

**SHIV SHAKTI**

**International Journal in Multidisciplinary and  
Academic Research (SSIJMAR)**

**UGC Approved journal Notification No-43659**

**Vol. 7, No. 3, August 2018 (ISSN 2278 – 5973)**

**An Empirical Study of Mutual Funds Scheme Selection Criteria  
of Retail Investors in Delhi and NCR**

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### **Abstract**

The people in India prefer saving in the safest financial tools. Safety of their money that is invested may not be compromised and many a time, they also don't mind accepting less return on investment. The average small-scale investor usually advocated the phenomena of adversity of risk. However, the returns on investment in the capital market come with related risks. Going with direct investments in the capital market is considered to be a risky proposal and it also demands expertise and knowledge and maintaining the money in the saving instruments doesn't seem to be advisable. Thus, an easy route here with small-scale investors to earn better returns is by making investments in the mutual fund. However, despite higher growth in the mutual funds, there is very less understanding regarding preferences of investors and the decision-making ability of individuals. The investors of mutual funds consider several factors while investing in mutual funds.

**Keywords: mutual fund investment, Indian stock market, NSE, BSE**

## **Introduction**

Growth and the financial performance of mutual funds industry have been a subject of interest for a lot of researchers. But, not much has been done on the reasons for the low penetration of the mutual fund industry outside the top 15 cities. Papers look at different reasons for a variation in the mutual fund industry all across the developed nations. However, the work typically doesn't differentiate between different parts of the countries which are included in these studies. While these papers might help the policymakers in stating an ideal inter-region macro-economic situation for developing a healthy mutual funds industry, they hardly explain the differentiation in the penetration of mutual funds within the country (Kalyan and Chaudhury, 2014).

It's a well-known fact that the mutual fund industry offers its investors several benefits which are not available with the other instruments. These benefits include diversification, easy access to the debt markets, and equity at the low cost of transaction and liquidity. Considering such benefits, it is easy to imagine that the households in India which are characterized mainly by the gross domestic savings, which is also considered to be the highest across the world might flock for investing their savings in the mutual fund's industry. However, according to a report, it has been pointed out that the distribution of the assets which are under management throughout the cities is skewed highly in favor of the top 15 cities of the country. These top 15 cities contribute to a major portion of the whole AUM of the country. Even within these top 15 cities, the top 5 cities including Delhi, Mumbai, Kolkata Chennai, and Bangalore contribute to the maximum portion of the whole AUM at the T-15 level.

It's important to consider the causes of the skewed rate of participation of the investors. Several factors might explain the variation possibly. The studies which have been done cross country point at the regulations, governance, laws and the supply side factors, the demand side attributes, and the technical issues which might affect the size of the mutual fund's industry in the country. Some of the factors like rules and regulations do not apply as they are all uniform throughout the country and they also don't differentiate from one state to the other. The factors which have been focused on are thus mainly the demand and supply-side factors.

These studies bring out a lot of interesting results that may be used to fund houses, financial practitioners, regulators, and scholars generally speaking. It has been confirmed that most of the sales of mutual funds happen outside the top 15 cities which are caused by the IFAs. It has also been seen that the social and demographic indicators like bank penetration and adult literacy are just correlated weakly with the penetration of mutual funds in the given segment (Pinto, Ajaya, and Munshi, 2016).

## **Literature Review**

The industry of mutual funds started in India in the year 1963 with the introduction of UTI or the Unit Trust of India, with an initiative of Reserve Bank and GoI. Although growth initially was slow, gradually it gained momentum from 1987 onwards when the non-UTI players also entered the market (**Saha and Dey, 2011**).

During the past few years, the mutual fund industry witnessed dramatic improvements, quality-wise and even quantity-wise. However, before the monopoly of mutual funds market saw an end phase, the AUM or the Assets Under Management valued at Rs. 67 billion. Entry in the private sector to the mutual funds family raised a huge amount of money in Mar 1993 and until Apr 2004, it touched the mark of 1540 billion rupees. The industry of mutual funds is growing at a fast pace with the mutual fund industry being put broadly into the 4 phases as per the development of this sector (**Rao, 2016**).

The current studies on behavioral finance are few and less information and data is found regarding the preferences, perceptions, behavior, and attitude of the investors. All the efforts for this are fragmented. According to a study, done for assessing awareness of the mutual funds amongst the investors, for identifying the sources of information that influence the decision of buying and factors which influence the choices of some specific mutual funds. The paper states that the income schemes and the open-end schemes are preferred more as compared to the growth scheme and the close end scheme. Investors majorly look for the safety of their principal, the liquidity, and the capital appreciation in order of significance. The magazines and newspapers are considered to be the primary source for information that may be used by the investors for understanding the schemes and mutual funds. The investor's service is one of the major differentiating factors for the selection of the mutual fund's schemes (**Sailaja, and Madhavi, 2016**).

