

Investment Pattern Among Indians with Reference to Mutual Funds & Equity Shares

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Abstract

With the rise in inflation and increased necessity of investment opportunities, financial markets have appeared to play a significant role and Mutual Funds and Equity shares have become popular amongst the investors because of their easy and quick facilitation and good returns. This paper attempts to explore the preference of investors towards Mutual Funds and Equity shares for their investment purposes. The paper examines the cause and effect relationship of investor's mind set and expectations with that of their investment pattern in Stock Market with regards to Mutual Funds and Equity shares. Understanding patterns of investment decisions gives opportunity to the asset fund management companies in designing Mutual Fund and other fund portfolios in correspondence with investors' expectations.

Findings indicate that Mutual Funds were not much known to investors as they were much dependent on intermediaries and agents/brokers for their investment decisions. Even though 72% invested in stock markets, only 27% were regular investors in it. Indian investors invested only between 5% to 20% of their income in such schemes. Hence, the returns from their investments are only between 5% to 15%. In general the Indian investor prefers low risk and safe investments.

Keywords: *Investors' preference, Mutual Funds, Equity Shares*

Paper Type: *Primary Survey*

Introduction

With India's liberalization policy, growth of the middle class in India and the rise of the young income earners, the stock market investments have been generating considerable interest due to the prospect of growth and returns on such investments.

Financial markets are affected by the 'financial behaviour' of investors. With the reform of the financial sector and many developments in the Indian money market and capital market, Mutual Funds have become an important portal for small investors. This study has made an attempt to examine the related aspects of the fund selection behavior of individual investors towards Mutual funds and Equity in the city of Mumbai.

The investor's main objective is to earn higher returns keeping in mind the risk and liquidity factor. With this objective in mind, an investor is looking out for various investment avenues. Mutual funds offer comparatively better returns and have less risk as compared to direct investment in stock market. In this research paper, an attempt has been made to evaluate the perception of Indian investors regarding mutual fund vis-à-vis equity fund investments.

This research is mainly carried out to know about the investor's preference with regard to their profile, income, and investment patterns. 'Expectations' of investors play a vital role in the financial market.

Literature Review

P.Mathuraswamy and G.Rajendram (2015), in their study analyses that the type of investment instrument selected by individual investor will depend on their investment rationality and irrationality. Furthermore the studies suggest that the family composition and biological make-up as important inputs that influence investment rationality in equity market P.V.Durga Rao, (2013) stated that the investment pattern is formed through the investment environment which changes frequently due to the changes of investor expectations. They also analyzed that majority of the investors are the new generation investors. A. Lawrence and Dr. Z. Joseph (2013) concluded that media and friends play a vital role to influence investors share trading decisions. Because of changes in the attitude of the investor, the experiences of the Indian capital market have become history for many market participants. G. Mohanta & Dr. S Debasish (2011) studied, that while selecting any financial avenue, the investors also expect other type of benefits like safety and security, getting periodic return or dividends, high capital gain, secured future, liquidity, easy purchase, tax benefit, meeting future contingency etc. Gupta (2011) in her paper revealed that low customer awareness levels and financial literacy posed the biggest challenge in channelizing household savings into mutual funds. Agarwal (2011) analyzed the Indian Mutual Fund Industry and pointed out that there has been an incredible growth in the mutual fund industry in India, attracting large investments from domestic and foreign investors. Other supporting factors such as increase in number of AMCs (Asset Management Company) providing ample opportunity to the investors in the form of safety, hedging, arbitrage, limited risk with better returns than any other long-term securities has resulted in attracting more investors towards mutual fund investments. Syed T. Sultana (2010) concludes that the individual investor still prefer to invest in financial products which give risk free returns. This confirms that Indian investors even if they draw a high income, are well educated, salaried and independent, exhibit conservatism and prefer to play safe as far as their investment decisions are concerned. Ramamurthy and Reddy (2005) conducted a study to analyze recent trends in Indian mutual fund industry. They concluded that major benefits delivered to small investors by mutual funds are professional management, diversification of investment; return potential, expedient administration, liquidity, transparency, affordability, flexibility, wide choice and appropriate regulation. Mehru (2004) in his study analyzed the problems of mutual funds in India. The study highlighted several problems such as lack of awareness among investors, poor after sale services, non-disclosure of portfolio by mutual funds, inter-scheme transfer of funds and lack of professional fund managers. The study point out that mutual fund were wrongly promoted as an alternative to equity investing and created very high expectations in the minds of the investors.

