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IMPACT OF KNOWLEDGE ABOUT MUTUAL FUND ON INVESTMENT DECISION

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ABSTRACT:

In the present dynamic global environment, exploring investment avenues are of great relevance. Investment skills developed over a period are considerably influenced by experience and work carried out to arrive at conclusions. The success of an investment activity depends on the knowledge and ability of investors to invest, the right amount, in the right type of investment, at the right time. Financial assets available to individual investors are manifold, having different committing benefits to choose from. Different factors like safety, returns, diversification etc. affect the investment decision. An Investor while making the investment in a specific investment avenue compares different investment on the basis of these factors. An attempt is made to find out whether the respondents aware of mutual funds and respondent not aware of mutual fund give different weightage to these factors while taking the investment decision.

KEYWORDS: *Investments, Investment Avenues, Investors, Mutual Fund.*

INTRODUCTION

Investment involves employment of funds with the aim of achieving additional income or growth in values. Investment is a commitment of funds in real assets or financial assets. There are various avenues of investments in accordance with individual preferences. Investments are made in different asset classes depending on individual's risk and return characteristics. Investment choices are physical assets and financial assets. Gold, Commodities and Real estate are examples of physical assets, which have a physical form. Bonds, Equity shares, Deposits and Insurance policies are some of the examples of financial assets.

Investment involves risk and gain. In the present dynamic global environment, exploring investment avenues are of great relevance. Investment skills developed over a period are considerably influenced by experience and work carried out to arrive at conclusions. The success of an investment activity depends on the knowledge and ability of investors to invest, the right amount, in the right type of investment, at the right time. Financial assets available to individual investors are manifold, having different committing benefits to choose from. All financial investments are risky but the degree of risk and return differ from each other. An investor has to use his discretion, which is an art acquired by learning and practical experience. The knowledge of financial investment and the art of its management are the basic requirements for a successful investor. The pre requisite for successful investor also lies in its liquidity, apart from risk and return on investment.

Investment is the infusion of fund in productive work with the aim of achieving additional income or growth in value. When fund is infused in the productive work or in the financial assets or securities it takes some time for reward. It involves the commitment of resources which have been saved or put away from current consumption in the hope that some benefits will accrue in future. Investment involves long term commitment.

Wise investment of personal saving necessitates a clear understanding of objectives of saving. Every investment channel can be viewed as a package offering a unique combination, which fulfils the objectives of : (i) principal value, (ii) expected income, (iii) ease of converting principal into cash, and (iv) tax consequences. Each outlet has a greater or lesser degree of uncertainty associated with each factors.

Investment is the process of putting money to work to earn income. Investing even a small amount can produce considerable growth over long period. Investors continuously plan for their investments to fulfil major needs like financial protection, career building, asset purchase, marriage, children's' education, retirement funding etc. For this investors need to take decision regarding, how much to invest? Where to invest? To choose wisely, investors need to know investment options thoroughly. It is financial services institutions and intermediaries which help the investors for transforming saving into investment, production and growth. It is a mechanism or arrangement for the mobilization of funds, their transfer and allocation. A financial services intermediary and has enormous value in the financial market.

MEANING OF INVESTOR:

Investor is an individual who puts his savings in different investment products with the expectation of financial return. Generally, the primary concern of an investor is to minimize risk while maximizing return, as opposed to a speculator, who is willing to accept a higher level of risk in the hopes of collecting higher average profits. An investor allocates funds with the expectation of a future financial return. The savings can be put in different investment options such as- equity; debt securities, real estate, currency, commodity, and derivatives such as put and call options, etc.

Every investor is different, with different financial goals, different tolerances to risk, different personal situations and different desires. These characteristics itself becomes the objectives and constraints while taking the investment decision. Two investors with the same characteristics may have very different financial choices. And the main reason for this is their propensity for risk, not their innate characteristics. Thus the investors select the different investment avenues according to their high, medium or low propensity for risk, within their particular balance of personal characteristics.

