

A Study on effect of Age and Profession on Selection of New Fund Offers (NFOs)

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Abstract: *This research work is inherently based on the inclination of investors for New Fund Offering and reasons behind choosing this plan. It also covers awareness among the various classes of investors. Independent variables like age and profession of investors were compared with the investment behavior of investors. Data was collected from primary source. Sample here includes investors of diverse age groups and in addition investors of service, business class and self employed. ANOVA has been applied on the data collected. This study has revealed that people of different age groups and non similar professions expect almost the same features in an NFO. The criterion for selecting an NFO is very common with people of all the age groups. Even in case of professionals, salaried and business class people, the factors that are considered before making any decision regarding NFO are almost same. From the study it can be said that all type of investors go through all the factors in a more or less similar manner. Profession was found significant only in case of 'Market Sentiments' factor.*

Keywords: *Sample, Primary Source, Interpretations, Independent variables for Research Work, NFOs.*

INTRODUCTION:

Conceptual Framework:

There are a lot of investment avenues available today in the financial market for an investor with an investable surplus. He can invest in Bank Deposits, Corporate Debentures, and Bonds where there is low risk but low return. He may invest in Stock of companies where the risk is high and the returns are also proportionately high. The recent trends in the Stock Market have shown that an average retail investor always lost with periodic bearish trends. People began opting for portfolio managers with expertise in stock markets who would invest on their behalf. Thus we had wealth management services provided by many institutions. However they proved too costly for a small investor. These investors have found a good shelter with the mutual funds.

Mutual fund industry has seen a lot of changes in past few years with multinational companies coming into the country, bringing in their professional expertise in managing funds worldwide. In the past few months there has been a consolidation phase going on in the mutual fund industry in India. Now investors have a wide range of Schemes to choose from depending on their individual profiles.

Most of us like to try out new things whether it's dining at restaurants, buying mobile phones and cars to name a few. Some go to the extent of changing mobile phones every 1 year and a car every 3 years. Well this is a matter of personal preference and lifestyle and might give you some kind of emotional happiness which is good in some sense.

What is a Mutual Fund?

A mutual fund is a professionally managed financial intermediary that allows a group of investors to pool their money together with a predetermined investment objective. The money collected from the investors is used to buy and trade in those assets, which are specifically permitted by its stated investment objective.

One can make money from a mutual fund in three ways:

1) Income is earned from dividends on stocks and interest on bonds. A fund pays out nearly all of the income it receives over the year to fund owners in the form of a distribution.

2) If the fund sells securities that have increased in price, the fund has a capital gain. Most funds also pass on these gains to investors in a distribution.

What Does *New Fund Offer - NFO* Mean?

A security offering, in which investors may purchase units of a closed-end mutual fund. A new fund offer occurs when a mutual fund is launched, allowing the firm to raise capital for purchasing securities.

A new fund offer is similar to an initial public offering. Both represent attempts to raise capital to further operations. New fund offers are often accompanied by aggressive marketing campaigns, created to entice investors to purchase units in the fund. However, unlike an initial public offering (IPO), the price paid for shares or units is often close to a fair value. This is because the net asset value of the mutual fund typically prevails. Because the future is less certain for companies engaging in an IPO, investors have a better chance to purchase undervalued shares. If fund holdings

increase in price but are not sold by the fund manager, the fund's shares increase in price. One can then sell the mutual fund shares for a profit.

Age is an important consideration when deciding how much risk to be assumed. Portfolio assets that are riskier and that will fluctuate more over time may be appropriate for younger investors but not for others. An individual who does not expect to liquidate the assets in his or her portfolio for a number of years has more time to recover from a market downturn, while an investor close to retirement may be more likely to prefer stable assets and capital preservation. Age also affects the choice between income-earning securities and those oriented toward capital gains. Table 1 illustrates the data.

