MUTUAL FUND INVESTMENT THROUGH DIRECT PLAN: A DEMOGRAPHIC RELATION

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Abstract: Financial markets are becoming increasingly effective by offering investors with more promising alternatives. It is therefore high time to recognize and appraise the perception and preferences of investors and disclose some highly useful data to help mutual fund for intelligent investment decision-making. This study's primary goal was to find out how clients respond to different investment tools in Mutual Fund viz, Direct (Through intermediaries, Direct through fund house), and Regular plans. 'Direct Plan' and 'Regular Plan' both form part of the same mutual fund system, have the same/common portfolio and are operated by the same fund manager, but have variable expenditure ratios. It is almost six years since direct plans of mutual funds were launched, its popularity is increasing. However, many small investors are still caught with high-cost regular plans. This is largely due to lack of awareness. Direct plans offer lower transaction costs, more transparency and reduce chances of misselling. The Mutual Fund investors shift from regular plan to direct plan is increasing day by day. This article examines the investors' perception of mutual fund products through Direct Plan. This will enable the development of further policies for Indian Tier II towns to cross-sell mutual fund products through the Direct Schemes either by intermediaries or through fund houses.

Keywords: *Mutual Fund, Investment, Direct Plan, Regular Plan*

I INTRODUCTION

In the latest decades, mutual funds have played a dramatically enhanced role in financial markets. Asset Under Management (AUM) of Indian Mutual Fund industry for the month of July 2019 stood at ₹ 23.54 trillion with an average Asset Under Management of ₹ 25.81 trillion (AMFI 2019). The Indian Mutual Fund Industry's AUM has grown from ₹ 10.06 trillion as on 31st July 2014 to ₹ 24.54 trillion as on 31st July 2019, about 2 ½ fold increase in a span of 5 years. The number of mutual funds has also grown dramatically to 13545 funds in India at the end of July 2019 (including all Schemes), by 43 recognized fund management houses by SEBI. The Mutual Fund industry plays an incredibly significant role in the Indian financial market's growth, and this trend is increasing dramatically. In India, investors are increasingly interested in investing in mutual funds, because mutual funds provide investors with a manner to approach optimal securities and obtain a well-diversified portfolio since investors with small savings have neither adequate knowledge nor the means to diversify. It is the duty of the fund managers to give investors, a maximum return at a calculated risk. Financial markets have altered the way they offer investors investment opportunities and therefore mutual funds are involved in the design of fresh fund schemes with diverse portfolios. Since investors have diverse requirements based on their diverse demographic base, this encourages mutual fund intermediaries to model and innovate fresh schemes in line with the goals of investors. Based on the investment objectives of the investors', fund managers are using their specialized skills and abilities to shape different schemes of mutual funds with a diversified portfolio. Normally Mutual Fund Asset Management Companies may adopt a momentum trading as their investment style for investing in the fund. A study by Jegadeesh and Titman (1993), Asness, Liew & Stevens (1997), Grundy and Martin (2001) and Griffin et al. (2003) originate that approach of buying past winners and selling losers produce a substantial positive return.

Mutual fund managers are responsible for managing the funds of investors in the best way possible. The main bottleneck faced by the investors in the mutual funds has the expense ratio. Normally mutual fund distribution commission is an important factor that influences the investment decision among investors. To reduce the expense ratio AMFI introduces Direct plan for mutual fund investment in addition to the regular.

II OBJECTIVES OF THE STUDY

- Influence of Direct Plan of mutual fund in investment behavior
- Demographic influence in the investment behavior towards mutual fund direct plan.
- Comparison between Regular and Direct plan in a demographic dimension.

III LITERATURE REVIEW

Tripathy (1996) said the MF sector in India is over-regulated, causing the roadblock to its success. The healthy regulations are always help the investors perception towards the mutual fund industry, and that will energize the industry.

Goetzmann and Peles (1997) given proof of psychology of investors influencing the conduct of fund switching. Because of lethargy, participation of financial expenses and adjustments of their views to past performance showing cognitive dissonance and powerful endowment effect, investors do not move from bad performing funds to better performing funds.

Dhaliwal, Erickson and Trezvant(1999) considered that while creating the portfolio, fund managers do not consider the tax advantage. That remains the investors ' issue.

Detzler (2002) examined the four characteristics of the fund (expense ratio, portfolio turnover, total asset value and load fees) and its connection between the quality of a sample of 757 ranked funds over the 1993-1995 period. The research discovered that ranking-based investment strategy did not yield abnormal returns; investor who in turn preferred high-ranking fund took high risk, but the portfolio did not outperform the benchmarks.

Burch, Emery and Fuerst (2003) investigated the relationship between an exogenous factor, financial system and investor sentiment. The research empirically found that the investor's perception of peril does not depend solely on economic data, but on other exogenous variables as well.

