

## A Study of Customers' Preference towards Investment in Equity Shares and Mutual Funds

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**Abstract:** Investment is the employment of funds on assets with the aim of earning income or capital appreciation. In the past, investment avenues were limited to real estates, schemes of the post office and banks. At present, a wide variety of investment avenues are open to the investors to suit their needs and nature. The required level of return and the risk tolerance level decide the choice of the investor. It is necessary to know that investor prefer which particular investment instrument and why? The main purpose of this research paper is to find Investors' preference for various investment alternatives particularly shares and mutual funds.

**Keywords-** Investment, Return, Risk, Earning, Assets

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### I. Introduction

Investing in various types of assets is an interesting activity that attracts people from all walks of life irrespective of their occupation, economic status, education and family background. When a person has more money than he requires for current consumption, he would be coined as a potential investor. The investor who is having extra cash could invest it in securities or in any other assets like gold or real estate or could simply deposit it in his bank account. The companies that have extra income may like to invest their money in the extension of the existing firm or undertake new venture. All of these activities in a broader sense mean investment.

The investment alternatives range from financial securities to traditional non-security investments. The financial securities may be negotiable or non-negotiable. The negotiable securities are those financial securities which are transferable. The negotiable securities may yield variable income or fixed income. Securities like equity shares are variable income securities. Bonds, debentures, Indra Vikas Patras, Kisan Vikas Patras (KVP), Government securities and money market securities yield a fixed income. The non-negotiable financial investment, as the name suggests, is not transferable. This is also known as non-securitized financial investments. Deposit schemes offered by the post offices, banks, companies, and non-banking financial companies are of this category. The tax-sheltered schemes such as public provident fund, national savings certificate and national savings scheme are also non-securitized financial investments. Mutual fund is another investment alternative. Within a short span of time several financial institutions and banks have floated varieties of mutual funds. The investors with limited funds can invest in the mutual funds and can have the benefits of the stock market and money market investments as specified by the particular fund. Real assets like gold, silver, arts, property and antiques always find a place in the portfolio.

The advent of mutual funds in India can be traced back to the year 1964 when unit trust of India was incorporated as Statuary Corporation however; the UTI's monopoly came to an end in 1987, when government amended the banking regulation Act to permit commercial banks in the public sector to set up mutual funds. The SBI was the first bank to promote a mutual fund called 'SBI Mutual Fund' in July 1987. The government permitted insurance corporations in the public sector to join the mutual fund. (Bhatia B.S.& Batra G.S.1997)

After a quiet beginning in 1964, the mutual fund industry remained dormant till 1987 because it was monopolized by one institution The Unit Trust of India. However, after the entry of public sector commercial banks and two insurance corporations-Life Insurance Corporation and General Insurance Corporation, the mutual fund as a financial investment gained in popularity, As such the mutual fund industry appeared poised for a phenomenal growth. However at this juncture, the shocking revelation of the 1992 securities scam shook investor confidence and

forced SEBI to put all the forth coming schemes of mutual funds on hold. Unexpectedly the scam did not dissuade the Government from throwing open this industry to the private sector.

Share is an ownership unit in corporation .The main features of common or preferred stock is their liquidity and growth potential. Shares of stock can increase in value as a positive contribution to the wealth building process but can also be sold quickly if rupees are needed. This liquidity feature is usually true of only publicly traced companies (i.e., those companies whose shares are held by many thousand or hundreds of thousands of shareholders).These shares are typically bought and scold each day. (Gable Ronald C.1983) In the above context it is the need of hour to study investors' preference towards investment in shares and mutual funds

## II. Review of Literature

Indian economy has shown a notable progress in the past few years. The performance of all the sectors of economy such as agriculture, industry and services shows that our economy is as strong as that of the developed countries. The study of investors' Preference for various stock market services is based on long term experience in Indian market in dealing with shares and mutual funds. Most of the investors are satisfied with the quality of services provided if taken necessary and appropriate action according to its rules and regulations (Manju G. 2012). In our system it is the household savings, which are predominant part of the gross national savings. So, unless small investors' hard earned money is invested with certain amount of confidence, in equity and bond market directly or through intermediaries, we can't expect to have a well developed financial market.(Srivastava Vinay K,2011)

Investment has two attributes namely time and risk. Present consumption is sacrificed to get a return in future. The sacrifice that has to be born is certain but the return in the future may be uncertain. This attribute of investment indicate the risk factor. The risk is undertaken with a view to reap some return from the investment. The main investment objective is increasing the rate of return and reducing risk. At present, a wide variety of investment avenues are open to the investors to suit their need and nature. The required level of return and risk tolerance level decide the choice of investor. (Goal and Jain 2010)

The investment alternatives are negotiable securities like equity share, KVP, Non- negotiable securities like deposit schemes in Bank and Post office, Mutual fund, the Real assets like gold, Real Estate, Art, Antiques, schemes of LIC etc. The investors with limited funds can invest in mutual fund and can have the benefit of the stock market and money market investment as specified by the particular fund.

