PERCEPTION STUDY OF MUTUAL FUNDS AS AN ALTERNATIVE SAVING INSTRUMENT IN A LOW INTEREST RATE ENVIRONMENT

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ABSTRACT

Increasing financial instruments has made it possible for the individual to select the best investment option and invest their money. It has enabled us to come across many different types of saving instruments and to come up with different options and analyze them so that we make great profits in the future. It has become more of a concern because the market has become highly unpredictable and therefore it’s important to analyze that which instrument will be beneficial in the future. Therefore we have undertaken this research to find out that how the mutual fund has become effective in the low interest rate environment.

INTRODUCTION:-

Mutual fund is one of the investment option about which nowadays investors are very much aware about its benefits then in olden days. Best way to invest in mutual funds is investing through SIP every month. Each small amount invested through mutual fund every month would create a good amount over a period of time. One of the advantages of a mutual fund is it allows you to capture the returns of an entire segment of the market without having to buy and sell individual stocks and bonds. A Mutual fund is a professionally managed investment fund that pools money from many investors to purchase securities. Mutual funds have advantages and disadvantages compared to direct investing in individual securities. The primary advantages of mutual funds are that they provide a higher level of diversification, they provide liquidity, and they are managed by professional investors. On the negative side, investors in a mutual fund must pay various fees and expenses. It remains unclear whether mutual fund management can reliably produce an increase in investment returns exceeding these fees and expenses. Primary structures of mutual funds include open-end funds, unit investment trusts, and closed-end funds. Exchange-traded funds (ETFs) are open-end funds or unit investment trusts that trade on an exchange. Mutual funds are also classified by their principal investments as money market funds, bond or fixed income funds, stock or equity funds, hybrid funds or other. Funds may also be categorized as index funds, which are passively managed funds that match the performance of an index, or actively managed funds. Hedge funds are not mutual funds; hedge funds cannot be sold to the general public and are subject to different government regulations. Mutual fund is considered to be one of the profitable financial instrument among investment option. Unlike any other financial instrument Mutual funds are subject to market risk. Mutual funds also plays a huge position in the economy of a country. Mutual funds demand and supply dynamics ensures its role as a true diversifier for investors. The Mutual fund demand is widely dispersed across number of investors. Investment in Mutual fund should be for a long period of time to get a good return on investment. Financial system consists of financial institutions, market, service and instruments that are closely related with each other. The role financial institutions, service and markets have tremendous increase in nowadays compared to the past decades; the only reason for this was customers aware about this. There are so many institutions that are conducting coaching classes for the financial system. Investment is a planned method of safely putting ones
savings into different outlets to get a good return. The essential quality of an investment is that it involves waiting for a reward. Investment involves long term commitment. Investment is a commitment of a person’s fund to derive future income in the form of dividend, rent, and interest. Etc. there is a positive relationship between investments and risk. The success of every investment activity depends upon the ability and knowledge of an investor to investment in right scheme at a right time without any loss. Mutual fund as an asset plays a very important role in an investor’s portfolio as it not only provides stability for returns but also gives an opportunity to maximize the wealth of the investors. Investors generally invest in Mutual fund as a way of diversifying risk. When investor buys a mutual fund, investor’s money is combined with the money from other investors, and allows to buy part of a pool of investments. A mutual fund holds a variety of investments which can make it easier for investors to diversify than through ownership of individual stocks or bonds.

**LITERATURE REVIEW:-**

The main purpose of review of literature is not only to identify the research gap and but also to understand various approaches adopted and followed in various research works in Indian as well as other works. Especially for this research work the researcher has done a comprehensive literature which helped to develop the conceptual framework and ideas in theoretical as well as empirical aspects. The present study needs different dimension of literature review, because the study is related to identification of numerical relations in respect of gold price and the association between the opinions expressed by the respondents and their investment pattern while investing in mutual funds. The researcher concentrated on more reviews related to the topic on different dimensions namely:

- Demand for Mutual funds among investors.
- Fascinating facts about investing in Mutual funds.
- Individual’s behavior and attitudes while making investment in Mutual funds.