While risk profiling is a highly subjective exercise, it can safely be said that appetite for Risk reduces with:

- ✓ Age;
- ✓ Increasing dependents;
- ✓ Reduction in earning members;
- ✓ Any serious health related issues in the family; and
- ✓ Job insecurity.

On the other hand a person would be inclined to make more risk when:

- ✓ Major expenses are taken care of, For instance, when the investor has his own house and loans are repaid;
- ✓ Other major aspirations are met or provided for;
- ✓ The investor is a professional whose income streams are on the upswing; and
- ✓ Investor has hit the jackpot.

Risk profiling exercise would result in suggestions on how an investor should distribute his portfolio between different investment avenues.

Various Investment Avenues:

It is very necessary for investors to know different types of investment available in the market. There are different investments avenues with different risk and return levels. An understanding of the core concepts and a thorough analysis of the various types of investment can help the investor to make the right choice. There are two broad investment alternatives, which are available to investors in KDMC region. Direct investment alternative and indirect investment alternative, which are as follows.

Direct alternatives:
There are fixed and variable investment alternatives under direct investment.

A. Fixed Investment Alternatives:
In fixed investment alternative, term and growth of investment is fixed for specified period and interest rate. These alternatives are as follows:

a) Investment in Banks:
Investment in banks is considered as the safest of all options, banks have been the foundation of financial system in India. Promoted as the means of social development, banks in India have played an important role. For investment, banks offer various accounts, 'term deposit' having varied maturity and varied interest rates.

b) Post Office Savings:
The Government of India has design small saving schemes to provide an attractive and safe investment options to public. These schemes are operated through post offices and hence called as Post Office Saving Schemes. It includes PPF, NSC (National Saving Certificate), Post Office Saving Account, Post Office Time Deposit Scheme, KVP (KisanVikasPatra), Monthly Income Scheme, Senior Citizen Saving Scheme, SukanyaSamriddhi Account. All these schemes are very safe and also give different benefits under Income Tax Act.

c) Government Bonds:
Investments in Government Bonds have a wide network of distribution spread across the nation. Government offers different investment avenues through post offices and mobilizes the savings. An investment in this avenue is considered safe as the investment is backed by Government of India.

d) Corporate Bonds:
Another mostly used alternative of investment is corporate bonds where investment is made directly in company deposits. In India, this alternative of investment is not popular.

e) Preference Shares:
This type of investment is called fixed interest bearing securities. The preference shareholders are entitled to claims for dividends before ordinary shares. This type of investment is not suitable and popular in small investors' segment.

B. Variable Investment Alternatives:
Variable investment alternatives are different from the fixed investment alternatives because their terminal values are not known with certainty. The alternatives of variable investment are as follows:

a) Equity Shares:
Investment in equity shares has no fixed growth. These are called variable investment alternatives. Due to this investment, investors can participate in the earning and wealth of the company. Investors receive dividends as income on equity shares.

b) Convertible Debentures:

Convertible debentures can be converted into ordinary shares at the option of the shareholders after certain number of years. Income on these types of investment is not fixed. Generally, this type of investment is not favorable among small investors.

c) Gold:

Investors prefer gold as a hedge against inflation. Gold does not suffer value erosion on account of currency depreciation. Investment in gold can be done in different forms such as:

- ✓ Buying gold in physical form
- ✓ Buying gold in commodity future markets
- ✓ Buying gold linked funds
- ✓ Buying gold exchange traded funds

d) Real Estate:

Investment in real estate mean buying property in the form of open land or units constructed residential or commercial buildings. Real estate is preferred by the investors but is beyond the means of small investors because the capital required is large and transaction cost may be high. It is also not easy to quickly liquidate investments in real estate at an appropriate price. Still the investors with long term investment objectives can earn good return from the real estate investment.

e) Commodities:

A popular way to invest in commodities is through a futures contract, which is an agreement to buy or sell, in the future, a specific quantity of a commodity at a specific price. Futures are available on commodities such as crude oil, gold and natural gas, as well as agricultural products such as cattle or corn. Other alternatives to invest in commodities are stocks and exchange traded funds.

