Factor Affecting Choice of Mutual Fund for Investor

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***Abstract*- To ensure one's future most of the individuals go for different options for investment of their money. They search for most promising one, it is the one giving higher returns with lower risk. In this regard mutual fund is considered to be a best option as it minimizes risk by investing fund in a portfolio to balance risk and returns. The present study focuses on measuring the investors' expectation and their preference. It also attempts to gauge the factors that they take into consideration before making any investment in mutual fund as well as the awareness level among individual investors regarding mutual fund investment. In addition to this the role of demographic variables was also studied to find out whether the age, income and gender affects the choice of mutual fund. The results indicate that there are two factors underlying choice of mutual fund namely, performance and scheme. Further, among demographic variables the age of investor shown a significant effect on choice of mutual fund but the effect of gender and income was insignificant.**

***Index terms*- Mutual Fund, Investors attitude, Risk, Return**

INTRODUCTION

Investment culture refers to the attitude, perception, and willingness of the individuals and institutions in placing their savings in various financial assets, more popularly known as securities. So, a study on the investors' perceptions and preferences, assumes a greater importance in the formulation of policies for the development and regulation of security markets in general and production and promotion of small and house-hold investors in particular area. The investment options available and their assessment on the basis of risk and returns counts a Lot for the investor as well as the person's dealing in market. Precisely, investor's concern is highest return with minimum risk. Investor's expectation in this regard is a very important factor and needs to be analyzed by all alternative investment avenues. The success of any mutual fund, a popular means of investment, depends on how effectively it has been able to meet the investor's expectation. This implies the role of portfolio manager in an asset management companies. Although there is no prescribed definition of mutual funds but it can be understood in a sense that it deals with investment in different securities. Mutual funds are the kind of securities where collective funds of investors are pooled to purchase securities having higher risk and returns with low risk and return so as to moderate the risk involved. A mutual fund is the option available to both big and small investors, to pick the best benefit from the investment market. Mutual fund provides returns, liquidity, safety and tax benefit. Tax benefit is available to the investor who can earn capital gains on mutual fund investment.

REVIEW OF LITERATURE

There have been a large number of studies stating the factors are affected to the choice of mutual fund for the investor. Most of these studies have reported the demographic factors are affected on investors.

According to Rao (2006) age, gender, occupation had significant impact on the investor's financial dependence, investment objectives, and willingness to take risk and on the extent of acceptability for investment volatility. He further discussed that educational qualification affected financial needs and investment objectives of investors. They also discovered marital status had a significant impact on investment objective, willingness to take risk and volatility in investment value. In addition to this other factors also determine mutual fund sizes. For example, Berk and Green (2004) stated that fund flows determine the relative sizes of mutual funds such that, in equilibrium, investors expect no future superior returns net of fund fees and expenses. They studied the structure of compensation as given and studied the manager's dynamic portfolio choice

during an annual mutual fund tournament. Furthermore, Müller and Weber (2010) developed a financial literacy test to analyze the relationship between investor financial literacy and choice of mutual funds. The investors were actually found to be affected by other things such as advertising. There is evidence that mutual fund investors who reveal non-normative preferences in fund choices are dependent on fund advertising, earning the designation "the wizards of advertising." Singh and Jha (2009) also conducted a study on awareness & acceptability of mutual funds and found that consumers basically prefer mutual fund due to return potential, liquidity and safety and they were not totally aware about the systematic investment plan.

Lakshmi (2010) identified the opinion of investors towards mutual fund investment in terms of experience in the field of mutual fund investment, objective of selecting mutual fund schemes, impact of profile on scheme selection, preference for mutual fund sector and on the sources of information. Ramamurthy and Reddy (2005) conducted a study to analyze recent trends in the mutual fund industry and discovered that the main benefits for small investors' due to efficient management, diversification of investment, easy administration, nice return potential, liquidity, transparency, flexibility, affordability, wide range of choices and a proper regulation governed by SEBI.

