

CHAPTER VII

INVESTORS' PERCEPTION TOWARDS MUTUAL FUNDS

The present chapter deals with the analysis of survey data collected through the interview schedule from the investors followed by interviews with fund managers of the study units, UTI, LICMF and Canbank MF. Findings and conclusions presented in this chapter are based on the analysis. The main objective of the study is to gauge the investors awareness of the concept of close-ended funds and obtain a feed back of the performance of the growth and income schemes of UTI, LICMF and Canbank MF. The data collected have been used to find out Kendall's correlation co-efficient, and also to find out whether views expressed by the respondents about the growth and income schemes of select institutions are in line with the results of the empirical study presented in the previous chapter.

Background:

Much of the empirical research on mutual funds has not given any significant contribution for the mutual fund investor. Unfortunately many mutual fund investor have probably never heard about these research results or their implications. They have heard some rules of thumb guidelines from their brokers or peers about how to select a particular fund. The purpose of this present study is to identify the selection criteria, investors seem to use in selecting a mutual fund institution that suits the investors investment objective and also to identify the factors that are responsible for the selection of schemes floated by these organisations. Further it attempts to identify the reactions from the respondents' namely mutual fund unit holders of Chennai, Mumbai, Pune and

Delhi towards the performance of the different schemes. The researcher has employed interview schedule for the collection of data to elicit views of the Mutual Fund investors. A separate questionnaire is used to get the opinions of the Fund managers and professionals.

The researcher has collected the names and addresses of the unit holders from the respective mutual fund head quarters and applied convenient sampling method for the analysis purpose. However, utmost care was taken to have representative sample and it was restricted to 300. One hundred each from UTI Mutual fund, CANBANK Mutual Fund and LIC Mutual Fund and 9 Mutual Fund managers 3 each from the respective Institutions.

Wall Woerheide (1982) in his research note entitled "Investors response to the suggested criteria for the selection of mutual funds", termed the net sales ratio as the efficient market criteria. The Net sales ratio defined as the net proceeds from the sales of shares, plus the net asset value of shares issued in payment of dividends and other distributions such as rights and bonuses to shareholders, less the cost of shares redeemed, divided by the total assets at the start of the year.

He selected this definition for his empirical study because it is used in previous research by Carlson, R.S. in his work "Aggregate performance of Mutual Funds, 1948-1967"¹, Friend, Irwin, 'Marshall Blume, and Jean crocket "Mutual Funds and other

¹ Carlson , R.S., "Aggregate Performance of Mutual Funds, 1948 - 1967", Journal Of Financial And Quantitative Analysis, March, 1970, pp.1-32.

Institutional Investors"- A New Perspective (1970)¹ and Mc Donald , John G (1974) "Objectives and Performance of Mutual Funds", 1960-1969.²

As per this study, the criteria for mutual funds³ selection that are implied by the efficient market theory are ones that either directly or indirectly might affect the expected return or risk. These include absence of a load, low management expense ratios, low portfolio turnover and brokerage expense ratio, and a large number of securities in the portfolio. If the market is efficient, then load fees, management fees and commissions all represent expenses that reduce the expected return of the investor. The larger amount of securities in the portfolio criteria follows from the fact that larger portfolios tend to have less unsystematic risk.

From the result obtained, the load feature appears not to be consistently related to the sales ratio, since none of the t-values is statistically significant. The test of the effect of the management expense ratio, brokerage, portfolio turnover ratios, proved that the correlation co-efficient in consecutive years is insignificant at the 5 percent level.

SAMPLE

The analysis is based on the responses elicited from the sample Fund Managers, Investors and Professionals. In this process the two group of respondents namely investors and fund managers group which includes professionals , were contacted and their views were gathered for the purpose of analysis with an objective of rating the

¹ Friend, Irwin; Marshall Bhume; and Jean Crocket, Mutual Funds and other Institutional Investors: A New Perspective, New York: McGraw-Hill, 1970.

