

An Analytical Study on Investors' Preference towards Mutual Fund Investment: A Study in Dhaka City, Bangladesh

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Received: July 13, 2016

Accepted: August 15, 2016

Online Published: September 25, 2016

doi:10.5539/ijef.v8n10p184

URL: <http://dx.doi.org/10.5539/ijef.v8n10p184>

Abstract

Mutual fund is an investment instrument which assembles the savings of millions of small and retail investors into large capital formation. The fundamental objective behind investment in mutual fund is to earn good return with relatively low risk. Mutual fund is acting as an important investment alternatives for general investors. In Bangladesh, mutual fund was first introduced by Investment Corporation of Bangladesh (ICB) in 1980. The main purpose of doing this research is to analyze the investors' preference towards mutual fund and factors affecting the investors' preference towards mutual fund. By using 5-point Likert scale in structured questionnaire, researchers have measured the factors affecting the attitude of investors towards mutual fund. Descriptive statistical tools like chi square test have been used for analyzing the data. It is found that, the demographical factors- gender, income and savings have significant influence on the investor's attitude towards mutual funds investment. Investors prefer mutual fund as safety of life and return on investment. It is identified that, most of the investors are not satisfied with their investment. The study has suggested some important policy measures such as regulatory change, creating investors awareness, encouraging the private companies to raise fund through mutual fund.

Keywords: mutual fund, investment, investors' preference

1. Introduction

1.1 Introducing the Problem

An understanding of behavioral process and outcome is crucial for financial decision makers. Theoretically in behavioral finance, demographic and socioeconomic characteristics of market participants influence the investment decision. The behavioral finance mainly focuses on how investors interpret and act on micro and macro information to make investment decisions. According to Shleifer (1999) behavioral finance is a rapidly growing area that deals with the influence of psychology on the behavior of financial practitioners. The globalization of financial markets has been increasing the retail investors' community over the past two decades by providing a wide variety of market and investment options. However, it makes much more complexity in their investment decisions process. The retail investors consider their investment needs, goals, objectives and constraints in making investment decisions, but it is not possible to make a successful investment decision at all times. Their attitude is influenced by various factors such as dividend, get rich quickly strategy, stories of successful investors, online trading, investor awareness program, experience of other successful investors etc (Bennet, 2011). The various studies have been conducted in other countries but to the best of researchers' knowledge no similar studies has been found in Dhaka City. Hence this study attempts to find out the association between selected variables and investors' attitude towards mutual fund.

1.2 Background of the Study

A mutual fund is an investment mechanism that collects the savings of a number of investors who share common goal. The collected fund then invested in capital market instruments like shares, debentures, money market

instruments and other securities. The profits made through these processes are shared by its shareholders in proportion to the number of shares owned by them. A mutual fund is a suitable investment for the general investors because it offers an opportunity to invest in a diversified, professionally managed portfolio relatively at a low cost. Anybody with a surplus of a few hundred takas can invest in mutual funds. Changes in the economic condition, decreasing interest rates of bank deposits, impulsive nature of capital market and recent bitter experience of investors in making direct investment in capital market instruments facilitate to the growing importance of mutual funds. They have been playing an important role in financial inter-mediation, expansion of capital markets and growth of the financial sector as a whole. The active contribution of mutual funds in economic development can be seen by their foremost presence in the money and capital market.

Mutual funds were first launched in Netherlands in the 18th century. The primary motive of organizing the mutual funds was to provide diversification to small investors, as mutual funds had become the primary investment avenue for small investors. The development of the mutual funds was intensified in United States in the year of 1893 when a fund resembling to the closed ended mutual funds was established for the faculty and staff of Harvard University. Emergence of the first open-ended mutual funds can be found out in United States at Massachusetts on 21st March, 1924. The tremendous growth in the mutual fund market can be observed by the number of mutual funds in the US, which outperformed the number of securities listed in New York Stock Exchanges (NYSE) by the twenty first century.

