**Factors influencing Mutual fund purchase decision: A study among retail investors in Madurai district**

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**ABSTRACT**

This paper investigates the pertinent factors influencing Mutual fund purchase decision of retail investors in Madurai district. The study adopted a descriptive cross sectional research design. Data were collected through a structured questionnaire using purposive sampling technique. Exploratory factor analysis and mean ranking were used for testing the objectives. The paper provides suggestions for a better mutual fund investment decision by retail investors.

Keywords: Mutual Funds, Risk, Return

**1. Introduction**

Mutual funds are financial instruments that pool the capital of many investors and invest it in a diverse array of securities, including stocks, bonds, or both. Professional investment managers or teams oversee the management of these funds and make investment decisions on the investors' behalf. One of the most popular investment vehicles in recent years among investors is the mutual fund. Its performance style is unique and is based on stock market performance. Investors began to consider mutual funds as an alternative to fixed deposits because they provide reliable returns and the best investment opportunities. Mutual funds are investment vehicles that pool capital from numerous investors to give them a larger purchasing power and a broader range of holdings. In contrast to buying each security separately, this enables investors to add a sizable number of securities to their portfolio for a significantly lower cost (Smith, 2012). Retail investors have the opportunity to diversify their investment portfolios through mutual funds. Mutual funds can invest in a broad range of securities across various sectors, industries, or geographical areas by pooling money from numerous investors. This diversification spreads the risk and may lessen the effects of a single security's poor performance.

When buying mutual funds, inexperienced investors run a number of risks. Mutual funds make market-dependent investments in a variety of securities, including stocks, bonds, and commodities. The value of the mutual fund may decrease if the market as a whole experiences a downturn, potentially resulting in losses for investors.

Studying mistakes made by retail investors in mutual funds offers valuable insights that can lead to better decision-making, improved performance, and overall financial well-being. As a result in the present research work an attempt has been made to investigate the factors that influence retail investors' attitudes towards investments in diverse mutual fund schemes

**2. Literature Review**

Retail investors in India have been attracted due to goal-driven investment schemes, affordable systematic investment plans, professional management of investors' money, minimisation of trading costs and assured liquidity in designated schemes drove the retail investors towards mutual funds (Begum and Prasad., 2018). Retail investors have been found to make predictable and costly investment mistakes, including underinvestment, naive diversification, and payment of excessive fund fees. These mistakes have been observed in the context of participant-directed 401(k) plans, which have replaced professionally managed pension plans over the past thirty-five years. Policy-makers have struggled to design effective regulatory responses to improve investment decisions due to a lack of understanding of the reasons for these mistakes. However, recent research has made progress in understanding the decision-making process of investors. An internet-based experiment was conducted to investigate the factors contributing to inefficient investment decisions. The experiment revealed that investors often ignore fees and engage in excessive diversification strategies. While some investors paid closer attention to fees and allocated their investments into funds with lower fees, the effects of fee instructions were limited (Kahraman.,2021 , Jill et al ., 2014).

Shivam Tripathi and Dr GuruduttaJapee (2020), opines that close monitoring and evaluation of mutual funds became essential. Therefore, choosing profitable mutual funds for investment may be a vital issue. The study deals with the equity mutual funds that are offered for investment by the varied fund houses in India, this study mainly focused on the performance of selected equity(large-cap, mid-cap, smallcap) open-end fund schemes in terms of a risk-return relationship. The most objective of this research work is to analyse the financial performance of selected open-end fund schemes through statistical parameters like (Jenson’s alpha, beta, standard deviation, Sharpe ratio). The researcher concluded that 10 funds out of 15 performed well in a highly volatile market. The researcher found that an investor must consider risk ratios of the fund before investing. The findings of this research study are going to be help full to investors for his future investment decisions. Mayank Malviya, Prateek Khanna (2020) examines the performance of mutual fund schemes ranked 1 by CRISIL and compares these returns with SBI domestic term deposit rates. While considering the interest of retail investors simple statistical techniques like averages and rate of returns are used. The results obtained from the study clearly depicts that, in most of the cases the mutual fund schemes have failed even to supply the return of SBI domestic term deposits.

Komal Sharma (2020) assessed the performance of chosen debt mutual fund schemes in India, as well as to look at the risk and return components of these funds. Research is based on secondary data from five debt mutual funds formed by private entities between January 2017 and December 2019. Three mutual funds performed well during the research period, whereas two funds did not, and three mutual fund schemes, with the exception of Axis corporate debt and HSBC fund, performed well in a high volatile market. To ensure that the mutual fund's performance remains consistent, investors should evaluate the statistical parameter. This research will give them some insight into mutual fund performance, allowing them to make more informed investment decisions and allocate their resources to the best mutual fund schemes. According to Kirtani, (2020**),** common investors are facing the problem in choosing the suitable product among the multiple institutions offering variety of products and multiple options attached with each product. This research paper is an attempt to evaluate the performance of selected schemes of different mutual funds in India. The sample consists of 8 schemes from the selected asset management companies over a study period of 5 years spanning from 2015 to 2019. The performance of selected funds is evaluated by using statistical tools like average rate of return of funds, standard deviation, beta and risk adjusted techniques like Sharpe ratio and Treynor ratio are used. Benchmark index has also been considered for the purpose of analysis.