² Mc Donald, John G., "Objectives and Performance of Mutual Funds. 1960-1969", Journal of Financial and Quantitative Analysis. June 1994, pp.311-333.

institutions and the scheme floated by these institutions in terms of their performance. The study is restricted only to the close-ended income and growth scheme of UTI Mutual funds, Canbank MF and LICMF.

This opinion survey using primary data through a structured questionnaire is meant to supplement the performance evaluation techniques, adopted for rating the efficiency of the fund Institutions and the schemes launched by these study units by employing the secondary data in the chapter three and four.

Investor response to suggested criteria for the selection of Mutual funds institutions and schemes are briefly discussed below.

To identify the most influential factor which acts as a stimuli for the investors to select a mutual fund institution and a specific scheme which suits their investment objective, the respondents were asked to rank their choices among the list of ten factors as exhibited in table-1. The weighted average score for all the factors was calculated and their ranks were taken into account. Kendall's correlation co-efficient was calculated to find out whether there is any similarity between the opinions expressed by these two study groups or not.

ASSOCIATION IN THE RESPONSES OF INVESTORS AND FUND MANAGERS

The survey data were analysed by dividing the respondents into two categories to examine the association of their views to find out consistency of opinion among the responses from the two different groups and the Kendall's coefficient of concordance method was employed.

Kendall has developed a technique, which helps to determine relationship between two or more ranks. To find out agreement between ranks, Kendall has suggested a formula to determine the rank correlation co-efficient .

$$\text{Kendall's rank correlation} = \frac{12 \sum D^2}{m^2(w)(N^2 - 1)} \quad \bar{X} = \frac{\sum X}{N} \quad \dots \quad (\text{VII.1})$$

Where m = Number of judges

N = Number of factors

D = Deviation between ranks

If the computed value of the correlation co-efficient is near 1 (or) otherwise between 0.86 – 1.05 range which seems to indicate a strong similarity between the different sets of respondents. If the values fall out of this range it is quite evident that there is no similarity between the opinions expressed by these groups.

The test is applied separately for Institution- wise analysis and scheme- wise analysis. In the scheme-wise analysis individual tests are applied separately for income and growth schemes. To facilitate this process, the investors in growth schemes and income schemes are separated while collecting primary data through administering a common questionnaire with some instructions to the respondents to suit the varying requirements of the analysis.

INVESTORS' RESPONSES WITH REGARD TO SELECTION OF MUTUAL FUND INSTITUTION

For this purpose Ten major factors that influences the investor preferences for a Mutual Fund Institution are selected by using convenient random sampling technique. The efficient market criteria such as load fees, management fees, low portfolio turnover and brokerage expense ratios and a large number of securities in the portfolios are excluded from the list as these factors are considered insignificant with regard to selection of mutual fund institutions and also schemes floated by these institutions, by Walt Woerheide, in his research findings .

The Table-1 clearly listed the factors that are considered for the analysis and their ranking by the two study groups namely investors on the one-side and the Mutual fund managers on the other, based on weighed average score.

Table 7.1

The Factors and their Ranking by Investors and Fund Managers (Income Schemes)

FACTOR	INVESTORS R1	FUND MANAGERS R2
1. Past satisfactory experience on its unit holders.	1	2
2. Image of the institution	4	1
3. Performance during high Volatility	5	5
4. Investor services	2	3
5. Marketing Strategy	6	7
6. Quantum of inflow of funds or Net inflow	7	6
7. Nature of schemes launched	8	9
8. Research and development backup	10	8
9. Transparency factor	3	4
10. Strict adherence to SEBI regulations	9	10

From the Table 7.1 above it is quite evident that almost more than 90% of the investor respondents ranked on top the factor namely past satisfactory experience on their scheme performance as the most influential factor that entices the investors to select a particular institution to park their household savings. Though the mutual fund managers preference is towards the factor number two namely general reputation and institution image is the deciding factor, the past satisfactory experience stands very close to the first ranking. Almost more than 75% of mutual funds managers whom the researcher contacted have given first rank for the factor-one and second rank for the factor-two.