The first introduction of a mutual fund in India occurred in 1963, when the Government of India launched Unit Trust of India (UTI). UTI enjoyed a monopoly in the Indian mutual fund market until 1987, when a host of other government-controlled Indian financial companies established their own funds, including State Bank of India, Canara Bank, of and by Punjab National Bank. In India, mutual funds play an important role in household finances. Deposit being available in the market less than 10% of Indian households have invested in mutual funds. A recent report on Mutual Fund Investments in India published by research and analytics firm, Boston Analytics, suggests investors are holding back from putting their money into mutual funds due to the perceived high risk and a lack of information on how mutual funds work. The primary reason for not investing appears to be correlated with city size. Among respondents with a high savings rate, close to 40% of those who live in metros and Tier I cities considered such investments to be very risky, whereas 33% of those in Tier II cities said they did not know how or where to invest in such assets. Mutual fund investments are sourced both from institutions (companies) and individuals. Since January 2013, institutional investors have moved to investing directly with the mutual funds since doing so saves on the expense ratio incurred.
Individual investors are, however, served mostly by Investment advisors and banks. Since 2009, online platforms for investing in Mutual funds have also evolved. Some of these online platforms offer Direct Mutual Funds which are cheaper than buying regular mutual funds from traditional distributors. The difference in expense ratio of a regular plan and direct plan is the commissions paid to the distributors. Retail clients can save about 1% p.a. in commissions by investing in Direct Mutual Funds. A lot of fee-based online advisors have been launched over the last one year like - Oro Wealth and MF Utility where retail investors can buy Direct Mutual Funds.

Assets under management (AUM) is a financial term denoting the market value of all the funds being managed by a financial institution (a mutual fund, hedge fund, private equity firm, venture capital firm, or brokerage house) on behalf of its clients, investors, partners, depositors, etc. The average assets under management of all mutual funds in India for the quarter Dec 2015 to Mar 2016 (in ₹ Lakh) is given below.

**RESEARCH OBJECTIVE:**

The theoretical research of general perception study of Mutual fund as option for investment in low interest rate environment leaded to the need of finding out more specifically about the individual’s investment behavior patterns and beliefs in order to reach the goal of this research. As Mutual funds is considered not as widely used financial instrument compared to other alternatives available to investor, but it is one option which can be utilized or to be tried, although specific the empirical research studies the perception to invest in mutual funds during low interest rate environment. The general investment behavior finds out what triggers people to invest, what are their general beliefs on investing, where they get their information from, how they value different information sources and what influences their decisions. Research also finds out the current knowledge and attitude towards mutual funds as an investment, so that suitable marketing and promotional moves can be suggested to make it better known and understandable as investment. Questions in the research were directed towards finding out one’s perception for investing in the mutual funds i.e. how he or she acts, acted or would act in investment process.

**RESEARCH METHODOLOGY:**

**Type of research:**
The methods used for doing research or for the perception study of Mutual funds as an alternative investment option in low interest rate environment are primary and quantitative in nature.

**Source of Data:**
The data required for the study are primary in nature. The primary data have been collected by making use of a questionnaire.
Sampling Size and Techniques:
The method of sampling used for this study is random sampling. The sample tells us about how the investors view Mutual fund as an investment option in a low interest rate environment.

Mode of data collection:
The data are collected through questionnaire survey.

Analysis Methodology:
The collected data have been analyzed by making use of hypothesis testing.

Charts about the sample profile based on demographic factors are:

1. Age

2. Marital status & years of work experience
3. Family type & occupation

**Years of Work Experience**

- 0-5 Years: 47%
- 5-10 Years: 20%
- 10-15 Years: 8%
- More than 15 Years: 23%

**Family Type**

- Joint Family: 43%
- Nuclear: 50%
- Living alone: 5%

**Occupation**

- Salaried: 70%
- Business: 15%
- Housewife: 4%
- Professionals: 7%
- Retired: 3%
4. Annual income & qualification

**Annual Income**

- More than 10 Lacs: 10%
- Less than 3 lacs: 32%
- 3-5 Lacs: 33%
- 5-8 Lacs: 18%
- 8-10 Lacs: 5%

**Qualification**

- Commercials: 32%
- Engineer: 14%
- Professionals: 15%
- Master: 20%
- Undergraduate: 17%

5. No. of children & No. of earnings family members

**No. of children**

- None: 57%
- One: 20%
- Two: 19%
- Three: 3%

**No. of earning family member**

- Less than 3 lacs: 32%
- More than 10 Lacs: 10%
- 3-5 Lacs: 33%
- 5-8 Lacs: 18%
- 8-10 Lacs: 5%
- Two: 50%
- Three: 11%
- One: 35%
- Four: 3%
- Five: 0%
PROPOSED HYPOTHESIS:-

Hypothesis 1:-
More than 40% of the population invests in Mutual funds.

Hypothesis 2:-
Preference of Mutual funds as an investment is not independent of gender.

Hypothesis 3:-
More than 25% of respondents think Mutual fund is a simple investment option.

Hypothesis 4:-
Investment in Mutual funds is not independent of occupation.

