RETAIL INVESTOR'S PREFERENCES TOWARDS INVESTMENT IN MUTUAL FUNDS

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Abstract: This research aims to study retail investors' preferences towards mutual funds. India is one of the fastest growing economies in the world with rising incomes, but also savings and investments. The main sector of emerging financial markets is investment in mutual funds. The mutual fund sector plays a key role in the development of financial markets, business sector and growth of financial intermediaries. The regulatory measures to develop mutual fund industry and to protect the interests of MF investors are also important. This study required to examine theoretical aspects of Indian mutual fund industry and retail investor's preferences towards investment.

Keywords : Customer preference, Investor, Mutual Fund and performance level.

INTRODUCTION

Mutual Funds are a retail product which is designed for those who do not directly invest in the share market because of its irregular and unstable character. Mutual funds are recognized as a device of pooling together the investment of unsophisticated investors which are professionally managed by fund managers for consistent return along-with capital appreciation and has come as a much needed help for retail investors. It is looked upon by individual investors as financial intermediaries, who process information, identify investment opportunities, formulate investment strategies, invest funds and monitor progress at low cost. Individual investors are generally forced by inadequate knowledge, non availability of information, lack of investment skill, etc. that effect the formation of investment perception as well as the investment activities. The perception influences the investment process including the choice of avenues, planning of funds, holding and receiving of funds etc. Thus, it is high time to understand and examine investor's perception and expectations, and disclose some exceptionally valuable information to support financial decision making of mutual funds.

BACKGROUND OF THE STUDY

In financial markets, "expectations" of the investors play vital role. It influences the purchase decision of the investors, price of the products; the volume traded and determines quite a lot of things in actual practice. These „expectations" of the investors are influenced by their "perception" and humans generally relate perception to action. Researcher found ample proof as suffixed by literature for the wide prevalence of such psychological state among mutual funds investors in India. However, in literature, there are no models which explain the influence of these "perceptions" and "beliefs" on "expectations" and "decision making". No doubt, reality is so complex that trying to fit individual investors" beliefs into a model is impossible. But to a certain extent, researcher borrows concepts from social psychology where behavioural patterns, rational or irrational, are developed and empirically tested.

CONCEPT OF MUTUAL FUNDS

A mutual funds is a professionally managed type of collective investment scheme that pools money from many investors and invests it in stocks, bonds, short-term money market instruments and other securities. Mutual funds have a fund manager who invests the money on behalf of the investors by buying or selling stocks, bonds etc. There are many reasons why investors prefer mutual funds. Buying shares directly from the market is one way of investing. But this requires spending time to find out the performance of the company whose share is being purchased, understanding the future business prospects of the company, finding out the track record of the promoters and the dividend, bonus issue history of the company etc. An investor needs to do research before investing. However, many investors find it cumbersome and time consuming to pore over so much of information, get access to so much of details before investing in the shares. Investors therefore prefer the mutual funds route. They invest in a mutual funds scheme which in turn takes the responsibility of investing in stocks and shares after due analysis and research. The investor need not bother with researching hundreds of stocks. It leaves it to the mutual funds and its professional fund management team.

RESEARCHMETHODOLOGY

RESEARCH DESIGN

For obtaining complete and accurate information, descriptive research is chosen.. Descriptive research includes surveys and fact finding enquiries of different kind.

METHOD OF DATA COLLECTION

For this research secondary data have been used. Secondary data used to develop theoretical framework and to get insight into the research problem. Secondary data have been collected from published authenticated material such as magazines, journals, newspapers, internet, books and company annual reports. Computerized database such as Proquest, Emerald, Capitaline and Prowess were also used to collect secondary data.

OBJECTIVESOFTHESTUDY

- To evaluate retail investors preference towards mutual funds in India
- To examine various aspects of mutual fund investment from investors point of view viz. Preferred investment ,main dominant factor in investment choice, trendy mutual fund, type of funds and feature attracting investors for MF investment
- To identify the most important factor that investor perceive towards mutual fund investment.

