A STUDY ON INFLUENCE OF INVESTMENT SPECIFIC ATTITUDES OF INVESTORS ON INVESTMENT DECISIONS

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ABSTRACT

In India, it is the household sector which occupies a position of dominance over the other institutional sectors like private corporate sector and public sector in terms of generating savings. Particularly, savings in financial assets by households are more important from the resource mobilisation point of view, because of their liquidity characteristics compared to physical savings which can be more easily translated into investments. In today's highly volatile capital market environment, mutual funds are looked upon as a transparent and low cost investment avenue. A Mutual Fund is a trust that pools the savings of a number of small investors, in the form of units, who have a common financial goal. The money, thus collected by them is invested in financial market instruments such as shares, debentures, bonds, money market instruments or some combination of these investments in such a way, as to minimise risk, while ensuring safety and a steady return on investment. At the retail level, investors are unique and are highly heterogeneous, and the mutual fund schemes' selection will also differ depends on their expectations. Hence, investors' expectation is a very important factor in this regard that needs to be analysed by all the investment houses. So, the factors that drive the investment decisions of individual investors to meet their expectations by investing money in mutual funds need an in-depth analysis. One of the most influencing factors on mutual fund investment decisions is investment specific attitudes of investors. Hence the present study makes an attempt to analyze the influence of investment specific attitudes of investors on mutual fund investment decisions.

***Keywords**: Mutual Funds, Investment Decisions, Investment Specific Attitudes, Investors.*

Introduction:

In India, it is the household sector which occupies a position of dominance over the other institutional sectors like private corporate sector and public sector in terms of generating savings. If there is higher mobilisation of household savings, it means higher availability of resources in the economy for growth and development. Particularly, savings in financial assets by households are more important from the resource mobilization point of view, because of their liquidity characteristics compared to physical savings which can be more easily translated into investments.

In today's highly volatile capital market environment, mutual funds are looked upon as a transparent and low cost investment avenue. The popularity of mutual funds in India as an investment avenue has increased over time and, as a result, new funds with various types of schemes have mushroomed in a very short period. The resource mobilisation of mutual funds has also been growing at a steady pace over the years. In the Indian capital market, the overall growth and development of various products of mutual funds has already proved to be one of the most catalytic instruments in generating momentous investment growth. In India, in spite of the offering of an exciting retail environment for mutual funds by channelising the savings, participation from the investors in retail segment continue to remain at low levels. As on 31st March 2010, the participation from the retail segment has been only 26.6 per cent and at the end of 31st March 2009 it was only 21.3 per cent. The analysis of data on the contribution of the amount of investments in mutual funds by various sectors of the economy showed that as on 31stMarch 2010 the corporate sector contributed 51 per cent, banks/financial institutions contributed 3 per cent, Foreign Institutional Investors contributed 19 per cent, and High Net worth Individuals contributed one per cent of their total amount of investments. It shows thatthe dependence of mutual funds on the corporate sector for investment is pretty high compared to the investments made by the other sectors. Usually the majority of the investors coming under the retail sector in India consist of individual investors. Hence, an attempt to analyse the individual investors' investment in mutual funds has also been made.

Traditionally India enjoys a very high saving rate. It was approximately 34 per cent in financial year ending 31st March 2011 of which household savings in financial assets were around 11.8 per cent. The survey conducted by National Council of Applied Economic Research (NCAER) in 2008 revealed that although Indians have a positive attitude towards increased savings, around 65 percent of savings are with banks or post office deposits and cash at home, 23 per cent are invested in real estate and gold, and only 12 per cent is channelised towards financial Instruments. According to the data available in Karvy Private Wealth Reports, it is revealed that out of the total amount of investments in financial assets, only 3.34 per cent and 3.38 percent cent were made in mutual funds respectively in the financial years ending 31st March 2011 and 31st March 2012 by the individual investors in India. It shows that increase in investments in mutual funds between these two years was only 0.04 per cent. But in developed markets, investments in mutual funds constitute a significant proportion of one's portfolio of investments. Mutual funds play a key role in achieving both the long-term and short-term goals of savings of U.S. households. It represented a significant component of many financial holdings of U.S. households in 2011. In the U. S. A. altogether, 52.3 million households, or 44 per cent of all U.S. households, owned mutual funds in 2011.

