

Factors Influencing Investment in Mutual Funds among Retail Investors in Kerala

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Abstract: Making wise financial investments is one of the most important and challenging decisions faced by retail investors. The decision making process of retail investor is extremely important as the fund choice can have a substantial impact on the investors' wealth and satisfaction. Increased financial disclosure is creating an investor friendly environment. Meanwhile, with the increasing number of funds, the task of picking up the right funds that match one's investment objective is challenging for the retail investors. Their decision on investment choices often relies on factors influencing the purchase of mutual funds. Hence the study aims to find out the most influencing factor while purchasing the mutual funds. The study also unveil some valuable information's to support financial decision making on mutual funds for both the regulators, AMCs and retail investors.

Keywords — *Mutual Funds, AMC-Sponsor, Retail Investor, Factor influencing mutual fund.*

I. INTRODUCTION

Mutual Fund (MF) is a financial intermediary which has played a significant role in the development and growth of capital market in India. Mutual fund is a very important savings vehicle for most people in our country and they provide an excellent opportunity to obtain a more diversified portfolio through investments in new markets and asset classes. However the Indian mutual funds have not attained equal status as their counterparts in other developed countries. It is widely believed that Mutual Funds are retail product designed to target retail investors who are intimidated by the stock market; unique and highly heterogeneous group.

In the present dynamic financial environment, exploring investment avenues are of great importance. The present volatile capital market environment has become more unfriendly to retail investors. They have no other choice but to turn to mutual fund to reap the benefits of stock market investment. Despite the fact that the global financial industry continues to grow, the research of mutual funds has been confined to only a few developed markets. Although emerging market such as India has attracted the attention of investors all over the world they have remained devoid of systematic research, especially in the area of mutual funds. In an effort to plug the gap, the study attempts to find out the factors influencing the purchase of Mutual Funds and the significant relationship between demographic factors also.

II. OBJECTIVES OF THE STUDY

The objective of the study was to know about the behavioural aspects of mutual fund retail investors, for which the following objectives were framed:

- To identify the factors that influences the investment among the mutual fund investors in Kerala.
- To find out the most influencing factor that impact the mutual fund investment.

III. LITERATURE REVIEW

"SEBI – NCAER Survey (2000)^[13] was carried out to estimate the number of households and the population of individual investors, their economic and demographic profile, portfolio size, investment preference for equity as well as other savings instruments. The most relevant findings of the study is that, compared to low income groups, the higher income groups have higher share of investments in MFs. Wilcox (2002)^[17] conducted research on investor's preferences for mutual funds in which they conducted a conjoint study on fifty investors. Analysis showed that investors weighted past performance more than fee structure. The wealthier and the knowledgeable investors are more biased towards entry load and other charges, while selecting the mutual funds. Bala Ramasamy and Yeu (2003) ^[2] concluded that transaction costs is often inversely related to the performance of a mutual fund. They surveys the relative importance of factors considered in selection of Mutual Funds by financial advisors in emerging market. The study focussed

on Malaysia, pointed three important factors which dominate the choices of mutual funds. These are, consistent past performance, size of fund, and cost of transaction. Keli (2005)^[8] is of opinion that past performance and funds' investment strategy continued to be the top two drivers in the selection of a new fund manager. Rajeswari and Moorthy (2005)^[10] observed that investors demand inter-temporal wealth shifting as they progress through the life cycle. Survey was conducted to study the factors influencing the fund/scheme selection behaviour of retail investors. The study reveals that the investors are basically influenced by intrinsic qualities of the product followed by efficient fund management. Ramamurthy and Reddy (2005)^[11] carried out a study to analyse recent trends in the mutual fund industry and concluded that the major benefits delivered to the small investors by mutual funds are professional management, diversification of investment, convenient administration, return potential, liquidity, transparency, flexibility, affordability, wide choice and proper regulation.