The mutual funds were first introduced by the state-owned investment agency Investment Corporation of Bangladesh (ICB) in 1980. It launched 8 close-end and one unit fund till 2002, when it had to create 3 subsidiaries under an Asian Development Bank prescription, including the asset management company, which was entrusted with the responsibility to launch mutual funds under the Securities and Exchange Commission (SEC) rules. This company has launched 3 close-end and 2 open-end mutual funds since 2003. Meanwhile, another state-owned lending agency, Bangladesh Shilpa Rin Sangstha (BSRS) launched its solitary mutual fund in 1997, which is run under its own statute. In Bangladesh, the numbers of mutual fund are small having low issued capital. According to Dhaka Stock Exchange at present, there are 41 mutual funds available in our country. According to Dhaka Stock Exchanges (DSE) monthly review of October 2015, total issued capital of mutual fund is Tk. 45,932 (in million) with market capitalization of 1.20%. This research has made an endeavor to find out the impact of demographic variables on the investment decisions of small investors.

1.3 Review of the Literature

Different researchers conducted study on investor's perception towards mutual fund. Some of the findings from those studies have been enumerated below successively. A study conducted by Parihar et al. (2009) in Agra region with 200 respondents and found that the demographic variables like age, gender, income had strong association with the investor's attitude towards mutual funds. However, education of the investors had no impact on the attitude towards mutual funds. According to study of Subramanya and Renuka (2013) age, gender, education, income, and occupation had significant association with investor's attitude towards mutual funds. But they didn't find any significant association with savings. Lenard et al. (2003) in his empirical study investigated investor's attitudes toward mutual funds. The results show that the decision to switch funds within a fund family is affected by investor's attitude towards risk, current asset allocation, investment losses, investment mix, capital base of the fund age, initial fund performance, and fund and portfolio diversification.

Singh and Vanita (2002) have examined the investors' preferences and perception towards mutual fund. The findings of the study were that the investors' preferred to invest in public sector mutual funds with an investment objective of getting tax exemptions and stayed invested for a period of 3-5 years and the investors evaluated past performance. The study further concludes by stating that majority of the investors were dissatisfied with the performance of their mutual funds and belonged to the category who held growth schemes.

According to Saini et al. (2011) it had been found that investor's behavior, investors' opinion and perception relating to various issues like type of mutual fund scheme, its objective, role of financial advisors / brokers, sources of information, deficiencies in the provision of services, investors' opinion relating to factors that attract them to invest in mutual and challenges before the Indian mutual fund industry etc. The study also found that investors seek for liquidity, simplicity in offer documents, online trading, and regular updates through SMS.

Singh (2012) argued that most of the respondents have no proper knowledge of the functioning of mutual funds. He also found that demographic factors like gender, income and qualification have significantly influenced the investors' preference towards mutual funds. However, two demographic factors namely age and occupation have not been found influencing the attitude of investors' towards mutual funds. As far as the benefits provided by mutual funds are concerned, return potential and liquidity have been perceived to be most attractive by the

investors' followed by flexibility, transparency and affordability.

Walia and Kiran (2009) studied investor's risk and return perception towards mutual funds. The study examined investor's perception towards risk involved in mutual funds, return from mutual funds in comparison to other financial avenues, transparency and disclosure practices. The study revealed the problems of investors encountered due to unprofessional services of mutual funds. The study found that majority of individual investors doesn't consider mutual funds as highly risky investment. In fact on a ranking scale it is considered to be on higher side when compared with other financial securities. The study also reported that significant relationship of interdependence exists between income level of investors and their perception for investment returns from mutual funds investment. Jani et al. (2012) made analysis on the consumer's perception towards mutual fund as an investment option in Valsad city from Gujarat. The study revealed that Consumers perception was positive toward investment in mutual funds.

Sharma et al. (2012) studied the customer's perception and satisfaction towards the mutual funds industries. This paper identified the factors "Safety" and "Liquidity" which influence the satisfaction level of customers with respect to mutual fund companies. Shah and Baser (2012) conducted a study and tried to study the impact of the two variables (age and occupation) on investor's preference towards funds reputation & brand name and minimum initial investment. Study has concluded that occupation is a variable that affects investors' preference where as age does not play any role in building the investor's preference. Mutual fund is a very popular concept among the investors but it requires more awareness to be spread among the target audience.

Most of the above studies show the scenario of Indian investors towards mutual fund. But unfortunately no study is found to investigate the attitude of Bangladeshi investors towards mutual fund. So the researchers tried to measure the investor's preferences towards mutual fund in Dhaka City.

