

## **A Study of Factors Influencing Individual Investors in Mutual Funds Selection**

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### **Abstract**

The objectives of this research paper is to study the fundamental factors impacting the behaviour of an individual investor investing in mutual funds and the factors impacting selection of investment schemes of individual investors and investor's perception about mutual funds. Investors have a wide range of investment possibilities at their disposal. Individual investors face dilemma where to investment when there are so many financial products available for investment. Investors seek a variety of information for arriving at a reliable investment options. Along with return, they want their investment corpus offer a hedge or protection against inflation. Mutual Funds are a preferred class of investment for millions of people worldwide in the financial industry. There are many different schemes available right now, and asset management companies (AMCs) compete with one another by releasing new products or repositioning existing ones. A new product adds to the confirmation of individual investors. Therefore, AMCs need to know how investors choose their investments and what would satisfy the investors the most. So in order to the assets and analyse what factors influence the individuals to determine their desired scheme, this study employed a survey tool. Responses attained from 442 investors were put a factor analysis.

**Key words:** Financial products, Individual investor, Motivating factors, Mutual Funds Consumer behavior.

### **1. Introduction**

To reduce risk and increase return on investment is an individual investor's main goal in the present study. Individual investors invest their money as a result to serve as a hedge or kind of protection against inflation. The real rate of return will be negative if the returns on investments are unable to close the gap between the need for money and rising prices. For the individual investor, maximizing return, reducing risk, and protecting against inflation are ongoing goals. One of the main methods of investment for people has been a well-managed, diversified common stock portfolio. The increase in mutual fund investments is legitimately considered one of the most significant changes in the Indian financial sector among the many others. During and after the effects of the recession, investment behavior underwent significant change. When making an investment, an investor will consider a number of factors, such as return, flexibility, capital appreciation, safety, liquidity, etc.

Mutual fund schemes are formalized structures for collecting small investor funds and allocating them to the best available portfolios. When Unit Trust of India was established in 1963, mutual fund programmers were introduced in India (UTI). Unit Scheme (US'64), UTI's initial scheme, was introduced as the only mutual fund business in the nation at the time. Several banks from the public sector and six other banks founded a mutual fund firm in 1987. Through its subsidiaries, LIC, IDBI, and GIC all simultaneously floated their mutual fund plans.

The diversified investment structure and diversified risk of mutual funds have drawn a lot of interest from individual investors. Investors felt more at ease purchasing diverse stocks from businesses where they expect to make the biggest profits. Investing in mutual fund schemes is one way to gain access to those diversified stocks. Over the past few years, mutual funds have grown quickly as a result of individual individuals investing in their schemes. This has also been the result of the combined efforts of several brokerage companies and fund managers, who have been working tirelessly through various marketing initiatives.

### **2. Scope of the Study**

In order to understand the driving forces that influence individual investors' decisions while choosing mutual fund schemes, a research study has been conducted. People struggle to secure their financial security in India because of the

country's low level of financial literacy. Investors frequently end up placing their money in the wrong baskets by passing up smart investing chances. For the average person, personal finance is quite important. Understanding returns and risk for various investment paths is necessary. Many today find it quite difficult to comprehend the various sophisticated financial solutions offered by various organizations. Updated understanding about this subject requires a thorough investigation. The 442 respondents who participated in the survey have been examined and put forward for analysis to determine what drives individual investors to choose mutual funds for investment.

### 3. Review of Literature

Sujit Sikidar and Amrit Pal Singh (1996) carried out a survey with an objective to understand the behavioural aspects of the investors of the North Eastern region towards equity and mutual funds investment portfolio. The survey revealed that the salaried and selfemployed formed the major investors in mutual fund primarily due to tax concessions. UTI and SBI schemes were popular in that part of the country then and other funds had not proved to be a big hit. Syama Sunder (1998) conducted a survey to get an insight into the mutual fund operations of private institutions with special reference to Kothari Pioneer. The survey revealed that Awareness about Mutual Fund concept was poor in small cities like Visakapatnam. Agents play a vital role in spreading the Mutual Fund culture. Open-end schemes were much preferred. Age and income are the two important determinants in the selection of the fund/scheme. Brand image and return are the prime considerations while investing in any Mutual Fund.

