

**INVESTOR'S PERCEPTION OF MUTUAL FUND  
INVESTMENTS WITH SPECIAL REFERENCE TO HDFC  
MUTUAL FUND-CHENNAI**

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**Introduction**

Mutual fund model estimation has been a common research steam for solving various applications like portfolio selection, prediction, performance evaluation and style analysis (classification) of mutual funds. All these applications require one to identify the set of most relevant features and a basic function estimation model to be built using these features, which can then be used to classify, estimate or predict values.

Feature selection for mutual funds has been done in the past on the basis of expert domain knowledge using computational feature extraction techniques like principal component analysis or by applying subset selection methods to statistical techniques. Similarly function approximation has traditionally relied on expert domain knowledge statistical method (like linear and non linear regression) and linear programming based models. In recent years, approaches based on machine learning such as neural networks genetic algorithms, support vector machine, have become popular tools. Unlike most computing algorithms these approaches do not require the mathematical model to be specified beforehand. Genetic algorithms are used for finding solutions to optimisation problems which in turn might be using some estimation model for objective function evaluation.

The mutual fund is structured around the mitigation of risk through the diversification of investments across multiple entities. This is achieved by pooling the small investments into a large bucket which are later allocated among various entities. The MFs came as a respite to the

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investors who neither had the expertise nor the time to conduct a careful analysis before investing their hard-earned money. MFs provide them professional portfolio management services at a lower cost.

The MF industry has evolved as an important financial intermediary in the Indian capital market. As of March 2009, the industry comprising 37 (AMFI, [WWW.amfiindia.com/mutualind.html](http://WWW.amfiindia.com/mutualind.html)). Asset management companies (AMCs) managed financial assets of over 4.89 trillions. Domestic MF industry is growing at a CAGR of 30% during the last three years, according to the Associate Chambers of commerce and industry of India.(ASSOCHAM). According to the ASSOCHAM study, Asset Under Management (AUM) as percentage of GDP in India is 4.12% as against those of Australia 88.22%, Germany 10.54%, Japan 7.57%, UK 18.81%, USA 61.27%, Canada 34.33%, France 59.63%, Hong Kong 101.085 and Brazil 19.95%. The entry of commercial banks and private players in the MF industry coupled with the rapid growth of the Indian capital markets during the past couple of years has fostered an impressive growth in the MFs

#### **Need for the study:**

- ❖ Now a day's mutual fund have been playing vital role because middle income people can't invest in shares because of high risk involved in them.
- ❖ So for such people mutual fund is suitable investment avenue. Because it pools the saving from middle income people & yields invested by a fund manager who has great knowledge about the financial market.

#### **Statement of problem:**

The problem of the statement is most of the investors were not aware about the mutual funds .So many AMCs are providing the mutual funds but which one provides the finest mutual funds as better fund is really not known. So we have to give information about the mutual fund which is better investment plan to invest of the investors.

Investor's expectation is a very important factor that needs to be analyzed by all investment alternatives. The success of any MF depends on how effectively it has been able to meet the investor's expectation. The study focuses on measuring the investor's expectation and their preference. It also attempts to gauge the factors that they take into consideration before making any investment in MF as well as their awareness level regarding MF investments. The

strategic marketing decisions of the MF companies would be more effectively framed if they are supported by such a detailed study of the investor's preference and expectations. This would further ensure the success of MFs.

#### **Objectives of the study:**

- ✓ To examine the savings objectives among individual investors.
- ✓ To study the investor perception of mutual fund.
- ✓ To analyze the type of mutual fund schemes held by the individual investor.
- ✓ To find out the risk level of investor consider to be
- ✓ To identify the factors influencing investors to invest into mutual fund.
- ✓ To analyze customer suggestions and opinion to improvement

