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To Study the Consumer Perception and Buying Behavior with Special Reference to Mutual Funds Investment

Shruti Upadhyaya

Research Scholar, Bhagwant University, Ajmer, India.

Prof. (Dr.) Sudhinder Singh Chowhan

Research Supervisor, Bhagwant University, Ajmer, India

Abstract A mutual fund is a pool of money from many investors that is used to invest in one portfolio of securities for the benefit of all the investors in the fund. Mutual fund investors buy shares in the mutual fund. Each share represents a piece of every investment made by the money managers that oversee the mutual fund. Although mutual funds allow you to invest in many sectors of the economy at once, mutual funds do have limitations worth considering before you invest.

Since mutual funds are professionally managed, you do not have any control in how the money in the mutual fund is invested. Money managers are responsible for researching and interpreting data related to the investments that make up the mutual fund. As a result, you have no way of influencing what investments are bought and sold by the money manager.

The returns you generate by investing in a mutual fund are limited in part by the cost of maintaining the mutual fund. According to the U.S. Securities and Exchange Commission, a mutual fund is similar to a business. The mutual fund incurs costs to buy and sell investments on the open financial market place. Some of these fees may include advising fees, transaction costs, and fees for marketing and distribution. These fees reduce the returns you make from the investments in your mutual fund.

I. INTRODUCTION

A prospectus for a mutual fund is one of the most common sources of information for investors. A key consideration when you examine a prospectus is that projections of future earnings are only estimates of how the mutual fund may perform in the future. Projections are commonly based on past performance, but there is no guarantee that a mutual fund will generate the same level of returns as past years.

Insurance

The money you invest in a mutual fund is not insured by the Federal Deposit Insurance Corporation. If your bank participates in FDIC insurance, your deposits are repaid to you if your bank fails, but the money you invest in mutual funds is not protected against investment losses or bank closure.

Risk

Mutual funds are exposed to risk like any other investment in the financial markets. Mutual funds try to minimize risk by investing in an assortment of securities like stocks and short- and long-term bonds. This strategy is commonly called diversification, and it protects you from losses in one area of the portfolio with gains in another. While mutual funds invest in several sectors, some specialize in certain investments like money market funds, bond funds and stock funds, which carry additional risk of loss.

Origin

The origin of mutual fund industry in India is with the introduction of the concept of mutual fund by UTI in the year 1963. Though the growth was slow, but it accelerated from the year 1987when non-UTI players entered the industry .In the past decade, Indian mutual fund industry had seen dramatic improvements, both quality wise as well as quantity wise. Before, the monopoly of the market had seen an ending phase; the Assets Under Management (AUM) was Rs. 67bn. The private sector entry to the fund family raised the AUM to Rs. 470 bn in March 1993 and till April 2004; it reached the height of 1,540 bn. Putting the AUM of the Indian Mutual Funds Industry into comparison, the total of it is less than the deposits of SBI alone, constitute less than 11% of the total deposits held by the Indian banking industry

Mile Stones Mutual Fund

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank of India. The

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history of mutual funds in India can be broadly divided into four distinct phases

First Phase - 1964-1987

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

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

1987 marked the entry of non-UTI, public sector mutual funds set up by public sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first non-UTI Mutual Fund established in June 1987 followed by Can bank Mutual Fund (Dec 87), Punjab National Bank Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund (Oct 92). LIC established its mutual fund in June 1989 while GIC had set up its mutual fund in December 1990.

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

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

The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. As at the end of January 2003, there were 33 mutual funds with total assets of Rs. 1, 21,805 cores. The Unit Trust of India with Rs. 44,541 crores of assets under management was way ahead of other mutual funds.

Fourth Phase - since February 2003

In February 2003, following the repeal of the Unit Trust of India Act 1963 UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs. 29,835 crores as at the end of January 2003, representing broadly, the assets of US 64 scheme, assured return and certain other schemes. The Specified Undertaking of Unit Trust of India, functioning under an administrator and under the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations.