18-35	36-55	56-65	65+
Speculative: 50%	Speculative: 25%	Speculative: 10%	Speculative: 0%
Growth: 40%	Growth: 60%	Growth: 70%	Growth: 20%
Income: 10%	Income: 15%	Income: 20%	Income: 80%

"A **profession** is a vocation founded upon specialized educational training, the purpose of which is to supply disinterested counsel and service to others, for a direct and definite compensation, wholly apart from expectation of other business gain".

A profession arises when any trade or occupation transforms itself through *"the development of formal qualifications based upon education and examinations, the emergence of regulatory bodies with powers to admit and discipline members, and some degree of monopoly rights."*

Occupation also can affect portfolio objectives. Some professions produce more stable incomes than others, enabling the investor to tolerate more investment fluctuations. The profession also may determine other assets.

For example, does the job provide an adequate retirement plan, or must one fund the retirement from the investment portfolio? If the employer provides a stock-purchase plan, this may be a substantial part of one's personal wealth, and one should consider it as a diversification issue when one makes other portfolio choices. If one receives tax-qualified or tax-deferred assets from the job, these also will influence the investment decisions.

Review of Literature:

Not many researches could be found related to this study but there are certain findings which can be quoted here in relevance to the research work. All the research works mentioned here relates to the selection criteria of NFOs being considered by an investor. For e.g.: "Consumers base their fund purchase decisions on prior performance information, but do so asymmetrically, investing disproportionately more in funds that performed very well the prior period." (Tufano, 1998).

Another study relates the financial markets' behavior with the selection of mutual funds that is how an investor considers the ups and downs of the financial market for selecting a mutual fund, "With the reforms of industrial policy, public sector, financial sector and the many developments in the Indian money market and capital market, Mutual Funds which has become an important portal for the small investors, is also influenced by their financial behavior." (Kavitha Ranganathan, 2006).

Another study investigates the manner in which consumers make investment decisions for mutual

funds. "Investors report that they consider many nonperformance related variables," (Capon, Fitzimons, Prince, 1996).

"Investment objectives vary according to the age and status of the individual investor, the time frame for the investment, and the level of risk an investor is willing to undertake in order to make a profit. To accomplish this, an investor would choose a fund that invested in cash and cash equivalent or fixed savings categories, because they are deemed both safe and liquid, meaning that it would be relatively easy to convert the fund to cash if needed."

Questionnaires taken from two groups of mutual fund investors suggest that investor aversion to switching from poor performers may be explained by overly optimistic perceptions of past mutual fund performance. Samples of both educated and casual mutual fund investors show that investor recollections of past performance are consistently biased above actual past performance. This recollection bias may be why investors justify remaining in funds that consistently perform poorly. Although investor inertia might actually be due to high economic switching costs, our evidence suggests that investors nonetheless adjust their beliefs to support past decisions. (Peles, Nadav, 2007).

Rationale:

As not much research work has been done in this field, this study will help the upcoming researchers to conduct their findings in an easier way. The research work may also help the mutual fund advisors in providing services to their clients according to their age and profession. The study will be helpful to the financial institutions launching their NFOs in a way that it will help them in identifying the expectations of an investor with a particular NFO. The firm can plan its

marketing strategies for the upcoming NFO in accordance with the demands of an investor. The study throws some light on the factors that can be kept in mind by the fund launching NFO to make its NFO a success. This study will be able to help out investors also in order to choose a beneficial NFO according to their age & profession.

Objectives of the Study:

- To explore the factors that affect investment in NFOs.
- To study the impact of age and profession as the determinants of investment in NFOs.

METHODOLOGY:

The Study:

The study is exploratory in nature. It is attempted to explore the factors that affect investment in NFO. It has also examined the impact of age and profession (independent variables) on identified factors (dependent variables). The level of independent variables that were ascertained are:

Age: Youngsters (25-35 yrs), Middle Aged (40-50 yrs), and Seniors (55-65 yrs).

The gap of 5 yrs between the youngsters and the middle aged and between the middle aged and the seniors is kept to identify the difference of opinion.

