

A STUDY ON PREFERENCE FOR DIFFERENT INVESTMENT AVENUES OF MUTUAL FUNDS WITH SPECIAL REFERENCE TO KARNATAKA

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1.0 INTRODUCTION

Mutual funds go back to the times of the Egyptians and Phoenicians when they sold shares in caravans and vessels to spread the risk of these ventures. The concept of pooling in money for investment purposes started in the mid 1800's in Europe. The foreign and colonial government Trust of London of 1868 is considered to be the fore-runner of the modern concept of mutual funds. The USA is, however, considered to be the Mecca of modern mutual funds. The first pooled fund in the US was created in 1893 for the faculty and staff of Harvard University. On March 21st 1924, three securities executives from Boston pooled their money to create the first mutual fund in the world known as the Massachusetts Investors Trust. By the early - 1930s quite a large number of close - ended mutual funds were in operation in U.S.A. The earlier forms of mutual funds were known as investment trusts in UK and managed investment trusts or closed end companies in USA and Japan.

Mutual funds as an investment vehicle have gained immense popularity in the current scenario, which is clearly reflected in the robust growth levels of assets under management. The Indian MF industry has been growing at a healthy pace of 16.44% for the last eight years, which is far superior as compared to the growth rate for the worldwide MF industry, which has been around 13% in the same period. However, despite this growth, penetration levels in India are low as compared to other global economies. Assets under management as a percentage of GDP is 7 per cent in India as compared to 70 per cent in the US, 61 per cent in France and 37 per cent in Brazil. Growth of mutual fund industry in India is analysed in the study based on the following criteria:1. Increased number of players in the mutual fund industry2. Resources mobilised by mutual fund industry 3. Increase in the Number of investors in mutual fund 4. Plethora of schemes and innovative schemes available to the investors 5. In terms of Assets under management of mutual fund houses6.Increased number of players in the mutual fund industry

1.1 MUTUAL FUND REGULATION IN INDIA

AMFI is a trade body of all the mutual funds in India. It was incorporated in August 1995 as a non-profit organisation to promote and protect the interests of mutual funds and their unit holders, define and maintain high ethical and professional standards and enhance public awareness of mutual funds. All mutual funds in India are the members of the association. AMFI works through committees and working groups. Over the years, AMFI has worked closely with SEBI in establishing standards that match the best in the world. It has played a significant role in introducing best practices to reinforce the growth of the industry on healthy lines and protect the interests of the investors. One of the major initiatives of AMFI has been the introduction of certification programme for agent distributors. SEBI has mandated that all those engaged in sales and marketing of mutual funds schemes will be AMFI certified and registered. AMFI has brought out a detailed workbook on mutual funds based on which it conducts computerized testing through National Stock Exchange test centers. It also organizes written examinations in different languages. Till date over 31000 agent distributors have passed the test. AMFI compiles and publishes data on a monthly and quarterly basis. It has a quarterly publication "AMFI update" which summarizes the major developments in the mutual fund industry and changes in the regulatory framework.

1.2 REVIEW OF LITERATURE:

The study by Acharya and Sidana (2007) tries to categorize hundred mutual funds using group investigation and employing a wide range of norms similar to the yearly total proceeds, the annualized 2 year proceeds, the annualized 5 year proceeds, beta, alpha, R-squared, mean and standard deviation and Sharpe's ratio. The information is gained from 'Value research online'. There is proof of discrepancy among the categorization of the purpose of saving and the proceeds gained by the mutual fund.

