Consumer demographics and the attitude towards mutual fund

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Abstract

Indian mutual fund industry is in upward trend as the assets are increasing under management of various fund houses. It is found that mutual investment is less risky than investments in stocks which are therefore a safer option for investors who avoid risk. It has been observes from the market that most of the investors ae not aware of the benefits of mutual funds. This research paper has given emphasis on the awareness level of respondents towards mutual fund and also an attempt has made to identify various variables responsible for investors to invest in mutual funds. Findings of the research will help the companies to identify the areas of improvement required to create more awareness among mutual fund investors. A sample size of 250 comprising of different profile investors considered for the survey and for that judgment sampling procedure followed. The sixteen variables considered for the study that influences the attitude towards mutual fund has taken and analyzed with the help of factor analysis through SPSS and four factors generated which are risk, belief, terminal value and self-concept. These ae the few factors like risk, belief, terminal value and self-concept which has considered by the customers during their investment in mutual funds.

Keywords: Mutual, Fund, Factor, Eigen, Value.

Introduction

Investment is like giving sacrifice of present value amount for the uncertain future reward. Investment is an activity that is engaged in by people who have savings. Savings directed into investment. With the savings invested in various options available to the people, the money act as the driver for the growth of the country. Indian financial scene too presents a plethora of avenues to the investors. The main objective of the investor is to minimize the risk and maximize the return. Mutual funds represent the most appropriate investment opportunity for most investors.

As financial markets become more sophisticated and complex, investors need a financial intermediary who provides the required knowledge and professional expertise on successful investing. Here mutual funds act as an intermediary. In a modern economy financial institutions are the intermediaries between lenders and borrowers. Financial markets are the backbone of an economic system and aid collection of scarce capital across the productive sectors of the economy. The Indian financial system has always had a well-defined institutional structure. A Mutual fund is a trust that pools the savings of a number of investors' who share a common financial goal. The money collected from investors' is invested in capital market instrument such as shares, debentures and other securities. The income earned through these investments and the capital appreciations realized are shared by its unit's holder in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment to the common man as it offers an opportunity, to invest in a diversified, professionally managed basket of securities at relatively low cost. The Mutual Fund Industry is a fast growing sector of the Indian Financial Markets. They have become major vehicle for mobilization of savings, especially from the small and household savers for investment in the capital market. Mutual Funds entered the Indian Capital Market in 1964 with a view to provide the benefit of diversification of risk, assured returns, and professional management. Mutual Fund industries have already entered into a world of exciting innovative products. These products are now tailor made to suit specific needs of investors. Intensified competition and involvement of private players in the race of MFs have forced professional managers to bring innovation in mutual funds. Thus, mutual funds industry has moved from offering a handful of schemes like equity, debt or balanced funds to liquid, money market, sector specific funds, index funds and gilt edged funds.

Hypothesis

The Indian psychology of investment has changed in dramatic way where majority of customers are planning for a short term investments with risk for better return. Mutual fund investment is one of those areas on investment where the return is varying with comparison to other investments. Hypothesis can be formulated to study the relationship of investors' age and income with the amount of mutual fund investment.

Hypothesis-I:
1. H0 = Investors age affects the selection of mutual fund as investment
2. H1 = Investors age does not affect the selection of mutual fund as investment

Hypothesis-II:
1. H0 = Investors income affects the selection of mutual fund as investment
2. H1 = Investors income does not affect the selection of mutual fund as investment

Objectives

1. To study the profile of customers preferring mutual funds
2. To know the variables considered by the customer to select mutual funds
3. To study relationship between demographic variables of investors with preference of mutual funds

Methodology (Research Design)

The study is basically an analytical study based on primary research as well as also related to the analysis of the attitude of investors' ' towards mutual funds. In order to conduct this study, 250 investors' in Bhubaneswar region have been selected by sampling method and mainly questionnaire has been used for collecting the data. The data collection method used to obtain the desired information from primary sources has been through direct interview and questionnaire has been used as an instrument. Chi- Square test has been used for testing the significance of the differences between theory and experiment. The deviation of the experiment from the theory has analyzed through the observed data and expected data. Factor analysis conducted with the help of sixteen statements by using Like t scale.

