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# Factors Affecting Investment Choices in Mutual Fund Schemes In Odisha

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***Abstract:***
*The act of making an investment decision involves the thoughtful assessment by investors as they choose to engage in a specific investment opportunity. It operates as a guiding principle, leading them through the complex array of investment prospects, all fueled by the overarching goal of fostering their economic security and plotting a course towards a more thriving tomorrow. In the present-day competitive marketplace, investors are presented with a wide array of investment alternatives. Among these, mutual funds stand out as a suitable choice for the average person due to their managed diversification and reasonable fees. A mutual fund pools capital from multiple investors to purchase a diverse portfolio of securities. With this backdrop, this study aims to comprehend investment behavior in Odisha and factors influencing mutual fund choices by using Discriminant analysis. Primary data has been collected from 770 respondents through a structured questionnaire using convenience sampling. The study reveals three significant factors—tax benefits, return, and risk—influencing investment decisions regarding mutual funds.*
***Key Words:***
*Mutual Fund, Investment, Odisha*

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## I. INTRODUCTION

Mutual funds are widely regarded as favorable investment options due to their capacity to enable investors to diversify their savings at a reasonable cost (Meena & Sankar, 2020). Moreover, they offer the advantage of accommodating even modest sums of money for investment. The financial resources contributed by investors are strategically allocated across various asset classes, aligning with the mutual fund's established policies and objectives. These investment goals are formulated based on the decisions of the investors who contribute funds, and it is imperative to note that the fund manager must adhere to the stipulated objectives without deviation. Thus, mutual funds have emerged as a modern investment option within the Indian financial market, providing investors with the opportunity to commit smaller sums of money. Consequently, this sector is experiencing swift expansion, bolstering the assets held by different mutual fund enterprises. In contrast to direct involvement in the stock market, investing in mutual funds entails lower levels of risk (Prabhu, 2015). The increasing prevalence of mutual fund investments in the financial markets is contributing to their intricacy. This expansion offers investors a wide array of financial products to craft a forward-thinking portfolio that aligns seamlessly with their investment goals. As a result, it becomes imperative to deeply grasp the viewpoints and anticipations of investors in relation to mutual funds (Vyas, 2012). Innovative approaches have been developed to launch mutual fund investment schemes with intrinsic value capable of enticing a significant pool of investors. The industry is actively focused on rectifying deficiencies across different aspects of the mutual fund sector and identifying the elements that attract investors. Furthermore, the roles of financial advisors and brokers are being redefined to adeptly address the inherent challenges within the Indian mutual fund industry (Muthukrishnan, 2016).

Mutual funds offer instant diversification by pooling funds from multiple investors, reducing risk exposure. These funds are professionally managed by experienced fund managers, enhancing the likelihood of favorable investment outcomes. Mutual funds are also affordable, enabling entry with relatively small amounts of money. Some mutual funds in India offer tax benefits, making them a strategic option for tax planning. Additionally, mutual funds simplify portfolio management, freeing investors from active monitoring and decision-making. With a variety of investment options, investors can choose funds that align with their risk tolerance and financial goals. Mutual fund investment in India encompasses a dynamic interplay of multifaceted factors that combine to shape investor decisions and define portfolio performance. The study thus focuses on gaining insight into the investment patterns exhibited by the people of Odisha. Furthermore, the research seeks to investigate the determinants impacting the investment behavior of people in Odisha, specifically in the context of mutual funds.