Singh and Chander (2006)^[14] conducted a study to find out the investors preference in mutual funds investment. The result showed that the investors belonging to salaried category and in age group of 20-35 years showed preference towards close ended growth schemes. A majority of investors support their investment on advice of brokers, professionals and financial advisors. Donnor and Oxenstierna (2007)^[4] their thesis "the factors that investor value while choosing mutual fund" on Swedish market founded that company related factors i.e. reputation and availability is more valued by inexperienced investors because they lack necessary knowledge about complex financial products. The experienced investor's value fund specific attributes and demands good presence of company in market in order to recognize it. Stefan Engstrom (2007)^[15] examines individual investors' investment decision, sheds light on potential drivers as past return and fees are evaluated against individual characteristics. The results show significant differences between men and women. Men tend to chase and invest with funds that have high past return and women invest with low fee funds. The empirical findings are consistent concerning past experience of investing in funds and attitude towards fund fees. Joshua and Mungo (2008)^[6] identified that, actively managed mutual funds suffer from diminishing returns to scale, funds should alter investment behaviour as assets under management increase. Although asset growth has little effect on the behaviour of the typical fund, they found that large funds and small-cap funds diversify their portfolios in response to growth. Greater diversification, especially for small-cap funds, is associated with better performance. Parihar, Sharma, et al (2009)^[9] study analyse the impact of different demographic variables on the attitude of investors towards mutual funds. The study reveals that majority of investors have still not formed an attitude towards mutual funds investments due to the lack of awareness among

investors. Kandavel D (2009)^[7] made an attempt to study the attitude of the retail investors with regard to fund selection criterion in Puducherry. No significant relationship was found between the attitude of the respondents belonging to different gender, educational status, annual family income, occupation, and amount of wealth owned towards importance level of the fund selection criterion. However, a significant relationship was found among the attitude of respondents of different age groups towards importance level of the fund selection criterion.

Rao (2011)^[12] presents mutual fund investor awareness and adoption of different schemes with educational level. The research findings showed that, increased level of education is linked with greater risk tolerance. This tends to support the hypothesis developed in previous researches i.e. positive relationship exists between educational attainment and financial risk tolerance. Hayat M.Awan and Shanza Arshad (2012)^[5] explore the factors that investors value while making investment decisions regarding mutual funds and type of behaviour they exhibit. Major findings are that investor age group and cities have different impact on fund selection schemes but income, education level and occupation has no effect. Attributes like past performance of fund, reputation of company, withdrawal facility, company services towards investor have greater impact on decision making. Deepak Chawla, (2014)^[3] study was to understand the mutual fund buying behaviour of the individual investors. The two underlying factors extracted are credibility of the fund and miscellaneous features of the fund. The relationship of these factors with demographic variables is ascertained. Arathy B, Aswathy A Nair, Anju Sai P, Pravitha N (2015)^[1] analyzed investor's perception and preference among mutual fund investors from two different cities. The study highlights the factors influencing the fund/scheme selection behavior of retail investors. Varun Sagar Singal and Dr. Rishi Manrai (2018)^[16] aim at finding out the factors affecting investment decision on mutual funds and the impact of behavioral factors on an investor and about the factors that prevent the people to invest in mutual funds".

IV. RESEARCH METHODOLOGY

The population for the research study is the mutual fund retail investors of Kerala. The sampling unit of this survey is an individual, who is technically called as a 'retail investor' who has invested in mutual funds during the period of study. For the research study, Kerala state was divided into three zones viz: South, Central and Northern zones. To analyse the geographical distribution of unit holders, the study was focused on Corporations, Municipality and Panchayath from each of these three zones. Retail Investors of various Asset Management Companies and clients of various depository participants, and banks from each zone constituted the source list.

To determine the sample size accurately, especially a study like this where there is no reliable source to determine the correct number of mutual fund investors in Kerala, the researcher used the power analysis based on the pilot study with 5% level significance (p value) and 90% power to determine the sample size. The maximum required sample size turns to be 442. The collection of data was based on multistage random sampling (geographical distribution of investors). A population sample survey among investors was collected from three zones. After editing of questionnaire for completion, accuracy and consistency the researcher was left out with 472 questionnaires

Method for Data Collection

The study was limited to Kerala State focussing on the retail investors who have invested in mutual funds. The sample of the study was collected from three zones based on the geographical spread, focussing on panchayat, municipality and corporation from each zone.

