Investment Objectives of Mutual Fund Investors

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ABSTRACT

The investment objective of Mutual fund investors is the first and foremost aspect for a mutual fund investor when investment decisions are made. Investment objective is referred to as a collective sum of all the factors considered by an investor while investing in to a particular avenue where he needs to capitalize reaping desired returns in future. Through this paper the author analyses the objectives of mutual fund investors by considering various factors such as time horizon and demographic profile to evaluate their financial behaviour. For this a sample of 400 individual investors has been selected to analyse the objectives of mutual fund investors, weighted score ranking of objectives and its association with time horizon and demographic profile of investors. The current research revealed that the investment objectives of mutual fund investors vary with their time horizon of investment where as it doesn't vary with demographic features.

Highlights of this paper
- The paper depicts the investors behavior while choosing investment avenues, the factors like time horizon, demography and risk.
- The current research revealed that the investment objectives of mutual fund investors vary with their time horizon of investment where as it doesn't vary with demographic features.

1. INTRODUCTION

Current financial market allows to say that many investors acknowledge mutual funds highly significant by within the process of their saving and investments. Most of these investors show growing interest in the activities related to typical financial procedures. With the growing popularity and the importance of a highly professional and structured investment management, the scope of mutual fund has received great attention. Mutual fund is assessed by investors as an innovative financial investment vehicle for, where they put their savings for diversified portfolio investment of securities in order for increasing return from investments. Henceforth, investors in the retail layer belong to a highly heterogeneous group. A variety of opportunities are open to the investors. The investment objective is the first and foremost aspect for an investor along with other related factors such as time horizon and risk perception while making mutual fund investment decisions. Investment objective is referred to as a collective sum of all the factors considered by an investor while investing in to a particular avenue that the investor needs to capitalize in future by reaping desired returns. The so called factors considered are return, liquidity, safety, tax benefits, capital appreciation and meeting contingencies.

In an uncertain market environment, investors are required to adapt to the broad fluctuations as well as alterations in the economic circumstances to make themselves to be able to extend the boundaries of their expectations. Increasing market fluctuations force investors to re-assess the situations, while also come up with solvent instruments that involve innovative. These instruments are comprised of a blend of various investment tools, which are classified as various mutual funds. In this context, the investors have very high expectations that help for establishing the major function in financial markets. The expectations are subject to human observations that is regularly associated with action. The decision-making of each investor heavily relies on socio-demographic indicators in regard of essential psychological processes driving investment opportunities. The heterogeneity of investors in association with their preferences and opinions, form the underlying motivators of their performance. To obtain better comprehension of the link between decision-making of investors, the processes leading to the decisions on investment performance, which are considered. The mutual funds are in the agenda in the last decade that constitute most firms' portfolios. Currently, many investors heavily rely on mutual fund as a driver of investment that shows a continuous growth over time. Hence, launching a mutual fund product with an expectation of a good response would be utmost importance.

2. METHODS

The current research employs descriptive and empirical method with an emphasis on survey method. In addition, the data is collected from a sample of 400 mutual fund investors with a distribution of organized questionnaire. Moreover, qualitative variables are assessed in 5-point *Likert* scales. For checking the convergent validity of the instruments, confirmatory factor analysis (CFA) of each scale item is measured through *Bentler-Bonett* Fit Index. The study's sample size is attained by least required sample size table as well as the power analysis. In addition, the simple random sampling technique is employed for the same purpose. The data is analysed with the Statistical Package for the Social Sciences. To comprehend the investment objectives of mutual fund investors,

weighted score ranking of investment objectives and its association with time horizon and demographic features were conducted. For this purpose Weighted score means and *Kruskal Wallis* test were applied.

Within the last two decades, mutual funds have become the focal point of a growing number of studies, mainly in finance. The key concern of most studies is considered performance assessment of mutual fund in the aspect of risk and return. Few studies discuss on mutual fund investors, their buying behaviour and attitudes in the context of a qualitative approach.

Arshi and Narayana (2012) investigated consumer attitude regarding the mutual funds in the context of Oman market. The results revealed that there are no available funds in the market that could be transferred to equity markets. In addition, there is a broad scope to launch various funds in Omani capital market, which are considered highly uncommon. One of the current studies on the mutual fund investor's preferences (Sulaiman & Thomas, 2016) uncovered that majority of mutual investors prefer funds without the consideration of investment purposes and risk preference of investors.

