

PERCEPTION OF INDIVIDUAL INVESTOR AND SELECTION CRITERIA OF SPECIFIC MUTUAL FUND: AN EMPIRICAL ANALYSIS

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Abstract

In the recent past, India has achieved tremendous growth potential with rising GDP and enhancement in standard of living on account of new economic reforms and resonance macroeconomic policy frame work. Incidentally, India is passing through the transitional phase of financial revolution. A major chunk of India's population consists of primarily, the middle class segment which has much saving potential. Hence, they have tremendous prospects to save and that could be utilized in the future investments in various financial avenues. The so-called traditional banking sector investment has undergone remarkable transformation to meet the challenges of saving propensity and potentialities of the consumers. The present generation wants to multiply their investment with higher returns by taking higher risks but in fact the state of mind of these retail investors are looking for avenues where risk is to be minimized and return is to be maximized. To find such a balanced avenue, mutual fund is regarded as one of the best and suitable propositions for investment in the current scenario. Mutual fund at present is considered to be a viable and feasible option for the retail investors in India because of its features such as diversification and risk minimization with reasonable return. Mutual fund industry will keep on growing in spite of competition and will drive in the right direction because of investor friendly financial markets.

Introduction

The economics of maximizing benefit and higher efficiency in allocating / reallocating resources is the cry of the globalised economy. Today, success is measured in terms of money and intelligence is measured in terms of application and multiplication of money. In the recent past, India has achieved tremendous growth potential with rising GDP and enhancement in standard of living on account of new economic reforms and resonance macroeconomic policy frame work. Incidentally, India is passing through the transitional phase of financial revolution. A major chunk of India's population, consists of primarily, the middle class segment which has much

saving potential. Hence, they have tremendous prospects to save and that could be utilized in the future investments in various financial avenues. The so-called traditional banking sector investment has undergone remarkable transformation to meet the challenges of saving propensity and potentialities of the consumers. The present generation wants to multiply their investment with higher returns by taking higher risks but in fact the state of mind of these retail investors are looking for avenues where risk is to be minimized and return is to be maximized. To find such a balanced avenue, mutual fund is regarded as one of the best and suitable proposition for investment in the current scenario. Mutual fund

at present is considered to be a viable and feasible option for the retail investors in India because of its features such as diversification and risk minimization with reasonable return. However, the decision to invest in a particular mutual fund is being affected by many factors. The decision of the individual investor differs from person to person and in every likelihood depends to a great extent upon the financial advisors and professionals and at times by personal beliefs and prejudices.

Review of Literature

According to **Shanmugham (2000)** investment decision taken by individual investor is influenced more by psychological and sociological factors, in contrast to economic considerations. **Ippolito (1992)** in his study found that past performance of the fund is not enough condition for fund selection rather it depends upon how the money flows into winning funds more rapidly than in the flow of losing of funds. **Singh and Vanita (2002)** have examined the investors' preferences and perception towards mutual fund investments. It was found that the investors' generally preferred to invest in public sector mutual funds with an investment objective of getting tax exemptions and stayed invested for a period of 3-5 years. The investors also evaluated the past performance. **Lynch and Musto (2003)** in their work opined that present decade and the anticipated future will belong to mutual funds only because the ordinary and general investor does not have the patience, time and understanding to take independent investment decisions on his own and need an institution to do so.

This study reveals that there are numerous factors that are responsible and contribute to the performance of a particular fund and its selection.

Significance of the study and Its objectives

The present work was conducted to find out the mechanism of individual investors' decision making and selection philosophy for mutual fund in India. Different determinants that effect individual investors' decision making for mutual fund selection

have been taken to analyze their relative importance and effectiveness. Further various other issues need to be addressed so as to understand an individual investors' decision for mutual fund selection.

Objectives of the Study

- To understand the perception and expectation of individual investor for selecting a particular mutual fund.
- To analyze the factors that influence selection of a particular fund.
- To comprehend the degrees and magnitude of each determinant that effects selection of a definite mutual fund.
- To assess and evaluate the different psycho-economic decision-making processes of the individual investors.
- To understand the basic objectives behind preference of a definite fund among individual and retail investors.
- To analyze the impact of market dynamics on selection of mutual fund.
- To suggest the different measures and methodology to different retail investors in their decision making.