## II. REVIEW OF LITERATURES

Sharma (2019) conducted a study to understand investors' perspectives on mutual funds as an avenue for investment. The outcomes elucidated that pivotal determinants affecting the purchasing inclinations of mutual fund investors encompassed fund attributes, credibility, convenience, success factors, and the reputation of the fund. Radhnamani (2013) and Pandey and Kishore (2013) investigated into comprehending the attitudes, awareness, and preferences of mutual fund investors. The majority of participants exhibited a preference for systematic investment plans, with banks and financial advisors serving as their primary sources of information. The primary attractions of mutual funds for these investors included professional fund management and the prospect of superior returns. Sharma and Agrawal (2015) conducted an investigation into the factors influencing investors' preferences when considering mutual fund investments. Its primary findings highlighted that the key determinants guiding purchasing behavior included capital appreciation, brand reputation, prompt service, and transparency. Notably, past performance is explored by Bogle (1992), Ramasamy and Young (2003), Singh and Chander (2004), and Wilcox (2003) as the important factor of investment decision in mutual fund. Fund size emerged as a significant factor in studies conducted by Pollet and Wilson (2008) and Ramasamy and Young (2003). Investor-specific elements, including risk appetite (Singh & Rao, 2021) and investment horizon (Dasgupta & Gupta, 2021), also guide fund selection. Moreover, the fund manager's track record and expertise are pivotal factors influencing investor confidence and fund outcomes (Pant & Dhankar, 2018). These multifaceted dynamics collectively shape the intricate landscape of mutual fund investment in India. Numerous scholars assert that investors opt for mutual funds due to the potential for elevated returns coupled with reduced risk. This characteristic of mutual funds garners significant interest across various societal strata. Tax benefits, returns, pricing, and capital appreciation constitute the predominant determinants shaping the investment choices of retail investors in Mutual funds (Meena & Sankar, 2020). An investment decision signifies the determination made by an investor regarding where, how, and when to allocate resources to mutual funds and other financial instruments, aiming to generate income. Hence, the investment decision is the discernment exercised by individual investors to engage in mutual fund investments. Behavioral finance scholars highlight that such choices are influenced by psychological behaviors, offering a framework that aids investors in making informed decisions while averting potential errors (Kumar, 2014).

The prevailing body of literature primarily centers around the selection of mutual funds in the context of India, yet a discernible research gap exists pertaining to the state of Odisha. Consequently, there is a pressing need for further investigation to enrich the existing knowledge base. This study is designed to bridge this research gap and furnish valuable insights into the determinants guiding the people of Odisha towards opting for mutual funds as their investment vehicle. Given this backdrop, the principal aim of this research is to uncover the distinct investment patterns exhibited by the people of Odisha. Moreover, the study endeavors to probe into the factors that wield influence over the investment decisions undertaken by Odisha's residents, with a specific focus on the sphere of mutual funds.

## III. METHODOLOGY

The present study adopts an exploratory and descriptive approach, aiming to delve into the investment behavior of people in Odisha towards mutual funds. Discriminant analysis is used to reveal the factors influencing the investment preferences of people in Odisha towards mutual funds. The primary data for this investigation is gathered through convenience sampling, ensuring a targeted and relevant selection of participants. The researcher used a comprehensive questionnaire comprising seven distinct items meticulously derived from prior research studies. Survey responses are elicited from a pool of 770 investors hailing from various districts within Odisha, specifically Cuttack, Khordha, Kendrapara, and Jagatsinghpur, using an online platform for data collection. The participants are invited to express their viewpoints on fund-related queries, rated on a 10-point scale: 11 for 'strongly disagree and 1 for 'strongly agree attitude to that particular item or statement. Notably, the questionnaire focuses on seven fund-related variables, carefully selected through an extensive review of relevant literature. The researcher initially approached a total of 800 potential respondents. However, due to various reasons, including non-response cases and a reluctance to disclose investment patterns, the information was successfully gathered from 770 investors. Despite encountering certain limitations in the process, the researcher effectively managed to compile a comprehensive dataset for analysis

**TECHNIQUES OF DATA ANALYSIS**

Discriminant Analysis is used to identify the most influencing factors affecting people to invest in mutual funds. This method involves a process similar to multiple linear regressions, effectively uncovering the primary independent variable that holds the greatest sway over the dependent variable.

**Analysis of the data**

**Discriminant Analysis Model**

The model involves one dependent variable and seven independent variables.

Y (dependent variable) = Discriminant Score, $X_1$ to $X_7$ are the independent variables.

Y = Investment in mutual funds (People preferring to invest in mutual fund is coded with ‘1’ and people without any preference are coded with ‘2’).

Seven independent variables included in the model are listed below.

