

Consideration of Sources of Information as Selection Criteria in Mutual Fund Purchase for Retail Investors

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Abstract

Mutual funds, as investment avenues, have not only contributed to the Indian growth story but have also helped families tap into the success of the Indian Industry. Ideally, mutual funds provide opportunities for small investors to participate in the capital market without assuming a very high degree of risk. However, the ever increasing competition in the industry has exposed the investors to a plethora of schemes, new products and options that very often manage to confuse the investor of how a choice is to be made. Thus, while narrowing down on a particular scheme an investor takes into a count a number of factors which are provided to him/her through a number of sources. Empirical evidence has found sources of information as an important determinant for mutual fund purchase. Several Researches have found relative importance of sources of information for the retail investors. This study aims at establishing whether these sources of information are considered to be important selection criteria in themselves or not. Also, an attempt is made to identify the most popular sources of information among retail investors.

Keywords:

Mutual Funds, Mutual Fund Schemes, Retail Investors, Source of Information.

Introduction

Mutual Funds, also called Managed Funds, are collective investment vehicles. They are financial intermediaries that mobilize money from multiple investors (unit holders), particularly small investors, by selling their own shares or units of capital and using it to purchase financial assets or securities issued by others. They thus pool the savings of investors and invest them in a well-diversified portfolio of sound investment. Mutual funds provide a facility for small investors to obtain the benefits of portfolio investment under the aegis of professional management, and also for individuals and institutions that may not have a high degree of expertise or sufficient time to cope with the complexities of investment. The profits or losses as a result of the investment in the fund are shared by the unit holders in proportion of their investments.

It is the perception of many that Mutual funds are retail products premeditated to target those who want to play it safe on the stock market, do not have the adequate time or resources to invest in risky

products and need professional guidance. Investors in the mutual fund avenue are identified as retail and non-retail investors.

UTI launched its first mutual fund scheme called Unit Scheme (US-64), in 1964, which had the distinction of being the largest open-ended scheme, and enjoyed monopoly for three decades (1964-1987) in the industry, which is why it could sustain by providing a generalized product to a population having a dissimilar assortment of financial needs.

In the second phase of oligopolistic competition (1987-1992), debut of non-UTI schemes from financial institutions and public sector banks occurred, and with the then existing boom condition, it was a smooth sailing for the industry. Further, the globalisation and liberalization measures announced by the government led to an exemplary shift in the thinking process of investors and the capital market environment became more hostile to retail investors. They were compelled to turn to mutual funds to seek guidance and acquire the benefits of stock market investing

During the third phase (1992 hence) the industry saw the rise of private sector banks intensifying competition within the industry. Kothari Pioneer (now merged with Franklin Templeton) became the first private sector mutual fund registered in July 1993. In February 2003, UTI was bifurcated into two separate entities, one of which is Specified Undertaking of the UTI (functions under rules framed by the Government of India), and the other being UTI Mutual Fund Ltd (functions under SEBI regulations), sponsored by SBI, Punjab National Bank, Bank Of Baroda and LIC.

There exists a vast array of schemes to choose from, with varying objectives, new products being introduced, old ones being repositioned to survive competition. Innumerable financial innovations provide an avenue for fulfilling the ever-growing investing and wealth creating an appetite of the rational investor. All this, in aggregate, amplifies the consumer confusion in his selection of the product, and he is left confused as to how to sift the grain from the chaff.

In order to clear his mind from the confusions an investor turns to sources of information to gain clarity and to enable drawing meaningful comparisons between options. These sources could be available to an investor in the form of either interpersonal or impersonal sources or both. Interpersonal formal sources of information include advice from brokers

or agents, advice from chartered accountants or bankers, advice from analysts, books, magazines, journals or newspapers. Informal interpersonal sources of information include recommendations from family/friends, business associates and colleagues, etc. Impersonal sources include advertising direct mails, TV shows, databases, published performance rankings, literature from the Asset Management Company.

These various sources often do get transformed into selection criteria which ultimately drive purchase decisions. However, the evidence on the same is limited and provides scope for study.

Literature Review

The Indian mutual funds retail market is currently growing at a CAGR of about 30%, and is expected to reach US\$ 300 billion by 2015. At about 84% (as on March 31,2008), private sector Asset Management Companies account for majority of mutual fund sales in India.