Unfortunately, in India it is a fact that most of the investors are not interested in mutual funds. Those who are investing only very small amounts. But what is important to be noted here is that when compared to other financial instruments, investments in mutual funds are safer and also yields more returns on the investment portfolio. Moreover as an investment avenue mutual fund is available for those investors who are not willing to take any exposure directly in the security market. It also helps such investors to build their wealth over a period of time. At the retail level, investors are unique and are highly heterogeneous, and the mutual fund schemes' selection will also differ depends on their expectations. Hence, investors' expectation is a very important factor in this regard that needs to be analysed by all the investment houses. So, the factors that drive the investment decisions of individual investors to meet their expectations by investing money in mutual funds need an in-depth analysis. One of the most influencing factors on mutual fund investment decisions is investment specific attitudes of investors.

The success of any mutual fund, a popular means of investment, depends on how effectively an Asset Management Company has been able to understand the level of influence of this factor on the decision of investors to invest in mutual funds. For a substantial growth in the mutual fund market, there must be a high level precision in the design and marketing of the products of mutual funds taking into account these driving forces by the Asset Management Companies. Therefore, there is a need to conduct a detailed study on investments in mutual funds in this direction. Hence the present study makes an attempt to analyze the influence of investment specific attitudes of investors on mutual fund investment decisions.

Review of Literature:

A review of theoretical and empirical literature pertaining to the topic of the study is an integral part of any research work. Hence, an attempt has been made chapter to present a review of various studies relating to investors' behavior, attitudes and fund selection behavior as reported by experts, professionals and researchers at national and international level. This will help to find out new area hitherto unexplored and to study them in depth.

Ajaz and Gupta (2012) investigated the preferences of investors towards mutual fund schemes. The primary data was collected across the states of Jammu and Kashmir and Punjab. Various statistical tools were applied to the data so collected. The findings of the study revealed that investment returns, perception of investors, information sources, investors valuation, investors objectives and investments decisions have significance impact on retail investors preferences.

Alexander, Jones, and Nigro (1998) analyzed the response from a nation-wide telephone survey of 2000 randomly selected mutual fund investors who purchased shares using the services of six different intermediaries, referred to as distribution channels- brokers, banks, mutual fund companies, insurance companies, employer- sponsored pension plans and others. The survey provided data on the demographic, financial, and fund ownership characteristics of mutual fund investors. Furthermore, it contained data on investors' familiarity with the costs and certain investment risks, associated with mutual funds and the information sources used to learn about these costs and risks.

Capon, Fitzsimons, and Prince (1996) investigated the manner in which consumers made investment decisions for mutual funds. Investors reported that they considered many non-performance related variables. When investors were grouped by similarity of investment decision process, a single small group appeared to be highly knowledgeable about its investments. However, most investors appeared to be naïve, having little knowledge of the investment strategies or financial details of their investments. Implications of mutual fund companies were discussed.

Gupta, Chawla and Harkawat (2011) carried out a study through questionnaire survey in Naranpura are of Ahmadabad, Gujarat. Hypothesis was tested using z-test and Chi-square. The analysis finding suggested that the majority of investors were aware about mutual funds and were willing to invest in mutual fund. Most preferred scheme was balanced fund. The findings also suggested that investment is fixed deposit is more likely to be done than mutual funds. The hypothesis was also proving that the occupation of the investor is not affected in investment decision for mutual funds.

Leelamma (2004) made an in-depth study of the mutual fund investors specially SBI Mutual Fund investors in Kerala. According to her, the investors of Kerala had been showing keen interest by subscribing to various mutual fund schemes anticipating higher return and capital gains.

Nalini (1996) made an evaluative study of the impact of mutual fund schemes on the deposit mobilization of commercial banks in Kerala for the period of 1987-1994. The study showed that during early the 1990s, when public sector banks entered the mutual fund sector, it affected the deposit mobilisation of commercial banks to a certain extent.

Raju (1993) in his work mentioned that 23 per cent of the population covered, was aware of mutual fund schemes but the awareness level is less than that of government bonds.

Wood and Zaichkowsky (2004) identified and characterized segments of individual investors based on their shared investing attitudes and behavior. A behavioral finance literature review reveals five main constructs that drive investor behavior: investment horizon, confidence, control, risk attitude, and personalization of loss. Ninety individual investors were surveyed via questionnaire on these constructs. Through cluster segmentation analysis, they identified four main segments of individual investors: 1) risk-intolerant traders; 2) confident traders; 3) loss-averse young traders; and 4) conservative long-term investors. Each segment purchased different types of stocks, used different information sources, and had different levels of trading behavior.

Objective of the Study:

To study the influence of investment specific attitude of investors on investment decisions.