Framework of Study

Scope

The collected data on the individual investors' perception, will give a valuable insight regarding their expectation about an ideal fund and scheme. This will help academicians and researchers in developing and expanding knowledge in this field. It will also impact managerial decisions and policy making in organizations regarding investor's mindset towards Mutual funds and Equity.

Objectives

1. To find out factors influencing investment in Mutual Funds.
2. To find out factors influencing investment in Equity Shares.
3. To find out the most preferred investment by the investors with respect to Mutual Fund and Equity Shares only.
4. To understand the behavioral aspects of fund selection techniques of individual investors with regards to Mutual Funds and Equity Funds.

Hypothesis

- H1) Investors have strong preference of Mutual Funds over Equity Shares for the purpose of investments.
- H 2) Investors have complete know- how about stock market investments.
- H 3) Investors rely upon brokers and agents for Mutual Fund investment.
- H 4) Indian investors invest in low risk schemes.

Research Methodology

Sample - Primary data

Purposive sampling was done on 200 investors who were investing in either mutual funds or equity funds or both. They were all residing in Mumbai only. Gender factor was also taken into consideration regarding investment patterns.

Tools & Procedure

A self-developed questionnaire was used to collect the data. The questionnaire had a blend of open and close ended questions. The data was collected online. The data was then analyzed in two ways - Qualitative Analysis and Inferential Statistics analysis using Non-parametric test - Chi-Square.

Secondary Data

Relevant secondary data was also considered in the form of references from books, articles in journals, periodicals , magazines, thesis and reports. The use of online resources was also made to seek current relevant information required in the research study.

Results & Discussion

The investor first decides in what proportions to purchase the available risky assets, and then he decides how to divide his total investment between risky and safe assets. From the findings, it was inferred that the investors are highly concerned about safety and growth and liquidity of their investments.

I) Descriptive Analysis - Primary Data

Socio-Demographic Variables:

A) Age linked to patterns of investment (N=200):

Investor's in different age groups who invest in Stock Market (Table 1)

In Age group of 20-30 years, 71 respondents invest maximum in the stock market, followed by age group of 36-40 years i.e. 38 respondents. There is minimum investment between the age group of 40-50 years.

Age in Years	Number of Investors
20 - 30	71
31 - 35	31
36 - 40	38
41 - 55	21
46 - 50	14
50 Above	25
TOTAL	200

Source: Primary Data

B) Occupation of Investors and their investment patterns in Stock Market (N=192):

People in different professions and their investment in Stock Market (Table 2)

70 respondents employed in the service sector are more inclined to stock market investment followed by 47 professionals and businessmen who have a regular fixed income earning capacity.

Profession	Number of People
Business	47
Professionals	47
Services	70
Others	28
No Responses	8
TOTAL	200

Source: Primary Data

C) Gender and Investment patterns (N=200):

Males & females who invest in Stock Markets (Table 3)

Male population 127 invest more in stock market as compared to the female population i.e. 73

Gender	Number of Males & Females
Male	127
Female	73
TOTAL	200

Source: Primary Data

D) Monthly Income of people & their investment in Stock Markets (N=200):**People in different Income range and their investment in Stock Markets (Table 4)**

61 respondents who invest in stock market are income earners of less than Rs. 30,000 per month; whereas there is a marginal percentage difference between income earners of Rs. 30,000 and above.

Source: Primary Data

Range of Income / Month	Number of People
Below Rs. 30,000	61
Rs. 31,000 – 50,000	46
Rs. 50,001 – 70,000	44
Rs. 70,000 Above	49
TOTAL	200

II) Descriptive Analysis of Close ended Questions:

NOTE: Total exceeds due to multiple responses. To examine the differences between categorical variables, we have applied chi square statistical test for question numbers 1, 6,11,14,15 and 18.

2) Do you prefer to invest in mutual funds or equity? (Table 5)

78 respondents prefer to divide their stock market investment portfolio in Mutual Funds and Equity Shares as against 56 in Equity Shares and 50 in Mutual Funds.

Source: Primary Data

Sr. No.	Particulars	Frequency
1.	Stock Market	56
2.	Mutual Fund	50
3.	Both	78
4.	Not Applicable	39
	TOTAL	233

3) Which investment do you feel is more profitable? (Table 6)

98 of the respondents find investment in Equity Shares more profitable as compared to 84 who find investment in Mutual Funds more profitable.

Source: Primary Data

Sr. No.	Particulars	Frequency
1.	Mutual Fund	84
2.	Equity	98
3.	Other	8
4.	Not Applicable	43
	TOTAL	233

4) What type of mutual fund investment do you prefer? (Table 7)

96 sample respondents prefer Equity Fund (type of Mutual Fund) investment as against 70 in Liquid Fund and 32 in Debt Fund.