Indirect Investment Alternatives:

Indirect Investment alternatives include pension fund, provident fund, insurance and mutual funds. Individuals have no control over these investments. Investors entrust the work of investment to other institutions. On behalf of investors, financial institutions invest the funds, generate growth and distribute to the investors.

a) Public Provident Fund:

It is a risk free investment as it is backed by Government of India. Moreover the interest received is not taxable. The investment also gives the benefit tax saving under section 80C of Income Tax Act. PPF account can be open in banks or post offices. PPF has tenure of 15 years, though the withdrawal can be made before 15 years subject to certain conditions.

b) Insurance:

Though the returns in life insurance are lesser, still they protect the family of beneficiary in case of death of beneficiary and / or also help in case of critical illness and hospitalization of beneficiary. The maturity value of insurance, in case of term insurance is also not taxable and at the time of investing, it gives benefit under section 80C of Income Tax Act. The Term Insurance can be used to raise the loan without much hassle. Hence, because of these varied benefits, insurance is the most preferred investment options though the returns are less.

c) Mutual Fund:

The investors those who has less risk appetite but wish to take benefit of volatile market conditions, for them Mutual Fund is a good investment option. Mutual Funds pool the money from public and utilize it in diversifying securities. Different types of schemes are available as per the need and attitude of the investor. It helps the investors to generate better inflation adjusted returns. Mutual Fund Industry is well regulated and come under the purview of SEBI. It also gives the tax benefits.

Every asset class implies a risk-return trade-off. Generally, one has to take a greater risk for a chance to earn a higher return. The AFMI Mutual Fund Testing Programme Workbook provides a useful comparison of investment alternatives:

Table No. 1: Comparison of Investment Alternatives:

Alternatives	Return	Safety	Volatility	Liquidity	Convenience
Equity	High	Low	High	High or Low	Moderate
Bonds	Moderate	High	Moderate	Moderate	High
Company Debentures	Moderate	Moderate	Moderate	Low	Low
Company Fixed Deposit	Moderate	Low	Low	Low	Moderate
Bank Deposits	Low	High	Low	High	High
PPF	Moderate	High	Low	Moderate	High
Life Insurance	Low	High	Low	Low	Moderate
Gold	Moderate	High	Moderate	Moderate	Low
Real Estate	High	Moderate	High	Low	Low
Mutual Funds	High	High	Moderate	High	High

Source: AFMI Mutual Fund Testing Programme Workbook

Objective of Study:

1. To understand various types of investment avenues.
2. To find out the impact of mutual fund knowledge while taking the investment decision.

Scope of the Study:

The present study focus on the importance given by the investors to different factors like safety, returns, liquidity, diversification and tax implication while making the investment. It also attempts to find out the impact of awareness about mutual fund as an investment option while finalising the investment decision.

Sample Size:

1000 respondents were collected through Judgmental sampling method and sampling units include businessmen, professionals and salaried employees in KalyanDombivliMuniciapal Corporation Region.

Data Collection:

For the purpose of this study, the survey method is adopted for collection of data. The data collection instrument used is structured questionnaire. The data for study were collected through interviewing selected respondents based on their demographic factors such as gender, age, occupation and average monthly family income.

Data Analysis:

To give scientific outlook to the study and to reach specific conclusions, Mann-Whitney U test is used. It is a non-parametric test that is used to compare two population means that come from the same population, it is also used to test whether two population means are equal or not.