Hypothesis:

Ho: There does not exist a positive relationship between the investment specific attitudes of investors and mutual fund investment decisions.

H1: There exists a positive relationship between the investment specific attitudes of investors and mutual fund investment decisions.

Research Methodology:

The present study is descriptive and explanatory in nature. Both secondary and primary data were collected and used for the study. The secondary data source for the study include books, journals, periodicals, publication of various mutual fund organisations, website of AMFI, website of SEBI, government publications and websites of various mutual fund companies. Primary data required for the study were collected from 900 individual investors in Kerala who have investments in mutual funds. Multi-stage sampling was adopted for selection of respondents for the study. Thus, the total sample size of the study comes to 900 individual investors in mutual funds. In order to achieve the objectives of the study, a well-structured questionnaire was developed. This was for collecting primary data from individual investors in mutual funds. The questionnaire was finalised after conducting a pilot study among 50 individual investors in mutual funds in Ernakulam district. On the basis of the experience from the pilot study, some of the questions were refined with a view to ensuring the correctness of the responses and included in the final questionnaire. A number of experts/consultants in the mutual fund industry have been consulted and their suggestions were incorporated while finalising the questionnaire to ensure the content validity of the instrument. In the present study, the reliability of the scale of measurements used was assessed by using Cronbatch Alpha coefficient, which was above the minimum acceptable level, 0.845 there by confirmed the reliability of the scale of measurement. The questionnaire developed for collecting primary data was administered to 900 individual investors in mutual funds and their responses were collected through filled up questionnaire. The collected data were tabulated and analysed with the help of SPSS. The statistical tools used for analysis include Percentage, Weighted Average Mean, Standard Deviation, and ANOVA.

Results:

Wood R and Zaichkosky J.L (2004) identified five investment specific attitudes namely confidence of investors, risk attitude of investors, investment horizon, personalisation of loss and investment control. For the present study one more investment specific attitude was identified and included namely 'awareness of investors'. The literature review [Raju, G. (1993), Leelamma M (2004)] revealed that lack of awareness of investors on mutual funds was the main reason for low investments in mutual funds.

There were 24 statements altogether under these six heads to know the investment specific attitudes of investors. Reliability was tested for the statements based on Cronbach alpha which is 0.880. Investors were asked to rate these 24 statements at 5 point scale as 5 very important, 4 is important, 3 is somewhat important, 2 is not very important and 1 is not at all important. Based on the responses, the mean were calculated and based on these mean, ranks were assigned to each statements under each dimensions like awareness, confidence, risk attitude of investors, investment horizon, personalisation of loss and investment control as 1, 2, 3…etc. The table 1 shows the investment specific attitudes of mutual fund investors.

Amount of Investments in Mutual Funds:

There are various avenues of investment available for investors to allocate their fund. From the analysis of the risk perception of investors, it is clear that investors are highly financial conservative. Therefore they prefer efficient portfolio which will give maximum return with minimum risk. As mutual funds ensure a reasonable level of return, it is essential to know how much they invest in mutual funds. The percentage of investment in mutual funds to the total investments was grouped into four namely, less than 25 per cent, 25-50 per cent, 50-75 per cent and 75-100 per cent. To understand the percentage of investments in mutual funds by the investors, they were asked to mention their investments in mutual funds. The table 2 shows the investments in mutual funds by investors.

