

Factors affecting perception of investors towards Mutual Funds

****Dr. Neha Parashar***

Abstract

The reforms in the financial sector and many developments in Indian money market and capital market made Mutual Funds an important portal for the small investors. This paper makes an attempt to identify variations in factors affecting perception of investors while investing in Mutual funds. It will help the MF companies to create new and innovative product according to the orientation of investors. The research generated few factors affecting perception of investors regarding mutual fund selection, which vary from one state to another. The findings of the study will help the mutual fund companies to improve upon their weak areas regarding the factors that influence investors decision making as regard to choice of a mutual fund, the facilities or options they expect from a mutual fund.

Keywords: Perception, Mutual Funds, Investors, Asset Management Company

* Assistant Professor, Symbiosis Centre for Management and Human Resource Development, Pune (Maharashtra). E-mail: nehaparashar10@rediffmail.com

1. Introduction

In financial markets, “expectations” of the investors play a vital role. They influence the price of the securities; the volume traded and determines quite a lot of things in actual practice. These ‘expectations’ of the investors are influenced by their “perception” and humans generally relate perception to action. One of the important cognitive factors of human behaviour is perception. The purchase decisions for financial assets should be made on the basis of investor beliefs regarding the future return and risk of those assets other wise it leads to cognitive dissonance .We find ample proof for the wide prevalence of such a psychological state among Mutual Fund (MF) investors in India.

There is a substantial growth in the mutual fund market due to a high level precision in the design and marketing of variety of mutual fund products by banks and other financial institution providing growth, liquidity and return. At the retail level investors are unique and are a highly heterogeneous group. Hence the mutual fund scheme selection also differs. This necessitates the AMC to understand selection behaviour of the investors to design suitable product to meet the changing needs of the investors. To understand investor’s perception a survey has been conducted among 300 Mutual fund investors from three different cities. This paper will highlight certain factors which affect the perception of investors while investing in Mutual funds. It will also help the MF companies to create new and innovative product .

It is essentially a psychological process. Perception is the process whereby people select, organize, and interpret sensory stimulation's into meaningful information about their environment. There can be no behaviour without perception and perception lies at the base of every individual behaviour. The beliefs and actions of many investors are influenced by the dissonance effect and endowment effect. *The tendency to adjust beliefs to justify past actions is a psychological phenomenon termed by Festinger (1957) as Cognitive Dissonance.*

Peles, Nadav (1997) in his research on “*Cognitive dissonance and mutual fund investors*”, suggests that purchase decisions for financial assets should be made on the basis of investor beliefs regarding the future return and risk of those assets other wise it leads to cognitive dissonance .We find ample proof for the wide prevalence of such a psychological state among Mutual Fund (MF) investors in India. The growing middle class in many mature and emerging market economies is also expected to support the expansion of mutual fund sales in the future. From an institutional perspective, the privatization of pension systems and increasing market penetration of the insurance industry—especially in emerging markets—is also expected to increase the demand for mutual fund products.

Review of Literature:

A large number of studies have been conducted in India and abroad covering different aspects of Mutual funds. **Ippolito (1992) and Chander Subash and Mahajan, Mukesh (1992)** says that investors basically invest in MFs for tax

benefits, growth and for availing professional expertise. The research highlights that major portion of investment is from professional and salaried class. **Madhusudhan V Jambodekar (1996)** a study reveals that investors look for safety of Principal, Liquidity and Capital appreciation in the order of importance. **Peles, Nadav (1997)** in his research work on “Cognitive dissonance and mutual fund investors” provide evidence that investor psychology may affect the fund-switching decision.

According to SEBI – NCAER Survey (2000) , households preference for instruments match their risk perception; Bank Deposit has an appeal across all income class; 43% of the non-investor households equivalent to around 60 million households (estimated) apparently lack awareness about stock markets. **Bard M.Barber and Jerrance Odean (2000)** conducted a study on “Behaviour of MF Investors” in which they analyzed the MF purchase and Sales decision of over 30000 households which reveals that investor buy funds with strong past performance, investors are sensitive to the form in which fund expenses are charged.

Vanniarajan T. and Gurunathan T.,(2007) analyzed some factors in their work on “*Investment in Mutual funds: A Customer Centric Analysis*”. emphasized that MF companies are focusing on customized products due to hectic competition. The study focuses on important factors leading to investment in mutual funds which are monetary, core product, fund strength, promotional measures, customer expectations and service quality.

Objective:

The objective of the research is to identify the age wise variations in the factors affecting perception of investors towards Mutual Funds. The area under study includes three States viz. Rajasthan, Gujarat and Madhya Pradesh. Stratified convenience sampling method was used for selecting investors from urban and semi urban parts of the selected cities.

