

Study of Mutual Funds and Customer preference with respect to Kotak Mutual Funds

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Abstract: - The aim of the study is to know the clear picture involved in mutual funds and its impact on the investors who are interested in different diversified portfolios, which involves high risk and high returns. This risk analysis and investors perception on mutual fund market has given a clear idea of trading involved in relation with equities, debts and hybrid, in comparison with other variables existing in the market with respect to kotak mutual funds

I. COMPANY PROFILE

Kotak Mahindra is one of India's leading financial institutions, offering complete financial solutions that encompass every sphere of life. From commercial banking, to stock broking, to mutual funds, to life insurance, to investment banking, the group caters to the financial needs of individuals and corporates. The group has a net worth of Rs.7,911 crore and employs around 20,000 employees across its various businesses, servicing around 7 million customer accounts through a distribution network of 1,716 branches, franchisees and satellite offices across more than 470 cities and towns in India and offices in New York, California, San Francisco, London, Dubai, Mauritius and Singapore.

Kotak Mahindra Asset Management Company Limited (KMAMC), a wholly owned subsidiary of Kotak Mahindra bank Limited (KMBL), is the Asset Manager for Kotak Mahindra Mutual Fund (KMMF). KMAMC started operations in December 1998 and has approximately 7.5 Lac investors in various schemes. KMMF offers schemes catering to investors with varying risk - return profiles and was the first fund house in the country to launch a dedicated gilt scheme investing only in government securities. The company is present in 76 cities and has 79 branches.

II. MUTUAL FUNDS: INTRODUCTION

As you probably know, mutual funds have become extremely popular over the last 20 years. What was once just another obscure financial instrument is now a part of our daily lives. More than 80 million people, or one half of the households in America, invest in mutual funds. That means that, in the United States alone, trillions of dollars are invested in mutual funds. (For more reading, see *A Brief History of the Mutual Fund*.) In fact, to many people, investing means buying mutual funds. After all, its common knowledge that investing in mutual funds is (or at least should be) better than simply letting your cash waste away in a savings account, but, for most people, that's where the understanding of funds ends. It doesn't help that mutual fund salespeople speak a strange language that is interspersed with jargon that many investors don't understand. Originally, mutual funds were heralded as a way for the little guy to get a piece of the market. Instead of spending all your free time buried in the financial pages of the Wall Street Journal, all you had to do was buy a mutual fund and you'd be set on your way to financial freedom. As you might have guessed, it's not that easy. Mutual funds are an excellent idea in theory, but, in reality, they haven't always delivered. Not all mutual funds are created equal, and investing in mutuals isn't as easy as throwing your money at the first salesperson who solicits your business. (Learn about the pros and cons in *Mutual Funds Are Awesome - Except When they're Not*.)

A mutual fund is nothing more than a collection of stocks and/or bonds. You can think of a mutual fund as a company that brings together a group of people and invests their money in stocks, bonds, and other securities. Each investor owns shares, which represent a portion of the holdings of the fund.

You can make money from a mutual fund in three ways:

- 1) Income is earned from dividends on stocks and interest on bonds. A fund pays out nearly all of the income it receives over the year to fund owners in the form of a distribution.
- 2) If the fund sells securities that have increased in price, the fund has a capital gain. Most funds also pass on these gains to investors in a distribution.
- 3) If fund holdings increase in price but are not sold by the fund manager, the fund's shares increase in price. You can then sell your mutual fund shares for a profit.

Funds will also usually give you a choice either to receive a check for distributions or to reinvest the earnings and get more shares.

III. DIFFERENT TYPES OF FUNDS

Equity

Funds that invest in stocks represent the largest category of mutual funds. Generally, the investment objective of this class of funds is long-term capital growth with some income. There are, however, many different types of equity funds because there are many different types of equities. A great way to understand the universe of equity funds is to use a style box, an example of which is below.

The idea is to classify funds based on both the size of the companies invested in and the investment style of the manager. The term value refers to a style of investing that looks for high quality companies that are out of favor with the market. These companies are characterized by low P/E and price-to-book ratios and high dividend yields. The opposite of value is growth, which refers to companies that have had (and are expected to continue to have) strong growth in earnings, sales and cash flow. A compromise between value and growth is blend, which simply refers to companies that are neither value nor growth stocks and are classified as being somewhere in the middle.