The study on investor response to proposed criteria for the choice of mutual funds examined the selection criteria an investor should use in an efficient market based on three factors- load charges, management expense ratios, portfolio turnover and brokerage ratios. The results indicated that all these factors appear to influence the net sales ratios (Walt, 1982). The study was conducted to recognize the information sources prompting the buying judgment, and the factors inducing the selection of a specific fund. The study exposes that Income Schemes and Open Ended Schemes are more preferred than Growth Schemes and Close Ended Schemes. Investors look for safety of Principal, Liquidity and Capital appreciation in the order of significance from the mutual fund investment. Newspapers and Magazines are the major source of information through which investors get to know about mutual fund Schemes; and investor service is a main discriminating factor in the selection of Mutual Fund Schemes (Madhusudan & Jambodekar, 1996).

One study observed the characteristics of the funding behaviour of investors in the aspect of mutual funds (Kavitha, 2003). The mutual fund refers to a retail product which targets minor investors, people with salaries and others scared by the uncertainties of stock market, nevertheless, to gain the benefits investment on stock market. The investors prefer security in mutual funds, followed by profitable returns, tax benefits, and capital appreciation (Rajeswari, 2002). When make fund selection decision amongst a various information sources, the mutual fund investors mostly care about past performance of funds and complete fee structure (Ronald, 2003). The decision is made by investors on their own, while other sources prompting their decisions, which are newspapers, magazines, brokers and agents, tv, recommendations by friends, as well as direct mails (Nilamadhav, 2009). It is believed that investors study facts comprehensively prior to purchasing mutual fund shares, where the shareholders also investigate the information on mutual fund prior to and after buying shares (Sandra & Victoria, 2006).

Drawing from the literature, mutual fund captures the attention of various segments of society, such as academicians, financial intermediaries, industrialists and regulators for different reasons, which ultimately deserves comprehensive study regarding the behaviour of investors, as an investment vehicle. The research on investors behaviour in the context of mutual fund with fundamental behavioural principles, are required to be studied further. The fundamental normative framework concerning on investment behaviour reflects risk and return solely as the key variables that influence the buying behaviour of investors.

3. RESULTS AND DISCUSSIONS

In order to analyse the objectives of mutual fund investors, weighted score ranking of objectives and its association with time horizon and demographic profile of investors were tested to assess the behaviour of mutual fund investors.
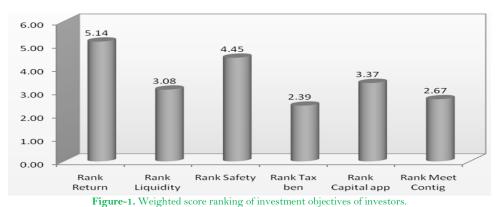
3.1. Weighted Score Ranking of Investment Objectives of Mutual Fund Investors

The Table 1 shows the weighted score ranking of all the objectives. The weighted score ranking of investment objectives shows that return is the utmost objective considered by the respondents with a score of 5.14. Safety ranks as the second important objective (4.45). The capital appreciation and liquidity ranks as third and fourth objectives with score of 3.37 and 3.3 respectively. The fifth and sixth objectives ranked by the respondents are meeting contingencies (2.67) and tax benefits (2.39) respectively.

Table-1. Investment Objectives of mutual fund investors.

Sl No	Investment objectives	Weighted score	Rating percentage	Rank
1	Return	5.14	23.9	I
2	Liquidity	3.08	14.7	IV
3	Safety	4.45	21.2	II
4	Tax benefits	2.39	11.4	VI
5	Capital appreciation	3.37	16.0	III
6	Meeting Contingencies	2.67	12.8	V
	Total	21.10	100	

The Figure 1 depicts the diagrammatic presentation of weighted score ranking of investment objectives of mutual fund investors.

Figure-1. Weighted score ranking of investment objectives of investors.

3.2. Association of Investment Objectives with Time Horizon and Demographic Factors

It has been known that the funds opted by the investors basically rely on the level of importance given by the investor on different investment objectives. Hence the researcher analyse the level of importance assumed by the mutual fund investors on various investment objectives based on time horizon and various socio-economic variables. The Table 2 presents the thrust given by the investors on various investment objectives based on time horizon. The investors having time horizon below one year and one to three years attach more importance to safety, and investors with time horizon more than nine years have given importance to provision for contingencies. It is evident that the investors having time horizon of three to six years attach more importance to tax benefits. The investors having time horizon six to nine years have given more importance to liquidity.

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Table-2. Weighted score means of investment objectives with time horizon.

