

Factors affecting inclination of Investors towards Mutual Funds -Systematic Investment Plans (SIP): An Empirical Study of Retail Investors

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Abstract

Investment plays a vital role in the economy and is considered a crucial tool for bolstering a nation's GDP. The concept of investment varies from person to person, depending on their individual needs and their understanding of market conditions. Effective investment management is essential for investors to navigate the market successfully and achieve desirable returns. Mutual funds are a retail financial product tailored to attract small investors, such as salaried individuals, who may find the stock market daunting but still want to benefit from stock market investments. Professionally managed mutual funds have gained significant popularity among Indian investors over the past few years. The increased financial awareness among the public has driven growth in the number of investments made in these fund houses. A sample of 291 respondents was collected from retail investors. The factors affect the inclination of investors towards Mutual funds are Professional Management, Diversification, Ease of Investment, and Liquidity.

Keywords: Investment, Mutual funds, Investor preferences, investment options, returns

Introduction of the Study

To shape up the economy of any nation, investment plays a very important role because it is the best way to mobilize savings of people in companies and capital market that need that money for its expansion, growth as well as for modernization. Investors predominantly prioritize risk and liquidity as the key factors guiding their choice of mutual funds, often paying less attention to financial awareness and investment returns. This tendency can be attributed to the relatively lower awareness levels among investors when it comes to evaluating the fund's returns, while they tend to be well-informed about the liquidity aspect of mutual funds. In essence, financial awareness has minimal influence on their investment decisions in the mutual fund arena (Sinha, 2020). One of the main objectives of a retail investor is to maintain an inflow of regular cash in safe manner with the safety of the principal amount. The preference of retailers investing in financial market who are making informed decisions during crisis and uncertain time gets impacted by emotional elements. During the COVID-19 pandemic, mutual fund customers have shown a decreased emphasis on fund performance and returns, with investors placing greater importance on factors such as customer information, relationship management, and fund diversification. The quality of customer relationships and the level of customer awareness have become pivotal in building trust among investors, while diversification of funds is seen as a strategy to mitigate risk in the volatile financial markets (Kumari & Chahal, 2022). Among various investment avenues available in market such as bonds, shares, debentures, etc. Mutual fund has made their own space in financial market. The growing trend in favour of mutual funds reflects the rising preference of investors. This inclination continues to gain momentum daily because mutual funds provide a chance to invest in a diversified portfolio overseen by a team of professional managers. For investors, entering the financial market through mutual funds is a cost-effective option. Mutual funds in India are significant players in financial market, it is being driven by global and economic elements. Therefore, fund managers must find out the linkages, and plan investment

strategies accordingly (Garg, Shobhit & Srivastava, 2020). In India, mutual fund industry has aroused as an apparent monetary assistance that is consistently adding value to the Indian money market at high level. Although established by UTI in India in 1963, significant advancements in technology have only become apparent in recent years. It takes time for the general population to acknowledge and embrace new technology. In developing countries like India, the resistance to change regarding technology and culture is notably higher compared to developed nations. People were accustomed to traditional methods of investment (Mani & Ahirwar, 2021). Banks and almost every financial institute have explored the probability of pushing investment of investors towards mutual fund as an option, some of them prefer to float few mutual funds themselves. This research endeavours to investigate how investors perceive mutual fund investments. The motivation behind this study stems from the increasing trend of individuals investing in mutual fund schemes offered by various financial institutions. Mutual funds offer both small and large investors the chance to partake in and reap the rewards of capital market growth. Thanks to their cost-effectiveness, risk diversification, and potential for high returns, mutual funds have become a favoured means for wealth creation (Mishra, 2019). Mutual funds are known to be the easiest, safest and worryless way of making investment in stock market. It is found in a study that in the past five years a huge amount is invested in mutual funds by retail investors. Reputable Mutual Fund organizations are highly sought after by investors, as the mutual fund industry is experiencing rapid growth. Various financial institutions have introduced a plethora of investment plans to cater to this surge in demand. With the stock markets performing strongly, these investment schemes are particularly enticing to investors. In the Indian context, investors typically commit their funds for a period of 2-3 years. Moreover, there is a prevalent inclination to opt for fixed deposits due to the perceived security associated with them. To make mutual fund a success, companies must create awareness programs for investors to have better understand about mutual funds (Prasad & Vijayakumar, 2017).