The second important factor according to the respondents though the ranking slightly differs, which acts as a stimuli for the investors to choose an Investment Institution is the transparency factor. As per their views the respective mutual fund organisations do not provide adequate information as required by the SEBI regulation (Mutual funds) Amendment II 1998, to the investors.

Another factor which is rated as third that influences the choice of mutual fund institution is investor services. Now that the Indian investors are matured enough to deal with the capital market products, they prefer a product which has a good after-sales services in the form of responding to the unit holders queries, fastly reacting to their grievances, information regarding the status of their investments etc. So now-a-days these Mutual fund institutions are vying with each other to provide better services to their unit holders. There is always a general complaint that the mutual fund organisations are not showing interest or helping the investors to complete the redemption formalities. Even for getting the application to redeem the investments after the required period, the investors run from pillar to post.

From the above table one could easily understand that the two groups of respondents mostly identical in their rating as regards to the choice of institution to park the investments. Though their ranking marginally differs, there is a strong similarity of opinions between the two groups of respondents.

Calculation of Kendall's rank correlation co-efficient – Institution wise analysis

The rankings of these two groups of respondents on the selection of the institution is used for the analysis as per the formula.

Table 7.2

Institution Wise Rank Differences Between Investors And Fund Managers

FACTORS	INVESTORS R1	FUND MANAGERS R2
1. Past satisfactory performance	1	2
2. Image of the Institution	4	1
3. Performance during high volatility	5	5
4. Better investor services	2	3
5. Marketing Strategy	6	7
6. Quantum of inflow of funds or Net -inflow	7	6
7. Nature of schemes launched	8	9
8. Research & Development backup	10	8
9. Transparency	3	4
10. Strict adherence to SEBI regulation	9	10

The K_r value works out to 0.94

INVESTORS RESPONSES WITH REGARD TO THE SELECTION OF SCHEMES (INCOME SCHEMES)

For this study Ten major factors that motivates the investors for selecting a scheme to invest their resources are identified.

Table 7.3 lists the factors that are included for the analysis and their ranking by the two study units namely investors and the Mutual fund managers based on weighted average score.

Factors involved in the selection of the Income Schemes of Mutual Funds and the Ranking by Two Groups.

Table 7.3
Rank Difference Between The Investors And Fund Managers

FACTORS	INVESTORS	FUND MANAGERS
	R1	R2
1. Discount to NAV	9	6
2. Assured Annual return	1	2
3. portfolio composition of the scheme	6	5
4. Image of the Institution	7	8
5. Less risky	2	1
6. Marketing strategy	10	9
7. Better investor service	3	4
8. Strict adherence to SEBI regulation	8	7
9. Corpus Mobilised by the scheme	4	3
10. Transparency	5	10

An attempt is made to find out the respondents views with regard to the selection of income schemes floated by various mutual fund organisations. The results of the analysis of survey data are exhibited in the Table 7.4.

Table 7.4
Scheme Wise Rank Differences Between The Investors And Fund Managers
(Income Schemes)

FACTORS	INVESTORS R1	FUND MANAGERS R2
1. Discount to NAV	9	6
2. Assured annual return	1	2
3. portfolio composition of scheme	6	5
4. Image of the Institution	7	8
5. Less risky	2	1
6. Marketing strategy	10	9
7. Better investor service	3	4
8. Strict adherence to SEBI	8	7
9. Corpus mobilised by the	4	3
10. transparency	5	10

The K_r value found to be significant to 0.87

INVESTORS RESPONSES WITH REGARD TO THE SELECTION OF SCHEMES – GROWTH SCHEMES

To find out the association between the two groups of respondents about their views regarding the factor responsible for the selection of growth scheme floated by different mutual fund organisations. The factors considered by the respondents for the selection of the specific and their ranking as per their choice are exhibited in the Table

7.5

Table 7.5
The Factors and Their Ranking by Investors and Fund Managers
(Growth Schemes)

FACTORS	INVESTORS R1	FUND MANAGERS R2
1. Strong Possibility of capital appreciation	1	2
2. Image of the Institution	5	4
3. portfolio Composition of the scheme	6	6
4. Transparency	10	9
5. Risky and volatile	3	1
6. Marketing strategy	9	5
7. Investor service	7	8
8. discount to NAV	8	7
9. Market Liquidity	4	3
10. High tax benefits	2	10

The results of the analysis of survey data to identify the association between the two groups of respondents are exhibited in Table 7.6.

