

Study on the Economic Motives of Mutual Fund Investments and Its Comparison with Other Avenues of Investment

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Abstract – Given the environment of competition today, there exists plethora of avenues for investment as available to different investors. Each mode of investment has its own set of advantages along with disadvantages. The investor seeks to maintain the benefits along with shortcomings of each mode of investment prior investing. Of all the different modes of investment, Mutual Fund is one that is highly suitable for men, since it lays down bundle of opportunities to invest in the professionally and in a managed portfolio at a cost that is relatively low. In the paper, steps have been taken to study the avenue of investment as taken by the investor's km Mathura, and so we try to study the preference of investor's towards Mutual funds investment even when there are multiple opportunities present in the market.

Keywords: Investment Avenue, Investment, Investors, and Mutual Funds.

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I. INTRODUCTION

Investment as the difficult to be described given the viewpoint of investors the investment process is seen to identify the expectations of users along with mutual funds selection at the time of fund investment. Mainly the most preferred avenue of investment includes debentures, shares, insurance policy of mutual funds, fixed deposits, and real assets along with liquid financial instruments. Investment of funds done in financial instruments, quitting from the current consumptions state that the same is quite high in terms of expectation with respect to future return in comparison to present expectations. Bundle of factors has been affected the decision of investment of individual investors. From varied opportunities of risk-return that the set investor could select the investment's optimal portfolio in different financial assets.

Domination of the World solely depends on the economic and technological advancement of a nation which seeks various resources. For mobilization of given resources that help map the requirements of funds overall growth along with the economic competition of global central banks being the apex body along with the financial intermediaries wide spectrum apparently existing across the globe. Several efforts have been laid to attain the external and the internal objectives, and the government has dramatically and drastically undertaken and

implemented different procedures and policies of globalization, liberalization, and privatization, that account for higher degree of competition as it exists in the Indian economy, thereby creating pool of unexplored opportunities for all the players having a higher breed product range diversified and operational efficiency. To strengthen the GOI efforts & mutual fund regulator needs efficient and effective execution of strategies adopted for the financial liberalization.

Further it is seen that Indian mutual funds is gaining maturity and dramatically grown in the past twenty years that is assessed by secondary trading quantum along with the variety of funds that the issuers have offered. Owing to the mutual fund industry's stupendous growth, this is to be bound so as to have transparency in financial reporting quality which is then subject to a huge amount of intensive research that ethically accounts to the knowledge and gives significant answers to the issues everlasting such as style, performance measurement, managers' compensation etc. Few issues yet stay obscure and seek attention to know about the peculiarity and then develop solution. It is then found that the idea of socially responsible funds in India along with the schemes focus on the clientele belonging to either of the group age which isn't common and the investors are unknown to these type of financial instruments that are called as ethical funds and then aims to work on the

requirements of population segment having codes personal ethics under a predetermined set of risk.

The Mutual Funds are the trust that fuels the savings of various investors having a similar goal. The collected money is invested by the manager of funds in various securities based on the scheme's objective. The above could range between shares to debentures and the money market instruments. Income earned with such investments and realization of capital appreciations through the scheme are shared between the unit holders in unit proportion as owned by them. So, Mutual Funds are the optimal form of investment that a common man could do since it lays down plethora of opportunities to share mine in a diversified managed portfolio at low cost.

The industry of mutual fund has a long and rejoiced history. Starting In 1963, at the time of the creation of the first structure of mutual fund by Government as of "Unit Trust of India"; to SBI mutual fund in 1987, as the India's first non-UTI mutual fund and in 1993, regulatory purview of mutual funds of SEBI; to the current day, the growth of mutual fund industry in India has come a long way. As evident, over all these years, mutual funds have set themselves up as the pillar of the capital market of India. Further, the industry of mutual fund is doing well. AUM or Assets under Management has increased up to 2 times or more in past 5 years which has scaled up to Rs.23 trillion in the end of July 2018. The mutual funds customer base has grown at a healthy rate, in July 2018 there were 7.59crore folios as compared to July 2017 having 5.99 crore folios.

