A STUDY ABOUT FACTORS THOSE INFLUENCE MUTUAL FUND INVESTING IN RECENT TIMES

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Abstract

Regardless of the amount invested, mutual funds serve as a vehicle for ordinary investors to place their assets in a professional funds management system. It makes much easier for the general public to access the Indian financial market. The Indian mutual fund business is expanding quickly, as seen by the year-over-year increase in assets managed by different AMCs. When opposed to investing in the stock market, mutual fund investing is less hazardous. Risk-averse investors are drawn to invest their resources in the financial markets by lower risk, modest rewards, and expert management. This study intends to determine the variables influencing mutual fund investing decisions and the effect of behavioural variables on an investor. This research effort also tries to identify the barriers that stop people from investing in mutual funds. The results will enable mutual fund providers to pinpoint the areas that need development and enhance their marketing plans. It will assist MF businesses in developing fresh, cutting-edge products in line with investor preferences. Investor perception claims to have a considerable influence on the choice of investments. It is crucial to comprehend a few fundamental elements that have a big influence on how a retail investor decides what investments to make, such as their degree of knowledge and the significance of the fund's creation date.

Keywords: Mutual Fund Performance, Economies of Scale, Management Risk, Risk-returns,FactorsAffecting, Fund Behavior.

Abbreviations: MFs – Mutual Funds; SEBI – Securities Exchange Board of India

Introduction:

From a little influence on financial markets just over a decade ago, capital markets have grown to be at the centre of the Indian financial sector. Institutional establishment and growth have significantly increased in India's capital market. Institutions have changed and grown in the shape of a mutual fund structure that is diverse.

A mutual fund serves as an investment pipeline and is a special-purpose aim institutional arrangement created particularly for investing. Its main job is to pool and collect small investors' funds, create a larger corpus of enormous resources, and invest those vast resources into a portfolio that is well-diversified of safe assets. It seeks to maximize returns while minimizing the amount of risk inherent in equity investments.

A mere ten percent of Indian families have made investments in mutual funds, despite their availability on the market. According to a recent analysis on MF's in mutual funds in India by data and analytics firm Boston Analytics, people are delaying investing in mutual funds because they believe they are high risk and don't understand how they operate. Nearly 40% of residents in Tier I and metro areas thought such investments were highly dangerous, while 33% of residents of Tier II cities stated they had no idea where or how to make an investment in such assets.

According to the amount of money that is invested by unit holders (investors), MFs distribute units (securities) to those investors. Profits and losses are distributed to unit holders corresponding to their investments.

A mutual fund is set up as a "trust" with the following members:

- **Trustees:** The trustees of a MF maintain the fund's assets for the benefit of the unit holders.
- **Sponsor:** A sponsor, who is akin to a company's publicist, establishes the trust.
- **Asset management firm:** The asset management firm is in charge of investing in securities.
- **Custodian:** The custodian is in charge of maintaining the fund's securities in its absolute custody.

The trustees are often the individuals in charge of overseeing and directing the asset management firm. They have the authority to ensure that the mutual fund is abiding by all guidelines, rules, and regulations established by SEBI. Often, the trustees are the ones in charge of controlling and leading the asset management company. They have the power to make sure the mutual fund complies with all standards, laws, and ordinances imposed by SEBI.

MUTUALFUNDS–INDIAN SCENARIO

In India, the idea of mutual funds first emerged in 1963. Between 1963 and 1987, there was only one mutual fund firm in India, Unit Trust of India (UTI), which had Rs. 67 billion in assets under management (AUM) by the conclusion of its monopoly period. Few other Indian mutual fund companies had occupied their place in the mutual fund sector by the decade's conclusion in the 1980s. Punjab National Bank Mutual Fund, Indian Bank Mutual Fund, Bank of India Mutual Fund, SBI Mutual Fund and Canara Bank Mutual Fund are the newest MFs firms in India. The mutual fund sector in India entered a new era in the next decade. The industry's overall AUM at the end of 1993 was Rs. 470.04 billion. The monies from the private sector began to penetrate the fund families. The first set of Mutual Fund Regulations, which required the re-registration of all mutual funds with the exception of UTI, were established the same year. The rules underwent yet another revision in 1996. Franklin Templeton has merged with Kothari Pioneer, the first private sector MF business in India. With the penetration of private sector players, the total assets only took ten years to reach Rs. 1218.05 billion. In India now, there are currently 33 MF firms.

