**Factors influencing Mutual fund purchase decision: A study among retail investors in Madurai district**

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**ABSTRACT**

This paper investigates the relevant factors influencing retail investors' decisions to purchase mutual funds in the Madurai district. A descriptive cross-sectional research design was used for the study. Purposive sampling was used to collect data via a structured questionnaire. The objectives were tested using exploratory factor analysis and mean ranking. The paper makes recommendations for retail investors to make better mutual fund investment decisions.

Keywords: Mutual Funds, Fund characteristics, Credibility

**1. Introduction**

Mutual funds are financial entities that combine the cash of numerous investors and invest it in a wide range of securities such as stocks, bonds, or both. Professional investment managers or teams oversee the management of these funds and make investment decisions on the investors' behalf. One of the most popular investment vehicles in recent years among investors is the mutual fund. Its performance style is unique and is based on stock market performance. Investors began to consider mutual funds as an alternative to fixed deposits because they provide reliable returns and the best investment opportunities. Mutual funds are investment vehicles that pool capital from numerous investors to give them a larger purchasing power and a broader range of holdings. Rather of purchasing each item individually, this allows investors to add a large number of securities to their portfolio at a substantially cheaper cost (Smith, 2012). Through mutual funds, retail investors can diversify their investment portfolios. By pooling money from multiple investors, mutual funds can invest in a diverse selection of securities across various sectors, industries, or geographical areas. This diversification spreads the risk and may lessen the effects of a single security's poor performance.

Inexperienced investors take a lot of risks when purchasing mutual funds. Mutual funds invest in a wide range of securities, including stocks, bonds, and commodities, based on market conditions. The value of the mutual fund may decrease if the market as a whole experiences a downturn, potentially resulting in losses for investors.

Studying mistakes made by retail investors in mutual funds offers valuable insights that can lead to better decision-making, improved performance, and overall financial well-being. As a result in the present research work an attempt has been made to investigate the factors that influence retail investors' attitudes towards investments in diverse mutual fund schemes

**2. Literature Review**

Goal-driven investment schemes, cheap systematic investment plans, expert money management of investors' assets, a reduction in trading expenses, and guaranteed liquidity in specified programmes have drawn retail investors in India to mutual funds. (Begum and Prasad., 2018). Retail investors have been found to make predictable and costly investment mistakes, including underinvestment, naive diversification, and payment of excessive fund fees. These mistakes have been observed in the context of participant-directed 401(k) plans, which have replaced professionally managed pension plans over the past thirty-five years. Policy-makers have struggled to design effective regulatory responses to improve investment decisions due to a lack of understanding of the reasons for these mistakes. However, recent research has made progress in understanding the decision-making process of investors. An internet-based experiment was conducted to investigate the factors contributing to inefficient investment decisions. The experiment revealed that investors often ignore fees and engage in excessive diversification strategies. While some investors paid closer attention to fees and allocated their investments into funds with lower fees, the effects of fee instructions were limited (Kahraman.,2021 , Jill et al ., 2014).

According to Shivam Tripathi and Dr GuruduttaJapee (2020), careful monitoring and assessment of mutual funds has become important. As a result, selecting lucrative mutual funds for investment may be critical. The study focuses on the performance of selected equities (large-cap, mid-cap, and smallcap) open-end fund schemes in terms of a risk-return relationship, which are provided for investment by various fund companies in India. The primary goal of this study is to examine the financial performance of chosen open-end fund schemes using statistical characteristics such as (Jenson's alpha, beta, standard deviation, and Sharpe ratio). In a very volatile market, the researcher determined that 10 funds out of 15 fared well. Malviya, Prateek Khanna (2020) compares the returns from SBI domestic term deposit rates to the performance of mutual fund schemes that were ranked first by CRISIL. Simple statistical approaches like averages and rate of return are utilised when taking into account the interests of ordinary investors. The study's findings make it quite evident that most of the time, mutual fund schemes have fallen short of returning SBI domestic term deposits.

The performance of selected debt mutual fund schemes in India was evaluated by Komal Sharma (2020), who also examined the risk and return characteristics of these funds. Five debt mutual funds established by private companies between January 2017 and December 2019 provided secondary data on which the study was based. Three mutual funds performed well during the research period, whereas two funds did not, and three mutual fund schemes, with the exception of Axis corporate debt and HSBC fund, performed well in a high volatile market. To ensure that the mutual fund's performance remains consistent, investors should evaluate the statistical parameter. This research will give them some insight into mutual fund performance, allowing them to make more informed investment decisions and allocate their resources to the best mutual fund schemes. According to Kirtani (2020), ordinary investors face difficulties in selecting the appropriate product from among the numerous institutions offering a choice of goods and different possibilities associated with each product. This study report attempts to assess the performance of several mutual fund programmes in India. The sample comprises of eight plans from the selected asset management firms studied during a five-year period from 2015 to 2019. The performance of selected funds is assessed using statistical methods such as average rate of return, standard deviation, beta, and risk-adjusted strategies such as Sharpe ratio and Treynor ratio. For the sake of study, a benchmark index has also been examined.These findings suggest the need for further research and have important implications for the regulation of retail investing

**3. Objectives**

* To identify the key factors influencing the mutual fund investment decision of retail investors
* To examine the most important actor
* To offer suitable suggestions for a better investment strategy

**4. Research Method and Design**

The present research is a descriptive study, and the data was gathered from 150 retail investors via a well-managed survey that employed a purposive sample technique and a structured questionnaire. The investigation employed a cross-sectional research design. Respondents were investors with at least one year of mutual fund investing experience. A total of 16 items were used, ranging from strongly agree to strongly disagree on a 5-point Likert scale. Previous research (Sumathy&Das,2022, Ramkumar&Chitra,2021, Sharma,2019) influenced the factor selection. The internal consistency of the questionnaire was examined using Cronbach's alpha reliability analysis. Cronbach's alpha was found to be greater than 0.70 for all constructs. The data was analysed using exploratory factor analysis and mean score comparison.