Source: Primary Data

Sr. No.	Particulars	Frequency
1.	Equity Fund	96
2.	Debt Fund	32
3.	Liquid Fund	70
4.	Not Applicable	55
	TOTAL	253

5) What type of equity stock investment do you prefer? (Table 8)

With regards to the type of equity stock investment preference, 41 of the sample respondents prefer the option of higher earnings per share, 46 prefer price earning ratio of stock, 37 prefer book value stock, 24 prefer market capitalization.

Source: Primary Data

Sr.No.	Particulars	Frequency
1.	High Book Value Stock	37
2.	High Market Value Stock	33
3.	Price Earnings Ratio of Stock	46
4.	High - Low Price	10
5.	Higher Earnings Per Share	41
6.	Market Capitalization	24
7.	Not Applicable	62
	TOTAL	253

7) What are the factors which affects your mutual fund investment decision? (Table 9)

While considering investment decision in Mutual Fund, 68 of the respondents give weightage to Net Asset Value (NAV) for investing in Mutual Funds, while 56 look at a Systematic Investment Plan, and 54 consider the dividend rate, 45 consider tax returns and 29 look into liquidity of funds.

Source: Primary Data

Sr.No.	Particulars	Frequency
1.	Net Asset Value	68
2.	Dividend	54
3.	Tax Shield	45
4.	SIP	56
5.	Liquidity	29
6.	Not Applicable	60
	TOTAL	312

8) What are the factors which affects your stock market investment decision? (Table 10)

With regards to equity shares, 92 of the respondent investors prefer to invest in stocks having high capital gain as against 67 respondents who prefer good dividend yield. 49 prefer to invest considering the tax benefits and for 26 of the respondents, issue of bonus shares on their stock is given due consideration.

Source: Primary Data

Sr.No.	Particulars	Frequency
1.	Capital Gain	92
2.	Dividend	67
3.	Bonus Shares	26
4.	Tax Benefits	49
5.	Not Applicable	52
	TOTAL	286

9) Which sector do you prefer for investment in mutual fund? (Table 11)

While choosing their industry sector for investment, 75 of the sample Mutual Fund investors prefer to invest in Diversified Fund, 49 in Banking Fund, 43 in Pharma Fund, 37 in Oil and Petroleum, 27 in Real Estate Fund.

Source: Primary Data

Sr.No.	Particulars	Frequency
1.	Oil & Petroleum	37
2.	Pharma Fund	43
3.	Gold Fund	25
4.	Banking Fund	49
5.	Diversified Fund	75
6.	Real Estate Fund	27
7.	Not Applicable	53
	TOTAL	309

10) Which sector do you prefer for investment in equity stocks? (Table 12)

With regards to respondent investors of Equity Shares, 62 prefer investing in IT Sector, 59 in Banking Sector, 47 in MNC, 33 in Service Sector and in Energy, 31 in Pharmacy, 28 in PSE, and 22 in FMCGs.

Source: Primary Data

Sr.No.	Particulars	Frequency
1.	IT Sector	62
2.	MNC	47
3.	Service Sector	33
4.	Banking Sector	59
5.	FMCG	22
6.	Public Sector Enterprise	28
7.	Pharmacy	31
8.	Public Sector Enterprise	33
9.	Not Applicable	67
	TOTAL	382

12) In which mutual fund scheme have you invested? (Table 13)

73 of the sample under study prefer Growth Fund (category of Mutual Fund) as against 59 who prefer Liquid Fund, 34 who opt for Mid Cap Fund, 26 opt for Long Cap Fund, 19 for funds giving regular income, and 12 for Sector Fund.

Source: Primary Data

Sr.No.	Particulars	Frequency
1.	Mid Cap	34
2.	Growth Fund	73
3.	Liquid Fund	59
4.	Regular Income Fund	19
5.	Sector Fund	12
6.	Long Cap	26
7.	Not Applicable	66
	TOTAL	289

13) What type of stock / trading investment have you done? (Table 14)

66 of the respondents prefer to invest in both long and short term funds, 50 prefer investment in long term funds only, 26 prefer short term and only 12 respondents prefer intra trade investments.

