

## **A Literature Review on Analyzing Investors' Perceptions towards Mutual Funds**

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### **Abstract**

Mutual Funds are collective investment instruments available to the investors to pool their funds into various opportunities generated by the Asset Management Companies. Basically investment is an opportunity which investor undertakes and forgoes the current usage to obtain some amount in future. Mutual Funds are the investment instruments which are specially devised to attract the novice investors to invest in economy without having the detailed knowledge about the same. Asset Management Companies are striving hard to penetrate different market segments by introducing customized products according to the needs and wants of the customers. There is a need to understand the perceptions of the investors towards such products and which are the primary criteria which usually investor evaluate to do the investments. The present study is carried out to understand the research which has been carried out to analyze the investors' perception towards Mutual Funds.

**Keywords:** Mutual Fund (MF), Asset Management Company (AMC)

### **Introduction**

Emergence of Mutual Funds can be traced since as early as the second half of the 18th century at The Netherlands. The primary motive of organizing the mutual funds was to provide diversification to small investors, as mutual funds had become the primary investment avenue for small investors. The development of the mutual funds was intensified in United States in the year of 1893 when a fund resembling to the closed ended mutual funds was established for the faculty and staff of Harvard University. Emergence of the first open-ended mutual funds can be found out in United States at Massachusetts on 21st March, 1924. The tremendous growth in the mutual fund market can be observed by the number of mutual funds in the United States, which outperformed the number of securities listed in NYSE by the twenty first century.

The emergence of the Foreign and Colonial Government Trust in the year of 1868 is considered as the beginning of the mutual funds in Anglo-Saxon countries. During that time span investment trusts were prevalent in Holland for a century or so and in 1774 subscriptions to form a trust were invited by a Dutch merchant and broker Abraham van Ketwich. The name of the trust was "Eendragt Maakt Magt" means "Unity Creates Strength". The aim of the founder was to provide an opportunity to small investors to minimize their risk by way of diversification and reaps returns. Risk was diversified by investing in different variety of colonial plantations in Central and South America, Austria, Denmark, Germany, Spain, Sweden, Russia.

The first mutual fund that came into existence was in many ways well developed and transparent. According to K. Geert Rouwenhorst, Yale ICF compared to direct investment in individual stocks and bonds, mutual funds offer the advantages of liquidity and diversification at a relatively low cost. More than one hundred different securities were regularly traded on the Amsterdam exchange and the prices of the most

liquid securities were made available to the general public through broker sheets and, at the end of the century, a price courant—a biweekly publication that in addition to security prices listed real estate transactions and announcements of dividends and security offerings.

Due to the low interest rates different countries like Austria, France, England, Russia, Sweden and Spain came to invest in the bonds of Dutch central and provincial governments. There was a scarcity of the shares and the only liquid issues were of the Dutch East India Company, the Dutch West India Company, the British East India Company, the Bank of England, and the South Sea Company. The other major category of securities consisted of plantation loans or negotiatives as they were known in the Netherlands. Issued by merchant-financiers, these bonds were collateralized by mortgages to planters in the Dutch West Indies colonies Berbice, Essequibo, and Suriname. As brokers and merchants gained awareness about the investment opportunities prevalent to general public through the route of Mutual funds which made mutual funds an good investment avenue to the general public. As two innovative concepts of securitization and stock substitution were introduced during the same era which lead to overcoming various barriers of investing abroad like foreign registration requirements and the costs of collecting interest or dividends. As the barriers were removed it promoted broadening of the Dutch capital markets which made the introduction of closed ended mutual funds and depository receipts possible.

### **Review of Literature**

Perception varies from person to person, and each person assigns different meaning to the same situation as per his experience. It is commonly presumed that different people perceive the same situation or thing in different ways due to the past experiences and various demographic variables like gender, age, etc. 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.

