FACTORS INFLUENCING THE INVESTORS TO INVEST IN MUTUAL FUNDS: AN EMPIRICAL ANALYSIS

Bishwajit Rout ¹, Sangeeta Mohanty ²
¹ Doctoral Research Scholar, Department of Business Management, Fakir Mohan University, Balasore, India
² Principal, Academy of Business Administration, Kuruda, Balasore, India

Abstract:
Indian mutual fund industry started with traditional products like equity fund, debt fund and balanced fund and later significantly increased it’s product base. Today, the industry has introduced a wide range of products such as money market funds, sector specific funds, index funds, gilt funds, insurance linked funds, exchange traded funds, and marching towards reality funds. The different types of schemes offered by the Indian mutual fund industry provide several options of investment to common man. What is noteworthy is that bulk of the mobilization has been by the private sector mutual funds rather than bank sponsored mutual funds. Through this paper the author has attempted to focus on the the factors that motivate the investors to invest in mutual funds.

Keywords: Mutual Fund; Investors; NAV; Financial Institutions.

Cite This Article: Bishwajit Rout, and Sangeeta Mohanty. (2019). “FACTORS INFLUENCING THE INVESTORS TO INVEST IN MUTUAL FUNDS: AN EMPIRICAL ANALYSIS.” International Journal of Engineering Technologies and Management Research, 6(9), 45-52. DOI: 10.5281/zenodo.3464954.

1. Introduction

Indian financial institutions are playing dominant role in capital formation and intermediation and contribute substantially in macro-economic development. The Indian MF brings stability in the financial systems and efficiency in resource allocation. They have opened new opportunities for investors and imparted much needed liquidity in the financial system. The active involvement of MFs in promoting economic development can be seen not only in terms of their participation in the saving market but also in their dominant presence in the money and capital market. A developed financial market is inextricably related to overall economic development and MFs play an active role in promoting a healthy capital market. Indian economy is one of the fastest growing economies of the world. The saving of the country is now around 29 %. Because of high growth potential, foreign investors are investing in Indian market. India is next emerging economy after the US and China. And hence sound financial market is of utmost importance. It is the financial market which channelizes savings of the people into the investment. Several international Funds are operating independently in India and some are expected to come in future. As such, foreign investors, local institutions and mutual funds are now playing a bigger role.
The mutual funds route has unique characteristics that make it significant to investors. Small investors face a lot of problems in stock markets due to limited resources, lack of professional advice, lack of information etc. Mutual funds come with a much needed help for these investors. It is a specialized type of institutional advice or investment vehicle through which investors pool their savings that are to be invested under the guidance of a team of experts. While ensuring the safety and steady returns on investment they form an important part of the capital market, providing the benefits of diversified portfolio and expert management to a large number of small investors. With this concept, the author has tried to explore the factors that motivate them to invest in mutual funds.

1.1. Mutual fund Industry in India

The Unit Trust of India Act, laid down the foundation of Mutual Funds Industry. UTI was set up in 1963 as a statutory body. It launched US-64 as it first open ended scheme in 1964. The options available are to invest the money in stock market. But a common investor is not well informed and competent enough to understand the complexities involved in the price movement of securities in the financial market. The following table indicates the growth of net assets of Mutual Funds over the years in India.

| Year Ended 31st March | Asset Under Management (Rs. In Crores) |
|-----------------------|----------------------------------------|
| 1965                  | 25                                     |
| 1987                  | 4,564                                  |
| 1993                  | 47,733                                 |
| 2003                  | 79,464                                 |
| 2004                  | 139,616                                |
| 2005                  | 149,554                                |
| 2006                  | 231,862                                |
| 2007                  | 326,388                                |
| 2008                  | 505,152                                |
| 2009                  | 417,300                                |
| 2010                  | 613,979                                |
| 2011                  | 59,250                                 |
| 2012                  | 587,212                                |
| 2013                  | 701,443                                |
| 2014                  | 825,240                                |
| 2015                  | 1,082,757                               |
| 2016                  | 1,439,701                               |
| 2017                  | 1,948,870                               |
| 2018                  | 2,338,082                               |

Source: - www.Amfiindia.com
Indian MF industry witnessed an impressive growth till the year 2007-08 and gave an impression of becoming a mature industry. However, after several years of relentless growth the industry witnessed a fall in the net assets in the year 2008-09 and subsequently in the year 2010-11, suggesting its vulnerability to local financial market and global economic crisis. During 2014-15 it has recorded a tremendous growth of 31.20%. And it is expected that this growth will continue in coming years, which will help the Indian economy to grow further.