Table 1: Investment Specific Attitudes of Investors

No	Statements	Mean	S.D.	Rank
	AWARENESS OF INVESTORS			
a	MFs are useful for small investors	4.52	0.71	1
b	MFs are the cheapest way to equity exposure	4.11	0.8	2
c	MFs investment is like owning any other asset	3.94	0.87	3
	CONFIDENCE OF INVESTORS			
d	MF is one of the best investment tools for one who is unable to track the market and manage his stock investment efficiently	3.95	0.89	1
e	Investing in MFs automatically provides necessary diversification of your investment	3.87	0.85	2
f	MFs give higher return than other investments	3.66	0.91	7
g	Equity MF Schemes are specially designed to cater the retail investors desire to invest stock market.	3.78	0.9	5
h	Bank Sponsored and institution sponsored MFs are more secured than private sector MFs	3.82	0.92	4
i	Trading of MF units on stock exchanges will help the investors in elimination of paper work, execution of transaction would be faster and m more convenient manner	3.85	0.86	3
j	Investing online in MFs is just as safe as investing in MFs offline	3.85	0.86	3
k	In terms of cost saving, the abolition of entry load will be beneficial to the investors in the long run	3.85	0.89	3
l	MFs are for all seasons and one need not wait for the market to go up to buy MFs	3.72	0.94	6
	INVESTMENT HORIZON			
m	The best way to make money is to adopt a long-term strategy	3.86	0.93	1
n	The optimum way of reaping benefits in any market cycle would be through a disciplined, regular and long-term investment approach	3.82	0.92	2
o	Money Market Mutual Funds Gilt funds and Liquid funds are good for investors having short-term investment horizon	3.81	0.92	3
	RISK ATTITUDE OF INVESTORS			
p	Choice of mutual fund scheme completely depends on investor's risk profile.	3.87	0.9	3
q	The best way to avoid market timing is through regular investing, or the Systematic Investment plan	3.93	0.88	1
r	Diversification through MFs reduces the risk because the stock in the portfolio of the MF may very rarely decline simultaneously or in the same proportion	3.83	0.88	4
s	Those investors with high risk appetite can choose equity MFs for their investments	3.89	0.91	2
	PERSONALISATION OF LOSS			
t	There is no need to concern about short-term fluctuations in the long-term investments.	3.89	0.93	1
u	Investors should try to make sure that their investments keep pace with inflation	3.86	0.87	2
v	If investors' can break even on an investment, they don't feel they have lost money.	3.69	0.93	3
	INVESTMENT CONTROL			
w	Investors should follow their investment closely	3.97	0.9	1
x	The investor, who has control over his investment, can make his own investment decisions without advice from others.	3.9	0.9	2

Source: Field Survey.

For the present study the amount of investments in mutual funds by the mutual fund investors is considered as mutual fund investment decisions. So an analysis of the same as follows.

Table 2: Amount of Investments in Mutual Funds

Investments in Mutual Funds (Percentage to Total Investments)	Frequency	Percent
less than 25%	166	18.4
25%-50%	135	15.0
50%-75%	133	14.8
75%-100%	466	51.8
Total	**900**	**100**

Source: Field Survey.

From the table 2, it is clear that, out of the 900 investors, 18.4 per cent respondents are investing less than 25 per cent, 15 per cent of the respondents are investing 25-50 per cent, 14.8 per cent are investing in between 50-75 per cent and 51.8 per cent is invested in between 75-100 per cent. So, the majority of the respondents 734 (81.56 per cent) covered under the study are investing 25 per cent and above of their total investments in mutual funds.

In order to know the relation between investment specific attitudes and investment decisions, total scores were calculated by adding the scores of the corresponding statements in each dimensions and that scores were used for analysis. Thus test was carried out to know the influence of investment specific attitudes on investment decisions, which is exhibited in table 3.

Table 3: Investment Specific Attitudes and Investment Decisions in Mutual Funds

Investment decisions	count	Investment Specific Attitudes	
		Mean score	Standard deviation
less than 25%	166	87.53^{c}	11.65
25% -50%	135	87.86^{c}	12.93
50% -75%	133	91.60^{b}	14.86
75% - 100%	466	97.35^{a}	6.06
F-value = 57.554** P <0.001			

Means with same letter as superscript are homogeneous,
** Significant at 0.01 levels;
Source: Field Survey.

One way analysis of variance was carried out for comparing the characteristics of mutual funds and investment decisions of investors. F-value (57.554) was found to be significant at one per cent level indicating that there exists significant difference in the investment specific attitudes and investment decisions. As the F-value was found to be significant, least significant difference test was carried out to find out which of the groups have influence on same investment specific attitudes while mutual fund investments are made. Results show that those who have invested less than 25 per cent and those who have invested 25 to 50 percent have the influence on same investment specific attitudes.

Hence, the result supports and proves the alternative hypothesis stated as:

H1. There exists a positive relationship between the investment specific attitudes of investors and mutual fund investment decisions.

Discussions:

From the forgoing analysis, it can be concluded that, investment specific attitudes of investors has a significant influence on mutual fund investment decisions. If the awareness level of mutual fund investors increases, investments in mutual funds will also increase.

The present study endeavored to bring out the driving force, such as investment specific attitudes of investors behind individual investment decisions. There is a need for the mutual fund companies in India to have a thorough understanding of these driving force and should be given due consideration at the time of design and development of schemes of investments in mutual funds. It is highly necessary that the Asset Management Companies of mutual funds should come out with a range of new innovative products that cater to the ever changing needs and requirements of individual investors and make it more attractive, profitable and most preferred avenue of financial investment.

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