A STUDY OF INVESTORS ATTITUDE TOWARDS MUTUAL FUND WITH SPECIAL REFERENCE TO INVESTORS IN SOLAPUR CITY

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ABSTRACT

The role of Indian mutual fund industry as significant financial service in financial market has really been noteworthy. In fact, the mutual fund industry has emerged as an important segment of financial market of India, especially in channelizing the savings of millions of individuals into the investment in equity and debt instruments. Mutual funds are seemingly the easiest and the least stressful way to invest in the stock market. Quiet a large amount of money has been invested in mutual funds during the past few years. Any investor would like to invest in a reputed Mutual Fund organization. Mutual funds are financial intermediaries concerned with mobilizing savings of those who have surplus and the canalization of these savings in those avenues where there is a demand for funds. These intermediaries employ their resources in such a manner as to provide combined benefits of low risk, steady return, high liquidity and capital appreciation through diversification and expert management. Reforms in the Indian economic system and the opening up of the economy have been the reasons for the tremendous growth in the Indian capital market. This study analyzes the impact of different demographic variables on the attitude of investors towards mutual funds. Apart from this, it also focuses on the benefits delivered by mutual funds to investors. To this end, 200 respondents of Solapur City, having different demographic profiles were surveyed. The study reveals that the majority of investors have still not formed any attitude towards mutual fund investments.

KEYWORDS: Mutual Fund, Investors, Solapur City

INTRODUCTION

Mutual fund is a pool of money collected from investors and is invested according to certain investment options. A mutual fund is a trust that pools the saving of a no. of investors who share a common financial goal. A mutual fund is created when investors put their money together. It is, therefore, a pool of investor’s fund. 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 no. of units owned by them. The most important characteristics of a fund are that the contributors and the beneficiaries of the fund are the same class of people namely the investors.

The term mutual fund means the investors contribute to the pool and also benefit from the pool. The pool of funds held mutually by investors is the mutual fund. A mutual fund business is to invest the funds thus collected according to the wishes of the investors who created the pool. Usually the investor’s appoint professional investment managers create a product and offer it for investment to the investors. This project represents a share in the pool and pre status investment
objectives. Thus, a mutual fund is the most suitable investment for a common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at relatively low cost.

EVOLUTION OF INDIAN MUTUAL FUND INDUSTRY

The formation of Unit Trust of India marked the evolution of the Indian mutual fund industry in the year 1963. The primary objective at that time was to attract the small investors and it was made possible through the collective efforts of the Government of India and the Reserve Bank of India. The history of mutual fund industry in India can be better understood divided into following phases:

Establishment and Growth of Unit Trust of India - 1964-87

Unit Trust of India enjoyed complete monopoly when it was established in the year 1963 by an act of Parliament. UTI was set up by the Reserve Bank of India and it continued to operate under the regulatory control of the RBI until the two were de-linked in 1978 and the entire control was transferred in the hands of Industrial Development Bank of India (IDBI). UTI launched its first scheme in 1964, named as Unit Scheme 1964 (US-64), which attracted the largest number of investors in any single investment scheme over the years.

UTI launched more innovative schemes in 1970s and 80s to suit the needs of different investors. It launched ULIP in 1971, six more schemes between 1981-84, Children's Gift Growth Fund and India Fund (India's first offshore fund) in 1986, Mastershare (India's first equity diversified scheme) in 1987 and Monthly Income Schemes (offering assured returns) during 1990s. By the end of 1987, UTI's assets under management grew ten times to Rs 6700 crores.

Entry of Public Sector Funds - 1987-1993

The Indian mutual fund industry witnessed a number of public sector players entering the market in the year 1987. In November 1987, SBI Mutual Fund from the State Bank of India became the first non-UTI mutual fund in India. SBI Mutual Fund was later followed by Canbank Mutual Fund, LIC Mutual Fund, Indian Bank Mutual Fund, Bank of India Mutual Fund, GIC Mutual Fund and PNB Mutual Fund. By 1993, the assets under management of the industry increased seven times to Rs. 47,004 crores. However, UTI remained to be the leader with about 80% market share.

Emergence of Private Sector Funds - 1993-96

The permission given to private sector funds including foreign fund management companies (most of them entering through joint ventures with Indian promoters) to enter the mutual fund industry in 1993, provided a wide range of choice to investors and more competition in the industry. Private funds introduced innovative products, investment techniques and investor-servicing technology. By 1994-95, about 11 private sector funds had launched their schemes.