Methodology

The present empirical study is basically based on the primary data but secondary data has also been collected from various published and unpublished sources so as to supplement each other as per the requirements of the study.

Sample size

The survey was conducted on 100 respondents from different backgrounds belonging to Jaipur city in Rajasthan. To evaluate the dynamics and criteria of investing in selected mutual fund by retail investors, a primary survey was conducted based on selective questionnaire method. Data has been collected using a structured questionnaire having various attributes, to be rated on a five point likert scale (1- Unimportant, 5- Important).

The parameters which are used to measure the

dynamics and determinants of investing in selected mutual fund by retail investors are:

1. Past performance
2. Diversification of Investment of the fund
3. Financial objectives and goals of the individual investor
4. Efficient fund Manager
5. Information sharing
6. Product quality
7. AMC and its brand
8. Service provisions and disclosures
9. Income vs. Growth scheme preferences
10. Entry and exit load
11. Time horizon – Short term and long term
12. Financial advisors and professionals
13. Personal beliefs and risk taking capacity

Factor Analysis

Factor analysis is a class of procedures primarily used for data reduction and summarization. In factor analysis, relationships among sets of many

interrelated variables are examined and represented in terms of a few underlying factors. Using the data from a large scale source, factor analysis applies an advanced form of correlation analysis to the responses which later on are converted to a number of statements. The purpose of this analysis is to determine if the responses to several of the statement are highly correlative or not and verify the validation empirically.

The following tables and data interpretation is a part of field work which is generated by factor analysis method.

Descriptive Statistics

The descriptive statistics of all the 13 variables are calculated using SPSS where mean and standard deviation of each and every variable is calculated. It is found from the table that the respondents do agree with the significant impact of only four variables on investment decision on individual investors.

Statistics

	1	2	3	4	5	6	7	8	9	10	11	12	13
N Valid	100	100	100	100	100	100	100	100	100	100	100	100	100
Mean	3.72	4.08	3.08	4.32	2.88	4.24	4.16	3.56	2.68	2.88	2.48	3.60	2.40
Std. Deviation	1.045	.692	1.061	.680	.956	.818	.368	1.028	.886	.998	.858	.899	.752
Skewness	-.496	-.854	.045	-1.28	.245	-1.37	1.883	-.620	.680	.245	1.236	-.817	1.51
Kurtosis	-.909	1.735	-.972	3.187	-1.88	2.059	1.578	-.983	-1.38	-1.98	-.482	-.390	.524
Range	3	3	4	3	2	3	1	3	2	2	2	3	2

KMO and Bartlett's Test

KMO and Bartlett's Test is one of the instrument for measuring the appropriateness of data and sampling adequacy of the data that is being used in the factor analysis.

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.653	
Bartlett's Test of Sphericity	Approx. Chi-Square	0.653
	df	78
	Sig.	.000

Interpretation

Kaiser (1974) recommends accepting values greater than 0.5 as acceptable. Our KMO value is 0.653 hence, and the quality of data is mediocre and so we should be confident that the data collected is acceptable and will yield good results, making factor analysis appropriate for the data.

Bartlett's Test of Sphericity tests the hypothesis that the original correlation matrix is an identity matrix.

Interpretation

Hence our finding reveals that the value of significance is 0.000 ($p < .001$) indicating that Bartlett's Test is highly significant and therefore factor analysis is appropriate.

Communalities

Communalities indicate the amount of variance given, explained by all factor variable that are accounted for. The communalities in the column labeled initial reflect that the common variance is 1 in the data structure 'Before Extraction'. 'After Extraction' reflects common variance in the data structure.

Interpretation

So we can interpret that 88.4 %, 79.3% and 79.2 % of the variance associated with scheme preferences, AMC & its brand and time horizon respectively.

Communalities

	Initial	Extraction
Past performance	1.000	.672
Diversification	1.000	.543
Objectives and goal	1.000	.642
Efficient Fund Manager	1.000	.742
Information sharing	1.000	.709
Product quality	1.000	.752
AMC and its brand	1.000	.793
Service and disclosures	1.000	.751
Scheme preferences	1.000	.884
Entry and Exit load	1.000	.586
Time horizon	1.000	.792
Financial advisors	1.000	.709
Personal beliefs	1.000	.758

Extraction Method: Principal component analysis.