Research conducted by Lakshmi (2007) analyzes the functioning of the mutual funds sector in India by particularly making a reference to developing plans. The main aim of development plans with expansion chances assures utmost capital increase. Therefore, the investigator proposes to examine expansion plans with plans started in 1993 and at the same time functioning in a disciplined atmosphere. The objective of the study was to spot if mutual funds in India enjoyed a steady expansion, found the issues impacting the choice of the depositors and make out the opinions of fund managers, brokers and investors. Depositors opted for mutual funds based on steady income, security, profit and tax relief. The study also

reveals that mostly private sector joint venture mutual funds in India were greatly popular among depositors and dealers. Dealers and depositors both find expansion plans succeeded by income plans a better option. Brokers / agents were the main source of information about mutual funds. In the depositors point of view mutual funds prefer the benefits of abundance while brokers choose mutual funds for its group diversification, liquidity of investment and professional management. For depositors, increase in capital was the deciding factor to choose a particular mutual fund plan. For traders, proceeds on their speculation and the security it offered was the norm to choose a particular mutual fund plan. At the same time for fund administrators, increase in the capital, liquidity and their environment happen to be the important reasons for choosing a certain mutual fund plan.

In the research conducted by Debasish (2009) an effort was taken to examine the functioning of a few chosen plans of mutual funds on the bases of risk-return affiliation representations and means. Totally 23 plans taken up by six mutual funds supported by the private sector and three mutual funds supported by the public sector were analyzed between April 1996 and March 2009. The investigation was made based on mean return, coefficient of determination, beta risk, Treynor ratio, Jensen Alpha and Sharpe ratio. According to the general investigation report, Franklin Templeton and UTI were adjudged as excellent executors and Birla Sun Life, LIC mutual funds and HDFC were adjudged as firms functioning below par when they were gauged in opposition to the risk-return affiliation representations.

1.3 SAMPLING DESIGN

The study depends on primary data. Questionnaires have been used to collect the needed particulars. Questions related to the objectives have been framed after consulting the investors, investor forum, AMFI - certified agents and financial experts. Based on the information gathered through a pilot study, the structure of the questionnaire has been restructured and 613 respondents have been interviewed in selected districts of Karnataka.

1.4 PREFERENCE FOR DIFFERENT INVESTMENT AVENUES

There are different attributes of various investment avenues that influence the choice of a particular investment avenue. Some of the most important of various attributes of investment are Safety, Liquidity, Reliability, Tax benefit and Returns received over it. The investors were asked to tick the given investment avenues against five important principles of investment.

Null Hypothesis (H₀): There is no association between the investment avenues and preferences

Alternative Hypothesis (H₁): There is some association between the investment avenues and preferences.

TABLE 1
PREFERENCE FOR DIFFERENT INVESTMENT AVENUES

Investment Avenues		Safety	Liquidity	Reliability	Tax benefit	High return	Total
Real estate	Count	78	25	112	68	330	613
	Expected Count	67.7	88.9	148.4	106.6	201.4	613
	% of Total	1.3%	4%	1.8%	1.1%	5.4%	10%
Shares/ debentures	Count	72	163	95	104	179	613
	Expected Count	67.7	88.9	148.4	106.6	201.4	613.
	% of Total	1.2%	2.7%	1.5%	1.7%	2.9%	10%
Mutual Funds	Count	29	149	138	111	186	613
	Expected Count	67.7	88.9	148.4	106.6	201.4	613
	% of Total	5%	2.4%	2.3%	1.8%	3.0%	10%
Fixed Deposit	Count	11	10	202	95	295	613
	Expected Count	67.7	88.9	148.4	106.6	201.4	613
	% of Total	2%	2.4%	3.3%	1.5%	4.8%	10%
Post-office Schemes	Count	112	23	154	123	201	613
	Expected Count	67.7	88.9	148.4	106.6	201.4	613.0
	% of Total	1.8%	4%	3.3%	2.0%	3.3%	10.0%
PPF	Count	207	48	155	125	78	613
	Expected Count	67.7	88.9	148.4	106.6	201.4	613
	% of Total	1.8%	8%	2.5%	2.0%	2.9%	10%
UTI Schemes	Count	18	64	214	141	176	613
	Expected Count	67.7	88.9	148.4	106.6	201.4	613
	% of Total	3%	1.0%	3.5%	2.3%	2.9%	10%
Gold	Count	71	180	120	103	139	613
	Expected Count	67.7	88.9	148.4	106.6	201.4	613
	% of Total	1.2%	2.9%	1.95%	1.68%	4.1%	10%
Lic Policy	Count	35	137	120	67	254	613
	Expected Count	67.7	88.9	148.4	106.6	201.4	613
	% of Total	1.2%	2.2%	1.95%	1.1%	4.1%	10%
NSC NSS Schemes	Count	44	90	174	129	176	613
	Expected Count	67.7	88.9	148.4	106.6	201.4	613
	% of Total	7%	2.2%	2.0%	2.1%	2.9%	10%
Total	Count	677	889	1484	1066	2014	6130
	Expected Count	677	889	1484	1066	2014	6130
	% of Total	11%	13.5%	24.2%	18.4%	32.9%	100%

