COMPARING FACTORS THAT INFLUENCE CHOICE OF INVESTMENT BETWEEN MUTUAL FUNDS AND SIP

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Abstract:
With the improvements in the technology and exposure of different perspectives it has enabled us to come across many different types of saving instruments and we can come 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 funds and SIP have become effective in the low interest rate environment.

Introduction:
The objective of this research paper is to find out the factors that influence the choice of investment between mutual funds and SIP. SIP is a method of investing a fixed sum, regularly, in a mutual fund scheme. SIP allows one to buy units on a given date each month, so that one can implement a saving plan for themselves. The biggest advantage of SIP is that one need not time the market. In timing the market, one can miss the larger rally and may stay out while markets were doing well or may enter at a wrong time when either valuation have peaked or markets are on the verge of declining. Rather than timing the market, investing every month will ensure that one is invested at the high and the low, and make the best out of an opportunity that could be tough to predict in advance. A mutual fund collects money from investors and invests the money on their behalf. It charges a small fee for managing the money. Mutual funds are an ideal investment vehicle for regular investors who do not know much about investing. Investors can choose a mutual fund scheme based on their financial goal and start investing to achieve the goal.

Mutual Fund:
A mutual fund is a professionally-managed investment scheme, usually run by an asset management company that brings together a group of people and invests their money in stocks, bonds and other securities.
Systematic Investment Plan:
The Systematic Investment Plan calls for saving small amounts over an extended period. SIP plan is all about compounding wealth through systematic investment on a long-term basis.

Factors influencing SIP:
- Investment discipline
- Mitigates risk
- Flexibility
- Hassle-free

Factors influencing mutual funds:
- Diversification
- Expert management
- Liquidity
- Convenience
- Reinvestment of income
- Range of investment options and objectives
- Affordability

RESEARCH OBJECTIVE:
- To know investor view towards Mutual fund and SIP.
- To know the awareness of mutual fund and SIP in Metropolitan city (Mumbai).
- To know the preference of people for investment in Mutual fund or SIP.
- To identify the scheme preference of investors
- To identify the information sources influencing the scheme selection decision.
PROPOSED HYPOTHESES:

$H_1$: More than 20% of respondents whose annual income is between 3 to 5 lakhs invest in mutual fund due to low interest rate (Test of Proportion).

$H_2$: The Proportion investing in SIP for low interest rate is more than 60 % (Test of Proportion).

$H_3$: Female Proportion investing in Mutual Funds for low interest rate is more than 65 % (Test of Proportion).

$H_4$: The proportion of respondents in the age group 25 – 30 who do not invest in SIP due to low interest rate is more than 40 % (Test of Proportion).

$H_5$: Type of investment as alternative saving instruments is not independent of occupation (Chi- squared text).

$H_6$: Type of investment as alternative saving instrument is not independent of number of earning members in family (Chi- squared text).

Literature Review:

As Vyas says, now a day’s financial markets are appeared as well-organized and considerable to fight against inflation, mutual funds as a part of financial markets become popularized among investors because of their suitable nature and they also facilitates easy operations with good returns. Though they are not favored by many other investors as they are more depend upon unstable stock markets and struggling hard to discriminate product range to satisfy retail investor. It is thus, timed to understand and analyze investor’s awareness and expectations, and depicts some excessively valuable information to defend financial decision making of mutual fund investor and asset management companies. Financial markets are becoming more widespread with inclusive financial products trying innovations in designing mutual funds portfolio but these changes need fusion in association with investor’s expectations. Thus, it has become crucial to study mutual funds from a different angle, which is to focus on investor’s perception and expectations and disclose the incognito parameters that are attributed for their disapproval. This research paper focused attention on number of factors that highlights factors that are accountable to encourage an investor to invest in or pull out from mutual funds. Mutual fund companies should come forward with full support for the investors in terms of advisory services, participation of investor in portfolio design, ensure full disclosure of related information to investor, proper consultancy should be given by mutual fund companies to the investors in understanding terms and conditions of different mutual fund schemes, such type of fund designing should be promoted that will ensure to satisfy needs of investors, mutual fund
information should be published in investor friendly language and style, proper system to educate investors should be developed by mutual fund companies to analyze risk in investments made by them, etc.