1.4 Objectives of the Study

- To study the impact of various demographic factors on investors' preference towards mutual fund investment.
- To study the factors responsible for the selection of investment in mutual funds.

2. Methodology of the Study

The study has been conducted by using both primary and secondary data. It is an analytical research and is related to the analysis of preferences of investors towards mutual fund. To collect primary data a structured questionnaire is developed, using a 5-point Likert Scale ranging from highly preferred (1) to least preferred (5). The target population area is Dhaka city, Bangladesh and sample data is collected from individual investors through convenience sampling technique method. To measure biographical characteristics, 150 investors had been considered but due to the data inefficiency in some questionnaire 120 have been used for data analysis. The secondary data has been collected from published articles, books and websites. The data thus collected has been tabulated first and then analyzed with the help of different financial and statistical techniques like chi square test, factor analysis.

2.1 Hypothesis

H0: There is no association between Investors preference towards Mutual Fund and demographic variables.

H1: There is association between Investors preference towards Mutual Fund and demographic variables.

3. Results

It has been found (see Appendix A) that, out of total respondents, 35.8% have said that their primary motive of choosing mutual fund is safety for principal and 53.3% of the respondent said that their secondary motive of choosing mutual fund is returns. 50% of the respondents said that they are satisfied by investing in mutual fund but only 40.8% of the respondents are satisfied with their returns.

3.1 Demographic Variable Analysis

Table 1. Association of age with investors preference

		Attitude towards mutual fund of the respondent			Total
		Positive	Neutral	Negative	
Age of the Respondent	below 25	4.2%	4.2%	4.2%	12.5%
	25 to 39	14.2%	8.3%	15.0%	37.5%
	40 to 54	16.7%	10.0%	8.3%	35.0%
	55 and above	9.2%	2.5%	3.3%	15.0%
Total		44.2%	25.0%	30.8%	100.0%

At 5% level of significance with degrees of freedom 6, calculated value of X^2 is 5.729, where p value is 0.454 which is larger than 0.05. So, there is not enough statistical significance to reject the null hypothesis that means there is no association between the age of the respondent and their preference towards mutual fund.

Table 2. Association of gender with investors preference

		Attitude towards mutual funds of the respondent			Total
		Positive	Neutral	Negative	
Gender of the Respondent	Male	39.2%	14.2%	23.3%	76.7%
	Female	5.0%	10.8%	7.5%	23.3%
Total		44.2%	25.0%	30.8%	100.0%

At 5% level of significance with degrees of freedom 2, calculated value of X^2 is 11.004; where p value is 0.004 which is lower than 0.05. So, null hypothesis is rejected that means there is an association between the gender of the respondent and their preference towards mutual fund.

Table 3. Association of education with investors preference

		Attitude towards mutual funds of the respondent			Total
		Positive	Neutral	Negative	
Educational level of the Respondent	less than SSC*	3.3%	1.7%	4.2%	9.2%
	HSC**	8.3%	5.0%	3.3%	16.7%
	Graduation	20.8%	8.3%	15.0%	44.2%
	Masters and above	11.7%	10.0%	8.3%	30.0%
Total		44.2%	25.0%	30.8%	100.0%

*SSC: Secondary School Certificate;

**HSC: Higher Secondary School Certificate.

At 5% level of significance with degrees of freedom 6, calculated value of X^2 is 4.644; where p value is 0.590 which is larger than 0.05. So, there is not enough statistical significance to reject the null hypothesis that means there is no association between the educational level of the respondent and their preference towards mutual fund.

Table 4. Association of income level with investors preference

		Preferences towards mutual funds of the respondent			Total
		Positive	Neutral	Negative	
Income level of the Respondent	up to 2 lac	4.2%	5.8%	13.3%	23.3%
	2 to 4 lac	13.3%	8.3%	10.8%	32.5%
	4 to 6 lac	13.3%	10.0%	2.5%	25.8%
	6 lac plus	13.3%	0.8%	4.2%	18.3%
Total		44.2%	25.0%	30.8%	100.0%

At 5% level of significance with degrees of freedom 6, calculated value of X^2 is 26.280; where p value is 0.000 which is lower than 0.05. So, null hypothesis is rejected that means there is association between the income level of the respondent and their preference towards mutual fund. Income level of the respondents and their attitude towards mutual fund are significantly linked. 23.30% of respondents of below Tk. 2 lac yearly income group,

32.50% of respondents of Tk. 2 to 4 lac income group, 25.8% of respondents of Tk. 4 to 6 lac income group, 18.3% of respondents of Tk. 6 lac plus income group.