$\lambda^2_0 = 1172.53$, $\lambda^2_e = 49.8$ for d.f 36 at 5% significant level

$\lambda^2_0 > \lambda^2_e$, the Null Hypothesis is rejected. It indicates there is association between the investment avenues and preferences. It is found that the investment avenues on the basis five principles of investment by the investors have considered. Table 1 shows that real estate investment has been considered good from safety as well as high return. Shares and debentures have been the best choice from liquidity point of view. Mutual funds have been considered for liquidity as well as tax benefit and fixed deposits with the banks for reliability and high return. Post office schemes such as PPF have been considered for safety, reliability and tax benefits. UTI schemes have been preferred for their reliability and tax benefits. Gold investment has been looked upon as liquidity. LIC Policy regarded as liquidity with high return and NSC, NSS Schemes are considered to be reliable and bring tax benefits.

TABLE 2

IMPACT OF FACTORS WHILE INVESTING IN MUTUAL FUND AND “t”-TEST

Factors		Investors N=613	Mean Value	Zo
Area	Urban	398(64.9%)	63.8166	0.103
	Rural	215(35.1%)	63.9023	
Gender	Male	411(67.0%)	64.4355	2.123*
	Female	202(33.0%)	62.6485	
Marital Status	Married	367(59.9%)	65.1362	4.019*
	Unmarried	246(40.1%)	61.9228	

* Significant at 5% level; Table value 1.96

Table 2 indicates that the calculated value is less than the table value, the Null Hypothesis is accepted. It is found that both urban and rural area have the same level of impact of factors while investing in mutual fund.

411(67%) male investors have a high level of impact of factors while investing in mutual fund when compared with the 202(33%) female investors.

In marital status, 367(59.9%) married investors have low level of impact of factors while investing in mutual fund while compared with 246(40%) unmarried ones.

TABLE 3
IMPACT OF FACTORS WHILE INVESTING IN MUTUAL FUND AND ANOVA

Factors	No of investors	Mean Value	ANOVA Value
Age			
Below 30	304(49.6)	62.6447	0.003*
31-40	132(21.5)	64.1224	
41-50	79(12.9)	64.4924	
Above50	98(16.0)	67.0506	
Total	613(100%)	63.8467	
Educational qualification			
School Final	64(10.4)	60.7250	0.022*
Graduate	161(26.3)	63.7344	
Post Graduate	308(50.2)	64.2174	
Professional	80(13.1)	64.4870	
Total	613(100%)	63.8467	
Occupation			
Professional	107(17.5)	62.9533	0.004*
Business	135(22.0)	65.6741	
Salaried	192(31.3)	64.0677	
Retired	76(12.4)	60.4737	
Others	103(16.8)	64.4563	
Total	613(100%)	63.8467	
Monthly Income			
Upto Rs10,000	264(43.1)	64.1705	0.568
Rs10,001-20,000	210(34.3)	63.2619	
AboveRs20,001	139(22.7)	64.1151	
Total	613(100%)	63.8467	
Total family Income			
Upto Rs10,000	149(24.3)	62.7114	0.066
Rs10,001-20,000	165(26.9)	64.4848	
Rs20,001-30,000	178(29.0)	62.9270	
Rs30,001-40,000	49(8.0)	66.0612	
AboveRs40,001	72(11.7)	65.5000	
Total	613(100%)	63.8467	
No of Dependents			
One	79(12.9)	61.0000	0.000*
Two	270(44.0)	61.2197	
Three	173(28.2)	64.6154	
Four & above	91(14.8)	66.1037	
Total	613(100%)	63.8467	
Personal Savings Per month			
Upto Rs5,000	372(60.7)	63.7151	0.054
Rs5,001-10,000	165(26.9)	63.7030	
Rs10,001-20,000	39(6.4)	64.7949	
Rs20,001-30,000	34(5.5)	66.2059	
AboveRs30,001	3(0.5)	49.0000	
Total	613(100%)	63.8467	

