

# **A Study on Factors for Investor Dissatisfaction towards Mutual Funds in Bhopal City**

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## **Abstract**

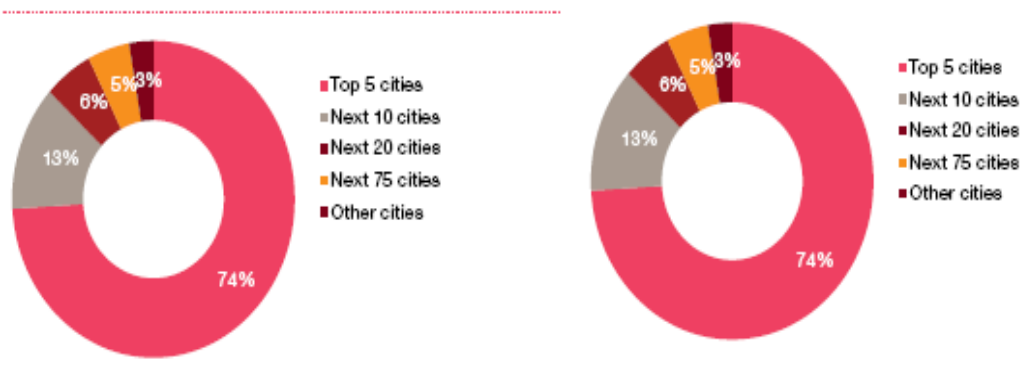
*Mutual fund as an investment option still needs to be accepted by the investors as an instrument in their basket of investment. Presence of the mutual fund industry has been more than 5 decades old and yet efforts are made, to strive hard, for its existence and survival in the market. Despite that more than 1300 schemes are marketed to meet the investor objectives by 44 AMC's in India, yet the industry is unable to gain the trust and satisfaction of investors. This paper attempts to evaluate the factors that contribute to investor dissatisfaction in Bhopal city and also the impact of dissatisfaction on the tenure of investment in mutual funds.*

**Key Words:** Mutual funds, dissatisfaction factors, investment tenure.

## **I. Introduction**

Mutual fund in India was introduced as an investment vehicle with the objective of inducing and mobilizing the savings of small and household investors. However, with its presence in India for 5 decades, the industry is still struggling to capture the market potential and win the trust of investors. It is strongly believed that, increase in mutual fund penetration is largely dependent on increasing the investor awareness and to provide prudent financial services. The MF industry & SEBI has launched several initiatives to provide investment awareness to various investor segments. Despite the efforts made for over 2 decades to create awareness among investors yet the MF industry holds nearly

39.5 million folios as on 31st March 2014 which is less in comparison to 47.6 million as on 31st March 2009. This reflects the inefficiency of MF industry to improve the share of retail and individual investors in the AuM of industry over the last decade, especially from tier II and III city investors.



Source: [www.amfiindia.com](http://www.amfiindia.com)

**Figure 1:** AuM Contribution by Geography 2013 and 2014

The share of AuM from top metros has remained relatively high, though there has been no marked change in contribution statistics from 2013 to 2014 as shown in figure 3, but it is expected that soon tier II and tier III shall join the race with recent SEBI amendments in the guidelines to improve economics of selling to investors in cities other than top 15, in order to revitalize mechanisms for reaching the larger mass investor in tier II and III towns, not only through distribution economics but by enabling distribution through multiple channels.

## II. Literature Review

1. Gupta L. C. (1992), attempted a household survey of investors with the objective of identifying investor's preferences for mutual funds so as to help policy makers in designing mutual fund products and in shaping the mutual fund industry.

2. Shukla and Singh (1994), attempted to identify whether portfolio manager's professional education brought out superior performance. They found that equity mutual funds managed by professionally qualified managers were riskier but better diversified than the others. Though the performance differences were not statistically significant, the three professionally qualified fund managers reviewed outperformed others.
3. According to M. Agarwal and T. K. Nayak (2009), there is no difference between male and female investors, no difference among the investors of different age groups, no difference between government and private sector investors that affect the investment sentiments of any investor, however, there is little awareness regarding equity and mutual funds among the Indian investors.
4. Pandey Anoop (2011), studied on investors risk analysis, presumptions and appetite with the assumption that risks can be investor's psychological risk, prediction risk, choice risk and cost risk and can impact the investor's behavior regarding their periodic and non-periodic investment patterns and also to analyze other factors that regulate the decisions of investment in mutual funds.
5. Karthikeyan K., Bharath S. and Kumar Ranjith K. (2012) conducted the study for investors in Tiruchirappalli, attempted to understand and analyze investor's perception and expectations and unveil some extremely valuable information to support financial decision making of mutual funds to provide a base to devise strategies for tier II cities in India.