Growth and SEBI Regulation - 1996-2004

The mutual fund industry witnessed robust growth and stricter regulation from the SEBI after the year 1996. The mobilization of funds and the number of players operating in the industry reached new heights as investors started showing more interest in mutual funds.
Investors' interests were safeguarded by SEBI and the Government offered tax benefits to the investors in order to encourage them. SEBI (Mutual Funds) Regulations, 1996 was introduced by SEBI that set uniform standards for all mutual funds in India.

The Union Budget in 1999 exempted all dividend incomes in the hands of investors from income tax. Various Investor Awareness Programmes were launched during this phase, both by SEBI and AMFI, with an objective to educate investors and make them informed about the mutual fund industry.

**Growth and Consolidation - 2004 Onwards**

The industry has also witnessed several mergers and acquisitions recently, examples of which are acquisition of schemes of Alliance Mutual Fund by Birla Sun Life, Sun F&C Mutual Fund and PNB Mutual Fund by Principal Mutual Fund. Simultaneously, more international mutual fund players have entered India like Fidelity, Franklin Templeton Mutual Fund etc. There were 29 funds as at the end of March 2006.

This is a continuing phase of growth of the industry through consolidation and entry of new international and private sector players. Indian mutual fund industry reached Rs 1,50,537 crore by March 2004. It is estimated that by 2010 March-end, the total assets of all scheduled commercial banks should be Rs 40,90,000 crore. The annual composite rate of growth is expected 13.4% during the rest of the decade. In the last 5 years there is an annual growth rate of 9%. According to the current growth rate, by year 2010, Mutual fund India assets will be double

**FEATURES THOSE INVESTORS LIKE IN MUTUAL FUND**

If mutual funds are emerging as the favorite investment vehicle it is because of the many advantages. They have over other forms and avenues of investing parties for the investors who has limited resources available in terms of Capital and ability to carry out detailed reserves and market monitoring. These are the major advantages offered by mutual fund to all investors:

**Professional Management**

Mutual Funds provide the services of experienced and skilled professionals, backed by a dedicated investment research team that analyses the performance and prospects of companies and selects suitable investments to achieve the objectives of the scheme.

**Diversification**

Mutual Funds invest in a number of companies across a broad cross-section of industries and sectors. This diversification reduces the risk because seldom do all stocks decline at the same time and in the same proportion. You achieve this diversification through a Mutual Fund with far less money than you can do on your own.

**Convenient Administration**

Investing in a Mutual Fund reduces paperwork and helps you avoid many problems such as bad deliveries, delayed payments and follow up with brokers and companies. Mutual Funds save your time and make investing easy and convenient.

**Return Potential**

Over a medium to long-term, Mutual Funds have the potential to provide a higher return as they invest in a diversified basket of selected securities.
Low Costs

Mutual Funds are a relatively less expensive way to invest compared to directly investing in the capital markets because the benefits of scale in brokerage, custodial and other fees translate into lower costs for investors.

Liquidity

In open-end schemes, the investor gets the money back promptly at net asset value related prices from the Mutual Fund. In closed-end schemes, the units can be sold on a stock exchange at the prevailing market price or the investor can avail of the facility of direct repurchase at NAV related prices by the Mutual Fund.

Transparency

You get regular information on the value of your investment in addition to disclosure on the specific investments made by your scheme, the proportion invested in each class of assets and the fund managers investment strategy and outlook.

Flexibility

Through features such as regular investment plans, regular withdrawal plans and dividend reinvestment plans, you can systematically invest or withdraw funds according to your needs and convenience.

Affordability

Investors individually may lack sufficient funds to invest in high-grade stocks. A mutual fund because of its large corpus allows even a small investor to take the benefit of its investment strategy.

Well Regulated

All Mutual Funds are registered with SEBI and they function within the provisions of strict regulations designed to protect the interests of investors. The operations of Mutual Funds are regularly monitored by SEBI.

DISADVANTAGES OF MUTUAL FUNDS

Above I have mentioned the various advantages of Mutual Funds but it also suffers from a lot of drawbacks as the market is volatile and it is ever affected by national as well as international factors, these days we can see that crude oil prices in International market has become an important factor in determining the market movement. Here are some disadvantages as cited by me and by survey:

- Fluctuating Returns

Mutual funds are like many other investments without a guaranteed return: there is always the possibility that the value of your mutual fund will depreciate. Unlike fixed-income products, such as bonds and Treasury bills, mutual funds experience price fluctuations along with the stocks that make up the fund. When deciding on a particular fund to buy, you need to research the risks involved - just because a professional manager is looking after the fund, that doesn’t mean the performance will be always good.