Total Variance Explained

This lists the Eigen values associated with each linear component and the factor before extraction, after extraction and after rotation. SPSS has identified 13 linear components in the data set. The Eigen values associated with each factor represents the amount of variance explained by that particular linear component and SPSS also displays the Eigen values in terms of percentage if variance is explained. So, Component-1 explains 20.15% of the total variance. SPSS then extracts all the factors with the Eigen value greater than 1 and leaves us with 5 factors. The Eigen values associated with these factors are again displayed in the 'Extraction sums of squared loadings'. The values of this part of the table are the same as the values before extraction, except the values for the discarded factors which are ignored.

In the final part of the table, "Rotation sums of squared loadings" show the Eigen values after rotation, thus optimizing the factor structure. The total % of variance explains the same but rotation changes the Eigenvalues for each of the extracted factor. It is found that after 'Rotation Sums of Squared Loadings', the first two variables decrease whereas the value of remaining variables increase.

Scree Plot

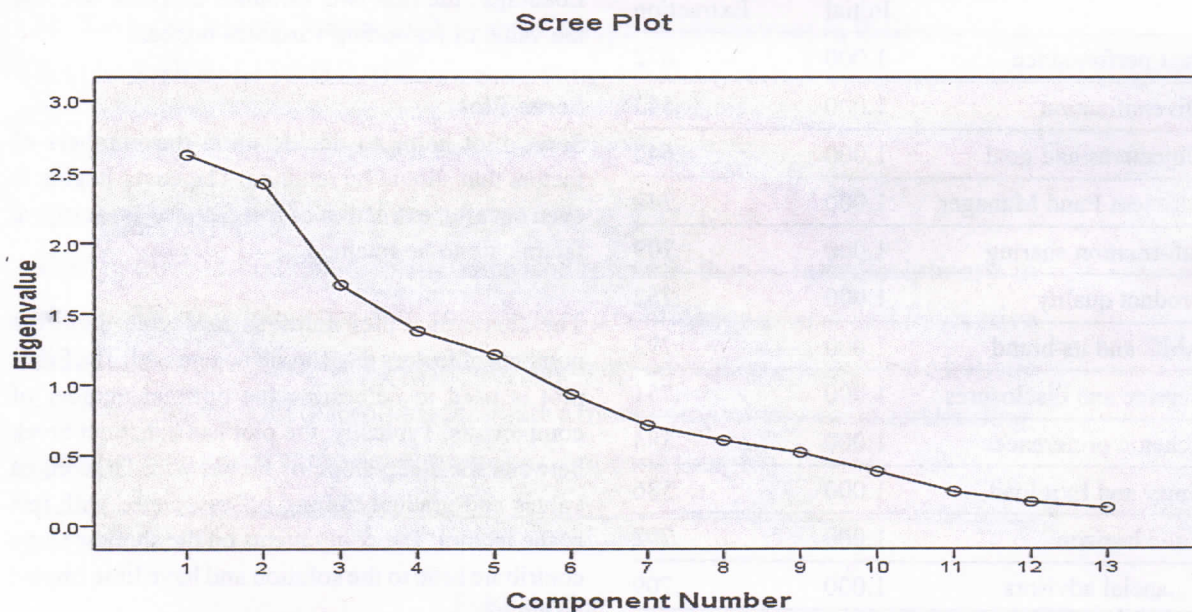
Scree Plot helps to decide upon the numbers of factors that should be retained. The curve begins to even out after extraction of five factors. So, only five factors are to be retained.

The shape of a plot helps us to decide upon the numbers of factors that should be retained. The Scree plot is used to determine the optimal number of components. Typically, the plot has a distinct break between the steep slope of factor, with large eigen values and gradual trailing off associated with rest of the factors. The components on the shallow slope contribute little to the solution and have little impact on study.