OBJECTIVE

The Indian mutual fund industry is a very large industry consisting of number of investors. In This area of competition different investor's has different investment objectives. As the human Behavior is unpredictable, this study helps in finding out the necessary facts regarding Investors' opinion and perceptions, preferences awareness regarding mutual fund investment.

The main objectives the studies are

1. To identify factors underlying choice of mutual fund.
2. To determine the impact of income on choice of mutual fund.
3. To determine the impact of Age on choice of mutual fund.
4. To determine the impact of gender on choice of mutual fund.

Null Hypothesis

1. There is no impact of gender on choice of mutual fund.
2. There is no impact of Age on choice of mutual fund.
3. There is no impact of Income on choice of mutual fund.

RESEARCH METHODOLOGY

The study is an analytical study based on primary research. The population included all the individual investors who invest in Mutual fund. In order to conduct this research a sample of 100 investors were taken. The participants were convenient sample. The data was collected on a Likert type 1 to 5 point scale. For the purpose of research self-designed questionnaire was used. The Cronbach's alpha was reported to be 0.741. The demographic distribution is shown below:

FACTORS WISE CLASSIFICATION

Age	No. of Respondent	Percentage
less than 20	2	4
21-30	24	48
31-40	18	36
Above 40	6	12
Total	50	100
Gender		
Male	45	90
Female	5	10
Total	50	100
Occupation		
Private Job	15	30
Business	10	20
Govt. Job	10	20
Self Employed	15	30
Total	50	100
Income		
up to 3 lack	20	40
3 to 5 lack	10	20
5 to 10 lack	15	30
10 lack above	5	10
Total	50	100
Invest in MF		
1 Year	10	20
1 to 2 Year	15	30
2 to 4 Year	5	10
Above 4 Year	20	40

Total	50	100

ANALYSIS

FACTOR ANALYSIS

KMO (Kaiser-Meyer-Olkin measure of sampling adequacy) and Barlett's test of sphericity was used to ascertain if the data is appropriate for factor analysis. The Principal Component Analysis of factor analysis was applied with orthogonal rotation (Varimax) to retain variables whose factor loadings were over 0.4 and Eigen values were over one.

Table 2- KMO and Bartlett's Test

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.738
Bartlett's Test of Sphericity	Approx. Chi-Square	142.369
	Df	28
	Sig.	.000

The KMO and Bartlett test of Sphericity indicates that the data is suitable for factor analysis. The KMO measures the sampling adequacy should be greater than 0.5 for a satisfactory factor analysis to precede. Looking at the table above, the KMO measure is 0.738. From the same table, we can see that the Bartlett's test of sphericity is significant. That is, its associated probability is less than 0.05. In fact, it is actually .000. This means that the correlation matrix is not an identity matrix. The above facts indicate that the data collected is suitable for factor analysis. The factor analysis resulted in two factors. The detail about factors the factor name, variable number and convergence is given in the table.

The raw scores of 10 items were subjected to factor analysis to find out the factors that

Factors	Items	Eigen Value	Loadings
Performance	Profit	2.278	.845
	Risk		.520
	Behavior		.687
	Company Image		.532
Schemes	Portfolio	1.659	.209
	Maturity		.783
	Return		.246

contribute towards "Investors choice for Mutual Funds". After factor analysis 2 factors were identified

Description of Factors

1. Performance: This factor has emerged as the most important factor affecting Investors to Invest in Mutual Funds. It consists of several variables like Profits & services (0.845), Risk (0.520), Various Schemes offered by the Mutual Funds (0.687) and Insurance Benefits & company Image (0.532).
2. Schemes: This factor has emerged as other most important factors affecting Investors to Invest in Mutual Funds. It is composed of several items such as construction of portfolio (0.209), Period of maturity of mutual funds (0.738) and Return on mutual Fund (0.246).