Unfortunately, the growth in the mutual fund industry has not been equally matched by the growth in its research on its purchase and selection. In fact, most of the research is focussed on mutual fund performance and its two determinants that are, return and risk; and their role in fund flows and persistence of performance (Capon et al., 1996). Although studies have indicated a positive relationship between performance and flow (Sirri and Tufano, 1992) and between flow and performance (Gruber, 1996), yet purchase or selection of mutual funds has been considered a multi-framework decision by many researchers, of which mutual fund performance is an important part (Cook and Hebner, 1993; Capon et al., 1996; and Campenhout, 2007). One of the selection criteria that is relatively untouched in the vast amount of mutual fund literature is the role played by sources of information in mutual fund selection and purchase. Although research is limited, a strong relationship has been found between information source and purchase decision (Vinson and Mc Vandon, 1978; Crosby and Stephans, 1987; and Carroll, 1990). Mutual fund purchase decisions involve both interpersonal (formal and informal sources) and impersonal (mass communication) sources. Impersonal sources of information include advertising, direct mails, TV shows, databases, literature from Asset Management Company, and published performance rankings. There a few evidences on the relative importance of these sources of information, and some of the evidences are summarised in the Table below:

Table: Related to Important Sources of Information in Mutual Fund Purchase				
Evidence	Researcher (Year)	Sample Size	Analysis	Reported Important Sources of Information
International	Capon et al. (1996)	3, 386; Contacted Over Telephone	Weighed Mean Score	Published performance rankings; advertising; commission based financial advisors and newspapers; and friend's recommendation
	Alexander et al. (1998)	2, 000; Contacted Over Telephone	Percentage Analysis	Fund prospectus; newspapers and magazines; and presentations
Indian	Rajeswari and Moorthy (2002)	350; Personally Contacted	Weighed Mean Score	Newspapers and magazines; brokers or agents; TV; friend's recommendation; and direct mails
	Sharma (2006)	98; Personally Contacted	Weighed Mean Score	Performance rankings; recommendations of business associates and colleagues; and advertising
	Singh (2006)	260; Personally Contacted	Percentage Analysis	Brokers or financial agents; newspapers; financial journals; bankers; friends and relatives; TV; and Internet
	Singh and Chander (2006)	260; Personally Contacted	Percentage Analysis	Brokers; professionals; financial advisors; and newspaper advertisements
	Das et al., (2008)	100; Personally Contacted	Percentage Analysis	Newspapers and magazines; direct communication

These sources of information get transformed into selection criteria, which ultimately form intentions that help investors in decision making; in fact, researchers argue that sources of information and selection criteria are interrelated (Wilcox, 2003). There is a further argument that in respect of mutual fund, sources of information act both as information source presenting information about other selection criteria and at

the same time selection criteria themselves (Capon et al., 1996). There exists research on the comparison of retail and non-retail investors in order to understand the preference of each group for sources of information, however, this research will be limited to studying the same in only retail investors.

Objective of the study

There has been a phenomenal growth in the number of mutual fund schemes. Such a vast expanse not only not only difficulty in selection but is also difficult to monitor. Sources of information not only guide investors but also themselves act as selection criteria. Following are the objectives of the study:

- To establish whether or not sources of information serve as important selection criteria in the minds of retail investors.
- To identify among the various information sources, the ones that are most popular and preferred in making selection decisions of mutual fund schemes.

Hypothesis

Keeping in mind the objectives of the study while also taking into account the findings of previously conducted similar studies, that is, the literature reviewed, the following hypothesis are postulated:

H1: Sources of information are important criteria for the selection of mutual funds relative to the other selection criteria.

H2: There is a significant difference between the mean ratings of the six types of sources of information.

H3: Company Literature is the most important source of information for retail investors.

Research Methodology

Research Instrument: A non-disguised structured questionnaire was developed to study the role played by various sources of information in selecting mutual fund schemes.

