

FACTORS AFFECTING FUND PERFORMANCE PERCEPTION: INVESTMENT ADVISORS' PERSPECTIVE

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Abstract : Indian stock markets showing higher returns with benchmark indices touching new all-time-highs; have generated a fervent environment for the equity investments. But still a majority of potential investors lack resources, time, knowledge, and professional expertise to directly invest and predict the conditions in complex and volatile equities market. So Mutual Funds or Unit Linked Insurance Plans (ULIPs) being professionally managed, well regulated; and being the most eligible proxies to investments in equities, are emerging as the most popular channels in the Indian investment business. Therefore, the present maiden study on the perceptions of investment advisors about the factors affecting the performance of mutual funds, will be quite useful.

IndexTerms - Mutual Funds, ULIPs, Perception, Investment-Advisor.

I. INTRODUCTION

India is emerging as an economic-power on the world stage with its rapidly growing economy becoming an investment led economy. Ever expanding impact of economic liberalization, privatization and globalization; growing incomes, savings and investments by individuals to fulfill their future requirements through achieving higher returns; rising risk-return appetites; and increasing choices & opportunities in terms of different investment avenues available for investment, rising returns of the stock markets; these all have created a strong demand for professional investment fund management in the country. Investors are accepting mutual funds and unit linked insurance plans, as the well managed investment avenues. Most of these investments are instrumented through the expert advice of the investment-advisors. Therefore, the perception of the investment-advisors on the factors affecting the performance of these funds, is a very significant area of study. In this present research work factor analysis technique is utilized to identify these factors.

II. OBJECTIVE

The present research has the following main objectives:

- To Identify Factors related to Fund/Scheme Selection as perceived by investment-advisors of mutual-funds & ULIPs.
- To Identify Factors related to Fund Portfolio Management as perceived by investment-advisors of mutual-funds & ULIPs.

III. LITRATURE REVIEW

Many researchers have tried to assess the perception of investors and investment advisors about mutual funds and ULIPs performance:

Rajeswari et al.(2001), conducted a survey to study the factors influencing the fund/scheme selection behaviour of Retail Investors which revealed that the investors are basically influenced by the intrinsic qualities of the product followed by efficient fund management and general image of the fund/scheme in their selection of fund schemes.

Rajeswari and Moorthy (2002) conducted an empirical study using Principal Component Analysis to understand investor preferences in purchasing mutual funds. The emergent selection factors were: Product qualities, fund sponsor qualities and investor services.

Shanmugham (2001) conducted a survey to study the information sourcing by investors, their perception of various investment strategy dimensions and the factors motivating share investment decisions, and reported that, psychological and sociological factors dominated economic factors in share investment decisions.

Ramaswamy and Yeung (2003), examined the relative importance of factors considered important in the selection of mutual funds by financial advisors in emerging markets and found three important factors which dominate the choice of mutual funds. These are consistent past performance, size of funds and cost of transactions. Factors which relate to fund managers and investment style are not considered to be relatively important.

Saini et al. (2011), outlined that most investors are positive towards investing in mutual funds and past performance is considered important while choosing a mutual fund scheme. Other factors of importance are stability, consistency, and ability. Vyas (2012), found that mutual funds were not that much known to investors and maximum number of investors did not analyse risk in their investment and they were depending upon their broker and agent. Neelima & Rao (2016), concluded that the product qualities, fund sponsor qualities and investor services are important factors and should be borne in mind by fund companies.

IV. RESEARCH METHODOLOGY

The research is 'direct' type qualitative in nature as perception of different advisors towards mutual funds and ULIP investments is studied through survey method with pre explained research objectives. For primary research-data collection, a questionnaire is made, tested and administered for getting responses of advisors.

Sampling Technique and Sample Selection:

An investment-advisor residing in Punjab is taken as the sampling unit. A multi-stage sampling technique is used. Firstly, four most populated cities of Punjab that is Amritsar, Jalandhar, Ludhiana, and Patiala are selected. 35 advisors are randomly chosen from each district totaling 140 for ULIP survey and 140 for mutual fund survey.