Research Methodology:

The study is based on a survey of 300 respondents with the help of pretested questionnaire covering investors from three States. The purpose of the survey was to understand the factors affecting perception and level of awareness of investors towards mutual funds. The data obtained from the study were analyzed by using Factor Analysis for identification of the key features preferred by the respondents in a mutual fund product. Principal component analysis is commonly used method for grouping the variables under few orthogonal factors. Varimax rotation was used for proper interpretation of factors.

An investor considers various factors while selecting a mutual fund scheme. These range of factors includes monetary, risk and return, attractiveness of the offer etc. So from the informal discussion with few brokers and agents and referring to certain studies, all the relevant variables which investors consider important for selecting a fund are considered. Twenty Six statements were generated for measuring perception of investors towards mutual funds on a 5 point likert scale.

The first step towards identification of factors affecting perception of investors is **Kaiser-Meyer-Olkin** and Bartlett's Test for measuring sampling adequacy.

The **Kaiser-Meyer-Olkin** Measure of Sampling Adequacy is a statistic which indicates the proportion of variance in your variables which is common variance, i.e. which might be caused by underlying factors. High values (close to 1.0) generally indicate that a factor analysis may be useful with your data. If the value is less than .50, the results of the factor analysis probably won't be very useful. When the test is applied on data following result is revealed:

Exhibit: 1

KMO and Bartlett's test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.657
Bartlett's Test of Sphericity	Approx. Chi-Square	3051.454
	Df	325
	Sig.	.000

Source: Primary data collected through questionnaire

- **Kaiser-Meyer-Olkin Measure of Sampling Adequacy is .657 >.50 which indicates that data is useful for factor analysis**

Bartlett's test of sphericity indicates whether the correlation matrix is an identity matrix, which would indicate that the variables are unrelated. The significance level gives the result of the test. Very small values (less than .05) indicate that there are probably significant relationships among the variables. A value higher than about .10 or so may indicate that the data are not suitable for factor analysis.

- **Bartlett's test of sphericity significance is .000 since it is less than 0.50, we can go ahead.**

After testing the accuracy of the sample next step is to find out factors.

Results

The analysis shows that the changing perception of the investors is forcing the Mutual fund companies and distributors to focus on below mentioned factors which an investor considers while selecting a fund. The exhibit show five factors generated by facto analysis which affect the perception of investors while investing in funds. These factors have been generated from 26 statements.

Exhibit 2

Factors affecting perception of investors

Factor	Eigen Value	% of variation explained	Cumulative %
Monetary	3.124	12.017	12.017
Investors Expectation	2.855	10.980	22.997
Scheme's NAV	2.488	9.570	32.567
Promotional Measures	2.356	9.063	41.630
Risk-Return	1.970	7.577	49.207

	Factor	Variables	Factor Loading
1.	Monetary	Burden of Exit/Entry charges	.775
		Liquidity	.767
		Brand name or scheme's reputation	.671
		Listing of open ended MF facilitates better trading	.659
		Higher performance better fund	.615
2.	Investors expectations	Better customer care services	.803
		Capital appreciation	.638
		Image of AMC	.526
		Brokers/Agent advice	.486
		Normally prefers growth schemes	.407
		Tax Incentives	.373
3.	Scheme 's NAV	Most important criteria	.715
		Disclosure of NAV on every day trading basis	.689
		Continuous increase in NAV signifies growth	.595
		Completely new and innovative schemes attract	.426
		Agency network/ Infrastructure	.414

4.	Promotional Measures	Advertisement by company	.676
		Image of fund manager	.603
		Regulation in MF	.540
		Close ended funds are less risky	.512
		Stable income	.504
		Fringe benefits like free insurance etc.	.468
5.	Risk/Return	Less risky than shares	.686
		Risk involved in different schemes are directly related to return	.553
		International fund provide greater return	.488
		NAV fluctuation does not encourage investors	.362

The rotated matrix has revealed **Monetary Factor** as most important factor with highest Eigen value **3.124**. The table reveals that investors give greater importance to monetary factors like entry/exit charges and liquidity of fund. This factor shows that investors gave due importance to brand name and believe that the funds with higher performance in respect to return are better funds. The factor describes the various monetary considerations like Schemes Liquidity, Entry/ Exit charges and brand name while taking decision about MF scheme.