The second is the UTI Mutual Fund, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. With the bifurcation of the erstwhile UTI which had in March 2000 more than Rs. 76,000 crores of assets under management and with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth.

Different Types of Mutual Funds

The mutual fund industry of India is continuously evolving. Along the way, several industry bodies are also investing towards investor education. Yet, according to a report by Boston Analytics, less than 10% of our households consider mutual funds as an investment avenue. It is still considered as a high-risk option.

In fact, a basic inquiry about the types of mutual funds reveals that these are perhaps one of the most flexible, comprehensive and hassle free modes of investments that can accommodate various types of investor needs.

Various types of mutual funds categories are designed to allow investors to choose a scheme based on the risk they are willing to take, the investable amount, their goals, the investment term, etc.

At the fundamental level, there are three varieties of mutual funds:

1) Equity funds (stocks)
2) Fixed-income funds (bonds)
3) Money market funds

All mutual funds are variations of these three asset classes

Money Market Funds

The money market consists of short-term debt instruments, mostly Treasury bills this is a safe place to park the money. It will not get great returns A typical return is twice the amount earn in a regular checking/savings account and a little less than the average certificate of deposit (CD).

Bond/Income Funds

The money market consists of short-term debt instruments, mostly Treasury bills this is a safe place to park the money. It will not get great returns A typical return is twice the amount earn in a regular checking/savings account and a little less than the average certificate of deposit (CD).Income funds are named appropriately: their purpose is to provide current income on a steady basis. When referring to mutual funds, the terms "fixed-income," "bond," and "income" are synonymous. These terms denote funds that invest primarily in government and corporate debt. While fund holdings may appreciate, the primary objective of these funds is to provide a steady cash flow to investors. As such, the audience for these funds consists of

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conservative investors and retires. Bond funds are likely to pay higher returns than certificates of deposit and money market investments, but bond funds are not without risk. Because there are many different types of bonds, bond funds can vary dramatically depending on where they invest Furthermore, nearly all bond funds are subject to interest rate risk, which means that if rates go up the value of the funds goes down

Balanced Funds

The objective of these funds is to provide a balanced mixture of safety, income and capital appreciation. The strategy of balanced funds is to invest in a combination of fixed income and equities. A typical balanced fund might have a weighting of 60% equity and 40% fixed income. The weighting might also be restricted to a specified maximum or minimum for each asset class.

Equity Funds

Funds that invest in stocks represent the largest category of mutual funds. Generally, the investment objective of this class of funds is long-term capital growth with some income. There are, however, many different types of equity funds because there are many different types of equities.

Global/International Funds

An international fund (or foreign fund) invests only outside your home country. Global funds invest anywhere around the world, including the home country. It is tough to classify these funds as either riskier or safer than domestic investments. They do tend to be more volatile and have unique country and/or political risks. However, on the other side, they can, as part of a well-balanced portfolio, actually reduce risk by increasing diversification. Although the world's economies are becoming more inter-related, it is likely that another economy somewhere is outperforming the economy of the home country.

Specialty Funds

This classification of mutual funds is more of an all-encompassing category that consists of funds that have proved to be popular but don't necessarily belong to the categories we've described so far. This type of mutual fund forgoes broad diversification to concentrate on a certain segment of the economy
Sector funds are extremely volatile.

Index Funds

This type of mutual fund replicates the performance of a broad market index such as the S & P500 or Dow Jones Industrial Average (DJIA) An investor in an index fund figures that most managers can't beat the market. An index fund merely replicates the market return and benefits investors in the form of low fees.

Mutual Funds Schemes according to maturity period:

Open-ended Fund: An open-ended Mutual fund is one that is available for subscription and repurchase on a continuous basis. These Funds do not have a fixed maturity period. Investors can conveniently buy and sell units at Net Asset Value (NAV) related prices which are declared on a daily basis. The key feature of open-end schemes is liquidity.