These findings suggest the need for further research and have important implications for the regulation of retail investing

**3. Objectives**

* To identify the key factors influencing the mutual fund investment decision of retail investors
* To examine the most important actor
* To offer suitable suggestions for a better investment strategy

**4. Research Method and Design**

The present research is a descriptive study, and the data was gathered from 150 retail investors via a well-managed survey that employed a purposive sample technique and a structured questionnaire. The investigation employed a cross-sectional research design. Respondents were investors with at least one year of mutual fund investing experience. A total of 16 items were used, ranging from strongly agree to strongly disagree on a 5-point Likert scale. Previous research (Sumathy&Das,2022, Ramkumar&Chitra,2021, Sharma,2019) influenced the factor selection. The internal consistency of the questionnaire was examined using Cronbach's alpha reliability analysis. Cronbach's alpha was found to be greater than 0.70 for all constructs. The data was analysed using exploratory factor analysis and mean score comparison.

**5. Results and Discussion**

**5.1 Exploratory Factor Analysis**

KMO and Barlett's test of sphericity were used to determine whether the data set was appropriate for factor analysis. In both instances, the testing produced positive outcomes. Four factors with a total of 16 items emerged after the items underwent a varimax rotation. The scree plot and Eigen values were used to determine whether to keep the factors. Due to the fact that all four factors had factor loadings greater than.50, they were all kept. The factor analysis's findings are displayed in Table 1. Additionally, all of the dimensions had cronbach alpha scores greater than.70, demonstrating consistent reliability. The Four factors were named as Fund Characteristics (Factor 1), Credibility (Factor 2), Transparency (Factor 3) and Convenience (Factor 4).

**Figure 1: Scree Plot**



**Table 1:** **Rotated Component Matrix**

|  |
| --- |
|  |
|  | Component |
|  | 2 | 3 | 4 |
| Liquidity | .907 |  |  |  |
| High Returns | .893 |  |  |  |
| Past Performance | .679 |  |  |  |
| Tax Benefit | .888 |  |  |  |
| Transparency | .808 |  |  |  |
| Professional Management | .769 |  |  |  |
| Credit Rating |  | .931 |  |  |
| AMC Image |  | .899 |  |  |
| Management Structure |  | .889 |  |  |
| Declaration of all Material Information in a timely Manner |  |  |  | .843 |
| Scheme’s Prospectus |  |  |  | .777 |
| Compliance to SEBI Guidelines |  |  |  | .875 |
| Entry & Exit load |  |  | .776 |  |
| Withdrawal facilities |  |  | .788 |  |
| Scheme’ s expense ratio |  |  | .836 |  |
| Grievances Redress |  |  | .775 |  |
| Extraction Method: Principal Component Analysis.  Rotation Method: Varimax with Kaiser Normalization. |
| Rotation converged in 5 iterations. |

**Table 2: Total Variance Explained**

|  |
| --- |
|  |
| Component | Initial Eigenvalues | Extraction Sums of Squared Loadings | Rotation Sums of Squared Loadings |
| Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 6.098 | 38.113 | 38.113 | 6.098 | 38.113 | 38.113 | 4.290 | 26.812 | 26.812 |
| 2 | 2.828 | 17.678 | 55.791 | 2.828 | 17.678 | 55.791 | 2.821 | 17.631 | 44.443 |
| 3 | 1.658 | 10.365 | 66.156 | 1.658 | 10.365 | 66.156 | 2.809 | 17.559 | 62.002 |
| 4 | 1.556 | 9.726 | 75.882 | 1.556 | 9.726 | 75.882 | 2.221 | 13.879 | 75.882 |
| 5 | .672 | 4.198 | 80.079 |  |  |  |  |  |  |
| 6 | .551 | 3.447 | 83.526 |  |  |  |  |  |  |
| 7 | .503 | 3.146 | 86.673 |  |  |  |  |  |  |
| 8 | .436 | 2.727 | 89.400 |  |  |  |  |  |  |
| 9 | .430 | 2.685 | 92.085 |  |  |  |  |  |  |
| 10 | .307 | 1.916 | 94.001 |  |  |  |  |  |  |
| 11 | .266 | 1.665 | 95.666 |  |  |  |  |  |  |
| 12 | .256 | 1.603 | 97.269 |  |  |  |  |  |  |
| 13 | .177 | 1.109 | 98.377 |  |  |  |  |  |  |
| 14 | .139 | .871 | 99.248 |  |  |  |  |  |  |
| 15 | .083 | .517 | 99.765 |  |  |  |  |  |  |
| 16 | .038 | .235 | 100.000 |  |  |  |  |  |  |
| Extraction Method: Principal Component Analysis. |

**5.2 Mean Ranking of Factors Influencing Mutual Fund Purchase**

The important factors influencing the retail investor’s mutual fund decision obtained through exploratory factor analysis were analyzed with mean rank. The results are displayed in the following table

**Table 3:** **Mean ranking of** **Factors Influencing Mutual Fund Purchase**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| S.No | Items | Mean Score | SD | Rank |
| 1 | Fund Characteristics | 4.10 | .955 | I |
| 2 | Credibility | 4.08 | .881 | II |
| 3 | Transparency | 3.95 | .902 | IV |
| 4 | Convenience | 3.99 | .996 | III |

Table 3 shows that among the four factors influencing mutual fund purchase, “Fund Characteristics” secured the first rank with the highest mean score (M= 4.10), followed by Credibility (M= 3.93).

**6. Conclusion**

This research examines influencing Mutual fund purchase decision of retail investors. Asset management firms can play an important role in assisting retail investors in making better mutual fund purchase decisions. They may provide risk assessment tools to assist retail investors in accurately determining their risk tolerance. This will allow them to choose mutual funds that are compatible with their individual risk profiles and financial objectives. They must maintain transparency by disclosing all relevant information about mutual funds, such as expense ratios, historical performance, fund manager details, and portfolio holdings. This transparency fosters investor trust. They should also conduct extensive research on various mutual funds and provide easily understandable comparisons between funds based on performance, risk, and other relevant factors. This research can help investors make more informed decisions.

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