FACTORS AFFECTING RISK PERCEPTION IN MUTUAL FUND PURCHASE (GENDER WISE STUDY)

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ABSTRACT

Purpose: *The purpose of this paper is to find out the factors affecting risk perception in mutual fund purchase.(Gender wise study).*

Design/methodology/approach: *A structured survey was designed and administered to a sample of Gwalior's respondents factors affecting risk perception in mutual fund purchase.(Gender wise study).*

Findings: *Significant difference was not found between male and female respondents.*

Research limitations/implications: *The number of respondent is 100 which is a small number hence the result might not reflect the true picture.*

INTRODUCTION

Mutual fund is a pool of funds which is divided into units of equal value and sold to investing public and the funds so collected are utilized for collective investments in various capitals and money market instrument. In today's market people invest money to gain

more. So when they take into account, they mostly look out for Investment Company where they can get more income.

Investment companies can be classified into closed-end and open-end investment companies. Closed-end is when it is readily transferable in the market. Open-end funds sell their own shares to investors and ready to buy back their old shares. If we talk about the investment options today, in India we have so many investment companies like UTI, LIC etc, all have their own special ways of servicing the customers. The investors also feel that they are worth to be the part of that company. These days' people mainly look for avoiding tax so normally they look out for some investments which can help them in doing so. When it comes to this point of view, people mainly look out for mutual fund.

Mutual fund is a trust at law; it is a special type of managed, pooled portfolio financial company or financial service organization that sells shares/units/stocks in itself, to the public to obtain its resources and it invests the savings so mobilized or pooled in a large, diversified, & sound portfolio of equity shares, bonds, money market instruments etc., Redeemable trust certificates are sold to investors at net asset value (NAV) plus a small commission. All interest/dividend and principal repayments are distributed to the holders of the certificates.

THEORETICAL BACKGROUND

Meaning of Mutual Funds

Mutual fund is a pool of funds which is divided into units of equal value and sold to investing public and the funds so collected are utilized for collective investment in various capital and money market instrument. Investment is a commitment of a person's funds to derive future income in the form of interest, dividends, rent, premiums, pension benefits or the appreciation of the value of their principal capital. Investments have a return but there can be no return without risk.

Definitions

Different persons in different words have defined mutual fund.

The SEBI (MF) Regulations, 1993 defines mutual fund 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."

Investment is the allocation of monetary resources to assets that are expected to yield some gain or positive return over a given period of time. These assets range from safe investments to risky investments. Investments in this form are also called 'Financial Investments'.

Characteristics of Mutual Fund

- A mutual fund actually belongs to the investors who have pooled their funds. The ownership of the MF is in the hands of the investors.
- A MF is managed by investment professionals and other service providers, who earn a fee for their services from the fund.
- The pool of funds is invested in a portfolio of marketable investment. The value of the portfolio is updated every day.
- The investor's share in the fund is denominated by units. The value of the units changes with change in the portfolio's value, every day. The value of one unit of investment is called as the net assets value or NAV.
- The investment portfolio of the Mutual fund is vested according to the stated Investment objectives of the fund.

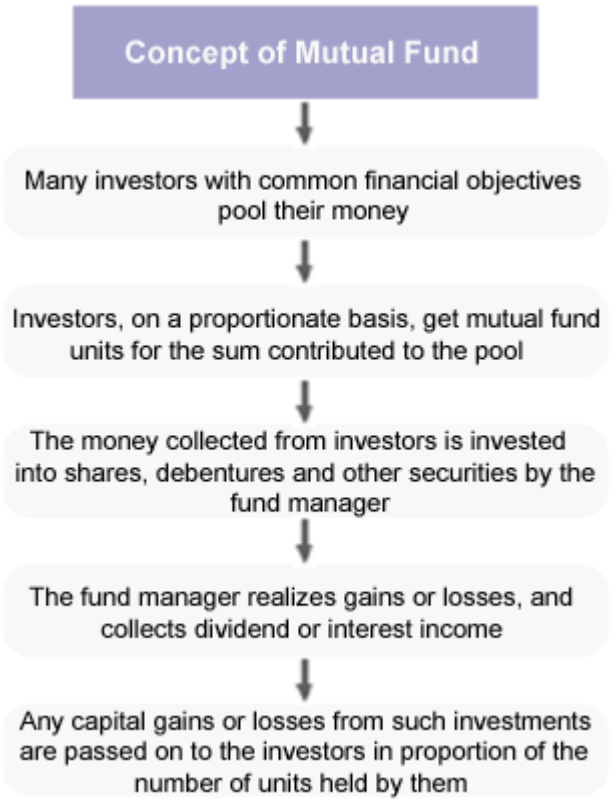
Investment Company

A company or trust that uses its capital to invest in other companies. There are two principal types – closed-ended and the open-ended. Shares in closed-ended investment

companies, some of which are listed on the New York Stock Exchange are readily transferable in the open market and are bought and sold like other shares.