For achieving the objectives of the study, primary data were collected from 30 retail investors in Mumbai. The operational definition of a retail investor for the purpose of the study is “any investor who has invested in any of the mutual fund schemes in the period starting from January 1, 2012 to December 31, 2013 and whose individual investment in the mutual fund portfolio at the time of study is less than Rs. 6 lakh.” Sample selection was done on the basis of convenience sampling and a non-disguised, well-structured questionnaire was used for data collection. The questionnaire comprised of close – ended questions to obtain objective data from the respondents. The demographics of the sample of retail investors under study are depicted in Figures- 1,2,3,4, and Table 1. This data was obtained from the questions that appeared in the beginning of the questionnaire, after which they transitioned into those focussing on the investor profile, investing behaviour, and

perception towards sources of information as criteria for selection of mutual fund schemes. There were two questions for the purpose of understanding whether or not sources of information were considered to be contributing factors in selection. While a set of three questions delved into identifying the most preferred type of portal of information based on a five point scale (ranging from: Most Influential to Least Influential), as well as on the basis of parameters like reliability, accessibility and overall preference.

A few tests were then conducted in order to help analyse the collected data and device a comprehensive conclusion to the study. Simple crosstabs and frequency tables were prepared to understand the link between the type of investor (risk profile) and the preferred information avenue, as well as the proportion of the sample voting in favour of sources of information being important selection criteria.

Calculation of mean ranks was done with the help of a non-parametric test like Friedman Test, to analyse if there exists a significant difference in ranks (of various selection criteria, and various sources of information) and the order of preference if a significant difference exists. One way ANOVA was also carried out to study the ratings given by the respondents to six types of information sources on a five point scale (Most Influential to Least Influential).Based on the findings of the tests performed, a conclusion was framed to summarize the findings.

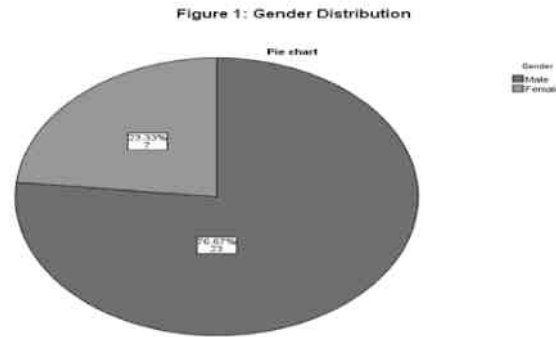
Results and Analysis

The tests that were conducted to analyse the data collected from the questionnaire are:

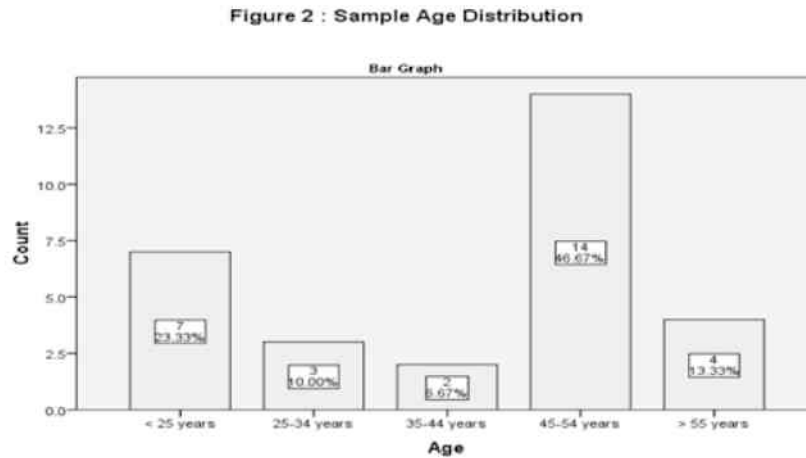
1. Friedman Test to study the order of ranks among the selection criteria that drive an investor's selection decision, and whether or not the ranks are significant.
2. Friedman Test to study the order of ranks among the various sources of information based on parameters of reliability, accessibility and overall preference.
3. One Way ANOVA was carried out to decipher the ratings given to each source of information on a five point scale (Most Influential to Least Influential).

Following were the findings of the study:

Demographic Characteristics of the sample population (Retail Investors):



Out of the sample of a total of 30 respondents, around 76.67% are males while 23.33% are females, as can be seen from the Pie chart in Figure 1.

