early investment with full disclosures.
- As per the recommendations of the Expert Committee on valuation norms, it is now laid down that all MFs must follow common or uniform methods of valuation of securities, accounting, reporting, and calculating NAVs. The valuation of investments must now be made on a mark-to-market basis. The dates when the security has to be treated as ex-dividend and ex-rights have been brought on par with international practices.

Advantages of mutual funds	**Disadvantages of mutual funds**
• Mobiliazation of onvestible funds of the community	• No tailor made portfolio
• Diversification of portfolio	• No guarantee for returns
• Diversification of risk	• Loss of control
• Minimal transaction cost	• Limitations in trading
• Choice of schemes	• Too many choices lead to confusion
• Professionally managed	• Fluctuating returns
	• Lack of transparency

Analysis And Interpretation

1) Validity of investments in financial instruments	Response
• 11% respondents said that they have not invested any of their money. • 86% of respondent have invested their money	

2) Investment avenues for the investors	Response
• 29% invest their money in fixed deposit. • 13% prefer to invest in stock market. • 14% prefer to invest in mutual fund. • 19% prefer to invest in postal savings. • Rest of 25% prefers to invest in life insurance schemes	

3) Factors influencing investments	Response
• 51% of respondents said that they invest their money because of it offers them a return on it. • 9% respondents have a fear that their money may lost. • 19% of respondent invest their money to reduce the amount of tax. • 29% invest because of liquidity.	

4) Medium of getting information	Respons e
• 26% of respondents get knowledge about mutual fund from newspaper. • 27% get knowledge from their friends or relatives. • 15% get knowledge from television. • 13% of respondents came to know about mutual fund from internet. • Rest of 19% get knowledge from sale representative.	

5) Outlay in mutual funds	Response
• 22% of respondents invest less than 20000 amount of money. • 38% of respondents lie in the 20000-50000 section. • Only 14% respondents invest amount of money between 50000 and 80000. • Here are also 26% respondents who have invested their money more than 80000.	

6) Mode of investment in mutual fund preferred by investors	Response
• 46% of the respondents preferred annually • 31 % preferred monthly • 23% of the respondents preferred quaterly	

7) Time period of investment in mutual funds	Response
• 23% respondents have invested in mutual fund for time period of 1 to 3 years. • 21% respondents have invested in mutual fund for time period of 3 to 5 years. • 39% respondents have invested in mutual fund for time period of 5 to 10 years. • 17% respondents have invested in mutual fund for time period of above 10 years.	

8) Scheme of investment in mutual funds	Response
• 41% preferred growth fund scheme. • 23% of respondents preferred open ended scheme. • 13% respondents also invested in close ended scheme. • 16% respondents also invested in sector funds. • Rest of 7% respondents prefer other sector fund schemes as per their need or requirement.	

9) Validity of reinvestment plan in mutual funds	Response
• 61% respondents have shown their interest to reinvest their money in mutual fund scheme. • 39% respondents said that they don't want reinvest any amount of money.	
10) Level of risk in mutual fund investment	Response

• 42% of the respondents think that mutual funds are having moderate risk • 39% of the respondents think that mutual funds are having high risk • 19% of the respondents think that mutual funds are having low risk	

Satisfaction in mutual fund investments	Response
• 38 % of the respondents think that level of satisfaction in mutual funds is good • 26 % of the respondents think that level of satisfaction in mutual funds is very good • 14% of the respondents think that level of satisfaction in mutual funds is poor • 12 % of the respondents think that level of satisfaction in mutual funds is very poor • 10 % of the respondents was neutral	

III. CONCLUSION

This study investigated on different aspects related with mutual funds. The result shows that the investors or mutual fund unit holder is unaware about the benefits that they can arrive by holding mutual funds. The above findings are helpful for the mutual fund companies to identify the customer requirements, which will help the mutual fund companies to enhance their quality of service provided to the customers. This study has been used as a fact-finding method for investment in different portfolio schemes, awareness and risk preference of customers

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