Sampling Frame for Investment Advisors' Perception:

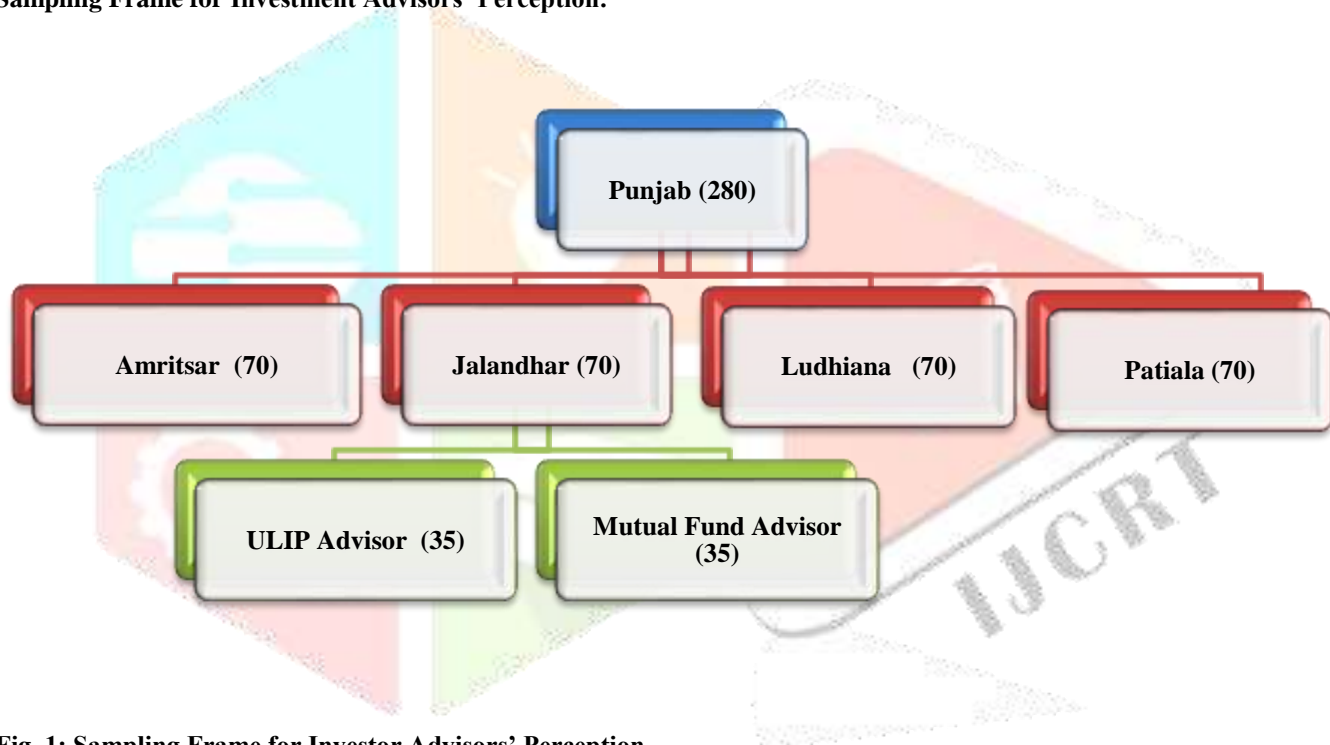


Fig. 1: Sampling Frame for Investor Advisors' Perception

V. Results and Analysis

Factor Analysis is used to find the underlying factors. First of all the KMO and Bar Bartlett's Test for sampling adequacy is performed to see whether the factor analysis can be performed or not, as shown in the table 1

Table 1: KMO & Bartlett's Test for Factor Analysis(Advisor's Survey)

S. No.	Category of Questionnaire Statements	Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy	Bartlett's Test of Sphericity (Approx. Chi-Square)	Degrees of Freedom Df	Significance	Acceptability
1.	Scheme Selection related statements	0.877	4040.131	105	.000	Yes
2.	Portfolio Management related statements	0.809	2677.6	66	.000	Yes

High KMO figures (close to 1) and Bartlett's Test of Sphericity values having significance values less than 0.05 signify that the questionnaires are fit for the factor analysis as shown in the table 1. KMO for Fund/Scheme Related Factors is 0.877 which is greater than the required value of 0.6/ Again, the observed significance level is 0.00 that is much smaller than 0.05 and hence the null hypothesis that the variables are not correlated with each other has been rejected. Therefore, it could be inferred that the strength of relationships among variables is strong and factor analysis might be performed. Similarly, KMO for the Portfolio Management related statements is 0.809, again greater than 0.6 and significance value is 0.00, means that the factor analysis may be performed.