The second important factor representing investors' perception has been **'Investor's Expectations'** towards MF. This factor shows that investor expect better customer care services which includes regular fact sheets, updating the customer with latest NAV etc. from Mutual Fund Company. Investors are more incline towards capital appreciation and growth schemes. Other variable like Brokers/Agent advice (0.486) is also considered valuable while selecting MF. The last variable in this factor is Tax Incentives with 0.373 loading which investors expect while selecting the Scheme. This factor considers all those variables which investor expects and perceives to be of at most importance while selecting the MF scheme.

Scheme's NAV and Agency Infrastructure is the third factor which highlight that NAV is the most important criteria before selecting MF scheme. Other variables which comprises this factor are disclosure of NAV on everyday trading basis followed by continuous increase in NAV signifying growth with loading of 0.595. Investors also perceive that completely new and innovative schemes attract more investors (0.426) and agency network/Infrastructure (0.414) should be given some weightage while purchasing MF. This factor basically emphasis that investor's also gave preference to value of the Scheme and agency network at the time of investing in Mutual funds.

The analysis has revealed **Promotional Measures** as fourth important factor with Eigen value 2.356 and explained variance 9.063%. The most important variable in this factor with highest loading of 0.676 is advertisement by the MF companies which is followed by image of fund manger having loading of 0.603. Both these variables show that now a days investors are also giving importance to promotional measures used by the MF companies before purchasing or investing in funds. Investors also perceive that there should be regulation in MF market (0.540) and close ended MF are less risky than the open ended funds (0.512). The last two variables which are included in this factor are stable income with loading of (0.504) and fringe benefits like free insurance (0.468) offered by the MF company as a promotional tool.

The last important factor that has been assigned the Eigen value 1.970 and variance 7.577% is **Risk/Return**. Investor's basic motive behind investing in MF is getting higher returns. The first variable with highest loading of 0.686 is that MF are less risky then shares. Next variable with loading 0.553 is in this group that risks involved in different schemes are directly related to return. Investors perceive that international funds provide greater return (0.488) and fluctuations in NAV does not encourage them to invest in MF(0.362) .

To sum up the above analysis, we can say that broadly there are 5 factors which are given due importance by the investors while purchasing MF. The most important among them is the **monetary factor** followed by **investors expectation** from the company and **Scheme's NAV**. The last two factors viz **Promotional Measures** and **Risk/Return** are also given considerable importance while selecting the MF schemes.

Exhibit: 3

State wise Factors Affecting Perception of investors towards Mutual Funds

	Madhya Pradesh	Gujarat	Rajasthan
1	Monetary	Monetary and Scheme's NAV	Promotional tools and Benefits
2	Investors expectations	Return	NAV & Monetary
3	Benefits & Infrastructure	Risk	Risk and return
4	Scheme's NAV & Promotional measures	Image and Benefits	Investors Preferences
5	Miscellaneous	Investors Preference & Advert.	Miscellaneous

While comparing city wise factors individually, we found that investors from Madhya Pradesh and Gujarat are more inclined towards monetary factor while investors from Rajasthan gave more importance to promotional tools and benefits given by mutual fund companies. Investors from Gujarat gave due importance to risk and return and least importance to advertising.

Exhibit: 3

Effect of variations within age on overall and state wise factors affecting perception of investors

S. No	Factors	Age (I)	20-35	35-50	Above 50
		Age (J)	35-50	Above 50	20-35
1	Monetary	Mean Difference (I-J)	2.8020(*)	-3.5464(*)	.7444
		Significance	.000	.000	.496
2	Investors Expectation	Mean Difference (I-J)	1.5648(*)	-1.4662(*)	-9.8585E-02

