Study of Customers' Preference Towards Investment in Mutual Funds and Equity Shares with Special Reference to Lucknow

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ABSTRACT

The Indian capital market has been growing tremendously with the reforms of the industrial policy, reform of public sector and financial sector and new economic policies of liberalization, deregulation and restructuring. The Indian economy has opened up and many developments have been taking place in the Indian capital and money market with the help of financial institutions or intermediaries which foster savings and channel them to their most efficient use. One such financial intermediary who has played a significant role in the development and growth of capital market is Mutual Fund (MF). Mutual Funds are best alternative for those who do not have much knowledge about how to trade in capital market. Share is an ownership unit in corporation. The main feature of common or preferred stock is their liquidity and growth potential.

In the past, investment avenues were limited to real estate, gold, schemes of post office and banks. At present, a wide variety of investment avenues are open to the investors to suit their needs and nature. The required level of return and risk tolerance level decide the choice of the investor. This paper deals with investors' preference towards Mutual Funds and equity shares. This paper also covers the most important attribute for investment consideration, the purpose of investment, type of Mutual Fund preferred, preferred mode of investment (SIP/ one time investment) for mutual funds and preferred mode of trading in case of investment in equity shares.

Keywords: Liberalization, Deregulation, Return, Risk, Liquidity.

INTRODUCTION:

Investing in various types of assets is an interesting activity that attracts people from all walks of life irrespective of their occupation, economic status, education and family background. When a person has more money than he requires for current consumption, he would be coined as a potential investor. The investor who is having extra cash could invest it in securities or in any other assets like gold or real estate or could simply deposit it in his bank account. The companies that have extra income may like to invest their money in the extension of the existing firm or undertake new venture. All of these activities in a broader sense mean investment.

The investment alternatives range from financial securities to traditional non-security investments. The financial securities may be negotiable or non-negotiable. The negotiable securities are those financial securities which are transferable. The negotiable securities may yield variable income or fixed income. Securities like equity shares fall under variable income group as income generated, depends upon the dividend distributed by these companies from the profit it makes. Bonds, debentures, Indira Vikas Patras, Kisan Vikas Patras, Government securities and money market securities yield a fixed income. The non-negotiable financial investment, as the name suggests, is not transferable. This is also known as non-securitized financial investments. Deposit schemes offered by the post offices, banks, companies, and non-banking financial companies are of this category. The tax-sheltered schemes such as public provident fund, national savings certificate and national

savings scheme are also non-securitized financial investments.

Mutual fund is another investment alternative. It is of recent origin in India. Within a short span of time several financial institutions and banks have floated varieties of mutual funds. The investors with limited funds can invest in the mutual funds and can have the benefits of the stock market and money market investments as specified by the particular fund. Real assets like gold, silver, arts, property and antiques always find a place in the portfolio.

The advent of mutual funds in India can be traced back to the year 1964 when unit trust of India was incorporated as Statuary Corporation however; the UTI"s monopoly came to an end in 1987, when government amended the banking regulation Act to permit commercial banks in the public sector to set up mutual funds. The SBI was the first bank to promote a mutual fund called „SBI Mutual Fund" in July 1987.The government permitted insurance corporations in the public sector to join the mutual fund. (Bhatia B.S.& Batra G.S.1997)

Share is an ownership unit in corporation .The main features of common or preferred stock is their liquidity and growth potential. Shares of stock can increase in value as a positive contribution to the wealth building process but can also be sold quickly if rupees are needed. This liquidity feature is usually true of only publicly traded companies (i.e., those companies whose shares are held by many thousand or hundreds of thousands of shareholders).These shares are typically bought and sold each day. (Gable Ronald C.1983) In the above context it is the need of hour to study investors" preference towards investment in shares and mutual funds

LITERATURE REVIEW:

Vijayakumar (2015) has studied on Investor's preference in equity market investments in India with special reference to Chennai. A sample of 200 investors has been taken for this study. The main focus of this study is to find the relationship between investors' preference and satisfaction and to identify the investors' preference in equity investment. This study concluded that the nine factors namely security, risk tolerance, lucrative returns, investment duration, periodic returns, share performance, long- term investment, futuristic returns and investment dynamics influence the investors' perception at various level and ultimately leads them to satisfaction. It is concluded that the safety in the equity investment is very important for investors to acquire the highest satisfaction.