As Sharma says The Mutual Fund industry appears to be on a losing streak. Ever since the Securities and Exchange Board of India (SEBI) banned entry loads-charges collected by fund houses from investors at the time of investment, the number of retail investors in Mutual Funds has been falling consistently. Industry players, financial planners and investors’ representatives have been trying hard to find a solution to stop the mass migration. However, the industry doesn’t seem to have a definite plan to get out of the unstable situation. The present analysis focuses on the Mutual Fund investment decision function to establish the relevant causal relationship amongst the factors influencing one’s decision to invest in the Mutual Funds. The paper is based upon the results drawn from a survey of 445 respondents. As Mane says Mutual Fund has emerged as a tool for ensuring one’s financial well being. As information and awareness is rising more and more people are enjoying the benefits of investing in mutual funds. This research will introduce the customer perception with regard to mutual funds that is the schemes they prefer, the plans they are opting, the reasons behind such selections and also this research dealt with different investment options, which people prefer along with and apart from mutual funds. Like postal saving schemes, recurring deposits, bonds, and shares. The findings from this project is that most of the people are hesitant in going for new age investments like mutual funds and prefer to avert risks by investing in less riskier investment options like recurring deposits and so.

Demographic Details:

Charts about the sample profile based on:

1. Gender & age:

![Gender Pie Chart](chart1.png)

- **Gender**: Male 71%, Female 29%

![Age Pie Chart](chart2.png)

- **Age Distribution**:
  - 25-30: 49%
  - 30-40: 21%
  - 40-50: 17%
  - 50-60: 10%
  - Above 60: 2%
2. Marital status & years of work experience:

- Marital Status
  - Single: 45%
  - Married: 54%

- Years of Work Experience
  - 0-5 Years: 47%
  - 5-10 Years: 20%
  - More than 10 Years: 23%

3. Family type & occupation:

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

- Occupation
  - Salaried: 70%
  - Business: 15%
  - Housewife: 4%
  - Retired: 3%
  - Professionals: 7%

4. Annual income & qualification:

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

- Qualification
  - Undergraduate: 17%
  - Master: 20%
  - Engineer: 14%
  - Commerence: 32%
  - Professionals: 15%
5. No. of children & No. of earnings family members:

No. of children

- None: 57%
- One: 20%
- Two: 19%
- Three: 3%
- (blank): 0%

No. of earning family memeber

- One: 35%
- Two: 19%
- Three: 11%
- Four: 3%
- More than Five: 1%
- Five: 0%
- (blank): 0%
Data Analysis:

Hypothesis 1: Test of proportions

<table>
<thead>
<tr>
<th>Ho: Less than 20% of respondents whose annual income is between 3 to 5 lakhs invest in mutual fund due to low interest rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ha: More than 20% of respondents whose annual income is between 3 to 5 lakhs invest in mutual fund due to low interest rate</td>
</tr>
</tbody>
</table>

Ho: $\mu > 20\%$

Ha: $\mu < 20\%$

Proportion Test

Left tailed Test

<table>
<thead>
<tr>
<th>Alpha</th>
<th>Probability</th>
<th>Critical-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.1</td>
<td>0.1</td>
<td>(1.28)</td>
</tr>
</tbody>
</table>

Calculating

<table>
<thead>
<tr>
<th>p'</th>
<th>p</th>
<th>q</th>
<th>$p'-p$</th>
<th>$p\times q$</th>
<th>n</th>
<th>$\sqrt{p\times q/n}$</th>
<th>x'</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.17</td>
<td>0.20</td>
<td>0.80</td>
<td>0.03</td>
<td>0.16</td>
<td>320</td>
<td>0.02</td>
<td>53.33</td>
</tr>
</tbody>
</table>

Observed-value = 8.78

P-value = 0.00

Alpha = 0.1

$0.00 < 0.1, P\text{-value} < \text{Alpha}$

We reject the null

Observation: The test proves that more than 20% of respondents whose annual income is between 3 to 5 lakhs invest in mutual fund due to low interest rate.

Insight: It has been observed that more than 20% of respondents whose annual income is between 3 to 5 lakhs invest in mutual fund due to low interest rate. This is because they might get higher return. Diversification may be the other reason, long term planning. Interest on mutual fund is more as compared to fixed deposits etc.
Hypothesis 2: Test of proportions

Ho: The Proportion investing in SIP for low interest rate is less than 60%
Ha: The Proportion investing in SIP for low interest rate is more than 60%

Ho: \( \mu < 60\% \)
Ha: \( \mu > 60\% \)

Proportion Test
Right tailed Test
Alpha= 0.1
Probability= 0.9
Critical-value= 1.28

Calculating Observed value

\[ p' = 0.67 \]
\[ p = 0.60 \]
\[ q = 0.40 \]
\[ p' - p = 0.07 \]
\[ p\times q = 0.24 \]
\[ n = 445 \]
\[ p\times q/n = 0.00 \]
\[ \sqrt{p\times q/n} = 0.02 \]
\[ x' = 299 \]

Observed-value= 3.10
P-value= 0.00
Alpha= 0.1

\[ 0.00 < 0.1, P-value < \text{Alpha} \]
We reject the null

Observation: The test proves that the Proportion investing in SIP for low interest rate is more than 60%.

