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A COMPARATIVE ANALYSIS ON THE PERFORMANCE OF VARIOUS ATTRIBUTES AND INVESTORS BEHAVIOR OF MUTUAL FUND

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A Comparative Analysis on the Performance of Various Attributes and Investors Behavior of Mutual Fund

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Abstract – Mutual funds have opened new vistas to millions of small investors by virtually taking investment to their doorstep. In India, a small investor generally goes for such kind of information, which do not provide hedge against inflation and often have negative real returns. First, investors buy funds with strong past performance; over half of all fund purchases occur in funds ranked in the top quintile of past annual returns. Second, investors sell funds with strong past performance and are reluctant to sell their losing fund investments; they are twice as likely to sell a winning mutual fund rather than a losing mutual fund and, thus, nearly 40 percent of fund sales occur in funds ranked in the top quintile of past annual returns. Third, investors are sensitive to the form in which fund expenses are charged; though investors are less likely to buy funds with high transaction fees (e.g., broker commissions or front-end load fees), their purchases are relatively insensitive to a fund's operating expense ratio. He finds himself to be an odd man out in the investment game.

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INTRODUCTION

Mutual funds have come, as a much needed help to these investors. Thus the success of MFs is essentially the result of the combined efforts of competent fund managers and alert investors. A competent fund manager should analyze investor behavior and understand their needs and expectations, to gear up the performance to meet investor requirements. Therefore, in this current scenario it is very important to identify needs of mutual funds investors, their preference for mutual funds schemes and its performance evaluation. In this research paper, researcher has an objective to know preference of mutual funds investors and performance evaluation of the preferred schemes by the investors. The survey is undertaken of 100 educated investors of Ahmedabad and Baroda city and the major findings reveal the major factors that influence buying behavior mutual funds investors, sources that investor rely more while making investment and preferable mode to invest in mutual funds market. The study will be immensely useful to the AMC';s , Brokers, distributors and to the other potential investors and last but not least to academician as well.

Madhusudhan & Jambodekar (1996) revealed that investor expect better services while they invest for safety of principal, liquidity and capital appreciation. Syama Sunder (1998) found that the awareness was poor in small cities. Brand image and return were the prime factors for investment. Panda and Tripathy (2002) found that investors were unsatisfied except from UTI.. Singh and Chander (2004) concluded that poor regulation and control, under–performance and inefficient management are the cause of non-investment. Desigan et al. (2006) found that women investors are hesitant for investment in mutual funds. Parihar et al. (2009) found that respondent's age, gender and income were significantly associated with their attitude whereas education and occupation were not associated with the same. Pandey (2011) found that younger people aged below 35, graduate people and the salaried person were easier to sell the funds and there was a large untapped market there.

In India, mutual funds have large investors base but with respect to other developed nations, it is still lacking far behind. In developed financial markets like the United States (U.S.), mutual funds have almost overtaken bank deposits and total assets of insurance funds. As at the end of the year 2010, in the U.S. alone there were 7581 mutual funds with assets under management of over U.S. $11.8 trillion. This is the largest in the world, accounting for 48 percent of $24.7 trillion in mutual fund assets worldwide.

Now, there might be several investors who do not invest in mutual funds presently but by taking some actions on the part of mutual fund companies and policy makers, they may be motivated towards this investment. For tracking these potential customers, companies must know various factors in which mutual funds are lacking in comparison to other investment options. Also awareness of the mutual funds characteristics that investors consider before investing in their schemes is of enormous importance for mutual fund companies. Mutual Fund industry is gaining popularity and provides the ideal platform for retail investors in India, but to avail this opportunity, retail investors should be aware about mutual funds and its related information like the name of Asset Management Company, various schemes, benefits, and characteristics affecting performance and so on. Hence researcher agencies, mutual fund companies and policy makers must know the attitudes, perception, behavior and level of awareness for retail investors with reference to Mutual Funds.

INVESTORS' BEHAVIOUR

Little effort has been made by researchers to study investors' behaviour towards mutual funds and other investment options. Madhusudhan & Jambodekar (1996) revealed that investor expect better services while they invest for safety of principal, liquidity and capital appreciation. Syama Sunder (1998) found that the awareness was poor in small cities. Brand image and return were the prime factors for investment. Panda and Tripathy (2002) found that investors were unsatisfied except from UTI. . Singh and Chander (2004) concluded that poor regulation and control, under–performance and inefficient management are the cause of non-investment. Desigan et al. (2006) found that women investors are hesitant for investment in mutual funds. Parihar et al. (2009) found that respondent's age, gender and income were significantly associated with their attitude whereas education and occupation were not associated with the same. Pandey (2011) found that younger people aged below 35, graduate people and the salaried person were easier to sell the funds and there was a large untapped market there.

LITERATURE REVIEW

We argue that mutual fund investors use simple decision heuristics when selecting mutual funds to purchase or sell. (After presenting our empirical results, we discuss whether these heuristics affect investor welfare.) When purchasing funds, we posit that investors use a representativeness heuristic, where recent performance is deemed overly representative of a fund manager's true ability. When selling funds, this representativeness heuristic is more than offset by investors' reluctance to realize losses (the disposition effect).