Table 5. Association of savings with investors preference

		Preferences towards mutual funds of the respondent			Total
		Positive	Neutral	Negative	
Annual savings of the Respondent	less than 50000	11.7%	11.7%	21.7%	45.0%
	50000 to 1 lac	24.2%	10.8%	7.5%	42.5%
	1 lac to 1.5 lac	6.7%	1.7%	1.7%	10.0%
	above 1.50 lac	1.7%	0.8%	0.0%	2.5%
Total		44.2%	25.0%	30.8%	100.0%

At 5% level of significance with degrees of freedom 6, calculated value of X^2 is 17.921; where p value is 0.006 which is lower than 0.05. So, null hypothesis is rejected that means there is association between the savings of the respondent and their preference towards mutual fund.

Table 6. Association of occupation with investors preference

			Preferences towards mutual funds of the respondent			Total
			Positive	Neutral	Negative	
Occupation of the Respondent	Business		17.5%	7.5%	11.7%	36.7%
	Govt. Service		10.0%	5.8%	8.3%	24.2%
	Private Service		13.3%	9.2%	8.3%	30.8%
	Others		3.3%	2.5%	2.5%	8.3%
Total			44.2%	25.0%	30.8%	100.0%

At 5% level of significance with degrees of freedom 6, calculated value of X^2 is 1.342; where p value is 0.969 which is larger than 0.05. So, there is not enough statistical significance to reject the null hypothesis that means there is no association between the occupation of the respondent and their preference towards mutual fund.

Table 7. Association of investment level with investors preference

			Preferences towards mutual funds of the respondent			Total
			Positive	Neutral	Negative	
Investment level of the Respondent	up to 2 lac		20.0%	15.0%	21.7%	56.7%
	2 to 4 lac		19.2%	9.2%	5.8%	34.2%
	4 to 6 lac		2.5%	0.0%	3.3%	5.8%
	6 lac plus		2.5%	0.8%	0.0%	3.3%
Total			44.2%	25.0%	30.8%	100.0%

At 5% level of significance with degrees of freedom 6, calculated value of X^2 is 11.792; where p value is 0.067 which is larger than 0.05. So, there is not enough statistical significance to reject the null hypothesis that means there is no association between the investment of the respondent and their preference towards mutual fund.

3.2 Factor Analysis

Factor analysis is a method of reducing a large number of variables (tests, scales, items, persons and so on) to a smaller number of presumed underlying hypothetical entities called factor (Fruchter, 1967). The purpose of factor analysis is mainly two folds: data reduction and substantive interpretation. It tries to simplify and diverse relationship that exist among a set of observed variables by uncovering common dimensions or factors that link together the seemingly unrelated variables and consequently provides insight into the underlying structures of the data (Dillion and Goldstein, 1984). In this study, "Principal Component Matrix" of factor analysis has been used in order to identify the factors influencing the preferences for choosing mutual fund.

Principal component factor explains more variance that the loadings obtained from any method of factoring. In order to define the group membership, an algorithm may be used to uncover a structure purely on the basis of the correlation structure of the input variables. Then the number of principal components to be retained in the study

has been decided on the basis of Kaiser's criterion (1958) of Eigen value greater than 1. Sampling adequacy measurement tests are also examined via the Kaiser-Meyer-Olkin statistics to validate use of factor analysis. The following table shows the result from factor analysis. KMO value of 0.826 indicate sampling adequacy. The factor model indicates three distinct factor-loading without any misclassification: factor 1, factor 2 and factor 3.