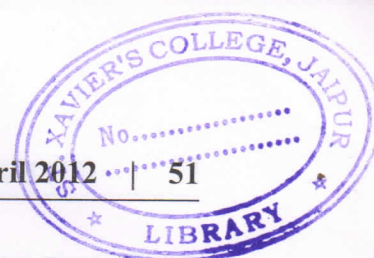
Total Variance Explained

Component	Initial Eigenvalues			Extraction sums of squared loadings			Rotation sums of squared loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.621	20.158	20.158	2.621	20.158	20.158	2.169	16.682	16.682
2	2.420	18.616	38.773	2.420	18.616	38.773	1.890	14.537	31.218
3	1.703	13.096	51.870	1.703	13.096	51.870	1.840	14.152	45.370
4	1.378	10.598	62.468	1.378	10.598	62.468	1.767	13.596	58.966
5	1.212	9.324	71.792	1.212	9.324	71.792	1.667	12.826	71.792
6	.932	7.168	78.960						
7	.711	5.469	84.429						
8	.603	4.640	89.069						
9	.516	3.972	93.041						
10	.382	2.935	95.976						
11	.238	1.834	97.810						
12	.164	1.260	99.069						
13	.121	.931	100.000						

Extraction Method: Principal Component Analysis.

Scree Plot**The Component Matrix**

The "Component matrix" gives the factor loadings among the factors between rows and columns. Loadings above .6 are usually considered "high" and those below .4 are "low".



Component Matrix

	Component				
	1	2	3	4	5
Past performance	.297	-.570	-.343	.319	.198
Diversification	-.463	.037	-.224	-.355	.389
Objectives and goal	-.041	.565	.087	.555	-.065
Efficient fund Manager	.249	-.549	.479	.347	.169
Information sharing	-.483	.040	-.305	.317	.529
Product quality	-.088	-.403	.620	.040	.442
AMC and its brand	.435	.307	.298	-.212	.613
Service and disclosures	.627	.532	-.176	-.131	.167
Scheme preferences	.810	-.274	-.323	-.193	.111
Entry and Exit load	.165	.697	-.140	-.074	.219
Time horizon	.601	-.319	-.499	.282	.002
Financial advisors	.171	.503	.140	.637	.029
Personal beliefs	.598	.127	.554	-.171	-.221

Extraction Method: Principal component analysis.

a. 5 components extracted.

Rotated Component Matrix

Rotated component matrix is a matrix of the factor loadings for each variable with each factor and is calculated only after rotation. Values less than 0.40 are suppressed for clarity in interpretation.

Rotated Component Matrix

	Component				
	1	2	3	4	5
Past performance	.751	-.148	.166	.231	-.067
Diversification	-.259	.134	.559	-.093	-.371
Objectives and goal	-.156	.064	.042	-.123	.772
Efficient fund Manager	.273	-.135	-.200	.777	.075
Information sharing	.001	-.003	.820	.079	.172
Product quality	-.150	.052	.049	.841	-.133
AMC and its brand	-.033	.840	-.065	.286	.004
Service and disclosures	.222	.715	-.223	-.333	.172
Scheme preferences	.754	.363	-.304	-.060	-.298
Entry and Exit load	-.137	.593	.082	-.366	.274
Time horizon	.880	.009	-.075	-.095	.048
Financial advisors	.011	.172	-.036	.013	.823
Personal beliefs	-.060	.308	-.789	.186	.055

Extraction Method: Principal component analysis. Rotation Method: Varimax with Kaiser Normalization. a. Rotation converged in 6 iterations.

Conclusive Evidences

1. It was found from the study that most of the retail investors are influenced a lot by the quality and extent of disclosure of information regarding NAV and any deviation from so-called stated objectives and fringe benefits etc. They do believe there is a need of transparency in information sharing system.
2. One of the most important determinants that affect the selection criteria of mutual fund by the individual investor is the reputation and goodwill of the company/AMC.
3. Generally mutual fund schemes of different nationalized banking sources are more preferred being owned and managed by the Government. Hence, a major chunk of investors want to invest in public sector financial institutions as a growth strategy and minimization of risk.
4. The selection of mutual fund depends much upon perception, preference, attitude, and behavior of individual investors.
5. The investment choice of mutual fund of individual investors depends much upon the emergence of other financial products like exchange trade of funds, hedge funds, manage accounts that lead to more competition in the financial market.
6. Now a days, for a common man mutual fund is the most easy, suitable investment avenue and helps in investing in a diversified manner by professionally managed basket of securities at relatively low cost and reasonable return.
7. Mutual fund industry will keep on growing in spite of competition and will drive in the right direction because of investor friendly financial markets.

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