Investment Objectives Vs Time Horizon		Return	Liquidity	Safety	Tax Benifit	Capital Apprec- Iation	Meeting Contin- gency
Time horizon	Below 1year	205.99	198.83	222.98	188.82	203.92	192.43
	1 to 3 years	198.75	192.91	216.98	195.27	204.48	194.52
	3 to 6 years	196.77	213.08	208.13	214.95	185.74	188.90
	6 to 9 years	211.48	222.24	144.24	197.94	198.02	207.54
	9years & above	204.71	195.51	141.99	204.32	195.39	254.38

Kruskal wallis test is employed for testing the significance of variances in the weighted score of the different segments of investors in accordance with their time horizon Table 3.

Ho - There is no significant discrepancy in the level of importance in different investment objectives between the different investor segments in accordance with their time horizon

Table-3. Kruskal wallis test - investment objectives and time horizon.

	Return	Liquidity	Safety	Tax benefit	Capital appreciation	Meet Contingencies
Chi-square	.631	3.052	23.123	2.557	3.608	12.124
df	4	4	4	4	4	4
Asymp. Sig.	.960	.549	*.000	.634	.462	* .016

Note: *Significance at 5%

The *kruskal wallis* test states that a significant difference has been observed in the level of importance assumed on different investment objectives (e.g., safety and provision for likelihoods between different segments of investors in accordance with their time horizon. Therefore, the null hypothesis is rejected (significant in two cases and in all other cases the hypothesis is accepted (not significant).

The importance level expected by the investors on different investment objectives regarding their demographic features is presented in Table 4.

Kruskal wallis test is also employed in the context of investors' demographic features Table 5.

Ho: *There is no significant discrepancy in the level of importance expected on different investment objectives amongst the different investor segments in accordance with their demographic features.*

Table 4 reveals that investors from rural areas attach more importance to provision for contingencies. The investors from urban areas have given more importance to tax benefits whereas the investors from semi-urban areas attached more importance to safety. *Kruskal wallis* test shows no significant discrepancy in the level of importance expected on different investment objectives amongst the different investor segments in accordance with their locality.

It has been found that the male investors put more importance on safety, while female companions put more significance to tax benefits. The *kruskal wallis* test shows no significant discrepancy in the level of importance expected on different investment objectives amongst the different investor segments in accordance with their gender.

It is observed that married investors attach more importance to capital appreciation whereas unmarried investors attach more importance to provision for contingencies. The *kruskal wallis* test reveals that there is a significant discrepancy in the level of importance expectancy on various objectives such as liquidity, safety, tax benefits, capital appreciation and provision for contingencies across the different segments of investors based on their marital status. Therefore, the null hypothesis is significant in 5 cases and for remaining one case (return), the hypothesis is not significant.

Table-4. Weighted score means of investment objectives with demographic features.