Shanmugham (2000) conducted a survey of 201 individual investors to study the information sourcing by investors, their perceptions of various investment strategy dimensions and the sociological factors dominated the economic factors in share investment decisions. Kavitha Ranganathan (2004) conducted a study on investor perceptions. Sample size is limited to 100 educated individual investors in the city of Mumbai. She found in her study that Savings Objective of the majority of individual investors is to provide for Retirement. According to Sudhakar and Sasikumar (2010), the main barrier to mutual fund growth is unhealthy and strong competition among the many mutual funds. By giving each mutual fund company the appropriate standards and other forms, the government should take the necessary actions to streamline the industry.

Preeti Khitoliya (2014) focused attention on various parameters that highlights investor's perception on mutual funds. It was calculated that the scheme of mutual fund investment were not well-known to many of the investors as still the investors trust upon the traditional form of investments like investment in banks and postal savings. As most of the mutual fund investors used to invest in mutual fund for not more than three years and used to quit from the fund as they were not giving anticipated result as specified in the objective during inception of mutual fund scheme. It was also found from the research that extreme number of mutual fund investor's has to depend upon their brokers and agent to invest in mutual fund. Rathnamani (2013) concluded in her research that many investors prefer to invest in mutual fund in order to obtain high gain at low level of risk, safety and liquidity.

Priyanka Sharma and PayalAgrawala (2015) attempted to understand the effect of demographic factors in mutual fund investment decisions. The study tells that the investors' perception is reliant on their demographic profile. Investor's age, marital status and profession has a direct impact on investor's choice of investment. The research also reveals that the liquidity and transparency are some factors which have a high impact on investment decisions.

Debata et al. (2018) empirically examined the investor sentiment and stock market liquidity in select emerging market. The study shows that sentiment is one of the significant factors for the variation in stock market liquidity (most important microstructure of financial market). They find a positive (negative) effect of investor sentiment on liquidity (illiquidity). According to a review of SIP investments made by mutual funds in India by Sarkar, A. K., & Sahu, T. N. (2018), he studies points out the analysis of Investment Behaviour of Individual Investors of Stock Market: A Study in Selected Districts of West Bengal.

Pradeesh. G (2020), has undertaken the study on Impact on Investors attitude towards Various Investment Avenues in Thanjavur. The study has been conducted among 1000 investors of Thanjavur City Corporation, Published in Emperor Journal of Applied Scientific Research. Convenience Sampling method was adopted. The data was analyzed using

ANOVA. The study concludes that if the younger generation starts investing at the early stage at regular basis, they can be able to save more money for their future.

G. Jabez Rajan, M. Rani Subathra, Dr. S. Bulomine Regi (2020), the researcher had made a study on Investment Scheme and behavior of IT sector Investors with respect to Chennai City with 150 salaried investors working in IT sector. The data has been collected and analyzed using Mean, Median Standard Deviation, Variance, T Test and Chi-Square. The study concludes that the awareness on investment, based on the gender is nor interrelated and their annual income and percentage of investment is closely related.

#### **4. Research Gap**

The goal of the current study is to investigate and analyse the variables that affect how investors choose mutual funds. Studies on the behaviour of investors have occasionally been discovered. The researchs findings were inconsistent; sometimes they were favourable, other times they weren't. Due to this, there is a lot of room for fresh research to investigate and examine investor behaviour. The findings from a literature review make it clear that investors are becoming more aware of their options and looking for information to make informed decisions. To update the knowledge, research on this topic is required.

#### **5. Objectives of the Study**

1. To study the fundamental factors impacting the behaviour of an individual investor investing in mutual funds.
2. To study the factors impacting selection of investment schemes of individual investors and investor's perception about mutual funds.

#### **6. Research Design and Methodology**

In this present study, the population was designated as semi-urban town residents who possess mutual funds or life insurance policies with any company. A questionnaire was used to help collect the information. The questionnaire is divided into three sections: personal information, investor opinions about fund characteristics, fund sponsor characteristics, investor-related services, and investor awareness. There are 31 questions on the survey (in Google forms). Over the course of a 30-day period, more than 500 investors were contacted, and 442 of them provided good and comprehensive responses.