LIMITATIONS

- The research is covered theoretical aspect of Mutual Funds in India
- The study has been conducted to analyze only some factors affecting investment behaviour of investors.
- This study is for a particular time frame and hence the results might differ with the change in government policies, inflation, RBI interest rate policy, etc. because emotion might change thus affecting the investors' behaviour towards building investment.

REVIEW OF LITERATURE

- **Awais et al. (2016)** discover that the factors which persuade the decision-making process of investors. According to their research, the decisions of the investors depend upon the degree of the risk factors. Finally, they found that the upgraded level of facts about financial information and the increased capacity of analyzing that information, investor could improve the capacity jump into risky investments for earning high returns by dealing investment efficiently.

- **Chakarabarti and Rungta (2000)** examined the importance of brand effect in determining the competitive advantage of the AMCs. The study revealed that brand image influenced the investor's perception and ultimately the fund selection.
- **Eltonetal.,1996**, from their study they found that there is inverserelationshipbetweenexpense ratioand mutual fundperformance.
- **Gilkar (2002)** examine that empirical evidence with regard to the perceptions of mutual fund investors and revealed that, the growth products were rated highest by the respondents, where as income products had the least preference.
- Senthil (2012) Mutual fund is one of the opportunities for investors to invest in capital market. Though mutual fund do not yield higher returns like equity and commodity market, equally it does not get lower returns, thereby offering moderate returns with moderate risks. Diversification and Systematic investment plan are important advantages in the mutual fund industry

MUTUAL FUNDS TYPES

All mutual funds would be either close ended or open ended or either load or no load. These Classifications are general. Once reviewed the fund classes, it is required to discuss more specified fund types. Funds are generally distinguished from each other by their investment objectives and types of securities they invest in. Generally following are the major types of mutual funds that are available under the general classifications as discussed above. It may be noted some of the following fund types are not yet available or popular in India at present.

REGISTRATION OF MUTUAL FUNDS

- Application for registration of mutual funds shall be made by the sponsor in form-A (Regulation-3).
- A mutual funds shall be constituted in the form of a trust and the trust deed shall be registered under Indian registration act, 1909\8 (Regulation-14)
- The application for the approval of asset management company shall be made in form D (Regulation-19)

ORGANIZATION & MANAGEMENT OF MUTUAL FUNDS

- The sponsor shall make an application to SEBI in form A accompanied by non-refundable fees, complete the formalities and furnish information as may be required by SEBI (Regulations- 3,4,5 & 6)

- A mutual funds shall pay the service fees as specified in second schedule before 15th April each year (Regulation-12)
- The sponsor or the trustees if so authorized by the trust deed, appoint an asset management company which has been approved by SEBI and any change in the appointment shall be subject to prior approval of SEBI (19 & 20)
- The trustees and the asset management company shall enter into an investment management agreement with prior approval of SEBI (18(1))
- The mutual funds shall appoint a custodian to carry out the custodial services and inform SEBI within 15 days of the appointment and enter into an agreement with the custodian with the prior approval of the trustees. (26 & 27)
- All schemes shall be launched by asset management company after approval by the trustees and a copy of the offer document has been filed with SEBI (28)
- The asset management company may at its option repurchase or reissue the repurchased units of a close- ended scheme (33).
- The asset management company shall allot the units and refund the amount and issue the unit certificates or a statement of account specifying the number of units allotted to the applicant not later than six weeks from the date of closure of the subscription list (35 & 36)
- The asset management company shall, on production of valid instrument of transfer with relevant unit certificates, register the transfer within 30 days of the date of such production unless otherwise restricted or prohibited under the scheme. If the units are with the depository, such units will be transferred in accordance with the provisions of SEBI (Depositories and Participants) Regulations, 1996. (37).
- The majority by the meeting of the unit holders and forward a report to SEBI and the unit holders, explaining circumstances leading to the winding up of the scheme. If SEBI is satisfied that all measures for winding up of the scheme have been complied with, the scheme shall cease to exist. (41 & 42)money collected under any scheme of a mutual funds shall be invested only in transferable securities in capital or money market or in privately placed debentures or securitized debts (43)
- Each mutual fund shall compute the Net Asset Value (NAV) of each scheme by dividing the net assets of the scheme by the number of units outstanding on the valuation date (48).
- The financial year for all the schemes shall end as on 31st March each year and every asset management company shall keep & maintain proper books of accounts, records

and documents for each scheme, preserve the records for ten years and follow accounting policies and standards as specified in the ninth schedule (50 & 51).

