Behavioural Effect of Mutual Fund Investor's and Perception in Millenium City

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Behavioral finance is a relatively new field that seeks to combine behavioral and cognitive psychological theory with conventional economics and finance to provide explanations for why people make irrational financial decisions. It is the study of the influence of psychology on the behavior of financial practitioners and the subsequent effect on markets. It utilizes knowledge of cognitive psychology, social sciences and anthropology to explain irrational investor behavior that is not being captured by the traditional rational based models. Behavioral models typically integrate insights from psychology with neo-classical economic theory. There is now a days an increasing debate in theoretical finance between the efficient market hypothesis and the growing field of the behavioral finance This paper analyses the development of Behavioural finance, and how an investors influences selection of mutual fund schemes. The paper analyzes that the most common behavior that most investors do when making investment decision are (1) Investors often do not participate in all product options of mutual fund schemes (2) Investors exhibit loss-averse behavior, (3) Decisions taken by the Investor are based on past performance (4) Investors behave on status quo, (5) Investors' decisions are not always rational in making their portfolios (6) Investors behave parallel to each other, and (7) Investors are influenced by historical high or low returns. However, there are better options available to help investors make better choices and make their investment decisions more efficient. These involve regulations, investment education, and perhaps some efforts to standardize mutual fund advertising. Moreover, a regulation can be made to protect foolish investors by restricting their freedom of making choices.

Keywords: Behavioral Finance, neo-classical theory, Investors psychology, mutual fund, rational decision-making, efficient market.

Introduction

Researchers in the field of behavioural finance have compiled an impressive body of analysis suggesting that investors do not act rationally all the time when making investment decisions. These findings have significant implications for the development of the securities market. Adam Smith, who is considered the father of the modern economics states that there is insight to the human psychology, which is further developed today into behavioral finance

For many investors, mutual funds are there first choice of investment vehicle. Mutual funds is pooled fund that is divided into units of equal value that is sold to investing public thus money collected in this process are further invested in capital and money market instrument. In today dynamic environment people go for those investment instruments from which they can get more return (Hemanth.S, 2008). Different thinkers have defined mutual funds in different ways. SEBI (MF) regulations, 1993 defines mutual funds as "A fund established in the form of a trust by a sponsor to raise money by the trustees through the sale of units to the public under one or more schemes for investing in securities in accordance with these regulations." After the announcement of 1991's liberalisation policy the growth of Indian economy is miraculous and per capita income has also increased. During last two decades growth of upper middle and middle class in India is also fabulous and this is the group who due to increase in income has enormous and changing needs, is targeted by all most all mutual fund companies but it is seen that this mutual fund companies are not succeed enough to turn savings individual investors in their products.

In India, a small investor generally prefers for bank deposits, which do not provide hedge against inflation and often have negative real returns. He has a very limited knowledge of the sensitive index and again finds helpless to understand the information, if available from some expert, framed in technical and legal lexicon. He finds himself to be a deviant in the investment market. In such situation mutual funds acts as a supportive to these investors. Mutual fund are looked by individual investors as financial intermediaries or portfolio managers who process information, identify investment opportunities, formulate investment strategies, invest funds and monitor progress at a very low cost. Thus the success of mutual funds is essentially the result of the combined efforts of

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competent fund managers and alert investors. Mutual funds offer the advantage of professional management of money, diversification of risk, portfolio, diversification, reduced transaction cost and liquidity. These benefits cannot be achieved if any one goes for any other type of investment

Literature review

Upto1992, a number of articles and brief essays have been published on basic concept of Mutual Funds and behavior of investors on them in financial dailies, periodicals, professional and research journals They stated the importance of mutual funds in the Indian capital market. They touch upon varied aspects like regulation of mutual funds investor expectations, investor safety,trend in growth and some other critical views on the performance and functioning of mutual funds.

Ippolito (1992) stats that investor is ready to invest in those fund or schemes which have resulted good rewards and most investors' is attracted by those funds or schemes that are performing better over the worst.

