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Reasons and Factors that influence a Retail Investor to invest in a specific Mutual Fund

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Abstract: *Mutual Funds have become an essential intermediary between retail investors and capital markets in India. As compared to a direct equity investment, they diversify the risk of the investor while maximising the gains at a very affordable cost. Growth seen in the Indian Mutual Fund industry is second to none and has not peaked yet. Financial inclusion and increasing household investible surplus along with the aggressive marketing campaign "mutual fund sahi hain" plays into the hands of this booming Industry. This research paper aims to uncover some aspects of Retail Mutual Fund investments like (a) reasons (b) factors that determine the selection of a specific mutual fund.*

Key Words: *Mutual Funds, NAV, Diversification, Goal Based Planning, SIP.*

1. INTRODUCTION:

Capital markets have been the core of the Indian financial system for quite some time now. They have helped a great deal in mobilising funds for various types of investments. Capital market in India has also witnessed a significant increase in both participation and new investment avenues. Today, Financial institutions have advanced in the form of a diversified structure, (i.e.) mutual funds. A mutual fund is a special investment vehicle which pools in amounts of small retail/institutional investors to create a giant corpus of funds to invest in well-diversified portfolios to increase returns while capping the risk. For any layman, mutual funds are a superior investment option when compared to the traditional investment options like the Fixed deposit or the PPF. The flavour of equity in a portfolio can reap the rewards if invested for the long term. Mutual funds offer a retail investor the chance to grab a piece of the capital market appreciation at a little cost. Since the variety of offerings by the AMCs are quite elaborate. There is a fund for every type of investor out there.

1.1.Types of Mutual Funds:

There is a total of 44 Asset Management Companies (AMC) in India which offer more than 2500 Mutual fund schemes. These 2500 schemes have various types which are differentiated based on -:

1.1.1.Orientation:

- Equity (Large-cap, Mid-cap, Small-cap, International)
- Debt (Long Duration, Liquid, Credit Risk, Gilt)
- Hybrid (Aggressive Hybrid, Conservative Hybrid, Multi-cap, Arbitrage)

1.1.2. Activity:

- Active Funds: These funds are actively managed (i.e.) a fund manager identifies opportunities in the market and trades on them regularly. These funds invest heavily on research desks which aim to find out profitable opportunities to trade. These funds have a chance of outperforming the index and have higher expense ratios.
- Passive Funds: These funds are passively managed (i.e.) they mimic a particular market index. A passive fund allocates assets (stocks) in the same proportion as the index. The return generated is identical to the index. These funds have lower expense ratios.

1.1.3. Direct or Indirect

- Direct Plan: In a Direct plan, an investor directly invests with the AMC company. There is no intermediary, and hence the expense ratio is lower, and NAV is higher than the indirect plan.
- Indirect Plan – In an indirect plan, an investor invests via an intermediary which is a broker, advisor or distributors. Hence the selling cost is embedded in the expense ratio. Consequently, this has a lower NAV than the direct plan.

1.2. Key terminologies of Mutual Fund:

- **Net Asset Value (NAV)** – It is defined as the difference between the Assets and Liabilities of the Mutual fund. NAV is disclosed after the market hours every day. It is one of the critical reflectors of the fund's current status. Since Mutual funds are bought and sold on a unit basis, NAV determines the purchase and redemption cost.
- **Asset Under Management (AUM)** - In finance, assets under management (AUM), sometimes called funds under management (FUM), measures the total market value of all the financial assets.
- **Alpha** - Alpha is a measure of an investment's performance on a risk-adjusted basis. It takes the volatility of a security and compares its risk-adjusted performance at a benchmark index. The excess return of the investment relative to the return of the benchmark index is its alpha.
- **Systematic Investment Plan (SIP) -** A Systematic investment plan (SIP) is an investment technique in which investors, invest small amounts periodically instead of lump sums. They are usually done weekly, monthly or quarterly. The investor gains the benefit of rupee cost averaging in SIPs.
- **Systematic Withdrawal Plan (SWP)** - Systematic Withdrawal Plan (SWP) is a type of withdrawal plan offered by mutual funds which allow investors to redeem units at periodic intervals. SWP is done weekly, monthly, quarterly or yearly.