- Every mutual funds and asset management company shall dispatch the dividend warrants to the unit holders within 30 days of the declaration of dividend and dispatch the redemption or repurchase proceeds within 10 working days from thedate of receipt of the request (53).
- Every mutual funds shall have the annual statements of accounts audited by an auditor, not associated with the auditor of asset management company and shall prepare annual report and annual statements of accounts of the schemes and the fund as specified in the eleventh schedule (54 & 55).
- A scheme of mutual funds can be wound up before its maturity by passing a resolution with simple

REGULATION & CONTROL OF MUTUAL FUNDS

- The applicant has to fulfill the eligibility criteria for grant of a certificate of registration of mutual funds. The eligibility criteria include sound track record, 40 percent contribution in net worth of asset management company by sponsor,appointment of trustees, asset management company and custodian (7).
- The registration granted to mutual funds shall be subject to terms and conditions (10).
- The SEBI may not permit a mutual fund that has not paid fees to launch any scheme (13).
- Disqualification from being appointed, rights and obligations of the trustees (16 & 18).
- No trustee shall initially or any time thereafter be appointed without prior approval of SEBI (17).
- The asset management company has to fulfill the eligibility criteria for seeking approval of SEBI and the approval granted shall be subject to the terms and conditions (21 & 22).
- The asset management company shall not act as trustees or undertake any other business activity (24).
- Asset Management Company has to comply obligations of due diligence and care in all its investment decisions (25).
- No guaranteed returns shall be provided in a scheme by mutual funds unless such returns are fully guaranteed by the sponsor or asset management company (38).

- The mutual funds shall not borrow except to meet temporary liquidity needs of the mutual funds and advance any loans for any purpose (44).
- The funds of a scheme shall not in any manner be used in option trading or in short selling or carry forward transactions (45).
- Mutual funds may enter into underwriting agreement after obtaining a certificate of registration from SEBI authorizing the mutual funds to carry on activities as underwriters (46).
- All expenses of mutual funds schemes shall be clearly identified and appropriated to the individual schemes subject to the limits specified (52).
- Every mutual funds and asset management company shall forward a copy of annual report and other information including details of investments and deposits held by the mutual funds so that entire scheme wise portfolio is disclosed to SEBI (57).
- SEBI has right to inspect and investigate the affairs of the mutual funds, trustees and asset management company by giving ten days' notice or without giving notice if SEBI is satisfied that in the interest of the investors no such notice should be given (61 & 62)
- SEBI shall have power to appoint an auditor to inspect or investigate, as the case may be, into the books of accounts or the affairs of the mutual funds, trustee, or asset Management Company (66).
- The SEBI may suspend a certificate granted to a mutual funds if the mutual funds contravenes the provisions of the act, fails to furnish any information, does not cooperate in any inquiry or inspection, fails to comply the directions of SEBI, fails to resolve the complaints of the investors, indulges in unfair trade practices, fails to pay any fees or guilty or guilty of misconduct, etc. (68).

CONCLUSION

Investment decisions are influenced by certain recognized factors. The most important principal factors are regular income, safety of income, children education, risk protection, acquisition of new asset, debt free life, children marriage, luxury lifestyle, parental care, home loan, tax benefits, holiday planning, retirement plan, future return and gifts. These factors are non-significantly influenced by age, gender, monthly saving, occupation and experience of investors. Thus, policy makers can recognize the factors that appeal to different groups and segments of investors in an attempt to make the investment attractive to the investors. The results of this study can be used by developing-country policymakers to promote an improved investment environment.

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