Close-ended Fund: A close-ended Mutual fund has a stipulated maturity period e.g. 5-7 years. The fund is open for subscription only during a specified period at the time of launch of the scheme. Investors can invest in the scheme at the time of the initial public issue and thereafter they can buy or sell the units of the scheme on the stock exchanges where the units are listed.

Interval s fund

Interval funds combine the features of open-ended and close ended-schemes. They may be traded on the stock exchanges or may be open for sale or redemption during pre-determined intervals at NAV based prices.

Mutual funds come in all shapes and sizes there are three basic types of such funds:

1. Growth Funds

2. Income Funds

3. Balanced Funds

(a)Growth/Equity oriented scheme: -These schemes seek to invest a majority of their funds in equities and a small portion in money market instruments. These funds seek to provide growth of capital with secondary emphasis on dividend. Such schemes have the potential to deliver superior returns over the long term because the market boom and depression phases get evaded out over a longer time span. However, because they invest in equities, these schemes are exposed to fluctuations in value especially in the short-term.

(b) Income/Debt Oriented Scheme: -The aim of the income fund is to provide regular and steady income to investors. Such schemes generally invest in fixed income securities such as bonds, corporate, debentures, government securities and money market instruments. Such funds are less risky compared to equity schemes.

(c) Balanced Scheme: -These are also known, as Hybrid Schemes. These balanced schemes aim to provide both growth and regular income. Such schemes periodically distribute a part of their earning and invest both in shares and fixed income securities in the proportion indicated in their offer documents. In a rising stock market, the NAV of these schemes may not normally keep pace, or fall equally when the market falls.

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Unit investment trusts

Unit investment trusts or UITs issue shares to the public only once, when they are created. Investors can redeem shares directly with the fund (as with an open-end fund; they may also be able to sell their shares in the market. Unit investment trusts do not have a professional investment manager. Their portfolio of securities is established at the creation of the UIT and does not change. UITs generally have a limited life span, established at creation.

Exchange-traded funds

A relatively recent innovation, the exchange-traded fund or ETF is often structured as an open-end investment company, though ETFs may also be structured as unit investment trusts, partnerships, investments trust, grantor trusts or bonds (as an exchange-traded note). ETFs combine characteristics of both closed-end funds and open-end funds. Like closed-end funds, ETFs are traded throughout the day on a stock exchange at a price determined by the market. However, as with open-end funds, investors normally receive a price that is close to net asset value. To keep the market price close to net asset value, ETFs issue and redeem large blocks of their shares with institutional investors.

II. INVESTMENTS AND CLASSIFICATION

Mutual funds may invest in many kinds of securities. The types of securities that a particular fund may invest in are set forth in the fund's prospectus, which describes the fund's investment objective, investment approach and permitted investments. The investment objective describes the type of income that the fund seeks. For example, a "capital appreciation" fund generally looks to earn most of its returns from increases in the prices of the securities it holds, rather than from dividend or interest income. The investment approach describes the criteria that the fund manager uses to select investments for the fund.

Money market funds

Money market funds invest in money market instruments, which are fixed income securities with a very short time to maturity and high credit quality. Investors often use money market funds as a substitute for bank savings accounts, though money market funds are not government insured, unlike bank savings accounts.

Stock or equity funds

Stock or equity funds invest in common stocks. Stock funds may invest in primarily U.S. securities (domestic or U.S. funds), in both U.S. and foreign securities (global or world funds), or primarily foreign securities (international funds). They may focus on a specific industry or sector. A stock fund may be sub classified along two dimensions:

Market capitalization or market cap is the value of a company's stock and equals the number of shares outstanding times the market price of the stock.

Market capitalizations are divided into the following categories:

- Micro cap
- Small cap
- Mid cap
- Large cap

Hybrid funds

Hybrid funds invest in both bonds and stocks or in convertible securities. Balanced funds, asset allocation funds, target date or target risk funds and lifecycle or lifestyle funds are all types of hybrid funds.