Some researchers surveyed understanding the behavioral attributes of investors belonging to the North East region for mutual fund and equity investment portfolios. The survey has revealed that the self-employed and the salaried are some of the major investment partners in the mutual fund industry mainly because of tax concession. SBI and UTI schemes are quite popular in the North East region in India and the other fund's industry has not proved to be good. Another survey was conducted by researchers for getting an insight into operations of the mutual funds of the private institutions. This survey revealed that the awareness about the whole concept of mutual funds was not so good in the small cities. Mutual fund agents also have an important role to play in spreading the culture of mutual funds. Open-ended schemes are preferred more. Income and age are some of the most important determinants in choosing the scheme or the fund. Return and the image of the brand are some of the most important considerations while investing in mutual funds (**Garg, 2011**).

Another survey conducted on individual investors for studying the information source by the investors, their perception of different dimensions of investment strategies and factors which motivate the decisions of share investments and the reports which are amongst different factors, sociological and psychological factors dominate the economic attributes in decisions of stock market investment (**Shanmugham&Zabiulla, 2011**).

Researchers have also identified that decisions regarding the selection of the mutual funds are based mainly on the factor of time of the future returns and the investors choose mutual funds based on particular information for the selection decision of funds (**Soni, 2015**).

Some studies focus on the protection, expectations of the investors, awareness, and the behavior of the investors for the selection of mutual funds. A study reveals the preferences of household investors on mutual funds and other similar financial assets. They reveal the level of awareness about mutual fund investors and they have also spotted the source information which affects the purchase decision of the investors and factors which affect the preferred particular mutual fund. Another study has been done which focuses on the understanding of behavioral aspects of equity of investors and investments in mutual funds. These researchers have found that employees and the self-employed invest mainly in mutual funds for availing concessions on tax (**Kaur,2013**).

They have segmented the household investors based on investment size and pattern of investment. They have identified awareness for the mutual fund industry in Delhi. It has been seen that the distributors and the agents have a significant role to play in the promotion of investments. In the mutual fund industry, the open-ended funds move fast at the contest. The demographic attributes such as income and age are considered to be the major factors that influence the decision of scheme or fund, followed by the performance of the mutual fund and the image of the brand. Researchers have also stated that the decision of investment is influenced mainly by the sociological and psychological factors which are dominated by the economic factors (**Anna,2011**).

Another study focuses on the factors which influence the scheme or the funds. It focuses on the selection criterion of the underlying scheme or fund by retail investors. It has assessed both the psychographic and the demographic attributes of the investors. It has studied the behavior of retail investors for selecting mutual funds. It helps in spreading awareness as well as knowledge for the academicians and the researchers. In another study, the factors which influence the scheme selection and mutual fund choice. The fund agencies are recommended for understanding the requirements of the investors and based on their preferences and the requirements AMC needed to design the products (**Badrinath and Gubellini, 2011**).

During the initial years, the rate of returns was the single measure for performance. It has been suggested that the risk measure regarding the variability of return on investment is also important. The returns of the professionally managed mutual funds have been compared with the standard benchmark. Researchers have found out the funds which underperform the benchmark. The proposed issues related to the traditional measures of performance as identifying the apt benchmark, which does not account for the cost of transactions, and introduced analysis of data envelopment as the performance measure regarding efficiency. It has been found that funds outperform in India while some researchers have also found that the mutual funds underperform the benchmark (**Cao, Ghysels and Hatheway, 2011**).

A lot of mixed results have been found. It has been found that mutual funds are efficient in the long run. Some funds outperformed the benchmark in 2004 and various efficient mutual funds have been found in 2003 as compared to 2001 and 2002. A lot of outcomes have been found. Some researchers have improved the new research for analyzing the relation between the performance of mutual funds and their functions (**Das and Garavelli, 2017**).

Another study aims at investigating the impact of the personality type and the demographic profile of the investors on the choice of investment. This study is based solely on information which is obtained through the process of the survey in India. The results of the study show that the differences in the choice of investment are prominent for a different combination of the independent variables such as age, gender, personality, education, and occupation (**Bahl and Rani, 2012**).

It focuses on measuring the expectation and preferences of the investors. It also attempts at gauging factors that are considered before investing in mutual funds and the level of awareness amongst the individual investors for investment in mutual funds. These studies attempt to identify the factors which are considered to be significant by investors before investing in the mutual fund (**Tanksali and Kumar, 2014**).

### **OBJECTIVES OF THE STUDY:**

1. To find the mutual funds' scheme selection criteria of retail investors in Delhi and NCR
2. To ascertain the mutual funds' scheme selection criteria of retail investors in Delhi and NCR

### **RESEARCH METHODOLOGY:**

The present study is descriptive wherein the mutual fund's scheme selection criteria of retail investors in Delhi and NCR were analyzed. The sample taken for the study is 150. The information was gathered with the assistance of an organized poll on a five-point scale and investigated with the assistance of the mean qualities and t-test.