Inspite of the impressive figures of growth, the fact remains that today the AUM engulfs 11 % of GDP. In US, this figure is nearly 100%. Naturally, the Indian fund industry has a lot to catch up.

A. Operational flow of mutual funds

The mutual fund industry of India is seen to grow in the upcoming future owing to the higher extent of clearness and then disclose the standard in comparison to places across the globe where the fund mobilization in the sectors of mutual fund is extremely high in comparison to other sectors of finance.

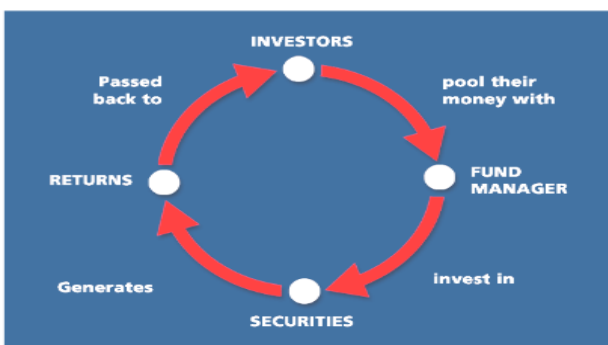


Figure 1: Mutual Funds Operation flow

From the chart given above, we try to showcase the flow of mutual funds in a circular form. Individual investors in the initial state aggregate their resources and apply these resources in different schemes of mutual fund taking help of the fund manager. As the representative of the investors, the fund manager invest the desired financial resources in several, security classes. From this investment, the fund managers generate a particular amount of returns which can be passed on to the investors. It is like the simple process for economic revenue generation.

B. Classification of mutual funds

There exists a huge variety of schemes of mutual fund that satisfy the needs of the investors on the basis of limits of risk tolerance, returns expected and characteristics of other demographics. The Mutual funds have been classified in a total of three major categories. The first being the classification based on structure; second is related to objective of investment and the last connects with the general class. As per the first classification, there are three major scheme types namely close ended, open ended, and the mid-way schemes, the second classification as linked with the investment schemes of objective includes balance schemes, growth schemes, money market schemes, income schemes, etc and the classification last is from areas of general sectors like the, tax savings schemes, commodity schemes and index schemes.

C. Objectives of the Study

- Finding out the Investors Investment Avenue that is most preferred.
- Analysing the preference of the investor's towards mutual fund investment in face of other schemes of investment.
- Finding the major bases of avenues of different investment, what the investor thinks prior investment.
- Finding out the investors overall criterion pertaining to investment.

II. REVIEW OF LITERATURE

SEBI – NCAER carried out a Survey (2000) to estimate the household's number and the individual investor's population along with the, demographic and economic profile, size of portfolio, and equity investment preference along with the instruments. The above is a comprehensive and unique study of the Indian Investors, and around 3,0,00,000 data, were collected and geographically dispersed among the households of both rural and urban areas. Few of the study's finding are: Preference of households for instruments to map their perception of risk; Deposit of Bank made the appeal in all

class of income; 43% of households non-investor same as the 60 million households which apparently does not involve stock markets awareness; which when compared with groups of low income, the groups of higher income is seen have to greater Mutual Funds (MFs) investment that signify MFs not being the investment of small investors.

Ranganathan (2006) further examined the aspects related to behavior of the fund selection of the individual investors with respect to mutual funds, in Mumbai [2].

There exists a negative correlation amidst the fund quality and advertisement founded by Harrison (2000) having special reference from different sample [2]. It is seen that General investors seek schemes of mutual fund to generate the significant returns having less risk.

Given in the title of research "Basics about Mutual Funds" it has discussed the different classification of the MFs along with the types written by author Kum Martin. He has then quoted that the funds of equity includes the investment common class and equity. There is a risk investment 100% of Common stock were insignificant of the earnings to be compared to avenues of different investment. Corporate and Government securities of fixed income generate higher returns for the investment in a specific span of time. Combining investment avenues of different classes help generate higher returns with returns greater risk (T. Bills returns).

