

## INVESTMENT PATTERN IN DEBT SCHEME OF MUTUAL FUNDS – AN ANALYTICAL STUDY

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### Abstract:

A Mutual Fund is a trust that pools together the savings of a number of investors who share a common financial goal. All such investors buy units in a fund that best suit their needs - be it growth in capital, regular returns or safety of capital. Therefore, 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. For this study, among various mutual fund investors are identified in Coimbatore City. For this purpose the sample respondents have been selected who has been involved in trading activities in Coimbatore City. The most important and basic factor to be decided to select the sampling unit was intended to find out the investment pattern in debt scheme of mutual funds. Therefore the sampling unit during this research was the retail investors. Categories of Retail investors are Govt. Employees, private Employees, Businessmen, Retired people and professionals. Data collected through interview schedule and statistical tools used such as percentage analysis, weighted ranking analysis and Chi-square analysis. The study concludes that debt scheme are suitable for genuine investors as there exists a variety of investors needs depending on objective, expectations and risk taking abilities etc. It is good channel investing and turning it into an investment opportunity as well as for availing tax relief. There is no doubt that the determinant for investing in a mutual

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fund is the NAV factor. Mutual funds have to focus more on proper pricing, better investor servicing as well as offer handsome returns and to understand the psychology of investors.

**Key words:** Mutual fund, Investor, NAV factor, trade-off, risk-taking.

### **Introduction:**

Mutual fund is a mechanism for pooling the resources by issuing units to the investors and investing funds in securities in accordance with objectives as disclosed in offer document. Investments in securities are spread across a wide cross-section of industries and sectors and this diversification reduces the risk involved because all stocks may not move in the same direction, in the same proportion, at the same time in the share market. A Mutual Fund is a trust that pools together the savings of a number of investors who share a common financial goal. All such investors buy units in a fund that best suit their needs - be it growth in capital, regular returns or safety of capital. The Fund Manager then invests this pool of money in securities, ranging from shares to debentures to money market instruments or a mixture of Equity and Debt, depending on the objective of the scheme.

### **Review of Literature:**

Elmiger and Kim (2003) elucidate risk as the trade-off that every investor has to make between the higher rewards that potentially come with the opportunity and the higher risk that has to be borne as a consequence of the danger. Although different literature available on risk define it variedly but in common the word risk refers to situations in which a decision is made whose consequences depend on the outcomes of future events having known probabilities(Lopes,1987).

Risk from a strategic management perspective has been defined as one that is often taken as manager's subjective judgment of the personal or organizational consequences and it may result from a specific decision or action. Beta has been accepted as most appropriate measure of

risk that describe the slope of any regression line .i.e it reveals the volatility of a stock relative to a market benchmark (Sharpe 1966).

Although majority of investors who invest in mutual fund themselves are not clear with the objective and constraints of their investment but in addition to this most important critical gap that exist in this process is lack of awareness about presence of risk elements in mutual fund investment. The new marketing philosophy and strategies place special emphasis on recognition of customer needs in an effort to provide high level of quality services (Harrison, 2000).

Study by Laukkanen (2006) explains that varied attributes present in a product or service facilitate customer's achievement of desired end-state and the indicative facts of study show that electronic services create value for customers in service consumption. Return ambiguity and changes in risk perception of individual investor affect action taken in risky financial market. In a more complex situation taking rational decision is undoubtedly difficult but certainly not impossible. Computational complexities are not only the reason why rationality assumption is challenged rather challenges also come from cognitive reasoning (Anderson 1991) where question is how optima human beings are. A more realistic notion of rationality is bounded rationality defined by Simon (Simon 1957) that property of an agent who behaves in a manner that is nearly as optimal with respect to its goals as resource will allow. Here resource includes processing power, algorithm and time available to the agent.

### **Statement of Problem:**

As a common investor who invest their savings into the different assets class are not very much aware about the mutual funds and so, lack of awareness result into their own perception regarding the mutual funds and so, a need is there to study investors perception regarding the mutual funds. A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. Units are issued to the investors in accordance with quantum of money invested. They are known as unit holders. 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 appreciation realized is 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. VNR dictionary of business and finance says mutual fund is “an investment fund that pools the invested funds of others and invests money market instruments, municipal bonds, or common stock”. The main reason of its poor growth is that the mutual fund industry in India is new in the country. Large sections of Indian investors are yet to be intellectualized with the concept. Hence, it is the prime responsibility of all mutual fund companies, to market the product correctly abreast of selling.

### **Objectives of the Study:**

- To study the investment pattern in debt scheme of Mutual fund.
- To study the reasons, purpose and objectives for which the investors have invested in debt scheme of Mutual funds.
- To know about perception of investor towards mutual funds
- To study the investment done in mutual funds is having relation with occupation of the investor.
- To know investor perception about future investment in mutual funds.