Literature Review

Singhal & Manrai (2018) stated that in comparison to other investment avenues available in financial market, investing in mutual fund is found to be less risky and easy to invest. Mutual funds are less risky with the combination of moderate returns and managed professionally, which act as a magnet for investor who are more risk averse in making investment in stock market. Mutual funds provide an accessible means for individuals with limited savings to pool their money and transform it into diverse securities. This convenience can be attributed to two primary factors: divisibility and maturity. Mutual funds adapt their security denominations to cater to the preferences of individual savers, offering a range of investment sizes.

Sharma (2019) found two vital elements that make huge contribution in strengthening of mutual funds are its diversification of nature and risk. With the passing time, there are many new mutual funds have arrived in market. It is also found that feature, convenience, credibility, success factor of fund is some of the vital element that make impact on the perception of retail investors towards investment. All such factor incline investor to make investment in mutual funds.

Agarwal, Tandon & Raychudhuri (2016) revealed that mutual funds made a significant entry into the Indian market during the 1990s. These funds offer various investment options to cater to the diverse goals and objectives of investors. Whether someone is looking for long-term growth, short-term gains, regular dividend payments, or consistent growth, there are schemes available to suit their needs. In this current study, we place our focus on understanding investor perceptions regarding the characteristics of mutual fund schemes through a primary survey.

Kothari & Mindagri (2013) stated that making investments in mutual funds is often known to be as one of the most straightforward and low-stress methods for participating in the stock market. Over the past few years, a significant amount of money has been invested into mutual funds. Any investor would prefer to put their money into a well-respected mutual fund organization. Mutual funds serve as financial intermediaries, focused on gathering the savings of individuals with excess funds and directing those savings toward areas where there is a demand for capital. The scene of investment is evolving rapidly, diverging from traditional patterns, with people nowadays showing a willingness to embrace risk and endure the fluctuations in the ever-changing mutual fund market.

Nag, Chakraborty & Dey (2022) found that when we talk about making investment in financial market, there are excessive risky options of high returns as well as low return option but these are the safer ones. Investing in options that would give high returns in important for creation of wealth as well as it also beats negative influence of inflation. This research aims to explore the inclination towards investing in the risky capital market, particularly through the avenue of mutual funds.

Mutual funds have emerged as a promising choice for investors and have garnered trust over time. Notably, the mutual fund industry has recently witnessed a surge in new investors. The primary motivations for investing in mutual funds were identified as the accumulation of funds for asset acquisition and retirement planning. It's worth noting that equity schemes emerged as the most favoured mutual fund investment option, reflecting a significant level of trust in mutual funds as an investment vehicle.

Kumar & Elahi (2019) studied that in times of inflation, it's advisable to seek investment opportunities that can generate returns and growth for your money, as investors are typically motivated by the prospect of increasing their wealth. It is found that most preferred investment avenues by investors are fixed deposits, mutual funds, equity, and insurance. The change in investment pattern of investor's preference is slow but remarkable from physical assets to financial assets such as equity shares and mutual funds. The shift towards financial assets is driven by the convenience of investment, the widespread popularity of business news channels, and increased access to research resources.

Narang et al (2022) revealed that majority of retail investors are very well aware about different mutual fund schemes available in financial market. Investors are drawn to mutual funds primarily due to the diversification of their portfolio and the attractive tax benefits they offer. Mutual funds offer several unique advantages when compared to investing in individual securities. Multiple choice of investment is offered by mutual funds across corporate bonds, equity shares, government securities and instruments of money market that provides best avenues for investors for participation and benefits from the uptrend in capital market.

Bajracharya & Mathema (2017) studied that mutual funds have appeared as a flexible, provides variety, diversified, liquidity, and advantages of taxes. Mutual funds offer an accessible pathway to investment opportunities, particularly for individuals with limited knowledge and resources. They serve as a means to bridge the gap for investors who may lack the necessary expertise and capital. While mutual funds do present various investment options to cater to investors' needs, the key lies in making informed selections and implementing a robust system for ongoing monitoring and control. It is found that many investors are still unsure about investing in mutual funds because according to the mutual funds are not safe to make investment in comparison to other investment options available in market.