1.2. Objectives of the Study

The main objective of the study is to explore the factors motivating the investors to invest in Mutual funds.

2. Reviews of Literatures

Shefrin, H., & Statman, M. (2000) attempted to examine the investment pattern and awareness among the Indian Investors about different investment instruments available in Indian financial market. The research found the age; education, occupation and income level of an individual impact his investment decision. Siddiqui, S., Shuchita, S. (2009) attempted to examine investment pattern of the investors and identified that the investors’ preferences on securities revealed that most of them liked to invest in debt instruments owing to their assured and risk free return. The majority of the investors were interested to invest in growth schemes to take reinvestment benefit rather than the regular dividend. Lakshmana Rao (2011) discussed the growing importance of mutual fund investment in India, when compared with other financial instruments. Mutual fund is the means to contribute significantly to the capital market. In other words, mutual funds are considered as channels for mobilizing the funds of the small investors. Jani & Jain (2013) examined the impact of various demographic factors like age, gender, education, income etc. on the buying behavioural pattern of both Investors. The investment decision of rural and urban investors is influenced by age gender, occupation; educational qualification, income etc. Shabgon & Mousavi (2016) attempted to comprehend how emotions and cognitive errors impact individual investors’ behaviours. This study revealed that behavioural finance research the consequences of social, cognitive, and emotional factors on the economic assessments of individuals and the outcomes for benefit and the resource allocation.
3. Research Methodology

The responses were collected from 100 investors spread over the districts Balasore, Cuttack and Bhubaneswar of Odisha through internet. The investors were requested to give their views on 17 fund related questions set in a 5-point scale ranging from- 1 to 5 where 5 = strongly Disagree; 4- Disagree; 3- Neither agree nor disagree; 2- Agree; 1- Strongly Agree. Only seventeen fund related variables are included in the questionnaire. The variables in the questionnaire were set by reviewing different literatures and by sending in formal questionnaire to the investors through mail. The respondents were first approached and then the data were collected through mail. All total 150 respondents were contacted, but in many cases, the respondents did not agree to furnish the information about their investment pattern and resulted non response cases in the research. However, the researcher succeeded to collect the information successfully from 100 investors only.

4. Factor Analysis

Factor Analysis is a general name denoting a class of procedures used for data reduction and summarizing and analyzing the facts thereof. The purpose of the study is to identify the underlying dimensions or factors that explain the correlations among the set of variables that define the investment pattern of fund managers in mutual fund. The researcher has made an attempt to identify the factors by using the multivariate statistical Technique-Factor analysis by using SPSS to test the said objective.

The following fund related variables are included in factor analysis.

1) Brand name
2) NAV of MF
3) Quality of Service
4) Type of fund
5) Fund size
6) Schemes portfolio
7) Reputation of fund manager
8) Past performance of the fund
9) Liquidity factors of the mutual fund
10) Current market conditions
11) Dividend history
12) Rating by rating agency
13) Redemption facilities
14) Minimum initial investment
15) Regular Saving
16) Tax benefits
17) Fund strength/sustainable performance

5. Data Analysis

The purpose of the study is to identify the underlying dimensions or factors that define the investment pattern of fund managers in mutual fund. The results of the factor analysis using Principal component method are given in the (table-3). Thus, factor analysis was considered to be
an ideal technique for the co-relation matrix. The Principal Component Method was considered to be appropriate as the primary purpose is to determine the minimum number of factors that would account for the maximum variance in the data collected for the purpose of the study.

1) Eigen Value greater than 1, (Table-1) results in four factors being extracted from the data collected. The factors with Eigen Value, values greater than 1 were retained and other factors were not included in the analysis.

2) By comparing the varimax rotated factor matrix with unrotated factor matrix entitled as component matrix, rotation has provided simplicity and has enhanced interpretability. Four factors have been extracted from the rotated factor matrix. (Table-5)

The variables from X1-X17 indicate the fund related variables.