Table 8. Principal component matrix

	Component		
	1	2	3
Liquidity	.810		
Capital Appreciation	.778		
Flexibility	.771		
Favourable Credit Rating	.746		
Diversification	.676		
Reputation of Sponsor	.671		
Affordability	.549		
Sponsor Expertise	.538		
Transaction Cost	.534		
Return	.474		
Risk Factor		-.584	
Promptness in service		.521	
Tax Benefit		.361	
Transparency			.632
Extraction Method: Principal Component Analysis.			
a. 3 components extracted.			
Kaiser-Meyer-Olkin Measure of Sampling Adequacy			0.826

Factor 1 includes 10 variables which are liquidity, capital appreciations, flexibility, favorable credit rating, diversifications, reputation of sponsors, affordability, sponsor expertise, transactions cost and return. This factor explains 34.458% of the total variations existing in the variable set. This factor has significant factor loadings on these variables which have formed this major cluster.

Factor 2 explains 11.447% of the total variations existing in the variable set. This includes variables are risk factor, promptness in service and tax benefit. This factor has moderate factor loadings on these variables which has formed second important cluster with respect to the variation.

Factor 3 explains 9.135% of the total variations existing in the variable set. This factor includes transparency. So this factor is less important factor among the three factors.

4. Discussion

The demographical factors like gender, income and savings have significant influence on the investor's attitude towards mutual funds investment. Most of the investors prefer Mutual Funds for the returns and feel that it is a safe measure of investment. 55% of the respondents are not satisfied by investing in mutual fund and 60% of the respondents are not satisfied with their returns. Almost 55% respondents showed their negative attitude towards mutual fund. So, initiative should be taken to increase the satisfaction of investors. Policy maker can undertake action to ensure sufficient return on investment so that investor may become happy. Planners should encourage private companies to raise fund through mutual fund. To create awareness among the market participants Security and Exchange Commission can take both education and training program.

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Appendix A

Table A1. Primary motive behind investing in mutual fund

	Frequency	Percent	Cumulative Percent
safety for principal	43	35.8%	35.8%
safety for life	25	20.8%	56.7%
safety for family	39	32.5%	89.2%
safety for retirement	13	10.8%	100.0%
Total	120	100.0%	

Table A2. Secondary motive behind investing in mutual fund

	Frequency	Percent	Cumulative Percent
Returns	64	53.3%	53.3%
Tax Savings	18	15.0%	68.3%
Safety	37	30.8%	99.2%
Others	1	.8%	100.0%
Total	120	100.0%	

Table A3. Are you satisfied by investing in mutual fund?

	Frequency	Percent	Cumulative Percent
Yes	60	50.0%	50.0%
No	60	50.0%	100.0%
Total	120	100.0%	

Table A4. Are you satisfied with your return?

	Frequency	Percent	Cumulative Percent
Yes	49	40.8%	40.8%
No	71	59.2%	100.0%
Total	120	100.0%	

Table A5. KMO and Bartlett's test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.826
Bartlett's Test of Sphericity	Approx. Chi-Square	565.071
	df	91
	Sig.	.000

Table A6. Communalities

	Initial	Extraction
Return	1.000	.258
Risk Factor	1.000	.538
Liquidity	1.000	.705
Flexibility	1.000	.633
Capital Appreciation	1.000	.642
Transparency	1.000	.765
Transaction cost	1.000	.730
Affordability	1.000	.463
Diversification	1.000	.598
Tax Benefit	1.000	.180
Favourable credit rating	1.000	.581
Reputation of Sponsor	1.000	.464
Sponsor expertise	1.000	.576
Promptness in service	1.000	.571
Extraction Method: Principal Component Analysis.		

Table A7. Descriptive statistics of preference for choosing mutual fund

	N	Minimum	Maximum	Mean	Std. Deviation
Return	120	1	2	1.25	.435
Risk Factor	120	1	4	2.23	.867
Liquidity	120	1	4	1.63	.840
Flexibility	120	1	5	1.88	.989
Capital Appreciation	120	1	5	2.21	1.129
Transparency	120	1	5	2.83	.892
Transaction cost	120	1	5	2.98	1.053
Affordability	120	1	4	2.06	1.071
Diversification	120	1	5	2.11	1.035
Tax Benefit	120	1	4	1.85	.785
Favorable credit rating	120	1	4	1.67	.956
Reputation of Sponsor	120	1	4	1.87	.869
Sponsor expertise	120	1	5	2.24	.953
Promptness in service	120	1	5	2.59	.845
Valid N (list wise)	120				

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