Limitations:

1. There is limitation of geographical location as the study is conducted in KalyanDombivli Corporation Region only.

2. Respondent's attitude may change while on collecting data.

Findings:

The main reason why an individual save and invest money is to get good returns and have good capital appreciation. An individual invest from different point view depending on his age, income etc. The purpose behind investment may be different for different people. Whenever any person decides to invest, the questions arise in the mind of an investor are:

- ✓ How safe the investment is?
- ✓ Will I get the money back whenever required?
- ✓ What are the returns on my investment?
- ✓ Is it possible to switch over the different investment avenues?
- ✓ Are there any tax benefits?

An investor always tries to find out the answers for these questions and then finalize to put the funds in particular investment avenues. An attempt is made to find out whether the respondents aware of mutual funds and respondent not aware of mutual fund give different weightage to these factors while taking the investment decision.

Mann-Whitney U test is used for observing the difference between two different groups. Those groups are segregated on the basis of knowledge of Mutual funds. The other observed variables (factors influencing investment) have different preference ordering ranging from 1 to 5 where 1 represents the least important and 5 represents most important. Thus, researcher wish to establish preferential differences based on the knowledge of mutual funds.

Table No. 2: Summary Table For Factors Considered Important While Investing

Investment Related Preferences	Mann-Whitney U Statistics	Z-Statistics	P-Value	Significant / Insignificant
Safety	86479.500	-0.456	0.648	**Insignificant**
Liquidity	87057.000	-.0261	0.794	**Insignificant**
Yield/Return	84688.500	-1.003	0.316	**Insignificant**
Diversification	83628.000	-1.179	0.239	**Insignificant**
Tax Benefit	87276.000	-0.200	0.842	**Insignificant**

P value is 0.65 which is greater than the significant value 0.05 and Z-statistic is -0.456 which falls between -1.96 & + 1.96. Hence, it can be interpreted that there is insignificant difference in responses. Thus, the preference for investment in **Safety** is similar in both groups of respondents.

P value is 0.79 which is greater than the significant value 0.05 and Z-statistic is -0.261 which falls between -1.96 & + 1.96. Hence, it can be interpreted that there is insignificant difference in responses. Thus, the preference for investment in **Liquidity** is similar in both groups of respondents.

P value is 0.32 which is greater than the significant value 0.05 and Z-statistic is -1.003 which falls between -1.96 & + 1.96. Hence, it can be interpreted that there is insignificant difference in responses. Thus, the preference for investment in **Yield/Return** is similar in both groups of respondents.

P value is 0.24 which is greater than the significant value 0.05 and Z-statistic is -1.179 which falls between -1.96 & + 1.96. Hence, it can be interpreted that there is insignificant difference in responses. Thus, the preference for investment in **diversification** is similar in both groups of respondents.

P value is 0.84 which is greater than the significant value 0.05 and Z-statistic is -0.2 which falls between -1.96 & + 1.96. Hence, it can be interpreted that there is insignificant difference in responses. Thus, the preference for investment in **Tax Benefit** is similar in both groups of respondents.

Mann-Whitney U test results indicate that Mann-Whitney statistics are greater or lesser than the critical value i.e. -1.96 > z > 1.96 considered for the 95% significance level and hence the results are statistically insignificant.

CONCLUSION:

From above results, it can be inferred that knowledge of mutual funds does not affect the investment goals of the investors. There are no significant differences in the preferences of investment goals between group of respondents who are aware of mutual funds and group of respondents who are not aware of mutual funds.

Therefore, the factors important while investing in mutual fund investment are also not differently looked upon by the investors aware of mutual fund and investors not aware of mutual fund. Safety, returns, liquidity, diversification and tax benefit are equally important for all the investors. While investing in mutual fund the investors looks for the safety, returns, liquidity in same degree as they wish it while investing in fixed deposit or gold or insurance etc. Hence, there is no added advantage or disadvantage over other investment avenues for the investment in mutual fund. Even awareness and unawareness about mutual fund investment does not affect their objectives of making investment in various alternate avenues.

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