

Small Active Investors' Perceptions and Preferences Towards Tax Saving Mutual Fund Schemes in Eastern India: An Empirical Note

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ABSTRACT

Perception and preference factor plays an important role and help the investor to understand and make the meaningful investment decisions. These two factors are highly influenced by demographic differences of an investor. The present study aims to examine the perception and preference factors influencing the investment behavior of an investor based on various demographics differences. Survey method of primary data collection techniques was adopted to collect responses of 750 respondents from Eastern India particularly (state capital or satellite towns having the population of 10,00,000) Bihar, Jharkhand, Odisha, West Bengal, Sikkim and Assam. Results of the present study suggest that significant demographics differences occur in investment perceptions and preferences towards tax saving mutual fund investments among the investors.

KEYWORDS

Demographics Differences, Eastern India, Mutual Funds, Perception, Preference and Eastern India, Small Active Investors

INTRODUCTION

India's financial market has gone through tremendous changes either in terms of regulatory framework, stakeholders' participation, its size, efficiency or effectiveness and outreach to the bottom of pyramid. The Government understand the vulnerability of investors and hence introduced better protection norms for them as financial markets otherwise has had a long history of frauds and deception. Regulatory bodies have also introduced laws that have resulted in speedy settlement and reduced costs. Settlement time has been brought down to overnight from seven days as it existed earlier. Regulatory bodies have also launched awareness campaigns that are expected to make new investors careful and confident. The recent thrust of financial inclusion policies has further enriched the scope of economy leading to a sea change in the financial market. Throughout the world financial markets are becoming well-organized and providing more encouraging solutions to the investors. Consistent with this evolution, Indian Mutual Funds industry has also witnessed a rapid growth and opened new vistas to millions of investors by virtually taking investment to their doorstep. The Mutual Fund Industry in India has grown tremendously and the assets and under management has increased from Rs. 90,587 crores in 2001 to Rs. 9,05,120 in 2014. Although the Indian Mutual Funds Industry has

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understood the importance of investor's perception and preference towards high return; professional management; trust and long term financial benefits, still they continue to differentiate their products as a response to the economic changes. It, therefore, became important to understand and examine investor's perception and preference, and disclose some valuable information to support meaningful investment decisions. This is considered important from regulatory bodies, investors and AMC's point of view. The question we have explored is "what perceptions investors as of now have vis-à-vis trust, long-term safety, risk, returns and other relevant parameters. Gender, geographical location, age, education, occupation, income, saving and marital status have been studied as moderating variables. Study aims to investigate and identify the small active investor's perception and preference for Tax Saving Mutual funds particularly in eastern India. Further the study also examines the various factors that small investor takes into consideration before investing in a Tax Saving Mutual fund schemes. The study is concentrating on the behavior of small active investors and hence it is a part of behavioral finance area.

REVIEW OF LITERATURE

This literature review has been undertaken to understand the various demographic factors having influences on investor's perception and preference to towards mutual funds. Jambodekar (1996) studied to explore the awareness about Mutual Funds among investors and to identify the factors which encourage the purchasing decision and the selection of a specific fund in India. Findings suggest that newspapers and magazines are the main source of information through for investors to get the details about Mutual fund schemes and fund provider service. Sundar (1998) conducted a survey to understand an insight into the functioning of private mutual fund company based in India with reference to Kothari Pioneer Mutual Fund. Findings suggest that the mutual fund agents and distributors play a significant role in spreading the Mutual Fund investment culture whereas small investors' age and income are the two important factors in the choice of scheme selection. However, fund return and brand image are the key considerations while purchasing of Mutual Fund Schemes. Panda and Tripathy (2001) used factor analysis and principal component analysis for survey based study to explore the factors affecting investors purchasing and preference decision based on a sample size of 300 respondents. The factors affecting the purchasing decision of the investor were hassle free trading, brand name and lock in period. Safety, liquidity, regular income and tax benefits acts as determinants of preferences of the investors for mutual fund. Singh and Vanita (2002) have conducted a survey of 150 investors in Delhi. The study has revealed that the investors' favored to invest in public sector mutual funds companies with an investment objective of availing tax exemptions benefits. The study further concluded that the majority of the investors were dissatisfied with the performance of their Mutual Funds who had opted for growth schemes. Wilcox (2003) in his study examined how investors choose a Mutual Fund within a given range of funds/schemes. The key findings are that investors pay a great deal of attention to past performance. Investors vastly overweight loads relative to expense ratios when estimating a fund's overall fee structure. He also found that investors with knowledge of basic finance are less likely, not more likely, to make rational fund choices. Singh and Chander (2004) have conducted research to find the significant factors affecting perception of investors of Mutual Funds. The study has surveyed 400 investors and infers that middle class investors preferred to invest in Mutual Funds in order to get tax benefits. Further it was found that Mutual Funds to be better investment alternative and public sector investments to be less risky for small investors. Ranganathan (2006) has examined the related characteristics of the fund selection behavior of individual investors towards mutual funds. The study highlights that the individual investor's investment objective was to save for retirement purpose. The author argued that low awareness level regarding the mutual funds may be one of the reasons for not preferring mutual funds as a viable option for their portfolio investment. The author adds that the mutual fund industry players should understand the individual behavior before it introduces different types of funds to penetrate the market successfully and to

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