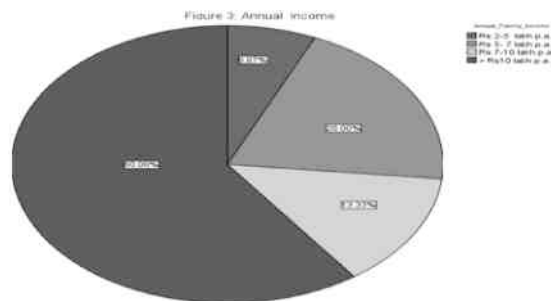


Majority of the respondents (46.67%) belong to the age group of 45-54 years followed by those below the age of 25 (23.33%), 13.33% above 55 years, and 6.67% in the bracket of 25- 34 years (refer Figure 2).

Table 1: Marital Status

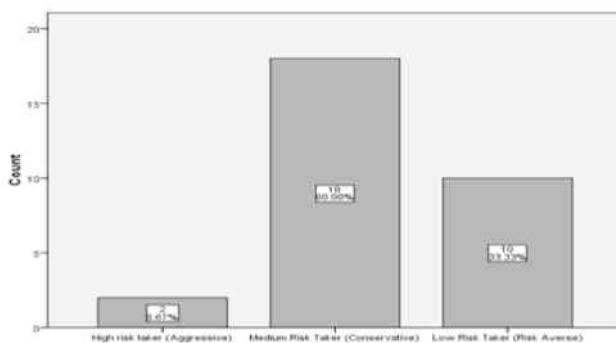
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Married	21	70.0	70.0	70.0
Unmarried	9	30.0	30.0	100.0
Total	30	100.0	100.0	

Table 1 indicates that 70% of the respondents are married, while the remaining 30% are Unmarried.



The Annual family income of 60% of the sample in the study is greater than Rs.10 lakh p.a., and thus a general profile of mutual

fund investors in the metro cities can be deciphered.



18 out of 30 respondents perceive themselves to be conservative investors with a medium risk appetite, while 10 saw themselves as

low risk takers and only 2 thought themselves to be aggressive investors and high risk takers.

Table 2: Risk Profile * Type of Information Source (Cross tabulation)

Count	Risk Profile	Type of Information Source			Total
		Interpersonal Sources	Impersonal Source	Both	
2	High risk taker (Aggressive)	1	0	1	2
18	Medium Risk Taker (Conservative)	10	1	7	18
10	Low Risk Taker (Risk Averse)	7	0	3	10
30	Total	18	1	11	30

A cross tabulation of the risk profile of the respondents with their preference for information sources in Table 2 tells us that the conservative investors (majority) prefer sticking to Interpersonal

sources of information like advice from brokers, friends, family, financial agents, etc.



Figure 5: Opinion of respondents on whether or not sources of information drive scheme selection

When asked whether or not they consider the type of information source a driver for selecting a Mutual Fund Scheme, a clear majority of 93% of the respondents

answered in affirmative, (Figure 5) thus confirming the stand that sources of information do have a spot in the selection criteria and cannot be ignored.

Table 3: Ranks for Important Selection Criteria for Mutual Fund selection

	Mean Rank
Company Reputation	2.67
Risk return characteristics of fund	3.23
Source of information	5.42
Price (NAV)	5.27
Fees	6.22
Tax Benefits	4.75
Credit Rating	5.07
Scheme performance record	3.38

Test Statistics

N	30
Chi-Square	61.602
df	7
Asymp. Sig.	.000

(Friedman Test)

Once it was established that the sample of retail investors do view sources of information as a contributing factor in choosing funds, an attempt was made to understand how important a factor it was relative to some other well established factors. The Friedman Test was conducted to simplify the understanding of where information sources stood in comparison to the other factors. A significance level of 0.00, as can be seen in Table 3, shows that there is a significant difference between the eight factors chosen, and

further with a mean rank of 5.42, sources of information ranked seventh out the eight that were studied. Thus, majority of the 30 retail investors considered the “reputation of the company” offering the fund, to be the most important factor, followed by “Risk –return characteristics” and “Performance record of fund” and others that are in fact obtained from various portals of advice and suggestions that are also analysed in the research.

Table 4: Preferred Information Source

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Interpersonal Sources	18	60.0	60.0	60.0
Impersonal Source	1	3.3	3.3	63.3
Both	11	36.7	36.7	100.0
Total	30	100.0	100.0	

In order to attend to the second objective of the research, a frequency spread was prepared using SPSS (Table 4) to understand the preference among Interpersonal (advice from brokers, friends, family, etc) or Impersonal (TV shows, advertising, etc) sources of information or both.