#### **7. Data Analysis**

##### **7.1. Profile of the Respondents**

In order to complete the study, responses from participants (N = 442) were gathered. Personal information about the respondents as well as investor opinions regarding mutual fund investments are included in the questionnaire. There are 38 questions on the survey. Table 1 provides a brief profile of the responders. We classified the variable age using the SPSS visual binning procedure, and the results show that the bulk of respondents (44.8%), followed by the age groups of 21–30 (32.1%), and 41–50 (21.0%), were all in the 31–40 age range. Out of 442 respondents surveyed, 91.6% were male and 8.4% were female; 25.6% were married and 74.4% were single; 1.6% are undergrads; 43.4% are graduates; 41.9% are postgrads; and only 13.1% were professional graduates. Regarding occupation, 93.2% were salaried, 5.4% were self-employed, and 1.4% were professionals. For income, 36.9% were less than Rs. 3 lakh, 17.9% were Rs. 3-5 lakh, 18.8% were Rs. 5–10 lakh, and 26.5% were more than Rs. 10 lakh. The majority of the investors invest up to Rs. 100,000 (55.4%). Annually, 29.2% of investors invest between Rs. 100,001 and Rs. 300,000, and 6.1% invest between Rs. 300,000 and Rs. 1000,001. Only 9.3% of the investors invest more than Rs 1000,001 in mutual funds.

**Table 1: Profile of the Respondent**

<b>Profile of the Respondent</b>		<b>Frequency</b>	<b>Percent</b>
<b>Gender</b>	Male	405	91.6
	Female	37	8.4
<b>Status</b>	Married	113	25.6
	Single	329	74.4
<b>Qualification</b>	Under Graduate	7	1.6
	Graduate	192	43.4
	Post Graduate	185	41.9
	Professional Graduate	58	13.1
<b>Age</b>	21-30	142	32.1
	31-40	198	44.8
	41-50	93	21.0
	Above 50	9	2.0
<b>Occupation</b>	Salaried	412	93.2
	Self Employed	24	5.4
	Professional	6	1.4
<b>Income</b>	Less Than Rs300000.00	163	36.9
	Rs. 300001.00 to Rs. 500000.00	79	17.9
	Rs. 500001.00 to Rs. 100000.00	83	18.8
	Above Rs. 100000.00	117	26.5
<b>Saving</b>	Less Than Rs. 100000.00	245	55.4
	Rs. 100001.00 to Rs. 300000.00	129	29.2
	Rs. 300001.00 to Rs. 1000000.00	27	6.1
	Above Rs. 100000.00	41	9.3

## 7.2. Data Validity & Reliability

### Reliability Statistics

Reliability is the extent to which test scores are consistent, with respect to one or more sources of inconsistency. If scores from an assessment are unreliable interpretations based on these scores, and subsequent decisions, will not be valid. Cronbach's alpha reliability coefficient normally ranges between 0 and 1. The closer Cronbach's alpha coefficient is to 1.0 the greater the internal consistency of the items in the scale. The Reliability Statistics table that provides the actual value for Cronbach's alpha, as shown below:

**Table 1: Reliability Statistics**

Cronbach's Alpha	N of Items
.803	19

In table 1, Cronbach's alpha is **0.803**, which indicates a good level of internal consistency for our scale with this specific sample in this study.

### Descriptive Statistics

**Table 2: Investor Choices are influenced by Fund Related Factors**

Descriptive Statistics				
SL NO	Factors	N	Mean	Std.
1	Fund performance record	442	3.16	Deviation 1.140
2	Funds reputation or brand name	442	3.38	1.046
3	Scheme'' s expense ratio	442	3.50	1.060
4	Scheme'' s portfolio of investment	442	3.19	1.122
5	Reputation of the Fund Manager / Scheme	442	3.30	1.268
6	Withdrawal facilities	442	3.33	1.266
7	Favourable rating by a rating agency	442	3.29	1.226
8	Purchase of Assets	442	3.17	1.244
9	Reputation of sponsoring firm	442	3.38	1.173
10	Past performance of risk and return	442	3.21	1.194
11	Expertise in managing money	442	3.21	1.193
12	Products with tax benefits	442	3.28	1.275
13	Innovativeness of the scheme	442	3.32	1.266

14	Minimum initial investment	442	3.28	1.220
15	Entry & Exit load	442	3.15	1.241
16	To meet contingencies	442	3.40	1.164
17	For tax reduction	442	3.23	1.187
18	Disclosure of investment objective	442	3.24	1.231
19	Disclosure of periodicity of valuation	442	3.13	1.235
Valid N (listwise)		442		

### 7.3. Factor Analysis

A series of 19 statements about investing in mutual funds might help you gain a thorough understanding of the variables that affect these decisions. The factors have also been examined using Principal Component Analysis as an extraction method using the same methodology.

#### KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.842
Bartlett's Test of Sphericity	Approx. Chi-Square	14039.363
	df	190
	Sig.	.000

From the above table we see that, KMO = 0.842 in this instance, indicating that the sample is sufficient and that we may move forward with the factor analysis. The Factor Analysis is legitimate due to the p-value (Sig.) of .000 < 0.05. We therefore reject the null hypothesis (H<sub>0</sub>) and accept the alternate hypothesis (H<sub>1</sub>) that there may be statistically significant association between variables because of the value of p. The suitability of Factor Analysis was assessed using the Kaiser-Meyer Olkin (KMO) and Bartlett's Test measures of sample adequacy. At the 0.05 level of significance, the estimated Chi-square is 14039.363.

#### Factor Analysis for Motivating Factors

**Table-3: Factor Analysis for Motivating Factors**

Total Variance Explained									
Component	Initial Eigenvalues			Extraction Sums of Squared			Rotation Sums of Squared		
	Total	% of	Cumulative	Total	% of	Cumulative	Total	% of	Cumulative
1	6.771	35.635	35.635	6.771	35.635	35.635	6.707	35.298	35.298
2	3.711	19.531	55.166	3.711	19.531	55.166	3.741	19.691	54.990

3	2.830	14.894	70.060	2.830	14.894	70.060	2.813	14.806	69.796
4	1.906	10.033	80.093	1.906	10.033	80.093	1.930	10.160	79.956
5	1.843	9.698	89.791	1.843	9.698	89.791	1.869	9.836	89.791
6	.578	3.044	92.835						
7	.249	1.312	94.147						
8	.185	.973	95.121						
9	.164	.865	95.985						
10	.143	.754	96.739						
11	.136	.717	97.456						
12	.102	.535	97.990						
13	.087	.458	98.448						
14	.074	.389	98.837						
15	.067	.355	99.192						
16	.057	.298	99.490						
17	.048	.253	99.743						
18	.042	.222	99.965						
19	.007	.035	100.000						
Extraction Method: Principal Component Analysis.									

**Table-3: Components Matrix for Motivating Factors**

SL NO	Factors	Rotated Component Matrix <sup>a</sup>				
		1	2	3	4	5
1	Fund performance record	.866				
2	Funds reputation or brand name	.881				
3	Scheme's expense ratio	.858				
4	Scheme's portfolio of investment	.914				
5	Reputation of the Fund Manager / Scheme	.944				
6	Withdrawal facilities	.952				
7	Favourable rating by a rating agency	.959				
8	Purchase of Assets	.937				
9	Reputation of sponsoring firm		.935			
10	Past performance of risk and return		.984			
11	Expertise in managing money		.981			

12	Products with tax benefits			.952		
13	Innovativeness of the scheme			.973		
14	Minimum initial investment			.979		
15	Entry & Exit load			.954		
16	To meet contingencies				.963	
17	For tax reduction				.964	
18	Disclosure of investment objective					.981
19	Disclosure of periodicity of valuation					.979
Extraction Method: Principal Component Analysis.						
Rotation Method: Varimax with Kaiser Normalization.						
a. Rotation converged in 4 iterations.						

Factor analysis is done to help comprehend the data better. The approximate chisquare value for Table 3 is 721.748 with 55 degrees of freedom, which is significant at 0.05 levels. The KMO statistic (0.823) is also significant ( $>0.5$ ). Factor analysis is therefore regarded as a suitable technique for further data analysis. There have been 2 factors that have emerged on the basis of Varimax Rotation with Kaiser Normalisation. Table 4 shows that two variables account for around 45.879% of the variance. As indicated in Table 5, all the variables with factor loadings greater than or equal to 0.5 make up each factor. The criteria are listed and described in Table 6 below.

