**CHAPTER – I**

**INTRODUCTION**

“Risk comes from not knowing what you are doing.”

– Warren Buffett

### 1.0 Background

Investment is a process of funding money in both financial and real assets. Both risk and gain involve in investment. In the current scenario, updating knowledge on different investments is very vital. Investment knowledge and the amount of investment at the right place and time will determine the success of the investment.

Though real assets are tangible, it holds only minimal liquidity as compared with financial assets. Further, it is very complex to measure the profits of real assets compared to financial assets. This is because; the real assets lack broad and active market. Investment on financial assets can be differentiated from each other based on the type of investment selected by individual. There is risk in all financial investments, but the extent of returns and risk vary from one another. To avoid such risk, one should be very careful in choosing investment type, which can be acquired only through knowledge and experience. To be a successful investor, the basic knowledge on financial investment and its management should be required. Apart from return and risk on investment, the success of an investment also depends on its liquidity. In order to maintain liquidity, a standard financial system should be regulated by government so that one can hold the marketability of an asset.

Generally financial system involves financial services, instruments, institutions and markets which are all interrelated to each other. With the intention of modernizing the financial sector, new terminologies relating to financial instruments have been developed recently which includes: Money Market Mutual Funds, Mutual Funds, Certificate of Deposit, Discount and Finance House of India, Factoring and Treasury Bills, and Commercial Paper. Through these constituents, financial sector fulfill the needs and requirement of individuals, companies and institutions.

In India, there have been several changes in the financial system over the years in accordance with the economic needs of country. Liberalization of economic policies, metamorphic
changes in the Indian Financial System, Globalization of Indian market, economic liberalization and reforms in financial sectors has turned the eye sight of individual towards investment and also it brought out increase in the share of household savings, changes in investment attitude and preferences. At the same time, lack of knowledge and expertise on investment resists common investors to invest in share markets. Subsequently, the introduction of mutual funds has helped the investor to earn more money in investment in an efficient manner. There are bank deposits, company deposits, equities, bonds, life insurance policies, small savings scheme, and mutual fund products and so on which create wealth and which in a way compete among themselves for the choice of the investor. Mutual funds seek to serve those individuals, who have the inclination to invest but lack the background, expertise and sufficient resources to diversify their investment among various sectors. Mutual fund, as an institutional device, pools investor’s funds for investment in the capital market under the direction of an investment manager. Mutual funds bridge the gap between the supply and demand for funds in the financial market.

1.1 Concept of Mutual Funds

At this point it becomes significant to understand the concept and definition of mutual funds. According to US Securities and Exchange Commission (2010)¹, “A mutual fund is an Investment Company wherein the money can be collected from many investors and invest such money in bonds, money-market instrument, stocks, other securities or even cash”. Based on funds objective, the fund manager deposits collected money in an appropriate market.

The SEBI (Mutual Funds) Regulations 1993 define a Mutual Fund (MF) as a fund established in the form of a trust by a sponsor to raise funds by the Trustees through the sale of units to the public under one or more schemes for investing in securities in accordance with these regulations.

C.M.Kulshreshtha (1994)² defines mutual fund as, “it is a financial intermediary which pool the saving of numerous individuals and invest the money thus raised in a diversified portfolio of securities, including equity, bonds, debentures and other instrument thus spreading and reducing risk.”

Mutual funds are institutions that collect money from several sources - individuals or institutions by issuing 'units', invest them on their behalf with predetermined investment objectives and manage the same for a fee and the return on the investment is shared among the investors.
1.2 Evolution of Mutual Funds in India

The Indian capital market has a long history spanning over a century and has passed through the most radical phase. The Indian Capital Market witnessed unprecedented developments and innovations during the eighties and nineties. One such development was the increased role the mutual fund industry played in financial intermediation.

In India, Mutual Fund concept took roots only in sixties, after a century old history elsewhere in the world. Realizing the needs for a more active mobilization of household savings to provide investible resources to industry, the idea of first mutual fund in India was born out of the far sighted vision of Sri T. Krishnamachari the then Finance Minister. He wrote to the then Prime Minister Pandit Jawahar Lal Nehru outlining the need for an institution which would serve as a conduit for these resources to the Indian Capital market, and RBI was entrusted to create this special Institution. Taking into consideration the recommendations of the Central Banking Enquiry Committee and Shroff Committee, the Central Government established Unit Trust of India in 1964 through an Act of Parliament, to operate as a financial institution as well as an investment trust by way of launching UTI Unit Scheme 64. While introducing Unit Trust of India (UTI) Bill in Parliament Sri Krishnamachari highlighted UTI as “an opportunity for the middle and lower Income groups to acquire without much difficulty property in the form of shares. UTI, in 1964 started with a unit scheme popular known as US-64.

The overwhelming response and the vast popularity of UTI Unit Scheme 64 and the Master share Scheme in 1986 attracted the attention of banks and other financial institutions to this industry and paved the way for the entry of public sector banks. Since then, the mutual funds have established themselves as an alternative investment vehicle and are now an integral part of the Indian financial system.

The first phase of mutual fund industry was between 1964 and 1987 when the UTI was the only player. The second phase was between 1987 and 1993 during which period eight funds, six by banks (SBI (1987), Canara Bank (1987), Punjab National Bank (1987), Indian Bank (1989), Bank of India (1990) and Bank of Baroda (1992)) and one each by LIC and GIC were established. SBI Mutual Fund was the first non UTI mutual fund established in June 1987, followed by Canbank Mutual Fund in December 1987. SBI Mutual Fund launched its first scheme namely, Regular Income Scheme (RIS) 1987 with 5½ years of duration assuring 12
percent return. Canbank Mutual Fund launched its first scheme, Canshare in December 1987 mopping up Rs.4 crores.

The third phase began with the entry of private and foreign sector mutual funds in 1993, thereby increasing the share of private players. A new era started in the mutual fund industry, giving the Indian investors a wider choice of fund families. The number of mutual fund house went on increasing, with many foreign mutual funds setting up funds in India. The industry also witnessed several mergers and acquisitions. At the end of January 2003, there were 33 mutual funds with total assets of Rs. 121805 crores. The Unit Trust of India with Rs. 44541 crores of assets under management was way ahead of other mutual funds. The 1993 SEBI Mutual Fund Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. This lead to the increase in number of investors in the Mutual Funds as their interests were safe guarded by SEBI. Numerous investor awareness programs were launched by SEBI and AMFI (Association of Mutual Fund in India).