**5. Results and Discussion**

**5.1 Exploratory Factor Analysis**

The KMO and Barlett's sphericity tests were performed to assess whether the data set was suitable for factor analysis. In both cases, the testing yielded favourable results. Four factors with a total of 16 items emerged after the items underwent a varimax rotation. The scree plot and Eigen values were used to determine whether to keep the factors. Due to the fact that all four factors had factor loadings greater than.50, they were all kept. The factor analysis's findings are displayed in Table 1. Additionally, all of the dimensions had cronbach alpha scores greater than.70, demonstrating consistent reliability. The Four factors were named as Fund Characteristics (Factor 1), Credibility (Factor 2), Transparency (Factor 3) and Convenience (Factor 4).

**Figure 1: Scree Plot**



**Table 1:** **Rotated Component Matrix**

|  |
| --- |
|  |
|  | Component |
|  | 2 | 3 | 4 |
| Liquidity | .907 |  |  |  |
| High Returns | .893 |  |  |  |
| Past Performance | .679 |  |  |  |
| Tax Benefit | .888 |  |  |  |
| Transparency | .808 |  |  |  |
| Professional Management | .769 |  |  |  |
| Credit Rating |  | .931 |  |  |
| AMC Image |  | .899 |  |  |
| Management Structure |  | .889 |  |  |
| Declaration of all Material Information in a timely Manner |  |  |  | .843 |
| Scheme’s Prospectus |  |  |  | .777 |
| Compliance to SEBI Guidelines |  |  |  | .875 |
| Entry & Exit load |  |  | .776 |  |
| Withdrawal facilities |  |  | .788 |  |
| Scheme’ s expense ratio |  |  | .836 |  |
| Grievances Redress |  |  | .775 |  |
| Extraction Method: Principal Component Analysis.  Rotation Method: Varimax with Kaiser Normalization. |
| Rotation converged in 5 iterations. |

**Table 2: 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 | 6.098 | 38.113 | 38.113 | 6.098 | 38.113 | 38.113 | 4.290 | 26.812 | 26.812 |
| 2 | 2.828 | 17.678 | 55.791 | 2.828 | 17.678 | 55.791 | 2.821 | 17.631 | 44.443 |
| 3 | 1.658 | 10.365 | 66.156 | 1.658 | 10.365 | 66.156 | 2.809 | 17.559 | 62.002 |
| 4 | 1.556 | 9.726 | 75.882 | 1.556 | 9.726 | 75.882 | 2.221 | 13.879 | 75.882 |
| 5 | .672 | 4.198 | 80.079 |  |  |  |  |  |  |
| 6 | .551 | 3.447 | 83.526 |  |  |  |  |  |  |
| 7 | .503 | 3.146 | 86.673 |  |  |  |  |  |  |
| 8 | .436 | 2.727 | 89.400 |  |  |  |  |  |  |
| 9 | .430 | 2.685 | 92.085 |  |  |  |  |  |  |
| 10 | .307 | 1.916 | 94.001 |  |  |  |  |  |  |
| 11 | .266 | 1.665 | 95.666 |  |  |  |  |  |  |
| 12 | .256 | 1.603 | 97.269 |  |  |  |  |  |  |
| 13 | .177 | 1.109 | 98.377 |  |  |  |  |  |  |
| 14 | .139 | .871 | 99.248 |  |  |  |  |  |  |
| 15 | .083 | .517 | 99.765 |  |  |  |  |  |  |
| 16 | .038 | .235 | 100.000 |  |  |  |  |  |  |
| Extraction Method: Principal Component Analysis. |

**5.2 Mean Ranking of Factors Influencing Mutual Fund Purchase**

The important factors influencing the retail investor’s mutual fund decision obtained through exploratory factor analysis were analyzed with mean rank. The results are displayed in the following table

**Table 3:** **Mean ranking of** **Factors Influencing Mutual Fund Purchase**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| S.No | Items | Mean Score | SD | Rank |
| 1 | Fund Characteristics | 4.10 | .955 | I |
| 2 | Credibility | 4.08 | .881 | II |
| 3 | Transparency | 3.95 | .902 | IV |
| 4 | Convenience | 3.99 | .996 | III |

Table 3 shows that among the four factors influencing mutual fund purchase, “Fund Characteristics” secured the first rank with the highest mean score (M= 4.10), followed by Credibility (M= 3.93).

**6. Conclusion**

This research examines influencing Mutual fund purchase decision of retail investors. Asset management firms can play an important role in assisting retail investors in making better mutual fund purchase decisions. They may provide risk assessment tools to assist retail investors in accurately determining their risk tolerance. This will allow them to choose mutual funds that are compatible with their individual risk profiles and financial objectives. They must maintain transparency by disclosing all relevant information about mutual funds, such as expense ratios, historical performance, fund manager details, and portfolio holdings. This transparency fosters investor trust. They should also conduct extensive research on various mutual funds and provide easily understandable comparisons between funds based on performance, risk, and other relevant factors. This research can help investors make more informed decisions.

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