

The study of Risk Perception associated with Mutual Fund as Investment Choice among first time investors

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Abstract

Investment decisions are always matter of Risk perception especially when individuals are from first time investors' category. This Risk perception associated with any of the financial investment instruments make these less viable in the market and their acceptance become a problem for the promoting organization. Thus there was a need to understand this Risk perception associated with especially Mutual Fund investment decision among first time investors. This study explored the responses from 411 first time investors from Madhya Pradesh region and analyses this for understanding the decision making of such individuals. These individuals were further categories in various demographic categories to find the significant difference among it. The study utilized the data collected with pre-determined structured questionnaire between Dec. 2020 and Feb. 2021 in Madhya Pradesh. The study concluded that the Risk perception association with mutual fund investment decision was higher in case of female investors compared to male investors. Further categorical analysis showed that the profession, education and location were important factors that has significant impact on Risk perception.

Keywords: Mutual Fund Investment Decision, Risk perception, First Time Investors.

Introduction

Investments became one of the important key area for the new entrants in the job sectors. There were sufficient theoretical literature available for Mutual Funds as Financial Investment. Most of the related theoretical constructs were defined, explored and analyzed in the Indian context. But there exists one specific category of investors who had no previous experience of investment and such investors are ready to compare all the available option for the investment. Such categories may have the very different objectives compared to other experienced investors. Such category of investors are known as First Time Investors. Mutual Funds are perhaps the most famous venture choices nowadays. A Mutual Fund is a speculation vehicle shaped when a resource the board organization or asset house pools investments from a few people and institutional financial backers with regular speculation destinations. An asset supervisor, who is a money proficient, deals with the pooled venture. The asset director buys protections, for example, stocks and bonds that are in accordance with the venture order. Mutual Funds are a great speculation choice for singular financial backers to get openness to a specialist oversaw portfolio. Financial backers would be allotted with store units dependent on the sum they contribute. Every financial backer would subsequently encounter benefits or misfortunes that are straightforwardly relative to the sum they contribute. The primary expectation of the asset director is to give ideal re-visitations of financial backers by putting resources into protections that are in a state of harmony with the asset's targets (Maheswaran, Durairaj and Brian Sternthal, 1990). The exhibition of Mutual Funds is subject to the basic resources.

Literature Review

Mutual Fund is turning into an exceptionally famous venture road among the monetary expert as they are knowing about mutual asset however because of absence of time and furthermore needs preferable return over fixed pay protections that make their tendency towards mutual asset (Levy, Alan, Sara Fein, and Marilyn Stephenson, 1993). They are leaning toward mutual funds as a superior venture alternative because of a few reasons as hazard can be limited, choosing the mutual funds by examining the previous history, exchanging office is there, can procure better return in least speculation and furthermore advantageous to deal with (Salop, Steven, 1977). In any case, despite these offices there are sure factors which make them not fulfilled?Pundits of financial assistance firms contend that they keep the expense of contributing low while charging clients excessive expenses (Benartzi, Schlomo and Richard Thaler, 2001.). In an investigation of the S&P 500 list store market, researcher found that while normal charges rose, the piece of the

overall industry of the most efficient fund fell (Bettman, James and Pradeep Kakkar, 1977.). As per the managers, the lowest cost S&P 500 record store has costs of roughly 9.5 premise focuses, while the greatest expense store has charges of 268 premise focuses (Thaler, Richard and Cass Sunstein, 200.; Capon, Noel and Marion Burke, 1980.). People putting resources into the lower expense asset would have twofold the retirement pay versus the more costly asset (DeBondt, W. and R.H. Thaler, 1985). Financial backers, pundits contend, do not have the information to separate among high-and ease venture items (Morris and Ronald Klimberg, 1985). Accordingly, the motivation behind this exploration is to investigate the impacts of remarkable outline data about a shared asset on financial backer discernments and asset assessments (Russo, J. Edward, and Metcalf, 1986.). Plainly, this issue has significant public arrangement suggestions. The powerlessness of financial backers to make shrewd speculation choices may adversely affect their nature of life in retirement and improve the probability of their reliance on government help programs (Chaiken, Shell, 1980).