Table 7.6

**Rank differences between the Investors and Fund Managers
(Growth Schemes)**

FACTORS	INVESTORS R1	FUND MANAGERS R2
1. Strong possibility of capital appreciation	1	2
2. image of the institution	5	4
3. portfolio composition of the	6	6
4. transparency	10	9
5. risky and volatile	3	1
6. marketing strategy	9	5
7. investor service	7	8
8. discount to NAV	8	7
9. Market liquidity	4	3
10. high tax benefits	2	10

The K_r value seems to be significant to 0.87

RESULT OF ANALYSIS AND ITS INTERPRETATION

The data to test whether the investor and the mutual fund manager think alike with regard to the factors that are responsible for the selection of institution and schemes separately for growth and income are listed in Table 7.1, 7.3 and 7.5. These tables have listed ten factors in each category and their ranking made by the two groups of respondents namely investors and the mutual fund managers.

By using the Kendall's correlation co-efficient technique on the results of the analysis of survey data as presented in Table 7.2, 7.4 and 7.6., the researcher has observed certain strong indication. Those observations are presented in the following paragraphs.

With regard to institutions wise analysis the computed value i.e. K_r is 0.94 which is a clear indication that there is a strong similarity in the opinion of these two groups of respondents namely investors and the mutual fund managers, as regards to the factors (as listed in the Table 7.1, 7.3 and 7.5) that are responsible for the investor choice of an institution to invest their saving. Since these two groups agree with each other the researcher feels that the following are the three most influence factors which acts as the stimuli for the investors. They are listed below as per their rankings.

1. Past satisfactory experience of the unit holders.
2. Investor services.
3. Image of the Institution.

SCHEME WISE ANALYSIS - INCOME SCHEME

In this analysis the computed value i.e. Kr is 0.87 . Which is also indicates that there is enough similarity in the opinion of these two groups of respondents. The three most influencing factor that makes the investors to select an income scheme from out of many income scheme launched by different mutual fund organisations are listed below according to their rankings.

1. Assured Annual return.
2. Lesser risk involved.
3. Effective investor services.

SCHEME WISE ANALYSIS - GROWTH SCHEME

In this analysis the computed value Kr. Is 0.73 The value indicates that there is no similarity between the two groups of respondents as regards to the factors that are responsible for the choice of few growth schemes out of many floated by the different mutual fund organisation, by the investors. The researcher felt that the investors rely more on market information supplied by the brokers, friends and investment journals than the factors listed in the Table 7.5.

SUMMARY AND CONCLUSION

This analysis has examined some of the criteria investors might use to select a mutual fund institution and the schemes floated by the mutual fund organisations once they have decided on an objective such as "Long-term growth , income secondary, short-term growth, capital appreciation". With in a normative frame work of the criteria an investor should use in an efficient market, the selection criteria tested included,

discount to NAV, Less risk, past performance, Capital appreciation, tax benefit, assured return, Investor service, Transparency, portfolio composition market liquidity etc.

Excepting the scheme wise analysis - Growth, in the remaining analysis, these selection criteria could be supported with statistically significant empirical results. With regard to the third analysis suggestions from others used by investors were devices from "oral traditions" of the market place and lay-man oriented literature. These criteria include information supplied by the brokers, friends and the investment size. The effectiveness of marketing programs, and investor examination of prior rates-of-return. etc.

INVESTOR PERCEPTION ANALYSIS

BACKGROUND OF THE STUDY

The increased growth of unit holders of UTI MF, LICMF and Canbank MF and the changed economic policies have necessitated investor's perception towards the investment schemes namely growth and income scheme, of the aforesaid institutions. In India, in the context of securities scan, it is now clear that there is a paradigm shift in Mutual funds, especially close-ended schemes. In this connection a study has been undertaken to examine the awareness of the unit holders with regard to the units of UTI MF, Canbank MF and LICMF. Further more, it is now clear that there must be a closer regulation of Mutual funds and thereby increased protection to unit holders. Even though SEBI is in existence for protection of unit holders, it is considered that still they have to go a long way. The present study has been carried out with the aim of gathering information from the unit holders about the schemes launched by the study participants.