		Significance	.009	.036	1.000
3	Scheme's NAV	Mean Difference (I-J) Significance	1.6005(*) .000	-1.1107(*) .033	-.4898 .566
4	Promotional Measures	Mean Difference (I-J) Significance	.6634 .452	.8650 .273	-1.5284(*) .002
5.	Risk/Return	Mean Difference (I-J) Significance	-1.0732(*) .015	.5528 .571	.5204 .450
6.	Total	Mean Difference (I-J) Significance	5.5574(*) .000	-4.7055(*) .001	-.8519 1.000
Factors of Madhya Pradesh					
1	Monetary	Mean Difference (I-J) Significance	2.5682 .192	-5.8920(*) .000	3.3247(*) .000
2	Investors Expectation	Mean Difference (I-J) Significance	1.3182 .347	-.6429 1.000	-.6753 .985
3	Benefits & Agency network	Mean Difference (I-J) Significance	3.500(*) .028	-2.9286 .124	-.5714 1.000
4	NAV & Promotional measures	Mean Difference (I-J) Significance	-.3864 1.000	1.0357 .8831	-.6494 1.000
5.	Miscellaneous	Mean Difference (I-J) Significance	1.2955 .397	.6789 1.000	-1.9740(*) .019
6.	Total	Mean Difference (I-J) Significance	8.2955(*) .000	-7.750(*) .000	-.5455 1.000
Factors of Gujarat					
1	Monetary & NAV	Mean Difference (I-J) Significance	2.9235 .069	1.2876 1.000	-4.2111(*) .036
2	Return	Mean Difference (I-J) Significance	.4578 1.000	-.9412 .713	.4833 1.000
3	Risk	Mean Difference (I-J) Significance	1.7284(*) .049	-.9673 1.000	-.76111 1.000
4	Image and Benefits	Mean Difference (I-J) Significance	2.6912 .080	-2.0523 .765	-.6389 1.000
5.	Investors Preferences & Advertisement	Mean Difference (I-J) Significance	1.9196(*) .033	-2.0196 .217	1.000E-01 1.000
6.	Total	Mean Difference (I-J) Significance	9.7206(*) .000	-4.6928 .097	-5.0278(*) .026
Factors of Rajasthan					
1	Promotional tools & Benefits	Mean Difference (I-J) Significance	1.0153 1.000	1.5402 1.000	-2.5556 .987
2	NAV & Monetary	Mean Difference (I-J) Significance	-.4483 1.000	-1.7517 .113	2.200 .262
3	Risk & Return	Mean Difference (I-J) Significance	-1.6092 .145	1.4314(*) .016	.1778 1.000
4	Investors Preferences	Mean Difference (I-J) Significance	.3218 1.000	-.7885 .264	.4667 1.000
5.	Miscellaneous	Mean Difference (I-J) Significance	.9195 .213	.6360 .138	-1.556(*) .005
6.	Total	Mean Difference (I-J) Significance	.1992 1.000	1.0674 1.000	-1.2667 1.000
Based on observed means.					
* The mean difference is significant at the .05 level					

The table reveals that there is a significant variation between age and identified factors when we consider overall factors. This means that variation in age will

have an effect on factors to be considered while selecting Mutual fund. But when we consider each of the five factors individually it shows that promotional measures is not significant factor between age group..

Further the table shows that when state wise factors are considered, Madhya Pradesh and Gujarat show significant variation in factors with variation in age while investors of Rajasthan does not show any significant variation in factors. Only investors from age group 35 to 50 and above 50 show significant variation for the third factor i.e. risk and return.

Exhibit 4

Effect of interaction between age and other personal variables on Factors

	Ratio	Monetary	Investors Expectation	Scheme NAV	Promotional Measures	Risk & Return	Total
Age*Qual	F Ratio	3.127(*)	3.223(*)	2.854(*)	1.930	7.733(*)	1.724
	Sig.	.016	.013	.024	.106	.000	.145
Age* Anl Inc	F Ratio	3.767(*)	1.462	.287	.293	.954	.334
	Sig.	.014	.231	.835	.830	.390	.800
Age* Occup.	F Ratio	.875	.878	.118	.979	1.526	.386
	Sig.	.479	.478	.976	.419	.195	.819

The above exhibit highlights the variations in the factors when investors with different age group interact with investors having different qualification, occupation and Income. F-ratio is the statistical tool used to test this variation and the F value of all the factors after interaction says that no value is significant. So we can conclude that the factors will not vary for investors with different age groups having different qualification, Income etc.

Summary:

1. The study has identified five factors which reflect customer's perception towards MF, among them the most important is monetary factor and Investors expectation and least is Risk and return. Better customer care service and capital appreciation are ranking high in second factors ie investors expectations. NAV is considered as the third important factor and bases of investment. The fourth is promotional factor which says that advertisement by Mutual Fund Company and image of fund manager influence the investor. The last factor emphasis that mutual funds are considered less risky.
2. Investors consider Entry/ Exit fees charged by the Mutual Fund Companies as an important monetary factor while investing. Similarly investors expect better customer care service and Image of the Asset management company as second important factor.
3. Scheme's Net Asset Value is considered as one of the important factor while investing but when all the 26 statements are considered individually completely new and innovative schemes launched by the Mutual fund companies are given priority.
4. Advertisement to promote the scheme and image of fund manager are the two most prominent issues when it comes to promotional factors. Investors give due importance to advertisement displayed by the company before investing in the fund.
5. Customer perception varies from one state to another. Madhya Pradesh investors give due importance to agency network and infrastructure, they have more inclination towards fringe benefits. Investors of Indore expect stable income. Scheme's NAV is considered as most important factor in

Gujarat. They consider that international fund provide greater return. While promotional tools used by the company and benefits provided by the company are considered important by investors from Rajasthan. Broker's advice, advertisement by the company and continuous increase in NAV is considered as important factor.