Investment is a pledge to putting reserves or different fund for a specific timeframe in the expectation of acquiring benefits later on. Contribute ments are identified with putting fund in different al-ternative of resources, both genuine resources and monetary resources (Bodie, Kane, and Marcus, 2018). The type of genuine resources that can be utilized as the motivation behind position of fund are land, structures, apparatus, and even products like gold. The type of interest in monetary resources are financial balances (reserve funds and stores), securities, mutualfund, and offers. On account of Indonesia, the most favored monetary resource venture is the situation of fund in the ledger, which is 63.6 percent in 2016 (Finanial Service Authority). This figure is far high-er than interest in the capital market as offers, mutualfund, and securities, which are 1.2 percent, 0.2 percent and 0.1 percent individually, and gold which is 0.5 percent for that very year. Practically a wide range of investments have uncer-tainty or hazard. There is a positive relationship between the degree of anticipated return and hazard. At the point when somebody anticipates an undeniable degree of return, he should bear a significant degree of bring vulnerability back. Bank arrangements as reserve funds and deposite-it's are moderately protected speculations since almost certainly, the bank can't give revenue or prof-it sharing as guaranteed just as chief reimburse ment, and if the bank fails the Deposit Insurance Corporation will bear the discount for de-places up to Rp.2 billion. Interest in stocks is a type of venture that has the most elevated danger yet additionally gives the most significant level of anticipated return (Keller and Siegrist, 2006). Interests in bonds and land have medium danger dependent on the standard deviation of profit from venture (Eichholtz, 1996).

Risk perception is a piece of intellectual predisposition. The higher the inclination in an individual's conduct, the lower the individual's impression of hazard (Simon et al., 2000).

Per-ception of hazard assumes a significant part in human conduct, particularly identified with dynamic in questionable conditions (Forlani and Mullins, 2000). Somebody will in general characterize a circumstance to be dangerous in the event that he encounters a misfortune because of a terrible choice made, es-pecially if the misfortune affects its monetary condition. Hence, Risk perception is an individual's judgment on a hazardous condition that is profoundly de-swinging on the mental attributes and state of the individual (Wulandari and Iramani, 2014). View of hazard impacts speculation deci-sions (Antonides and Van Der Sar, 1990; Hoffmann, Post, and Pennings, 2015; Nguyen, Gallery, and Newton, 2016; Weber, Siebenmorgen, and Weber, 2005). The higher an individual's view of hazard, the more the individual try not to allot fund to high-chance resources and incline toward okay resources (Hariharan, Chapman, and Domian, 2000). Financial backers with a lower hazard insight will in general decide to put resources into high-hazard stocks, contrasted with stores with okay (Aren and Zengin, 2016; Keller and Siegrist, 2006).

Design and Methodology

Descriptive research design was considered and the required methodology was adopted for the study. The population was considered as all the first time investors for the mutual fund investment. Thus any individual who made the first time mutual fund decision was considered as the population for the study. These population were then again classified in five broad categories on the basis of the gender, occupation, location, education and age. The sampling technique was non probability sampling methods as the complete list of population was not available for mass to access and the nature of the research was suitable for non-probability sampling. This study was dedicated to the investors in Madhya Pradesh state of India and the responses were collected from most of the big cities of Madhya Pradesh. These responses from the samples were collected during a period of 3 months from Dec. 2020 to Feb. 2021. The predefined structured questionnaire was used for the study. The reliability was assured before collecting the final responses for the study. In total 483 samples were contacted and finally research managed to collect 411 completely filled responses. This the total sample size for this study was 411 which were divided in five different groups. There were 51% of respondents of below 30 years and rest above 30 years. They were from 11 cities of Madhya Pradesh. There were 46% female compared to 54% male in the study. The reliability was found to be 0.910 for the 7 item scale used for measuring the Risk Perception of customers of mutual fund.

Reliability Statistics	
Cronbach's Alpha	N of Items
.910	15

Result and Discussion

The data was collected on a 7 point scale with 4 as a central point. The overall data was collected from 411 respondents which were further categories in to five groups. These categories were used to find the general difference in risk perception associate with mutual fund investment decision and then after to find out the significant difference, if any, for satisfaction. The descriptive statistics with mean and standard deviation along with range was calculated to understand the trends in overall responses.