Open-ended funds sell their own shares to investors, stand ready to buy back their old shares and are not listed. These funds are so called because their capitalization is not fixed; they issue more shares as people want them.

Concept of Mutual Fund Industry

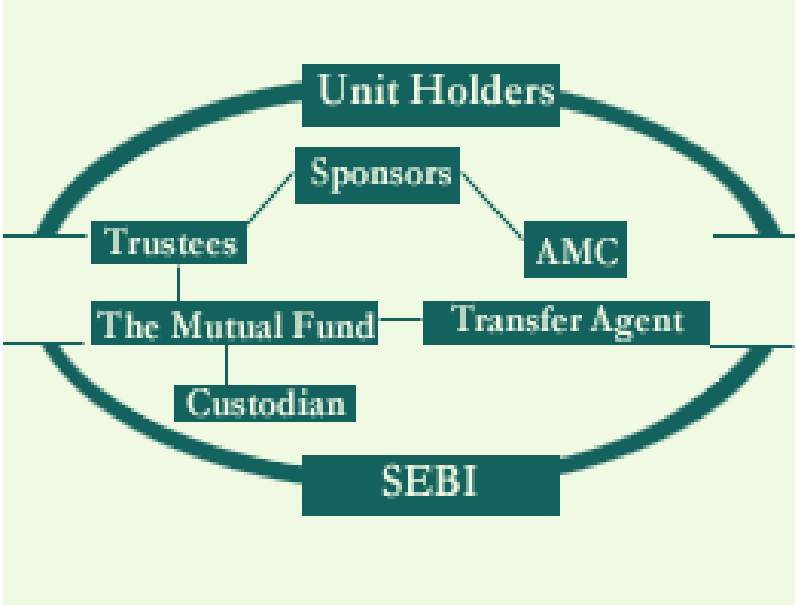


When an investor subscribes for the units of a mutual fund, he becomes part owner of the assets of the fund in the same proportion as his contribution amount put up with the corpus (the total amount of the fund). Mutual Fund investor is also known as a mutual fund shareholder or a unit holder. Any change in the value of the investments made into capital market instruments (such as shares, debentures etc) is reflected in the Net Asset Value (NAV) of the scheme. NAV is defined as the market value of the Mutual Fund scheme's

assets net of its liabilities. NAV of a scheme is calculated by dividing the market value of scheme's assets by the total number of units issued to the investors.

CONSTITUENTS OF MUTUAL FUND

There are many entities involved and the diagram below illustrates the constitution of a mutual fund:



Formation process starts from sponsor {the investment advisor or manager}. Sponsor selects & appoints the Board of Trustees.

Trustees again hire or contract a separate AMC that is run by professional managers. The AMC conducts the necessary research & based on it, manages the fund or portfolio. It is responsible for floating, managing, redeeming the schemes; it also handles the administrative chares. It receives the fees for the services rendered by it. The custodian is responsible for co-ordination with brokers, the actual transfer & storage of stocks, & handling the property of the trust.

Finally the unit holders are investors from who a pool of money is collected & invested according to the stated investment objectives. Mutual fund investors are like share holders & they own the fund. They are neither lenders nor the deposit holders in the fund. Unlike a holder of stock of company, unit holders have no voting rights.

Organization of a Mutual Fund

All mutual funds comprise four constituents – Sponsors, Trustees, Asset Management Company (AMC) and Custodians.

1. Sponsors:

The sponsors initiate the idea to set up a mutual fund. It could be a registered company, scheduled bank or financial institution. A sponsor has to satisfy certain conditions, such as capital, record (at least five years' operation in financial services), de-fault free dealings and general reputation of fairness. The sponsors appoint the Trustee, AMC and Custodian. Once the AMC is formed, the sponsor is just a stakeholder.

2. Trust/ Board of Trustees:

Trustees hold a fiduciary responsibility towards unit holders by protecting their interests. Trustees float and market schemes, and secure necessary approvals. They check if the AMC's investments are within well-defined limits, whether the fund's assets are protected, and also ensure that unit holders get their due returns. They also review any due diligence by the AMC. For major decisions concerning the fund, they have to take the unit holders consent. They submit reports every six months to SEBI; investors get an annual report. Trustees are paid annually out of the fund's assets – 0.5 percent of the weekly net asset value.

