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

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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.

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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.

Table 2.5: Asset Under Management in Indian Mutual Fund Industry

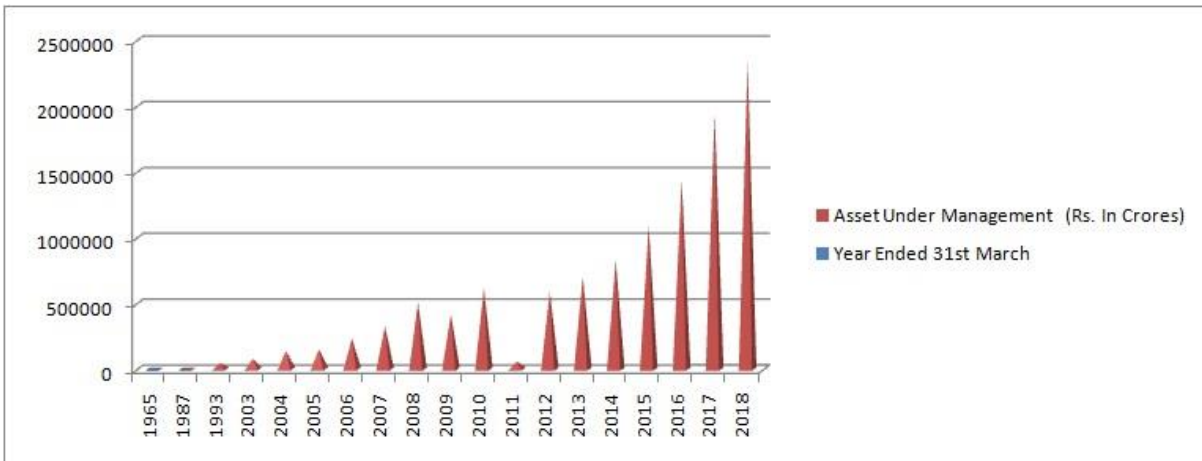| Year Ended 31st March	Asset Under Management (Rs. In Crores)
1965	25
1987	4,564
1993	47,733
2003	79,464
2004	139,616
2005	149,554
2006	231,862
2007	326,388
2008	505,152
2009	417,300
2010	613,979
2011	59,250
2012	587,212
2013	701,443
2014	825,240
2015	1,082,757
2016	1,439,701
2017	1,948,870
2018	2,338,082

Source: - www. Amfiindia.com

Figure 2.7: Asset Under Management in Indian Mutual Fund Industry (1965-2018)

Indian MF industry witnessed an impressive growth till the year 2007-08 and gave an impression of becoming a mature industry. However, after several year 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.

Table 1: KMO and Bartlett's Test

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.

Table 2: Communalities

Communalities	Initial	Extraction
X1	1.000	.751
X2	1.000	.638
X3	1.000	.759
X4	1.000	.685
X5	1.000	.731
X6	1.000	.878
X7	1.000	.685
X8	1.000	.821
X9	1.000	.652
X10	1.000	.785
X11	1.000	.721
X12	1.000	.585
X13	1.000	.721
X14	1.000	.659
X15	1.000	.798
X16	1.000	.741
X17	1.000	.715

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 Sums of Squared Loadings			Rotation Sums of Squared Loadings		
Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1.931	20.631	20.631	1.931	20.631	20.631	1.833	21.356	21.356
1.896	18.123	38.754	1.896	18.123	38.754	1.768	17.325	35.581
1.413	14.120	52.874	1.413	14.120	52.874	1.659	13.225	51.806
1.229	12.586	64.460	1.229	12.586	64.460	1.223	11.256	63.602
.987	9.331	73.791						
.932	8.250	81.941						
.877	4.211	86.052						
.625	3.120	89.172						
.535	2.863	92.135						
.511	2.532	94.567						
.498	1.445	96.312						
.462	1.032	98.344						
.321	1.09	99.434						
.204	.112	99.846						
.102	.002	99.958						
.090	.031	99.989						
.072	.020	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	-.336	.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

X8	-.457	.743	.349	.152	-.336	-.132	.562	-.336
X9	-.336	-.132	.568	.398	.243	.756	.635	.538
X10	-.336	-.132	.562	.843	.659	7.226E-02	.843	-.457
X11	.579	-6.046E-02	.376	-.132	.562	.349	-.132	.436
X12	.62	.526	6.802E-02	3.213E-02	.456	.568	3.213E-02	.562
X13	.425	4.560E-02	.531	-.336	-.132	.562	-.436	.345
X14	-.583	-4.086E-02	.715	.579	-6.046E-02	.376	.579	-.467
X15	.775	-.457	.786	.62	.526	6.802E-02	.62	-.396
X16	.776	-.436	-.243	.843	.659	7.226E-02	.843	-.736
X17	-9.531E-02	-.744	.222	-.132	.562	.349	-.432	4.207E-02

Extraction Method: Principal Component Analysis.
a 6 components extracted.
Extraction Method: Principal Component Analysis.

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		
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.

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