In the fourth phase, in February 2003, following the re-appeal of the Unit Trust of India Act 1963, UTI was bifurcated into two separate entities. One is UTI specified undertaking governed by Government of India and other is UTI mutual funds undertaken by SEBI. The change from bank or business investments to mutual funds because of its advantage by way of guaranteeing a strong and methodical expansion of capital market with sufficient depositor safe-guard with the help of SEBI support was made known by Vidhyashankar (1990)\(^3\). The research found that mutual funds in India can look forward to potential growth as a major means of savings at the turn of this century. Ch. Rajeshwar (2005)\(^4\) has pointed out that the industry’s AUM have vaulted from Rs 1,01,565 crores in Jan 2000 to 1,65,978 crores by May 31, 2005. This has been accompanied by a rise in both the number of players as well as schemes on offer.

Indian mutual funds are growing steadily on par with those in China and Brazil. From the year 2002 to 2008 the net Assets managed by mutual funds has increased by 5½ times.

### 1.3 Rationale for selecting this topic

Following the liberalisation measures announced by the Government in 1991, the buoyancy in the investment climate in the country led to more and more mutual funds starting their operations. As on June 2014, there are 45 mutual funds in India and 1819 schemes managing the assets which reached a historic high of Rs.9,87,240 crores.
The virtual growth of mutual funds resulted in acquiring a new dimension to this specialized business. In tracing its origin and growth, it can be seen that though the mutual fund business is of recent origin in India, it has become progressively significant in terms of its faster growth and also in terms of plethora of innovative schemes offered by the fund houses. This has evoked considerable interest to make a detailed study about the growth of mutual funds industry.

While analysing the growth of mutual fund industry it was found that a host of factors has contributed to the phenomenal growth of the industry. This has resulted in evolution of next objective of the study of analyzing the motivational factors influencing the mutual fund investment decision making of investors. In financial markets, “expectations” of the investors play a vital role. They influence the price of the securities; 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. The beliefs and actions of many investors are influenced by the dissonance effect and endowment effect. Individuals differ in their beliefs, ideas and action and also conflict with others in their opinion. The past researches done on these areas also observed that it is difficult to understand the sources of motivations and the basis of the expectations. But, to a certain extent, behavioural patterns, rational or irrational, can be developed and empirically tested.

Various researches have been already done on factors influencing the mutual fund investors. According to Andrew Adams, the socio economic variables that guide an investor in choosing a suitable investment lies in present and likely future commitments, present and future earnings, financial objectives, existing investments, the amount to be invested, the income available for investments, the individual’s current and likely future tax exposition, the level of risk acceptable and familiarity with investment matters and personal preferences. He concluded that the investor’s concept of risk depends very much upon his personal circumstances. Kulshreshta (1994) offers certain guidelines to the investors in selecting the mutual fund schemes. Shanmugha m (2000) conducted a survey of 201 individual investors to study the information sourcing by investors, their perceptions of various investment strategy dimensions and the factors motivating share investment decisions, and reports that among the various factors, psychological and sociological factors dominated the economic factors in share investment decisions.
Pradip Kar I.Natarajan, J.P.Singh (2000)\textsuperscript{6} and others estimated that only 9% of the Indian households invest in shares, around 12% invest in mutual funds and concluded on certain investment attributes. They concluded that unless the needs of the investors are critically examined and identified, their savings cannot be transformed into productive capital.

Woerheide (1982)\textsuperscript{7} carried out a study on “investor response to suggested criteria for mutual funds” in which various factors and their effects were tested. Fund size, efficiency of marketing programme, and previous return of funds were proven to have enormous impact. Of these factors, efficiency of marketing programme has the greatest impact. Ippolito (1992)\textsuperscript{8} found that investors choose funds based on past performance, and that they spend more money on winning funds than on losing funds.

Based on the literature review made and the past researches done on this topic and on own judgement of the researcher, the following factors found to contribute more towards the fund selection of investors which includes Lower Cost, High Return, product qualities, value added services offered by the fund companies, reputation of the companies and schemes and other external factors like lower return on Government securities and unattractive interest on bank deposits. Various foreign and Indian studies conducted on the factors of motivation also concentrate on these areas. Chakarabarti and Rungta (2000)\textsuperscript{9} stressed the importance of brand effect in determining the competitive position of the AMCs. Their study revealed that brand image factor, though cannot be easily captured by computable performance measures, influences the investor’s perception and hence his fund/scheme selection. Fama (1965)\textsuperscript{10} maintains that past performance of a security prices has no value in predicting its future price. Taking into account 143 U.S. mutual funds from 1965-1984, Ippolito examines the proficiency of the capital markets and the general performance of mutual funds to determine if active funds provide adequate returns to balance the higher fee charged. As mutual funds are handled by experts, investments by experts provide an emotional relief for the investor in terms of selling and buying of assets. Lakshmi (2007)\textsuperscript{11}. Though various researches have been done on decision variables influencing mutual fund investment decision making of investors it was observed by the previous researchers in their studies and also by various experts in this field that investor behavior tend to change and it is very important to understand the psyche of the investors. This will help to understand the investor behaviour, which can have managerial implications for policy makers.
There are plethora of innovative and unique schemes offered by the fund houses which is also one of the motivating factor influencing the investors. This evoked again a considerable interest to the researcher to study the investor’s preferences towards the Savings Avenue, scheme preference and objectives for investment in MFs. With regards to investor preferences though there are studies already available in investor’s preferences, the changing life style of the young investors brings in lot of changes in their attitudes and preferences. This study is an important step towards profiling investors by their preferences, thereby providing more meaningful ways to identify and understand various segments of investors and to target each segment with more focused marketing strategies.

As there are mutual funds operating under public and private sector as well as Indian and Foreign sponsored funds are available, it is a matter of concern for the investors to find out how these funds performs. Therefore the study also focuses on performance evaluation of mutual funds. Very few studies have examined the development and performance of mutual funds in several countries.

