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Investment in Mutual Funds - An Evaluation Study of Kanchipuram Town Investors

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A B S T R A C T

A Development of capital market in a country is an important business growth and thereby contributing towards economic development. The rises in savings and the consequent increase in the investment in financial assets argue well for the growth of capital market. Thus it necessitates studying the saving and investment in capital market in general and mutual fund is an investment option in particular among various avenues. The investment should always have an objective such as to have a regular income, to add to asset, wealth and to save taxes etc. Mutual fund is an investment vehicle through which small and large investors pool their funds under the direction of an investment manager. Those funds are invested in a wide variety of securities in such a way as to minimize risk while ensuring steady return. This study deals with to analyze the various investment options and to find out the awareness and satisfaction level of investor in Kanchipuram city.

Introduction

A well integrated financial system alone could hasten economic growth, which it does through canalizing productive resources towards industrial growth and development. Hence, mobilization and utilization of finance take a prime position in the list of priorities for the agenda of economic growth. A well defined financial system would comprise of three segments. They are lending institutions, borrowing institutions and more importantly the third which are the financial intermediaries.

Past several decades have noticed a phenomenal growth in savings and have also seen canalization of these savings as capital available for business and industry. The earlier route of savings going to banks and banks in turn financing industries have slowly got transformed to savings directly getting into business and industry. A slow but steady growth in disposable income, availability of information, change in risk and its disposition etc., have largely encouraged people to resort to investment in financial assets and securities.

Need for Examining the Investment Behavior

A well organized capital market is needed for the development of the industry. To strengthen the capital market there are two sources of funds namely, domestic saving and foreign saving. Mobilization of foreign savings supplements the domestic savings when it is inadequate. But in the ultimate analysis, foreign savings have to be paid back along with interest. It is therefore a case of transferring a part of the burden of development to the future generation. In short, it is argued that development did require sacrifice in the form of restraining consumption so as to force a higher rate of savings. The household sector contributes more than 80 percent of the domestic savings in our country, and hence, it is important to extend the attention on this sector to induce it to raise its propensity to save. Higher rate of savings in turn implies availability of more resources for investment. Thus it necessitates studying the saving and investment in capital market in general and mutual fund is an investment option in particular among various avenues.

Investors Investment Objective

The investment should always have an objective. To be a successful investor, one should set her/his investment objectives and then look for that investment avenue that suits and matches with their objectives. Then only it is possible to evaluate the investment performance in relation to its objectives. Some of the possible investment objectives could be

-To have a regular income
-To add to income, asset and wealth
-To save on taxes.
-To ensure income for future.
-To meet future expenses rather commitments.
-To improve current living standards.
-To repay the liabilities in future.
-To protect the family from the financial risk.
-To increase the purchasing capabilities in future.

Mutual Fund

A mutual fund is not an alternative option to stocks and bonds; rather it pools the money of several investors and invests this in stocks, bonds, money market instruments and other types of securities. A mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures, and other securities. The income earned through these investments and the capital appreciations realized are shared by its unit holders in proportion to the number of units owned by them. Thus a mutual fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

A mutual fund is an institutional device through which the investors pool their funds to invest in a diversified portfolio of securities thus spreading and reducing risk. Hence it is an investment vehicle through which small and large investors pool their funds under the direction of an investment manager. Those funds are invested in a wide variety of securities in such a way as to minimize risk while ensuring steady return. The word mutual in a mutual fund signifies a vehicle wherein the benefits of investment accrue pro rata to all the investors in proportion to their investment. A mutual fund is the ideal investment vehicle for today's complex modern world. Mutual fund mobilizes the savings of the household and corporate sectors and deploys the same in the capital market.

Significance of Mutual Funds

With the emphasis on increase in domestic savings and improvement in deployment of investment through markets, the need and scope for mutual fund operations has increased tremendously. The innovative contents with which mutual funds have been offered make the investors confident that product differentiation will reach the various income segments, geographical segments and risk bearing segments of investors.

The mutual funds have emerged as important players in the capital market thus helping in stabilizing the Indian Capital market particularly the secondary market. Abed Hussian Committee remarked that the most appropriate way of spreading the culture of equity would be through some form of professionally managed institutionalized risk pooling mechanism. Mutual funds appear to be most suitable vehicle for this. It is mainly so because mutual fund offers many advantages to investors. There are thousands of investors can invest small amounts in mutual funds and become players in capital market securities, which may not be financially possible or viable for them to take up directly, investors get a blend of better returns, liquidity and safety, funds are invested in a balanced portfolio of investment where by the contributors derive the benefits of diversification, spreading and minimization of risk.