The primary data were collected using survey method. The methodology adopted was through questionnaire method. Interview with AMC, Brokers and Experts were also carried out to gain more insight to the issue.

V. RESULT AND DISCUSSION

The researcher identified the major factors influencing the purchase of mutual funds and further analysis was done based on regression to know the most influential factor to support financial decision making of mutual funds. The study has made an attempt to understand the financial behaviour of mutual fund investors with respect to the factors determining their investment decisions and preferences.

Factor Analysis - Factors that influence the investment in mutual fund

The researcher used the factor analysis for identifying the underlying variables. To identify the factors that influence the investment in mutual funds, the respondents were asked to rate the importance of the specified variables on a 7 point scale ranging from Strongly Agree (5) to Strongly Disagree (1).

The correlation matrix showed sufficient items to justify the factorability of data. The KMO and Bartlett’s test of sphericity produces the Kaiser-Meyer-Olkin measure of sampling adequacy and Bartlett’s test. KMO test revealed .933 of KMO sampling adequacy (Table 4.59) which is greater than 0.6 and Bartlett’s Test of Sphericity (BTS) value is found significant, (p<.000) which meant that data was appropriate for EFA.

Table 1 Factors that influences the Mutual Fund Investment - KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.933
Bartlett's Test of Sphericity	Approx. Chi-Square	5733.058
	df	351
	Sig.	0.000

Source: Primary Data

Those items having their communalities below 0.4 and Cronbach’s alpha below 0.6 were removed from the final questionnaire resulting in 27 statements for factors that influence the mutual fund investments. The screen test was used for selecting the accurate number of factors. The data were analysed using principal component analysis, with the rotation method; vaimax with Kaisan normalization. Then the 27 identified variables were classified under the appropriate group as *Fund, Investor, AMC/ Sponsor related factors* based on the factor loading.

Table 2 Factors that influences the Mutual Fund Investment - Factor loadings after Varimax Rotation

Variables	Statements	Factor Loading		
		F1	F2	F3
Fund related	Withdrawal facilities (SWP, Partial)	0.519		
	Products with tax benefits	0.448		
	Nature of fund (open & close ended fund)	0.614		
	Past record of AMC	0.422		
	Relative size of mutual fund companies (AUM)	0.606		
	Investment objectives	0.551		
	Service from distribution channels	0.645		
	Disclosure of risk factors	0.613		
	Investment options within a scheme	0.577		
	Fund size	0.661		
	Fund age	0.680		
	Lock in period	0.612		
	Innovativeness of the scheme	0.599		
	AMC has well developed network	0.576		
	Experience of fund management team	0.557		
Investor related	Scheme Performance and track record of the fund		0.696	
	Fund managers reputation and tenure		0.545	
	Systematic way of investing (SIP, STP)		0.700	
	Better information accessibility		0.718	
	Funds rated by rating entity		0.561	
AMC/ Sponsor Related	Management fees & Expense ratio			0.441
	Grievance redressed was not effective			0.631
	Minimal follow up with			0.683

	brokers and companies			
	Reputation of fund sponsor			0.543
	AMC has efficient research department			0.488
	Minimal initial investment			0.624
	Variety of schemes by an AMC			0.510
	Cronbach's alpha	.915	.736	.790

Source: Primary Data

The Cronbach's α value for the different factors that influence the purchase of mutual fund ranged from 0.736 to 0.915 indicating that the scale was internally consistent and reliable. After identifying the variables and classifying the statements under each factor using EFA the next stage was to confirm the factor structure. Since the data being opinion data, measured under Likert scale, Structural Equation Model (SEM) using AMOS 18.0 was used to perform the Confirmatory Factor Analysis (CFA). The measurement model indicated an acceptable fit of the data and confirms to the three factor structure of in selecting the mutual funds for investment.