**Table1 Demographic profile of the respondents**

<b>Variables</b>	<b>Number of respondents</b>	<b>% age</b>
<b>Gender</b>		
Males	<b>85</b>	<b>57%</b>

Females	<b>65</b>	43%
<b>Total</b>	<b>150</b>	<b>100%</b>
<b>Profession</b>		
Businessman	<b>48</b>	32%
Teacher	<b>44</b>	29%
Housewife	18	12%
Student	40	27%
<b>Total</b>	<b>150</b>	<b>100%</b>
<b>Age</b>		
20-35	49	32%
35-50	58	39%
<b>50-65</b>	43	29%
<b>Total</b>	<b>150</b>	<b>100%</b>

Table 1 presents the demographic profile of the respondents on mutual funds scheme selection criteria of retail investors in Delhi and NCR. There are 57% males and 43% females in the study. Among the respondents 32% are into business, 29% are teachers, 12% are housewives and 27% are students. 32% of the respondents are 20-35 years of age, 39% are 35-50 years of age, and 29% are 50-65 years of age.

**Table 2 Mean Value of Mutual Funds Scheme Selection Criteria of Retail Investors in Delhi and NCR**

<b>Sr. No.</b>	<b>Statements</b>	<b>Mean Score</b>
1.	The Indian population prefer investing only in investment products that give assured returns	4.01
2.	Direct investment in the capital market is risky	4.00
3.	You need to have some knowledge of the stock market if you wish to invest in the same	4.10
4.	Return is the biggest factor that the investors consider while making an investment	4.09

5.	The mutual fund's industry offers the maximum benefits as compared to other investment instruments in the industry	4.05
6.	There is very less awareness about mutual funds in India	4.08
7.	Not all mutual funds are beneficial	4.12
8.	The return on investment in the case of mutual funds depends on the duration for which the investment has been made	4.07
9.	People in small cities in India don't even know about the mutual fund industry	4.14
10.	Investment in a mutual fund depends on peer pressure	4.04

Table 2 shows the opinions of the respondents. It is observed that People in small cities in India don't even know about the mutual fund industry is the most significant statement with a mean value of 4.14. It is followed by Not all mutual funds are beneficial (4.12), You need to have some knowledge of the stock market if you wish to invest in the same (4.10), and Return is the biggest factor that the investors consider while investing (4.09). There is very less awareness about mutual funds in India (4.08), The return on investment in the case of mutual funds depends on the duration for which the investment has been made (4.07), Mutual funds industry offer the maximum benefits as compared to other investment instruments in the industry (4.05), Investment in mutual fund depend on peer pressure (4.04) and The Indian population prefers investing only in investment products which give assured returns (4.01) were also considered important. Reasons like Direct investment in the capital market is risky (4.00) were also viewed as important.

**Table 3 Mutual Funds Scheme Selection Criteria of Retail Investors in Delhi and NCR**

<b>Sr. No.</b>	<b>Statements</b>	<b>Mean Score</b>	<b>t-Value</b>	<b>Sig</b>
1.	The Indian population prefer investing only in investment products that give assured returns	4.01	6.564	0.000
2.	Direct investment in the capital market is risky	4.00	6.477	0.000
3.	You need to have some knowledge of the stock market if you wish to invest in the same	4.10	7.896	0.000

4.	Return is the biggest factor that the investors consider while making an investment	4.09	7.607	0.000
5.	The mutual fund's industry offers the maximum benefits as compared to other investment instruments in the industry	4.05	7.208	0.000
6.	There is very less awareness about mutual funds in India	4.08	7.473	0.000
7.	Not all mutual funds are beneficial	4.12	8.064	0.000
8.	The return on investment in the case of mutual funds depends on the duration for which the investment has been made	4.07	7.447	0.000
9.	People in small cities in India don't even know about the mutual fund industry	4.14	8.260	0.000
10.	Investment in a mutual fund depends on peer pressure	4.04	7.092	0.000

Table 3 shows the results of the t-test. It is found from the table that the significance value for all the statements is below 0.05, hence all the statements regarding mutual funds scheme selection criteria of retail investors in Delhi and NCR are significant.

## Conclusion

The quality of the product, the quality of the fund sponsor, and the services of the investor are all important and need to be considered by the funding agencies. They need to build good quality schemes for fulfilling the expectations of investors. The companies need to develop their brand image mainly by securing the identity, recognition while strengthening the relationship with the investors through disclosure of information approach. To have a prominent impact on the mutual fund selection criteria of the investors, the mutual fund's companies should offer support to the investors for offering advisory services since the investors need to systematically invest with the right guidance of an advisor. The mutual fund agencies need to allow investors for participating in providing the information for designs of products and for revealing the preferences, attitudes of investors for investment. They also

need to educate investors since the levels of literacy are very low in India. Thus, the opportunity mainly lies in not attaining extra money from the current customers.

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