Literature Review

Singh and Jha (2009) examined that consumers would prefer mutual fund on the basis of return scheme, liquidity and safety and they have limited knowledge about the systematic investment plan. Desigan et al. (2006) explained in their paper that women investors are mostly indecisive in investing mutual funds because of the limited knowledge about the protection in investment and they are also having limited knowledge on investment procedures, market fluctuations, investment risks, investment assessment and grievances.

Sahadevan and Thiripalraju (1997) explained the performance of private sector funds has gained highest mileage in the market during the period of comparison which shows that performance of a fund is never associated with its size. Gupta and Sehgal (1998), has examined the performance in terms of fund diversification and consistency of performance. They also explained the good performance of diversified portfolio of mutual fund industry which has supported by the consistence performance. Ippolito (1992) observed that investors are ready to invest in those funds or schemes which are associated with good rewards and are performing better over the worst. Goetzman (1997) explained that investor's psychology is the major factor in mutual fund selection for investment or withdraw from the fund. Gupta (1994) observed that majority household investor has given more preferences to invest in mutual funds and other available financial assets. Shanmugham (2000)

conducted a survey to find out the information source required by the investor which explained that the investors are controlled by economical, sociological and psychological factors for investment decisions. Ippolito (1992) found that the selection of different schemes by investors is based on past performance of the funds and money flows into winning funds than the flow out of losing funds. Shiller (1993) reported that many investors do not have data analysis and interpretation skills. This is because, data from the market supports the merits of index investing, passive investors are more likely to base their investment choices on information received from objective or scientific sources. Phillip (1995) reported that there is a change in financial decision-making and investor behaviour as a result of participating in investor education programmes sponsored by employees.

Berhein and Garnette (1996) observed that an eefective national campaign can able to promote savings through education and information and could have a measurable impact on financial behavior of investors. Jambodekar (1996) studied among all other investments that investors preferred Income Schemes and Open Ended Schemes than Growth Schemes and Close Ended Schemes during the prevalent market conditions. Sikidar and Singh (1996) observed that the salaried and self-employed employees are the major investors in mutual funds primarily to get tax concessions. Shanmugham (2000) examined that among the various factors considered by the investors but psychological and sociological factors dominates the economic factors in share investment decisions. Chakarabarti and Rungta (2000) examined that brand image factor cannot be easily captured by computable performance measures but it influences the investor's perception and his fund or scheme selection. Hirshleifer (2001) in his research work identified different types of cognitive errors that investors make like self-deception and it occurs because people think they are better than they really are. Another cognitive error is heuristic simplification, which occurs because of limited attention, memory and processing capabilities. Finally disposition effect is another cognitive error that individuals are prone to sell their winners too quickly and hold on their losers too long.

Walia and Kiran (2009) studied to identify the critical gaps in existing framework of mutual funds and further extend the research on need of redesigning existing mutual fund services by acknowledging Investor Oriented Service Quality Arrangements (IOSQA) in order to comprehend investor's behavior while introducing any financial innovations. Jain (2012) concluded that common investors invest their savings into the different assets as they are not very much aware about the mutual funds. Rathnamani (2013) observed that most investors preferred to invest in mutual fund to get high return with low level of risk, safety and liquidity. Dhume and Ramesh (2011) explained that

funds of all sector have performed better in the market except infrastructure funds. Prajapati and Patel (2012) examined the performance of mutual funds by using the relative performance index and risk-return analysis.