- Diversification

Although diversification is one of the keys to successful investing, many mutual fund investors tend to over diversify. The idea of diversification is to reduce the risks associated with holding a single security; over diversification (also known as diversification) occurs when investors acquire many funds that are highly related and, as a result, don’t get
the risk reducing benefits of diversification. At the other extreme, just because you own mutual funds doesn’t mean you are automatically diversified. For example, a fund that invests only in a particular industry or region is still relatively risky. For example: Sectoral Funds

**Cash and More Cash**

As you know already, mutual funds pool money from thousands of investors, so everyday investors are putting money into the fund as well as withdrawing investments. To maintain liquidity and the capacity to accommodate withdrawals, funds typically have to keep a large portion of their portfolios as cash. Having ample cash is great for liquidity, but money sitting around as cash is not working for you and thus is not very advantageous.

**Costs**

Mutual funds provide investors with professional management, but it comes at a cost. Funds will typically have a range of different fees that reduce the overall payout. In mutual funds, the fees are classified into two categories: shareholder fees and annual operating fees. The shareholder fees, in the forms of loads and redemption fees are paid directly by shareholders purchasing or selling the funds. The annual fund operating fees are charged as an annual percentage - usually ranging from 1-3%. These fees are assessed to mutual fund investors regardless of the performance of the fund. As you can imagine, in years when the fund doesn’t make money, these fees only magnify losses.

![Structure of Mutual Fund](image)

**Figure 1: Structure of Mutual Fund**

A mutual is a set up in the form of trust, which has sponsor, trustee, assets management company (AMC) and custodian. Sponsor is the person who acts alone or in combination with another body corporate and establishes a mutual fund. Sponsor must contribute at least 40% of the net worth of the investment managed and meet the eligibility criteria prescribed under the Securities and Exchange Board of India (Mutual Funds) regulations, 1996. The sponsor is not responsible or liable for any loss or shortfall resulting from the operation of the schemes beyond the initial contribution made by it towards setting up of Mutual Fund. The Mutual Fund is constituted as a trust in accordance with the provisions of the Indian Trusts Act, 1882 by the Sponsor.

Trustee is usually a company (corporate body) or a board of trustees (body of individuals). The main responsibility of the trustee is to safeguard the interest of the unit holders and also ensure that AMC functions in the interest of investors’ and in accordance with the Securities and Exchange Board of India (Mutual Fund) Regulations 1996 the provisions of the Trust deed and the offer Document of the respective schemes. The AMC is appointed by the Trustees
as the investment Manager of the Mutual Fund. The AMC is required to be approved by SEBI to act as an asset management company of the Mutual Fund. The AMC if so authorized by the Trust Deed appoints the Registrar and Transfer Agent to agent the mutual fund. The registrar processes the application form, redemption requests and dispatches account statements to the unit holders. The Registrar and Transfer agent also handles communications with investors’ and updates investor records.

REVIEW OF LITERATURE

Lenard et., al. (2003) empirically investigated investor’s attitudes toward mutual funds. The results indicate that the decision to switch funds within a fund family is affected by investor’s attitude towards risk, current asset allocation, investment losses, investment mix, capital base of the fund age, initial fund performance, investment mix, fund and portfolio diversification. The study reported that these factors are crucial to be considered before switching funds regardless of whether they invest in non-employer plans or in both employer and non-employer plans. Bollen (2006) studied the dynamics of investor fund flows in a sample of socially screened equity mutual funds and compared the relation between annual fund flows & lagged performance in SR funds to the same relation in a matched sample of conventional funds. The result revealed that the extra-financial SR attribute serves to dampen the rate at which SR investors trade mutual funds. The study noted that the differences between SR funds and their conventional counterparts are robust over time and persist as funds age. The study found that the preferences of SR investors may be represented by conditional multi-attribute utility function (especially when SR funds deliver positive returns). The study remarked that mutual fund companies can expect SR investors to be more loyal than investors in ordinary funds.

Walia and Kiran (2009) studied investor’s risk and return perception towards mutual funds. The study examined investor's perception towards risk involved in mutual funds, return from mutual funds in comparison to other financial avenues, transparency and disclosure practices. The study investigated problems of investors encountered with due to unprofessional services of mutual funds. The study found that majority of individual investors doesn’t consider mutual funds as highly risky investment. In fact on a ranking scale it is considered to be on higher side when compared with other financial avenues. The study also reported that significant relationship of interdependence exists between income level of investors and their perception for investment returns from mutual funds investment.

