A STUDY OF MUTUAL FUNDS AS AN INVESTMENT OPTION IN PERSONAL FINANCE OF COLLEGE TEACHERS AT BANGALORE

Ms. Padma Nandanan
Assistant Professor
New Horizon college
Bengaluru, Karnataka
Dr James Thomas
HOD& Associate professor
New Horizon college
Bengaluru, Karnataka

ABSTRACT

The study using primary data collected from respondent to understand the role of mutual funds as an investment option for personal finance of college teachers. The objective of the study was to understand the investment pattern and investment distribution of college teachers among the various financial products available, with special focus on mutual funds along, with the influence of the subjects they teach on their investments. The respondent of study was from different management and engineering colleges in Bangalore. The data was collected by distributing structured questionnaires to 100 college teachers. The research finds that most of them still prefer traditional investment products such as bank deposits to mutual funds as preservation of capital is their primary goal but the risk that they take increases with age. The subjects the teachers handle have little influence over investment decision.

Key Words: Mutual Funds, Fixed Deposits, Personal Finance, Investment

Introduction

Finance is the life blood of an economy, organization and even an individual person hence managing it becomes very crucial. People have realized this blatant truth and this has led to the evolution of the concept of personal finance. This realization forces them to devote their time and effort in proper management of their personal finance. An effective management of their personal finance will help them to run ahead of others and grab the unbound opportunities ahead. Personal finance in simple terms is every aspect of your life that deals with money- right from trivial things like eating food from restaurants to major events like buying an apartment or planning your retirement. Hence personal finance affects your relationships, lifestyle, attitude and even your perception. In a broader sense, it involves planning and implementing our financial goals. It influences and determines our future financial needs and how to achieve them. Thereby how well you manage your personal finance determines whether you buy a house or stay in a rented one, whether you have an international holiday or a domestic one, the quality of your kids' education, retirement plans etc.

Importance of personal finance

1. Self confidence

Have you ever compared the attitude of people who are in dire straits with their personal finances and resorting to things like payday loans, to someone who has their finances under control? There is a definite difference in the way they handle problems. In fact, I think those that have their finances under control seem more peaceful and better able to make decisions. There is urgency in those who are seriously in debt that does not appear in those in good financial standing. Imagine that if you were able to understand the importance of personal finance and get this aspect of your life in order, the boost of confidence you would feel. You will feel in control and happy. How do you think this would reflect in other areas of your life? Do you think you would be able to make better decisions? Of course you would.

2. Saving for emergencies

How many times has an unexpected event come up that you were not prepared for financially, it may be a large car repair, hospitalization, loss of a job, etc. No matter what the event was, It is sure you can remember how stressful it was because you were not prepared financially. Once you begin getting your finances in order, you can save for emergencies; in fact you can even learn how to invest. You no longer have to live paycheck to paycheck and you don't have to fear a crisis because you will be ready.

3. Saving for retirement

Some people have a great retirement life. They have always understood the importance of personal finance. They never had a car payment, paid off their house as quickly as they could and lived without debt. This is because they made good personal financial decisions so they were able to retire early, buy a home and really enjoy themselves.

4. Saving for education

When you handle your finances in a responsible manner you will be able to save for the education of your children. If you are not making good decisions financially and are over spending in every area of your budget, you will not be able to save for the education of your children. It's as simple as that. Many people start a college savings fund as soon as their children are born and add to it automatically every paycheck. This is a great way to make sure you have saved for your child's education.

Overall understanding the importance of personal finance will make you a happier person because you will not be stressing about money and you will be prepared for your future and the future of your children. Isn't the peace of mind worth the self control it will take to live within your means and take responsibility for you finances?

Planning and implementing financial goals is no child's play. It involves deciding on an efficient investment pattern. This requires strict discipline, utmost perseverance and most importantly knowledge of various financial products.

There are a wide variety of financial products in the market ranging from traditional real estate and fixed deposits to the modern and contemporary stock market products like shares and mutual funds. Among these investment options, mutual funds in the recent years have become increasingly popular. Like most developed and developing countries the mutual fund cult has been catching on in India. Mutual Fund makes it easy and less costly for investors to satisfy their need for capital growth, income preservation. In addition to this a mutual fund brings the benefit of diversification and money management to the individual investor, providing an opportunity for financial success that was once available only to a select few. That tends to lower your risk (avoiding the old "all of your eggs in one basket" problem).Because someone else manages them, you don't have to worry about diversifying individual investments yourself or doing your own record keeping. That makes it easier to just buy them and forget about them. That's not always the best strategy, however -- your money is in someone else's hands, after all. Since the fund manager's compensation is based on how well the fund performs, you can be assured they will work diligently to make sure the fund performs well. Managing their fund is their full-time job!

