

INFORMATION SOURCES AND SELECTION CRITERIA FOR PURCHASE OF MUTUAL FUNDS SCHEMES

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ABSTRACT

Mutual funds provide opportunities for small investors to participate in the capital market without a very high degree of risk. However, with increasing competition in the mutual fund industry, the Asset Management Companies offer the investors an excess of schemes, new products and options that confuse the investors while deciding about an investment. Therefore while narrowing down on a particular scheme; an investor takes into account a number of factors which are provided to him/her through a number of sources. Earlier researchers have found sources of information as an important basis for mutual fund purchase for retail investors. This study aims at establishing which sources of information and selection features are considered to be important and popular among investors.

Keywords: information; selection criteria; mutual fund; past performance

Introduction

Mutual fund investments are collected and invested in financial markets according to the fund's offer documents. The benefits of investing in mutual fund is the availability of professional managers having proper understanding of the stock market, diversifying portfolio investments, lower cost and access to global financial instruments and markets. For many investors, mutual funds are the investment vehicle of choice. There are numerous of mutual funds available for purchase. With the availability of a number of funds, schemes, different innovative combinations and the growing importance of including mutual fund investment in one's portfolio, it is vital to understand the

purchasing behavior of investors.

The mutual fund industry is growing at a steady pace and so is the amount of research done in this industry. A bulk of research is focused on performance evaluation of mutual funds, be it fund return, risk evaluation, performance comparison with benchmarks, performance evaluation of intra funds, inter sectoral funds, fund management styles, etc. Investors believe that recent performance is overly representative of a fund's future prospects and thus, investors mainly chase past performance. Over half of all purchases are done based on past annual returns. When buying mutual funds, investors act as though past returns indeed predict future performance (Barber et al 2000).

Mutual fund research has moved on from performance evaluation of returns and risk to understanding what drives investors to buy any scheme of mutual funds. The buying behavior of investors as observed based on information source and selection criteria, reveals that published performance rankings are the most important information source, and both historical investment performance and fund manager's reputation were the two most common selection criteria for buyers of investment funds (Capon et al 1996). Another study further confirms that published performance rankings are key criteria for investors as they are widely available from newspapers, investment magazines, financial planners and the internet (Finch 2005).

Investors can also consider advertisements as a source of information for selection of mutual fund schemes. Every mutual fund company advertises its performance, independent research, price related information and fund composition. Jones and Smythe (2003) examined the information content of mutual fund print advertising and found that informational cues important in assessing the appropriateness of a fund for a given investment decision is available in general, but not the required amount and level of relevant information needed to make intelligent decisions.

Investors rely on various information sources and selection criteria that they assess together to arrive at their purchase decision. At the fund family level, fund families with star performers attract more purchase flows. (Campenhout 2007). Another interesting study by Alexander et al (1998) found that prospectus or the offer document is most useful to investors as the survey respondents considered the prospectus as the single most widely used source of information for mutual fund purchase. Investors collect information on the product or service from different sources. These sources could be internal that is from consumers' knowledge from which it can be retrieved or from external sources through advertisements, newspaper articles (Lin 2002) which are considered while making a purchase.

Objectives

The single objective of the study is to understand the importance of information sources and the selection criteria for purchase of mutual fund schemes.

Methodology

A non-disguised structured questionnaire was developed to study the role played by various sources of information in selecting mutual fund schemes. Primary data was collected from 60 retail investors in Goa. Sample selection was done on the basis of convenience sampling and the questionnaire comprised of close ended questions to meet the objectives of the study.

The first section of the survey asked respondents about demographic data, followed by mutual fund investment behavior. The third and fourth sections asked respondents to rate the importance of nine information sources and selection criteria considered for purchase of mutual fund schemes. Both sections used a five point scale of 1(not at all important) to 5(extremely important).

Demographic profile

Table 1: Demographic Profile of the Respondents

Variable	Description	Percentage
Age (years)	Below 25 years	10
	25 years to 34 years	33.33
	35 years to 44 years	28.33
	45 years to 54 years	18.33
	55 years and above	10
Gender	Male	80
	Female	20
Qualification	Up to Graduation	11.67
	Graduation	31.67
	Post Graduation	48.33
	Professional	8.33
Marital Status	Single	70
	Married	30
Occupation	Government Sector	51.66
	Private Sector	41.67
	Business	6.67
	Agriculture	0
	Others	0
Annual Income	Up to Rs 2,50,000	20
	Rs 2,50,001 to 5,00,00	20
	Rs 5,00,001 to 10,00,000	48.33
	Rs 10,00,001 and above	11.67

Source: Primary data

Table 1 shows that 33.33 per cent respondents are in the age group of 25–35 years; of which 80 per cent are male, 48.33 per cent are postgraduate, 70 per cent are married, 51.66 per cent are working in the private sector and 48.33 per cent have an annual income of Rs 5,00,001 to Rs. 10 lakh.

Results and Analysis:

The results are presented in three sections, namely mutual fund investment behavior, importance of Information Sources and the importance of Selection Criteria.

A. Mutual Fund Investment Behavior

Table 2: Mutual Fund Investment Behavior of Respondents.