Investment Objectives Vs Demography		Return	Liquidity	Safety	Tax Benefit	Capital Appreciation	Meeting Contingency
Locality	Rural	203.44	192.45	197.31	191.37	208.99	221.27
	Urban	200.13	207.49	196.86	209.90	196.38	193.78
	Semi Urban	197.80	197.43	210.49	194.44	198.06	188.65
Sex	Male	203.11	200.67	204.58	198.07	200.70	200.02
	Female	196.74	200.25	194.62	203.99	200.22	201.19
Age group (in years)	21-30	202.03	193.57	214.23	192.14	204.45	197.80
	31-40	207.37	187.44	194.84	209.68	201.66	211.60
	41-50	193.80	222.61	194.29	196.03	194.52	192.51
	Above 50	179.66	220.45	205.04	195	201.16	175.68
Marital Status	Married	197.76	208.78	190.43	207.34	208.89	188.48
	Single	209.29	173.93	232.82	178.53	173.56	239.09
Educational status	Undergraduate	204.75	189.52	228.20	256.03	171.87	152.58
	Graduate-Professional course	193.63	198.21	218.61	185.00	204.74	208.91
	Graduate- Non-professional course	222.63	233.91	228.96	184.61	189.09	118.41
	Post-Graduation & above	198.13	195.90	169.85	200.36	209.16	232.25
Occupational status	Professionals(Dr, Er, Lawyer, CA)	229.74	186.93	193.90	202.04	176.54	208.48
	Business men	239.08	187.14	226.73	226.73	172.61	168.03
	Teachers/Professors	199.09	185.53	216.54	265.45	132.63	225.93
	Govt employees(other than professionals/ teachers)	172.11	226.01	192.78	228.93	159.78	198.34
	Retired Employees	179.32	170.14	307.27	224.50	212.86	100.41
	Private sector Employees(other than professionals/teachers)	194.41	195.27	187.32	179.08	241.88	212.93
	Self-employed(other than professionals)	193.41	251.41	187.31	150.93	213.63	176.88
No: of Dependants	Nil/Zero	192.25	170.90	251.53	208.57	178.75	231.97
	0ne	202.69	182.60	211.85	209.37	194.61	196.82
	Two	196.02	208.66	172.79	198.27	211.23	209.77
	Three & Above	206.65	209.98	215.41	195.10	196.27	183.69
Average Monthly Income in $	Below 500	192.61	205.20	204.33	168.01	230.45	190.68
	500 to 1000	199.49	202.12	215.42	212.63	189.25	200.84
	1000 to 1500	199.69	195.62	177.68	198.25	216.95	208.06
	1500 to 2000	198.10	216.89	148.34	240.23	172.59	196.79
	2000 & Above	250.63	151.28	223.83	197.46	150.50	229.63
Average Monthly Savings in $	Below 200	203.83	218.07	206.84	188.43	198.75	189.88
	200 to 500	191.42	191.39	194.05	209.39	207.93	210.72
	500 to 750	213.75	172.58	204.56	206.46	179.30	203.53
	750 to 1000	215.33	188.78	141.67	241.22	149.83	277.17
	1000 & Above	195.46	160.92	209	224.08	259.83	170.25
Net Wealth/Assets in $	Below 10000	175.46	213.11	221.61	178.82	194.99	207.46
	10000 to 100000	205.12	218.12	186.96	209.18	207.26	184.35
	100000 to 200000	220.58	174.09	209.08	190.72	200.90	201.09
	200000 to 400000	207.49	191.89	195.50	178.96	179.70	240.30
	400000 to 1000000	134.81	99.50	271.86	245.50	190.21	277.55
	Above 1000000	198.10	234.50	92.60	279.90	186.30	133.10

Table-5. Kruskal wallis test- Investment objectives with demographic features.

Demography		Return	Liquidity	Safety	Tax benefit	Capital appreciation	Meet Contingencies
Locality	Chi-square	.161	1.347	1.099	2.363	.939	5.738
	df	2	2	2	2	2	2
	Asymp. Sig.	.922	.510	.577	.307	.625	.057
Sex	Chi-square	.354	.001	.762	.272	.002	.010
	df	1	1	1	1	1	1
	Asymp. Sig.	.552	.971	.383	.602	.967	.919
Marital status	Chi-square	.867	6.835	10.325	4.825	7.013	14.57
	df	1	1	1	1	1	1
	Asymp. Sig.	.352	*.009	*.001	*.028	*.008	*.000
Age	Chi-square	2.230	7.367	2.349	1.926	.433	3.514
	df	3	3	3	3	3	3
	Asymp. Sig.	.526	.061	.503	.588	.933	.319
Education	Chi-square	2.888	5.057	22.260	16.137	4.903	49.231
	df	3	3	3	3	3	3
	Asymp. Sig.	.409	.168	*.000	*.001	.179	*.000
Occupation	Chi-square	18.490	21.773	21.508	44.223	50.801	19.377
	df	7	7	7	7	7	7
	Asymp. Sig.	*.010	*.003	*.003	*.000	*.000	*.007
Dependants	Chi-square	.930	5.915	18.915	1.066	2.920	6.244
	df	3	3	3	3	3	3
	Asymp. Sig.	.818	.116	*.000	.785	.404	.100
Monthly income	Chi-square	5.841	5.492	15.277	16.090	17.204	2.654
	df	4	4	4	4	4	4
	Asymp. Sig.	.211	.240	*.004	*.003	*.002	.617
Monthly savings	Chi-square	2.234	9.841	3.676	4.960	7.412	7.887
	df	4	4	4	4	4	4
	Asymp. Sig.	.693	*.043	.452	.291	.116	.096
Net Wealth	Chi-square	14.906	29.229	18.554	9.231	2.329	20.450
	df	5	5	5	5	5	5
	Asymp. Sig.	*.011	*.000	*.002	.100	.802	.001

Note: *Significance level at 5%

The weighted score reveals that investors coming under the age group from 21 to 30 years give more importance to safety and investors with age group of 31 to 40 have given more importance to provisions for contingencies. While, the investors having more than 41 years has given more importance to liquidity. *Kruskal wallis* test states that there is no significant discrepancy in the level of importance expected on different investment objectives amongst the different investor segments based on their age.