3. Fund Managers/ AMC:

They are the ones who manage money of the investors. An AMC takes decisions, compensates investors through dividends, maintains proper accounting and information for pricing of units, calculates the NAV, and provides information on listed schemes. It also exercises due diligence on investments, and submits quarterly reports to the trustees. A fund's AMC can neither act for any other fund nor undertake any business other than asset

management. Its net worth should not fall below Rs. 10 crore. And, its fee should not exceed 1.25 percent if collections are below Rs. 100 crore and 1 percent if collections are above Rs. 100 crore. SEBI can pull up an AMC if it deviates from its prescribed role.

4. Custodian:

Often an independent organization, it takes custody of securities and other assets of mutual fund. Its responsibilities include receipt and delivery of securities, collecting income-distributing dividends, safekeeping of the units and segregating assets and settlements between schemes. Their charges range between 0.15-0.20 percent of the net value of the holding. Custodians can service more than one fund.

Investment Alternatives

I. **Direct Investment Alternatives**

A. **Fixed Principal Investments**

- Cash
- Savings account
- Savings Certificate
- Government Bonds
- Corporate Bonds and Debentures

B. **Variable Principle Securities**

- Equity Shares
- Convertible Debentures or Preference Securities

C. **Non-Security Investments**

- Real Estate
- Mortgages
- Commodities
- Business Ventures
- Art, Antiques and Other Valuables

II. **Indirect Investment Alternatives**

- Pension Fund
- Provident Fund
- Insurance
- Investment Companies
- Unit Trust of India and Other Trust Funds
- Mutual Funds

A comparison of different investment options with respect to their Performance is as shown in the following table.

Options	Returns	Safety	Volatility	Liquidity	Convenience
Equity	High	Low	High	High/Low	Moderate
FI Bond	Moderate	High	Moderate	Moderate	High
Debentures	Moderate	Moderate	Moderate	Low	Low
Company FD	Moderate	Low	Low	Low	Moderate
PPF	Moderate	High	Low	Moderate	High
LIC	Low	High	Low	Low	Moderate
Gold	Moderate	High	Moderate	Moderate	Low
Real Estate	High	Moderate	High	Low	Low
Mutual Fund	High	High	Moderate	High	High
Bank Deposit	Low	High	Low	High	High

Review of Literature

❖ Elmiger and Kim (2003) elucidate risk as .the trade-off that every investor has to make between the higher rewards thatpotentially come with the opportunity and the higher risk that has to be borne as a consequence of the danger.

❖ Crosnan and Gneezy (2004)3 in the research work titled "Gender Differences by Preferences" have done an exhaustive review of various studies on gender differences over

a period of time. They have identified the differences in perception on the basis of gender. The paper explains that there was a vast difference as to how men or women perceive the areas of risk taking, social behavior and competition behavior. They have found that women take less risk than men and their were various factors which have contributed such difference .

- Walia and Kiran (2009) studied investor's risk and return perception towards mutual funds. The study examined investor's perception towards risk involved in mutual funds, return from mutual funds in comparison to other financial avenues, transparency and disclosure practices.. The study found that majority of individual investors doesn't consider mutual funds as highly risky investment. In fact on a ranking scale it is considered to be on higher side when compared with other financial avenuesand have reported that significant relationship of interdependence exists between income level of investors and their perception for investment returns from mutual funds investment.
- Saini et., al. (2011) analyzed investor's behavior, investors' opinion and perception relating to various issues like type of mutual fund scheme, its objective, role of financial advisors / brokers, sources of information, deficiencies in the provision of services, investors' opinion relating to factors that attract them to invest in mutual and challenges before the Indian mutual fund industry etc. The study found that investors seek for liquidity, simplicity in offer documents, online trading, regular updates through SMS and stringent follow up of provisions laid by AMFI.
- A positive relationship between risk and return provid that investors who will assume high return will be compensated by the additional returns generated out of it.Investors generally have a wide range of choice while making investment decision (Kida et al., 2009) and they adopt different parameters to finalize their investment decision that may involve risk.
- Madhusudhan V Jambodekar (1996) conducted study to size-up the direction of mutual funds in investors and to identify factors influence mutual fund investment decision. The study revealed that open-ended scheme is most favored among other things that income schemes and open-ended schemes and income schemes were preferred over closed- ended and growth schemes.