Kothari (2014) examined a study namely "Investment behavior Towards investment Avenues: A study with reference to Indore City. The study highlighted that the savings of the people invested in assets depending on their risk and return demands, safety of money, liquidity, the available avenues for investment, various financial institutions etc. Descriptive research design is carried out to describe the phenomena with a sample size of 100. It was collected from the respondent through convenient judgmental sampling method in Indore city. The author concluded that if younger generation starts investing at such an early stage on regular basis, they will able to save more for their future

Pandian et al. (2013) has studied on Investors Preference towards various Investment avenues in Dehradun district. The objective of the study is to analyze the investor's preference towards various investment avenues in Dehradun district and offer Suitable suggestions to promote investments. He investigated 120 respondents. The data are analyzed by adopting the Chi-Square test and Ranking method. The study reveals that 73.33% of the respondents are male. So it is inferred that most of the investment decisions are taken by male respondents only. Age is an important factor which influences the behavior of the individual investor and the investing ability also differs according to the age of investors. Most of the investors are in the age group between 25 to 35 years. It is clear that young investor prefer to invest and take more risk.

Singh (2012) conducted a study on investors' attitude towards mutual funds as an investment option. In this paper, structure of mutual fund, operations of mutual fund, comparison between investment in mutual fund and bank and calculation of NAV etc. have been considered. In this paper, the impacts of various demographic factors on investors' attitude towards mutual fund have been studied. In order to conduct this study, 250 investors' in Ranchi region have been selected. For measuring various phenomena and analyzing the collected data effectively and efficiently for drawing sound conclusions, Chi-square test has been used and for analyzing the various factors responsible for investment in mutual funds, ranking was done on the basis of weighted scores and scoring was also done on the basis of scale. During the study, it was found that the investors' basically invested in mutual funds due to high return potential, transparency, liquidity, flexibility and affordability.

Geeta N. and Ramesh M. (2011) in their study on People's Preferences in investment Behavior examined people's choice in investment avenues in Kurumbalur town. The sample size of 200 was taken for the research work. Simple random sampling was used to select the respondents from available database. Data was analyzed using chi-square test and percentage analysis.Researchers concluded that there is significant relation between

investment avenues and gender and age group. There is no significant relationship between investment avenues and education and occupation. They concluded that Kurumbalur respondents are medium aware about various investment choices.

Santi Swarup. K, (2009), in his survey entitled, "Measures for Improving Common Investor Confidence in Indian Primary Market: A Survey", analysed the decisions taken by the investors while investing in primary markets in the first part: secondly the factors affecting primary market situation in India was analysed and finally the survey evaluates various revival measures available for improving investor confidence. The survey was conducted in 10 cities in India by mailing questionnaire. The survey results of 367 investors revealed that the investors give importance to own analysis and market price as compared to broker's advice.

Shollapur. M.R. and A B Kuchanur, (2008), in their article, "Identifying perceptions and perceptual Gaps: A study on individual investors in selected investment avenues", investors hold different perceptions on liquidity, profitability, collateral quality, statutory protection, etc., for various investment avenues. In addition, they fix their own priorities for these perceptions. The formation of perceptions triggers the investment process in its own way, often leading to unrealistic apprehensions especially among individual investors. This study attempts to measure the degree of investors' agreeableness with the selected perceptions as well as to trace the gaps between their perceptions and the underlying realities. Failure to deal with these gaps tends to lead the investment clientele to a wrong direction. Hence, there is a need to help investors develop a realistic perspective of the investment avenues and their attributes.

Ranganathan K.(2006) conducted a study on "Fund Selection Behaviour of Individual Investors towards Mutual Funds". This exploratory study is an attempt to understand the financial behaviour of mutual fund investors in connection with scheme preference and selection.A sample of 100 educated, geographically dispersed individual investors from Mumbai city, wastaken for this study. The statistical tools used for this research is chi-square test, factor analysis and multinomial logistic regression (MLR). It is concluded during the study that MF scheme preference for majority of investors, is 'Growth scheme'. Income schemes have been unattractive due to dropping interest rates. Analysis of scheme preference by nature of operation reveals the popularity of 'Open-ended scheme'. Top of Mind recall test of mutual funds reveals that UTI was most promptly remembered among the investors.