Mahesh Nayak (2007)\textsuperscript{12} states that if Mutual fund industry is really serious about wooing the retail investors, it’s got to focus sharply on 2 fronts \textit{Performance & Products}, A.Sudhakar and K.Sasi Kumar(2008)\textsuperscript{13} in their research article held that the performance evaluation of mutual funds is a matter of concern to the fund manager, investors and researchers.

With regard to performance evaluation of mutual funds the studies already made by the Indian and foreign researchers focuses on specific schemes for a limited period. In the course of time there may be variances in the market which have resulted in changes in the fund performances. Therefore the study like the current one has to be conducted in frequent intervals in order to provide useful information to the industry and the investors. Most of the growth oriented mutual funds have been able to deliver better returns than the benchmark indication.

The current study considered the growth and dividend schemes for evaluation as the majority of the respondents in the study preferred growth scheme as their first option and dividend pay–out scheme ranked in second place.

1.4 Statement of the Problem

India has become the world’s fourth largest economy besides U.S.A., China, and Japan. Although the Indian capital market witnessed some significant changes during the eighties,
both the primary and the secondary segments continued to suffer from some serious deficiencies. Many unhealthy practices prevailed in the primary market to attract retail investors. High pricing of new issues, difficulties in analyzing the prospects of a company, underpricing of shares in the market after listing have discouraged and aroused hesitation among many investors to enter into the stock market. The secondary market had become highly volatile and technical for small investors. Markets for equity shares, real estate, derivatives and other assets have become highly dynamic. Unprecedented global and national events have brought in substantial changes in the securities market. Capital market, being the major supplier of corporate finance, ought to grow in a healthy manner to pump in more and more money. Investment in corporate securities demands investors to understand the complexities of market, to keep track of market movements and to make scientific investment decisions. The growing popularity of mutual funds prove that it is an ideal investment vehicle for small investors having limited information and knowledge to enter the today’s complex and modern capital market. The domestic mutual fund industry has grown by 50 percent particularly through Systematic Investment Plan (SIP) from retail participants. But, there is still a long way to go as only five percent of the households are investing in mutual fund schemes.

Liberalization of economic policies, metamorphic changes in the Indian Financial System, brought out increase in the share of household savings, changes in investment attitude and preferences. The household savings rate is increasing and is expected to accelerate with the reinforcement of benign demographic dynamics, financial sector liberalization and increasing human development index. As the household sector’s share in financial assets is expected to go much higher in the country’s savings, it is of utmost importance to show a right path to individual investors. With an emphasis on increase in domestic savings and improvement in deployment of investible funds into the market, the need and scope for mutual fund operations have increased and is expected to increase tremendously in future. Mutual funds seek to serve those individuals, who have the inclination to invest but lack the background, expertise and sufficient resources to diversify their investment among various sectors. Even though mutual fund industry is growing, still there is a long way to go. The penetration level in rural areas is not very high. The funds have grown more because of the changing demographic profile. More number of investors, particularly youth, whose disposable income has gone up, opt mutual fund to enter securities market indirectly.
Indian investors have little information to take prudent investment decisions. Such information drought is the breeding ground for misguidance and the investor is likely to be inspired by the agents to opt for a particular scheme without an in-depth analysis. The information drought regarding performance of mutual funds in India is perhaps a major cause for the Indian mutual fund industry for not attaining the status of their counterparts in U.S.A., U.K. and other developed countries. An average investor obtains investment advice and practical information from investment outlets, such as business magazines and web sites. However, the information on performance of mutual funds over a period of time is scantily available for all the investors. The present work is an attempt to fill up the lacuna and help investors to make meaningful investments. Therefore, the present study attempts to bring out the performance of mutual fund industry in India. The main problem of the study is to examine the investor’s opinion and attitude towards the characteristic features of mutual funds. The entry of private players has made the entire scenario complicated and satisfying the customers is the major problem faced by the mutual fund companies in the light of the severe competition. As customers enter this industry with their investment has lot of expectations and that is another problem for the fund houses to understand their requirements and cater the products to their need. To retain the customers and to attract more customers it is important for the fund houses to keep a track of the product attributes that may influence the investors. This study with the main intention of identifying the factors influencing the investors and their scheme preferences helps the mutual fund companies to solve this problem and will also help the mutual fund companies.

The study is undertaken to study the factors influencing the mutual fund investment decision making. There are plenty of schemes available for the investors to choose and the study also analyses the scheme preference of the investors to provide useful information to the industry and also to the investors.

1.5 Need for the Study

India’s savings rate is over 23 percent, which is one of the highest in the world. In order to accelerate economic development of our country, it is not only necessary to increase the rate of savings but also to improve the holding pattern of such savings. Savings held in the form of currency or physical assets either remain idle or kept unproductive or wasted. The Government’s steps to channel the financial savings are one of the major contributions for the rapid economic growth. The efforts towards financialisation of savings and the general
reluctance of the investing populous demand the active role of mutual funds. As investment in equity shares are too risky, mutual funds have to become efficient in mobilization and allocation of resources.

The rate of conversion of household savings into investment in our country is very low. The percentage of household savings that flew in to the capital market in India is as poor as 7 percent, as against 25 percent in the U.S.A. and 19 percent in Japan. As the household sectors share is much higher in the country’s savings, it is of utmost importance to show a right path for their deployment. The Indian household sector is characterized by a tendency to avoid risk as they lack the mental readiness to absorb the shocks of the volatile capital market. Hence, to attract the surplus funds possessed by this sector into the capital market, institutional intermediaries are required.

The Indian household sectors’ investment in mutual funds made a greater beginning in the second half of the eighties. Though apparently mutual funds were intended to cater to the needs of the retail investors, there had been no sufficient response from them. Mutual funds are supposed to be the best investment vehicle for small investors and hence there is a need to find out investors’ perceptions and factors influencing their decisions. So, there is a dare necessity to identify how far mutual funds satisfy the twin aspirations of the investors (steady appreciation of unit value and consistent return on investment). In the year 2001, despite a long history, assets of mutual funds in India constituted less than 5 percent of Gross Domestic Product, which is very low compared to 25 percent in Brazil, and 33 percent in Korea. This is perhaps due to the reason that the industry has not won investors confidence to attract a growing share of household’s financial savings. Even in the year 2014 the assets of mutual funds in India constituted less than 7 percent of Gross Domestic Product The IMFI is still not able to establish its worthiness among retail investors as a clearly preferred vehicle of investment for their savings even after forty years of its existence today, more and more private sector mutual funds are coming into the foray. An average investor is unable to take a decision as to which bandwagon should he hop on to. As household sector’s share is much larger in the country’s savings it is utmost essential to guide their deployment in the right direction. Thus, there is a need for the present study to bring to light the performance of the mutual funds, which can help the retail investors to make valued judgment in terms of deploying their savings to the capital market through the mutual fund vehicle. With the
growing institutionalization, retail investors are gradually keeping out of the primary and secondary market, and looking forward to mutual funds for their investments.