Patel & Surti (2021) found that Mutual funds have emerged as a significant category of financial intermediaries, serving the diverse needs of investors. Several key factors influence investors' decisions when it comes to mutual fund investments, including tax advantages, potential for high returns, fund prices, capital appreciation, and risk diversification. Among the various investment options, Systematic Investment Plans (SIP) schemes are particularly favored by investors. Overall, the level of satisfaction among mutual fund investors can be considered moderate. The insights obtained from this assessment can be instrumental for mutual fund companies.

Objective

To identify the Factors affecting inclination of Investors towards Mutual Funds -Systematic Investment Plans (SIP).

Methodology

This study considered a sample of 291 people was collected from retail investors. Random sampling method was used for collection of data, and scrutinized by "Explanatory Factor Analysis" for outcome.

Study's findings

Below table is about general details of respondents which shows that 59.11%, and 40.89% are female. Looking at the age group, 28 to 32 are 30.58%, 32 to 36 are 40.21%, and Above 36 are 29.21%. Regarding Income level, less than 5 lacs are 35.39%, 5 to 15 lacs are 25.77%, and More than 15 lacs are 38.84%.

Details of Participants

Variable	Participants	% age
Gender		
Male	172	59.11

Female	119	40.89
Total	291	100
Age in years		
28 to 32	89	30.58
32 to 36	117	40.21
Above 36	85	29.21
Total	291	100
Income Level		
Less than 5 lacs	103	35.39
5 to 15 lacs	75	25.77
More than 15 lacs	113	38.84
Total	291	100

“Factor Analysis”

“KMO and Bartlett's Test”

“Kaiser-Meyer-Olkin Measure of Sampling Adequacy”	.804
“Approx. Chi-Square”	4532.663

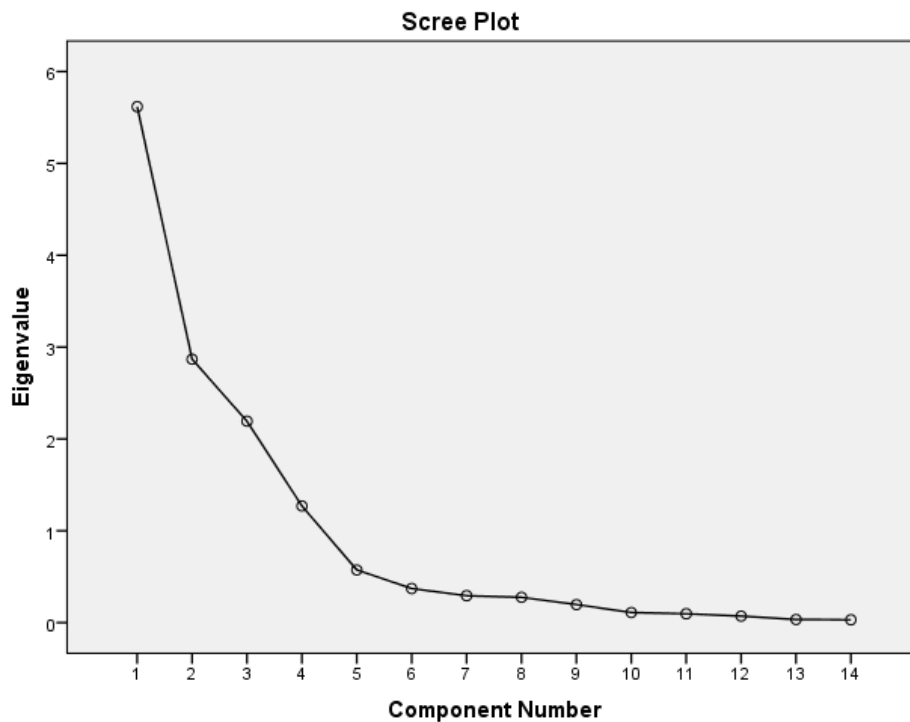
"Bartlett's Test of Sphericity"	df	91
	Significance	.000

In above table "KMO and Bartlett's Test" above, KMO value found is .804

"Total Variance Explained"