Gupta (1994) made a household investor survey with the objective to provide data on the investor preferences on M Fs and other financial assets. The findings of the study were more appropriate, at that time, to the policy makers of mutual funds to design the financial products for the future.

Kulshreshta (1994) offers certain guidelines to the investors in selecting the mutual fund schemes

Shankar (1996) points out that the Indian investors do view Mutual Funds as commodity products and AMCs, to capture the market should follow the consumer product distribution model

Jambodekar (1996) conducted a study to assess the awareness of MFs among investors, to identify the information sources influencing the buying decision and the factors influencing the choice of a particular fund. This study reveals among other things that Income Schemes and Open Ended Schemes are more preferred than Growth Schemes and Close Ended Schemes during the then prevalent market conditions.

Goetzman (1997) opined that investor's psychology affects mutual fund selection for investment in and to withdraw from fund

Talluru (1997) the objective of mutual fund selection process is to choose a fund from large number of available fund within the limits defined by investor preference, economic climate and constraints. In this study researches argue that it is very complex procedure to select appropriate fund and majority of investors lack awareness and expertizes. They developed a fuzzy system to select appropriate fund. This fuzzy system of selection removes vagueness in selection process and novel way of mutual funds selection .

Syama Sunder (1998) conducted a survey with an objective to get an in-depth view into the operations of private sector mutual fund with special reference to Kothari Pioneer. The survey tells that knowledge about mutual fund concept was unsatisfactory during that time in small cities like Visakapatanam. It has also suggested that agents can help to catalyse mutual fund culture, open-ended options are much popular than any other schemes, asset management company's brand is chief consideration to invest in mutual fund.

Shanmugham (2000) worked a survey of individual investors with the object to study on what information source does investor depends. The results explained that they are an economical, sociological and psychological factor, which controls investment decisions.

Rajeswari and Ramamoorthy (2001 cited in Rao, 2011) worked on "An Empirical study on factors influencing the mutual fund/scheme selection by retail investors". And there study revealed that among product qualities the most important factor was performance of the fund followed by brand name of scheme .In sponsor related factor the most importance factor was expertise the sponsor by managing money and in customer services the most importance factor was disclosure on investment objective then comes periodicity of valuation in advertisements.

Methodology

This is an exploratory type of research whose purpose to explore various responsible parameters for risk and which factors, are of concern before investing.The **survey technique** is used for conducting the research

The research questions of study are: ---

- To understand the risk perception.
- To analyze the risk perception on the basis of age, experience, income and educational qualification of customer.
- To study the factors which are of concern before investing in brokers among the people of Millennium City

Sample Design:

For the current study, primary data collection method is used .The sampling frames that is all the customers of various brokers in Millennium city are infinite population hence purposive sampling based on judgment is taken for the study. More than 200 customers of various brokers were contacted during the course of study through mail and personal visits. Out of 200, Researcher has received responses from 100 customers only.

Research Instrument Design:

Research instrument is questionnaire for the present study. The questionnaire was divided in two sections namely A and B containing the following details.

Section A:

It seeks the personal detail of the customers on various parameters like name, age, education, occupation, and experiences. Lastly an open-ended questionnaire is included to find out suggestions on risk perception.

Section B:

In this twenty statements related to risk perception practices are included and respondents were asked to give responses on 1-5 rating scale. The numerical value is also assigned to each of the response starting from 1-5 (1-Minimum, 5-Maximum).

Application of Statistical Tool:

Factor analysis that is a multivariate technique is used for identification of critical factors. Factor analysis is carried out with the help of SPSS and results are discussed

Limitations of the Study:

1. Time period is most critical factor in conducting the research as the perceptual factors changes with time.
2. Risk perception is new buzzword for many of the respondents, so educating customers took lot of time for filling up the questionnaire.