Debt

An amount of money borrowed by one party from another. Many corporations/individuals use debt as a method for making large purchases that they could not afford under normal circumstances. A debt arrangement gives the borrowing party permission to borrow money under the condition that it is to be paid back at a later date, usually with interest.

Hybrid

A category of mutual fund that is characterized by portfolio that is made up of a mix of stocks and bonds, which can vary proportionally over time or remain fixed. Morningstar separates hybrid funds into domestic hybrid and international hybrid categories. In the hybrid category, balanced funds tend to stick to a relatively fixed allocation of stocks and bonds. Actively managed asset allocation funds tend to have portfolios with a mix of stocks and bonds that responds to market conditions as perceived by the fund manager. Passively managed asset allocation, life-cycle and target-date funds generally have a stock-bond mix that changes over a lifetime, moving progressively from aggressive to more conservative structures.

OBJECTIVES OF STUDY:

1. To study investment pattern according to demographic factors.
2. To study preferred important criteria for investment.
3. To study preference of investors in Debt, Equity or Hybrid.

IV. ANALYSIS OF DATA

For the said research primary data is used. Information is collected through questionnaire. A sample of 50 respondents is considered. All 50 are investors of Kotak Mutual Fund.

V. DEMOGRAPHIC FACTORS

Age group: There are four different age groups considered in this research. In first group of 20 yrs to 29 yrs there are 15 respondents, in the age group 30 yrs to 39 yrs 24 respondents are there, in the age group of 40 yrs to 49 yrs there are 8 respondents & in the age group above 50 there are 3 respondents.

GENDER: Out of total 50 respondents there are 16 Female respondents and 34 Male respondents.

Annual Income: In the annual income group below 1 Lac there are 4 respondents, in the annual income group between 1 to 3 Lacs there are 5 respondents, there are 25 respondents in the annual income group of 3 to 6 Lacs, in the annual income group of above 6 Lacs there are 16 respondents.

AMOUNT OF ANNUAL INVESTMENT: Out of 50 respondents 29 respondents are investing below 25000, in the annual investment of 25000 to 50000 there are 9 respondents, in the annual investment of 50000 to 75000 there are 3 respondents & in the annual investment of more than 75000 there are 9 respondents.

AMOUNT_OF_INVESTMENT IN Rs	Frequency	Percent
Below 25000	29	58.0
25000-50000	9	18.0
50000-75000	3	6.0
More than 75000	9	18.0
Total	50	100.0

Response given by investors according importance of each criteria for investment.

Criteria	Not imp	Partly imp	Mostly imp	Always imp
Security	1	5	6	38
Yield	14	24	7	5
Maturity Benefit	17	23	3	7
Tax benefit	4	8	4	34
Liquidity	2	19	1	28

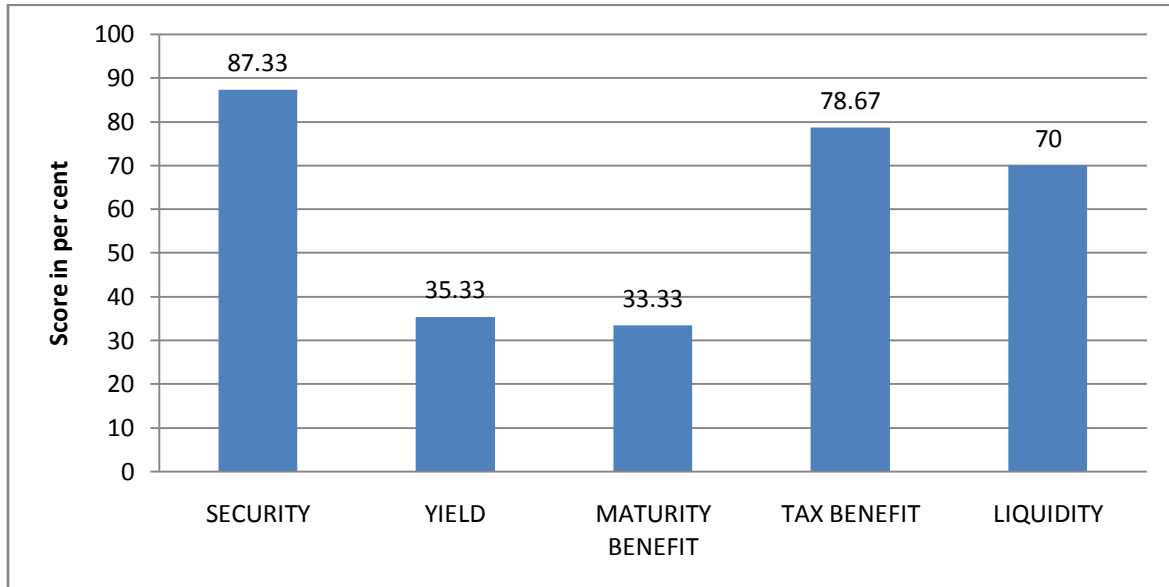
For the criteria security maximum 38 respondents are of opinion that it is always important, for the criteria Yield maximum 24 respondents are of opinion that it is partly important, for the criteria Maturity Benefit maximum 23 respondents are of the opinion that it is party important, for the criteria Tax Benefit maximum 34 respondents are of the opinion that it is always important & for the criteria Liquidity maximum 28 respondents are of the opinion that it is always important.