Thus, from the above literature review it could be concluded that the researchers have been keenly addressing the issues of investor's preferences of mutual funds and its schemes, performance evaluation of fund managers, the prospects of public-sector sponsored & private-sector sponsored mutual fund schemes, risk-return analysis and investor psychology for investment in mutual funds. However, the author feels the need

to address the issue of factors of dissatisfaction which has an impact on prospective investor's psychology of investment in mutual funds. This paper aims to focus on the various dissatisfaction factors associated with the investment in mutual funds.

### **III. Objectives**

1. To understand the reasons of dissatisfaction among mutual fund investors.
2. To establish an understanding of the impact of dissatisfaction factors on period of investment in mutual funds.

### **IV. Hypothesis**

**H<sub>01</sub>:** There is no significant difference between the dissatisfaction factors of male and female investors of mutual funds.

**H<sub>02</sub>:** There is no significant relationship between period of investment and dissatisfaction factors of the investors in mutual funds.

### **V. Research Methodology**

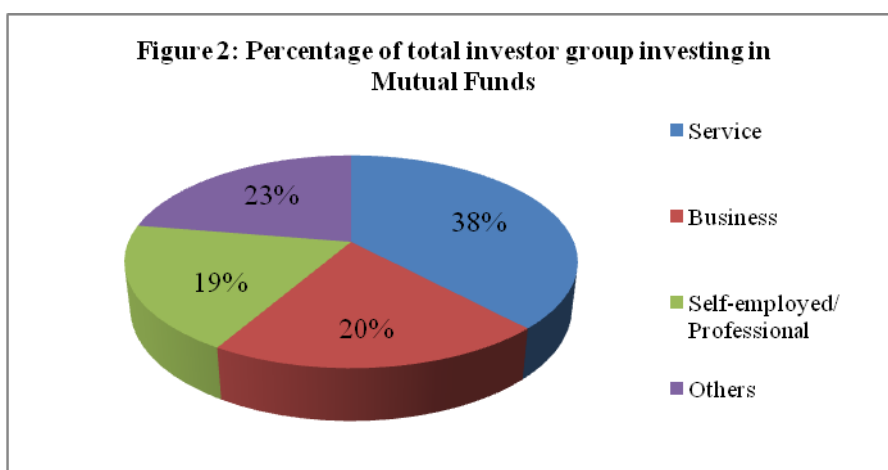
The study is analytical in nature and the scope of study is limited only to investors residing in Bhopal. Data for the study is collected from a sample of 250 investors by using stratified sampling. Out of all the questionnaires 235 questionnaires are considered valid for the purpose of the study. In case of primary data chi-square test had been applied for testing the hypothesis and in case of categories where respondents are required to provide ranks to different factors, the relative importance of respective factors were calculated by assigning the scores using weights and finally calculating the percentage based on weighted scores assigned.

For the purpose of study, out of total respondents 168 were males and 67 were females, which were also categorized based on their employability into service class, business, self-employed/professional and others, as shown in table 1. Among the contributors of investor class, 38% of the investment flows from service class investors, 23% from other, 20% from business class and 19% from self-employed or professionals, as represented in figure 2.

**Table 1: Type of Investor Group in Mutual Funds**

Group	Service	Business	Self-employed/ Professional	Others	Total
Male	53	30	38	47	168
Female	38	17	7	5	67
<b>Total</b>	<b>91</b>	<b>47</b>	<b>45</b>	<b>52</b>	<b>235</b>

**Source:** Tabulation, Calculation and Analysis based on the data collected from primary source.



**Source:** Graphical presentation of data of Table.1

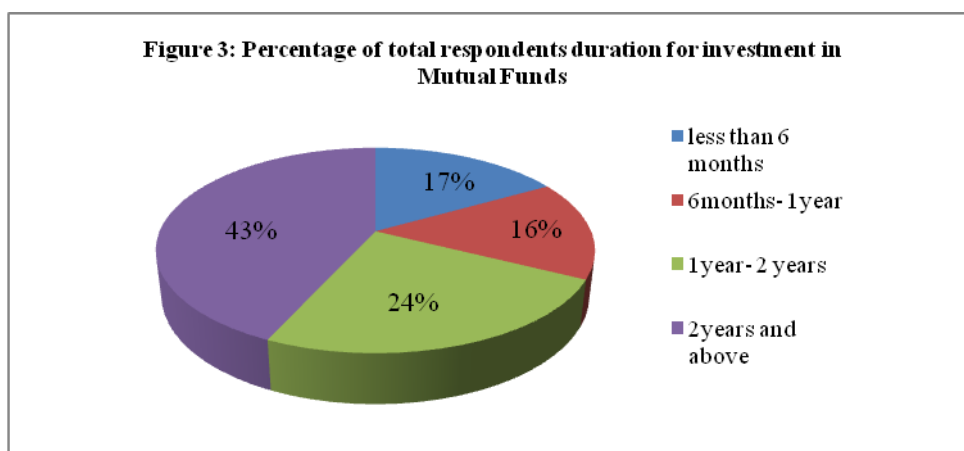
It is however believed that the success of any investment depends upon the tenure of investment selected by the investors. Table 2, indicates that nearly 101 out of 235 respondents, which accounts to nearly 43% investors, invests for 2 years or more, 56 out

of 235 respondents, accounting for around 24% invest their funds for the period between 1-2 years, 38 out of 235 respondents, counting to 16% in total, park their investment for 6 months to 1 year and remaining i.e., 40 out of 235 approximating around 17% invests for less than 6 months period.

**Table 2: Average period of investment in Mutual Funds**

Period	less than 6 months	6 months - 1year	1 year - 2 years	2 years & above	Total
Respondents	40	38	56	101	235

**Source:** Tabulation, Calculation and Analysis based on data collected from primary source



**Source:** Graphical representation of data of Table 2

However, much has been researched on the factors and features that influence the investors for selecting mutual fund as the investment option, also it is propagated that tenure of investment should be large enough to provide better returns. This paper attempts to study the reasons of dissatisfaction of investors from the MF working and the role of these dissatisfying factors in deciding the investment tenure of investors in mutual fund schemes.

Table 3 indicates the level of satisfaction of investor respondents from mutual fund schemes in their portfolio. Only 18.72% respondents are satisfied with the performance of mutual funds and nearly 36.60% are moderately satisfied and 105 respondents out of 235 accounting to nearly 44.68% are dissatisfied.

**Table 3: Investor Attitude towards Mutual Fund Performance**

Investor Experience		No. of Respondents	Percentage
Overall satisfaction level with the performance of the mutual fund in your portfolio	Fully Satisfied	44	18.72%
	Moderately Satisfied	86	36.60%
	Not Satisfied	105	<b>44.68%</b>
<b>Total</b>		<b>235</b>	

**Source:** Tabulation, Calculation and Analysis based on the data collected from primary source.

Table 4 indicates certain important factors that can be attributed as reasons for investor dissatisfaction from the mutual fund scheme performance; these factors have been ranked based on the weights assigned to them.

Among the given seven factors in table 4, lack of awareness of the schemes is rank first (19.45%), followed by dependence on advisors (18.31%), too many schemes for choice-making (17.59%), lack of transparency of operation (16.47%), ease of availability of other options (15.97%), complicated and time-consuming documentation (15.37%) and last but not the least high volatility in return and risk (14.43%) have been attributed as major reasons of investor dissatisfaction from mutual fund investment.

Table 4: Factors of Investor Dissatisfaction

Factors	Ranks and Scores							Total	%	Ranks
Scores	1	2	3	4	5	6	7	F(S)		
Lack of awareness	69	43	37	29	20	12	25	235		
<b>Scores</b>	<b>483</b>	<b>258</b>	<b>185</b>	<b>116</b>	<b>60</b>	<b>24</b>	<b>25</b>	<b>1151</b>	<b>19.45%</b>	<b>1</b>
Complicated and time-consuming documentation	32	24	33	28	44	59	15	235		
<b>Scores</b>	<b>224</b>	<b>144</b>	<b>165</b>	<b>112</b>	<b>132</b>	<b>118</b>	<b>15</b>	<b>910</b>	<b>15.37%</b>	<b>6</b>
Lack of transparency of operation	40	35	26	33	45	32	24	235		
<b>Scores</b>	<b>280</b>	<b>210</b>	<b>130</b>	<b>132</b>	<b>135</b>	<b>64</b>	<b>24</b>	<b>975</b>	<b>16.47%</b>	<b>4</b>
Ease of availability of other options	40	34	36	28	23	26	48	235		
<b>Scores</b>	<b>280</b>	<b>204</b>	<b>180</b>	<b>112</b>	<b>69</b>	<b>52</b>	<b>48</b>	<b>945</b>	<b>15.97%</b>	<b>5</b>
High volatility in return and high risk	18	28	33	30	49	51	26	235		
<b>Scores</b>	<b>126</b>	<b>168</b>	<b>165</b>	<b>120</b>	<b>147</b>	<b>102</b>	<b>26</b>	<b>854</b>	<b>14.43%</b>	<b>7</b>
Dependence on advisors	58	33	48	28	21	18	29	235		
<b>Scores</b>	<b>406</b>	<b>198</b>	<b>240</b>	<b>112</b>	<b>63</b>	<b>36</b>	<b>29</b>	<b>1084</b>	<b>18.31%</b>	<b>2</b>
Too many schemes for choice-making	45	32	51	32	27	22	26	235		
<b>Scores</b>	<b>315</b>	<b>192</b>	<b>255</b>	<b>128</b>	<b>81</b>	<b>44</b>	<b>26</b>	<b>1041</b>	<b>17.59%</b>	<b>3</b>
<b>Weighted Scores Total</b>								<b>5919</b>	<b>100.00 %</b>	