Descriptive Statistics							
	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
P1	411	5.2579	1.41823	-.437	.120	-1.200	.240
P2	411	5.1679	1.34474	-.339	.120	-1.132	.240
P3	411	5.2141	1.35355	-.287	.120	-1.167	.240
P4	411	5.2579	1.39918	-.440	.120	-1.150	.240
P5	411	5.2628	1.34130	-.415	.120	-1.058	.240
P6	411	5.3990	1.35661	-.480	.120	-1.001	.240
P7	411	5.2238	1.36811	-.346	.120	-1.137	.240
Valid N (listwise)	411						

This paper calculated the risk perception score based on 7 point scale and then after the relation with five demographic variables were tested with independent sample t-test with 95% level of confidence and 5% level of significance. The calculated sig value for all the cases except education was more than the level of significance 0.05. Thus the study concluded that there was no significant impact of Gender, Age, Occupation and Location on the risk perception. The calculated sig value for education was less than the level of significance 0.05. Thus the study concluded that there was significant impact of education on the risk perception.

Independent t-test	F	Sig.	t	df	Sig. (2-tailed)
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Age	.924	.337	.125	409	.901
Gender	.006	.940	-1.511	409	.132
Education	1.456	.228	2.102	409	.036
Occupation	.256	.613	-.365	409	.716
Location	.073	.787	-.178	409	.859

Conclusion

Risk Perception is an innate element of a wide range of monetary speculations. The idea 'Risk Perception' signifies the manner by which financial backers see the risk of monetary resources, in light of their interests and experience. The Risk Perception of financial backers is a significant factor that impacts the venture conduct. In the current paper, effect of five demographic variables on Risk Perception was analyzed in view of the respondents in Madhya Pradesh and those were first time investors and their speculation conduct in mutual funds dissected.

It is tracked down that general degree of risk impression of first time investors towards mutual funds was of moderate level. It is likewise discovered that risk insight and volume of interest in mutual funds were conversely related. It is closed from the above finding that risk perception was dependent on first time investors' educational background. Rest all the other variables were found to be non-significant. These demographic variables were narrowly differentiated into two categories only. Future researchers may explore the wide categories of such demographic variables to explore their impact on Risk Perception towards Mutual Funds.

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Annexure

Group Statistics

	Gender	N	Mean	Std. Deviation	Std. Error Mean
Risk Perception Score	Female	190	5.1962	.74416	.05399
	Male	221	5.3051	.71441	.04806

Independent Samples Test

	Levene's Test for Equality of Variances	t-test for Equality of Means
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	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Risk Perception Score	.006	.940	-	409	.132	-.10887	.07205	-	.03278
Equal variances assumed			1.511					.25051	
Risk Perception Score	.006	.940	-	394.431	.133	-.10887	.07228	-	.03323
Equal variances not assumed			1.506					.25096	

Group Statistics

	Age	N	Mean	Std. Deviation	Std. Error Mean
Risk Perception Score	Below 30 Years	210	5.2592	.75669	.05222
	Above 30 Years	201	5.2502	.70172	.04950

Independent Samples Test

	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Risk Perception Score	.924	.337	.125	409	.901	.00901	.07207	-	.15067
Equal variances assumed			-.13266						
Risk Perception Score	.924	.337	.125	408.595	.900	.00901	.07195	-	.15044
Equal variances not assumed			-.13243						

Group Statistics

	Occupation	N	Mean	Std. Deviation	Std. Error Mean
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Risk Perception Score	Technical	213	5.2421	.73626	.05045
	Non Technical	198	5.2684	.72366	.05143

Independent Samples Test

	Levene's Test for Equality of Variances		t-test for Equality of Means							
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference		
								Lower	Upper	
Risk Perception Score	Equal variances assumed	.256	.613	-.365	409	.716	-.02628	.07209	-.16798	.11543
	Equal variances not assumed			-.365	407.723	.715	-.02628	.07204	-.16790	.11534

Group Statistics

	Education	N	Mean	Std. Deviation	Std. Error Mean
Risk Perception Score	UG and Above	200	5.3321	.73891	.05225
	Upto 12th	211	5.1814	.71439	.04918

Independent Samples Test

	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper

Risk Perception Score	Equal variances assumed	1.456	.228	2.102	409	.036	.15069	.07169	.00977	.29162
	Equal variances not assumed			2.100	405.902	.036	.15069	.07175	.00964	.29175

Group Statistics

	Location	N	Mean	Std. Deviation	Std. Error Mean
Risk Perception Score	Big City	216	5.2487	.73009	.04968
	Small City	195	5.2615	.73055	.05232

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Risk Perception Score	Equal variances assumed	.073	.787	-.178	409	.859	-.01286	.07214	-.15468	.12895
	Equal variances not assumed			-.178	404.689	.859	-.01286	.07214	-.15468	.12896