Responses given for preferred options of investment are presented in the following table.

Table of importance according to criteria.

	N	Mean score of importance
SECURITY	50	87.33
YIELD	50	35.33
MATURITYBENEFIT	50	33.33
TAXBENEFIT	50	78.67
LIQUIDITY	50	70.00

Out of all the 5 criteria or variables Security is preferred First by 87.33, after that Second Tax benefit is important by 78.67, after that Third Liquidity is preferred by 70.00 and lastly Yield & Maturity Benefit by 35.33 and 33.33 respectively. The same is explained with the help of the following diagram.



Response given by investors according to importance of different options available for investment.

Options	Less Preferred	Medium	Highly Preferred
Debt	7	32	11
Equity	9	6	35
Hybrid	33	13	4

Respondents gave maximum or first preference to Equity then second preference to Debt & third preference to Hybrid.

Null Hypothesis-1 There is no association between amount of investment and gender of respondent.

Alternate Hypothesis-1 There is association between amount of investment and gender of respondent.

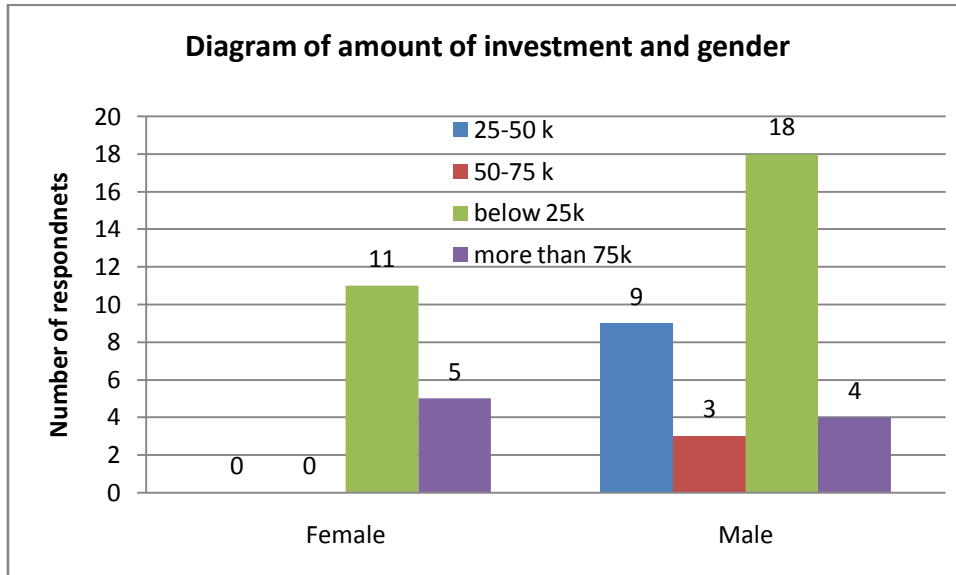
To test above null hypothesis bivariate frequency table of amount of investment and gender of respondents is obtained and presented as shown below.

GENDER * AMOUNT_OF_INVESTMENT Crosstabulation
Count

GENDER	AMOUNT_OF_INVESTMENT in Rs				Total
	Below 25000	25000-50000	50000-75000	More than 75000	
Female	11	0	0	5	16
Male	18	9	3	4	34
Total	29	9	3	9	50

Out of 16 Female respondents 11 respondents invest below 25000 & 5 respondents invest in more than 75000. Out of 34 male respondents 18 respondents invest below 25000, 9 respondents invest between 25000 to 50000, 3 respondents invest between 5000 to 75000 & 4 respondents invest in more than 75000.