Literature review

Asset allocation or decision of how much to allocate to different types of avenues and securities is the fundamental issue in personal finance.

Rajmohan (2006) found in his study that financial knowledge is very important in explaining the ownership of risky assets and the proportion of risky asset investment in the total personal finance pattern of individuals.

Mukhopadhyay (2004) analyzed the profile of 200 investors in the city of Kolkata and found that aged people prefer less risky investment while the youngsters are aggressive in risky investments.

Rajarajan (1999) found that the life cycle of individual investors is an important determinant in the size of investments in financial assets and the percentage of financial assets in the risky category.

Borch-Supan (1999) found that most of the individual's wealth was held in the form of housing and pensions. They found that the participation in risky assets was influenced positively by wealth and education. They concluded that the ownership of risky assets increases initially as age increases up to a certain level and then later it declines.

Hochguertel et al (1997) found that income, education and tax had a positive impact on the proportion of financial wealth held in risky assets while age had a hump shaped relationship

Guiso and Jappelli (1999) studied the profile of 8000 Italian households for the

period 1989-1995, studied the heterogeneity of portfolio among the households and found that wealth, college education and index of financial information had significant positive effect on the ownership and share of risky assets, while age showed a hump shaped profile.
Yoo (1994) using 1962 Survey of Financial characteristics of Consumers, and 1983 &1986 Survey of Consumer Finances, analyzed the portfolio allocation among cash, bond, and equity and found that the relationship between age and portfolio allocation is not linear; young and retired individuals demand less risky assets, bonds than middle-aged individuals.

Statement of the problem

Personal finance leads to the ultimate goal, a comfortable retirement and thereby a peaceful life. In the end this is the most important reason to plan for the future. With an unstable economy having enough money to comfortably live is very essential. A well thought out investment pattern will allow individuals to be secure in the present as well as in the future. This involves choosing from a wide variety of financial products like term deposits, shares, insurance schemes, pension schemes, mutual funds, social security benefits etc.
Mutual funds in the recent years have become very popular among investors. A mutual fund is defined as a professionally managed investment vehicle that is made up of a pool of funds collected from many investors and invested in stocks, bonds, money market securities and other asset classes. All mutual funds have a fund manager. They have started securing a prominent place in the investment pattern. This study aims to identify the role of mutual funds as an investment opportunity in the personal finance of college teachers.

Objectives of the study

1. To understand the awareness of mutual fund products among college teachers
2. To study the factors that decides the personal finance pattern of teachers.
3. To find out the correlation between age of the teachers and presence of mutual funds in their investments.
4. To find out if the subject of the teachers have a significant association with their investment in mutual funds.
5. To give recommendations and suggestions if required.

Importance of the study

1. To help college teachers manage their personal finance.
2. To help them reap the benefits of mutual funds as an investment.
3. Can be used as a reference for further studies.

Methodology

The study is descriptive in nature and the data used is both primary and secondary. The main tools of primary data are questionnaire and personal interviews. Reports, journals and articles are the main sources of secondary data. Simple mathematical and statistical tools like correlation and Chi square test are used for analysis. The sample of the study includes 100 college teachers in Bangalore from the engineering, basic science and management streams. The respondents were selected using convenient sampling techniques giving preference to accessibility and availability.

Hypothesis testing

A hypothesis has been formulated and tested to see if a difference in the subject of the teachers has a significant association with their investment in mutual funds. Chi-square test has been used to test the dependence of above attributes.

Hypothesis is framed as follows

H0: There is no significant association between subjects taught and investments in mutual funds

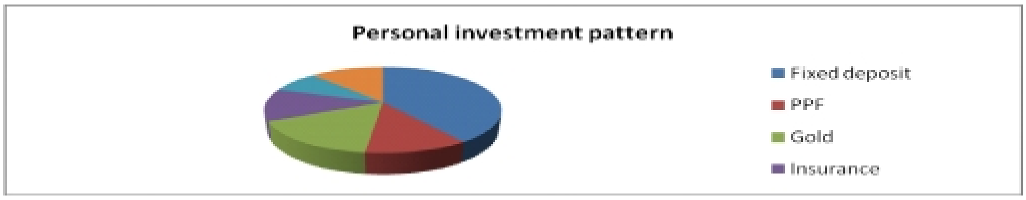
H1: There is significant association between subjects taught and investments in mutual funds

The analysis of data involves a number of closely related operations with the purpose of summarizing the collective data and organizing these in such a manner that they yield answers to the research.