According to a report of KPMG (2009) 'Indian Mutual Fund Industry – The Future in a Dynamic Environment Outlook for 2015' they found that brand equity of a mutual fund includes factors like perception of the brand capability drawn from its performance in other sectors. Hung, A., J. Yoong and E. Brown (2012), found in their INFE member survey that even within a fairly small group of countries, perceptions, needs and policies regarding gender disparities in financial literacy are quite diverse. Mitra (1997) observed the perception of the investors on the MF industry as a whole, scheme-wise and market wise marketing strategy adopted by the MF companies. Singh and Vanita (2002) found in the study that the investor's preferred to invest in public sector mutual funds with an investment objective of getting tax exemptions and stayed invested for a period of 3-5 years and the investors evaluated past performance. It was found that majority of the investors were dissatisfied with the performance of their mutual fund and belonged to the category who held growth schemes. Crosnan and Gneezy (2004) in his disclosed that there is no significant difference in the way men or women managers think of performance, risk and other fund characteristics. Women are risk averse than men as far as financial instruments are concerned. Singh and Chander (2004) conducted the study and established that middle class salaried investors and professionals preferred to have disclosure of net asset value on a day to day basis and wanted to invest in mutual funds in order to get higher tax rebates. Further it was evidenced that small investors perceived mutual funds to be better investment alternative and public sector investments to be less risky.

The study further revealed that the investor did not have confidence on the management of funds and regulators of the market and cited these as reasons for withdrawing from the mutual fund investment. Van de Venter (2006) found that there was difference in risk tolerance on individual factors like women, older individuals, large family households, people not owning residential property, low wealth individuals, individuals with externalities as locus of control and individuals with low knowledge of finance and investment were risk averse. On the other hand factors like marital status, occupation and level of education gave inconsistent results on risk tolerance levels.

Sahoo and Hathy (2007) found that financial neural networks must be used to learn and generalize data as it is substantiated by the authors that the multilayer perception is a model superior to other statistical models of forecasting. Veld and Merkoulova (2007) found that the stock investors implicitly choose for semi-variance as a risk measure, while bond investors favor probability of loss. The study indicated the importance of original investment as it was considered to be the most important benchmark for individual investor. Vanjeko (2007) found that investors are motivated by themselves opted risky investments and the investors who depended on their environment were into less risky investments. The study establishes that there is relationship between individual personality and investment decision. Al-Ajmi (2008) conducted the study which indicates that as investors, men have high propensity towards risk tolerance than women. Investors with better level of education and wealth are more likely to seek risk than less educated and less wealthy ones. Risk tolerance declines with increased financial commitments and increasing age. Simran Saini, Dr. Bimal Anjum and Ramandeep Saini (2011) found that the mutual fund companies should formulate the strategies in such a way that it helps in fulfilling the investors' expectations. Constant innovation in type of schemes will help the AMC's to maintain the investors' confidence. Zoran Ivkovic & Scott Weisbenner (2009) found that individuals' fund-level inflows and outflows are each positively related to expense ratios— whereas higher expenses may attract more new money through advertising or a perception that higher expenses reflect better managerial talent or fund family services.

D. Anitha Kumari, G. Ramasamy & K. Sandhya (2013) conducted the study to ascertain the investor's perception of online trading of shares in share market also identify the investor's perception and to improve the quality of service according to the investor's expectation. They found that share brokers can arrange for awareness program like free seminars regarding share market and other corresponding investment products, making presentations in online itself to help in acquiring effective new customers. D. Kandavel (2011) concluded that the buying intent of a mutual fund product by a small investor can be due to multiple reasons depending upon customers risk return trade off. He found that more and more funds are entering the industry and their survival depends on strategic marketing choices of mutual fund companies, to survive and thrive in this highly promising industry, in the face of such cutthroat competition. Therefore, the mutual fund industry today needs to develop products to fulfill customer needs and help customers understand how its products cater to their needs.

P.Varadharajan & Dr.P Vikkraman (2011) found that investment strategies of people keep changing as well as the factors that influence the decision making keeps changing and there exists an independency between the demographics, majority of the factors and the returns obtained. Arvid O.I. Hoffmann, Thomas Post & Joost M.E. Pennings (2013) concluded that investor perceptions exhibit significant fluctuation over the course of the crisis, with risk tolerance and risk perceptions being less volatile than return expectations.