Among the mutual funds, it is expected that debt oriented schemes will continue to dominate the mutual fund industry satisfying the needs of yield, security and liquidity fairly well besides being attractive from the tax point of view. While equity oriented schemes will gain more significance in future, their popularity will depend on the conditions of the stock market and the kind of tax relief accorded to them. Hence, it is of utmost important to study the performance of growth schemes of mutual fund industry, which is a near substitute for direct investment in shares. Analysis of risk-return of schemes and its relationship with the market will provide information on the performance of sample schemes, fund managers ability in selecting and timing security related transactions in the present scenario of multitudinous mutual fund schemes.

The mutual fund companies to attract the investors should understand the behavior of the investors and should focus on those aspects that attract the investors to this investment. The study with the main objective of identifying the factors that motivate the investors will help the mutual fund companies to concentrate more on those issues.

With an emphasis on increase in domestic savings and improvement in deployment of investible funds into the market, the need and scope for mutual fund operations have increased and is expected to increase tremendously in future. Mutual fund is a growing industry and considered as the major mobilizers of financial resources for the stock market and the economy in general. The rapid growth of the mutual fund industry in India has attracted a number of private players into the market. Formulation of alternative schemes by various mutual fund companies has become important to fight the battle and to secure a sound position in the industry. A large number of studies have been carried out in US and other Western countries to identify the important factors that guide the performance of mutual fund companies and investors while selecting mutual fund products.

The rising customer awareness and aspiration of quality service and availability of alternative service providers in the Indian market has made customers more demanding. Thus, mutual fund Company’s ability to attract and retain the customers is a function of not only what it offers but also how it serves its existing customers.
1.6 **Objectives of the Study**

1. To study the growth of mutual funds.
2. To evaluate the performances of selected mutual funds Schemes.
3. To study the investors’ preferences in mutual fund schemes.
4. To analyze the factors that influence the investors’ choice of mutual fund scheme.
5. To offer suggestions for better performances of mutual funds.

1.7 **Scope of the Study**

1. The study covers the mutual fund investors of the city of Chennai.
2. The research gives an understanding of the investors’ preferences on the various mutual fund schemes.
3. The study will help in generating a new scheme according to the expectation of the investors.
4. The study will also help the mutual fund companies to reach the investors in a better way and also to improve upon their performances.

1.8 **Research Methodology**

**Research Design**

Research design is in fact the conceptual structure within which research is conducted. It constitutes the blueprint for the collection, measurement and analysis of data.

This research is a combination of both qualitative and quantitative research methods. Qualitative method is used to identify the development of mutual fund industry in India and the impact of mutual funds on investor’s investment patterns. Quantitative research method involves human responses that were collected in the form of a survey from the respondents that have been organised and presented in a clear and systematic manner to provide accurate conclusions. A combination of two types of research methodologies have been employed in this study which is exploratory research and Descriptive research. Exploratory research is employed by reviewing existing literature to comprehend and gain insight of the concept of mutual funds and its performance, scheme preferences and the factors influencing the mutual fund investment decision making. On the other hand Descriptive research is employed by using a research instrument to conduct surveys among mutual fund investors. In this study survey conducted among mutual fund investors to describe about the fund selection and motivational factors influencing the investors.
1.9  **Pilot Study**

A preliminary investigation was undertaken by contacting 50 mutual fund investors of Chennai city to identify the important factors that influence them to invest in mutual funds like high returns, liquidity, diversification and so on.

The purpose of the pilot study is to test the quality of the items in the Questionnaire and to confer the feasibility of the study. The preliminary investigation is conducted in different parts of Chennai city. Convenient Sampling Method is applied to collect the samples. The Cronbach alpha method was used and it is found that the overall reliability of all the items in the questionnaire is .7747(Alpha). This implies that the Questionnaire and the feasibility holds good at 77.47%.

1.10  **Population**

The study restricted only to the mutual fund investors of Chennai City. The total investors of mutual funds in Chennai are the population for the study, but the population varies in different period and does not remain constant as the investor enters and exit at frequent intervals. As the exact population of the study cannot be defined and not available from any source, the researcher has selected samples under convenient sampling method and out of the total population of investors 550 investors were selected under convenient sampling method. Convenience Sample means the researcher selects the most accessible population members.

1.11  **Sample Size and Selection Criteria**

Sample size of 500 respondents only considered for the study. The sample of the study covers all parts of Chennai city. Taking into consideration the return percentage of questionnaire and completely filled up questionnaire totally 550 investors especially those who invested in mutual funds are selected on Convenient Sampling Method. Out of these samples 520 respondents returned the filled in questionnaire in which 20 questionnaires are incomplete and 500 are found usable. Hence, the exact sample of the study is taken as 500.

1.12  **Sampling Technique**

In this study convenience sampling technique has been employed to select the sample. The researcher selected the sample of those who are already invested in mutual funds.
1.13 Data Collection

To achieve the above noted objectives of the study, extensive use of libraries was made. The sources of data are primary as well as secondary.

Primary Data

The data collected from mutual fund investors constitute primary and the data is collected by means of three-section questionnaire. Section I of the questions is framed to obtain general information including the personal profile about investors. Section II is designed to identify the factors influencing the mutual fund investors. This section comprised of 20 statements pertaining to the overall opinion of investors about the motivational factors of mutual funds that are instrumental in attracting them. After a methodical analysis of literature pertaining to motivational factors, a comprehensive set of statements were presented to the respondents. Section III comprises of questions which helps to identify the scheme preferences of investors. To obtain the opinion of the respondents about their preferences on various aspects of this investment, the third part of the questionnaire also consists of 10 multiple choice enabled questions pertaining to the preferences of investors.

