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RISK PERCEPTION OF MUTUAL FUND INVESTORS IN KERALA - AN EMPIRICAL ANALYSIS

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ABSTRACT

The risk is the important feature of all financial assets. Risk perception is the subjective judgment about the characteristics and severity of a risk. It is one of the important factors which influence the investment behavior of investors. In this study, the impact of risk perception of mutual fund investors in Kerala on their investment decision is carried out. The study found that there exists a positive relationship between the risk perception and investment decisions in MF. So Asset Management Companies must consider the risk perception of investor while launching a new product.

KEYWORDS: *Risk Perception, Investment Behavior, Investment Decision, Asset Management Companies*

Article History

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INTRODUCTION

Mutual funds play an important role in the development of the capital market and this has been proved in the developed countries like United States, United Kingdom and Japan. The mutual funds in India have emerged as strong financial intermediaries and are playing a significant role in bringing stability and liquidity to the financial system and efficient allocation of resources. A 'Mutual Fund' is an investment vehicle for investors who pool their savings for investing in a diversified portfolio of securities with the aim of attractive yield and appreciation in their value. Securities and Exchange Board of India (Mutual Funds) Regulations,1996 define 'mutual funds' as" a fund established in the form of a trust to raise monies through the sale of units to the public or sections of the public under one or more schemes for investing in securities, including money market instruments". Through the mutual fund investment, even small investors can reap the benefit of the security market.

There are different factors which influence the investment behavior of mutual fund investors like their awareness level, perception towards the mutual fund, risk tolerance etc. Risk perception is one of the important traits which influences the investment in mutual funds (Weber and Milliman, 1997). The concept 'risk perception' means the way in which investors view the risk of financial instruments, based on their interests and experience. Rational or irrational beliefs held by an individual, group or society about the chance of occurrence, magnitude and its timing effects.

In general, investment decision can be defined as the determination made by individual investors' as to how, when, where and how much amount will be invested in various financial instruments/assets with the objective of maximum return with minimum risk. In the present study, investment decision can be defined as the amount of investments in mutual funds. Previous literature on behavioral finance found that decision-making behavior of an investor is affected by their attitude towards risk. Investors are highly heterogeneous and their risk perception also very different. Investors take risk according to their expectation and interpretation which eventually influence their investment behavior. The present study was made an attempt to study the effect of risk perception of mutual fund investors on their investment decisions.

OBJECTIVES OF THE STUDY

- To find out the risk tolerance level of mutual fund investors in Kerala
- To understand the influence of risk perception on the investment decisions of mutual fund investors in Kerala

HYPOTHESIS

Ho: There does not exist a positive relationship between risk perception of mutual fund investors and their investment decisions

RESEARCH METHODOLOGY

The research design of the study is a descriptive one based on both primary and secondary data. Primary data has been collected from the mutual fund investors in Kerala. Purposive sampling technique was applied for choosing the sample respondent. The total sample of the study consists of 150 mutual fund investors in Kerala. The state of Kerala was divided into three zones and one district is chosen from each zona. The selected districts are Thiruvananthapuram, Ernakulam and Kozhikode.50 mutual fund investors each from these three districts were selected. In the present study, the reliability of the scale of measurement was assessed by using Cronbach Alpha coefficient, which was above the minimum acceptable level, 0.798 and hence the reliability of the scale was obtained. The data is analyzed with the help of Microsoft Excel and SPSS. The statistical tools such as percentage, mean score, standard deviation, Co-efficient of Variation, and Simple Regression Analysis are used to draw an inference from the data.

RESULTS AND DISCUSSIONS

The results of the study are discussed under the following subheads based on the objectives of the study.

Demographic Profile of Respondents

The following table represents the demographic profile of the respondents.80 percent of the respondents are males and only 20 percent are females. Most of the respondents coming under the age group of 40-50.Among the respondents, 40 percent respondents are graduates.

Table 1: Demographic Profile of Respondent

Demographic Profile		Frequency	Percentage
Region	North	50	33.3
	Central	50	33.3
	South	50	33.3
Gender	Male	120	80.0
	Female	30	20.0
Age	Below 30	31	20.7
	30-40	38	25.3
	40-50	42	28.0
	50 and above	39	26.0
Education	SSLC	6	4.0
	Higher secondary	34	22.7
	Graduate	61	40.7
	Postgraduate	26	17.3
	Professional	23	15.3
Monthly income	10001-20000	49	32.7
	20001-30000	60	40.0
	30001-40000	23	15.3
	40001-50000	8	5.3
	Above 50001	10	6.7

Source: Survey Data

Table 2: Investments in Mutual Fund

Investment in Mutual Fund (Percent to Total Amount of Investments)	Frequency	Percent
25% and less than 25%	12	8.0
26%-50%	118	78.7
more than 51%	20	13.3
Total	**150**	**100.0**

Source: Survey Data

From Table 2, it is clear that, out of the 150 investors, 8 percent respondents are investing less than 25 percent of their total investments in mutual fund, 78.7 percent of the respondents are investing 26-50 per cent per cent of their total investments in mutual fund and 13.3 percent is investing more than 51 percent of their total financial investments in mutual funds. So, the majority of the respondents 138 (92 percent) are investing more than 25 percent of their total investments in mutual funds.

Risk Tolerance of Investors

Risk tolerance means the degree of uncertainty that an investor can handle with regard to a negative change in the value of his or her portfolio. An investor risk tolerance varies according to age, income level, financial goals etc. John. E.Grable (1997) in his study classified the risk tolerance level of individual investors into three categories namely low, medium and high.

Table 3: Risk Tolerance of Investors

Nature of Risk Bearing	Frequency	Percent
Risk bearer	38	25.3
Moderate risk bearer	85	56.7
Risk-averse	27	18.0
Total	150	100.0

Source: Survey Data

The table 3 reveals that, out of 150 investors,85 (56.7 percent) have moderate risk take capacity in the investments of mutual fund and 25.3 percent of respondent have the risk-bearing capacity to mutual funds. Out of 150 investors, 18 percent have risk-averse nature to mutual fund.

Risk Perception of Mutual Fund Investors

In order to measure the risk perception of mutual fund investors, seven statements were developed and the opinions of the respondents were measured on a five-point rating scale. The statements are 'fluctuations in the capital market affects the mutual fund investments';' a diversified investment portfolio reduces the risk'; 'investment's return/yield is higher, the greater is its risk'; 'I generally look for the safest type of investments, even if that means lower return'; 'iam very cautious and avoid all risky investments'; I have previously owned a higher risk investments and found to be a bad experience'; 'I associated the word risk with the idea of opportunity'. The following table exhibits the result.

Table 4: Risk Perception of Mutual Fund Investors

Risk Perception	Mean	S.D	Rank
A diversified investment portfolio reduces the risk	4.0533	.66339	1
Investment's return/yield is higher, the greater is its risk	3.7200	.65661	2
I associated the word risk with the idea of opportunity	3.5667	.88550	3
fluctuations in the capital market affects the mutual fund investments	3.2200	.83441	4
I have previously owned higher risk investments and found to be a bad experience	3.0533	.67343	5
I am very cautious and avoid all risky investments'	3.0400	.71306	6
I generally look for the safest type of investments, even if that means lower return'	2.9000	.68297	7

Source: Survey Data

It is observed from the table 4 is that a diversified investment portfolio reduces the risk is ranked first with a mean value of 4.05 followed by investment's return/yield is higher, the greater the risk(mean score 3.72).The investors disagreed that they generally look for the safest type of investments, even if that means lower return(mean score 2.90).

Risk Perception of Mutual Fund Investors on Their Investment Decision in MF

In order to understand the influence of risk perception of mutual fund investors on their investment decisions in mutual fund, seven statements are developed and investors were asked to rate their opinion on a five-point Likert scale of agreement. Cronbach alpha coefficient was used to measure the reliability of the scale. Cronbach alpha coefficient was 0.798 which was above of required 0.70. The investors were asked to rate their opinion on five points Likert scale. The score 5 for strongly agree, 4 is for agree, 3 for neutral and 2 for disagree and 1 for strongly disagree. Based on the opinion, mean scores and standard deviation were calculated. Then the total score for risk perception was calculated by adding the mean scores of seven statements. Simple regression was used to understand the influence of risk perception of investors on their investment decisions. Table 5 depicts the result.

Table 5: Risk Perception of Mutual Fund Investors on Their Investment Decision in MF-Regression Analysis

Independent Variable	Coefficients		Standardized Coefficients	t	Sig.
	B	Std error			
Risk perception of investors	3.98	.142	.917	27.972**	.000
Adjusted R^2=0.840					

** Significant at 0.01 levels

From the regression analysis (table 5), it is clear that the investment decisions of investors are much influenced by their risk perception at 1 percent level of significance. The standardized regression coefficient is 0.917 and adjusted R^2 is 0.840.The significant value is 0.000 and it is less than 0.01 and we reject the null hypothesis. Hence we can conclude that there is a positive relationship between investors' risk perception on their investment decisions in mutual funds.

CONCLUSIONS

Mutual fund provides diversification between different sectors and different schemes. Mutual funds employ a number of different methods to reduce the overall investing risk. This diversification concedes the investors to reduce the risk of one particular stock or sector. The investors are more aware about the concept of' higher the return, higher the risk' and diversified portfolio can reduce the risk. In order to achieve the financial goal of investors, a combination of assets should be held in their portfolio. The study found that there exists a positive relationship between the risk perception and investment decisions in MF. So Asset Management Companies must consider the risk perception of investor while launching a new product.

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