The study do me by Azmi (2008) performed a research on behavior of fund selection of individual investors in regards to several schemes of mutual funds [3]. The study's analysis suggests that around 27% of the investors are ready to be part of mutual fund investment. Given the study, the facts that lead to the mutual fund purchase account for portfolio diversification.

Bodla and Bishnoi (2008) concluded in his study said that the Indian mutual fund investors have more than 609 schemes with array of features like growth, dividend, cumulative interest income, sectoral plans, monthly income plans, money market schemes, equity linked schemes,, etc [4]. Where both schemes of open-end and the close-end register tremendous growth in mobilization of fund, but the former schemes category is highly popular amidst investors. The analysis done Portfolio-wise infuses the income schemes that have growth edge on schemes with respect to AUM. Further, the share of UTI on the total AUM has decreased to 11.8 percent from 82.5 percent.

The authors Das, Mohanty and Chandra (2008) shed light on Indian investor's selection behaviour of life insurances and mutual funds during the period post-liberalization. Given the background, the investor's behaviour while selecting either of the vehicles of

investment in the perspective of India calls for a comparative study [5].

In the study of Walia and Kiran (2009), they tried to find gaps in the framework existing for different mutual funds and then extend the same to understand the necessity of reshaping the service of existing fund by IOSQA acknowledgment (Investor Oriented Service Quality Arrangements) so as to comprehend the behavior of investor's when introducing financial innovations [6].

In their study, Rathnamani (2013) examined the mutual fund performance in Malaysia between January 1990 - December 2005 seeing that mutual funds owned privately have higher returns annualized as compared to the funds that are government sponsored [7].

Ivkovich, Sialm and Weisbenner (2006) witnessed the households stock investments which choose to focus their accounts of brokerage in some cases outperform than the households having diversified accounts

In his study, Zakri (2005) investigated the distinctive asset characteristics, portfolio diversification degree and altering diversification effects on the investment performance by mapping samples of mutual funds of socially responsible stock to the funds that were randomly selected on similar net assets, there by finding that the funds that were socially responsible fail to significantly differ from the conventional funds with respect to the said attributes.

Kacperczyk, Sialm and Zheng (2005) saw the mutual funds having greater levels of the industrial concentrations yield higher returns on an average of 1.58 percent every year post deduction of expenses along with 0.33 percent after expenses deduction.

Ferruz and Ortiz (2005) attempted to study the Indian mutual fund by deploying cluster and factor analysis.

Rao, Boudreaux, Ward and Ward (2004) examined that there lies multiple choices for the investors to select from their portfolio of investment and saw that it isn't easy to predict about the performance of funds in advance

Ibrahim (2003) analysed in their study the MF role, evaluating the Nigerian MF industry performance during 1990 - 2002. The study stated the fact that few managers can offer better and effective yields to their investors and also beat the index of NSE at times but not consistently.

Jin and Yang (2003) examined in their study and also evaluated the objective classification of mutual

fund in China using the distance analysis and the discriminant analysis as the statistical methods. The study's objective was justifying the objectives of the stated investment schemes if they represent the attributes or deviate from investors. The study shows that there does not exist any difference between the groups and around 50% MFs were inconsistent with the groups.

Nitzsche, Cuthbertson, & Sullivan (2003) evaluated the performance and trends of funds investment in UKs open-end mutual funds between 'April 1975 - December 2002' and then said that the three-factor unconditional Fama and the model of French type with size, market, and the value risk factors map well along with the equilibrium model of returns.

Mishra and Mahmud (2002) evaluated the MFs performance by using the moment lower partial that relies on the lower partial moment. They then assessed the performance of portfolio and the lower partial movement risk by considering the state where return are less than the target rate as specified earlier.

Amanulla (2001) as seen in the study evaluates the performance of portfolio and then test the mutual fund efficiency of Unit Trust of India through methods namely Treynor, Jensen, and Sharpe's methodology, along with the Co integration test and Employed Granger Causality. This study outlined fusion of the performance evaluation evidence when the Granger causality evidence stated the prevalence of the unit-directional causality in sensitive index of BSE and in Nifty index the bi-directional causality.