It has been found that undergraduate investors attach more importance to tax benefits and graduate (professional) investors has given more importance to safety. The non- professional graduates have given more importance to liquidity and investors with post-graduation and above attach more importance to provision for contingencies. The results of *Kruskal wallis* test states that there is no significant discrepancy in the level of importance expected on different investment objectives amongst the different investor segments based on their educational degree. Therefore, the final hypothesis is confirmed.

The level of importance expected by the investors on various investment objectives varies with their occupation. The investors of professionals and business class attach more importance to return while teachers and govt servants has given more importance to tax benefits. Private sector employees give more importance to capital appreciation, and self-employed categories attach more importance to liquidity. The *Kruskal Wallis* test reveals that there is significant difference in the level of importance assumed on various investment objectives between different classes of investors based on their occupation. Therefore, the null hypothesis is rejected (significant) in all the cases.

The weighted score reveals that investors belong to small and large size families attach more importance to safety, whereas the investors of medium size families attach more importance to capital appreciation. The KW test reveals that there is a significant difference in the level of importance assumed on the investment objective such as safety between the different classes of investors based on their family size. Therefore, the null hypothesis is rejected (safety) in that instance, whereas accepted in all other cases.

It is evident that the investors with low monthly income (below $ 500) and investors with monthly income between $ 500 to $ 1000 attach more importance to capital appreciation. Whereas investors having monthly income between $ 1500 to $ 2000 give more importance to tax benefits, and investors above $ 2000 monthly income has given importance to return. It is concluded that there is a significant difference in the level of importance assumed on various investment objectives such as safety, tax benefits, and capital appreciation between the different classes of investors based on their monthly income. Therefore, the null hypothesis is rejected (significant) in three cases, and accepted (not significant) in all other cases.

The study reveals that investors having below $ 200 monthly savings give more importance to liquidity, and investors with $ 200 to $ 500 monthly savings attach more importance to provision for contingencies. The investors' monthly savings between $ 750 to $ 1000 give more importance to provision for contingencies, and above $ 1000 give more importance to capital appreciation. While, investors' monthly savings of $ 500 to $ 750 attach more importance to return. The *Kruskal wallis* test states that there is no significant discrepancy in the level of importance expected on different investment objectives amongst the different investor segments in accordance with their monthly income.

Thus, the null hypothesis is rejected (significant) in one case, and in all other cases the hypothesis is accepted (not significant).

The weighted score reveals that high net worth investors ($ 200000 to $ 1000000) give more importance to provision for contingencies, and net worth above $ 1000000 investors attach more importance to tax benefits. While, low net worth investors (up to $ 100000) give more importance to safety and liquidity; and those investors having net worth between $ 100000 to $200000 give more importance to return. The test of significance shows that there is significant difference in the level of importance assumed on various investment objectives such as return, liquidity, safety, and provision for contingencies between the different classes of investors based on their net wealth. Therefore, the null hypothesis is not confirmed in four cases, and in all other cases the hypothesis is significant.

4. CONCLUSION

In an emerging market, mutual fund has become very competitive necessitating MF marketers to fully comprehend the purchasing behaviour in order to effectively promote their mutual funds. Investment on mutual fun is one of the investment schemes selected by investors. The investment objectives and investor's level of preferences towards mutual fund products vary with their time horizon of investment. The analysis of investment objectives of mutual fund investors reveals that return of the investment is the prime objective considered by the mutual fund investors. The safety, capital appreciation and liquidity rank second, third and fourth objectives of the investors. The investors having time horizon of investment up to three years attach more importance to safety of investments. While, the investors having time horizon of investment more than nine years have given importance to provision for contingencies. But the investors having time horizon of three to six years attach more importance to tax benefits. Also the study reveals that the investment objectives of mutual fund investors vary with their time horizon of investment. It was found that investment objectives of mutual fund investors do not vary with demographic features. It is evident that return and safety of investment are the prime objectives of the investors. Short-term

investors attach more importance to safety of their investment, whereas long-term investors have given more importance to provision for contingencies. The medium-term investors invest in mutual funds for the sake of tax benefits. Demographic features such as educational status, occupational status and economic status of the investor's influence the preferences of investors towards mutual fund products. Also highly educated investors, private sector employees, professionals and middle income groups have been showing more preference towards mutual fund products.

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