OBJECTIVE OF STUDY

- To identify the factors affecting risk perception in mutual fund purchaseand the gender difference in it.

- To open new vistas for further research.

HYPOTHESIS

Ho_1: There is no difference in the risk perception between male and female in mutual fund purchase.

RESEARCH METHODOLOGY

Study: The study is exploratory in nature and survey method is used to collect data from the respondents.

Population: All the residents of Gwalior constitute the population for the study.

Sample Size: A sample size of 100 respondents is selected in such a way that the effect of demographic variables does not affect the results of the study. As far as possible a representative sample will be taken on the basis of all the demographic variables of interest.

Sampling Element: Individual respondents (male and female) is be considered as sample elements.

Sampling Techniques: Judgemental sampling technique will be used to identify respondents for the study.

Tools for Data Collection: The questionnaire for soliciting responses from the respondents on factors affecting risk perception in mutual fund purchase.(Gender wise study).The data will be collected on a scale of 1 to 5. Whew 1 stands for minimum agreement with the statement and 5 stands for maximum agreement with the statement.

TOOLS USED FOR DATA ANALYSIS

❖ **Factor Analysis**- Factor Analysis is a statistical method used to describe variability among observed, correlated variables in terms of a potentially lower number of unobserved variables and to identify the factors which affect the risk perception in mutual fund purchase.

❖ **Kaiser-Meyer-Olkin and Bartlett's Test**

The Kaiser-Meyer-Olkin measure of sampling adequacy is an index for comparing the magnitudes of the observed correlation coefficients to the magnitudes of the partial correlation coefficients. Bartlett's test is applied to measure strength of relationship among variables of population correlation matrix i.e. whether they are uncorrelated or not.

RESULTS AND DISCUSSION

Factor analysis-

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.701
Bartlett's Test of Sphericity	Approx. Chi-Square	161.607
	df	45
	Sig.	.000

Interpretation-

The minimum acceptable value of KMO is 0.50. Generally the cut-off value of Bartlett's test is less than or equal to 0.05. In the present study KMO value is .701and Bartlett's value is 0.000 which permits the factor analysis to the data.

4.2(1).Table below showing Factor Analysis for GENDER DIFFERENCES IN THE RISK PERCEPTION IN MUTUAL FUND PURCHASE

The raw scores of 10 items were subjected to factor analysis to find out the factors that contribute towards '**GENDER DIFFERENCES IN THE RISK PERCEPTION IN MUTUAL FUND PURCHASE** After factor analysis three factors were identified.

The Principal Component Analysis (PCA) was applied on the gender differences in the risk perception in mutual fund purchase. Data was collected From users of Various institutions, offices, bank, personnel home. The PCA with Kaiser Normalization and Varimax Rotation converged on three factors after ten iterations. The factor was named as , ,all factor was displayed in the table below.

FACTOR NAME	EIGEN VALUE	% OF VARIANCE	ITEMS CONVERGED	LOADING VALUE
Performance	2.187	21.871	Innovativeness	.755
			Load	.691
			Exit	.668
			Expense	.577
			Performance	.413
Brand	1.629	16.295	Expense	.538
			Rating	.805
			Reputation	.559
			Performance	.460

Expense	1.547	15.471	Brand Tax performance	.731 .694 .470

Performance

This factor has important and vital role in. Determinant of research with a total variance of21.871 Major element of this factor includes performance,expense , innovativeness , load ,exit ourselves.

Brand

This factor has important and vital role in. Determinant of research with a total variance of 16.295Major element of this factor includes expense, rating, performance, reputation.

Expense

This factor has important and vital role in. Determinant of research with a total variance of Major element of this factor includes brand , tax, performance.

IMPLICATIONS AND SUGGESTIONS

IMPLICATIONS OF STUDY

- The study is intended to be useful to understand the differences between gender.
- It is also intended to be useful contribution for further researchers because it provide the information regarding what is differences in the perception of gender regarding the mutual fund purchase and factors affecting it.

4.2 SUGGESTIONS OF STUDY

- The study has been done by taking only a sample of 100 respondents it is suggested to take bigger sample size in order to obtain more accurate results.
- The study has been done in Gwalior region only so it is suggested to take larger area the or other region so that more appropriate results can be obtained.
- This study helps in checking the differences in perception of gender regarding the mutual fund purchase and factors affecting it.
- This study resulted in that the determination of the factors affecting mutual fund purchase and also that there is no significant difference in gender wise perception regarding it.