*Significant at Five percent level

In order to find out the impact of factors while investing in mutual fund, the Null hypothesis is framed and tested through ANOVA

Null Hypothesis (H₀): There is no relation between the impact on factors while investing in mutual fund and Age, Educational qualification, Occupation, Monthly income, Total family income, No .of dependents, and Personal savings

Alternative Hypothesis (H₁): There is association between the impact on factors while investing in mutual fund and Age, Educational qualification, Occupation, Monthly income, Total family income, No .of dependents, and Personal savings

TABLE 4

AGE AND ITS IMPACT OF INVESTMENT IN MUTUAL FUND

Age Group	Compared with	Mean Difference	Significance
Below 30	31-40	-1.47771	0.832
	41-50	-1.84769	0.169
	Above 50	-4.40590	0.029*
31-40	Below 30	1.47771	0.832
	41-50	-0.36998	1.000
	Above 50	-2.92818	0.540
41-50	Below 30	1.84769	0.169
	31-40	0.36998	1.000
	Above 50	-2.55821	0.511
Above 50	Below 30	4.40590	0.029*
	31-40	2.92818	0.540
	41-50	2.55821	0.511

* The mean difference is significant at 5% level

Table 3 shows a significant level which is less than 5%, therefore, the Null Hypothesis gets rejected. It also indicates different age groups of investors having different levels of impact of factors affecting while investing in mutual fund. A Post Hoc Test has also been applied in order to find out the particular group that differs significantly from other ones.

Table 4 refers significance level to (i) Below 30years and (ii) Above 50 years. 304(49.6%) investors whose age below 30years have low a level of impact of factors while investing in mutual fund while compared with 50 years age group. The mean difference is -4.40590.

98(16%) investors whose age is above 50 years have a high level of factors consider while investing in mutual fund when compared with 30 years.

From the above table, the average scores of sample investors belonging to the groups of 31 to 40 years (64.1224), 41 to 50 years (64.4924) and above 50 years (67.0506) are higher than the category below 30 years (62.6447). Conclusion can be drawn that 98(16%) investors of above 50 years age group have a high level of factors consider while investing in mutual fund among others. We clearly understand that the average score increases along with increase in age of an investor

TABLE 5
EDUCATIONAL QUALIFICATION AND IMPACT OF INVESTMENT IN
MUTUAL FUND

Educational Qualification	Compared with	Mean Difference	Significance
School final	Graduate	-3.0094	0.557
	Post Graduate	-3.4924	0.018*
	Professional Degree	-3.762	0.001*
Graduate	School final	3.0094	0.557
	Post Graduate	-0.483	1.000
	Professional Degree	-0.7526	0.999
Post Graduate	School final	3.4924	0.018*
	Graduate	0.483	1.000
	Professional Degree	-0.2696	1.000
Professional Degree	School final	3.762	0.001*
	Graduate	0.7526	0.999
	Post Graduate	0.2696	1.000

The mean difference is significant at 5% level

Table 3 shows a significant level which is less than 5%, therefore, the Null Hypothesis is rejected. It indicates different Educational qualifications of the investor who possesses different levels of impact of factors while investing in mutual fund. A Post Hoc Test has also been applied in order to find out the particular group that differs significantly from others.