**Table 4: Investor Choices are influenced by Fund Related Factors**

Factor	% Variance	SL No	Motivating Quality Factors	Mean	Std. Deviation
External Fund Qualities	35.635	1	Fund performance record	3.16	1.140
		2	Funds reputation or brand name	3.38	1.046
		3	Scheme" s expense ratio	3.50	1.060
		4	Scheme" s portfolio of investment	3.19	1.122
		5	Reputation of the Fund Manager / Scheme	3.30	1.268
		6	Withdrawal facilities	3.33	1.266
		7	Favourable rating by a rating agency	3.29	1.226
		8	Purchase of Assets	3.17	1.244
Internal Fund Qualities	19.531	12	Products with tax benefits	3.28	1.275
		13	Innovativeness of the scheme	3.32	1.266
		14	Minimum initial investment	3.28	1.220
		15	Entry & Exit load	3.15	1.241
Sponsor Fund Qualities	14.894	9	Reputation of sponsoring firm	3.38	1.173
		10	Past performance of risk and return	3.21	1.194



		11	Expertise in managing money	3.21	1.193
Performance Disclosure	10.033	18	Disclosure of investment objective	3.24	1.231
		19	Disclosure of periodicity of valuation	3.13	1.235
Investment Saving	9.698	16	To meet contingencies	3.40	1.164
		17	For tax reduction	3.23	1.187

## Interpretation

- **External Fund Qualities** consisted of eight items: selecting a mutual fund scheme due to the Fund performance record, Funds reputation or brand name, Scheme's expense ratio, Scheme's portfolio of investment, Reputation of the Fund Manager / Scheme, Withdrawal facilities, Favourable rating by a rating agency and Purchase of Assets. The variances of all seven items are 35.63, and the mean score is approximately 3.16 to 3.50. It concludes that all eight factors have greater influence on investment in mutual funds.
- **Internal Fund Qualities** included four items: Investment Mutual Fund by Products with tax benefits, Innovativeness of the scheme, Minimum initial investment and Entry & Exit load. The variances of all seven items are 19.53, and the mean score is approximately 3.15 to 3.32. It concludes that all four factors are more influential for investing in mutual funds.
- **Sponsor Fund Qualities** comprises three items: investment in mutual funds due Reputation of sponsoring firm, Past performance of risk and return and Expertise in managing money. The variances of all three items are 14.89, and the mean score is approximately 3.21 to 3.38. It concludes that all three factors are more influential for investing in mutual funds.
- **Performance Disclosure** included two items: investment in mutual funds for Disclosure of investment objective and Disclosure of periodicity of valuation. The variances of all two items are 10.03, and the mean score is approximately 3.13 to 4.24. It concludes that all three factors are much more influential for investing in mutual funds.
- **Investment Saving** consisted of two items: mutual fund savings for To meet contingencies and For tax reduction. The variances of all three items are 9.69, and the mean score is approximately 3.23 and 3.40. It concludes that mutual fund savings for children's education have less influence and tax reduction factors have more influence on investing in mutual funds.

All 19 motivating factors are important and have much more influence on investing in mutual fund schemes than mutual fund savings for meeting contingencies. Investing in mutual funds is a risky investment instrument, and mutual funds are a basket of assets.

## 8. Conclusion

Without the necessary knowledge and experience, the investor may purchase underperforming funds because they believe the fund has excessive exposure to debt or equity. The popularity of mutual funds is rising. Despite the little amount of money spent, there are many investors, and they intend to continue investing in them in the future. The investors with the least frequent investment patterns are those who invest once every year, once every six months, or once a month. This suggests that practically all investors have a consistent investing routine.

The majority of investors agree that investing in mutual funds will promote economic growth. Most of the time, bad experiences and some degree of difficulty in selecting the right plans are deterrents to investing in mutual funds. The main drivers for a retail investor to invest in mutual funds are tax benefits, return potential, liquidity, low costs, and transparency.

To some extent, economies of scale can also serve as a motivator. In reality, fund firms should keep in mind the importance of investor services, fund sponsor qualities, and product qualities. To live up to the expectations of the investors, they had to construct high quality schemes. Businesses should establish identification and recognition and strengthen relationships with investors through information disclosure strategies in order to develop their brand.

Another recommendation is that investors should consider making a long-term investment in mutual funds because they are more diversified and risk-averse than other types of investments. The many characteristics found in the study offer some insightful information about the investor's behaviour, preferences, and priorities, which will guide the organisation in creating financial solutions for the different investor segments.

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