#### **Literature Review:**

##### **ABSTRACT 1:**

Title: Introduction of mutual fund

Author: Shard panwar and Dr.R.Madhumathi

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Literature on mutual fund performance evaluation is enormous. A few research studies that have influenced the preparation of this paper substantially are discussed in this section. Sharpe William F. (1966) suggested a measure for the evaluation of portfolio performance. Drawing on results obtained in the field of portfolio analysis, economist Jack L.Treynor has suggested a new predictor of mutual fund performance, one that differs from virtually all those used previously by incorporating the volatility of a funds return in a simple yet meaningful manner. Michael C. Jensen (1967) derived a risk adjusted measure of portfolio performance that estimates how much a manager's forecasting ability contributes to fund's returns. As indicated by Statman (2000) the e SDAR of a fund portfolio is where the portfolio is the excess return of the benchmark index, where the portfolio over the return of the bench mark index, where the portfolio is leveraged o have the benchmark index's standard deviation. S.Narayana Rao,et.al.,evaluated performance of Indian mutual funds in a bear market through relative performance index risk-return analysis,Treynor's ratio,Sharpe's ratio Sharpe's measure,Jensen's measure,and fama's measure. The study used 269 open ended schemes (out of total schemes of 433) for computing relative performance index. Then after excluding funds whose returns are less than risk free return, schemes are finally used for further analysis. The results of

performance measures suggests that most of mutual fund schemes in the sample of 58 were able to satisfy investors expectations by giving excess returns over expected returns based on both premium for systematic risk and total risk. Bijan Roy, et.al., conducted an empirical study on conditional performance of Indian Mutual Funds.

This paper uses a technique called conditional performance evaluation on a sample of eighty nine Indian Mutual fund schemes. This paper measures the performance of various mutual funds with both unconditional and conditional form of CAPM, Treynor-Mazuy model and Henriksson-Merton model. The effect of incorporation lagged information variables in to the evaluation of mutual fund manager's performance is examined in the Indian Context. The results suggest that the use of conditioning lagged information variables improves the performance of mutual fund schemes, causing alphas to shift towards right and reducing the number of negative timing coefficients. Mishra, et al., (2002) measured mutual fund performance using lower partial moment. In this paper measures of evaluating portfolio performance based on lower partial moment are developed. Risk from the lower partial moment is measured by taking into account only those states in which return is below a pre-specified "target rate" like risk free rate. Kshama Fernandes (2003) evaluated index fund implementation in India. In this paper tracking error of index funds in India is measured. The consistency and level of tracking errors obtained by some well-run index fund suggest that it is possible to attain low levels of tracking error under Indian conditions. At the same time there do seem to be periods where certain index funds appear to depart from the discipline of indexation. K. Pendaraki et al. studied construction of mutual fund portfolios, developed a multi criteria methodology and applied it to the Greek market of equity mutual funds.

UTADIS multi criteria decision aid method is employed in order to develop mutual fund's performance models. Goal programming model is employed to determine proportion of selected mutual funds in the final portfolios. Zakri Y. Bello (2005) matched a sample of socially responsible stock mutual funds matched to randomly select. Conventional funds of similar net assets to investigate differences in characteristics of assets held degree of portfolio diversification and variable effects of diversification on investment performance.

The study found that socially responsible funds do not differ significantly from conventional funds from in terms of any of these attributes. Moreover the effect of

diversification on investment performance is not difference between the two groups. Both groups unperformed the Domini 400 social index and S&P 500 during the study period.

#### **ABSTRACT 2:**

Laurie Prather William J.Bertin and Thomas Henker, the ICFAI journals on applied finance  
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This study provides a comprehensive examination of recent Mutual fund performed by analysing a large set of both mutual funds and fund attributes in an effort to link performance to fund specific characteristics. The results indicate that the hypothesized relationships between performance and the explanatory variables are generally upheld. After taking to consideration general market conditions and fund investment objective, the characteristics variable that relate to fund popularity, growth, cost and management also explain performance. Finally after controlling survivorship and bench mark error as well as fund specific factors, the results refute the performance persistence phenomenon. The current academic literature on the relationship between the independence of mutual fund chairs and boards, and the performance, fees and compliance of mutual fund. To provide back ground and context for these studies, we first describe agency conflicts that arise between mutual fund advisors, portfolio managers and mutual fund shareholders. We then consider the results of academic studies in the area, and discuss their goals, methods and findings. Economic theory on board composition has evolved over the past two decades, focusing primarily on the role of outside directors of non-financial corporations, although a small but increasing body of literature on the boards of financial institutions has began to emerge. The theory of board composition is concerned with both the determinants and the consequences of board structure for the actions and performance of corporations. Focusing on outside directors,<sup>1</sup> the determinants of the optimum board structure for any company depend, in part, on the best trade –off between the positive and negative consequences of increasing the influence of outsiders over the board, such as adding outside directors. On the one hand, outsiders may bring expertise and independence, so that their influence may improve the quality of management decisions and manage conflicts of interest that insiders have, thereby increasing the value of the firm.