Insight: It has been observed that the Proportion investing in SIP for low interest rate is more than 60%. This is because it has low risk, tax benefits, does not require large sum to start off etc. This is a type of secured investment.
Hypothesis 3: Test of proportions

Ho: Female Proportion investing in Mutual Funds for low interest rate is less than 65%
Ha: Female Proportion investing in Mutual Funds for low interest rate is more than 65%

Ho: $\mu<65\%$
Ha: $\mu>65\%$
Proportion Test
Right tailed Test

\[\text{Alpha}= 0.1\]
\[\text{Probability}= 0.9\]
\[\text{Critical-value}= 1.28\]

Calculating Observed value

\[p'= 0.71\]
\[p = 0.65\]
\[q = 0.35\]
\[p'-p = 0.06\]
\[p*q = 0.22\]
\[n = 126\]
\[p*q/n = 0.00\]
\[\sqrt{p*q/n} = 0.04\]
\[x' = 90\]
\[\text{Observed-value}= 1.51\]
\[\text{P-value}= 0.00\]
\[\text{Alpha}= 0.1\]

\[0.00<0.1, \text{P-value}<\text{Alpha}\]

\textbf{We reject the null}

\textbf{Observation:} The test proves that female proportion investing in Mutual Funds for low interest rate is more than 65%.

\textbf{Insight:} It has been observed that female proportion investing in Mutual Funds for low interest rate is more than 65%. Now a day’s Women become more independent as they plan to meet future financial goals.
**Hypothesis 4: Test of Proportions**

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ho</strong></td>
<td>The proportion of respondents in the age group 25 to 30 who do not invest in SIP due to low interest rate is less than 40%</td>
</tr>
<tr>
<td><strong>Ha</strong></td>
<td>The proportion of respondents in the age group 25 to 30 who do not invest in SIP due to low interest rate is more than 40%</td>
</tr>
</tbody>
</table>

Ho: $P > 40\%$
Ha: $P < 40\%$

Proportion Test
Left tailed Test

Alpha = 0.1
Probability = 0.9
Critical-value = 1.28

Calculating Observed value

\[
p' = 0.47 \\
p = 0.40 \\
q = 0.60 \\
p' - p = 0.07 \\
p*q = 0.24 \\
n = 296 \\
p*q/n = 0.00 \\
\sqrt{p*q/n} = 0.03 \\
\]

Observed-value = 2.33
P-value = 0.01
Alpha = 0.1

0.01 < 0.1, P-value < Alpha

**We reject the null**

**Observation:** The test proves that the proportion of respondents in the age group 25 to 30 who do not invest in SIP due to low interest rate is more than 40%.

**Insight:** It has been observed that the proportion of respondents in the age group 25 to 30 who do not invest in SIP due to low interest rate is more than 40%. This is because they might have invested in mutual fund, equities, fixed deposits, gold etc. to get higher returns.
Hypothesis 5: Test of independence (Chi-squared text)

Ho: Type of investment as alternative saving instruments is independent of occupation.
Ha: Type of investment as alternative saving instruments is not independent of occupation.

<table>
<thead>
<tr>
<th></th>
<th>SIP</th>
<th>Mutual Fund</th>
<th>Total</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>46</td>
<td>50</td>
<td>96</td>
<td>16%</td>
</tr>
<tr>
<td>Housewife</td>
<td>13</td>
<td>15</td>
<td>28</td>
<td>5%</td>
</tr>
<tr>
<td>Professionals</td>
<td>16</td>
<td>21</td>
<td>37</td>
<td>6%</td>
</tr>
<tr>
<td>Retired</td>
<td>11</td>
<td>11</td>
<td>22</td>
<td>4%</td>
</tr>
<tr>
<td>Salaried</td>
<td>208</td>
<td>220</td>
<td>428</td>
<td>69%</td>
</tr>
<tr>
<td>(blank)</td>
<td>5</td>
<td>3</td>
<td>8</td>
<td>1%</td>
</tr>
<tr>
<td>Grand Total</td>
<td>299</td>
<td>320</td>
<td>619</td>
<td>100%</td>
</tr>
</tbody>
</table>

Chi-squared test
Right tail test
- Alpha= 0.1
- Probability= 0.1
- Critical= 9.24
- Observed= 1.11
- P-value= 0.95
- Alpha= 0.1

Observations: The test proves that alternative saving instruments is not independent of occupation.

Insights: It has been observed that salaried person invest more in mutual fund and SIP. This is because monthly salary is fixed so they can plan to invest in SIP and mutual fund. Income of business person is fluctuating so they may not plan to invest in mutual fund and SIP. Professionals might invest more in government bonds, fixed deposits, equities etc. might invests more in fixed deposits gold etc. Housewife might invest in gold, fixed deposits etc. independent of occupation.
**Hypothesis 6: Test of independence (Chi – square test)**

Ho: Type of investment as alternative saving instrument is independent of number of earning members in family.