The number of respondents who have good awareness level of mutual funds results to 53%. This could be attributed to the wide publicity given to MF industry for varied reasons. Agent training programs and investor education programs organized by AMFI at regional levels during 2003-04 could also have contributed to this level of awareness.

METHODOLOGY:

Research Objectives:
The major objectives of this research paper are:
1. To find out most important attribute for investment consideration.
2. To know the purpose of investment.
3. To find out preference for the type of mutual fund schemes.
4. To know individual investors' preference between mutual fund and equity share.
5. To know the preferred mode of investment (SIP/ one time investment) for mutual funds.
6. To know which market (primary/ secondary), individual investor prefer for investment in equity share.
7. To find the preferred mode of trading-online/offline, in case of investment in equity share.

Research Design:
Descriptive Research Design has been used, which clearly indicates that the study is all about a certain characteristic of individuals [investors] towards investment.

Sample Design: Sample design consists of a number of items such as, Sampling technique, Size of the sample, sampling unit, sampling area.

Sampling Technique: Convenience sampling

Sample size: 100.

Sampling Unit: Individuals indulging investment in mutual funds and/or shares with different backgrounds were selected.

Sampling Area: Lucknow.

Sources of data: Primary data for this study has been collected through Structured questionnaire containing mostly closed ended questions. Secondary data for this study has been collected through various books,

magazines, newspapers and journals.

Statistical tools: The statistical tools used for the purpose of analysis of this study are chi square test, z test, percentage analysis and weighted average .

HYPOTHESES:

1. Investors give equal importance to return, risk and liquidity attributes for investment considerations.
2. There is no significant difference among investors for opting saving, availing tax benefit and wealth maximization as main purpose of investment.
3. Individual investors give equal importance to income, growth and balanced fund as a type of Mutual fund scheme for investment considerations.
4. Customers' give equal preference to share and mutual fund for investment.
5. Individual investors give equal importance to SIP and one time investment as a mode of investment in mutual fund.
6. Individual investors are independent of type of market ie ; primary and secondary , in case of investment in equity shares.
7. Customers give equal importance to different mode of trading ie; online / offline in case of investment in equity shares

FINDINGS:

- It is found that the most important attribute for investment consideration is return. The weighted ranking is highest i.e.; 255 for return followed by 188 for risk and 157 for liquidity.
- As far as purpose of investment is concerned, we found that savings and wealth maximization is more important as compared to availing tax benefit. The weighted ranking is highest i.e.; 222 for savings followed by 219 for wealth maximization.
- Growth fund is preferred mutual fund scheme.as compared to Income and balanced fund.
- It is found that majority (72 percent) of the respondents prefer Mutual fund as compare to equity shares for investment consideration.
- It is revealed that Individual investors do not give equal importance to SIP and one time investment as a mode of investment in mutual fund. Respondents prefer SIP as compared to one time investment in Mutual fund investment.
- Individual investors are independent of type of market i.e. primary and secondary, in case of investment in equity shares. In other words no clear preference is shown by customers for primary and secondary type of market.
- Customers do not give equal importance to different mode of trading i.e. online/offline in case of investment in equity shares Individual investors prefer online mode of trading as compared to offline trading.

CONCLUSION:

This study revealed that Mutual fund is preferred investment alternative in comparison to equity share in Lucknow. It is found that the most important attribute for investment consideration is return. The most preferred reason or purpose of investment is saving for securing future in comparison to wealth maximization and availing tax benefit. Mutual fund investors prefer SIP as mode of investment as compared to one time of investment. Individual investors are independent of type of market ie; primary and secondary, in case of investment in equity shares. Individual investors of equity shares prefer online mode of trading as compared to offline trading.