Table 1: Personal investment pattern

Investment options (as the highest element in the portfolio)	Number of respondents	Percentage (%)
Fixed deposit	40	40
PPF	12	12
Gold	16	16
Insurance schemes	12	12
Real estate	8	8
Stock market products	12	12
Total	100	100

Source – primary data



Observation:

Table 1 discloses the investment options that find the maximum place in the personal finance pattern of college teachers. Around 40% of the respondents have the maximum amount in the conventional product of fixed deposit. 16% of the respondents prefer gold as their main investment option while only 8% of the teachers have their maximum investments in real estate. The remaining 36% of the respondents are equally divided between PPF, stock market products and insurance schemes.

Table 2: Factors considered for investment

Factors	Number of respondents	Percentage (%)
Preservation of capital	20	20
Increase in current income	12	12
Growth and income	32	32
Conservative growth	24	24
Aggressive growth	12	12
Total	100	100

Observation:

Table 2 shows the factors considered by college teachers before selecting an investment option. 32% of the respondents give importance to growth and income while 20% of them are concerned with the preservation of their capital. 24% of the respondents prefer conservative growth of their investments compared to 12% of the respondents who opt for aggressive growth. The remaining 12% of the respondents choose investments with an objective of increasing their current income.

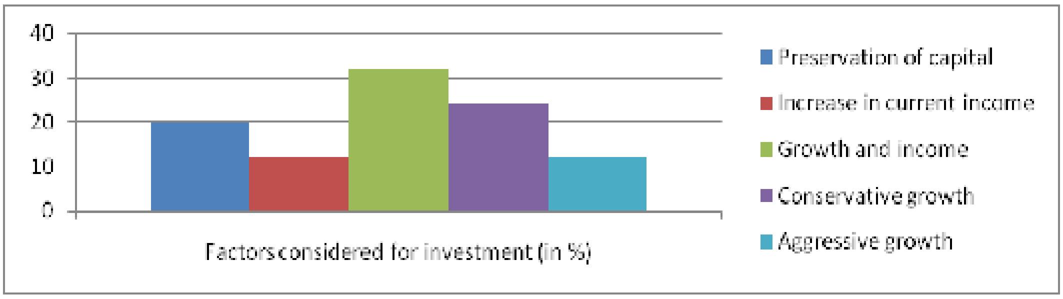


Table 3: Mutual funds as an investment option

Presence of mutual funds in the portfolio	Number of respondents	Percentage (%)
Yes	40	40
No	60	60
Total	100	100

Source: Primary data

Observation:

Table 3 shows the presence of mutual funds in the personal finance pattern of college teachers. While 60% of teachers don't have mutual funds in the portfolio 40% of them have it in their portfolio.

Table 4-**Correlation matrix**

Variables: age of the respondents and presence of mutual funds in the portfolio

Age	Mid value (x)	Deviation from mean (dx)	dx^2	% of respondents having mutual funds in portfolio (y)	Deviation from mean (dy)	dy^2	dxdy	r value
< 25	12.5	-25	625	30	-14	196	350	0.973
25 - 50	37.5	0	0	44	0	0	0	
50 - 75	62.5	25	625	50	6	36	150	

Source: Primary data

PROBABLE ERROR:

This is a measure of ascertaining the reliability of the value of Pearsonian coefficient of correlation. Probable error defines the limits above and below the size of the coefficient determined, within which there is an equal chance that coefficient of correlation similarly calculated from other samples will fall. P.E. = 0.021

Observation

Here the value of correlation coefficient is 0.97 and this indicates a positive relationship between the variables under study, i.e.: as age increases the amount of mutual funds in the portfolio also increases. Here the value of probable error is 0.021.Hence the correlation coefficient is said to be significant.

Chi-square test

Chi-square test is applied in statistics to test the goodness of fit to verify the distribution of observed data with assumed theoretical distribution. Therefore it is a measure to study the divergence of actual and expected frequencies. It is commonly used to compare observed data with data we would expect to obtain according to a specific hypothesis framed earlier.

It is appropriate to study the association between the subjects taught by a teacher and his investments in mutual funds. Therefore the researcher prefers to apply Chi-square test to the observed and expected values of the variables.