III. REVIEW OF LITERATURE

Financial performance of mutual funds

The investment performance of Mutual Funds has received considerable attention from researchers and practitioners world over. This section reviews major studies relating to performance evaluation carried out both in India and abroad. Selectivity and Timing Measures of Mutual Fund Performances have not been reviewed because it is beyond the scope of the present study. One of the objectives of this study is to measure and analyze the performance of select Indian open-end equity mutual funds.

Performance Measurement Performance in terms of rate of return: absolute measure of performance. Financial performance of the portfolio depends on the aggregate performance of the individual stocks held in the portfolio. Rate of return is one of the measures to determine the performance of the portfolio. Rate of return has two components, cash inflows (dividend, interest etc.) and capital appreciation or depreciation.

Jack Treynor (1965) developed a methodology for performance evaluation of a mutual fund that is referred to as reward to volatility measure, which is defined as average excess return on the portfolio. This is followed by **Sharpe (1966)** reward to variability measure, which is average excess return on the portfolio divided by the standard deviation of the portfolio.

Sharpe (1966) developed a composite measure of performance evaluation and imported superior performance of 11 funds out of 34 during the period 1944-63.

Michael C. Jensen (1967) conducted an empirical study of mutual funds in the period of 1954-64 for 115 mutual funds. The results indicate that these funds are not able to predict security prices well enough to 30 outperform a buy the market and hold policy. The study ignored the gross management expenses to be free. There was very little

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evidence that any individual fund was able to do significantly better than which investors expected from mere random chance.developed an absolute measure based upon the capital asset pricing model in his classic study.

Jensen (1968) developed a classic study; an absolute measure of performance based upon the Capital Asset Pricing Model and reported that mutual funds did not appear to achieve abnormal performance when transaction costs were taken into account.

Ippolito (1992) reported that fund selection by investors is based on past performance of the funds and money flows into winning funds more rapidly than they flow out of losing funds

Fama (2012)) developed a methodology for evaluating investment performance of managed portfolios and suggested that the overall performance could be broken down into several componentsalsodeveloped methods to distinguish between observed return due to the ability to pick up the best securities at a given level of risk from that of predictions of price movements· in the market. He introduced a multi-period model allowing evaluation on a period-by-period basis and also on a cumulative basis. He was of the opinion that, return on a portfolio constitutes of return for security selection and return for bearing risk. His contributions combined the concepts from modern of portfolio selection and capital market equilibrium with more traditional concepts of good portfolio management.

The research work by **Friend, et al., (1962), Sharpe (1966), Treynor and Mazuy (1966), Jensen (1968), and Tito (1969) and Fama (1972)** contributed for the development of the theoretical modeling and in framing the methodology for the quantitative evaluation of mutual funds with risk-return as parameters. Based on the methodology developed by the above authors a number of research work followed. The following are the noteworthy studies carried out by academicians in the years to follow.

IV. RESEARCH METHODOLOGY

The scope of the study is to track out the investors' preferences, priorities and their awareness towards different mutual fund schemes. Keeping in view the various constraints the scope of the study is limited only to the investors residing in Udaipur. Data for the study is collected from a sample of 600 investors by using stratified sampling.

Data Collection Methods

For the purpose of the study two sets of data has been used. The first set of data is the primary data. This type of data has been collected from the investors with the help of a Questionnaire. The second set of data used for the study is the secondary data. The secondary data relating to net resources mobilized by banks and financial institution sponsored mutual funds, assets under management, investors mix etc is collected for a period of 2014-2018. This type of data is collected from different investment periodicals, magazines, various newspapers, RBI reports, AMFI reports, SEBI annual reports; securities market reviews, study of existing literature of different authors in the related field etc.