2. LITERATURE REVIEW:

(Rout & Mohanty, 2019); focused on the intrinsic factors that motivate the investors to invest in mutual funds. With the markets filled with several large, mid and small-cap funds. The variety of offerings by the Indian mutual fund industry provides multiple options of investment to the common man concerning his risk appetite. What is noteworthy is that the bulk of the mobilisation has been by the private sector mutual funds rather than bank-sponsored mutual funds.
(Singal & Manrai, 2018); Aims to recognise factors affecting mutual fund investment decisions and the effect on investors of behavioural factors. It also helps to recognise the reasons that discourage people from investing in mutual funds and help identify areas that need improvement as well as enhancing marketing strategies.
(B, Nair, P, & R, 2015); Aims to find out the factors that affect a retail investor to invest in a mutual fund. They also focus on the reason that people avoid investing in mutual funds. Various marketing strategies have been suggested based on the response and suggestions to improve the selling experience has been provided.
(Mehta & Shah, 2012); attempts to understand what the preferred schemes are and study how these schemes perform. The paper aims to study factors that affect the buying behaviour of an investor like age, annual income, awareness, and knowledge about mutual funds, occupation. It was found that consumer preference is most dependent on awareness and qualification. The mode that they prefer for mutual fund investments is yearly. The paper also attempts to study sources that they find reliable while making these investment decisions. It was also found that a competent fund manager can analyse the investor's behaviour and take necessary steps so that the investor's expectations are met.
(Kumar & Goel, 2014); aims to study the purpose behind investing in mutual funds, factors considered before making such an investment, sources of information relied upon by the investor, how investors evaluate the performance of such fund, deficiencies in the functioning of mutual fund and investor's perspective about prospects of mutual funds. It was found that the investor considers growth factors and the past performance of a fund. Investors usually rely on newsletters or prospectus for getting information related to mutual funds. The paper also observes that absolute returns are the most important criteria for evaluating fund performance after which follows comparing fund returns to market returns. It also points out that the significant criticism faced by the mutual fund industry is service dissatisfaction on the part of the investors. However, despite the allegations, 44.75% of the investors predict an incredibly bright future for the Industry.

3. STATEMENT OF PROBLEM:

The modern-day retail investor is spoiled for choices. Any investor with an investable surplus has multiple avenues to invest and grow his wealth. Fixed deposits, ULIPs, Corporate and Government bonds, debentures and PPFs are few examples. Mutual Fund is also an avenue which has seen increasing retail participation in recent times. According to AMFI, ₹8,532 crores was collected through the systematic investment plan (SIP) in January 2020. Retail investors show paramount trust in Mutual funds and rightly so. Mutual funds offer an investor with improved transparency and diversification. Since mutual funds pool money to form a corpus, investors gain access to certain stocks or asset classes which might not be available otherwise. Each investor has a different risk appetite, and mutual fund has multiple products for every risk appetite.The problem arises when the retail investor wants to invest; he is presented with several types of funds. Under each type of fund are hundreds of funds offered by the 44 Asset Management Companies (AMC) in India. As a layman investor, he is bound to get overwhelmed by the sheer size of fund options he has to scavenge through to find a specific fund that fits his needs and risk appetite the best. In this context, it is essential to study the factors that help decide the investor to narrow down to a specific mutual fund.

Hence, the researcher wants to know the answers to the following research questions -:

- What are the reasons for which a retail investor invests in Mutual Funds?

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- What are the key factors that influence a retail investor to invest in a specific mutual fund?

4. OBJECTIVES:
- To study the factors that influence a retail investor to invest in a specific mutual fund.
- To study the reasons for the retail investor to invest in Mutual funds.

5. RESEARCH METHODOLOGY:

A quantitative research was conducted to study both objectives. Specifically, a single cross-sectional descriptive research was conducted.