Sample profile:

Table 1.1 Age wise profiles of the respondents

Age	Numbers	Percentage (%)
18-30	6	6
31-45	38	38
45 above	56	56

Table 1.2 Income wise profile of the respondents

Income	Numbers	Percentage (%)
Up to 2 lacks	44	44
2 to 5 lacks	42	42
5 lacks &above	14	14

Table 1.3 Qualification wise profile of the respondents

Qualification	Numbers	Percentage (%)
Under Graduate	6	6
Graduate	44	44
Post Graduate	50	50

Table 1.4 Profession wise profiles of the respondents

Profession	Numbers	Percentage (%)
Service	24	24
Business	58	58
Professional	18	18

Table 1.5 Experience wise profile of the respondents

Experience	Numbers	Percentage (%)
0-10	28	28
11-20	48	48
20 above	24	24

Sample Profile of the respondents:

* 56% of the respondents are of the age group between 45 and above.

* Maximum respondents have income level up to 2 lakhs.

* 50% of the respondent is having qualification of post graduation level.

* 58% of the respondents have their own business

* 48% of the respondents are having experiences of 11 to 20 years in their respective fields.

SOCIO ECONOMIC PROFILE

Table1.6 Profession vs. Age

Profession/Age	18-30	31-45	45&above	Total
Services	4	8	12	24
Business	0	20	38	58
Professional	2	10	6	18
Total	6	38	56	100

Table 1.7 Profession vs. Qualification

Profession/Qualification	Under Graduate	Graduate	Post Graduate	Total
Services	4	8	12	24
Business	0	20	38	58
Professional	2	10	6	18
Total	6	38	56	100

Table 1.8 Profession vs. Experiences

Profession/Qualification	0 to 10	11 to 20	20 & above	Total
Services	10	8	6	24
Business	8	34	16	58
Professional	10	6	2	18
Total	28	48	24	100

Table 1.9 Profession vs. Income

Profession/Income	Up to 2	2 to 5	5 & above	Total
Services	16	8	0	24
Business	22	24	12	58
Professional	6	10	2	18
Total	44	42	14	100

Table 2.0 Experience vs. Qualification

Experience/Qualification	Under Graduate	Graduate	Post Graduate	Total
0 to 10	0	12	16	28
11 to 20	4	24	20	48
20 & above	2	8	14	24
Total	6	44	50	100

Table 2.1 Experience vs. Income

Experience/Income	Up to 2	2 to 5	5 & above	Total
0 to 10	18	8	2	28
11 to 20	20	20	8	48
20 & above	6	14	4	24
Total	44	42	14	100

Table 2.2 Qualification vs. Income

Qualification/Income	Up to 2	2 to 5	5 & above	Total
Under Graduate	0	4	2	6
Graduate	30	8	6	44
Post Graduate	14	30	6	50
Total	44	42	14	100

Table 2.3 Age vs. Income

Ages/Income	Up to 2	2 to 5	5 & above	Total
18 to 30	4	2	0	6
31 to 45	24	10	4	38
45 & above	16	30	10	58
Total	44	42	14	100

Table 2.4 Age vs. Experience

Ages/Income	Up to 2	2 to 5	5 & above	Total
18 to 30	6	0	0	6
31 to 45	22	12	4	38
45 & above	0	36	20	56
Total	28	48	24	100

Table 2.5 Age vs. Qualification

Ages/Qualification	Under Graduate	Graduate	Post Graduate	Total
18 to 30	0	2	4	6
31 to 45	0	20	18	38
45 & above	6	22	28	56
Total	6	44	50	100

Socio Economic Analysis:

* 38% of respondents have their own businesses belonging to age group 45 & above.

* 34% of businessmen are having the qualification up to graduation level

* 34% of the businessmen are having experiences of 11- 20 yrs in their business

* 24% of the businessmen are in the income slab 2-5 lakes.