Mutual Fund – Current Trends in India

The mutual fund sector's SIP revenues decreased by 4% to Rs 96,000 crore in the 2020–21 fiscal year as a result of lockdowns brought on by COVID–19, creating income uncertainty. Because of the coronavirus

outbreak, which led to government-imposed lockdowns in March 2020 and increased income uncertainty, many investors decided to stop their SIPs. This was shown by the decrease in SIP flow inputs after March 2020. The contribution decreased for a total of eleven months in a row after reaching an all-time high of Rs 8,641 crore before surging to new highs. For the month of February 2022, the aggregate assets under management (AAUM) for the Indian mutual fund industry was 38,56,140crore. In May 2014, the industry's AUM reached the landmark of ten trillion rupees (ten lakh crore), and in only three years, it had expanded more than twofold and first exceeded twenty trillion rupees (twenty lakh crore) in August 2017. In November 2020, the AUM size surpassed 30 trillion (or 30 Lakh) for the first time. As of February 28, 2022, the industry AUM was at 37.56 trillion rupees (37.56 lakh crore).

The government's focus on smart cities, faster internet speeds, and digital penetration all contribute to the asset share shifting towards towns and cities that are smaller. The power of digital proliferation in India is demonstrated by increased retail contribution via SIPs. As of February 28, 2022, there were 12.61 crore accounts (or folios in mutual fund lingo).

Key Market Trends
Growing in mutual funds Assets
Mutual fund (MF) sector assets have grown as a result of the stock markets' strong performance and net inflows into equity schemes. The industry's average assets under management (AAUM) for the three months ending December 31, 2021, increased by over 30% year over year to Rs 36.17 trillion.

Individual investors' holdings in mutual funds grew in value from Rs.17.18 billion in February of 2021 to Rs.21.02 billion in February 2022, a rise of 22.32%. From Rs.15.11 lac crore in February 2021 to Rs.17.54 crore in February 2022, the value of institutional holdings grew by 16.08%.

Fig:1 Showing the composition of contributions in Mutual Funds in India

Value of assets in mutual funds
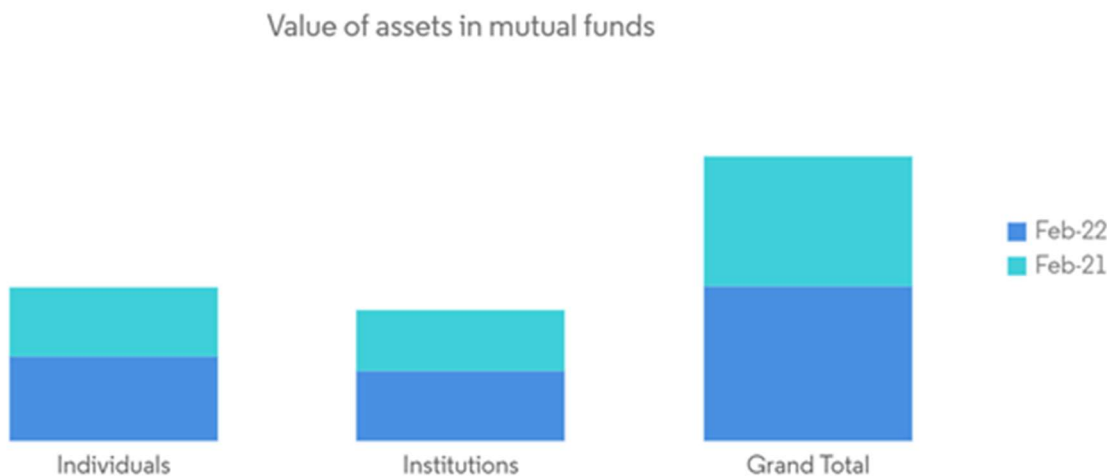
Review of Literature

In a 2014, J. Lilly and Dr. Anasuya examined the performance of 49 different tax-saving ELSS plans by using the Sharpe, Treynor, Sortino, and Jensen's alpha measures. [12] They discovered that LIC NOMURA MF GROWTH and dividend plans had the highest return and were the most risk-tolerant. A study by Lonnie

L. Bryant and Hao-Chen Liu published that how a multiple fund management structure affects the risk volatility of the funds managed with the aid of the Sharpe ratio. [13] Using a sample of 1480 funds maintained by 407 managers, they discovered the effects that MF management model has on fund risk volatility. They also discovered that the multi fund management model appears to be driven by the need to cut costs for the shareholders and achieve economies of scale, as opposed to fund managers who are motivated by strategic factors.