Above information is presented using bar diagram as shown below.



To test null hypothesis Chi-square test is applied. Results of test arte as follows.

Chi-Square Tests

	Calculated Value	Degree of freedom	of p-value	Result
Pearson Chi-Square	8.411 ^a	3	0.038	Rejected

Above results indicate that p-value is 0.038 which is less than standard value 0.05. Therefore Chi-square test is rejected. Hence null hypothesis is rejected and alternate hypothesis is accepted. Conclusion is there is association between amount of investment and gender

FINDING of hypothesis are:

Investment below 25000 gender proportion is equal. i.e male & Female equally invest for below 25000.

For the investment 25000 to 50000 & 50000 to 75000 proportion of Male investor is more than Female investor.

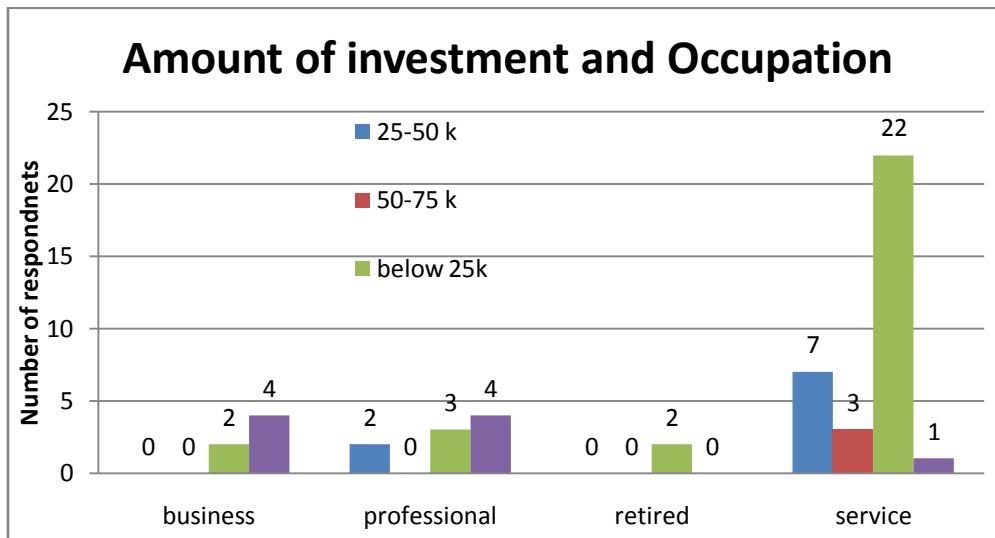
Null hypothesis-2 There is no association between amount of investment and occupation of respondent.

Alternate hypothesis-2 There is association between amount of investment and occupation of respondent.

OCCUPATION * AMOUNT_OF_INVESTMENT Crosstabulation

OCCUPATION	AMOUNT_OF_INVESTMENT				Total
	Below 25000	25000-50000	50000-75000	More than 75000	
Business	2	0	0	4	6
Professional	3	2	0	4	9
Retired	2	0	0	0	2
Service	22	7	3	1	33
Total	9	3	29	9	50

Out of 6 Business respondents 4 invest in more than 75000 & 2 Business respondents invest below 25000, Out of 9 Professionals respondents 4 invest more than 75000, 3 respondents invest below 25000 & 2 respondents invest between 25000 to 50000, Out of 2 Retired respondents both invest below 25000 & Out of 33 Service respondents 1 respondent invest more than 75000, 22 respondent invest below 25000, 7 respondents invest between 25000 to 50000 & 3 respondents invest between 50000 to 75000.



Chi-Square Tests

	Calculated Value	Degree of freedom	p-value	Result
Pearson Chi-Square	21.733 ^a	9	.010	Rejected

. Above results indicate that p-value is 0.010 which is less than standard value 0.05. Therefore Chi-square test is rejected. Hence null hypothesis is rejected and alternate hypothesis is accepted. Conclusion is there is association between amount of investment and occupation of respondent.

FINDING of hypothesis are:

For respondents of Business category amount of investment is more than 75000 is higher in proportion than expected.

Professional categories of persons are also inclined for investment more than 75000.

Investment of Service category respondent is higher for investment group below 25000.

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