On the basis of factor analysis the variables are grouped into 4 factors these are as follows:

- Risk mapping
- Market reputation
- Liquidity Component
- Security

ANALYSIS AND INTERPRETATION

Risk Mapping:

In any type of investment risk mapping is the proactive step that an investor like to take in order to understand the expected risk associated with the investment , and this is possible only through the tools such as self-assessment and risk mapping. This will provide a common framework for individual to judge the level of risk involved with the investment.

With the help of factor analysis it is concluded that individual puts 68% emphasis on risk mapping factor before investment. With the help of this analysis it is found out that it is ranked first with respect to other factor.

Risk Mapping is Inclusive of the Following Variables:

- Reputation of broker.
- Operational activities
- Rating of a broker.

Liquidity Component:

With the help of factor analysis it can be concluded that investor ranks liquidity factor on second rank. Liquidity of investments deals with the easy accessibility of the money to the investors as and when needed.

The operational activity is also taken into considerations before investment on the part of investor and based on that they take their broking decision.

Liquidity component is inclusive of following variables:

- Customer friendliness
- Systematic risk.

Market reputation:

The study concludes that 61% of the individual puts emphasis on the market reputation of brokers, the services encounter and services offered by the institution also plays a vital role in investment criteria. The history effect also plays vital role in perception of customers. People look at the past record & market reputation before they start relationship.

It includes

- Brokerage rate offered
- Market reputations

Security:

The security deals with the assurance given by the service provider, the assurity in terms of safety of money, the reliability of their services and the back support given by the foreign promoters. Security aspect has given 52% share regarding the investment decision.

RANKING OF STATEMENTS

A quick look at the table reveals that broker reputation is important for assessing risk before making related decision in the minds of customers. Market reputation & perception related to risk of loosing money with overall loss in respective brokers also plays vital role. CAR & NPA are jargons for general customers & these things are found less important in customer's views.

Table 2.6 Rating of variables

Ranking	Variables	Statements
1.	V11	Extent to which reputation of brokers helps in eliminating the risk associated in broking services.
2.	V3	Extents to which you're broking decision rely on market reputation of brokers.
3	V13	Extent to which you feel that risk associate with brokers is a loss associate with you.
4	V20	Extent to which you believe that appropriate risk management has in diversifying the risk in brokers.
5	V8	Extent to which you feel that operational risk is one major cause of broker's failure.
6	V16	Extent to which you feel that alternative broking channels like e- broking are reliable.
7	V17	Extent to which past market reputations of broke rs will affect to your brokers investment.
8	V2	Extent to which you feel money safe.
9	V10	Extents to which you feel that broking risk are systematic.
10	V14	Extent to which you feel that stock of NPAs is related to risk.
11	V1	Extent to which you believe that you can access your money whenever you need.
12	V12	Extent to which your investment rely on rating of brokers by rating agencies.
13	V7	Extent to which past market reputation of brokers will affect your broking decision.
14	V9	Extent to which you feel that private brokers are safer.
15	V6	Extent to which the brokers frauds affect your broking decision.
16	V15	Extent to which transparency in working of a brokers will affect your broking decision.
17	V18	Extent to which foreign promoter affect you're broking decision.
18	V4	Extent to which your broking decision depends on brokerage rate offer by brokers.
19	V5	Extent to which your broking decision rely on customer friendliness of brokers.
20	V19	Extent to which capital adequacy ratio of a br okers affect your broking decision.