5.1. Sampling Plan:
- Study area chosen was Mumbai.
- Non-Probability convenience sampling was done.
- Population for this research is the retail mutual fund investors residing in Mumbai
- Sample size was 120 participants

5.2. Data Analysis:
- Descriptive Statistics was used.

5.3. Data collection method:
- Primary data was collected by a structured survey via Google forms**. For secondary data, Journals, Books and Online financial websites were used.**

6. FINDINGS :

6.1. Respondents Demographic Characteristics :

The study consisted of a sample of 120 people across Mumbai, which was selected using convenient sampling method under non-probability sampling. The table below represents the demographic characteristics of the sample.

Table 1: Demographic Analysis of Respondents

Variable	Value	Frequency	Percent
Age	18-25	29	24.2
	25-35	32	26.7
	35-45	20	16.7
	45-55	35	29.2
	55+	4	3.3

Table 2: Amount Invested in Mutual Funds

Variable	Value	Frequency	Mode
Amount invested in Mutual Funds	<5000	14	5000-10000
	5000-10000	25	
	10000-15000	12	
	15000-20000	4	
	20000-25000	2	
	25000-30000	5	
	>30000	11	

6.2. To study the factors that influence a retail investor to invest in a specific mutual fund.

Factors	Mean	Median	Mode	Standard Deviation
Diversification	4.411	5	5	0.796
Reputation of Fund Manager	4.206	4	5	0.913
Past Performance of Fund	4.206	5	5	1.041
Brand Name	4.164	4	5	0.943
Orientation of Fund	4.137	4	4	0.887
Ratings (Given by CRISIL, ICRA)	4.082	4	4	0.939
Asset Under Management (AUM)	3.877	4	4	1.053
Exit Loads	3.74	4	4	1.131
Current Economic Condition	3.603	4	5	1.46
Tax Benefit	3.329	3	3	1.202

Table 3: Analysis of Factors that Retail Investors use to select a specific fund

6.3.
Tostudy the reasons for the retail investor to invest in Mutual funds.

Reasons	Mean	Median	Mode	Standard Deviation
Savings	54.932	60	60	21.417
Best Investment Vehicle	54.658	60	70	22.116
Goal Based Planning	51.096	50	80	24.069
Good options\ Schemes	46.575	50	40	19.665
Retirement Planning	46.164	50	50	21.898
Tax Benefit	37.534	30	20	21.971
Low Risk	35.479	30	10	21.797
Short Term Fund Parking	33.562	30	10	19.746

Table 4: Analysis of Reasons for investing in Mutual Funds

7. FINDINGS:
It can be seen that the top three factors that influence investors to invest in mutual funds are -:

- Diversification with a mean of 4.411 and standard deviation of +-0.796
- The reputation of Fund Manager with a mean of 4.206 and standard deviation of +-0.913
- Past Performance of Fund with a mean of 4.206 and standard deviation of +-1.041.
- Other important factors included Brand name, Orientation of fund (allocation of equity and debt) and Ratings given by the rating agencies.

As per the findings, it can be seen that the top three reasons that influence investors to invest in mutual funds are -:

- Savings with a mean of 54.932 and standard deviation of +-21.417
- Best Investment Vehicle with a mean of 54.658 and standard deviation of +-22.116
- Goal-Based Planning with a mean of 51.096 and standard deviation of +-24.069.

8. CONCLUSION:

This paper has tried to shed some light on the reasons that retail investors choose to invest in a Mutual Fund. It was found that people used Mutual Funds as an instrument to save money. People also used to it finance their short and long term goals. This paper also tries to understand what factors Retail Investors use to select a specific fund in the sea of Mutual Funds. Diversification, Reputation of Fund manager and the Past performance of the fund were the most critical factors identified.

9. Limitations of the Study :

- Since a sample study is conducted. Sampling error might be present in the data
- Since Non-Probability Sampling is done, there might be a hint of bias in the data
- The sample selected may not be a true representation of the population.
- Cannot analyse behaviour over a period to time.
- The timing of the study is not guaranteed to be representative.

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