It is observed from primary data that age factor influence, individual investor behavior. It is evident by the fact that young investors are ready to take more risk, in comparison to middle age or senior citizens and invest in equity shares. On the other hand middle age investors focus more on safe and secure investment instruments (for post-retirement and child education and marriage), like Atal Pension Scheme, NPS, PPF and children's education plan. Though Mutual fund is suited to all age group, because rigorous monitoring is not required by investor due to availability of fund manager. Respondents are not much inclined towards post office investments, NSC, KVP etc. Lock in period works negatively for investors because premature withdrawal is not allowed. The investors cannot get the money during emergency situations. Investors prefer better return and liquidity as important criteria for investment consideration.

This study revealed two important suggestions for improving the attractiveness of capital market investment i.e. give more power to SEBI on investors' protection and improve transparency in investment operations.

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FIGURE(S), TABLE(S) AND ANALYSIS:

Customer Demographic Profile:

Demography refers to the vital and measurable statistics of a population. A consumer's purchase decisions are also affected by his demographic characteristics. The demographic characteristics of sample are given in the following table:

Table 1: Sample Demographic Characteristics

Demographic characteristics	Number	Percentage	Demographic characteristics	Number	Percentage
AGE			Qualification		
Up to 30	25	25	Below Graduate	3	3
31-45	48	48	Graduate	31	31
46-60	18	18	Post graduate	58	58
Above 60	9	9	Doctorate	8	8
Occupation			Gender		
Government Sector	12	12	Male	82	82
Private Sector	45	45	Female	18	18
Self Employed	27	27	Income		
Businessman	8	8	Up to 2 lakh	23	23
Retired	8	8	2-5 lakh	42	42
Marital Status			5-10 lakh	21	21
Married	67	67	More than 10 lakh	14	14
Single	33	33			
Total Sample Size is 100					

Table 2: Important attributes for Investment considerations-*Ranking

Attribute	No. of Respondents Rank 1	No. of respondents Rank 2	No. of respondents Rank 3	Weighted Ranking (O i.e. Observed value)
Return	64	27	9	255
Risk	23	42	35	188
Liquidity	13	31	56	157

*Rank 1 for most preferred and rank 3 for least preferred

Applying χ^2 test

$$\chi^2 = \sum \frac{(O-E)^2}{E}$$

Where O = an observed frequency in a particular category
E = an expected frequency in a particular category
E= 600/3= 200 in each case, O= 255,188 and 157 (from the table 1)
C hi Square tabulated at degree of freedom 2 and 5% level of significance ==5.99
χ^2 calculated = 25.16
χ^2 cal > χ^2 critical

Since calculated value of χ^2 is greater than its critical or tabulated value, the null hypothesis is rejected .Hence Investors do not give equal preference to return, risk and Liquidity attributes for investment consideration.

Table 3: Purpose of investment - Ranking

Objectives	No. of Respondents Rank 1	No. of respondents Rank 2	No. of respondents Rank 3	Weighted Ranking (O i.e. Observed value)
Savings	43	36	21	222
Tax Benefit	15	29	56	159
Wealth maximization	42	35	23	219

Applying χ^2 test

$$\chi^2 = \sum \frac{(O-E)^2}{E}$$

E= 600/3= 200 in each case
O= 222,159 and 219 (from the table 2)
Chi Square tabulated at degree of freedom 2 and 5% level of significance = 5.99
χ^2 calculated = 12.63
χ^2 cal > χ^2 critical

Since calculated value of χ^2 is greater than its critical or tabulated value, the null hypothesis is rejected. Hence there is significant difference for opting saving, availing tax benefit and Wealth maximization as main purpose of investment by investors.

Table 4: Preference for type of Mutual fund scheme

Type	No. of Respondents (Observed frequency)	Percentage
Income	7	7.95
Growth	71	80.68
Balanced	10	11.36

Applying χ^2 test

$$\chi^2 = \sum \frac{(O-E)^2}{E}$$

E= 88/3= 29.33 in each case, O= 7,71 and 10 (from the table 3)
Where O = An observed frequency in a particular category
E = An expected frequency in a particular category
C hi Square tabulated at degree of freedom 2 and 5% level of significance =5.99
χ^2 calculated = 88.93
χ^2 cal > χ^2 critical

Since calculated value of χ^2 is greater than its critical or tabulated value, the null hypothesis is rejected.
Null hypothesis is Individual investors give equal importance to income, growth and balanced fund as a type of Mutual fund scheme for investment considerations.
Hence Individual investors do not give equal importance to income, growth and balanced fund as a type of Mutual fund scheme for investment considerations.