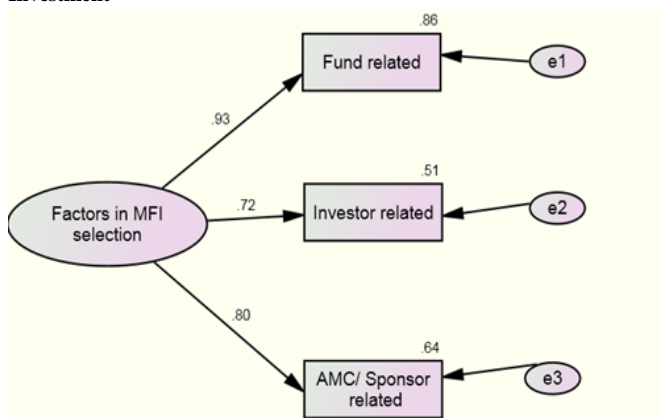
Table 3 The Model Fit Indices - Factors that influences the Mutual Fund Investment

	Normed χ^2	GFI	AGFI	NFI	TLI	CFI	RMR	RMSEA
Recommended	<3	>0.90	>0.90	>0.90	>0.90	>0.90	<1	<0.5
	0	1.000	1.000	1.000	1.000	1.000	0	0

Source: Primary Data

For the analysis an input model was developed by using AMOS-18 graphics. The rectangle represents observed variables- Fund related, Investor related and AMC/ Sponsor related; Oval drawn in the diagram represents unobserved factors considered for mutual fund investment. The straight headed arrow represents the regression coefficients of the observed variables. The small circles with arrows pointing from the circles to the observed variables represent errors unique factors, which are also known as squared multiple correlation of the standard error. The value above each rectangular box represents the R-Squared value of the observed variables.

Fig: 1 The Regression Coefficients showing Factors in Mutual Fund Investment



Source: Primary Data

The regression coefficient obtained in the CFA analysis is given in the following table.

Table 4 The Regression Coefficients showing Factors in Mutual Fund Investment

Dependent Variable	Independent Variable	Regression Coefficient
Factors in Mutual Fund Investment	Fund Related Factors	.93
	Investor Related Factors	.72
	AMC – Sponsor Related Factors	.80

Source: Primary Data

From the table (4) fund related factor is the most important factor in mutual fund selection with regression weight 0.93 followed by AMC – Sponsor and Investor related factors with regression weight 0.80 and 0.72 respectively. The regression equation for issues of mutual fund investment is = 0.93 Fund related +.80 AMC/ Sponsor related +.72 Investor related.

From the above equation it can be inferred that one unit increase in fund related factors results in increase in mutual fund investments by 0.93 units provided the other two variables remains constant. The R^2 value indicates that this change occurs in 86% cases.

The influencing factors related to mutual fund investment are Fund related, Investor related and AMC/ Sponsor related factors. Fund related factor is the most important factor in mutual fund selection with regression weight 0.93 followed by AMC – Sponsor and Investor related factors with regression weight 0.80 and 0.72 respectively. It is concluded that one unit increase in fund related factors results in increase in MF investments by 0.93 units provided the other two variables remains constant. The R^2 value indicates that this change occurs in 86% cases.

VI. CONCLUSION

The study adds constructs from the factors affecting investment in mutual funds into an insightful investment model for adoption. Fund related factor is the most persuading factor in mutual fund investment and convenience and flexibility is the most imperative factor that investor perceives. The mutual fund industry is evolving continuously through effectively managing investments and designing long term strategy for targeting and retaining customers. It has to develop products to fulfil customer's needs and help them to understand how its products cater to their needs. The long term strategy will need to supplement with innovative strategies in distribution, product innovation and creating customer awareness. The mutual fund industry manifests huge opportunity for growth and further penetration, with technological support. The key lies in strengthening distribution networks and enhancing levels of investor education to increase presence in rural areas. The outlook of the mutual fund industry is governed to a great extent by the

economic situation in the country, which is predicted to stir volatility and adversely impact perceptions, resulting in depressed equity inflows into the market. Efforts should be made jointly by regulatory bodies, AMCs and distributors to instil confidence in the minds of the investor and to encourage them to invest in mutual funds, even in times of uncertainty.

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