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RISK TOLERANCE AMONG MUTUAL FUND INVESTORS

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ABSTRACT

The individual investors numbering millions constitute the backbone of mutual fund industry. Their active involvement in the industry helps the corporate sector to mobilize sufficient funds required for development. Investor's behaviour plays a vital role in the financial markets. It influences the price, volume of transaction and various other financial operations. Investor expectation is also important. Expectations of investors are influenced by their perception. Mutual fund market is risky and unpredictable. So the investors should have awareness about the market, product, risk levels, etc. Number of mutual funds invested may have impact on risk tolerance level of investors. It is highly imperative to analyse the risk tolerance level of investors in mutual fund investment.

KEY WORDS: Mutual Fund, Risk, Perception, Risk Tolerance.

INTRODUCTION

Mutual funds are financial intermediaries that pool the financial resources of investors and invest those resources in portfolios of assets. Mutual funds are basically institutional arrangement for pooling of funds from small investors and invest them in the best financial instruments. Mutual fund is a trust that pools the saving of a number of investors who share common financial goal. The money thus collected is then invested in capital market instruments

such as shares, debentures and other securities. The income earned through these instruments and the capital appreciations realized are shared by its unit holders in proportion to the number of units owned by them. Thus a mutual fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost. Mutual funds help small and medium size investors to



participate today's complex and modern financial scenario. The advantages for the investors are reduction in risk, expert professional management, diversified portfolios, liquidity of investment, variety of schemes and tax benefits. These varieties of schemes fulfill the need of different type of investors - gold investment schemes, retirement plan, tax-saving schemes, insurance linked schemes, systematic investment plans.

STATEMENT OF THE PROBLEM

Mutual fund is deemed to be an institutional entity that encompasses the commonly desired and schematically accumulated financial goals of the community of the investors. The money collected from a plethora of source is invested by the fund manager in various types of securities depending on their duly specified objectives. A mutual fund in its rudimentary conceptualization, is a collection of stocks and or bonds, where an investor holds a share, which represents a part of the fund holding thereof. A proportionate sharing of income earned through such investors and capital appreciation witnessed by the schemes is duly carried out. It must however be mentioned that this proportional sharing by the unit holders is governed by the number of units owned by them. Mutual fund is, therefore, the most suitable investment option available for a common man as it provides an opportunity to invest in a diversified, yet professionally managed portfolio. Mutual funds act as a gateway to enter into big companies hitherto to an ordinary investor with his small investment. Mutual fund companies have a number of schemes. The investors decision making, perception, investment strategy, expectations etc are closely related to the behaviour of investors. In Karaikudi, the awareness and knowledge regarding mutual funds are good. Hence this study has made an attempt to examine the investors attitude and behaviour towards mutual fund investment in Karaikudi.

OBJECTIVES OF THE STUDY

The present study confines its objectives as follows.

1. To examine the investor's attitude towards mutual fund investment.
2. To analyse the risk tolerance level of mutual fund investors.

METHODOLOGY

The study was conducted in two stages. In the first stage, secondary data from the publications of government of India, Government of TamilNadu, RBI, SEBI, AMFI and also from relevant reports, periodicals and news papers are collected and analyzed. In the second stage, primary data have been collected from individual investors through a sample survey. A sample of 150 individual investors has been selected on simple random basis for this purpose. Investors are classified on the basis of their investment in mutual funds. Investment below ' 300000 are small investors and investment worth ' 300000 and above are treated as large investors. A structured interview schedule has been used. The researcher made an attempt to analyse the risk tolerance among mutual fund investors with the help of the statistical tools like garrett ranking, t-test and regression.

INVESTORS PERCEPTION ON RISK AMONG TYPES OF MUTUAL FUNDS

Mutual fund investments are subject to market risk. In addition to market risk, there are so many risks involved with mutual funds. Mutual funds are classified mainly on the basis of its nature of investment. The main types are debt fund, gold fund, balanced fund, and diversified fund, tax saving fund, equity fund, index fund, reality fund and sector fund. Debt oriented schemes invest bulk of their funds in fixed income avenues like debentures, bonds, government securities and money market instruments. Equity schemes invest their major portion to equity shares. Balanced schemes lie between equity oriented schemes and debt oriented schemes. Diversified fund portfolio is

diversified in nature. Tax saving fund is an equity fund which has a lock in period of three years. Gold funds in India are an exchange traded fund. Index funds portfolio follow the same pattern of the funds respective index like sensex, nifty etc.,

Sector funds invests in a particular sector like bank, infrastructure etc. Every fund has its own risk. The respondents are asked to rank the nine funds based on their risk level (rank from low risk to high risk). Garrett's ranking technique is used for the study.

Table 1 Risk Element In Mutual Fund Investment – Garrett's Ranking

S.No	Mutual Funds	Garrett Score	Rank
1	Gold Fund	63.70	I
2	Debt Fund	59.34	II
3	Tax Saving Fund	52.11	III
4	Balanced Fund	51.77	IV
5	Diversified fund	50.59	V
6	Equity Fund	48.63	VI
7	Index Fund	45.45	VII
8	Sector Fund	39.11	VIII
9	Reality Fund	31.15	IX

Source: Primary data.