Ha: Type of investment as alternative saving instrument is not independent of number of earning members in family.

<table>
<thead>
<tr>
<th>Observed</th>
<th>Mutual Fund</th>
<th>SIP</th>
<th>Total</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Five</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0%</td>
</tr>
<tr>
<td>Four</td>
<td>11</td>
<td>10</td>
<td>21</td>
<td>3%</td>
</tr>
<tr>
<td>More than Five</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td>1%</td>
</tr>
<tr>
<td>One</td>
<td>122</td>
<td>116</td>
<td>238</td>
<td>38%</td>
</tr>
<tr>
<td>Three</td>
<td>30</td>
<td>32</td>
<td>62</td>
<td>10%</td>
</tr>
<tr>
<td>Two</td>
<td>153</td>
<td>138</td>
<td>291</td>
<td>47%</td>
</tr>
<tr>
<td>Grand Total</td>
<td>320</td>
<td>299</td>
<td>619</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Chi-square test**

Right tail test

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha</td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td>Probability</td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td>Critical</td>
<td>9.24</td>
<td></td>
</tr>
<tr>
<td>Observed</td>
<td>0.52</td>
<td></td>
</tr>
<tr>
<td>P- value</td>
<td>0.99</td>
<td></td>
</tr>
</tbody>
</table>

**Observation:** The test proves that alternative saving instrument is not independent of number of earning members in family.

**Insights:** A family having two earning members invests more in mutual fund and SIP. This is because increase in total earnings. It has been observed that a family having more than two earning members do not invests more in mutual fund and SIP as they might have invested in property, gold, fixed deposits and insurance. So alternative saving instrument is not independent of number of earning members in family.

<table>
<thead>
<tr>
<th>Expected</th>
<th>Mutual Fund</th>
<th>SIP</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Five</td>
<td>1.03</td>
<td>0.97</td>
<td>2</td>
</tr>
<tr>
<td>Four</td>
<td>10.86</td>
<td>10.14</td>
<td>21</td>
</tr>
<tr>
<td>More than Five</td>
<td>2.58</td>
<td>2.42</td>
<td>5</td>
</tr>
<tr>
<td>One</td>
<td>123.04</td>
<td>114.96</td>
<td>238</td>
</tr>
<tr>
<td>Three</td>
<td>32.05</td>
<td>29.95</td>
<td>62</td>
</tr>
<tr>
<td>Two</td>
<td>150.44</td>
<td>140.56</td>
<td>291</td>
</tr>
<tr>
<td>Grand Total</td>
<td>320.00</td>
<td>299.00</td>
<td>619</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(fo-fe)^2/fe</th>
<th>Mutual Fund</th>
<th>SIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Five</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Four</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>More than Five</td>
<td>0.07</td>
<td>0.07</td>
</tr>
<tr>
<td>One</td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>Three</td>
<td>0.13</td>
<td>0.14</td>
</tr>
<tr>
<td>Two</td>
<td>0.04</td>
<td>0.05</td>
</tr>
<tr>
<td></td>
<td>0.52</td>
<td>Observed</td>
</tr>
</tbody>
</table>

Type of investment as alternative saving instrument is not independent of number of earning members in family
Appendix

Hypothesis-5:

Hypothesis-6:
**Conclusion:**

The objective which is set to study the investors view towards mutual fund and SIP as per the sample size and test which is applied to the study found that the investors are choosing or feeling confident in investing in mutual fund and SIP because they think that mutual fund and SIP are having higher risk but higher returns than other investment option.

The awareness level of mutual fund among the investors are moderate to high which help them to invest in mutual fund and SIP to avoid risk bearing factor and fear of losing money.

The most preference of the investors is the Mutual Funds and SIP.

Investors are taking advice from experts to guide them for their investment in mutual funds and SIP.

**Limitations of the research:**

1. Data collecting using primary research is more expensive than secondary because researcher have to involved himself and has to design everything and it should be simple and easy to understand.
2. Some respondents delay to response. Technical defects lead to delay in response. It takes more time to prepare the questionnaire and segregating the questions. Mood of the respondent is one of the reasons for time consuming.
3. Respondents may fill vague answers because of lack of knowledge, questions not clear to respondents.
4. Leaving aside cost and time other resources like human resources and materials too are needed in larger quantity to do surveys and data collection.
5. Respondents are required to choose a response that does not exactly reflect their answer; the researcher cannot further explore the meaning of the responses.
6. There is no use of research if the respondents are not educated and cooperative.
7. Since the data collected was limited to sample population rather than the entire the results may be less reproductive.
8. Research was limited to 445 respondents.
9. Secondary source of data like internet were used to conduct the exploratory study.
10. The primary data was collected which was limited to 445 respondents only across Mumbai.
References:


