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Determinants of Mutual Fund Selection by Individual investors in Coimbatore city

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Abstract: *Mutual Fund Investments in India are contributing a lot to the growth of capital Market. This study explores the Fund Selection criteria adopted by Mutual Fund Investors of Coimbatore city by eliciting informating from 526 Mutual Fund investors. Data collected were analysed and the results are in tandem with the past studies on the criteria considered the most important for Mutual Fund selection as Past performance of the fund. Factor Analysis was performed and six factors such as Intrinsic Fund Quality, Fund Sponsor Facility, Investor Service & Transparency, Reputation, Credibility of Fund and Tangible Benefits were extracted. The study also revealed that Print media was the most influencing source of information. The association between influence of information source and importance given to fund selection criteria of mutual fund investments was studied and found that there is relationship between the two.*

Keywords: *Individual Investor, Information Source, Investor Behaviour, Mutual Funds, Selection Criteria,*

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I. Introduction

Mutual fund is a pool of investor's fund collected for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. The invested fund is managed by fund managers as per the investment objective of the fund. Mutual fund investments allow the investors the benefits of diversification, professional management, liquidity, safety against inflation, capital appreciation, etc. In India Mutual Fund industry has been in existence since 1963 with the establishment of Unit Trust of India by an Act of Parliament called Unit Trust of India Act 1963. Over the past decades the growth of Mutual Fund industry in India has been tremendous. The Assets Under Management of the Indian Mutual Fund Industry has grown from Rs. 3.26 trillion as on 31st March 2007 to Rs. 19.97 trillion as on 31st July, 2017, more than six-fold increase in a span of about 10 years.

Inevitably the growth of mutual fund industry is supported by Association of Mutual Fund Investors (AMFI) initiatives through various investor awareness programs and advertisements, and the regulations of SEBI to protect investors. As the size of mutual fund industry is growing, the total number of accounts from retail segment is also growing, indicating the increased participation of individual investors. Given the increasing value of understanding fund selection criteria adopted by mutual fund investors, the research into this area is clearly warranted. Even though many research studies have hither too been focused on the performance of mutual funds, little research has been focused on the behavior of mutual fund investors in selecting from among the available fund options. Due to erratic volatility in the equity segment of the capital market, Mutual funds will definitely become one of the most popular investment vehicles preferred by the Indian Households. Therefore, it is pertinent to know the mutual fund selection criteria adopted by the individual investors. This paper seeks to explore the fund selection criteria adopted by the Individual investors of mutual funds in Coimbatore city. The following objectives were framed for the present study:

a. To identify the factors which were considered important in selecting a mutual fund
b. To examine the information sources used by mutual fund investors for investing in mutual funds
c. To find the association between the information sources and fund selection behaviour of mutual fund investors

The remainder of the paper has been presented as follows: Section 2 concentrates on the past literature review, Section 3 outlines the Methodology of the study, Section 4 presents the findings and Section 5 proposes the conclusion of the study.

II. Literature Review

There are a large number of researches in Behavioral finance that have studied the factors that were considered important while selecting a mutual fund by investors. This section discusses some of the prominent researches in this field.

Studies have shown that past performance is useful in predicting future returns of the mutual funds as evidenced from Hendricks et al., (1993), Grinblatt and Titman (1992), Grubber (1996), and Singh and Vanita, 2002. Capon et al. (1994) argued that although investment performance track record was rated as most important criterion in fund selection, four other selection criteria's such as responsiveness to enquiries, fund manager reputation, confidentiality and fund management fees were also rated very important. Cashman et al., (2014) found that advertisement expenditure and Fund size were found to be most important factors in selecting a mutual fund. Further studies have also found that macroeconomic environment (Santini and Aber, 1998; Siera, 2012; Jank, 2012) and Stock market conditions (Warther, 1995; Cao et al., 2008) also influenced the investment in mutual funds. Ramasamy and Yeung (2003) surveyed 56 financial advisors to find the factors considered important in the selection of mutual funds in Malaysia. The choice of Financial advisors for survey was based on the logic that each financial advisor might represent more than hundred end customers and so the perception of end customers would reflect the perception of financial advisors. The study concluded that the three most important factors in mutual fund were past performance of the fund, size of the fund and cost of transaction.

Sirri and Tufano (1998), Bergstresser and Poterba (2002), and Sapp and Tiwari (2004) found that fund flows tended to chase funds with high past returns. Brad M. Braber et al (2005) "Out of sight out of mind: the effects of expenses on mutual fund flows" states that "Academic finance advises investors that low fees are preferable to high fees, that past return are poor predictors for future returns in the long run, that there is little, or no, evidence that active managers can outperform indices". Brad M. Braber et al (2000) analysed the behaviour of investors during mutual fund purchases and sales decisions by studying over 30000 households at a large U.S discount broker for six years ending in 1996. The findings of the survey are, investors buy funds with strong past performance, they sell funds with strong past performance and are reluctant to sell their losing fund, and investors are sensitive to the form in which fund expenses are charged i.e., they neglect a fund's operating expense ratio. Studies by Chan et al., 2009, Chen et al., 2004 and Sawicki and Finn 2002 shows that fund size detracts from performance. Noel Capon et al., (1996) investigated the investment decision making of consumers. The data was collected from 3386 mutual fund investors of continental United States and explored the relationship among four sets of variables: information sources used for mutual fund purchases, selection criteria for deciding among alternative mutual funds, mutual fund purchase behaviour and consumer demographic data. The results of the study state that information sources, selection criteria and mutual fund investment behaviour are related. When investors were grouped by similarity of investment decision process, a single small group was found to be exceptionally knowledgeable about its investments. But most of the other investors were found to be naïve, having little knowledge of the investment strategies or financial details of their investments.

A critical analysis of the literature prevailing in the subject clearly depicts that the fund selection criteria adopted by the mutual fund investors and its relationship with the information source used by investors need to be studied to understand their behavior in a better way.

III. Methodology

The main objectives of this study is to examine the factors that are considered important in selecting a mutual fund and to identify which source of information influences the mutual fund investors most. To accomplish this objective, a questionnaire survey was designed to identify the fund selection criteria adopted by mutual fund investors.

3.1. Survey Instrument

The questionnaire designed for the study contained 3 sections. Section 1 of the questionnaire was designed to gather information about the demographic and socio economic factors of the respondents, Section 2 to identify the various sources of information which they use for Mutual fund selection and in Section 3, the respondents were asked to rate the importance of various factors using five point Likert-type scale ranging from "Not at all important" to "Extremely important". Before administering the questionnaire the researcher undertook a pilot study for 30 samples and the questionnaire was fine tuned.

3.2. Validity and Reliability of the survey Instrument

The content validity of the questionnaire was verified with the discussions with 5 experts, 2 academicians and 3 industry professionals as suggested by Devellis (1991). Accordingly the researcher made changes in the questionnaire by rewording, eliminating or adding some of the items of the questionnaire.

The reliability of the instrument was checked with the help of Cronbach's Alpha method which is a measure of internal consistency and finds out how closely related set of items are formed as a group.

3.3. Sampling and data collection

The population of interest in this study was the mutual fund investors who had invested in Mutual Funds during the period from August 2015 to December 2016 in Coimbatore city. Mutual Funds are being distributed through different modes such as Asset Management Companies, Stock Brokers, Mutual Fund distributors and Banks. Out of the 42 Asset Management Companies in India 19 firms were directly present in Coimbatore city and other firms are indirectly present. As and when the investors visited Asset Management Companies (hereinafter AMC) and Stock Broking firms, the researcher collected data from every 3rd customer who visited AMC or the Stock broking firm. Data collection was carried out from August 2015 to December 2016. Since the population size was unknown the sample size was determined as 1200 using the formula developed by Cochran (1977) as $n_0=Z^2pq/e^2$ where, n_0 is the sample size, z is the selected critical value of desired confidence level, p is the estimated proportion of an attribute that is present in the population, q = 1 - p and e is the desired level of precision. From a total of 1200 questionnaires distributed, 647 questionnaires were returned and finally 526 questionnaires were found valid and complete thereby yielding a response rate of about 44 percent.

IV. Results And Interpretation

4.1. Profile of the respondents

Table 1 represents the summary of demographic profile of the respondents. The sample consists of 75% male and 25% female. This indicates that Female participation in investment front is still low compared to male counterparts. Majority 39% of the respondents fall in the age category of 31 to 40 years followed by 22% with the age group of 41 to 50 years. These figures are in similar to Nurasyikin Jamaludin et al. (2012) (average age 33). The majority of the respondents are well educated with 33% of the respondents holding Post graduate degree and 30% holding graduate degree. The sample was overweighed by Married respondents (89%) and under weighed by Unmarried (21%). Looking at the number of dependents, majority of the respondents 36% have 3 dependents, 29% of the respondents have 4 dependents and 22% have 2 dependents. Others like no dependent or less than 1 dependent and more than 5 dependents are negligible as the percent is very less. Salaried class people are high investing in mutual funds (51% among the respondents) compared to Business class and Professional class people each contributing 18%. Average monthly income of the sample mutual fund investors are between Rs.50,000 to Rs.1,00,000 (37%), followed by 32% earning less than Rs.50,000. Average monthly savings of the investors are less than Rs.10,000 (40%), followed by 23% between Rs.10,001 to Rs.20,000.

Table 1 Demographic Profile of the Respondents

Factors	Description	Percent
Gender	Male	74.7
	Female	25.3
Age Group (in Years)	Less than or equal to 30	13.7
	31-40	39
	41-50	21.9
	51-60	12.2
	Above 60	13.3
Educational Qualification	Upto School final	11.4
	Graduate	29.3
	Post – Graduate	32.7
	Professional Degree	23
	Others	3.6
Marital Status	Married	88.6
	Unmarried	11.4
Number of dependents	0	2.3
	1	2.3
	2	21.5
	3	35.7
	4	29.3
	5	7
	6	1.9
Occupation	Professional	17.7
	Business	18.1
	Salaried	51.3
	Retired	8.7
	Agriculture	2.1
	Others	2.1
Average Monthly Income of the Family	Less than or equal to Rs.50000	31.7

in Rs.	Rs.50001 - Rs.100000	36.9
	Rs.100001 - Rs.150000	11.6
	Rs.150000 - Rs.200000	8.7
	Above Rs.200000	11
Average Monthly Savings of the Family in Rs.	Upto Rs.10000	40.1
	Rs.10001 - Rs.20000	23.2
	Rs.20001 - Rs.30000	17.3
	Rs.30001 - Rs.40000	7.6
	Above Rs.40000	11.8

4.2. Sources of Information

Mutual fund investors are getting information from various sources which are to be analysed for its authentication before it is used. Therefore it becomes imperative to find the most influencing source which is being considered as information provider by the investors. The information sources used by the mutual fund investors were studied and the results are presented in Table 2.

Table 2: Sources of Information

Item Code	Sources	Mean	Std. Deviation
S1	Mutual Fund Distributor	3.09	1.84
S2	Recommendations of Colleagues/Friends/Family	3.08	1.36
S3	Advice from analysts	3.04	1.43
S4	Finance Magazine	2.99	1.36
S5	Books/Magazine/Journals/Newspapers	2.81	1.33
S6	Website	2.57	1.40
S7	Banker	2.44	1.40
S8	TV shows	2.38	1.33
S9	Seminars	2.35	1.39
S10	Stock Broker	2.13	1.28
S11	TV advertisement	2.09	1.18
S12	Chartered accountants	2.08	1.36
S13	Advertisement Print media	1.99	1.18
S14	Advertisement in website/email	1.89	1.15
S15	Advertisement Outdoor media	1.83	1.13
S16	Direct mail	1.75	1.11

The mean analysis was performed to rank all the 16 information sources used by Mutual Fund investors in Coimbatore city, Tamilnadu. As depicted in Table 2, the 'Mutual Fund Distributor' source was the most influencing source for majority of the mutual fund investors with mean value of 3.09, followed by 'Recommendations of Colleagues/Friends/Family' with mean value of 3.08 and 'Advice from analysts' with mean value of 3.04. It is also evident from the table that the visual media advertisement sources like Advertisement in Print media, website/e-mail, outdoor media and direct mail are less used by investors for searching the mutual fund investment sources. As there are 16 different types of informational sources that are being used to avail information related to mutual funds, it is necessary to reduce the number of variables to smaller groups which can give meaningful interpretation. Factor analysis is one such tool that is used to reduce data to a smaller set of summary variables and to explore the underlining theoretical structure of the phenomena.

4.2.1. Factor analysis

Before administering Factor analysis, suitability of data for factor analysis should be tested. Exploratory factor analysis was employed to find out the dimensionality of the information sources used by mutual fund investors by using SPSS 16.0. Through analysis, it is found that Kaiser-Meyer-Olkin Measure of Sampling Adequacy is 0.826 indicating the sample data is suitable for factor analysis. A principal component factor analysis with Varimax rotation was performed and as a result 62.265 variance have been explained by the four factors namely Visual Media Sources, Print Media Sources, Expert Advice and Agency Sources. The factor loading of each item is given in Table 3. The Reliability test is very important as it reflects the truthfulness of the objects of investigation and indicates the consistency and stability of investigation results. Even though there are many methods to measure the reliability, Cronbach's alpha is widely used as reliability measure for Likert scale. Therefore the reliability of the Sources of Information scale in this paper is calculated using Cronbach's alpha. The results of the reliability test depicts that three dimensions extracted have the reliability of more than 70% and Agency sources dimension have reliability of 62.3% which is acceptable. Out of the four dimensions extracted Print Media source is mostly used by investors for information gathering with average mean value of 2.8, followed by Expert Advice and Agency Sources with average mean of 2.6 and as a lowest preferred source as Visual Media with mean value of 1.9.

Table: 3 Factor analysis results and Dimensional reliability of Informational Sources

Dimension & alpha	Statements	Item Code	Factor loadings	% Variance explained	Mean	alpha
Visual Media	Advertisement in website/email	S14	0.871	22.586	1.9	0.875
	Advertisement Print media	S13	0.848			
	Advertisement Outdoor media	S15	0.831			
	TV advertisement	S11	0.737			
	Direct mail	S16	0.663			
Print Media	Finance Magazine	S4	0.799	15.282	2.8	0.790
	Website	S6	0.783			
	Books/Magazine/Journals/Newspapers	S5	0.696			
Expert Advice	Chartered accountants	S12	0.697	14.619	2.6	0.754
	Advice from analysts	S3	0.68			
	Seminars	S9	0.633			
	Recommendations of Friends/colleagues/Family	S2	0.612			
	TV shows	S8	0.449			
Agency Sources	MF Distributor	S1	0.718	9.778	2.6	0.623
	Banker	S7	0.637			
	Stock Broker	S10	0.635			

4.3. Fund selection criteria

Responses collected to identify the most important factor for selecting a mutual fund through five point likert scaling from (1) Not At All Important to (5) Very Important were analysed using SPSS 16 version. The Mean and Standard deviation of the selection criteria is shown in Table 2. The results reveal that Funds past Performance was considered as very important factor with mean of 3.98 while selecting a mutual fund. This evidence is in line with the findings of Wilcox (2003); Capon et al., (1994); Grinblatt and Titman (1992); Ippolito (1992); Hendricks et al., (1992) and Kane, Snatini, and Aber (1991). The next important criteria considered for fund selection was found to be Level of risk associated with a mutual fund with the mean of 3.90 followed by type of fund with mean of 3.88. The factors such as fringe benefits, infrastructure facilities, Intermediaries network of AMC and location of AMC in their city were given less importance.

Table 4: Mean & SD of Fund Selection Criteria

Item Code	Selection Criteria	Mean	Std. Deviation
A1	Fund's past performance	3.98	1.108
A2	Level of risk	3.90	1.016
A3	Type of Fund	3.88	1.008
A4	Investment objective	3.84	.996
A5	Reputation/ Brand name of fund	3.81	1.063
A6	Experience of Fund manager	3.69	1.143
A7	Investment Style of fund manager	3.65	1.103
A8	Reputation of fund manager	3.65	1.073
A9	Tax benefits	3.64	1.113
A10	Portfolio of fund	3.61	1.068
A11	Asset Management Company's expertise in managing money	3.60	1.151
A12	Favourable rating	3.58	1.039
A13	Reputation or brand name of sponsor & AMC	3.56	1.153
A14	Experience of AMC	3.54	1.103
A15	Fund house and the respective Mutual Fund adopts good disclosure norms	3.53	1.057
A16	Disclosure of Mutual Fund investor statement	3.52	1.068
A17	Clarity of funds Accounting statement	3.47	1.127
A18	Assets under management/ Size of the fund	3.46	1.125
A19	Expense Ratio	3.44	1.027
A20	Responsiveness to enquiries	3.41	1.127
A21	Efficiency of research wing of AMC	3.35	1.163
A22	Qualification of Fund manager	3.35	1.091
A23	Recommendation by Financial Magazine or website	3.23	1.092

A24	Mutual Fund investor grievance	3.21	1.181
A25	Exit load	3.18	1.209
A26	Low Portfolio turnover	3.15	1.062
A27	Availability of telephone switching	3.12	1.077
A28	Minimum Initial investment	3.12	1.278
A29	No. of funds offered by Mutual Fund company	3.06	1.195
A30	Fact that you own funds in the same AMC	3.03	1.097
A31	Location of AMC in your city	2.92	1.186
A32	Intermediaries network of AMC	2.91	1.193
A33	Infrastructure of AMC	2.79	1.251
A34	Fringe benefits	2.59	1.239

Since analyzing 34 items individually may not give meaning, factor analysis was performed to group them into related groups.

4.3.1. Factor Analysis

Kaiser-Meyer-Olkin Measure of Sampling Adequacy is 0.919 indicating the sample data is suitable for factor analysis. A principal component factor analysis with Varimax rotation was performed and six factors were extracted. The six factors extracted might have explained 71.756 percent. After analysing the factor loadings extracted through principal Component analysis and using Varimax rotation with normalisation method items A19 and A30 were deleted as they have factor loading of less than 0.5 as per the opinion of Hair et al (1998). Also item A7 was also deleted as it was cross loaded in two factors (factors 1 & 2). In this case Factor analysis was again employed and 72.396 percent variance have been explained by six factors extracted. The results of final factor analysis is given in Table 5. The factors extracted are named as Intrinsic Fund qualities, Facilities of Fund Sponsor, Investor Service & Transparency, Reputation, Credibility of Fund and Tangible Benefits. Reliability of the dimensions were tested using Cronbach's alpha. From the Table 5 it can be seen that the two of the dimensions namely 'Intrinsic Fund Quality' and 'Investor Service & Transparency' whose Cronbach's alpha score is more than 0.9 has excellent reliability and the alpha score of remaining four dimensions also lie between 0.7 to 0.9, which means the preliminary scale of selection criteria has a relatively high reliability.

Table 5: Factor analysis results and Dimensional reliability of Selection Criteria

Dimension and alpha	Statements	Factor Loadings	Variance explained (%)	Mean	alpha
Intrinsic Fund Qualities	AMC's expertise in managing money	0.831	22.349	3.6	0.941
	Experience of Fund manager	0.827			
	Reputation of fund manager	0.784			
	Fund's past performance	0.763			
	Experience of AMC	0.742			
	Efficiency of research wing of AMC	0.727			
	Level of risk	0.674			
	Recommendation by Financial Magazine or website	0.656			
	Investment objective	0.655			
	Portfolio of fund	0.641			
Facilities of Fund Sponsor	Infrastructure of AMC	0.796	12.633	3	0.88
	Intermediaries network of AMC	0.786			
	Location of AMC in your city	0.749			
	Qualification of Fund manager	0.665			
Investor Service & Transparency	Fund house and the respective MF adopts good disclosure norms	0.767	12.268	3.4	0.934
	Disclosure of MF investor statement	0.765			
	Clarity of funds Accounting statement	0.743			
	Responsiveness to enquiries	0.63			
	Availability of telephone switching	0.581			
	MF investor grievance redressal machinery	0.57			
Reputation	Assets under management/ Size of the fund	0.749	9.176	3.5	0.857
	Reputation/ Brand name of fund	0.687			
	No. of funds offered by Mutual Fund company	0.654			
	Reputation or brand name of sponsor & AMC	0.556			
Credibility of Fund	Tax benefits	0.733	8.237	3.6	0.777
	Type of Fund	0.602			
	Low Portfolio turnover	0.587			
	Favourable rating	0.535			

Tangible Benefits	Fringe benefits	0.718	7.733	3	0.721
	Minimum Initial investment	0.667			
	Exit load	0.648			

The mean values of the dimensions show that Intrinsic fund qualities and Credibility of Fund are considered as most important factor while selecting the mutual fund with mean value of 3.6. Investors also look for Reputation and Investor Service & Transparency as important factors for Fund selection whereas Tangible benefits and Facilities of Sponsor are not given much importance in fund selection.

Capon et al., (1996) found that information sources, selection criteria and mutual fund investment behaviour are related. To examine whether there is significant relationship between Information Sources and Selection Criteria adopted by mutual fund investors, Correlation analysis was done and the results are presented in Table 6. Correlation matrix results show that among the six dependent variables of Mutual Fund Selection Criteria, there exists statistically significant correlation between Visual media and Intrinsic Fund Qualities(r=0.113, p<0.000), Facilities of Fund Sponsor(r=0.135, p<0.000), Reputation(r=0.092, p<0.000) and Tangible Benefits(r=0.137, p<0.000). It is evident from Table 7 that there exists statistically significant correlation between Print Media and Intrinsic Fund Qualities (r=0.183, p<0.000), Investor Service & Transparency (r=0.113, p<0.000) and Credibility of Fund (r=0.122, p<0.000). There exists statistically significant correlation between Expert Advice and Intrinsic Funs Qualities (r=0.170, p<0.000), Facilities of Fund Sponsor (r=0.173, p<0.000), Investor Service and Transparency (r=0.206, p<0.000), Reputation (r=0.204, p<0.000), Credibility of Fund (r=0.168, p<0.000) and Tangible Benefits (r=0.252, p<0.000). Also there exists statistically significant correlation among Expert Advice and Facilities of Fund Sponsor (r=0.086, <0.000), Investor service & Transparency (r=0.109, p<0.000) Reputation (r=0.098, p<0.000), Credibility of Fund (r=0.096, p<0.000) and Tangible benefits (r=0.099, p<0.000). The correlation analysis results are in tandem with the results of Capon et al., (1996).

From Table 6, it is evidenced that the information sources factors and selections criteria factors have low correlation among them. But even with low correlation Expert advice dimension is found to have correlation with all the Selection criteria dimensions.

Table 6: Correlation Matrix among Information Source dimensions and Selection Criteria Dimensions

S. No.	Information Source Dimensions	Mean Score	SD	Selection Criteria Dimensions					
				Intrinsic Fund Qualities	Facilities of Fund Sponsor	Investor Service & Transparency	Reputation	Credibility of Fund	Tangible Benefits
1	Visual Media	1.9	0.9	.113**	.135**	0.075	.092*	0.078	.137**
2	Print Media	2.8	1.1	.183**	0.058	.113**	0.052	.122**	0.039
3	Expert Advice	2.6	1.0	.170**	.173**	.206**	.204**	.168**	.252**
4	Agency Sources	2.6	1.0	0.063	.086*	.109*	.098*	.096*	.099*

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

V. Conclusion

The study has important implications to both academicians and the industry. Theoretically it adds new evidence to the behavioural finance in Mutual Funds area. The practical implications are, as it explores the fund selection criteria adopted by Mutual Fund investors from the individual investor's perspective, the Mutual Fund companies can give importance to Intrinsic Fund Qualities and Credibility of Fund rather than concentrating on the Facilities of Fund Sponsor as per the study results. The results of the study after analysing the response collected from 526 mutual fund individual investors in Coimbatore city, supports the earlier findings of Hendricks et al., (1993), Grinblatt and Titman (1992), Grubber (1996), and Singh and Vanita, (2002) and Capon et al. (1994 that Investors select their funds based on its past performance. Although past performance does not guarantee future performance, it is considered as important criteria for selecting a mutual fund. As the Print media source has high influence on the Mutual Fund investor's decision making the Mutual Fund Companies can use this media to create more awareness and to supply required information to the investors. The present research also established important relationship between the information sources used by investors and fund selection criteria. Even though the correlation between sources of information and fund selection criteria used by mutual fund investors found to be low, Expert Advice dimension has correlation with all the fund selection factors. Mutual fund companies can disseminate required information through organising Seminars, Television shows, Analysts and Chartered accountants to reach investors. These results have particularly provided with the relationship between sources of information and fund selection criteria. Therefore, future studies can be conducted to identify how the mutual fund investors behave and the presence of any behavioural bias when they use particular criteria for choosing their fund.

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