There has been a significant expansion of the Indian financial sector in terms of scope and content during the last decade. A well developed financial infrastructure, a number of financial institutions and a variety of financial instruments have been promoted to cater to the needs of increasing savings and expanding the capital market in India. (Ravi Shanker2002) Mutual funds are either open ended or close ended financial intermediaries (trusts) which obtain their resources by selling units and whose liabilities, in nature, are formally almost identical with their assets. The RBI and the government have issued detailed guidelines for an orderly and healthy development of MFs in India. (Bhole, 1997)

## III. Objectives of The Study

The major objectives of this research paper are:

1. To know the investors' preference towards various investment alternatives
2. To know Customers preference towards investment between shares and mutual fund.
3. To find out most important attribute for investment consideration
4. To find out objectives of investment.

## IV. Hypotheses

The hypotheses framed for the study are as follows:

1. Investors give equal preference to shares and mutual funds
2. Investors give equal importance to return, risk and liquidity attributes for investment considerations.

3. There is no significant difference among investors for opting saving, availing tax benefit and Wealth maximization as main objectives of investment.
4. Investors give equal importance to all investment alternatives, available for them.

## V. Research Methodology

The word methodology is the combination of two words ‘method’ which implies a particular way of doing something plus ‘logos’ the Latin word which implies ‘study’. Thus methodology implies ‘ a systematic way of studying something.’ (Sarangi Prasad 2010) The research method include all those methods and techniques that are used for conducting research .

### Research Design

Descriptive Research Design has been used , which clearly indicates that the study is all about a certain characteristic of individuals (investors) towards investment.

### Sample Design

A sample design is a definite plan for obtaining a sample from a given population. Sample design consists of a number of items such as, Sampling technique, Size of the sample, , sampling unit, sampling area.

**Sampling Technique** - Simple random sampling

**Sample Size**- Sample size of 100 has been undertaken in this research.

**Sampling Area**- Agra

**Sampling Unit**- Individuals indulging investment in mutual funds and/or equity shares with different backgrounds have been selected.

### Sources of data

The study is based on primary and secondary data. Primary Data for this research work has been collected through Structured, Multiple-choice Questionnaire containing mostly Closed-ended Questions. Secondary data for this study has been collected through books, magazines, journals and the internet.

**Statistical tools** The statistical tools used for the purpose of analysis of this study are z-test ,  $\chi^2$  test, percentage analysis and ranking method .

### Limitations of the study

1. There might be errors in the expression of opinion of respondents due to there personal bias.
2. The study was restricted to urban areas in Agra City.
3. Due to Time constraints sample size was restricted to 100.

## VI. Analysis And Interpretation

### Customer Demographic Profile

Demography refers to the vital and measurable statistics of a population .Demographic characteristics, such as age , sex ,income, education and occupation are most used as the basis for market segmentation. A consumer’s purchase decisions are also affected by his demographic characteristics. The demographic characteristics of sample are given in the following table:

**Table 1: Sample Demographic Characteristics**

Demographic Characteristics	N	%	Demographic Characteristics	N	%
<b>AGE</b>			<b>QUALIFICATION</b>		
Up to 30	6	6	UG	40	40
31-45	50	50	PG	60	60

46-60	36	36	Total	100	100
Above 60	8	8	<b>GENDER</b>		
Total	100	100	Male	86	86
<b>OCCUPATION</b>			Female	14	14
Govt. sector	46	46	Total	100	100
Pvt. sector	20	20	<b>INCOME</b>		
Business	24	24	Below 2 lac	14	14
Others	10	10	2-5 lac	50	50
Total	100	100	Above 5 lac	36	36
			total	100	100

N means number of responses

**Table 2 Preference between Equity shares and mutual funds**

Investment Instrument	No. of Respondents	Percentage
Equity Share	40	40
Mutual Fund	60	60
Total	100	100

Let us take the Null hypothesis  $H_0$ : Investors give equal preference to equity shares and mutual fund

Applying the z statistics:

$$Z = \frac{\text{Sample estimate-Expected value}}{\text{Standard error of estimate}} = \frac{x-np}{npq}$$

After using z – test the calculated value of z is 2 i.e.  $z = 2$

Since  $z_{cal} = 2$  is more than its critical value  $z_{\alpha/2} = 1.96$  at  $\alpha/2 = .025$  significance level, the null hypothesis  $H_0$  is rejected. Hence we conclude that investors do not give equal importance to equity share and mutual fund. Table 2 reveals that respondents prefer mutual funds as compared to equity shares.