6. Companies should focus on schemes providing greater returns to attract investors from age group 20-35 years because they believe that international fund provide better returns. Liquidity is the main objective for investing in mutual funds for investors in this age group so companies should therefore launch schemes providing greater liquidity. Companies should use image of Asset Management Company as a promotional tool to attract investors.

Suggestions:

The findings of this study, as discussed above will help mutual fund companies to improve their weak areas regarding the factors that influence investors decision making as regard to choice of a mutual fund, the facilities or options they expect from a mutual fund. This part consists of overall suggestions to mutual fund companies. Mutual Fund Company should try to implement these few suggestions:

1. Investors have more inclination towards completely new and innovative schemes and therefore the MF companies should try to launch innovative schemes for different class of investors.

2. Investors gave more importance to agency network and infrastructure, therefore mutual fund companies should develop the funds to attract more customers
3. MF company can use brand name and Image of fund manager as a important promotional tool for gaining market share.
4. Tax incentive is the most important objective for investing in MFs, therefore MF companies should launch tax saving mutual funds for Gujarat state.
5. Asset Management Companies should try to build strong image in public and should provide better services to investors as these are shown to be given due importance by the investors.

Here are overall suggestions that mutual fund companies should take into consideration which are on the basis of 7 P's of marketing strategy.

1. Product: Companies should focus on product up gradation and try to launch new and innovative schemes to attract all the category of investors especially investors from age group 35-50 years from salaried class. On analysing all factors we can draw the conclusion that investors main objective of investing in mutual funds is liquidity and stable income. MF schemes should provide better liquidity and stable income to investors. Companies should launch close ended funds as investors perceive them less risky.

2. Price: The study found that main factor that influence the investor's perception is Monetary factor which includes liquidity, higher return, burden

of entry/exit charges etc. Therefore the mutual fund companies should focus on these parameters while launching a fund

3. Place: Graduate investors between age group 35-50 years professional as well as business class having annual income between Rs 2-5 Lakhs especially from Madhya Pradesh and Rajasthan give maximum weightage to stable income therefore MF companies should bring schemes with stable return for these classes of investors in these states

4. Promotion: The image of an asset management company and fund manager can be used as major promotional tool especially for investors from 20-35 years age groups. Investors with annual income between Rs 2-5 Lakhs have more inclination towards advertisements and brand name, especially investors from Madhya Pradesh. Companies can therefore use advertisement as an effective promotional tool for investors of M.P. The research highlights that generally retired investors have more inclination towards agent /brokers advice while selecting the fund. Therefore mutual fund companies should give proper training to their agents.

5. Physical Evidence: Investors earning above Rs 5 lakhs annually give more importance to infrastructure and agency network while investing in funds. So the companies should try to build strong agency network and attractive infrastructure. Mutual Fund companies in Rajasthan should give more importance to this factor as investors in this State have more inclination towards infrastructure and agency network

6. People: As investors from different age group show variations when they interact therefore mutual fund companies should launch different schemes for individuals in different age group. It is revealed that the investors are influenced by infrastructural facilities and the reputation enjoyed by the sponsor, in their selection of fund. As there is a significant effect of interaction between scheme and qualification, individuals with different qualifications and having preference towards different schemes affect the factors. Companies should therefore launch bring funds while keeping in mind qualificational background of the investors. Graduates and professional give more importance to monetary factors, while those investors who are below graduate give more importance to promotional factor.

7. Process: In India brokers/agents advice before investing in mutual funds play an important role, especially for below graduate and graduate, salaried class investors. Mutual fund companies should keep an eye on these distributors to have effective process.

Conclusion:

The emergence of an array of Savings and Investment options and the dramatic increase in the secondary market for financial assets in the recent years in India has opened up an entirely new area of value creation and management. An average Indian investor is like ignorant child when it comes to financial markets, the cause may be lack of knowledge and conceptual understanding or the influence of a fixed income orientation in the Indian culture. The market

potential can be tapped by scrutinizing investor behaviour to identify their expectation and articulate investor's own situation and risk preference and then apply to an investment strategy.

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. Running a successful MF requires complete understanding of the peculiarities of the Indian Stock Market and also the psyche of the small investor. Under such a situation, the present exploratory study is an attempt to understand the financial behaviour of MF investors in connection with scheme preferences and selection.

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