### **Hypothesis:**

1. There is no significant relationship between various levels of income and investment in various schemes of mutual funds.
2. There is no significant relationship between various categories of Age and investment in various schemes of mutual funds.

### **Methodology:**

The present study intends to examine the investment pattern in debt scheme of mutual fund issues framed in the objectives relating to investors perception towards investing in mutual funds. The study is a descriptive research based on survey method and the data collected for the

study includes only primary data. The primary data have been collected through the survey method by direct personal interview with the sample respondents.

### **Sampling Design:**

The required primary data for the present study were collected from 180 respondents by using interview schedule method for convenient sampling techniques were used. For the present study, among various mutual fund investors are identified in Coimbatore City. For this purpose the sample respondents have been selected who has been involved in trading activates in Coimbatore City. The most important and basic factor to be decided to select the sampling unit was intended to find out the investment pattern in debt scheme of mutual funds. Therefore the sampling unit during this research was the retail investors. Categories of Retail investors are Govt. Employees, private Employees, Businessmen, Retired people and professionals.

### **Framework and Tools used for Analysis:**

Data collected through interview schedule were presented in a master table and required sub tables were prepared. The statistical tools such as percentage analysis, weighted ranking analysis and Chi-square analysis were applied which are considered appropriate to this study. Statistical Package for Social Sciences (SPSS 17.0) was employed to work out certain calculations.

### **Limitations of the Study:**

1. This study is limited to Coimbatore city only.
2. It was not easy to find the retail investors who have already invested in Mutual funds.

The analysis and observation and findings are based only on the data tabulated on this respect.

**Data Analysis and Interpretation:**

The purpose of the data analysis and interpretation phase is to transform the data collected into credible about the development of the intervention and its performance to carry out the research task.

Table 1: Demographic Factor wise classifications of the Respondents

Sl.No.	Factor	Category	No. of Respondents	Percentage
1	Age	Below 25	25	14.0
		25-35	55	31.0
		35-45	40	22.0
		45-55	33	18.2
		Above 55	27	14.8
2	Gender	Male	140	78
		Female	40	22
3.	Marital Status	Married	132	73.5
		Single	48	26.5
4.	Occupation	Salaried	99	55.25
		Professional	25	14.0
		Business	35	19.25
		Retired	21	11.50
5.	Annual Income	50000-100000	23	13.0
		100000-200000	78	43.50
		200000-300000	32	17.25



		300000-400000	25	14.0
		Above 400000	22	12.25
6.	Savings Percentage	Below 10	30	16.75
		10-20	58	32.25
		20-30	49	27.0
		30-40	23	12.75
		Above 40	20	11.25

From the above table it is found that 22% of the respondents belonging to the age group between 35 and 45 years. The majority of the respondents (78%) are male category and 73.5% of married. 55.25% of the respondents are salaried class who has invested in mutual funds and 43.50% of the respondent's annual income between Rs. 1,00,000 and 2,00,000. The study reveals that sample respondents saving percentage rate between 10 and 20 per cent.

Table 2: Purpose of Savings Wise Classification

Sl.No.	Purpose	No. of Respondents	Percentage
1.	Children Education	41	23.0
2.	Marriage Purpose	15	8.25
3.	Future needs	69	38.25
4.	House building	21	11.50
5.	Wealth Maximization	33	18.25
	Total	180	100.0

It is found that 38.25% of respondents save to meet future needs and 23% of respondents save for children's education purpose. 18.25% of respondents save for Wealth Maximization purpose, 11.5% of respondents save for House building purpose and rest of respondents save for Marriage purpose.

Table 3: Advice Taken to Invest Mutual funds

Sl.No.	Advisor	No. of Respondents	Percentage
1.	Family Members	43	24.0
2.	Friends	17	9.25
3.	Banks	28	15.50
4.	Auditors	20	11.25
5.	Financial Consultants	19	10.75
6.	By Self	53	29.25
	<b>Total</b>	<b>180</b>	<b>100</b>

It is found that 29.25% of respondents take decision on their own. 24% of respondents are taking family members advice. 15.5% of respondents are taking Banks advice and 11.25% of respondents are taking Auditors advice. 10.75% of respondents are taking financial consultant's advice and 9.25% of respondents are taking Friends advice taken before investing in mutual fund.