On the other hand, outsider may lack information about the “inner workings” of the firm and the firm-specific knowledge. If independent directors find it difficult to extract this hidden



(or simply costly-to-acquire) information from management, their influence may diminish the quality of management decisions and reduce the value of the firm.

MF investment brings a new era in the history of investment world. On the one hand it reduces the tax burden of the investor, and on the other it gives a considerable amount of return without having a large amount of risk burden. Due of its multiple advantages as an investment avenue, it creates interest in researchers and academicians to do research on it. There have been a less number of studies conducted in India as compared to the developed capital markets. Here, on this literature review we discuss the studies done both in India and abroad regarding the fund selection behaviour of individual investors.

Bogle (1992),and Ippolito (1992) reported that the fund is selected by investors on the basis of of its past performance. They also found that generally the money shows in to the fund that gives positive return in comparison to those funds having negative return during a particular period of time.

Malhotra and Robert (1997) reported that the preoccupation of MF investors using performance evaluation as the selection criterion is misguided because the volatility of returns, and it is difficult to determine the reason, which may be to superior management or just good luck.

The findings of Ferris and Chance (1987) are consistent with the findings of Malhotra and Robert (1997).Lu Zheng (1999) examined the fund selection ability MF investors and found that the investor's decisions are based on short term sure performance and they use fund-specific information in their selection decision.

Gupta (1993) conducted a study based on the survey of household investors. The objective of the study is to provide data on investor preferences on MFs and other financial assets.

Goetzman (1993) and Grubber (1996),in their study, try to find out how investors select funds. The study reveals the fact that active fund investors select the fund by using their selection ability only.

Lu Zheng (1999),in this study, examined the fund selection ability of MF investors. He found that the investors choose funds based on the fund-specific information. The decisions regarding the fund are always based on short-term future performance.

Sujit and Amrit (1996) try to find out how behaviour of an individual investor impacts the selection of equity an MF investment portfolio. The study was conducted through a survey in the north-eastern region of India. The survey revealed that the salaried and self-employed were the major investors in MFs, primarily due to tax concessions.UTI and SBI schemes were popular in that part of the country during the time survey was done and other funds had not proved to be a big hit then.

Raja (1997a and 1997b;and 1998),in his studies, surveyed a number of investors and found that there exists segmentation among investors based on their characteristics, investment size and the relationship between stage in life cycle and their investment pattern.

Syama (1998) conducted a survey to get an insight into the MF operations of private institutions with special reference to Kothari Pioneer. The survey revealed that the awareness about the MF concept was poor during that time in small cities like Visakhapatnam. The survey also revealed the following: agents play a vital role in spreading the MF culture; open-ended schemes were much preferred then; age and income are the two important determinants in the selection of fund/scheme; and brand image and return are their prime considerations.

## **Methodology**

### **Preliminary Study**

In the preliminary stage, we gathered a database of MF investors from different brokers and fixed appointments with them. One hundred investors accepted an appointment for personal interview.

### **Sampling Design**

The target respondents include all such individual investors who have invested in MFs and have some knowledge about the basic terminologies of MFs

However, the sampling has turned out to be a convenient sampling systematically chosen from blocks of the area conveniently located for the enumerators. The sample size is 100 MF investors.

### **Method of data collection**

- i) Primary data
- ii) Secondary data

### Primary data

Primary Data was that original in character and was collected afresh. The primary data is information collected for the first time for the purpose of the study of the problem at hand.