Advisors -Fund Scheme Selection Factors:

On the basis of Varimax Rotation, 3 factors have emerged. Again, by retaining only the variables with Eigen values greater than one we can find that 47.223% of variance is explained by factor 1; 15.862% of variance is explained by factor 2 and 14.988% of variance is explained by Factor 3 and together, the three factors contributed to 78.073 % of variance. Under Varimax Rotation 8 out of 15 variables have factor loadings>0.5 in case of factor 1. Factor-1 is containing A9, A15, A13, A1, A6, A8, A4 & A5 variables i.e the Turnover, New Fund Offer, Current-NAV, Credit-Rating, Innovative Schemes, FundManagerRecord Govt Ownership and Foreign Ownership attributes. It is conceptualized as "Advisor's Outlook". Factor-2 is constituted of A2, A3, A14 & A7 i.e. Past Returns, Dividend History, Tax Benefits, Risk Adjusted Return, and is named as "Past Performance". In the third factor 2 out of 15 variables have factor loadings>0.5. Factor 3 is established of A11 & A10 variables i.e. Expense-Ratio and different Entry/Exit Loads and is termed as "Investment Costs".

Table 2: Identification of Factors that affect Fund/Scheme Selection (Advisors Perception)

S. No.	Factor Name	Attributes leading at 0.5 or more	Loading	% of ex var	Cumulative % of ex.var
1	Advisors' Outlook	A09. Turnover	0.941	47.223	47.223
		A15. New Fund Offer	0.882		
		A13. Current NAV	0.862		
		A01. Credit Rating	0.862		
		A06. Innovative Schemes	0.844		
		A08. Fund Manager Record	0.840		
		A04. Govt. Ownership	0.837		
		A05. Foreign Ownership	0.705		
2	Past Performance	A02. Past Returns	0.877	15.862	63.085
		A03. Dividend History	0.840		
		A14. Tax Benefits	0.822		
		A07. Risk Adjusted Return	0.810		
3	Investment	A11. Expense Ratio	0.951	14.988	78.073

	Costs	A10. Fund Management Charges	0.926		
		A12. Loads	0.887		

Advisors -Fund Portfolio Management related factors:

Three factors have emerged using Varimax Rotation. Variables with Eigen values greater than one are retained and it is concluded that 38.824 % of variance is explained by factor 1; 23.294 % of variance is explained by factor 2 and 13.998 % of variance is explained by Factor 3 and taking them all together, the factors contributed 76.116 % of variance. Under Varimax Rotation 4 out of 12 variables have factor loadings>0.5 in case of factor 1. Here the factor-1 is containing B9, B3, B10 & B1 variables, i.e Fund Objective Achievement, Portfolio-Risk-Reduction, extent of Diversification of Portfolios and Fund Portfolio attributes. This factor is named as “Portfolio Structure”. Again, Factor-2 is made-up of B6, B7, B12 & B2 i.e. Bull Market Advantage, Stock Market Tracking, Active Portfolio Management, Regular Portfolio Revision and is named as “Portfolio Management”. In the third factor 3 out of 12 variables have factor loadings>0.5. Factor 3 is established of B5, B4 & B11 variables, i.e., Recession Performance, High Volatility Returns, Inflation Protection; and this factor is labelled as “Portfolio Performance”.

Table3: Identification of Fund Portfolio Management Related factors (Advisors Perception)

S. No.	Factor Name	Attributes leading at 0.5 or more	Loading	% of ex var	Cumulative % of ex.var
1	Portfolio Structure	B09. Fund Objective Achievement	0.931	38.824	38.824
		B03. Portfolio Risk Reduction	0.929		
		B10. Diversified Portfolios	0.860		
		B01. Portfolio	0.842		
2	Portfolio Management	B06. Bull Market Advantage	0.909	23.294	62.118
		B07. Stock Market Tracking	0.908		
		B12. Active Portfolio Management	0.907		
		B02. Portfolio Revision	0.784		
3	Portfolio Performance	B05. Recession Performance	0.931	13.998	76.116
		B04. Volatility Returns	0.898		
		B11. Inflation Protection	0.834		

VI. CONCLUSION

By using the factor analysis Advisors’ Outlook, Fund’s Past Performance and Investment Costs are the factors related to the to Fund/Scheme Selection as perceived by investment-advisors of mutual-funds & ULIPs. Also, Portfolio Structure, Portfolio Management and Portfolio Performance are the factors identified related to Fund Portfolio Management as perceived by investment-advisors of mutual-funds & ULIPs.

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