Need for the study

The mutual fund industry in India has been facing a turbulent period in the past decade. This has been in part due to huge fluctuations in the secondary market securities accentuated by several reasons. As it was mentioned earlier the public has evinced growing interest in investment in stock market securities.

The expectations have been very high and equally high was the level of disappointment. A large number of institutions entered into the fray and were also accepted by the ill informed investors due to their desire to make a 'quick buck'. Assessment of the performance of such institutions was made by such funds themselves to suit the convenience of the issuing institutions. This necessitates tackling the problem on two counts:

1. Assess the performance of schemes and funds using established and tested methods in order that a well considered decision might be taken by the investors on buy, sell or hold policies.

2. Ascertain the reasons for the general perception of underperformance of schemes which had prompted the investors to leave the game on an 'as is where is' basis. The low popularity evidenced by falling level of investments, in contrast to earlier years is a pointer to this.

Scope of the study

This study encompasses an evaluation of effective investment in mutual funds as special avenues out of various options. This prompted the researcher to compare the performance of mutual fund sectors. Further this study involves an analysis of the operational efficiency in terms of return and risk as well as various components of return and risk only.

Objectives of the study

- To analyze the various investment options in general and mutual funds in particular.
- To find out the satisfaction level of mutual fund investors in Kanchipuram town.

Limitations of the study

- This study is confined to the schemes for which the relevant data for analysis collected from 40 respondents only of Kanchipuram investors, which is too small when compared to population.
- The findings, interpretations and suggestions of the project are prone to the systematic risk such as the budget impact, interest rate moments, RBI and Government financial and monitory policies released from time to time.
- The data available and subjected to analysis are of non-identical time periods and unequal sample observations. Here again, due to the process of averaging it is not likely to have any appreciable impact on the results.
- To find out the people that who already has invested in mutual fund is very difficult because the investors are scattered.

Research Methodolgy

Statistical tools like percentage, parametric, non parametric analysis along with representative graphical methods like pie chart, bar charts were used.

Profile of Mutual Fund Industry

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank the. The history of mutual funds in India can be broadly divided into four distinct phases.

First Phase – 1964-87

Unit Trust of India (UTI) was established on 1963 by an Act of Parliament. It was set up by the Reserve Bank of India and functioned under the Regulatory and administrative control of Reserve Bank of India. In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988 UTI had Rs.6, 700crores of assets under management.

Second Phase – 1987-1993 (Entry of Public Sector Funds)

1987 market the entry of non-UTI, public sector mutual funds set up by public sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first non-UTI Mutual Funds established in June 1987 followed by Can Bank Mutual Fund (Dec 87), Punjab National Bank Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual fund (Oct 92).

Third Phase – 1993-2003 (Entry of Private Sector Funds)

With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund families. Also, 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kotare Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993. The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996.

Fourth Phase – since February 2003

In February 2003, following the repeal of the Unit Trust of India Act 1963 UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs.29, 835crores as at the end of January 2003, representing broadly, the assets of US 64 scheme, assured return and certain other schemes.

Null Hypothesis – H_0

There is no significant difference between investment objective of mutual fund investors and investment in various mutual fund schemes

Alternative Hypothesis – H_a

There is significant difference between investment objective of mutual fund investors and investment in various mutual fund schemes. .

Inference

The above table 1 mentions investment objective of mutual fund investors compare to investment in various mutual fund schemes, i.e., debt scheme, equity scheme, liquid scheme. To verify statistically, the F-test was applied. At 5% level of Significance the table value of F for V_1=2, V_2 =5 is 5.79. The calculated value of F is 0.559. Calculated value is less than the table value. Hence the null hypothesis is accepted and concluded that there is no significant different between investment objective of mutual fund investors and investment in various mutual fund schemes.

Null Hypothesis – H_0

There is no significant difference between reasons of opting mutual fund by investors and invest in various mutual fund schemes

Alternative Hypothesis – H_a

There is significant difference between reasons of opting mutual fund by investors and invest in various mutual fund schemes.

Inference

The above table 2 explains the reasons of opting mutual fund by investors compare to investment in various mutual fund schemes, i.e. debt scheme, equity scheme, liquid scheme. To verify statistically, the F-test was applied. At 5% level of Significance the table value of F for V_1=2, V2=6 is 5.14. The calculated value of F is 0.499. Calculated value is less than the table value. Hence the null hypothesis is accepted and concluded that there is no significant different between reasons of opting mutual fund by investors and investment in various mutual fund schemes.