### Secondary data

Secondary data has been collected from administrative office, brochures, reports, published books, and information available in mutual funds.

### Analysis

A chi-square test has been done to examine whether there exists any dependency between awareness level and each demographic factor such as age, income, and gender separately.

### Scope of the study

Mutual fund is an investment vehicle where people feel pool the funds. There are various types of investment alternatives like investment in shares, bonds, post office saving, bank deposit, etc., mutual funds as an investment alternatives is becoming popular in recent years.

The study is conducted with an urge to know about the awareness of mutual fund their investment process, the working of the industry and how far people and willing to invest in them.

The study is extended to know about the various products offered by the funds the various mutual funds companies and the reach of mutual fund in the minds of the investor the respondents of the study are collected from Chennai city.

The study helps to analyse the future trends for the industry and the future scope for the progress of the industry.

### Limitations of the study

- ❖ Sample size is limited 100 educated individual investors in the city of Chennai, which may not be adequate representation of the national market.
- ❖ The nature of the study being descriptive and conclusive the result cannot be authenticated.
- ❖ This study has not been conducted over an extended period of time to incorporate the ups and downs of stock market conditions which have an important influence on investor's buying pattern and preferences.
- ❖ There is a chance of bias in response due to lack of sufficient time.
- ❖ Sometimes the responds were not co-operative in answering a few questions, which affects the accuracy of the research.
- ❖ Investors were not ready to take part with necessary information.



**Data analysis**

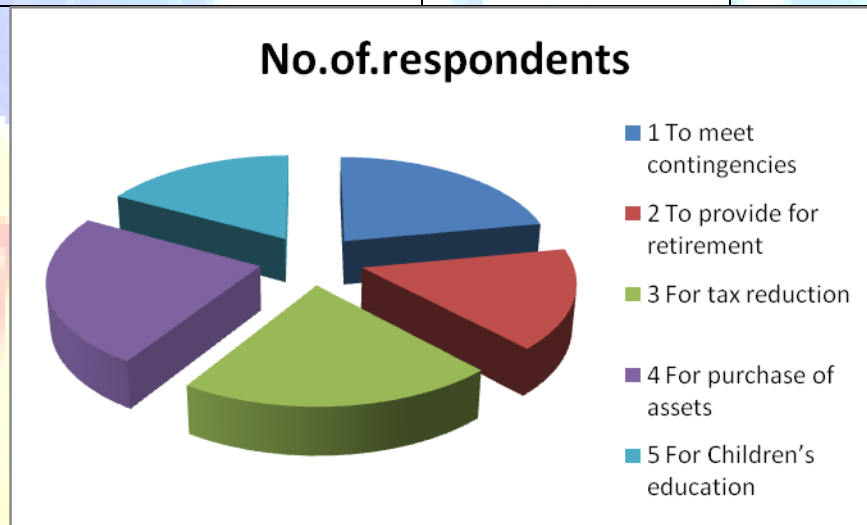
**Savings Objectives of Investors**

The savings objective of majority of individual investors is ‘to provide for purchase of asset’s followed by the objectives ‘to meet contingencies’ and ‘tax reduction. AMC’s can attract investors by designing products that ensure a reasonable return and ensure safety of the capital. The tax saving instrument would also provide to be lucrative if marketed effectively.

**Table: 1**

**Table showing classification of the respondents based on their savings objectives of individual investors.**

S.No	Factors	No.of.respondents	% of respondents
1	To meet contingencies	22	22%
2	To provide for retirement	16	16%
3	For tax reduction	21	21%
4	For purchase of assets	24	24%
5	For Children’s education	17	17%
	Total	100	100