To make the study more practical, an opinion poll was conducted, (through interview schedule) among the 300 respondents (unit holders). A specially structured interview schedule was administered for the collection of respondent's views on growth and income schemes operated by Mutual Funds in India.

Even though the empirical study has been statistically tested, it is quite interesting to know the variation in the results, which has been highlighted. Further more, with regard to the perception of investors, simple scaling technique was adopted. The study relates to qualitative nature of the responses which are measurable by scaling/assigning ranks. The measurement is limited to the nature of responses, the method of measurement and the analysis of data. The study, though could not lead us to any definite conclusion, it had provided some significant insights into established theories and practices.

The summarised observations are presented below:-

I UNIT TRUST OF INDIA

(a) Growth Schemes

The empirical study reveals that the growth schemes such as Mastershare, Mastergrowth and UGS 2000 have given fair and reasonable return to the unit holders.

But during the survey, it is felt that, a majority of the unit holders considered the scheme Mastergain-92 has not given then reasonable return, thereby they showed their dissatisfaction towards the fund management. Further they expressed that the return might be higher, if they has invested in any of they risk-free investments.

(b) Income Schemes

The empirical study reveals the following .

The scheme MIP 94 is considered has a better scheme which gave fair return to the unit holders. Among the other schemes namely MIP 95, MIP 96 and MIP 97, MIP 95 and MIP 97 were not considered to be remunerative to the unit holders.

II LIC MUTUAL FUND**(a) Growth Schemes**

The empirical study reveals that, Dhanasamrridhi and Dhana Vikas schemes have failed to give even minimum return to the unit holders. The unit holders have expressed their anguish over the performance of these two growth schemes.

(b) Income Schemes

This analysis reveals that, Dhanashree 90 and Dhanalakshmi -I (option 1) provides good return to the unit holders. The investors also expressed their opinion in a similar fashion that these two schemes yielded reasonable return.

III CANBANK MF

(a) Growth Schemes

It is inferred that the schemes Can Share, Can Double and Can Bonus have rewarded a fair return to unit holders. But the respondents views are quite deviated from the empirical study. They are not convinced with regard to the performance of schemes such as Can Double and Can Bonus. However the unit holders Can Share have expressed their delight and joy with regard to the return they received from the fund management. In this regard they study reveals that the unit holders of Can Growth were made as a scapegoat by the fund management.

(b) Income Schemes

The results of the empirical study showed that among the income schemes of Canbank MF, Can Star rewarded the investors with a reasonable return but the investors opined that the Can Star scheme has not given them a return any where nearer to their expectations. Against this back drop, it is observed that the unit holders of this scheme also considered to be misfortunate.

SUGGESTIONS

1. It is explicit that the SEBI regulations relating to Mutual Funds have not served the purpose fully. Hence to redress the grievances of unit holders effective functioning from SEBI by punishing the erring institutions suitably.

2. The government and statutes alone can not afford full protection to the unit holders. To supplement the efforts of the government, SEBI, AMFI, an investor's services cell in private should come out in large number to redress the grievances of the unit holders. The regulating authorities should manage their regulation in response to the changes with the Financial system – a phenomenon which Edward Kane (1981) called "Regulatory Decaleptic". "Grater the degree of financial liberalisation, Greater is the need for strengthening regulatory frame work in mutual funds".

CONCLUDING REMARKS

In this context financial reforms managing especially the mutual funds has become more challenging than ever before. New models of management are required. Such models will demand new ways of thinking, new knowledge, new skills and new techniques. The mutual fund management must acquire these traits.

One has to appreciate that mere launching of schemes by the institutions alone will not be sufficient to bring in necessary performance improvement and to get the competitive edge. It is the fund manager, who is to play the crucial role in selectivity and timing of the issues.