Saini et., al. (2011) analyzed investor’s behavior, investors’ opinion and perception relating to various issues like type of mutual fund scheme, its objective, role of financial advisors / brokers, sources of information, deficiencies in the provision of services, investors’ opinion relating to factors that attract them to invest in mutual and challenges before the Indian mutual fund industry etc. The study found that investors seek for liquidity, simplicity in offer documents, online trading, regular updates through SMS and stringent follow up of provisions laid by AMFI. Singh (2012) conducted an empirical study of Indian investors and observed that most of the respondents do not have much awareness about the various function of mutual funds and they are bit confused regarding investment in mutual funds. The study found that some demographic factors like gender, income and level of education have their significant impact about the various function of mutual funds and they are bit confused regarding investment in mutual funds. On the contrary age and occupation have not been found influencing the investor’s attitude. The study noticed that return potential and liquidity have been perceived to be most lucrative benefits of investment in mutual funds and the same are followed by flexibility, transparency and affordability.

STATEMENT OF THE PROBLEM

Mutual funds have their drawbacks and may not be for everyone. No investment is risk free. If the entire stock market declines in value, the value of mutual fund shares will go down as well, no matter how balanced the portfolio.
Investors encounter fewer risks when they invest in mutual funds than when they buy and sell stocks on their own. However, anyone who invests through a mutual fund runs the risk of losing money. All funds charge administrative fees to cover their day-to-day expenses. Some funds also charge sales commissions or “loads” to compensate brokers, financial consultants, or financial planners. When he invests in a mutual fund, they depend on the fund’s manager to make the right decisions regarding the fund’s portfolio. If the invests in Index Funds, they foregoes management risk, because these funds do not employ managers. Though these are the problems in the investment of mutual funds, in the recent days most of the investors preferred to invest their funds on mutual funds. In this background, the research has made an attempt to study the investors’ preference for mutual funds in Solapur City.

LIMITATIONS OF THE STUDY

The present study is based upon the results of survey conducted on 200 mutual fund investors. The implications of the study are subject to the limitations of sample size, psychological and emotional characteristics of surveyed population.

SCOPE OF THE STUDY

This paper provides Future of Mutual Funds industry information as well as awareness level amongst people for Mutual Funds. Also this project report of Mutual Funds gives an outlook to management as to how the mutual funds are performing in the current market situation as a result what may be the future of this industry. This paper on mutual funds is informative the students who want to understand and undertake assignments in the industry. This study also facilitates the general people who can understand the importance and explore the new option for investment in Mutual Funds. Different financial institutions provide services that are both complementary to and competitive with each other. A well built financial system directly contributes to the growth of the country.

RESEARCH METHODOLOGY

This study is descriptive in nature based on survey method. The study aims at finding out the attitude of the investors towards investment in mutual funds in Solapur city. This study was based mainly on primary sources. The primary data was collected from the investors of mutual funds with help of the questionnaire. The secondary data were collected from the books, records and journals. By adopting convenience sampling, 200 respondents were selected for this study. The essential data were collected with the help of questionnaire. The data collected from the period of January 2011 to April 2011.

DATA ANALYSIS AND INTERPRETATION
From above figure it is clear that 75% investors are invested in open ended schemes where as 15% invested in closed ended schemes in mutual fund.

Figure: 3 Reason for Investment in Mutual Fund

From above figure it is clear that and 42% investors say that they invested money in mutual fund for tax assumption. 33% investors say that they invested money in mutual fund for higher returns. 16% investors say that they invested money in mutual fund for value creation in fund. 9% investors say that they invested money in mutual fund for other reason.

Figure: 4 Showing the Reason of Investors that not Invested Money in Mutual Fund

From above figure is clear that 50% investors say that they not interested to invest money in mutual fund. 33% investors say that they have imperfect knowledge in mutual fund, so they are not invested. 8.5% investors say that they invested in govt. bond. 8.5% investors has other reason so they not invested money in mutual fund.

Figure: 5 Showing Type of Investment Investors Should be Preferred
From above figure it is clear that investors invest money in fixed deposits. 15 25% investors invest money in gold/real estates. 17% investors invest money in mutual fund. 8% investors invest money in bond/debentures. Remaining 17% investors invest money in shares.

**Figure: 6 Showing Returns Investor get from their Investment**

From above figure it is clear that 70% investors are gaining 5-15% returns from their investment. 23% are gaining 15-30% returns from their investment. 5% investors are gaining 30-45% returns from their investment. Remaining only 2% investors is gaining above 45% returns from their investment.