Null Hypothesis – H_0

There is no significant difference between mutual fund plan and invest in various mutual fund schemes

Alternative Hypothesis – H_a

There is significant difference between mutual fund plan and invest in various mutual fund schemes.

Inference

The above table 3 explains various investment plan comparison is made with investment in various mutual fund schemes, i.e., debt scheme, equity scheme, liquid scheme. To verify statistical, the F-test was applied. At 5% level of Significance the table value of F for V_1=2, V_2 =4 is 6.94. The calculated value of F is 1.398. Calculated value is less than the table value. Hence the null hypothesis is accepted and concluded that there is no significant different between mutual fund plan and invest in various mutual fund schemes.

Inference

The above table 4 explains satisfaction level of mutual fund investors. In the statistical data, 25% Investors have said as excellent, 35% investors have said as good, also another 35% of investors have said fair and 5% of investors have said satisfactory. When we consider thoroughly most of the people have said as good and fair.

Findings

- ❖ It was proved that there is no significant different between investment objective of mutual fund investors and investment in various mutual fund schemes.
- ❖ It was noticed that there is no significant different between mutual fund plan and invest in various mutual fund schemes.
- ❖ It was noticed that there is no significant different between mutual fund plan and invest in various mutual fund schemes.
- ❖ It was found that 25% of investors have said as excellent, 35% have said as good, also another 35% of investors have said fair and 5% of investors have said satisfactory. When we consider thoroughly most of the people have said as good and fair.

Suggestions

1. As most of the investors are participate in secondary market with the motive of investing in shares and this aspect will direct them to focus into mutual funds, if the fund house provide a “online trading” in mutual funds. It would be a “Customer delight”.

2. As most of Mutual fund business is rooted through bankers, the fund house can have tie up with some reputed banks and easily develop their business.

3. As the minimum investment in Mutual fund is so low we can make it aware to small retailer investors and procure business, so that mutual fund industry can expand their market share through this way.

4. To Increase the mutual fund investment the media can play a dominant role. Proper advertisement will lead more success to achieve the peak in mutual fund investment.

5. The investors must read the offer document of the mutual fund scheme very carefully. They may also look in to the past track record of performance of the scheme or other schemes of the same mutual fund.

To conclude, it is apparent from the above analysis, mutual funds plays predominant role in capital market and the investors have real interest in investing their funds for better development despite there are some minor shortfalls.

Table.1 Showing Investment Objective and Mutual fund Schemes

Investment objective	**Mutual Fund Schemes**			**Total**
	Debt scheme	Equity scheme	Liquid scheme	
Capital appreciation	4	10	2	**16**
Liquidity	0	2	0	**2**
Safety	0	2	0	**2**
High Return	4	12	4	**20**
Total	**8**	**26**	**6**	**40**

Source: Primary data

Table.2 Showing Reasons of Opting Mutual Fund and Mutual Fund Schemes

Reasons of opting Mutual Fund	**Mutual Fund Schemes**			**Total**
	Debt scheme	Equity scheme	Liquid scheme	
Best Return	2	18	4	**24**
Professional Management	4	4	0	**8**
Liquidity	0	2	2	**4**
Tax benefit	2	2	0	**4**
Total	**8**	**26**	**6**	**40**

Source: Primary data

Table.3 Showing Mutual fund Plan and Mutual Fund Schemes

Mutual fund plan	**Mutual Fund Schemes**			**Total**
	Debt scheme	Equity scheme	Liquid scheme	
Dividend payout	2	10	0	**12**
Dividend re-investment	0	2	0	**2**
Growth plan	4	14	6	**24**
Bonus payout	2	0	0	**2**
Total	**8**	**26**	**6**	**40**

Source: Primary data

Table.4 Showing Satisfaction Level of Mutual Fund Investors

Satisfaction Level	**No. of Respondents**	**Percentage (%)**
Excellent	10	25%
Good	14	35%
Fair	14	35%
Satisfactory	2	5%
Total	**40**	**100%**

Source: Primary data

While competition in the Indian mutual fund industry will intensify, fund managers would need to continuously innovate and deliver relevant products to attract investors. Regarding the Indian markets, the Investors are mature, they desperately require financial advice, product diversifications and multi distribution channel would become critical factors for long term success.

The mutual fund industry in India has undergone considerable quantitative and qualitative change over the years. The investor base of the industry is claimed to have increased substantially. The growth of mutual funds had been an explosive one with a ten-fold increase in funds mobilized indicating their growing popularity in the Indian capital market.

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