In order to find out the option of the investor in the form of mutual funds the question had the following options:

- Open-ended funds
- Close-ended funds

With regard to investor’s choice towards the mutual fund scheme preferred the question had the following options where the respondents have to choose their preferred one.

- Equity Fund
- Debt Fund and
- Balanced Fund

As the investors can opt for any of the following way of receiving the return from mutual fund investment to find out the options preferred in mutual fund scheme the respondents were asked to rank the following options according to their preferences

- Growth option
- Dividend re-investment scheme
- Dividend payout option
- Monthly income scheme
The fund houses invest the money collected from investors across different sectors. Therefore the following sectors were given as in the questionnaire for the opinion of the respondents for their preferred sector among the Sectoral funds:

- IT industry
- Banking
- FMCG (Fast Moving Consumer Goods)
- Textile
- Automobile
- Real Estate

and other than these if they prefer any other sector the respondents were asked to specify the same in the questionnaire.

To find out the mostly preferred objective of investing in mutual funds investors were asked to rank the objectives according to their preferences. The objectives of mutual fund investments given in the questionnaire include:

- High return
- Tax exemption
- Diversification
- Capital Appreciation
- Liquidity
- Professional Management.

The questionnaire also includes question on the preferences of the respondents towards either

- Public Sector Mutual Funds
- Private sector of investment.

In order to find out the Investor’s preferences towards the type of investment, the respondents were asked to rank the following investments according to their investment choice which includes:

- Bank deposits,
- Company deposits,
- Shares, Debentures,
- Provident Fund,
• Life Insurance and
• Mutual funds.

The ranks were ascertained by obtaining the weighted mean value of the responses. Also Fried man test and percentage analysis were applied to find out their preference. The investor’s opinion on time frame preferred for investing in mutual funds and also their choice towards open ended or close ended fund is also ascertained. The results of the analysis are given in the findings.

Section I and III comprises of optional type of questions whereas section II is designed in Likert’s 5 - point scale ranging from 5 - Strongly Agree , 4 - Agree, 3 - Neutral, 2 - Disagree, 1 - Strongly Disagree.

Secondary Data

The growth of mutual funds is analyzed with the help of secondary data collected from various sources on the basis of the following criteria:

1. Increased number of players in the mutual fund industry
2. Resources mobilised by mutual fund industry
3. Increase in the No of investors in mutual fund
4. Plethora of schemes and innovative schemes available to the investors
5. In terms of Assets under management of mutual fund houses

The information gathered through books, journals, magazines, reports, dailies and websites consist of secondary. The data collected from both the sources are scrutinized, edited and tabulated.

The performance of various mutual funds schemes offered by public sector sponsored units and private sector sponsored units is analyzed with the help of secondary data from published sources. The effectiveness of the performance of the selected funds is analyzed on the basis of Sharpe and Treynor ratio calculated on fund returns. The study considered interest rate on treasury bills as risk-free return in view of the average yield ranging from four percent to eight percent during the study period. Return alone should not be considered as the basis of measurement of performance of a mutual fund schemes, it should also include level of risk undertaken and diversification of funds. The excess of portfolio return, over the risk less return is an indication of the overall portfolio performance.
The following is the list of mutual funds registered with SEBI from which 5 public and 5 private sector mutual funds are examined. The period of study undertaken is between 2008 to 2014.

**Name and Addresses of SEBI Registered Mutual Funds**

UTI Mutual Fund passed by the separate Act in parliament.

**Public sector mutual funds**

1. Bank of India Mutual Fund
2. Canara Bank Mutual Fund
3. State Bank India Mutual Fund
4. Indian Bank Mutual Fund
5. Punjab National bank Mutual Fund
6. Bank of Baroda Mutual Fund
7. Life Insurance Corporation Mutual Fund
8. General Insurance Corporation Mutual Fund

**Private sector mutual funds**

4. BNP Paribas Mutual Fund MF/049/04/01 27.05.2004
5. CRB Mutual Fund (Suspended) MF/008/93/5 17.12.1993
6. Deutsche Mutual Fund MF/047/02/10 28.10.2002
7. DSP BlackRock Mutual Fund, MF/036/97/7 30.01.1997
12. HDFC Mutual Fund, MF/044/00/6 30.06.2000
13. HSBC Mutual Fund, MF/046/02/5 27.5.2002
14. IIFCL Mutual Fund (IDF) MF/071/13/1 24.01.2013
15. IIFL Mutual Fund MF/067/11/2 23.03.2011
16. IL&FS Mutual Fund (IDF) MF/072/13/2 01.02.2013
17. Indiabulls Mutual Fund MF/068/11/3 24.03.2011
18. ING Mutual Fund, MF/040/99/5 11.02.1999
19. ICICI Prudential Mutual Fund   MF/003/93/6 13.10.1993
20. IDBI Mutual Fund MF/064/10/01 29.03.2010
21. IDFC Mutual Fund,   MF/042/00/3 13.03.2000
23. JP Morgan Mutual Fund MF/053/07/01 08.02.2007
24. Kotak Mahindra Mutual Fund,   MF/038/98/1 23.06.1998
26. L&T Mutual Fund MF/035/97/9 03.01.1997
27. Mirae Asset Mutual Fund MF/055/07/03 30.11.2007
30. Pine Bridge Mutual Fund MF/054/07/02 09.02.2007
31. PPFAS Mutual Fund MF/069/12/01 10.10.2012
32. Pramerica Mutual Fund MF/065/10/02 13.5.2010
34. Quantum Mutual Fund, MF/051/05/02 02.12.2005
35. Reliance Mutual Fund   MF/022/95/1 30.6.1995
36. Religare Inveso Mutual Fund MF/052/06/01 24.07.2006
37. Sahara Mutual Fund, MF/030/96/0 1.10.1996
39. SREI Mutual Fund (IDF) MF/070/12/02 15.11.2012
42. Tata Mutual Fund,   MF/023/95/9 30.6.1995
43. Union KBC Mutual Fund MF/066/11/1 23.3.2011

1.14 The following is the list of the five public and five private sector mutual fund companies that is considered in the study for analysis.