Analysis and Findings

Demographic Profile: This study mostly considered the respondent's whose income is above Rs.25, 000 per month as below Rs.25, 000 may not be the suitable customer for the investments in mutual funds. Out of the sample size of 250, 38% are salaried employee in various govt., public or private companies, 20.4% are businessmen and 19.2% professionals and 22.4 are others. Most of the people are coming above the age of 25. About 91% of the respondents are coming under the age of 45. Out of this 48% are coming under age group of 25-35 and 35.2% are coming under 35-45 and 16.8% are coming under more than 45. The people who are very much aware of mutual funds are taking into consideration because the questions can be solved by the highly aware respondents only. The above information is available in the exhibit-1 available in annexure. The exhibit-2 in annexure explains the positive correlation between age and attitude of respondents towards the mutual funds. As the calculated value is less than tabulated value hence the null hypothesis is accepted at 5% level of significance. It is concluded that there is no association between age and the attitude towards mutual funds.

In exhibit-3 there is the association between gender and attitude towards the mutual funds. The calculated value is greater than tabulated value of chi-square and hence the null hypothesis is rejected at 5% level of significance which implies the association between gender and the attitude towards mutual funds. About 86 male respondents and 24 female respondents which shows there is a highest positive attitude towards the mutual funds in male against the female. The calculated value of is greater than tabulated value and the null hypothesis is rejected at 5% level of significance which implies there is association between income and the attitude towards mutual funds. The exhibit-4 in annexure explains that there is a highest positive attitude towards the mutual funds having monthly income above Rs.50, 000 against the others. From the exhibit-5 the calculated value is greater than tabulated value of chi-square and the null hypothesis is rejected at 5% level of significance which implies there is

association between level of education and the attitude towards mutual funds and hence there exist a highest positive attitude towards the mutual funds among the graduate respondents against the others. From the exhibit-6 the calculated value is less than tabulated value and the null hypothesis is accepted at 5% level of significance which implies there is no association between occupation and the attitude towards mutual funds and hence there exist a highest positive attitude towards the mutual funds among the respondents whose occupation is salaried employee against the others as highest percentage of respondents were salaried employee.

Factor Analysis: This data has Cronbach's Alpha value of 0.674 which is more significant for the reliability of data. The study has been made to know the preference and perception of customers towards the mutual funds offered by the different companies. Sixteen statements are generated for measuring respondents' opinion on a 5-point Likert scale for preferring a particular brand of mutual fund. The exhibit-5 in annexure measures the data adequacy for the factor analysis. This factor analysis measure for sampling adequacy is greater than 0.7 (0.723) which is mediocre.

The exhibit-6 in annexure represents the grouping of factors. The total factor loadings for factor 1(F1) is 3.55 and for factor 2(F2) is 4.19 and for factor 3(F3) is 2.35 and for factor 4(F4) is 1.40. The exhibit-10 in annexure depicts the variables under each of the three desired factors. The first factor identified with risk associated with the mutual fund company which has been grouped under F1 and termed as "Risk" factor. The second factor explains the pat performance and dividend history of the mutual fund company. The second factor F2 is termed as "Belief" factor. The third factor F3 explains the rating and sustainability of the mutual fund in market in future. The factor F3 is termed as "Terminal Value" factor. The fourth factor F4 explains the individual risk taking capacity and prevailed market condition and termed as "Self-concept". The priority given by the respondents depicted through the ranking of factors which is shown in exhibit-7 in annexure. Respondents have given high priority to the factor F2 "Belief" followed by factor F1 "Risk", followed by factor F3 "Terminal Value" and followed by factor F4 "Self-concept".

Table 1: Demographic Profile

Type	Particulars	Frequency	Percentage
Gender			
	Male	174	70.4
	Female	76	29.6
Age			
	Less than 25	0	0
	25-35	120	48

	35-45	88	35.2
	More than 45	42	16.8
Educational Qualification			
	Matriculation	37	14.8
	Intermediate	58	23.2
	Graduation	95	38
	Post-Graduation	60	24
Occupation			
	Salaried employee	95	38
	Businessman	51	20.4
	Professionals	48	19.2
	Others	56	22.4
Family Income per month			
	Less than 25K	58	23.2
	25K-50K	144	57.6
	Above 50K	48	19.2