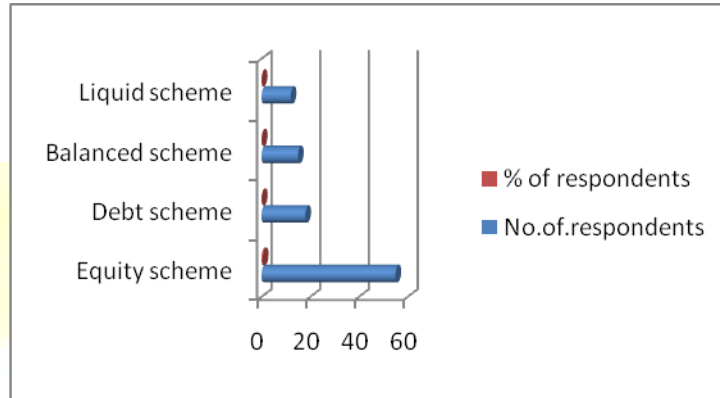
**Table: 2**

**Table showing classification of the respondents based on their invested scheme**

S.No	Factors	No.of.respondents	% of respondents
1	Equity scheme	55	55%
2	Debt scheme	18	18%
3	Balanced scheme	15	15%

4	Liquid scheme	12	12%
	Total	100	100

Figure: 2



**Inference:**

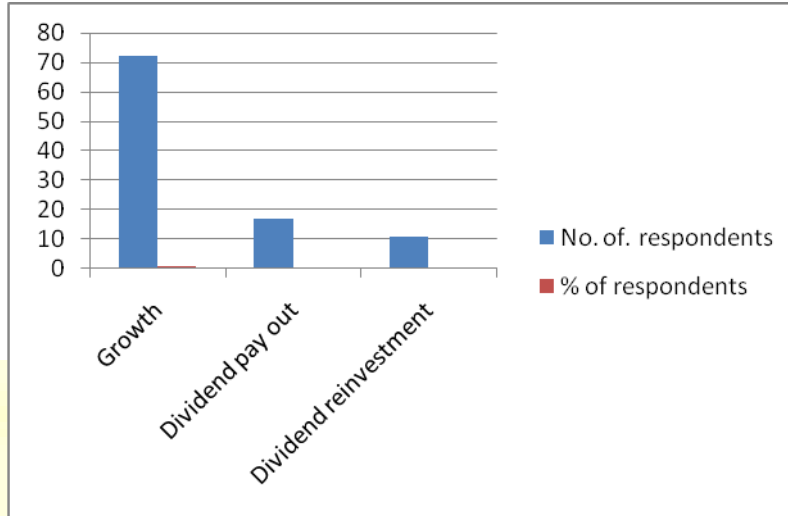
From the above table it is inferred that out of 100 respondents 55% of the respondents have invested in equity scheme ,18% of the respondents have invested in debt scheme,15% of the respondents have invested in balanced scheme, and 12% of the respondents have invested in liquid scheme.

Table: 3

Table showing classification of the respondents based on their investment option

S. No	Awareness about mutual fund	No. of. Respondents	% of respondents
1	Growth	72	72%
2	Dividend pay out	17	17%
3	Dividend reinvestment	11	11%
	Total	100	100%

Figure: 3



**Inference:**

From the table it is inferred that out of 100 respondents 72% of the respondents have chosen their growth option, 17% of the respondents have chosen their dividend payout option and 11% of the respondents have chosen their dividend reinvestment.

We further analysed the relationship between awareness and the demographic variables like gender, age and income. We formulated three hypotheses to test their independence using the chi-square test. The results are tabulated and interpreted next.

**Hypotheses:**

- H<sub>01</sub>: Independent of gender
- H<sub>02</sub>: Independent of age.
- H<sub>03</sub>: Independent of income.

**Gender**

From chi-square tests (Table 4), it is evident that awareness of investor is independent of gender.

		Awareness		Total
		0.00	1.00	
Gender	1.00	21	58	79
	2.00	7	14	21

<b>Total</b>	28	72	100
<b>Chi-square tests</b>			
	Value	Df	Asymp.sig
Pearson Chi-square	0.375	1	0.540
Note: The different gender groups are Male (1) and Female (2).			

### Age

From table 5, we can infer that the conceptual awareness of investor is significantly dependent on age as we can reject the null hypothesis at significance level of 6.7% or more. In other words, awareness is dependent on age. It is found that respondents belonging 'less than 40' age bracket are well aware of the MFs as compared to the respondents of 'higher than 40' age bracket. This can probably be attributed to the fact that they are risk averse and generally inclined towards parking their funds in government securities, bank deposits, LIC, etc. Thus AMC's have a major role in creating awareness amongst the respondents belonging to higher age group which in turn will fetch a considerable amount of investment for the industry.