Table 5: Preference between Equity share and mutual fund

Preference for Investment Instrument	Equity share	Mutual fund	Equal Preference	Total
No. of Respondents	13	72	15	100

Let us take the Null hypothesis H_0 : Individual Investors give equal preference to equity shares and mutual fund for investment consideration.

Applying the z statistics:

$$z = \frac{p-P}{\sqrt{P(1-P)/n}}$$

Where:
z= Test statistics
p= Sample proportion
P= Hypothesized value of Population proportion
n= Sample size

Out of 100 respondents preference is shown by 85 respondents only since 15 respondents give equal preference so for z test n = 85.
After using z – test (two tailed test) the calculated value of z is -6.39
Since z $_{cal}$ = - 6.39 , which is more than its critical value z $_{\alpha/2}$ = -1.96 at $\alpha/2$=.025 significance level ,the null hypothesis Ho is rejected .Hence we conclude that investors do not give equal importance to equity share and mutual fund. Table 5 reveals that respondents prefer mutual funds as compared to equity shares.

Table 6: Preference for Mode of investment in Mutual funds

Preference for mode of Investment	One time investment	SIP	Equal Preference	Total
No. of Respondents	8	61	19	88

Let us take the Null hypothesis H_0 : Individual investors give equal importance to SIP and one time investment as a mode of investment in mutual fund.

Applying the z statistics:

$$z = \frac{p-P}{\sqrt{P(1-P)/n}}$$

Where:
z= Test statistics
p= Sample proportion

P= Hypothesized value of Population proportion
n= Sample size

Out of 100 respondents 88 invested in mutual funds. Preference for mode of investment (SIP/One time investment) is shown by 69 respondents only since 19 respondents give equal preference so for z test n = 69
After using z – test (two tailed test) , the calculated value of z is 6.31
Since z_{cal} = 6.31 , which is more than its critical value $z_{\alpha/2}$ = 1.96 at α/2=.025 significance level ,the null hypothesis Ho is rejected .Hence we conclude that Individual investors do not give equal importance to SIP and one time investment as a mode of investment in mutual fund. Table 6 reveals that respondents prefer SIP as compared to one time investment in Mutual fund.

Table 7: Preference between primary and secondary market for equity share investment.

Type of market	Primary market	Secondary market	Total
No. of respondents	20	29	49

Let us take the Null hypothesis H_0 : Individual investors are independent of type of market ie ; primary and secondary , in case of investment in equity shares .

Applying the z statistics:

$$z = \frac{p- P}{\sqrt{(P(1-P)/n)}}$$

Out of 100 respondents 49 invested in equity shares. So for z test n = 49
After using z – test (two tailed test) , the calculated value of z is – 1.288
Since z_{cal} = – 1.288, which is less than its critical value $z_{\alpha/2}$ = – 1.96 at α/2=.025 significance level, the null hypothesis Ho is accepted. Hence we conclude that Individual investors are independent of type of market i.e. primary and secondary, in case of investment in equity shares.

Table 8: Preference between Online and Offline mode of trading for investment in equity share.

Mode of trading	Online	Offline	Total
No. of respondents	42	7	49

Applying the z statistics:

$$z = \frac{p- P}{\sqrt{(P(1-P)/n)}}$$

After using z – test (two tailed test) , the calculated value of z is 7.28
Since z_{cal} = 7.28, which is more than its critical value $z_{\alpha/2}$ = 1.96 at α/2=.025 significance level ,the null hypothesis Ho is rejected. .Hence we conclude that customers do not give equal importance to different mode of trading i.e. online / offline in case of investment in equity shares. This is evident by Table 8 which reveals that respondents prefer online mode of trading for equity share investment.