X1 = Tax benefit
X2 = Return
X3 = Capital appreciation
X4 = Brand name
X5 = Risk
X6 = Past performance
X7 = Fund Size

**Table-1: Group Statistics**

| | | Mean | Std. Deviation | Valid N |
|---|---|---|---|---|
| 1 | X1 = Tax benefit | 4.3526 | 1.73031 | 485 |
| | X2 = Return | 3.5600 | 1.78310 | 485 |
| | X3 = Capital appreciation | 2.5412 | 1.71245 | 485 |
| | X4 = Brand name | 2.5321 | 1.82159 | 485 |
| | X5 = Risk | 3.2563 | 3.12354 | 485 |
| | X6 = Past performance | 2.6299 | 1.82920 | 485 |
| | X7 = Fund Size | 2.1254 | 3.76304 | 485 |
| 2 | X1 = Tax benefit | 2.6136 | 1.78542 | 285 |
| | X2 = Return | 2.3234 | 1.45878 | 285 |
| | X3 = Capital appreciation | 2.2541 | 1.48732 | 285 |
| | X4 = Brand name | 2.5214 | 1.12501 | 285 |
| | X5 = Risk | 2.6025 | 1.81720 | 285 |
| | X6 = Past performance | 2.4213 | 1.12504 | 285 |
| | X7 = Fund Size | 2.4136 | 1.62105 | 285 |

The mean score for **‘**Tax benefit**’** is 4.3526, whereas for others, it is 2.6135, indicating high difference. Similarly the difference in mean scores of the attribute **‘**Return’ and **‘**Risk**’** are high indicating the importance of variables in discriminating the preference of people to invest in mutual funds.

**Table-2: Tests of Equality of Group Means**

| | Wilks' Lambda | F | df1 | df2 | Sig. |
|---|---|---|---|---|---|
| X1 = Tax benefit | .911 | 67.214 | 1 | 768 | .000 |
| X2 = Return | .921 | 56.825 | 1 | 768 | .000 |
| X3 = Capital appreciation | 1.000 | .426 | 1 | 768 | .527 |
| X4 = Brand name | .999 | .544 | 1 | 768 | .451 |
| X5 = Risk | .900 | 65.369 | 1 | 768 | .000 |
| X6 = Past performance | .999 | .725 | 1 | 768 | .343 |
| X7 = Fund Size | 1.000 | .442 | 1 | 768 | .525 |

The significant difference (table -2) in the mean exists for **‘**Tax benefit**’, ‘**Return’ and **‘**Risk**’,** for which the p-value is less than 0.05. The p-values for all other variables is greater than 0.05 indicating insignificant difference in the mean scores of other variables.

**Table-3: Pooled Within-Groups Matrices**

| | Tax benefit | Return | Capital appreciation | Brand name | Risk | Past performance | Fund Size |
|---|---|---|---|---|---|---|---|
| X1 = Tax benefit | 1.000 | .139 | .281 | .516 | .125 | .412 | .312 |
| X2 = Return | .139 | 1.000 | .127 | .142 | .225 | .125 | .256 |
| X3 = Capital appreciation | .281 | .127 | 1.000 | .325 | .134 | .520 | .444 |
| X4 = Brand name | .516 | .142 | .325 | 1.000 | .139 | .411 | .012 |
| X5 = Risk | .125 | .225 | .134 | .139 | 1.000 | .056 | .524 |
| X6 = Past performance | .412 | .125 | .520 | .411 | .056 | 1.000 | 0.025 |
| X7 = Fund Size | .312 | .256 | .444 | .012 | .524 | 0.025 | 1.000 |

Table-3 represents the correlation matrix for the independent variables. The model is thus reliable for discriminant analysis with correlation coefficient of less than 0.75.

**Table-4: Wilks' Lambda**

| Wilks' Lambda | Chi-square | Df | Sig. |
|---|---|---|---|
| .889 | 125.026 | 7 | .000 |

Significant Chi-square value of 125.026 in table no-4 indicates the significant discrimination in between two groups.

**Table-5: Standardized Canonical Discriminant Function Coefficients**

| | Function |
|---|---|
| X1 = Tax benefit | .585 |
| X2 = Return | .772 |
| X3 = Capital appreciation | .085 |
| X4 = Brand name | .063 |
| X5 = Risk | .652 |
| X6 = Past performance | .056 |
| X7 = Fund Size | .144 |

The discriminant coefficients (table no-5) reflect the relative contribution of each of the predictor on the discriminant function. As seen from the table, for 'X1 = Tax benefit'**, '**X2 = Return**' and '**X5 = Risk' are the most influencing predictor.

**Table-6: Structure Matrix**

| | Function |
|---|---|
| X2 = Return | .843 |
| X5 = Risk | .746 |
| X1 = Tax benefit | .600 |
| X7 = Fund Size | .162 |
| X3 = Capital appreciation | .091 |
| X4 = Brand name | .081 |
| X6 = Past performance | .067 |

Structural coefficients are depicted in table no-6. The coefficient for the variable 'X2 = Return**'** is 0.843, and it indicates the most important discriminating variable. The second most discriminating variable is '$X_5$= Risk' with a score of 0.746 and the third most discriminating variable is '$X_1$= Tax benefit'.