A. The Fund Purchase Decision

There are thousands of mutual funds available for purchase. Choosing a mutual fund for ones investments is a decision fraught with uncertainty. In general, when faced with uncertain choices, people use heuristics or rules of thumb to make judgments (Tversky and Kahneman (1974)). Using a representativeness heuristic, people believe small samples to be overly representative of the population from which they are drawn (Tversky and Kahneman (1971), Kahneman and Tversky (1972)). Gilovich, Vallone, and Tversky (1985) document that people systematically underestimate the chance of observing streaks, such as a run of heads in the flip of an unbiased coin, in a random sequence. Thus if people do observe streaks of heads or tails when an unbiased coin is flipped, they are likely to conclude that the coin is biased.

The fact that more money is invested in active than passive funds despite the superior historical performance of the latter is prima facie evidence that most investors believe that some mutual fund managers have the ability to consistently beat the market. Surveys also reveal that investors rely heavily on past performance when evaluating their fund purchase decisions (Goetzmann and Peles (1997); Capon, Fitzsimons, and Prince (1996)).

B. THE FUND SALE DECISION

The decision to sell a mutual fund is quite different from the decision to purchase a fund. Most investors hold few funds. In 1998, the average household held five mutual funds.5 Thus, unlike purchases where investors have thousands of funds to choose from, investors have only a handful of funds from which to choose when selling.

Using the representativeness heuristic, investors would view poor fund performance as overly representative of a manager's skill and sell losing fund investments. However, this representativeness heuristic is partially offset by investors' desire to avoid the recognition of losses or loss aversion. In contrast to the representativeness heuristic, loss aversion predicts that investors will sell their winning funds, while holding their losers.

On the other hand, investors may view mutual fund managers as agents, who are responsible for the management of their money. In this "agency" frame, the selling decision is more like a firing decision: Shall I fire my mutual fund manager for delivering poor performance? Using this frame, it is easy for the investor to blame an external factor for the fund's poor performance. Thus, they will be willing to realize losses (i.e., fire the mutual fund manager).

We suspect that investors use both the investment frame and the agency frame. Which frame dominates in the selling decisions of mutual fund investors is an empirical question, which we address in this research. We provide strong evidence that it is the disposition effect, rather than the agency frame, that determines which funds investors sell.

ORIGIN AND GROWTH OF MUTUAL FUNDS

Mutual fund originated in the western countries. First mutual fund named, 'Foreign and Colonial Government Trust' was set up in United Kingdom (U.K.) in 1868. This trust was established to spread risk for investors over large number of securities. In

U.S. the idea took root in the beginning of the 20th century and in 1924, first open-ended investment company was formed. A major setback for U.S.A. mutual funds was stock market crash of 1929.

Enactment of the Securities and Exchange Commission (SEC) in 1933 and the investment Company Act in 1940 led to the recovery and regulation of mutual funds in the U.S.A. .

The post-World War-II period witnessed a boost in mutual funds as people not having the knowledge of how to invest on their own and with the expectation to reap the benefit of economic growth flocked to mutual funds. In Canada, during the decade of 1920 many close ended investment companies were organised which were generally known as investment trusts. The first mutual fund in Canada to issue its share to general public was the Canadian Investment Fund in 1932. In recent years, mutual funds in Japan and Far East countries have been showing excellent performance. Countries in pacific area like Hong Kong, Thailand, Singapore and Korea have also entered this field long way. Netherlands and Mauritius are 31 emerging as tax havens for off-shore mutual funds. Thus, mutual funds culture is now global in scope.

In India, concept of mutual funds took root in 1963 with the formation of UTI mutual fund at the initiative of Government of India and Reserve Bank of India (RBI). In the year 1992, SEBI act was passed. The SEBI commend mainly three statutory objectives as: (a) to protect the interest of investors in securities; (b) to regulate the securities market; (c) to promote the development of securities market. For mutual funds, SEBI formulates policies and regulates them to protect the interest of investors. First mutual fund regulations were notified by SEBI in 1993, which were then fully revised in 1996 and have been amended thereafter from time to time. As per AMFI, the history and growth of mutual funds in India can be broadly divided in to four phases as discussed below:

i. First Phase: 1964–87 (Monopoly of UTI)

ii. Second Phase: 1987–93 (Entry of Public sector Mutual Funds)

iii. Third Phase: 1993–2003 (Entry of Private sector Mutual Funds)

iv. Fourth Phase: since February 2003

CONCLUSION

Mutual fund investors display systematic patterns in the mutual funds that they buy and sell. They tend to purchase funds with strong past performance, while generally neglecting operating expenses charged by the fund. Investors tend to sell funds that have posted strong returns. We argue that decision-making biases can explain these patterns. When purchasing mutual funds, investors use a representativeness heuristic. Investors believe that recent performance is overly representative of a fund's future prospects. Thus, they predominantly chase past performance; over half of all purchases occur in funds that rank in the top quintile of past annual returns. This behavior may be reasonable, since there is empirical evidence that top-performing mutual funds tend to repeat. However, we believe it is more likely that investors are unrealistically optimistic about the odds that fund performance will persist than it is that they have rationally interpreted the empirical evidence regarding performance persistence (particularly since this evidence was only well known since the late 1980s).

To conclude the researcher can say that Investors judge mutual fund schemes for investment on the basis of their structure, size, performance, status and professional expertise. Therefore, mutual fund companies should emphasise strong points of their schemes regarding these characteristics. Further, investors expect strong grievance mechanism, regulations and expert advice from mutual fund companies. Most of the investors have been investing in growth, income and balanced mutual fund schemes. They must be made aware about the benefits of other type of schemes also as ELSS, index, fund of funds, international funds, and lifestyle funds and so on.

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