Source: Primary Data

Sr.No.	Particulars	Frequency
1.	Long Term	50
2.	Short Term	26
3.	Long & Short Term Both	66
4.	Intra Trade	12
5.	Not Applicable	60
	TOTAL	214

16) How do you prefer to invest in Mutual Funds? (Table 15)

102 of the sample respondents invest in Mutual Funds through brokers only, 32 invest online. 27 invest directly from asset management companies, and 13 from phone applications.

Source: Primary Data

Sr.No.	Particulars	Frequency
1.	Through Broker	102
2.	Online	32
3.	Mobile App	13
4.	Direct from Asset Management Company	27
5.	Not Applicable	46
	TOTAL	220

17) How do you prefer to buy stocks? (Table 16)

With regards to investing in Equity Shares, 105 respondents invest through brokers, 55 invest through online medium and only 6 invest through offline sources.

Source: Primary Data

Sr.No.	Particulars	Frequency
1.	Online	55
2.	Offline	6
3.	Through Broker	105
4.	Not Applicable	44
	TOTAL	210

III) Inferential Statistic – Chi Square Analysis

The calculation of the Chi-Square statistic is quite straight-forward and intuitive:

$$\chi^2 = \sum \frac{(f_o - f_e)^2}{f_e}$$

Where f_o = the observed frequency (the observed counts in the cells) and f_e = the expected frequency if no relationship existed between the variables. To check the significance of an obtained statistical value, we need to refer to the degrees of freedom in the Chi square table. Chi square is a measure of aggregate discrepancies between the actual and expected frequencies and is used as a test static in testing a hypothesis. If the values obtained are more than the tabled values, the value obtained is significant. (Table 17)

Question No.	Chi Square Value Obtained	Level of Significance	Remarks
Q No. 1	387.2*	*p < 0.01	72% invest in stock markets
Q No. 6	48.01*	*p < 0.01	52% invest 5% - 20% of their income in stocks
Q No. 11	87.145*	*p < 0.01	43.5% have only partial knowledge of stock market
Q No. 14	34.8*	*p < 0.01	Only 27% are regular investors in stocks
Q No. 15	13.75*	*p < 0.01	26.5% diversified their portfolio's in 5 - 10 companies
Q No. 18	36.603*	*p < 0.01	52% investors get between 5% - 15% returns from their stock market investments

The significant Chi Square values lead to the conclusion that Indian investors possess only partial knowledge about stock markets and safely invest only between 5% to 20% of their monthly income in it. That is the reason that maximum of them get between 5% to 15% returns from such investments. They diversify their portfolios in limited companies. Even though 72% of investors have invested in Stock markets, only 27% are regular investors in it. This reflects a very safe, risk free investment patterns adapted by the Indian investors.

Hypothesis Testing

In terms of the Hypothesis proposed, the results support H 3 and H 4 as the Indian investors have shown dependence on the brokers for doing their investments and the investors have strong preference for low risk investment schemes. However, the results lead to the rejection of H 1 and H 2 as the Indian investors has shown no greater preference of Mutual funds over Equity Shares, nor do they possess complete knowledge about these investment schemes.

Limitations

1. Limited sample size of 200 in Mumbai may not adequately represent the national market.
2. This study has not been conducted over an extended period of time having both ups and downs of stock market conditions, which would have a significant influence on investors' buying pattern and preferences.

Suggestions

1. Negative perceptions about Mutual Funds require to be tackled through appropriate investor education measures.
2. Measures and steps should be taken to increase awareness levels of the investors.
3. Complete information about mutual funds should be provided. Even among the investors who invest in mutual funds, they are unclear about how these function and how should they be managed.
4. Investors need for liquidity is found to be high and hence more appropriate schemes should be offered for subscription.
5. Awareness of mutual funds should be created in the semi-urban and rural areas, as the investor awareness of stock markets is slowly increasing in these regions.

Conclusions

Even though there is tremendous scope for investment in India with the rise of the middle class and dual household income, the investments are not properly channelized as the unawareness factor with regards to stock exchange investment still exists amongst the investors. Lack of knowledge in using the services of portfolio managers is still nascent.

Indian investors seek safety, security and performance rather than easy encashment or customer service. Measures taken at the governmental level for generating more awareness about tapping at Stock Exchange for investment purposes, educating the youth about importance of wise investments, and knowledge about Mutual Funds and Equity Shares, its operations, its return, etc. will improve the investment culture in the country.

Scope for further research. "A good research is the one that can pave way for another research"

This study opens up fresh areas of research such as

- 1) Investment pattern of Mutual Fund and Equity Shares in other regions of the country.
- 2) Attractiveness of Mutual Funds to different age groups.
- 3) Comparison of Mutual Funds to other Stock Market Funds.

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