Elements Affecting Mutual Fund Investment

In order to determine what information sources individual investors rely on, Addleman, S (1962)undertook a study of them. The findings demonstrated how economic, social, and psychological aspects influence investing decisions.[2] In order to assess the path that mutual funds are taking among investors and to pinpoint the variables that affect the choice to invest in mutual funds, Ang,J.S et al. (1998) performed their study. According to the report, income and open-ended schemes are favoured above closed-ended and growth schemes, with open-ended schemes being the most popular among other things. Newspapers are utilised as a source of information, and while investing in mutual funds, investor services and principle safety are priorities. [3]

According to certain studies, the link between past performance and present returns is either very weak or nonexistent (Brown &Goetzman, 1995) [6]. Some appear to be more certain about the connection than others (Auty, S., 1993). [4]Goetzman& Ibbotson (1994) even go so far as to demonstrate that performance over two years may be predicted for the following two years. [7][8]Although funds are required to inform users that past performance does not guarantee future results, a study of 298 wealthy investors indicated that performance track record was one of the four most crucial factors in choosing MFs (Caponetal.,1994). [9] Therefore, it should come as no surprise that the main source of fresh capital entering mutual funds is past returns (Carhart, 1997). [10]

In response to the topic of why underperforming funds continue to exist, Harless and Peterson (1998) argue that investors frequently select funds based on past performance but continue to hold onto these funds in spite of their subpar returns.

Research Objectives

1. A study about an investor's investing behaviour and the basic variables that influence mutual fund investments.
2. A study about an investor's investing behaviour and their overall opinion of the fund.

Research Hypothesis

The following theories have been developed in light of a thorough literature review:

- H0: An investor's investing behaviour and the basic variables that influence mutual fund investments are significantly correlated.
- H1: An investor's investing behaviour and their overall opinion of the fund are significantly correlated.

METHODOLOGY

Research Design

The study employed both exploratory and descriptive research approaches. The pool of adoption items is created and sorted using the exploratory study design techniques of literature reading, interviewing, and focus group discussions. The survey approach of descriptive design is used to gather the fundamental information on mutual fund investments. As a survey tool, a structured, self-administered questionnaire is used to gather primary data.

Place of the survey and the intended audience

The survey was conducted in Hyderabad's GHMC area. Male and female respondents who have made one investment in the mutual fund market are the survey's target respondents.

Sampling Technique and Methodology

The study makes use of a proportionate quota sampling approach. Under GHMC, there are 150 wards. Quotas are determined for each of the 150 wards depending on their population in relation to the GHMC as a whole. In order to conduct the study, a sample of 300 persons was chosen.

Questionnaire design

The questionnaire was developed using a two-stage research process. On the basis of the literature assessment, an initial list of characteristics was created for the probable seven elements impacting adoption of e-government services. The original pool of items was revised in the second stage utilizing focus groups and in-depth investor interviews as qualitative methodologies.

Table 1: Concepts and Study items

Constructs	Study items
Historical Performance [HP]	Before invest, I consider
Yield [R]	Before invest, I consider
Risk [RI]	Before invest, I consider
Systematic Investment Plan [SIP]	I will select
Risk Diversification [DR]	Before invest, I consider
Liquidity [L]	Before invest, I consider
Expert Management [EM]	Before invest, I consider
Volatility [V]	Before invest, I consider
Fund Manager's Experience [FME]	Before invest, I consider
Investment [I]	I will stay with investment
Inception Date [ID]	Before invest, I consider
Type [T]	It will effect

Debt-Equity ratio [DER]	Before invest, I consider
Awareness [AWR]	I am familiar with multiple schemes and forms.

DATAANALYSIS
SampleNature

51% of the 300 respondents were men and 49% were women. In comparison to the general population, 43% of respondents were under the age of 25, 30% were between the ages of 26 and 35, 15% were between the ages of 36 and 45, and 12% were beyond the age of 45. The majority of investors (69%), invest up to Rs.100,000. Annual investments range from Rs.100000 to Rs.250000 for 24% of investors. In MFs, just 7% of investors put more than Rs.250000.

Reliability and Validity

The questionnaire's items were created using existing literature review, guaranteeing their underlying validity. The questionnaire was pilot tested with a group of investors, and the results were used to make the required improvements to the substance and accuracy of the questionnaire. A different group of respondents than those who took part in the pilot test were then invited to take part in pre-testing the questionnaire.

Table2:KMOandBartlett'sTest

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.928
Bartlett's Test of Spheri city	Approx.Chi-Square	1281.754
	df	79
	Sig.	.001

KMO = 0.928 in this case, indicating that the sample is sufficient and that we may move forward with the factor analysis. Bartlett's Sphericity Test Alpha = 0.05 at a 79% level of significance. Because the factor analysis has a p-value (Sig.) of .001< 0.05, it is legitimate. We thus rule out the null hypothesis (H_0) and adopt the alternative hypothesis (H_1), which states that there could be a statistically significant association between the variables. This is because p<alpha. To assess if factor analysis was suitable, the Kaiser-Meyer Olkin (KMO) and Bartlett's Test measures of sample adequacy were utilised. At a level of significance of 0.05, the estimated Chi-square is 1281.754 with 0.928 degrees of freedom.