H0: There is no significant association between subjects taught and investments in mutual funds

H1: There is significant association between subjects taught and investments in mutual funds

Table 5 – observed and expected values

Subjects	Mutual funds present in portfolio	Mutual funds absent in portfolio	Total
	O (E)	O (E)	
Engineering	8 (8.0)	12 (12.0)	20
Basic science	12 (9.6)	12 (14.4)	24
Finance	12 (9.6)	12 (14.4)	24
HR	4 (9.6)	20 (14.4)	24
Marketing	4 (3.2)	4 (4.8)	08
Total	40	60	100

Source: Primary data

The calculated Chi-square test value is 7.76 whereas the table value at 5% level of significance (at 4 degrees of freedom) is 9.49.

Observation

Since the calculated value is less than the table value, H0 is accepted. Hence there is no significant association between the subjects taught by a teacher and the presence of mutual funds in his/her portfolio.

Findings

1. Majority of the teaching community still prefer traditional investment products like FD and gold to the modern products like mutual funds and shares. The main reason for this is the minimal knowledge they have with respect to mutual funds. The other reasons include the element of risk involved in mutual funds and bitter experience of others in recent years.
2. Teachers who invest in mutual funds do so for the benefits such as better return as compared to many alternatives, tax benefits under section 80 C and diversification into multiple sectors. High liquidity in mutual funds is also a significant benefit.
3. The main considerations before investing are preservation of capital and a moderate increase in growth and income.
4. The correlation study shows that as the age of teachers increase, they start investing more in mutual funds. This might be due to the following reasons

a. Their income increases with age and experience and hence they would be willing to try out alternate investment options in addition to FDs and PPF.

b. They become aware of various alternatives and choices for investment in the long run

5. According to the hypothesis, the subject of the teachers does not have any significant association with the presence of mutual funds in the portfolio ie: even if a teacher handles subjects related to finance and mutual funds, It will not have any influence on their investment decisions. This shows that the financial knowledge that they gain by teaching subjects relating to finance surprisingly does not influence their investment decisions.

Suggestions

The lack of awareness of the offerings within mutual funds seems to be primary reason of mutual funds not finding a significant position in the investments of college teachers. The risk of investment in mutual fund is often considered too high as the performance of stock markets and therefore of equity based mutual funds have been volatile.

The suggested measures to improve the situation are

1. Create awareness among the teacher community by conducting workshops and seminars to educate them on the importance of mutual funds in beating inflation.
2. The choice of debt based and balanced funds that are not impacted by stock market volatility but still beats the debt

based products such as fixed deposits also needs to be communicated.

3. Mutual fund companies can tie up with banks that handle the salary accounts of teachers and adopt suitable marketing strategy so that it becomes easy to start up a systematic investment plan with minimal time and effort being spent for it.

Limitations of the study

1. Convenient sampling is used here and hence the study is not devoid of demerits of sampling.
2. The study suffers from all limitations of questionnaire method of collecting primary data.
3. The study is limited to 100 respondents of engineering, management and basic science streams.

Bibliography

1. Borch-Supan, Axel., Eymann, Angelika. Household Portfolios in Germany, Paper read at the
2. Conference on Households Portfolios Organised by the European University Institute, Firenze, 17-18 December, 1999.
3. Guiso, Luigi., Jappelli, Tullio. Households' Portfolio in Italy, Read at the Conference on
4. Households Portfolios Organised by the European University Institute, Firenze, 17-18, December 1999.
5. Gupta, S.P. "Statistical Methods", Sultan Chand & sons, New Delhi, 1996.
6. Hochguertel, Stefan., Alessie, Rob., Soest, Arthur van. Saving Accounts versus Stocks and Bonds in Household Portfolio Allocation. Scandinavian Journal of Economics, 99(1), pp 81-97, 1997.
7. Mukhopadhyay. Household sector investors' preference-an empirical study on the city of Calcutta. The Management Accountant, 89(8), p656-661, 2004.
8. Pandey, I.M "Financial management", Vikas Publishing House Pvt Ltd, 2009
9. Rajamohan, R.R. 'Determinants of Household portfolio Composition: A Survey ' PhD
10. Thesis, Nirma University, Ahmedabad, 2006.
11. Rajarajan, V. Stage in Life Cycle and Investment Pattern. Finance India, xiii (2), pp 477-485, 1999.
12. Sancheti, D.C. and V.K. Kapoor. Statistics, Theory, Method and Application, Sultan Chand & Sons. New Delhi, 1993.
13. Singh Preeti. Investment Management: Security Analysis and Portfolio Management, Himalaya Publishing House: Bombay, 1986.
14. Yoo, Peter. S. Age Dependent Portfolio Selection. Working paper 003A, Federal Reserve Bank of St. Louis, 1994.