Agudo and Lazaro (2005) found that the classification of the objectives of the MF schemes are not strictly adhered by the MF companies. The involvement of the regulators to guide the norms to build the schemes are also very important.

Bailey, Kumar and Ng (2009) have explain the effects of cognitive biases on the mutual fund choices of individual investors.

Weber (2010) explained the relationship between the buying behavior and the financial literacy of the investors. Financial literacy is in important factor influencing the investment decision.

IV THEORETICAL MODEL

Mutual funds have become a major source of investment in India. Every investor looking for a higher return with a lower risk, so they are looking forward to mutual funds as a good carrier of their assets. Investors are preferred to opt for different schemes of funds which will suit their investment objectives. The investment cost is a very important factor that will influence the investment decision of the mutual fund investor. In India, an investor can invest in mutual funds through two plans, viz, Regular Plan and Direct Plan. For the purpose of reducing the investment cost, the regulators introduce the direct plan. Now a day direct mutual funds plans are very popularized in Indian mutual fund industry. In a direct plan, the investments are not routed through the distributor or agents. The regular and direct plans are holding the same portfolio and managed by the same fund manager. The main difference is the expense ratio. In the direct plan, there is no involvement of distributor or agents, so it has a lower expense ratio. Hence the Net Asset Value (NAV) of both plans are different. Investors who invest for a long period of time, the expense ratio will impact their return.

V RESEARCH METHODOLOGY

Data

A sample of 300 mutual fund investors were the respondents, includes both regular and direct plan investors. A structured questionnaire has been used for this survey. The period of collection of data was May-June 2019. All the respondents were from Alappuzha, Kerala.

Methodology

Chi-Square Test is the data analysis method used for this study. Statistical Package for the Social Sciences (SPSS) 21 has been used for this study. A primary survey through structured questionnaires has been conducted on 300 respondents.

VI ANALYSIS AND RESULT

Demographic association with mutual fund plans (Direct and Regular)

Chi-Square Tests

Demographic Variables	Value	df	P Value
Gender	1.28	1	.258
Monthly Investment	47.28	6	.000
Educational Qualification	68.221	2	.000
Years of experience	16.94	4	.002
Monthly Income	22.93	6	.001
Age	16.3	3	.001

Symmetric Measures			
		Value	Approx. Sig.
Gender	Phi	-.065	.258
	Cramer's V	.065	.258
Monthly Investment	Phi	.397	.000
	Cramer's V	.397	.000
Educational Qualification	Phi	.477	.000
	Cramer's V	.477	.000
Year of Experience	Phi	.238	.002
	Cramer's V	.238	.002
Monthly Income	Phi	.276	.001
	Cramer's V	.276	.001
Age	Phi	.233	.001
	Cramer's V	.233	.001

A Chi-square test of independence was calculated comparing the selection of mutual fund plan with gender. $\chi^2(1, N=300) = 1.28$; $p>0.05$. So here there is no statistically significant association between gender and mutual fund plans, that is, both males and females equally prefer both mutual fund plans.Phi and Cramer's V (.065) can see that the strength of association between the variables is very weak.

A test of independence was calculated comparing the monthly investment through SIP with mutual fund plans. $\chi^2(6, N=300) = 47.28$; $p < 0.05$. Here there is a statistically significant association between amount investing though SIP and mutual fund plans. Phi and Cramer's V (.397) seems that a very strong association between the variables.

A test of independence was calculated between educational qualification and mutual fund plans. $\chi^2(2, N=300) = 68.20$; $p < 0.05$. Here it seems that there is a statistically significant association between educational qualification and mutual fund plans. Phi and Cramer's V (.477) can see that a very strong association between the variables.

The test of independence was calculated between year of experience and mutual fund plans. $\chi^2(4, N=300) = 16.94$; $p < 0.05$. Here it seems that there is a statistically significant association between educational qualification and mutual fund plans. Phi and Cramer's V (.238) can see that a moderately strong association between the variables.

Independence between monthly income and selection of mutual fund plan was tested. $\chi^2(6, N=300) = 22.93$; $p < 0.05$. Here the association between monthly income and the selection of mutual fund plan is statistically significant. Phi and Cramer's V (.276) can see that a moderately strong association between the variables.

Independence between age and selection of mutual fund plan was tested. $\chi^2(3, N=300) = 16.30$; $p < 0.05$. Here the association between age and the selection of mutual fund plan is statistically significant. Phi and Cramer's V (.233) can see that a moderately strong association between the variables.

VII CONCLUSION

Using the Chi-Square test, demographic association with a selection of mutual fund plans are tested. It seems that the gender as no significant association with the selection of mutual funds plans, but the other demographic factors (monthly investment, educational qualification, year of experience, monthly income, and gender) have a significant association with mutual fund plan selection. Normally direct funds are more beneficial for investors who invest a comparatively huge amount in a long period of time due to its low expense ratio. The study supports this finding.

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