**Figure: 7 Showing Duration of Investment**

From above it is clear 80% investors are dealing in short term duration whereas 20% investors are dealing in long term duration.

**Figure: 8 Showing the Investors Experience in Mutual Fund**
From above figure it is clear that 73% investors say that they are having bad experience in mutual fund. 12% investors say that they are having good experience in mutual fund. Remaining 15% investors say that their experience is ok.

FINDINGS AND SUGGESTIONS

Findings

- The trend for investment is changing rapidly besides the traditional pattern of investment and people today they are ready to undertake risk and also bear the volatility of changing mutual fund market scenario.

- This shows that people with Middle Income Group are more attractive this market and are ready to bear the risk.

- It is observed that 75% investors have invested open ended schemes that they want higher returns on their investment rather than investing in closed ended schemes in mutual fund.

- It is observed that 42% investors have invested money for tax assumption. 33% investors have invested money for higher returns in their investment. 16% investors have invested money for value creation in fund. And remaining 9% investors have invested money for other reason.

- It is observed that 50% investors have not interested to invest money in mutual fund. 33% investors have imperfect knowledge so they not invested money in mutual fund. 9% investors find govt. securities bond is better that’s way they not invested money in mutual fund. And remaining 8% investors have other reason so they not invested money in mutual fund.

- It is observed that more businessmen were inclined towards investing in current account. The ladies were inclined to invest their money in Gold and jewelleries. Service class people and retired class people prefer more saving and fixed deposits People with high income.

- It is observed that 70% investors have invested to getting returns in the range of 5-15% which shows in short span of time they are getting good returns and more than expectations.

- It is observed that 80% investors have invested in short term duration which indicates the investors have not ready to invest in long term period due to various risks associated with long term duration of investment.

- On asking how they get knowledge of mutual fund a large number of them attributed to print media. Even banks today follow the role of the investment advisors. Very few get any information from the e-media or Hence, AMCs must increase the awareness about their product through Electronic media (TVs, Cables, Radios etc.) as well as and should not just constrained itself to the print advertisement those who do not read newspaper.

SUGGESTIONS

Investor’s Point of View

The question that entire customer, irrespective of the age group and financial status, think of is- Are mutual funds a safe option? What makes them safe? The basis of mutual fund industry’s safety is the way the business is defined and regulation of law. Since the mutual fund invests in the capital market instruments, so proper knowledge is essential.

Hence the essential requirement is well informed seller and equally informed buyer who understands and helped them to understand the product (here we can say the capital market and the money market instruments) is the essential pre-conditions.
Being Prudent Investor One Should

- Ask one’s agent to give details of different schemes and match the appropriate ones.
- Go to the company records or the fund house regarding any queries if one is not satisfied by the agents.
- Investors should always keep an eye on the performance of the scheme and other good schemes as well which are available in the market for the closed comparison.
- Never invest blindly in the investments before going through the fact sheets, annual reports etc. of the company. Since, according to the

Guidelines of SEBI

The AMCs are bound to disclose all the relevant data that is necessary for the investment purpose of investors.

Company’s (Mutual Fund Companies) Point of View

Following measures can be taken by the company for getting higher investments in the mutual fund schemes:

- Educate the agents or the salesmen properly so that they can take up the queries of the customer effectively.
- Set up separate customer care divisions where the customers can anytime pose their query, regarding the scheme or the current NAV etc. These customer care units can work out in accordance with the requirements of the customer and facilitates them to choose the scheme that suits their financial status.
- Conduct seminars or programs about mutual fund where every information about the product is outlined including the risk factor associated with the different classes of assets.
- Brokers should reduce the brokerage charges for intra day and delivery based so that the investor can save more amounts to generate extra investment for the investor as well as for the Mutual Fund companies.
- Mutual Fund companies should try to increase the promotion and advertisement strategies for awareness of Mutual fund in Solapur city.

CONCLUSIONS

The mutual fund industry is growing at a tremendous pace. A large number of plans have come up from different financial resources. With the stock markets oaring the investors are attracted towards these schemes. Only a small segment of the investors still in Mutual Funds and the main source sources of information still are the financial advisors followed by advertisements in different media. The Indian investors generally invest over period of 2-3 years. Also there is a tendency to invest in fixed deposits due to the security attached to it. In order to excel and make mutual funds a success, companies still need to create awareness and understand the psyche of the Indian customer.

REFERENCES