Hypothesis 5:-
The annual return expected by businessmen investing in Mutual funds is more than 10%.

Hypothesis 6:-
The proportions of male respondents who are completely satisfied investing in Mutual funds is not 30%.

Hypothesis 7:-
The proportions of male respondents who are slightly dissatisfied investing in Mutual fund is more than 15%.

Hypothesis 8:-
The number of respondents who think Mutual funds is simple and disciplined investment option is less than 10%.
DATA ANALYSIS:-

Hypothesis 1:

Ho: Less than 40% of the population invests in Mutual funds
Ha: More than 40% of the population invests in Mutual funds

Ho: p<40%
Ha : p>40%
P-TEST
Right tail
Alpha=10%
Probability=90%
Critical-value=1.28

Calculating the observed value
p = 40%
q= 60%
p'= 43%
p'-p= 3%
p*q= 24.00%
Observed value= 1.39
P-value= 0.081512
Alpha= 0.1
Reject the null

Observation:
We observed that, more than 40% of the population invests in Mutual funds.

Insight:
There are many chances of one making any profit out of mutual funds investment in comparison to other investment option. It is beneficial mainly if customer invests for a long period of time.
Hypothesis 2: (Chi Square test)

Ho: Preference of Mutual funds as an investment is independent of gender
Ha: Preference of Mutual funds as an investment is not independent of gender

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<td>Proportion</td>
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Chi square test
Right tail test
Alpha= 0.01
Probability= 0.01

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<td>Grand Total</td>
<td>92</td>
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\[(fo-fe)^2/fe\]

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<tr>
<td>No</td>
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<td>Grand Total</td>
<td>3.79</td>
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Accepted the null

Observation: We observed that preference of Mutual funds as an investment is independent of gender.

Insights:
This means that men and women also many times act as an investor for mutual funds. Therefore Mutual funds companies should target both male and female as potential customer.
Hypothesis 3:

Ho : Less than 25% of respondents think Mutual fund is a simple investment option

Ha : More than 25% of respondents think Mutual funds is a simple investment option

Ho : p>25%

Ha : p<25%

P test

Right Tailed Test

Alpha= 0.1

Probability= 0.9

Critical-value= 1.28

Calculating the Observed value

p = 25%
q = 75%
p' = 29%
p'-p = 4%
p*q = 18.75%

Observed value= -1.95
p-value = 0.03

Alpha =0.1

Reject the null

Observation:

We observed that more than 25% of respondents think Mutual funds is a simple investment option.

Insights:

Mutual fund is one of the financial instrument or investment solutions that have been preferred by many investors. There is many reason for it but one of the most common reason is that many investor get good
return after long period of time.

Hypothesis 4: (Chi Square test)

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<tr>
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<th>Housewife</th>
<th>Professionals</th>
<th>Retired</th>
<th>Salaried</th>
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<th>%</th>
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<td>Male</td>
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<td>Grand Total</td>
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<table>
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<th>Professionals</th>
<th>Retired</th>
<th>Salaried</th>
<th>Total</th>
<th>%</th>
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<tbody>
<tr>
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<td>7</td>
<td>3</td>
<td>63</td>
<td>90</td>
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</tr>
<tr>
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<td>10</td>
<td>17</td>
<td>8</td>
<td>160</td>
<td>230</td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td>48</td>
<td>14</td>
<td>24</td>
<td>11</td>
<td>223</td>
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<th>Professionals</th>
<th>Retired</th>
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<th>Total</th>
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<tbody>
<tr>
<td>Female</td>
<td>10</td>
<td>17</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>90</td>
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<tr>
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<td>2</td>
<td>0</td>
<td>0</td>
<td>230</td>
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<tr>
<td>Grand Total</td>
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<td>24</td>
<td>11</td>
<td>223</td>
<td>43</td>
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</tbody>
</table>

Chi squared test
Right Tail test
Alpha=0.1
Probability=0.1
Critical value=7.78
Observed value=43
p-value= 0.00
alpha=0.1
since p-value is less than alpha we reject the null
Therefore investment in mutual fund is not independent of occupation

Hypothesis 5:

| Ho: The annual return expected by businessmen investing in mutual fund is less than 10% |
| Ha: The annual return expected by businessmen investing in mutual fund is more than 10% |

Ho: p < 10%
Ha: p > 10%
Test of proportions
Right Tailed Test
Alpha= 0.1
Probability= 0.9
Critical-value= 1.28
Calculating the observed value
x = 66
n = 444
p' = 15%
p = 10%
q = 90%
p'-p = 5%
Observed-value= 3.42
p-value= 0.00
Alpha= 0.1
0.00 < 0.1, since p-value < alpha

Observations:
We reject the null, therefore we can say that the annual return expected by businessmen investing in mutual fund is more than 10%.