Table 2.7 Values of Variables

Variables		Components			Extract
	1	2	3	4	
V1	.339	.549	.257	-8.276E-02	.486
V2	7.635E-02	.502	.581	.527	.568
V3	.417	.240	.646	.183	.681
V4	-3.069E-02	.102	.494	.225	.306
V5	5.269E-02	.444	-6.957E-02	.270	.278
V6	.522	.275	-5.869E-02	.125	.367
V7	.621	.251	.309	-9.344E-02	.439
V8	.681	.398	.343	-8.804E-02	.621
V9	-6.553E-02	.313	.233	.467	.357
V10	.319	.522	.250	.346	.556
V11	.672	.268	.440	.264	.652
V12	.469	.362	.132	.270	.441
V13	.643	-8.464E-02	.320	.128	.639
V14	.516	6.929E-02	.376	.326	.519
V15	.197	.612	7.034E-02	.228	.357
V16	.488	.159	.270	.622	.608
V17	.409	.219	.602	.178	.604
V18	3.219E-02	.247	.306	.402	.318
V19	5.428E-02	.379	-2.277E-02	.113	.160
V20	.203	.468	.415	.319	.635
Eigen Value	6.496	6.305	5.579	4.989	9.61
Proportion of total Variance	.3248 (32%)	.3152 (31%)	.2789 (28%)	.2494 (25%)	.4807 (48%)
Proportion of Common Variance	.6759 (68%)	.6560 (66%)	.6130 (61%)	.5191 (52%)	1.000 (100%)

RANKING OF FACTOR

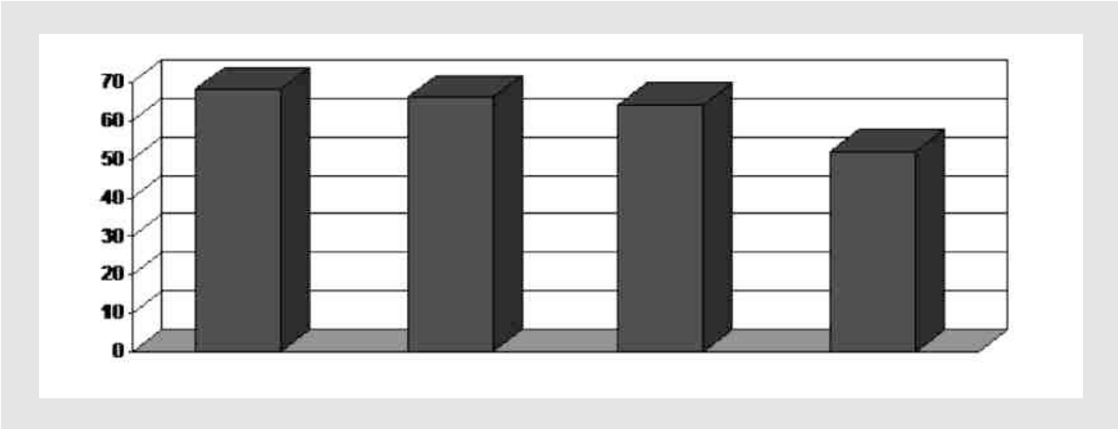
1. Risk mapping; 68%
2. Liquidity component; 66%
3. Market reputation; 61%
4. Security; 52

Factor Analysis: On the basis of factor analyses following four factors are given considerations:

- Risk mapping
- Market reputation
- Liquidity Component
- Security

Ranking of Variables

- Reputation of brokers is taken into consideration at the top level.
- Customers are not much aware about the jargons such as MTM and GTC.



Risk Mapping Liquidity Market reputation Security

Conclusions

In more practical, risk perception is about the process of managing the how of individual's knowledge or view by capturing, creating, synthesizing, organizing, and disseminating information. So that the interesting decision-making is made more efficient and effective and ultimately greater value is fetched.

Broking sector has emerged as the most dynamic segment on the Indian financial system. Although in India broking firms have not attained the status as that of their counterparts in developed countries, where they are the biggest financial intermediaries.

This research study is an empirical evidence to link the risk perception of investors depending on age, experience, income and education qualification with their investing pattern or selection of particular brokers for their investments.

Although the results are interesting and promising, they must be viewed with caution because there are limitations in this research. Since this study was focused only on particular region

Caution should be exercised in generalizing the results to other region that have different environment.

Additionally our survey used various respondents from each brokers depending on various variables. However, the study was framed to query the active investors and measure the factors from their viewpoint.

In essence, risk perception is about the delicate balance and synergistic interaction between risk mapping liquidity component, people and organization in order to gain and sustain competitiveness in highly volatile environment.

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