"Component"	"Initial Eigenvalues"			"Rotation Sums of Squared Loadings"		
	"Total"	"% Of Variance"	Cumulative %	"Total"	"% Of Variance"	Cumulative %
1	5.617	40.123	40.123	3.765	26.890	26.890
2	2.868	20.485	60.608	3.592	25.659	52.550
3	2.193	15.663	76.271	2.397	17.118	69.668
4	1.270	9.071	85.343	2.194	15.675	85.343
5	.574	4.097	89.439			
6	.371	2.650	92.090			
7	.293	2.093	94.183			
8	.275	1.967	96.150			
9	.196	1.403	97.553			
10	.110	.788	98.341			
11	.096	.689	99.030			
12	.071	.504	99.535			
13	.034	.244	99.778			
14	.031	.222	100.000			

All four factors making contribution in explaining total 85.343% of variance. The variance explained by Professional Management is 26.890%, Diversification is 25.659%, Ease of Investment is 17.118%, and Liquidity is 15.675%.



ScreePlot

“Rotated Component Matrix”

S. No.	Statements	Factor Loading	Factor Reliability
	Professional Management		.978
1.	Mutual funds are managed by professionals and experts of financial market	.962	
2.	Professional fund managers manage funds on behalf of retail investors	.949	
3.	Their expertise provides a sense of security to investors	.949	
4.	Investors who lack knowledge and time can trust professional fund managers	.938	
	Diversification		.958
1.	Mutual funds including SIPs offers diversification across range of assets	.972	

2.	Mutual funds are diversified between bonds, shares, stocks and other securities	.942	
3.	Diversification helps in spreading of risk	.924	
4.	Diversification make investments less volatile	.873	
	Ease of Investment		.885
1.	Investing in SIPs and mutual funds is ease and hassle-free	.879	
2.	Investors can make automatic deduction of investment amount from their bank account	.840	
3.	Mutual funds and SIPs are the most convenient and easiest investment option	.829	
	Liquidity		.801
1.	Investing in SIPs is more liquid as compared to other investment avenues	.890	
2.	Its units can be redeemed by investors at any time	.803	
3.	Liquidity attracts investors as they can use their funds anytime during emergencies	.783	

Factors and associated variables

The first factor of the study is Professional Management, the variables included under this factor are Mutual funds are managed by professionals and experts of financial market, Professional fund managers manage funds on behalf of retail investors, their expertise provides a sense of security to investors, and Investors who lack knowledge and time can trust professional fund managers. Diversification is the second factor of the study; it includes factors like Mutual funds including SIPs offers diversification across range of assets, Mutual funds are diversified between bonds, shares, stocks and other securities, Diversification helps in spreading of risk, and Diversification make investments less volatile. Ease of Investment is the third factor, the variables it includes are Investing in SIPs and mutual funds is ease and hassle-free, Investors can make automatic deduction of investment amount from their bank account, and Mutual funds and SIPs are the most convenient and easiest investment option. Fourth factor is Liquidity, the variables included under this factor are Investing in SIPs is more liquid as compared to other investment avenues, its units can be redeemed by investors at any time, and Liquidity attracts investors as they can use their funds anytime during emergencies.

“Reliability Statistics”

“Cronbach's Alpha”	“Number of Items”
.878	14

Total reliability of 14 items including variables in Factors affecting inclination of Investors towards Mutual Funds - Systematic Investment Plans (SIP) is 0.878

Conclusion

Mutual funds offer an accessible platform for the average investor to engage in the Indian capital market while benefiting from professional fund management, regardless of the amount they wish to invest. This approach is generally considered less risky than direct stock investments, making it a safer option for risk-averse individuals. Interestingly, respondents in the study expressed a stronger preference to invest in public sector mutual fund in comparison to private sector counterparts. Due to the competitive nature of the industry, mutual fund providers are continually introducing a wide range of schemes to cater to the specific needs and preferences of investors. Despite the awareness of mutual funds, the research revealed that people remain hesitant to invest in them. In fact, many investors still favour traditional fixed deposits over mutual funds as a preferred investment avenue. The study recommends an educational outreach to inform investors about the advantages of various mutual fund options and other investment possibilities. Furthermore, the study found that several demographic factors influence mutual fund preferences, indicating a significant relationship between these variables and investment choices. Therefore, with effective communication and tailored offerings, mutual funds can become a more favoured financial avenue among investors. The study underscores the diverse preferences of potential investors who are inclined towards mutual funds but are seeking innovation and improved service quality within the existing framework. The factors affect the inclination of investors towards Mutual funds are Professional Management, Diversification, Ease of Investment, and Liquidity.

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