Interpersonal sources came out to be the most popular among the two, while a sizable number wanted access to both types to aid their fund selection.

Cross tabulations between various information sources and opinion on their importance as selection criteria.

Table 5: Whether Information source is important * Print/ TV media							
Count		Source: Print/ Television media					Total
		Most influential	Partial influence	Neutral	Low influence	Least influential	
Whether Information source is important	Yes	8	8	10	1	1	28
	No	2	0	0	0	0	2
Total		10	8	10	1	1	30

The output of a cross tabulation taking print/television media as the source of information is shown in Table 5. From the ones who think information source is important, the

majority consider it either partially influence or have no may or may not influence their selection decision.

Table 6: Whether Information source is important * Company Websites

Count		Source: Company Website					Total
		Most influential	Partial influence	Neutral	Low influence	Least influential	
Whether Information source is important	Yes	2	9	10	7	0	28
	No	0	0	1	0	1	2
Total		2	9	11	7	1	30

When considering Company Websites, the respondents did not have a strong view of it playing any role in simplifying their selection decision. The output is demonstrated in Table 6.

While on the other hand, the output taking into consideration Published Ratings, shows that the ratings have a very low influence on driving their purchase of a fund (Table 7).

Table 7: Whether Information source is important * Published Ratings

Count		Source: Published Ratings					Total
		Most influential	Partial influence	Neutral	Low influence	Least influential	
Whether Information source is important	Yes	3	2	8	14	1	28
	No	0	1	1	0	0	2
Total		3	3	9	14	1	30

Table 8: Whether Information source is important * Journal Articles

Count		Source: Journal Articles					Total
		Most influential	Partial influence	Neutral	Low influence	Least influential	
Whether Information source is important	Yes	2	5	13	5	3	28
	No	1	0	1	0	0	2
Total		3	5	14	5	3	30

Table 8 explains that Journal articles, like company websites, are not significant contributing factors.

Table 9: Whether Information source is important * Friends /Family

Count		Source: Family & Friends					Total
		Most influential	Partial influence	Neutral	Low influence	Least influential	
Whether Information source is important	Yes	3	3	8	10	4	28
	No	1	0	1	0	0	2
Total		4	3	9	10	4	30

Friends and family of retail investors also have low stake in the decision making process in fund selection as can be seen in table 9.

Count		Source: Financial Agents/Brokers					Total
		Most influential	Partial influence	Neutral	Low influence	Least influential	
Whether Information source is important	Yes	1	0	8	7	12	28
	No	0	1	0	0	1	2
Total		1	1	8	7	13	30

Respondents have given neutral rating to brokers and financial agents being driving factors in purchase of mutual fund (Table 10).

All the sources of information have got low to neutral ratings in the context of being contributing factors in mutual fund scheme selection, and this result is in tune with the

inferences obtained from Table 3. Low ratings are arising from the fact that even though respondents include the source of information in the factors leading to fund selection, it stands quite low in the overall ranking process, and thus ratings of “Most Influential” have not cropped up in the cross tabulation as well, which would have been the case if it was within the top 3 in Table 3.

Ranking based on parameters: Reliability, Accessibility and Overall Preference

Table 11: Ranks for the parameter - Reliability

	Mean Rank
Print /television media	3.77
Company websites	3.82
Published ratings	3.72
Friends and family, business associates	3.43
Company literature	3.45
Financial advisors, brokers	2.82

Test Statistics

N	30
Chi-Square	6.846
df	5
Asymp. Sig.	.232

Friedman Test

The Friedman Test was applied to help rank all the sources of information as per the responses recorded from the sample. Table 11 shows that a significance level of 0.232 (< 0.05) does not exhibit significant difference in the ratings of the various types of information sources when based on the

parameter of reliability. Thus, it can be inferred that the respondents perceived all the sources to be nearly equally reliable, and they have the same preference for all the sources when it comes to reliability.

Table 12: Ranks for the parameter- Accessibility

	Mean Rank
Print television media	3.45
Company websites	3.80
Published ratings	3.72
Friends, family, business associates	3.50
Company literature	4.08
Financial advisors, brokers	2.45

Test Statistics

N	30
Chi-Square	15.946
df	5
Asymp. Sig.	.007

Friedman Test

Table 12 gives the output for ranking in terms of accessibility of the information source. Since the significance is 0.007, it means that there is significant difference in the ranking of the sources, wherein financial

agents and brokers rank first (2.45), followed by print and television media (3.45), friends and family (3.50), Published ratings (3.72), Company websites (3.80) and lastly Company literature (4.08).