KMO and Bartelett’s test is used to test the significance of using factor analysis.

| Kaiser-Meyer-Olkin Measure of Sampling Adequacy | 0.852 |
|------------------------------------------------|-------|
| Bartlett's Test of Sphericity                   |       |
| Approx. Chi-Square                              | 221.645 |
| Df                                              | 107   |
| Sig.                                            | .000  |

Kaiser-Meyer-Olkin Measure of Sampling Adequacy = 0.852 and it signifies the accuracy of factor analysis.

The first item from the output is a table of communalities (Table-2) which shows how much of the variance in the variables has been accounted for by the extracted factors.

| Communalities | Initial Extraction |
|---------------|--------------------|
| X1            | 1.000              |
| X2            | 1.000 .751         |
| X3            | 1.000 .638         |
| X4            | 1.000 .759         |
| X5            | 1.000 .685         |
| X6            | 1.000 .731         |
| X7            | 1.000 .878         |
| X8            | 1.000 .685         |
| X9            | 1.000 .821         |
| X10           | 1.000 .652         |
| X11           | 1.000 .785         |
| X12           | 1.000 .721         |
| X13           | 1.000 .585         |
| X14           | 1.000 .721         |
| X15           | 1.000 .659         |
| X16           | 1.000 .798         |
| X17           | 1.000 .741         |

Extraction Method: Principal Component Analysis.
Principal Component Analysis
The following table (Table-3) shows all the factors extractable from the analysis along with their Eigen values, the percent of variance attributable to each factor, and the cumulative variance of the factor and the previous factors.

Table 3: Total Variance Explained

| Initial Eigenvalues | Extraction | Rotation |
|---------------------|------------|----------|
|                     | % of Variance | Cumulative % | % of Variance | Cumulative % | % of Variance | Cumulative % |
| Total               | 20.631     | 20.631   | 1.931       | 20.631       | 1.833       | 21.356       |
| 1.931               | 20.631     | 20.631   | 1.931       | 20.631       | 1.833       | 21.356       |
| 1.896               | 18.123     | 38.754   | 1.896       | 18.123       | 1.768       | 17.325       |
| 1.413               | 14.120     | 52.874   | 1.413       | 14.120       | 1.659       | 13.225       |
| 1.229               | 12.586     | 64.460   | 1.229       | 12.586       | 1.223       | 11.256       |
| .987                | 9.331      | 73.791   | .987        | 9.331        | .987        | 93.791       |
| .932                | 8.250      | 81.941   | .932        | 8.250        | .932        | 90.191       |
| .877                | 4.211      | 86.052   | .877        | 4.211        | .877        | 86.052       |
| .625                | 3.120      | 89.172   | .625        | 3.120        | .625        | 89.172       |
| .535                | 2.863      | 92.135   | .535        | 2.863        | .535        | 92.135       |
| .511                | 2.532      | 94.567   | .511        | 2.532        | .511        | 94.567       |
| .498                | 1.445      | 96.312   | .498        | 1.445        | .498        | 96.312       |
| .462                | 1.032      | 98.344   | .462        | 1.032        | .462        | 98.344       |
| .321                | 1.09       | 99.434   | .321        | 1.09         | .321        | 99.544       |
| .204                | .112       | 99.846   | .204        | .112         | .204        | 99.958       |
| .102                | .002       | 99.958   | .102        | .002         | .102        | 99.958       |
| .090                | .031       | 99.989   | .090        | .031         | .090        | 99.989       |
| .072                | .020       | 100      | .072        | .020         | .072        | 100          |

Total Variance Explained
Extraction Method: Principal Component Analysis

It is noticed from above table that the first factor accounts for 20.631% of the variance, the second 18.123% and so on.

Table 4: Component Matrix

| Component | 1  | 2  | 3  | 4  | 5  | 6  | 7  | .579 |
|-----------|----|----|----|----|----|----|----|------|
| X1        | .865 | .786 | .62 | .526 | 6.802E-02 | .562 | .349 | .245 |
| X2        | .906 | -.243 | .843 | .659 | 7.226E-02 | .743 | .309 | .239 |
| X3        | -9.531E-02 | .222 | -.132 | .562 | .349 | -.132 | .562 | .549 |
| X4        | -3.36 | .786 | .62 | .526 | 6.802E-02 | 3.213E-02 | .906 | -6.046E-02 |
| X5        | .152 | 3.213E-02 | .906 | .538 | .865 | .408 | .776 | .865 |
| X6        | .398 | .243 | .589 | -.457 | .906 | .208 | .755 | .906 |
| X7        | .843 | .659 | 7.226E-02 | .336 | -9.531E-02 | .579 | -6.046E-02 | -9.531E-02 |
Rotated Component Matrix
The idea of rotation is to reduce the number factors on which the variables under investigation have high loadings. Rotation does not actually change anything but makes the interpretation of the analysis easier.