Table 5 implies that 64(10.4%) investors under the category School Final have low level of impact of factors affecting while investing in mutual fund while compared with the (i) Post Graduate and (ii) Professional Degree holders. The mean differences are -3.4924 and -3.762 respectively.

The 308(50.2%) investors under the category of Post Graduate degree have high level of impact of factors affecting while investing in mutual fund when compared with the School Final. The mean difference is 3.4924.

80(13.1%) investors who hold Professional Degree have high level of factors affecting while investing in mutual fund when compared school Final. The mean difference is 3.762.

From the above table, it is learnt that the average scores of the sample investors belonging to Professional (64.4870) Degree holders is higher than the School Final (60.7250), Graduate (63.7344), Post Graduate (64.2174).

It is concluded that the 80 (13.1%) investors of Professional Degree holders have high level of factors considered while investing in mutual fund among others. We clearly understand that the average score increases along with increase in Educational qualification of an investor.

TABLE 6

OCCUPATION AND IMPACT OF INVESTMENT IN MUTUAL FUND

Occupation	Compared with	Mean Difference	Significance
Professional	Business	-2.72080	0.335
	Salaried	-1.11444	0.969
	Retired	2.47959	0.236
	Others	-1.50304	0.980
Business	Professional	2.72080	0.335
	Salaried	1.60637	0.818
	Retired	5.20039	0.000*
	Others	1.21776	0.997
Salaried	Professional	1.11444	0.969
	Business	-1.60637	0.818
	Retired	3.59402	0.001 *
	Others	-0.38860	1.000
Retired	Professional	-2.47959	0.236
	Business	-5.20039	0.000 *
	Salaried	-3.59402	0.001 *
	Others	-3.98236	0.053
Others	Professional	1.50304	0.980
	Business	-1.21776	0.997
	Salaried	0.38860	1.000
	Retired	3.98263	0.053

The mean difference is significant at the 5% level

Table 3 has a significant level less than 5% the Null Hypothesis gets rejected. It indicates the different occupations of investors having different levels of opinions about the

level of impact of factors while investing in mutual fund. A Post Hoc Test is applied to know how the group differs significantly from the other ones.

The table 6 indicates the significance of (i) Business (ii) Salaried and (iii) Retired classes. 135(22%) investors have Business as occupation and have a high level of factors affecting while investing in mutual fund when compared with Retired category. The mean difference is 5.20039

The 192 (31.3%) investors who belong to the Salaried class have a high level of factors affecting while investing in mutual fund when compared with the Retired group The mean difference is 3.59402.

76(12.4%) investors who under Retired category have a low level of impact of factors affecting while investing in mutual fund while compared with the (i) Business and (ii) Salaried the mean differences are -5.20039 and -3.59402 respectively.

From the above table we understand that the average scores of the sample investors belonging to Business (65.6741), Salaried (64.0677) and Others (64.4563) are higher than of the Professional (62.9533), the Retired (60.4737). It can be concluded that 135(22%) investors of Business group have high level of impact of factors consider while investing in mutual fund and Retired group has low level.

We found clearly that the Retired group prefers the mutual fund investment to the other investment options because psychologically they don't opt for investing in other risky investment options. They scrupulously avoid risks.

Table 3 refers to significant level which is less than 5% and the Null Hypothesis gets accepted. It also indicates how different monthly income of investors group have the same level of impact of factors consider while investing in mutual fund.

The Table 3 shows that significant level which is less than 5% and the Null Hypothesis gets accepted. It shows that the how different total family income of investors group have the same level of impact of factors consider while investing in mutual fund.

1.6.CONCLUSION

The Mutual funds can be considered as one of the important investment source available for small investors in India. Mutual Fund industry has to face competition not only from within the industry but also from other financial products that may provide many of the same economic functions as mutual funds but are not strictly Mutual Funds. In the future, Mutual Fund industry has to face competition not only from within the industry but also from other financial products. The present study assesses the impact of demographic profile and investment preferences of investors in the selected study area.

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