Table 13: Ranks for Overall Preference

	Mean Rank
Print/television media	4.33
Company websites	4.05
Published ratings	3.25
Friends and family, business associates	3.62
Company literature	3.28
Financial advisors, brokers	2.47

Test Statistics

N	30
Chi-Square	20.748
df	5
Asymp. Sig.	.001

Friedman Test

Table 13 gives the rankings of the sources of information based on overall preference. A significance level of 0.001 indicates that there exists a significant difference among the ranks of each type of information. The order of ranking is in the following order:

Financial advisors (2.47), Published rating (3.25), Company Literature (3.28), Friends, family, business associates (3.62), Company websites (4.05), Print/Television media (4.33).

One Way ANOVA

Ratings					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	50.192	5	10.038	8.592	.000
Within Groups	202.132	173	1.168		
Total	252.324	178			

Table 14 shows the results of one-way ANOVA which was carried out to see if there exists a significant difference in the ratings (Dependent Variable) for the six types of information sources (independent variables) by the sample of 30 retail investors. Each of the sources were individually rated on a 5

point scale ranging from “Most Influential “to “Least influential”.

A significance level of 0.00 implies that there is a significant difference in the mean ratings of the six sources of information.

Table 15: Table showing ratings of the different sources of information

Information Source	Print and/or Television Media	Company's Website	Published Ratings	Journal Articles	Friends / Family	Financial Agents and Brokers
Rating						
1 (Least Influential)	10	2	3	3	4	1
2	8	9	3	5	3	1
3	10	11	9	14	9	8
4	1	7	14	5	10	7
5 (Most Influential)	1	1	1	3	4	13
Total	30	30	30	30	30	30

(1- Least Influential; 5- Most Influential)

A simple tabulation (Table 15) of the ratings of the various types of sources of information was prepared wherein the value in each cell represents the number of respondents who gave a particular rating to each source of information. The values in the table indicate that “Financial Advisors” are the most influential in driving decisions while print and television media seem to contribute the least.

Conclusion

The study made use of various tests to chalk out the importance of sources of information as selection criteria for

selecting mutual fund schemes, and generate a list of types of information portals with the order of preference for each.

We can present the conclusions of the study in two parts, addressing the two objectives of the study.

- It can be concluded that significant difference exists in the rankings between the eight selection criteria provided to the sample of retail investors. From the results of the Friedman Test that was run on the rankings, it is found that retail investors

considered Company's Reputation to be the most important criterion for selecting Mutual Fund Schemes, while Sources of Information ranked fifth out of a pool of six. This does not signify a great degree of importance, and hence our hypothesis, H1 is rejected, and it can be concluded that sources of information are one of the factors impacting selection of schemes, but are not considered to be one of the important ones.

- Going by the results of the one way ANOVA test, we can accept H2, and conclude that there exists a significant difference between the ratings of different sources of information on a scale of 1- 5, ranging from Least Influential to Most Influential. Also retail investors prefer advice from financial agents and brokers the most while print and television media is placed last. This is consistent with the findings of the previous work done on similar lines.
- Similar order for the various types of sources of information is found in terms of overall preference, the order being:

Financial advisors (2.47), Published rating (3.25), Company Literature (3.28), Friends, family, business associates (3.62), Company websites (4.05), Print/Television media (4.33), with a significance level of 0.001.

Since print and television advertisements rank last in the entire tests one can suggest that they should be more oriented towards retail investors. Empirical evidence also suggests that marketing efforts and advertisements have a positive effect on subsequent mutual fund inflows.

Limitations and Directions for Future Research

The findings are an addition to the existing literature and highlight the various components of the sources of information and their role in forming decisions regarding scheme selection. However it is conducted on a limited and small sample of size 30, and has taken into consideration only the investors in one city, i.e., Mumbai. Here lies the scope for an even more elaborate study spanning a greater expanse of investor population to obtain a holistic view of the objective of the study. Also since only retail investors were taken to be a part of the study, the study has not been

able to explain the behaviour and/or preference of non-retail investors. Thus, future studies can include this class of investors and also draw a comparison between the preferences of the two groups.

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