Table 4: Classification on the basis of Investments in various schemes of Mutual Funds

Sl.No.	Schemes	No. of Respondents	Percentage
1.	Debt	59	32.96
2.	Equity	86	48.04
3.	Balanced	26	14.00
4.	Others	9	5.00
	<b>Total</b>	<b>180</b>	<b>100.0</b>

It is found that 48.04% of respondents who have invested in mutual funds have invested in Equity schemes. 32.96% of respondents who have invested in mutual funds have invested in Debt scheme. 14.52% of respondents who have invested in mutual funds have invested in Balanced scheme and 4.48% of respondents who have invested in mutual funds have invested in other schemes.

Table 5: Reason for Choosing Debt Scheme

S.No.	Reason	No. of Respondents	Percentage
1.	Better return	14	23.72
2.	Diversified portfolio	26	44.06
3.	Professional management	13	22.03
4.	Liquidity	4	6.77
5.	Flexibility	2	3.42
	<b>Total</b>	<b>59</b>	<b>100.0</b>

From the above table it is found that 44.06% of investors have invested in Debt scheme due to diversified portfolio. 23.72% of investors have invested in debt scheme due to better return. 22.03% of investors have invested in debt scheme due to professional management.

6.77% of investors have invested in Debt scheme due to liquidity and 3.42% of investors have invested in Debt scheme due to flexibility.

**Table 6: Reason for choosing Equity Scheme**

S.No.	Reason	No. of Respondents	Percentage
1.	Better return	32	37.20
2.	Diversified portfolio	22	25.58
3.	Professional management	17	19.77
4.	Liquidity	7	8.14
5.	Flexibility	8	9.31
	<b>Total</b>	<b>86</b>	<b>100.0</b>

It is found that 37.20% of investors have invested in Equity Scheme due to better return. 25.58% of investors have invested in Equity Scheme due to diversified portfolio. 19.77% of investors have invested in Equity Scheme due to professional management 8.14% of investors have invested in Equity Scheme due to liquidity and 9.31 of investors have invested in Equity Scheme due to flexibility.

**Table 7: Reason for choosing Balanced Scheme**

S.No.	Reason	No. of Respondents	Percentage
1.	Better return	13	50.0
2.	Diversified portfolio	4	15.38
3.	Professional management	6	23.07

4.	Liquidity	2	7.69
5.	Flexibility	1	3.86
	<b>Total</b>	<b>26</b>	<b>100</b>

It is evident that 50% of investors have invested in balanced scheme due to better return. 23.07% of investors have invested in Balanced scheme due to professional Management 15.38% of investors have invested in Balanced the scheme due to Diversified Portfolio. 7.69% of investors have invested in balanced scheme due to Liquidity and 3.86% of investors have invested in balanced scheme due to flexibility.

**Table 8: Level of Satisfaction by Investing in Debt Scheme**

S.No.	Level of Satisfaction	No. of Respondents	Percentage
1.	Very good	18	30.5
2.	Satisfactory	32	54.2
3.	Poor	9	15.3
	<b>Total</b>	<b>59</b>	<b>100.0</b>

It is found that 54.2% of investor's level of Investment satisfaction is satisfactory. 30.5% of investor's level of Investment satisfaction is very good and 15.3% of investors' level of Investment satisfaction is poor.

**Table 9: Level of Satisfaction by Investing in Equity Scheme**

S.No.	Level of Satisfaction	No. of Respondents	Percentage
1.	Very good	24	27.9



2.	Satisfactory	49	56.9
3.	Poor	13	15.2
	<b>Total</b>	<b>86</b>	<b>100.0</b>

It is found that 56.9% of investor's level of Investment satisfaction is satisfactory. 27.9% of investor's level of Investment satisfaction is very good and 15.2% of investor's level of Investment satisfaction is poor.

**Table 10: Problems to identify investing in Mutual Funds**

S.No.	Problems	No. of Respondents	Percentage
1.	High Risk	71	39.3
2.	No assured Return	44	24.4
3.	Lack of Awareness	23	12.7
4.	No Regular Income	33	18.6
5.	Not approached by financial consultants	9	5
	<b>Total</b>	<b>180</b>	<b>100.0</b>

From the above table reveals that respondents opinion regarding problems are identified that investing in mutual funds. It shows that 39.3% of respondents are feel it is high risk. 24.4% of respondents are feel there is no assured return. 18.6% respondents no regular income, 12.7% of respondents lack awareness about mutual funds and 5% respondents are say that any financial consultants have not approached them.

### Chi - Square Analysis

To test the relationship between the various levels of income and investments in various schemes of mutual funds.