Gupta (2000) evaluated in his study the Indian mutual fund investment performance using the NAV data weekly and saw that these schemes reveal mixed performance between 1994-1999.

Rania Ahmed Azmi (2000) witnessed in their study a significant mutual fund relations and performances (the variable dependent), and gender of fund's manager, total risk, expense ratio, type and objective, (independent variables).

Qadeer Abdul, Rasheed Haroon (2012) did a study to investigate the survivorship performance biased on the twenty five mutual fund schemes of open ended in Pakistan and stock selection ability of managers, further measuring the diversification. This study stated that the funds overall performance stay best in comparison to the market but any mismanagement seen in the industry of mutual fund at the time of study period.

The study showed that the portfolio was incomplete, and diversified with unsystematic risk; in his study Patel (2011) examined the sensitivity of fund to the fluctuations in market in terms of Beta. He saw that the mutual fund schemes risk and return are not in

stated investment objective conformity and further schemes of sample were in adequately diversified.

Kundu (2009) examined in the study, the ability of the fund manager to outperform in the market which then appraises the schemes with respect to the diversification, returns, ex-post risk, and saw that across mutual fund schemes 'the period' failed on an average to outstand in the market even if that had huge risk and then said the fund manager might succeed to the extent of diversification front, yet failed to grab significant returns positive by selection of security miss-valued in their portfolios.

Anand and Murugaiah (2008) were seen to examine the investment source and components so as to attribute the same to different aspects of manager of Indian mutual fund and saw that this fund couldn't stand by the investors' expectations and further compensate for the additional risk these investors took. Further, the study saw that of selectivity; factors of market returns and expected market risk have closer correlation with returns of mutual fund.

Guha (2008) found in his study "Style Benchmarks" of the entire equity funds sample as the exposure optimal to around 11 asset passive of class indexes. Then the study revealed the funds relative performance in regards to their benchmark style and saw that these funds are not able to beat their benchmark style averagely.

Agarwal (2007) gave in his study the mutual fund performance overview in rising markets which then analyzed the existing pricing mechanism, along with asset allocation and size.

Sarish and Jain (2012) has concluded that to aid the saving and investment purpose, the investor are seen to pay down the option for money investment in mutual funds along with the financial instruments such as debentures, equity shares, warrant, bonds, bank deposits. Any common investor, who is seen to invests the savings into various assets, and is unaware on the mutual funds.

Rathnamani (2013) has concluded that several investors have preferred to make an investment in different mutual fund so as to attain greater risk level along with safety liquidity.

Further, it is said that Mutual Fund being the investment vehicle is seen to capture the traction of several segments of our society, such as industrialists, academicians, investors financial intermediaries, and regulators for different deserve and reasons needing in depth study.

In the paper, there has been an attempt made to study the mode of investment and preferred by investors which then checks the investment

preference in different MFs of all the avenues for investment.

III. CONCLUSION

In face of policies of structural liberalization along with the balance freedom to act as the Indian economy financial players have excelled with a note positive in past and further expects to stay ahead as compared to the standards international. Being part of the emerging economy in middle of the rising income and massive population and the saving nation sees an economic future. Prevalence of global giants of mutual fund demonstrates the potential of strategic finance as they fail to ignore since they seek to maintain their international positions. Relaxation in norms and framework on a whole has eliminated the obstacles laid before the international players that desire to set up their presence in the market of Indian MF as it has tremendous potential. To be the global kakrtvand seek growth in the industry of mutual fund, they need to update technology, skills and then penetrare in the network. The study at last concluded that mutual fund are mainly a distinct financial instrument for beginners that have the minimum risk appetite and can continue to be a tool unique for financial aid because of the benefits like Diversification, Professional Management, Liquidity, Economies of Scale, Simplicity and some drawback such as Dilution, Costs, Taxes. This did not fail in either of the country falling in the regulatory framework. SEBI rules and regulation for India under the authority and guidelines of RBI are good yet not as much as required for social protection. Overall the future of India mutual fund is bright and exiting under the regulations of SEBI and the condition in market prevailing whereas in long run the survival is only for the serious committed players.

IV. REFERENCES

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