## IV. DISCUSSION

Indian financial institutions exert significant influence in capital formation and intermediation, making substantial contributions to macroeconomic development. The Indian mutual fund sector introduces stability to the financial framework while enhancing the efficiency of resource allocation. This sector has unlocked novel prospects for investors and injected vital liquidity into the financial system. The proactive engagement of mutual funds in advancing economic progress is evident not only through their engagement in the savings market but also through their predominant presence in the money and capital markets. The emergence of a robust financial market is intricately linked with comprehensive economic advancement, and mutual funds actively foster a vibrant capital market. The significance of return potential, risk management, and tax benefits in the realm of mutual funds cannot be overstated, as these factors collectively shape investors' decisions and profoundly influence their investment strategies. First and foremost, the potential for returns stands as a paramount consideration for investors seeking to maximize their wealth over time. The potential return on investment is a primary consideration for investors when evaluating mutual funds. High returns can attract investors seeking to grow their wealth over time. Returns have demonstrated the potential for long-term wealth accumulation, making mutual funds an attractive option for investors looking to benefit from market growth. Concurrently, effective risk management looms large as investors assess the viability of mutual funds. The intricacies of risk evaluation entail an appraisal of factors such as market volatility, the specter of fluctuation, and the potential for losses. Mutual funds inherently provide a diversified portfolio of assets, effectively mitigating the perils associated with individual stock fluctuations. Tax benefits are a key advantage of investing in mutual funds. Tax-efficient funds are structured to minimize capital gains distributions, which can help investors reduce their tax liabilities. The crucial role of tax benefits in influencing investment choices sheds light on how judicious tax planning can elevate the efficacy of mutual fund investments. The triumvirate of return potential, risk management, and tax benefits constitute the bedrock of mutual fund benefits. Supported by historical evidence, financial theories, and empirical analyses, these factors converge to mold the investment landscape and empower investors with a comprehensive toolkit for informed decision-making in their pursuit of financial growth and security.

## V. CONCLUSIONS

The foundation of the investment decision lies in the understanding that the financial terrain is intricate and ever-changing. Investors recognize that their selections wield the authority to mold their financial journeys, impacting their enduring well-being and safety. Consequently, the investment decision embodies an educated and forward-facing dedication, a purposeful stride undertaken by individuals aiming to utilize the potential of mutual funds to strengthen their fiscal position. Therefore, the research is directed towards acquiring a deeper understanding of the investment tendencies demonstrated by individuals residing in Odisha. Moreover, the study aims to explore the factors that influence the investment preference of people of Odisha, particularly within the realm of mutual funds.

The study found, return potential, risk management, and tax benefits are critical factors that investors consider when evaluating mutual fund benefits. These factors are supported by established financial theories and empirical studies, underlining their significance in shaping investment decisions. The foundation of mutual fund advantages rests upon a powerful trio: the potential for returns, effective risk management, and the utilization of tax benefits. This triumvirate stands as a cornerstone, solidified by a combination of historical data, established financial theories, and practical empirical assessments. Together, these elements harmonize to shape the terrain of investments, providing individuals with a holistic set of tools to make well-informed choices that drive both financial prosperity and stability. The first facet of this triad is the promise of returns. By drawing upon historical performance trends, financial experts have consistently demonstrated the potential for growth within mutual funds. This potential, however, doesn't exist in isolation; it is intricately woven with the second element—risk management. This component acknowledges the inherent uncertainties in financial markets and seeks to mitigate adverse effects through diverse portfolio construction and strategic asset allocation. Consequently, investors are shielded from undue vulnerabilities while optimizing the growth prospects of their investments. Adding depth to the trio, the third element involves leveraging tax benefits. Mutual funds offer advantageous tax structures, often resulting in reduced tax burdens for investors. This intelligent approach to taxation further enhances the appeal of mutual funds as a vehicle for wealth accumulation. In tandem, these three pillars merge to construct a comprehensive framework that not only molds the investment landscape but also empowers investors. Armed with these invaluable tools, investors are well-equipped to navigate the complex world of finance, making choices that align with their goals for financial expansion and enduring security.

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