		Awareness		Total
		0.00	1.00	
Age	1.00	9	31	40
	2.00	4	21	25
	3.00	9	9	18

	4.00	6	11	17
<b>Total</b>		<b>28</b>	<b>72</b>	<b>100</b>
<b>Chi-square Tests</b>				
		Value	Df	Asymp.sig.(2-sided)
Pearson Chi-Square		7.156	3	0.067
Note: The different age groups are: Below 30 (1),31-40 (2),,41-50 (3) and above 50(4)				

**Income**

From table 6, we can infer that the conceptual awareness of investor is significantly independent on their level of income. We can reject the null hypothesis at significance level of 11.1% or more. It is found that respondents having monthly income below 100000 are well aware of the MFs in comparison to the respondents having monthly income more than 30000. This can probably be attributed to the fact that people belonging to low income group are more cautious about their money. Hence, before parking hard earned money in different available investment avenues, they always gather as much information as possible. But it is just the opposite in the case of respondents belonging to the higher income bracket, who mostly depend on the brokers and advisors.

**Table 6 : Results of Chi-square Test for Hypothesis H<sub>03</sub>**

		Awareness		Total
		0.00	1.00	
Income	1.00	6	10	16
	2.00	7	37	44



	3.00	9	17	26
	4.00	6	8	14
<b>Total</b>		<b>28</b>	<b>72</b>	<b>100</b>
<b>Chi-square Tests</b>				
	Value	Df	Asymp.sig.(2-sided)	
Pearson Chi-Square	6.004	3	0.111	
Note: The different income groups are: Below 100000 (1),100000-300000 (2),300000-500000 (3), and above 500000 (4)				

### Principal Suggestions

- ❖ At most 65% of the investor came to know about principal mutual fund through banks, friends and relatives. It is suggested the awareness level should be increased through print, media, TV, Radio, Advertisement and company personnel can take such more effective participation in public relation.
- ❖ He relationship manager should recommend the investor not to with draw their investment less than one year as the return will be low and not to hold their investment more than 5 years since the performance of the existing fund may not perform in future. So it should be advisable to switch to some other scheme.
- ❖ Since the investor's preference for liquidity is found to be high, we suggest more of the new schemes to be open-ended.
- ❖ AMCs should endeavor to design suitable schemes to meet the multiple needs of adequate returns, safety and liquidity in a reasonable proportion as these features have been rated high by individual investor's.
- ❖ Investors can be categorized into various segments such as young families with small or no children looking for high returns, middle-aged people saving for retirement, retired people

looking for regular income and suitable products can be designed to meet the preference of each class. Products such as growth and balanced schemes for young families and income schemes with regular and reasonable returns for retired people can be designed and marketed to the right customers.

- ❖ Electronic sale of financial products is gaining volumes with the widespread acceptability of e-buying. Therefore, AMCs should establish friendlier and easily accessible 'automated response systems' to encourage the establishment of new low-cost distribution channel. These systems have the capacity to effectively convey information on products and services and also efficiently redress investor grievances.

### Conclusions

The mutual funds industry has come a long way in constituting towards educating and helping the people realize their financial goals better considerable portion of the investment expenditure of Indian investors. Mutual funds are now also competing with commercial banks in the race for the retail investor's savings and corporate float money. The power shift towards mutual funds has become obvious. The coming few years will show that the traditional saving avenues are losing out in the current scenario. Many investors are realizing that investments in savings account are as good as locking up their deposits in a closet. The fund mobilisation of mutual funds in the current year indicated that money is going to mutual funds in a big way.

Lately SEBI has been active steps in protecting investors of mutual funds. Considerable amount of reforms have come in to practice with reference to additional disclosure of expenses, uniform cut off timings, requisites of PAN number in order to enable greater retail participation.

There still remains an untapped market yet to be explored. It would be a sincere request for all players in the mutual fund industry along with HDFC to make efforts.

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