Source: Tabulation, Calculation and Analysis based on data collected from primary source

Among the investor group comprising of males and females, it is important to understand the factors that affect investment decision of these investors group separately. Male investor has selected factors such as, large number of schemes for selection, lack of

awareness and dependency on the advisors as among the top three factors among seven commonly dissatisfying factors. However, in case of female investor, they believe that, both, lack of awareness and dependency on advisors are equally the primary reasons for dissatisfaction whereas complicated and time-consuming documentation, lack of transparency and high volatility in return-risk are other secondary factors that impact their choice of investment in mutual funds, as depicted in table 5.

**Table 5: Reasons of Dissatisfaction among Different Investor Groups**

<b>Group</b>	<b>Lack of Awareness</b>	<b>Complicated and Time-consuming Documentation</b>	<b>Lack of Transparency of Operation</b>	<b>Ease of Availability of Other Options</b>	<b>High Volatility in Return and Risk</b>	<b>Dependence on Advisors</b>	<b>Too many Schemes for Choice-making</b>	<b>Total</b>
Male	27	21	24	23	18	25	30	<b>168</b>
Female	13	9	9	8	9	13	6	<b>67</b>
<b>Total</b>	<b>40</b>	<b>30</b>	<b>33</b>	<b>31</b>	<b>27</b>	<b>38</b>	<b>36</b>	<b>235</b>

**Source:** Tabulation, Calculation and Analysis based on data collected from primary source

Despite of the variation in opinion on different reasons of dissatisfaction for investment in the mutual funds, yet it is sure that investors, whether male or female, are either uninformed or insufficiently informed in order to make a wise choice of available options. In order to establish an understanding on the difference of opinion of different investor group and their reasons for dissatisfaction with the investment in mutual funds, chi-square ( $\chi^2$ ) is calculated, which generates the critical value of 3.87 which is below the table value at 1%, significance level valuing 16.812, thus the hypothesis that,

**H<sub>01</sub>:** There is no significant difference between the dissatisfaction factors of male and female investors of mutual funds, stands true.

Further study is made to understand the reasons of low investment horizon and to understand the impact of level of satisfaction/dissatisfaction on investment horizon.

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**Table 6: Investment Period and Level of Satisfaction**

Group	less than 6 months	6 months- 1 year	1 year- 2 years	2 years & above	Total
<b>Fully Satisfied</b>	5	6	14	19	<b>44</b>
<b>Moderately Satisfied</b>	13	18	23	32	<b>86</b>
<b>Not Satisfied</b>	22	14	19	50	<b>105</b>
<b>Total</b>	<b>40</b>	<b>38</b>	<b>56</b>	<b>101</b>	<b>235</b>

**Source:** Tabulation, Calculation and Analysis based on data collected from primary source

Table 6 presents the information that 105 out of 235 (44.68%) “not satisfied” investors had 69 investors (approx. 48%) with the investment horizon as 2 years and above, comprising of males and females both. This is an alarming situation as the number of dissatisfied investors approx. is 2.63 times higher than those who are fully satisfied within the same investment horizon. Similarly, among the “not-satisfied” group nearly 20% (22 out of 105) shall withdraw their funds before 6 months of investment and approx. 34% cumulatively (36 out of 105) shall withdraw within one year of investment. However, it was assumed that tenure of investment is not affected by satisfaction or dissatisfaction of the investors but the above analysis indicates that investors with high level satisfaction would prefer long-investment horizon and vice versa and hence the hypothesis that,

**H<sub>02</sub>:** There is no significant relationship between period of investment and dissatisfaction factors of the investors in mutual funds, was calculated by applying chi-square ( $\chi^2$ ),

which generated the critical value of 7.99, which is below the table value at 1% significance level valuing 16.812, thus stands false.

## **VI. Conclusion**

The study concludes that even though several efforts are made by authorities and various organizations to impart awareness among investors, yet there is a need to conduct rigorous activities towards building awareness among investors in tier II and tier III cities. Investors consider lack of awareness, dependency on advisors, large number of schemes for selection, lack of transparency as few important reasons for their lack of interest and dissatisfaction, which needs immediate attention, as the pro-long presence of such factors shall hinder the existence and prospects of mutual fund as an investment option.

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