Table 1 indicates that, the mutual funds which has low risk are Gold fund, Debt fund, Tax Saving fund, Balanced fund and diversified fund with the score of 63.7, 59.34, 52.11, 51.77 and 50.59. Funds which have high risk are reality fund, sector fund, index fund, and equity fund with the

scores of 31.15, 39.11, 45.45 and 48.63. A comparison was made among small and large investors regarding their perception on risk element among the different types of mutual fund. Analysis was made with the help of t-test and the results were exhibited on table 2.

Table 2 Investors Perception on Risk Element among Small and Large Investors

S.No	Funds	Mean Score among Investors		T-Statistics
		Small	Large	
1	Sector Funds	4.9944	6.6845	-3.0114*
2	Gold Fund	3.0899	5.0917	-2.3528*
3	Balanced Fund	5.1144	6.4367	-2.0379*
4	Diversified Fund	3.3089	6.9731	-2.1193*
5	Index Fund	2.9173	6.6693	-2.6862*
6	Reality Fund	3.6674	6.7384	-2.0455*
7	Debt Fund	6.7222	3.3617	-2.7082*
8	Tax saving Fund	6.9135	4.0944	3.6391*
9	Equity Fund	3.1874	6.9437	-3.4829*

*Significant at five percent level.

Source: Primary data.

Regarding the risk level of small investors, the important groups are tax saving fund, debt fund and balanced fund since their means score of 6.9135, 6.9083 and 5.1144 respectively. Among large investors, these groups are diversified fund, equity fund and balanced fund with the means score of 6.9731, 6.9437 and 6.4367 respectively. Regarding the risk level of investors the significant difference among the small and large investors have been identified in the case of

sector fund, gold fund, balanced fund, diversified fund, index fund, reality fund, debt fund, tax savings fund and equity fund since their respective 't' statistics are significant at five per cent level.

RISK TOLERANCE OF MUTUAL FUND INVESTORS

The retail investors always prefer 'risk-neutral' or 'risk-averse' investments for their surplus funds. During the last decade a phenomenal

growth of capital market has been accompanied by the advent of equity cult among the retail investors. The question in the mind of retail investors is how to make money with controlled risk in such a volatile market. An investor's risk

tolerance immensely affects his investment decision. Here, the risk tolerance of mutual fund investors is analysed by t-test. There are fifteen variables used for this study.

Table 3 Risk Tolerance among the Investors

No	Variables in Risk Tolerance	Mean Score among Investors		T Statistics
		Small	Large	
1	Mutual fund investment is risky	3.0117	3.9909	-3.2456*
2	Fluctuation in capital market affect Mutual Funds	2.4558	3.6617	-3.8661*
3	Long term investment in mutual fund is less risky	2.3884	3.7025	-4.3084*
4	Sell the units when market is down	2.7717	3.8516	-3.3094*
5	Investment in bearish market is less Risky	2.6503	3.7779	-3.1776*
6	Short term investment is always less Risky	2.5991	3.6073	-3.0881*
7	Recommendation of friends/Relatives reduce the risk	2.8086	3.8117	-2.9968*
8	High NAV funds are very risky for Investment	2.7134	3.6542	-2.8082*
9	Political factor is one of the main factor in risk	2.8241	3.8661	-2.7969*
10	Mutual fund principal and returns are guaranteed by AMFI	2.5667	3.6609	-3.2088*
11	Investment in diversified funds are less risky	2.8089	3.9902	-3.4173*
12	Mutual funds spread the risk	2.6671	3.8518	-3.6896*
13	SIP investment reduce the risk	2.6038	3.7302	-3.3082*
14	Investment in single fund is Advisable	2.7317	3.8117	-3.1917*
15	Investment in new generation funds are safe	2.9094	3.8046	-3.3841*

*Significant at five percent level . Source: Primary data.

The important variables in risk tolerance level among the small investors are mutual fund investment is risky, investment in new generation funds are safe, political factor is one of the main factor in risk, and investment in diversified funds are less risky since their respective mean scores of 3.0117, 2.9094, 2.8241, and 2.8089 whereas among the large investors, these variables are mutual fund investment is risky, investment in diversified funds are less risky, political factor is one of the main factor in risk and mutual funds spread the risk.

Regarding the perception on risk tolerance, the significant difference among the two group of investors have been identified in the case of mutual fund investment is risky, fluctuation in capital market affect mutual funds, long term investment in mutual fund is less risky, investment in bearish market is less risky, sell the units when market is down, short term investment is always less risky, recommendation of friends/relatives reduce the risk, high NAV funds are very risky for investment, political factor is one of the main factor in risk, mutual fund principal and returns are guaranteed by

AMFI, Investment in diversified funds are less risky, mutual funds spread the risk, SIP investment reduce the risk, investment in single fund is advisable and investment in new generation funds are safe since their respective 't' statistics are significant at five per cent level.

CONCLUSION

Risk is an unavoidable factor in any investment especially capital market related investment. Mutual fund is not an exception. Mutual fund industry and investors are facing various risks. The investors risk tolerance level is very important for the growth of mutual fund industry. In this paper risk tolerance level of mutual fund investors are analyzed. Out of nine different types of mutual funds, investors feel the debt fund and gold fund has very low risk and sector fund and reality fund has high risk. In this paper the feelings of investors about risk on various investment options was analysed and found the important factor is investment in specialty fund/scheme. The above analysis depicts that the investors e know the risk level of each fund/schemes.

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