**Public Sector Mutual Funds**

1. SBI Magnum Mutual Fund,
2. Canara Robeco Mutual Funds
3. Baroda Pioneer Mutual Fund
4. LIC Mutual Fund
5. UTI Mutual Fund
Private Sector Mutual Funds

1. Reliance Mutual Fund
2. Kotak Mahindra Mutual Fund
3. Prudential ICICI Mutual Fund
4. Tata Mutual Fund
5. Birla Mutual Fund

These funds were selected for study on the basis of Resource Mobilization and average Assets under Management of these companies. The funds chosen for the study both under public and private sector have been consistently mobilising more resources in the industry on an average during the period 2008-2014. The Assets under Management of these fund houses is huge compared with others. The average of the AUM of the selected mutual fund companies exhibits an increasing trend during the period 2008-2014. Therefore the researcher identified these funds for evaluation.

Under public sector mutual funds three under banking sector which includes State Bank of India Mutual Fund, Can bank mutual funds and Bank of Baroda Mutual Fund is taken for analysis and LIC under insurance sector the oldest mutual funds in the industry and UTI the beginner in mutual funds are considered for analysis.

Under private sector Tata and Birla which enjoys good reputation among the investors and Reliance and Prudential ICICI the top performers in terms of AUM and returns and Kotak Mahindra mutual fund which has large investor base and wide variety of scheme offered by this find and was the first fund house in the country to launch a dedicated gilt scheme investing only in government securities are taken for analysis. Only Equity fund is chosen for evaluation as investors prefer to invest in equity funds. Under equity fund growth schemes and dividend payout schemes are evaluated as majority of the respondents prefer growth option first and dividend payout is their second option. The schemes are evaluated on the basis of their average annual returns and the Sharpe ratio and the Treynor ratio is used to evaluate the schemes. The respective years 91 days Treasury bill rate for the period 2008-2014 is taken as risk free rate of return.

1.15 Hypotheses of the Study

The following hypothesis has been framed for the present study and tested:

1. The opinions on factors motivating investment in Mutual Funds are average level
2. There is no significant difference between male and female with respect to Factors motivating investment in mutual funds.
3. There is no significant difference between married and unmarried with respect to factors motivating investment in mutual funds.

4. There is no significant difference between Joint and Nuclear family with respect to factors motivating investment in mutual funds.

5. There is no significant difference between open ended and close ended mutual funds with respect to factors motivating investment in mutual funds.

6. There is no significant difference between age groups with respect to factors on motivation of investment in mutual funds.

7. There is no significant difference between educational qualifications with respect to factors motivating investment in mutual funds.

8. There is no significant difference between occupations with respect to Factors motivating investment in mutual funds.

9. There is no significant difference between number of earning members of the Family with respect to factors motivating investment in mutual funds.

10. There is no significant difference between monthly incomes with respect to Factors Motivating investment in mutual funds.

11. There is no significant difference between Percentage of savings with respect to factors motivating investment in mutual funds.

12. There is no significant difference between amount invested in Mutual Funds with respect to factors motivating investment in mutual funds.

13. There is no significant difference between rate of return with respect to factors motivating investment in mutual funds.

14. There is no association between joint and nuclear family and systematic investing in mutual funds by investors.

15. There is no association between Monthly Income (Individual) and systematic investing in mutual funds by investors.

16. There is no association between Age groups and Minimum rate of return.

17. There is no association between Joint and Nuclear Family and Minimum rate of return.

18. There is no association between Educational Qualification and Minimum rate of return.

19. There is no association between Occupation and Minimum rate of return.

20. There is no association between Percentage of savings and Minimum rate of return.
21. There is no significant difference between mean ranks towards the Objectives of investment in mutual funds.

22. There is no significant difference between mean ranks towards the Different types of investments.

23. There is no significant difference between mean ranks towards the Factors motivating investment in mutual funds.

1.16 Tools of Analysis

The collected data was analyzed with the help of Statistical Package called Statistical Packages for Social Science (SPSS) and other computer packages. The following statistical tools are used to obtain the torrent. The data collected has been analysed using the following statistical tools:

- **Percentage Analysis**

  It is one of the statistical measures used to describe the characteristics of the sample or population in totality. Percentage analysis involves computing measures of variables selected of the study and its finding will give easy interpretation for the reader. Percentage analysis has been applied to describe the demographic profile of investors and the perception of investors towards scheme preferences.

- **Factor Analysis**

  This analysis is a multivariate tool generally used to condense the greatest number of variables in to least number of factors. To analyze the factors of motivation in mutual fund investment twenty variables were identified which are found to be highly significant in attracting the investor towards mutual funds. In the survey, the respondents were asked to rate the importance of the 20 specified variables which were given as comprehensive statements in the questionnaire on a 5 point scale ranging from strongly agree (5) to strongly disagree (1). Based on the past research conducted on this topic and the literature review done by the researcher and with reference to the journals and websites referred and on the own judgement of the researcher the following variables are found to have influence on mutual fund investment decision making. All of these variables by using factor analysis emerged into five major factors as given below.
1. Lower cost of Investment
2. Tax Benefits
3. High Return
4. Past performance

5. Reputation of the Asset Management Company (AMC)
6. Reputation of the Scheme
7. Fund Managers expertise
8. Favorable Rating by a rating agency

9. Flexibility
10. Liquidity
11. Diversification of Risk
12. Innovative features

13. Lower return on Government Securities
14. Unattractive Interest on Bank Deposits
15. Effective Monitoring by SEBI
16. Good infrastructure facilities

17. Convenient Administration
18. Transparency
19. Fringe benefits
20. Daily update on NAV

The data for each of the 3 sub-groups were factor analysed using Principal Component Analysis, with the objective of identifying the factor in the sub-group which turns out to be significant in the fund/scheme selection.

- **Chi – square Analysis**

Chi – square Analysis have been employed to examine the relationship between the educational qualification, occupation, monthly income, type of family, savings and the minimum rate of return expected by the investors from mutual funds. Chi –square analysis
also used to examine the association between the demographic profile of investors and motivational factors and investors preferences.