**Table 3: Important attributes for Investment considerations**

Attribute	No. of respondents	Percentage (O-Observed values)
Return	60	60
Risk	14	14
Liquidity	26	26
Total	100	100

Applying Chi square test

$$\chi^2 = \frac{\sum(O - E)^2}{E}$$

Where O = an observed frequency in a particular category

E = an expected frequency in a particular category

$E = 100/3 = 33.33$  in each case, O = 60, 14 and 26 (from the table 3)

Chi Square tabulated at degree of freedom 2 and 5% level of significance = 5.99

$$\chi^2_{calculated} = 34.16$$

$$\chi^2_{cal} > \chi^2_{critical}$$

Since calculated value of  $\chi^2$  is > its critical or tabulated value, the null hypothesis is rejected. Hence alternate hypothesis  $H_1$  is true i.e.; Investors do not give equal preference to return, risk and Liquidity attributes for investment consideration.

**Table 4: Objective of investment - Ranking**

Objectives	No. of respondents Rank 1	No. of respondents Rank 2	No. of respondents Rank 3	Weighted Ranking (O i.e. Observed value)
Savings	22	18	10	112
Tax Benefit	06	20	24	82
Wealth maximization	23	10	17	106

Applying  $\chi^2$  test

E= 300/3= 100 in each case,

O= 112,82 and 106 (from the table 4)

Chi Square tabulated at degree of freedom 2 and 5% level of significance =5.99

$\chi^2$  calculated = 5.04

$\chi^2_{cal} < \chi^2_{critical}$

Since calculated value is < its critical or tabulated value, the null hypothesis is accepted. Which means there is no significant difference for opting saving, availing tax benefit and Wealth maximization as main objectives of investment by investors,

**Table 5 Preference for Various kinds of Investments Ranking(1 for highest)**

Investment alternatives	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5	Weighted ranking (O i.e. Observed value)
EquityShares	4	3	9	7	2	74
MutualFund	12	2	3	4	5	90
Insurance	2	3	6	12	15	79
PPF	6	12	6	5	6	<b>112</b>
Post office- NSC,KVP	1	4	3	7	8	52
FDR	5	9	7	7	5	101
Gold	9	8	11	3	1	<b>117</b>
Real estate	13	8	5	5	9	<b>131</b>

Applying  $\chi^2$  test

E= 756/8= 94.5 in each case, O= 74,90,79,112,52,101,117,131 (As per table 5 )

$\chi^2$  tabulated at degree of freedom 7 and 5% level of significance = 14.1

$\chi^2$  calculated = 49.46

$\chi^2_{cal} > \chi^2_{critical}$

Since calculated value is > its critical or tabulated value, the null hypothesis is rejected. It means Investors do not give equal preference/importance to various investment alternatives available for them.

## VII. Findings

- It is found that the most important attribute for investment consideration is return. Next important criteria for investment is Liquidity.

- This study revealed that 60 % of respondents prefer mutual fund as compare to equity shares
- It is found that 50% of the respondents have an annual income between 2-5 lacs.
- It is found that 50% of respondents in the sample lie in the age group 31-45.
- This study revealed that among various kinds of investments, top 5 investment alternatives from investor's point of view are Real estate, Gold, PPF, FDR and mutual funds. It is found that NSC, KVP etc. was least preferred investment instruments.
- As far as objective of investment is concerned, we found that savings and wealth maximization is more important as compared to availing tax benefit. The weighted ranking is highest i.e.; 112 for savings followed by 106 for wealth maximization

### VIII. Conclusion

This study revealed that real estate and gold are most preferred investment alternatives among various investment alternatives. Respondents are not much inclined towards post office investments; NSC, KVP etc. Lock in period works negatively for investors because premature withdrawal is not allowed. The investors cannot get the money during emergency situations. Investors prefer liquidity and return as an important criteria for investment consideration. Hence mutual fund and equity share are also considered as good investment alternatives.

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