Table 11: Income Level and Investment Schemes of Mutual Fund

S.No.	Annual Income / Various Schemes	Debit	Equity	Balance	Total
1.	50000-100000	6	11	8	25
2.	100000-20000	12	29	5	46
3.	20000-300000	16	25	7	48
4.	30000-Above	25	21	6	52
	<b>Total</b>	<b>59</b>	<b>86</b>	<b>26</b>	<b>171</b>
<b>CHI- SQUARE ANALYSIS</b>					
Calculated Value	Degree of Freedom	Table Value @ 5% Level of Significance		Remark	
12.85	6	12.592		Significant	

### Inference

Since, the calculated value of Chi-square is greater than table value, we reject null hypothesis (H0) and accept alternative hypothesis (H1) that there is significant relationship between various levels of income and investment in various schemes of mutual funds.

Table 12: Age of the investors and Investment Schemes of Mutual Fund

S.No.	Age category / Various schemes	Debt	Equity	Balance	Total
1.	Below 25	6	7	6	19
2.	25-35	10	16	5	31
3.	35-45	9	8	5	22
4.	45-55	21	27	5	53
5.	55 – Above	13	28	5	46
	Total	59	86	26	171

**CHI- SQUARE ANALYSIS**

Calculated Value	Degree of Freedom	Table Value @ 5% Level of Significance	Remark
10.805	8	15.507	Not Significant

**Inference**

Since the total value of chi-square is greater than the calculated value, we reject alternative hypothesis ( $H_1$ ) and accept null hypothesis ( $H_0$ ) that there is no significant relationship between various categories of Age and investment in various schemes of mutual funds.

**Weighted Average Analysis**

Table 13: Ranking Given by Investors for Investment Objectives

Sl.No.	Objective	1	2	3	4	5	6	Total Score	Average Score	Rank
1	Regular Income	58	48	23	24	18	10	793	66.9	II
2	High return	37	33	43	31	29	7	718	60.6	III
3	Capital Appreciation	7	32	37	17	36	51	529	44.6	IV



4	Safety	68	36	27	23	18	8	805	67.9	I
5	Tax benefit	5	23	29	49	43	32	520	43.9	V
6	Liquidity	5	10	21	36	37	72	415	35.1	VI

From the above table inferred that the safety is the first investment objective of investors with weighted average 67.9%, Regular income is the second investment objective of investors with weighted average 66.9% and High return is the third investment objective with weighted average 60.6%.

**Finding:**

1. 44.75% of retail investors have invested in mutual funds.
2. 32.96% of retail investors who have invested in mutual funds have invested in debt scheme.
3. 48.04% of retail investors who have invested in mutual fund have invested in mutual funds has invested in Equity scheme.
4. 14.52% of retail investors who have invested in mutual funds have invested in balanced scheme.
5. 44.06% of investors in debt scheme of mutual funds have chosen it due to its diversified portfolio.
6. 37.20% of investors in equity scheme of mutual funds have chosen it due to its better return.
7. 54.2% of investors in debt scheme of mutual funds are satisfied with their investment.
8. 38.25% of total respondents' purpose of savings is to meet the future needs.
9. 29.25% of total respondents make investment decision on their own.
10. There is no significant relationship between various age categories and investments in various schemes of mutual funds.

11. There is a significant relationship between various income levels and investment in mutual fund schemes.
12. There is significant relationship between various levels of income and percentage of income saved.
13. Safety is the first investment objective of majority of the investors with a weighted average score of 67.9%.
14. Regular income is the second investment objective of most of investors with a weighted average of 66.9%.
15. 39.3% of investors who problems regarding investing in mutual funds are high-risk investments.

### **Suggestions:**

1. Most of the respondents are lack of awareness various products offered by Mutual Funds. It is need to arrange conference, investors meeting and give proper guidance to invest in mutual fund. A regular investor friendly seminar can be organized to suit the timings of the investing public. For instance such seminars can be interactive sessions, arranged at frequent intervals.
2. The newsletters published helps investors. Hence newsletters / bulletins can be published for guidance to learn and identify the present situation of the mutual fund industry.
3. Regulatory need to exercise more vigilance on the performance / operations of mutual funds. Efforts to be taken to popularize Mutual Funds through appropriate publicity measures.
4. If the mutual funds firms provide a good return investors are willing to invest in mutual funds irrespective of its occupation and time frame. As investors are willing to invest in 1 to 5 yrs time frame.
5. Asset management companies can provide the right kind of need base solutions to their Investors.

**Conclusion:**

Debt scheme are suitable for genuine investors as there exists a variety of investors needs depending on objective, expectations and risk taking abilities etc. It is good channel investing and turning it into an investment opportunity as well as for availing tax relief. There is no doubt that the determinant for investing in a mutual fund is the NAV factor. Mutual funds have to focus more on proper pricing, better investor servicing as well as offer handsome returns. Mutual funds have to understand the Psychology of investors.

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