Table 5: Rotated Component Matrix

| Component | 1     | 2     | 3     | 4     |
|-----------|-------|-------|-------|-------|
| X1        |       |       | .879  |       |
| X2        | .731  |       |       |       |
| X3        | .775  |       |       |       |
| X4        | .689  |       |       |       |
| X5        | .802  |       |       |       |
| X6        | .703  |       | .709  |       |
| X7        |       |       |       | .709  |
| X8        | .681  |       |       |       |
| X9        |       |       | .611  |       |
| X10       | .671  |       |       |       |
| X11       | .853  |       |       |       |
| X12       | .682  |       |       |       |
| X13       |       | .788  |       |       |
| X14       | .730  |       |       |       |
| X15       | .598  |       |       |       |
| X16       | .681  |       |       |       |
| X17       |       |       | .813  |       |

Extraction Method: Principal Component Analysis.
a 6 components extracted.
Extraction Method: Principal Component Analysis
Table 5.96: Extracted factors

| Factor | Factor interpretation | Variables included in the factors |
|--------|-----------------------|----------------------------------|
| F1     | Intrinsic Qualities   | X3, X4, X5, X11, X12             |
| F2     | Portfolio management  | X2, X6, X8, X10, X14             |
| F3     | Extra benefits        | X9, X13, X51, X16                |
| F4     | Image                 | X1, X7, X17                      |

6. Findings and Conclusion

Factor analysis explored four important factors: Intrinsic Qualities, Portfolio management, Extra benefits, and Image. The first factor is accounted for 20.631% of the variance. The second one is accounted for 18.123% of variance. The third factor is accounted for 14.120% of variance. The fourth extracted factor is for 12.586% of variance.

Mutual funds have become a major vehicle for mobilization of saving particularly from small and household sectors for investment in the stock market. In view of their growing importance in the capital market, their expanding investor base and the decision to allow mutual funds to be set up in the joint and private sectors, it has become necessary to evolve a comprehensive set of prudential guidelines for the all-round development and regulation of mutual funds and for ensuring investor protection.

References

[1] Bogle J C (1992), “Selecting Equity Mutual Fund”, The Journal of Portfolio Management, Vol. 18 No.2, PP. 94-100.
[2] 3. D.W Harless, S.P. Peterson, Investor behaviour and the persistence of poorly-performing mutual funds, Journal of Economic Behaviour & Organization, 37, (1998), 257-276.
[3] Desigan Gnana, Kalaselvi S and Ansuya L (2006),” Women Consumers Perception Towards Investment: An empirical Study,” Indian Journal of Marketing, April
[4] Dhimen Jani and Dr. Rajeev Jain, A comparative analysis of investors buying behavior of urban rural for financial assets specifically focused on mutual fund, International Monthly Refereed Journal of Research In Management & Technology Volume II, March'13
[5] Dr. K. Lakshmana Rao (2011),” Analysis of Consumers perception towards mutual fund schemes”, Zenith International Journal of Multidisciplinary Research, Vol. 1 Issue 8, December 2011, ISSN 22315780
[6] Ippolito R A (1992),” Consumer Reaction to Measure of Poor Quality: evidence from the mutual fund industry,” Journal of Law and Economics, Vol. 35, pp. 45-70
[7] Jambodekar, M.V (1996). Marketing strategies of mutual fund – Current Practices and Future Directions Working Paper, UTI IIM, Centre for capital market education and Research, Bangalore
[8] Shabgon, M. Mousavi, A. (2016). Behavioural Finance: Behavioural Factors Influencing Investor’s Decisions Making , Advanced Social Humanities and Management, 3(1), 1-6.
[9] Siddiqui, S., Shuchita, S. (2009). Behaviour Influence on Stock Market Investments: a surve. The Journal of Management Awareness, 12(2), 95-104.
[10] Shefrin, H., & Statman, M. (2000). Behavioral portfolio theory. Journal of financial and quantitative analysis, 35(02),127-151.

*Corresponding author.
E-mail address: mail4bishwa@gmail.com/sangeeta_mohanty@rediffmail.com