As research is a systemic and formalized process, it follows a certain sequence of research action. The process has the following steps:

- Formulating the problems
- Developing objectives of the research
- Designing an effective research plan
- Data collection techniques
- Evaluating the data and preparing a research report

Owing to the fact that management is a relatively speaking a nascent field compared to other disciplines it is quite natural that most of the research studies will be of the type – exploratory. This study therefore, will be an exploratory research based in a large measure on the collection of primary data and also the secondary sources. This empirical study of consumer perception with special reference of HDFC mutual fund will particularly cover the units based in the state of Rajasthan.

Comparative mean study is done here. It includes surveys of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present. The problem identified was the study on Consumer Perception on Investment in Mutual Funds.

Statistical Tools Used

To carry out the research work different statistical tools are used in order to derive certain meaningful information and results. In case of primary data Chi Square tests has been applied and in case of categories where respondents are required to provide ranks to different factors, the relative importance of the respective factor is calculated by assigning scores to them. In case of secondary data exponential growth rates has been calculated.

Nature of the study

It is exploratory followed by Descriptive type of research.

1) **Sampling Techniques:** The sample population for research was the investors who have invested in Mutual Fund through different financial Mutual Fund companies in Udaipur. Sample size is 600. Data has been presented with the help of bar graph, pie charts etc.

2) **Sample Design**

- **Sampling units / Population:** The mutual funds in the selected from the district of Udaipur.
- **Sampling type:** Stratified random sampling.
- **Sample size:** The total sample size will be 550 mutual fund customer and 50 executives of HDFC securities from Udaipur.

3) **Data collection:** For Primary source a questionnaire will be prepared and this questionnaire will be filled by and scheduled interviews / personal observations.

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Natural Market

- Relatives
  - Friends
  - Neighbours
  - Nature market
  - Stall operation
  - Canopy

Sources of Secondary data:

The study has included scheme wise performance appraisal of various mutual funds. Data pertaining to the performance of the funds were drawn from secondary sources through data published by AMFI, mutualfundsindia.com, moneycontrol.com and BSE.com, value research.com,hdfc.org, mutual funds books, journals and websites of hdfc mutual funds.

V. DATA INTERPRETATION AND ANALYSIS

SWOT Analysis

Mutual funds are among the financial products that benefit from conducting a SWOT analysis. By reviewing their strengths, weaknesses, opportunities and threats, an individual investor can be better informed on where to invest their money, and be positioned to shift gears along with the market.

Strengths	Weaknesses
The most critical strength for a mutual fund is its performance. If a fund is outperforming the market, and particularly if it is at the top of its benchmark, that is a big selling point. If the fund is part of a well-established company with a track record of success and a family of high-performing products, that brand name and historical record may also be strength. Different financial metrics may be key depending on your investment style and the fund involved: dividend yield may be the key for one investor, total return over a 10-year period for another.	One weakness to look at your fund's fees. A high expense ratio is a weakness even if it pays for an active management currently beating the market with its returns. Even in good times, expenses are a drag on investor return, and they will be more difficult to accept if the performance declines. Size can be a weakness as well, since bigger isn't always better. As a small-cap fund gets bigger. Risk may be a weakness for some investors looking for a smaller beta or standard deviation.
Opportunities	**Threats**
It's not enough to look at the current numbers when evaluating prospective mutual funds. You also need to look at the overall market and consider whether the fund is best positioned to take advantage of trends. A lagging fund may offer the best opportunity for growth if the combination of a management change and economic trends prove beneficial. A change in the government regulatory environment not only affects different industries, but the funds that concentrate in those sectors as well.	To some extent, many funds move along with general economic news. Some types of funds do better in a recession while others track well in boom times -- those funds are particularly threatened by a sudden change in the unemployment rate that undermines consumer confidence or a stimulus plan that gets people spending again. In addition, if a fund is dependent on a superstar manager, make sure you have a plan in place if that manager suddenly decides to leave.

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