Variable	Description	Percentage
Annual Investment in Mutual fund	Less than Rs25,000	46.66
	Rs 25001 to 50,000	16.67
	Rs 50,001 to 75000	13.33
	Rs 75001 and above	23.33
Mode of investment	Lump sum Investment	31.67
	Systematic Investment Plan	48.33
	Both	20
Respondents' Risk Profile	High Risk Taker(Aggressive)	21.67
	Medium Risk Taker (Conservative)	48.33
	Low Risker Taker (Risk Averse)	30
Perceived Riskiness	Not all Risky	5
	Less Risky	71.67
	Don't Know	3.33
	Risky	18.33
	Extremely Risky	1.67
Likelihood of Future Mutual fund Investments	Very Unlikely	5
	Unlikely	6.67
	Not Sure	15
	Likely	46.67
	Very likely	26.67

Source: Primary data

Table 2 discloses that 46.66 per cent of the respondents have investments of less than Rs 25,000 in a year; 48.33 per cent invest through systematic investment plan only, 48.33 per cent are medium risk takers; 71.67 per cent

perceive that mutual fund investments are less risky; and 46.67 per cent were likely to make future investment in mutual funds. Surprisingly, the investors did not perceive their investment as risk prone and their likelihood of future mutual fund investment was high too.

B. Information Sources

Table 3: Information Sources in Mutual Fund Investments

Information Source	Mean	Standard Deviation	Personal (P) or Impersonal Source(I)
Published Performance Rankings	3.02	1.1	I
Advertising in Print media, Television, Internet and Radio	2.58	1.0	I
Commission-Based/ Fee Based Financial Advisors	2.47	1.1	P
Seminars and Workshops on Mutual Funds	2.87	1.2	P
Recommendations of Friends/Family	2.85	1.3	P
Recommendations of Business Associates	2.80	1.1	P
Web sites of AMFI, SEBI/ Company Websites	2.93	1.2	I
Direct Mail, newsletters, fact sheets and magazines	2.60	1.2	I
Key Information Memorandum/ Offer Document of respective Mutual Fund Schemes	2.97	1.1	I

Source: Primary data

In the purchase decision process, investors receive information from different sources. The "Sources of information" in this context refers to a place or person from which one obtains information about mutual funds. In Table 3, of the nine information sources surveyed, impersonal sources are in the top three sources in importance, namely Published Performance Rankings averaged 3.02, Key information Memorandum (av. 2.97) and the websites of AMFI, SEBI/ Company Websites (av. 2.93). Amongst the personal sources Seminar and workshops on mutual funds (av. 2.87) and topped the list, followed by recommendations from friends/ family (av. 2.85) and recommendations from business associates (av. 2.80). The lowest in importance of the nine sources is commission/fee based financial advisors.

C. Selection Criteria

Table 4: Selection criteria in mutual fund investments

Selection Criteria	Mean	Standard Deviation
Investment Performance Track Record	3.82	1.0
Fund Manager Reputation	3.43	1.2
Scope (Number of funds in family)	2.83	1.1
Responsiveness to Enquiries	3.10	1.1
Management Fees	2.72	1.2
Investment Management Style	3.30	1.1
Tax benefits	3.95	0.9
Portfolio Investment	3.62	1.0
Information Source	3.38	1.0
Community Service/Charity/CSR Record	2.32	1.1
NAV/Purchase price	3.68	1.3
Persuasiveness of Financial Advisors	2.88	1.2

Source: Primary data

Selection criteria refer to a set of investment features that an investor considers when making purchase decisions among alternatives. An attempt is made to identify those characteristics that are important to an investor when making investment decisions. Table 4 reveals that among the selection criteria tax benefits averaged 3.95 and ranked first followed by investment performance track record (av. 3.82), NAV/purchase price (av. 3.68). These criteria were much more important than portfolio investment (av. 3.62), fund managers' reputation (av. 3.43), information source (av. 3.38) and investment management style (av. 3.30). The least unimportant selection criteria were responsiveness to enquiries (av. 3.10), persuasiveness of financial advisors (av. 2.88), scope (av. 2.83), management fees (av. 2.72) and community service/charity/CSR Record (av. 2.82).

Conclusion

The key purpose of this study was to understand investors' information sources and selection criteria and their importance in a list of sources. An investor has many avenues to invest according to his or her personal investment portfolio. Amongst these many avenues, investment in mutual funds plays an important role.

Among the nine information sources, Published Performance Rankings is considered the most important. The result is concurrent with many researchers who have conducted research in different periods, which shows that Published Performance Rankings is an important source of information considered by the investors. This source is followed by Key Information Memorandum and the websites of various mutual fund companies. This confirms that investors dependent on impersonal sources of information than on personal sources of information like commission or fee based financial advisors or on recommendations of friends or family.

Amongst the selection criteria, tax benefits has emerged as most important feature for selecting a mutual fund scheme followed by investment performance track record and then by NAV/ Purchase price. Finally, as an introductory effort, this study only examined investors' information sources and selection criteria for purchase of Mutual fund schemes. There exists further scope for study wherein mutual fund investors can be meaningfully grouped on the basis of similarities, relationship between risk profile of investors and information sources may be studied.

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