- **Regression Analysis**

Regression equation is used to analyse how the mean or expected value of the dependent variable is related to the independent variable. Regression is the determination of statistical relationship between two or more variables. In simple regression two variables are used. One variable (independent) is the cause of the behaviour of another one (dependent). Regression analysis is also concerned with the derivation of an appropriate mathematical expression for finding values of a dependent variable on the basis of independent variable. In this study, the dependent variable is Motivational factors and the Age, Educational Qualification, Occupation, Number of earning members in the family, Monthly Income of the respondents, Percentage of savings per annum, total amount invested in mutual funds, Minimum rate of return on Mutual Fund investment expected by the investors and Time frame preferred on investing in mutual fund are taken as independent variables to test if there is positive and strong relationship existing between these variables.

- **ANOVA followed by Duncan Multiple Range Test (DMRT)**

One Way Analysis of Variance (ANOVA) has been used to study the influence of the demographic profile of consumers on various factors of motivation influencing Decision Making Styles of investors.

- **Friedman test**

Friedman’s test is a non-parametric test used to compare observations repeated on the same subjects. This is also called a non-parametric randomized black analysis of variance. The test statistic for the Friedman’s test is a Chi-square with a-1 degrees of freedom, where ‘a’ is the number of repeated measures. When the P-value for this test is small (usually < 0.05) there is evidence to reject the null hypothesis. Friedman test is applied to find out the significant difference between mean ranks towards the different types of investments, objectives of investment in mutual funds and the Factors motivating investment in mutual funds.

- **t test**

$t$ test is applied to find out the significant difference between demographic profile of the investors with respect to Factors motivating investment in mutual funds and also to
obtain the overall opinion of the investors on Factors motivating investment in mutual funds.

- **Correlation Analysis**

Correlation Analysis is used to test the degree and type of relationship between the two or more variables in which they vary together over a period. The study used the analysis to test the correlation coefficient between the five major factors and also to find out the significant level of the factors.

- **Trend percentage**

With regard to performance evaluation of mutual funds, trend percentage is calculated in order to find out the performance of funds over the period of study from the year 2008 to 2014. With the help of the analysis it is found if the fund performance is showing an increasing or decreasing trend. Trend percentages are also calculated for Sharpe and Treynor ratios.

The above tools were applied for testing of hypothesis and arriving at appropriate conclusions.

### 1.17 Operational Definitions and Concepts

This section deals with the various concepts and terms used in this study that may carry different meanings in another context. This section defines those terms with the help of the literature.

The **investor** in the study refers to those who invest their money in the Mutual fund of any Investment Management Company, receive an Equity Position in that particular mutual fund.

**Asset Management Company**

A company set up primarily for managing the investment of mutual funds. This body has to be a distinct entity different from the sponsor. The investments have to be made in accordance with the scheme objectives, the deed of the trust and provisions of the Investment Management Agreement between the trust and the AMC.

**Asset Allocation**

The process of allocating the assets to different investment avenues like stocks and debt Instruments depending on the investment objective of the mutual fund.
**Asset Under Management (AUM):** The net assets under the management of a mutual fund as of the close of the calendar year.

**Annual Return**

It is the return generated by the fund in the preceding one year. Normally, return is measured by observing the change in the NAV (Net Asset Value) over the period concerned after adjusting for dividends, bonus and rights if any.

**Assets**

In the context of a mutual fund scheme, the term assets refers to the various holdings of the fund such as equity, fixed income instruments, money market instruments, cash, receivables etc.

**Benchmark**

A measure used as a yardstick against which the return generated by a mutual fund is evaluated.

**Beta**

Beta is a measure of volatility of the portfolio with respect to the market, also known as systematic risk. A beta measure of 1 indicates that the portfolio volatility will be same as that of the index/market. Any value greater than one indicates that the portfolio is more volatile than the index and vice versa.

**Capital Gain**

It is the difference between the sale price and the cost price of the security which could be either short term or long term. The long-term capital gains are taxed at a concessional rate.

**Close-Ended Funds**

These are funds that have a specified life span and do not offer fresh units for sale after the initial offer is closed. While some funds do offer limited repurchase after a specified time, liquidity is available to the investor only in case of close-ended schemes where units are listed on the stock exchange.

**Convenient Administration** in investing in a Mutual Fund refers to reduction in the paperwork. Problems such as bad deliveries, delayed payments and follow up with brokers and companies are avoided under Mutual Fund investments. Mutual Funds save the time of the investors and make investing easy and convenient. Mutual fund shares can be bought through mail, phone, or over the Internet.
**Dividend yield**
The cash distributions made by mutual funds. This measure is used to know how much dividend has been paid by a scheme in a year for the price an investor has paid for buying its units. Any investor whose investment objective is capital consumption may choose to invest in a scheme with high dividend yield in India, dividends are inclusive of capital gains and income earned by the fund.

**Diversification** refers to investment in a number of companies across a broad cross-section of industries and sectors. This diversification reduces the risk.

**Entry Load or Front End Load**
Entry Load is a charge levied by the fund on the unit-holder at the time of investment and it is linked to the NAV of the fund concerned.

**Exit Load or Back-End Load**
A charge levied on the investor at the time of his exit from the scheme.

**Exchange trade funds (ETF)** are recent innovation in market funds, containing the combination of both close ended and open ended traded funds. As with close ended, ETF’s can be traded on stock exchange on every trading day with a market price.

**Expense Ratio (%)** A measure to determine the cost incurred by a mutual fund company to manage the respective mutual fund scheme. Expenses such as fund manager's fee, custodial charges, taxes, legal fees etc are considered to derive the expense ratio. A higher expense ratio may eat into the returns delivered by the scheme. Therefore, expense caps have been decided by the regulator for respective mutual fund categories

**Flexibility** refers to systematic investment or withdrawal of funds according to the needs and Convenience of investors.

**Fund managers** are experienced and skilled professionals, who analyses the performance and prospects of companies and selects suitable investments for the investors to achieve the objectives of the scheme

**Financial factors**
In the present study financial factor which includes maximum return, tax benefits, low management fees and the track record of performance of previous fund schemes.

**Index**
The benchmark against which the performance of the fund is evaluated to see whether the fund is under-performing or outperforming the benchmark.
Index Fund
A type of mutual fund whose aim is to replicate a market index. These funds are passively managed and the weightage of each security in the portfolio of the fund is the same as that found in the index.