In the worst months of the crisis, investors' return expectations and risk tolerance decrease, while their risk perceptions increase. Towards the end of the crisis, return expectations, risk tolerance, and risk perceptions recover. They found substantial swings in trading and risk taking behavior during the crisis that are driven by changes in investor perceptions. Contrary to popular beliefs and expectations, individual investors continue to trade and do not de-risk their investment portfolios during the crisis. Individual investors also do not try to reduce risk by shifting from risky investments to cash. Instead, individual investors use the depressed asset prices as a chance to enter the stock market. As per the report General Survey on Consumers' Financial awareness, attitudes and behavior conducted by The Financial Consumer Agency of Canada it was found that public opinion surveys cannot be exact measures of perceptions, but only approximations at a certain point in time. Dr. Nishi Sharma (2012) conducted a study to understand the perception of the investors towards mutual funds and found that in order to secure the patronage of Indian investor mutual fund companies are expected to ensure full disclosure and regular updates of the relevant information along with the assurance of safety and monetary benefits. Nidhi Walia and Dr. Mrs. Ravi Kiran (2009) found that mutual funds can prove to be most preferred financial avenue provided it is put forth before investors in the desired form. They revealed that investors preferred to invest in mutual funds but also required some innovations and adding of quality dimensions in existing services. The critical gaps which they identified were the key information input regarding the discrepancies in existing framework of mutual funds which can be extremely beneficial to AMCs in designing more lucrative solutions to suit investor's expectations.

Ms. R. Idhayajothi, Dr. O. T. V.Latasri & Ms. R.Malini (2013) found by applying the statistical data that investor demographics and investment preferences are related and UTI MF has its own brand name and thereby it must improve its operations through its performance and service. Mahsa Parsaeemehr, Farzin Rezeai & Darshana Sedera (2013) attempted to understand the investors' pattern of making decision through recognizing their perception of financial information, their type and temperaments. The personality and temperaments effect investors' decisions. Junior Investors (Guardians) have some same behavior, which can make trading in the stock exchange more risky. Because of their same interest on financial information, perception and pattern of deciding the possibility of herd behavior is become more. The DPS, EPS and return on investment played the prominent role in Guardian Iranian direct investors' decisions. And also same perception of financial information can lead to more herd-like movements. Training guardian investors about their strengths and weaknesses can improve the quality of their decision and prevent losses of impossible herb movements. Introversion, Sensation, Feeling, Judgment (ISFJ) investors in buying good stocks with strong upward growth and fairly stable growth in price, made slightly better decisions. Gauri Prabhu & Dr. N.M.Vechalekar found that diversification of portfolio and tax benefits are the main factors of mutual fund that allure the investors. Dr. Rajwanti Sharma (2013) in her research concluded that the popularity of mutual funds traditionally is attributed to the fact that they are professionally managed, small investors can achieve diversification generally available only to large investors, and that investors can take advantage of lower transaction costs, primarily in brokerage commissions. Lubna Riaz, Ahmed Imran Hunjra and Rauf-i-Azam (2012) concluded that the asymmetry of information, risk taking behavior and decision context affect the perceptions of risk associated in a particular investment situation. Considering risk propensity as an influential factor, it is valid to believe that a risk-averse individual is more likely to avoid risky decisions than a risk-seeking individual, who is more likely to make risky

decisions. Dr. Ruta Khaparde, Anjali Bhute (2014) observed that the perception of the investors does differ towards the impact of macroeconomic performance on stock market behavior with respect to different individual factors like age and years of market investment experience.

### **Conclusion**

The research is carried out to understand the perception of the investors towards MF's. From the present study we can summarize that the investors usage perceive a product as per the way it has been promoted to them. There can be ample number of factors or variables which are the major reasons for generation of the perception in the investors'. Investors' usually consider various factors like professional advice, low transaction costs, etc as the reasons for investment in MF's. Investors' are having the perception of the specific product due to the way they visualize the product and understand the product. There is a scope of further research wherein a detailed analysis about the various demographic variables which creates the perception can be found out and understood.

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