ANOVA

LEVENE'S TEST OF EQUALITY OF ERROR VARIANCES

Dependent Variable: respondent

F	Df1	Df2	Sig
1.451	22	77	.119

TESTS OF BETWEEN-SUBJECTS EFFECTS

Dependent Variable: Respondent

Source	Type III Sum of Squares	Df	Mean Square	F	Sig.	Partial Eta Squared
Corrected Model	712.512[a]	22	32.387	1.355	.166	.279
Intercept	26764.263	1	26764.263	1.120E3	.000	.936
Gender	2.219	1	2.219	.093	.761	.001
Income	68.651	3	22.884	.957	.417	.036
Age	207.257	3	69.086	2.890	.041	.101
gender * income	51.501	2	25.751	1.077	.346	.027
gender * age	39.050	3	13.017	.545	.653	.021
income * age	252.356	8	31.544	1.320	.246	.121
gender * income * age	6.928	1	6.928	.290	.592	.004
Error	1840.398	77	23.901			
Total	89401.000	100				
Corrected Total	2552.910	99				

a. R Squared = .279 (Adjusted R Squared = .073)

Testing the null hypothesis that the error variance of the dependent variable is equal across groups.

MULTIPLE COMPARISONS

Respondent Turkey HSD

(I) age	(J) age	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
1	2	-1.4571	1.33016	.693	-4.9502	2.0359
	3	2.6000	1.37227	.239	-1.0036	6.2036
	4	2.0000	1.71026	.648	-2.4912	6.4912
2	1	1.4571	1.33016	.693	-2.0359	4.9502
	3	4.0571*	1.21639	.007	.8629	7.2514
	4	3.4571	1.58791	.139	-.7128	7.6270
3	1	-2.6000	1.37227	.239	-6.2036	1.0036
	2	-4.0571*	1.21639	.007	-7.2514	-.8629
	4	-.6000	1.62335	.983	-4.8630	3.6630
4	1	-2.0000	1.71026	.648	-6.4912	2.4912
	2	-3.4571	1.58791	.139	-7.6270	.7128
	3	.6000	1.62335	.983	-3.6630	4.8630

Based on observed means.

The error term is Mean Square (Error) = 23.901.

The mean difference is significant at the .05 level.

Here we can see that age group of 20-30 and 30-40 have significant impact on choice of mutual fund as they are showing significant value (0.007) which is less than 5% significance level.

Table Showing the Hypothesis Test Results

Serial no.	Null Hypothesis	Rejected/ Not rejected
H_1	There is no impact of gender on choice of mutual fund.	Rejected
H_2	There is no impact of Age on choice of mutual fund	Not Rejected
H_3	There is no impact of Income on choice of mutual fund.	Rejected

Here we can see that gender and income are showing no significant impact on choice of mutual fund as their sig (0.761 > 0.05), (0.417 > 0.05), but age is showing that there is significant impact as it is significant at (0.04) which is less that 0.05 (5% level of significance).Which means our hypothesis is not rejected in case of income and gender i.e. they have no impact on choice of mutual fund, these results are inconsistent with the findings of Rao (2006) who found a significant impact of gender on choice of mutual fund. Similarly the interaction effects in all the cases were insignificant so their interactions do not affect choice of mutual funds. In case of age it is showing that it has impact on choice of mutual fund. The same results found by Lakshmi (2010) and Ramamurthy and Reddy (2005) who explored the impact of age on choice of mutual fund for India. Also, now we can conclude that the Age is a main factor of directly affecting on the time when we choice the mutual fund for the investing purpose.

CONCLUSION

As in our study we have taken demographic variables like gender, income and age as independent variables and "choice of mutual fund" as dependent variable and by applying ANOVA test we have found out that there is no effect of income and gender variable on choice making , only age is a factor that is making an impact on choice making, and in that further we found out that age group of 20-30 and 30-40 group category is making the difference, this could be because of the reason that age group 30-40 people have already invested in mutual fund, but age group 20-30 people have not yet started as in our classification table we can see 20-30 age group people are very less Therefore this difference has come between 20-30 and 30-40 age group. Because in the age of 20-30 the people having no knowledge & illiteracy about the mutual fund. That's why they are not interested to invest in mutual fund.

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