Initial Load
It is a sales charge imposed on the investor at the time of his entry into the scheme at the time of the initial public offer. The charge helps to meet expenses incurred in bringing out the initial offer.

Investor services
In the present study investor service is defined as the investors’ lack of time and energy to monitor the customers portfolio, transparent operations and Fringe benefit such as free insurance, free credit card, loans on collateral in mutual funds.

Long Term Capital Gain
The gain booked on an asset which has been held for more than 3 years or in the case of mutual fund units - 1 year.

Mutual Fund is a fund, managed by an investment company with the financial objective of generating high Rate of Returns. These asset management or investment management companies collects money from the investors and invests those money in different Stocks, Bonds and other financial securities in a diversified manner.

Mutual fund scheme refers to the IMFI products launched representing a category with specific objective and varied options. A scheme can belong to open or close-end type of operation. The objective of the scheme can relate to any category like income, growth, balanced, money market and equity linked savings scheme.

Motivating factors - Motivating factors refers to financial characteristics of mutual fund investments that induce an investor to invest in mutual fund schemes. 20 such financial characteristics are covered in the study.

Management Fee
It is the fee paid by the mutual fund to the asset management company for services rendered with respect to the management of the portfolio, and is usually expressed as a percentage of the assets.

Net Asset Value (NAV) Net Asset Value is the current market worth of a mutual fund scheme. Calculated on a daily basis considering total assets and any accrued earnings, after deducting liabilities; the remainder is divided by the number of units outstanding. NAV is considered as the most reliable indicator of mutual fund performance.
Open ended funds - Open-end Funds are schemes of a mutual fund offering units for sale on a continuous basis directly from the fund and does not specify any duration for redemption or repurchase of units. An investor can buy or sell shares of an open ended investment funds at any time via direct dealing with a mutual fund.

Quality factor
In the present study the quality factor is defined as innovative features, easy entry & exist mode, good infrastructure facilities, liquidate of investments at any time and extent of diversification of risk of mutual fund.

Registrar or Transfer Agent
It is the institution that maintains a record of all the unit-holders of a fund and their unit ownership. Normally the registrar also mails the notices regarding the holding of the annual meetings and the distribution of dividends to the unit-holders. It also supplies the annual statement to the unit-holder representing the year-end account status.

Return
A statistical measure of the performance of a fund over a period of time. Risk can be defined as the potential for harm. But when anyone analysing mutual funds uses this term, what is actually being talked about is volatility. Volatility is nothing but the fluctuation of the Net Asset Value (price of a unit of a fund). The higher the volatility, the greater the fluctuations of the NAV.

Retail investor - SEBI defines a retail investor as one with an investible surplus of Rs.1 lakh and below.

Risk Free Securities
Refers to securities carrying zero credit risk, which refers to no risk of default in payment of dividend and principal. Normally, papers issued by governments are classified as risk-free paper. In the current study 91 days Treasury Bills issued by the Government is taken as Risk Free rate.

Risk-Adjusted Return
A measure of how much risk a fund absorbed to generate its returns.

Repurchase or ‘Back-end' Load is a charge collected by a scheme when it buys back the units from the unit holders.

Sector Fund
A fund that restricts its investments to a defined sector or some defined sectors thereby limiting the scope of its investment universe.
Sharpe Ratio
A measure of risk-adjusted return. It is computed by dividing the fund's excess returns (over and above the risk-free returns) by the fund's standard deviation.

Standard Deviation
A measure that determines the volatility of a fund over a period of time. Mathematically, standard deviation measures the dispersion of values around a mean.

Treasury Bills.
Treasury Bills are short term (up to one year) borrowing instruments of the union government. It is an IOU of the Government. It is a promise by the Government to pay a stated sum after expiry of the stated period from the date of issue (14/91/182/364 days i.e. less than one year). They are issued at a discount to the face value, and on maturity the face value is paid to the holder. The rate of discount and the corresponding issue price are determined at each auction.

Treynor Ratio
A risk adjusted measure of return that considers beta as a measure of volatility. This ratio explains the returns earned in excess of risk-free return per unit of market risk. Higher the Treynor ratio, the better it is.

Unit
means the share of holding of an investor in a mutual fund scheme. Each unit represents one undivided share in the assets of a scheme.

Unit holder
means a person holding unit in a scheme of a mutual fund.

1.18 Scheme of the report
The entire study has been divided in to six chapters.

Chapter 1 – Introduction & Research Methodology
The first chapter is an introductory chapter and the Chapter also contains Research design, which deals with the statement of the problem, objectives of the study, methodology of the study, hypotheses, limitations of the study and Chapter Arrangements.

Chapter 2 - Review of Literature
Any report put forward in a research stands out incomplete without the common understanding of the previous researches done in this regard. This literature review section mentions out the various areas of the research and deeply analyzes the studies done by the other researchers. This is commonly known as secondary research. A literature review gives a speculative outlook of the entire dissertation.
Chapter 3 – Growth of Mutual Fund Industry in India
The Third Chapter contains the growth of Mutual fund industry in India and growth of mutual fund industry in global scenario also presented.

Chapter 4 – Descriptive Analysis and Interpretation
This chapter briefly describes the demographic features of the respondents based on the information gathered from the respondents. Apart from the general information, this section also deals with analyzing investor’s attitude and preferences towards mutual fund investment.

Chapter 5 – Inferential Analysis and Interpretation
The fifth chapter deals with the analysis and Interpretation of data obtained from the investors with regard the factors influencing mutual fund investment decision making.

Chapter 6 – Performance Evaluation of Mutual funds
The Fourth Chapter deals with performance evaluation of selected public sector and private sector mutual funds and their comparative study.

Chapter 7 – Conclusion
This chapter contains a detailed discussion of the study. The findings, suggestions and conclusion of the research are put forward. The agenda for further research is also enumerated.

1.19 Limitations of the Study
1. Data collection was taken up only from investors of Chennai City
2. Personal bias and prejudice could have affected the results of the study.
3. Sample size of investors constitute a limitation
4. The respondents not revealing the true information limits the findings.
5. Biased information provided by the respondents during the course of the study may have an impact on the findings.
References