SUMMARY AND CONCLUSION

Summary

Our research paper has been divided into five chapters. The first chapter of the research report consists of Introduction which included Introduction, review of literature ,and objectives. The Introduction included the understanding of the topic through appropriate definitions given by previous researchers. In literature review the results of the similar research papers have been mentioned which have been done earlier by other researchers..

The second chapter is Research methodology which included sample design which further included population, sample size, sample element and sampling technique. The sample size of our study are A sample size of 100 respondents is selected in such a way that the effect of demographic variables does not affect the results of the study. As far as possible a representative sample will be taken on the basis of all the demographic variables of interest in Gwalior.

Judgemental sampling technique was used under sampling technique. We have taken data from users by filling questionnaires for collecting data. The data has been analyzed by factor analysis. The next part included results and discussions. The fourth part of the report included the implication and suggestions for the study.The next part included summary and conclusion of the whole study followed by reference and annexure.

CONCLUSION

The present paper attempts to study factors affecting mutual fund purchase and also that there is no significant difference in gender wise perception regarding it. The study found that their are three factors which are affecting the risk perception. The first category relates to the performance. The second category is related with brand .The last category relates with expense.

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ANNEXURE

Correlation Matrix

		performance	brand	expense	portfolio	reputation	exit	rating	innovativeness	tax	load
Correlation	performance	1.000	.242	.291	.289	.361	.277	.234	.335	.415	.368
	brand	.242	1.000	.012	.178	.102	.213	.091	.271	.275	.205
	expense	.291	.012	1.000	.146	.134	.313	.271	.353	.126	.247
	portfolio	.289	.178	.146	1.000	.164	.213	.140	.286	.184	.181
	reputation	.361	.102	.134	.164	1.000	.063	.232	.252	.180	.072
	exit	.277	.213	.313	.213	.063	1.000	.023	.363	.139	.276

	rating	.234	.091	.271	.140	.232	.023	1.000	-.052	.163	-.055
	innovativeness	.335	.271	.353	.286	.252	.363	-.052	1.000	.079	.354
	tax	.415	.275	.126	.184	.180	.139	.163	.079	1.000	.060
	load	.368	.205	.247	.181	.072	.276	-.055	.354	.060	1.000

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.701
Bartlett's Test of Sphericity	Approx. Chi-Square	161.607
	df	45
	Sig.	.000

Communalities

	Initial	Extraction
performance	1.000	.603
brand	1.000	.593
expense	1.000	.695
portfolio	1.000	.280
reputation	1.000	.385
exit	1.000	.460
rating	1.000	.666
innovativeness	1.000	.596

tax	1.000	.582
load	1.000	.504

Extraction Method: Principal Component Analysis.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.908	29.076	29.076	2.908	29.076	29.076	2.187	21.871	21.871
2	1.352	13.520	42.596	1.352	13.520	42.596	1.629	16.295	38.165
3	1.104	11.040	53.637	1.104	11.040	53.637	1.547	15.471	53.637
4	.900	9.003	62.639						
5	.826	8.263	70.903						
6	.763	7.629	78.532						
7	.729	7.286	85.818						
8	.605	6.049	91.867						
9	.435	4.351	96.218						
10	.378	3.782	100.000						

Extraction Method: Principal Component Analysis.

Component Matrix[a]

	Component		
	1	2	3
performance	.748		
innovativeness	.657		
exit	.565		

load	.541	-.459	
portfolio	.518		
tax	.470	.426	-.424
reputation	.456	.409	
rating		.676	
expense	.546		.628
brand	.468		-.611

Extraction Method: Principal Component Analysis.

a. 3 components extracted.

Rotated Component Matrix[a]

	Component		
	1	2	3
innovativeness	.755		
load	.691		
exit	.668		
expense	.577	.538	
rating		.805	
reputation		.559	
brand			.731
tax			.694
performance	.413	.460	.470
portfolio			

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 5 iterations.

Component Transformation Matrix

Component	1	2	3
1	.738	.468	.486
2	-.634	.727	.264
3	.230	.503	-.833

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

Component Score Coefficient Matrix

	Component		
	1	2	3
performance	.084	.196	.213
brand	.001	-.215	.536
expense	.291	.349	-.391
portfolio	.096	.055	.169
reputation	-.056	.337	.084
exit	.333	-.068	-.040
rating	-.169	.569	-.080
innovativeness	.370	-.075	-.025
tax	-.169	.111	.482
load	.353	-.160	.001

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
Component Scores.

Component Score Covariance Matrix

Component	1	2	3
1	1.000	.000	.000
2	.000	1.000	.000
3	.000	.000	1.000

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
Component Scores.