Table 2: Association between age and attitude towards the mutual fund

	Attitude Level			
Age	**Positive**	**Neutral**	**Negative**	**Total**
25-35	35	62	23	120
35-45	28	42	18	88
Above 45	08	13	21	42
Total	71	117	62	250

The calculated value of and tabulated value of chi-square at 5% level of significance 924.52 and 488.92 respectively

Table 3: Association between gender and attitude towards the mutual fund

	Attitude Level			
Gender	**Positive**	**Neutral**	**Negative**	**Total**
Male	86	45	43	174
Female	24	36	16	76
Total	110	81	59	250

The calculated value and tabulated value of chi-square at 5% level of significance 959.15 and 991.52 respectively

Table 4: Association between income and attitude towards the mutual fund

	Attitude Level			
Income (Monthly)	**Positive**	**Neutral**	**Negative**	**Total**
Upto25,000	12	31	15	58
25,000-50,000	25	70	49	144
Above 50,000	22	07	19	48
Total	59	108	83	250

The calculated value of chi-square is 25.83 and tabulated value of 9.48 at 5% level of significance

Table 5

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.723
Bartlett's Test of Sphericity	Approx. Chi-Square	1.996E3
	df	153
	Sig.	.000

Table 6: Grouping of Factor Loadings for Identifying Key Factors

S. No.	Attributes	Factor Loadings			
		F1	F2	F3	F4
S1	Type of fund in MF influences a lot in investment.	.859			
S2	Fund size of the mutual fund affected a lot to purchase MF	.660			
S3	The MF schemes portfolios very good to invest.	.506			
S4	Reputation of fund managers one of the criteria to invest in MF.	.814			
S6	I like to see liquidity factors of the mutual fund.	.711			
S5	I always prefer to see the past performance of the fund.		.605		
S8	I always prefer to see the dividend history of MF.		.429		
S11	I am equally giving priority to prompt settlement of MF.		.721		
S12	Investor's grievance & redressal machinery should be very quick.		.784		
S15	I prefer to invest in the MF which is more transparent in service.		.854		
S16	I will select the MF whose return facility is better in terms of values.		.801		
S9	Rating given by rating agency can be one of the criteria for investment in MF.			.591	
S10	Types of redemption facilities available with the MF affect my decisions.			.841	
S14	I prefer to invest in MF whose sustainable performance is good			.918	
S13	My risk taking ability affects on my invest decisions of MF.				.658
S7	A current market condition is one of the factors to invest in mutual funds.				.747
	Total factor Loadings	3.55	4.19	2.35	1.40

Table 7: Ranking of Factors on satisfaction level

Factors	Factor Loadings	Rank
Risk (F1)	3.55	2
Belief (F2)	4.19	1
Terminal Value (F3)	2.45	3
Self-concept (F4)	1.40	4

Concluding Observation

The study has given a vague idea about the attitude of respondents towards mutual fund. As majority of customers are unable to take decisions for mutual fund investments. It has observed that the awareness level of respondents towards mutual fund is very low. From the study it was observed that the demographic variables like gender, income and level of education have significant influence upon the investors' attitude towards mutual funds whereas the other two demographic variables like age and occupation do not have influence on the attitude of investors' towards mutual funds. As far as the benefits provided by mutual funds are concerned less risk investments and most believed investments have been perceived to be most attractive by the invertors' followed by terminal value and self-concept of the investments. Apart from the above, in India there is a lot of scope for the growth of mutual fund companies provided that the funds satisfy everybody's needs and sharp improvements in service standards and disclosure.

Limitations and Directions for Future Research

Sample data is limited to Bhubaneswar territory and prediction is on the basis of Bhubaneswar territory only. However consumer buying is a complex process

in which number of factors like economic factors, social status and psychographic factors influence the buying of the consumer. The changing demographic profile of the population like education, income, size of family are necessary by what's going to be changed in days to come regarding understanding psychographics of customers as to how they feel, assume or behave.

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