Insights:
Businesses in developed markets invests in mutual funds. However, for investors from developing countries like India, the investors who want save for future or for making future planning like retirement plan mostly invests in mutual funds..
Hypothesis 6:

Ho: The proportions of male respondents who are completely satisfied investing in mutual fund is 30%
Ha: The proportions of male respondents who are completely satisfied investing in mutual fund is not 30%

Ho: p = 30%
Ha: p ≠ 30%

Test of proportions
Two Tailed Test
Alpha= 0.1
Probability= 0.05, 0.95
Critical-value= -1.64, 1.64
Calculating the observed value
x = 44
n = 123
p' = 36%
p = 30%
q = 70%
p' - p = 6%
Observed-value= 2.64
p-value= 0.01
Alpha= 0.1
0.00 < 0.1, since p-value < alpha

Observation:
We reject the null, therefore we can say that the proportions of male respondents who are completely satisfied investing in mutual fund is not 30%.

Insights:
Mutual funds also generates regular saving i.e. it inculcates a habit of saving and also gives a good return and investor those who do not have much knowledge about securities avoid investing directly in equity and prefer investing in mutual funds.
Hypothesis 7:

Ho: The proportions of male respondents who are slightly dissatisfied investing in mutual fund is less than 15%
Ha: The proportions of male respondents who are slightly dissatisfied investing in mutual fund is more than 15%

Ho: p > 15%
Ha: p < 15%
Test of proportions
Left Tailed Test
Alpha= 0.1
Probability= 0.1
Critical-value= -1.28
Calculating the observed value
x = 50
n = 314
p' = 11%
p = 15%
q = 85%
p'-p = -5%
Observed-value= -2.35
p-value= 0.01
Alpha= 0.1

0.00 < 0.1, since p-value < alpha

Observation:
We reject the null, therefore we can say that the proportions of male respondents who are slightly dissatisfied investing in mutual fund is more than 15%

Insights:
Many investors thinks that investing in mutual funds for a short period of time is risky as mutual funds are subject to market risk and market is of lots of volatility. and they also thinks that their money will get blocked if they invest for long period of time so it can be seen that some of the investors are slightly dissatisfied by doing investment in mutual funds.
Hypothesis 8:

Ho: The number of respondents who think mutual fund is simple and disciplined investment is more than 10%
Ha: The number of respondents who think mutual fund is simple and disciplined investment is less than 10%

Ho: p > 10%
Ha: p < 10%

Test of proportions
Left Tailed Test
Alpha= 0.1
Probability= 0.1
Critical-value= -1.28

Calculating the observed value
x = 28
n = 444
p' = 6%
p = 10%
q = 90%
p' - p = -4%
Observed-value= -2.81

p-value= 0.00
Alpha= 0.1

0.00 < 0.1, since p-value < alpha

Observation:
We reject the null, therefore we can say that the number of respondents who think mutual fund is simple and disciplined investment is less than 10%

Insights:
Investing in mutual fund is simple as mutual funds company hire portfolio managers to supervise the fund's investments. A portfolio manager is a well-qualified person who also have a good knowledge about securities market and good experience of being in that field so he knows how to manage the money of the investors and take decision on their behalf to give a best return on investment.
CONCLUSION:-

The research has given a much better understanding regarding mutual fund as an alternative investment option in low interest rate environment. Research shows that the main motive to investing comes from the factor that more money is left over from other expenses and one wants to preserve its worth for the future. For the most part investing is not natural way of life, but higher level prerogative, which comes after other needs are met. Investors go through a very long and thorough information search and evaluation period before making the investment decision. The survey shows that potential investors listen to almost all available sources regardless of how big role the source will play in the final decision. The longest period in investment process is spent on understanding options and analyzing the market. This means that investor is exposed to both positive and negative information. As investment is such a specific and yet individually important field, investors naturally trust experts more. Interesting was to see that survey results show quite noticeable trust towards investment consultant. The information should be provided to individuals to educate them regarding mutual fund as an investment. Trust-based investment instruments (like stocks and bonds) are used more for earning profit whereas mutual fund is regarded as long-term stable backbone of the portfolio. All the interview respondents said that they plan to invest in mutual fund for their future planning. Study has shown that market for mutual fund is automatically connected with the company and positive investment qualities. This is a great advantage as any one investing in mutual fund generally invests giving importance to the company associated.

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