ModelTesting

With 13 independent variables (HP, R, RD, RI, SIP, L, EM, V, FME, ID, T, DER, AWR, and dependent variable I), the hypothesis testing was completed.

To test the hypothesis, multiple regression analysis was employed. We checked for regression assumptions first. Given that the Durbin Watson statistic was more than 1 and was 1.912, there was no autocorrelation. The model constructs were also used in a correlation study. The findings

shown in Table 6 demonstrate that multi-collinearity is not present and that the correlation between each concept was less than 0.81, which is the cutoff for substantial correlation.

Table 3: Variance and Eigen values

Factors	Total	% of Variance	Cumulative %
1	6.056	44.562	44.562
2	1.175	7.562	52.124
3	0.91	7.024	59.148
4	0.770	6.762	65.91
5	0.669	5.364	71.274
6	0.610	4.834	76.108
7	0.565	4.354	80.462
8	0.509	3.987	84.449
9	0.451	3.654	88.103
10	0.403	3.785	91.888
11	0.327	2.984	94.872
12	0.345	2.674	97.546
13	0.283	2.454	100

Table 4: Factor Loadings

Factor	Factor Loading	
	1	2
Expert Management [EM]	0.911	
Fund Manager's Experience [FME]	0.897	
Risk [RI]	0.794	
Risk Diversification [DR]	0.793	
Historical Performance [HP]	0.791	
Yield [R]	0.788	
Liquidity [L]	0.785	
Volatility [V]	0.684	
Systematic Investment Plan [SIP]	0.672	
Type [T]	0.564	
Inception Date [IOD]		0.824
Debt-Equity ratio [DER]		0.761
Awareness [AWR]		0.621

Table 5: Regression Outcome

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.834a	0.778	0.683	0.778532	1.945

Table 6:Correlations between all independent variables

	HP	R	RI	SIP	DR	L	EM	V	FME	ID	T	DER	AWR.
HP	1	0.44	0.49	0.392	0.481	0.383	0.507	0.439	0.529	0.298	0.437	0.419	0.399
R		1	0.576	0.489	0.532	0.449	0.456	0.521	0.484	0.47	0.539	0.387	0.375
RI			1	0.471	0.664	0.398	0.521	0.462	0.426	0.351	0.418	0.356	0.31
SIP				1	0.323	0.318	0.374	0.446	0.471	0.224	0.487	0.39	0.307
DR					1	0.511	0.541	0.417	0.591	0.431	0.451	0.441	0.397
L						1	0.492	0.437	0.414	0.321	0.414	0.418	0.235
EM							1	0.412	0.657	0.214	0.459	0.312	0.35
V								1	0.416	0.324	0.243	0.331	0.332
FME									1	0.186	0.441	0.341	0.284
ID										1	0.419	0.518	0.309
T											1	0.426	0.512
DER												1	0.441
AWR													1

RESULTS

The model contributes to 77.8% of the variation in the variables influencing MFs investment. Fundamental elements including historical performance, the fund manager's expertise, risk, yield, and diversification are extremely important in making decisions for investors. By and large, when taking into account individual investors, liquidity and volatility have a relatively negligible influence on investing in MFs. Due to their aversion to risk and lack of in-depth understanding of funds and their management, investors look for investment guidance.

Before buying units in the fund, investors examine the historical performance (NAV) of the fund. Retail investors primarily obtain information on the investment outcomes of various MFs via brokers, financial advisers, financial institutions, the internet, TV channels, magazines, and newspapers. Most retail investors learn about MFs as a fund choice via sales professionals, who are then followed by the internet, newspapers, magazines, television, and friends and family.

Table7

Variables	Beta	t	Sig.
F1	.139	2.219	.036
F2	.537	8.547	.001

The investor chooses a fund to invest in because of their perception of particular characteristics. To ensure the security of its mutual fund investment, the investor dutifully takes into account the fund's founding date, the time period, and investor confidence.

Without the necessary information and expertise, the investor may purchase underperforming funds because they believe the fund has an excessive exposure to debt or equities. [18] The popularity of mutual funds is rising. Despite the little amount of money spent, there are many investors, and they want to continue investing in them in the future. [19] This suggests that practically all investors have a consistent investing routine. Investors are generally satisfied with mutual funds based on their risk exposure, and their overall experiences are likewise generally satisfactory. The majority of investors agree that investing in MFs will promote economic growth.

Most of the time, bad experience and some degree of difficulty in selecting the right plans are deterrents to investing in mutual funds. [20] The main drivers for a retail investor to invest in MFs are tax benefits, return potential, liquidity, low costs, and transparency. To some extent, economies of scale can also serve as a motivator.

CONCLUSION

The study incorporates concepts from the elements influencing MF investing into a perceptive investment model [IM] for use. The findings show that basic variables and investor perception are crucial in the process of making investment decisions.

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