Profession: Service-Class, Business Class & Self Employed.

The Research Design:

The study is based on a 3x3 factorial design. The research design is shown below:

		Table: 2 Profession			
Age (Years)		Service class	Business class	Self Employed	Total
	25-35				
	35-45				
	55-65				
	Total				

The Sample:

The sample of the study constituted of 137 investors located in Indore and nearby areas. The respondents were selected with the help of non probability convenience sampling method. Non-probability method is selected because there is no sampling frame available that represents the list of all the investors located in Indore and nearby areas. The classification of sample according to above research design for NFO investors is as follows:

		Table: 3 Profession			
Age (Years)		Service class	Business class	Self Employed	Total
	25-35	48	05		73
	35-45	05	03		32
	55-65	13			32
	Total	66	38	33	137

Tools for Data collection:

Primary data of the study was collected through a self-structured questionnaire. The questionnaire was designed following a wide review of the literature on investment in mutual funds. It was divided into two parts – the first part was based on the personal profile of the respondents. The second part consisted of 30 closed ended items based on five pointer Linkert scale (from Strongly Agree-5 to Strongly Disagree-1). The questionnaires were filled and collected from the respondents after conveying the purposes of the study.

The additional data needed to support the study was collected from secondary sources like online publications, journals, magazines, newspapers, books, etc.

Tools for Data Analysis:

For analyzing the collected data, MS Excel 2007 and Statistical Package for Social Science (SPSS 16.0) were used. Initially item-total correlations were calculated for all the 30 items to identify which items significantly contributed towards measuring the perception of investment in NFO taking 0.196 as standard value of coefficient of correlation for more than 100 respondents. No item fell below standard value hence; all items were considered for the analysis and were accepted for the final scale and subjected to principle component method of factor analysis using varimax rotation. As a result of factor analysis 11 factors were derived out. The 11 factors are listed below.

1. Sustainability
2. Market sentiments
3. Publicity
4. Growth prospects
5. Easy entry-exit
6. Transparency
7. Flexibility
8. Strong fundamentals
9. Type of NFO
10. Trust worthiness
11. Investment options

On the basis of these 11 factors, following 33 hypotheses were framed. Analysis of Variance (ANOVA) was applied to test these hypotheses.

HYPOTHESES:

For factor 1- Sustainability

H01 = There is no significant effect of age on Sustainability factor affecting the investment in NFO.

H02 = There is no significant effect of profession on Sustainability factor affecting the investment in NFO.

H03 = There is no significant effect of interaction between age and profession on Sustainability factor affecting the investment in NFO.

For factor 2 – Market Sentiments

H04 = There is no significant effect of age on Market Sentiments factor affecting the investment in NFO.

H05 = There is a significant effect of profession on Market Sentiments factor affecting the investment in NFO.

H06 = There is no significant effect of interaction between age and profession on Market Sentiments factor affecting the investment in NFO.

For factor 3 – Publicity

H07 = There is no significant effect of age on Publicity factor affecting the investment in NFO.

H08 = There is no significant effect of profession on Publicity factor affecting the investment in NFO.

H09 = There is no significant effect of interaction between age and profession on Publicity factor affecting the investment in NFO.

For factor 4 – Growth Prospects

H10 = There is no significant effect of age on Growth Prospects factor affecting the investment in NFO.

H11 = There is no significant effect of profession on Growth Prospects factor affecting the investment in NFO.

H12 = There is no significant effect of interaction between age and profession on Growth Prospects factor affecting the investment in NFO.

For factor 5 – Easy Entry-Exit

H13 = There is no significant effect of age on Easy Entry-Exit factor affecting the investment in NFO.

H14 = There is no significant effect of profession on Easy Entry-Exit factor affecting the investment in NFO.

H15 = There is no significant effect of interaction between age and profession on Easy Entry-Exit factor affecting the investment in NFO.

For factor 6 – Transparency

H16 = There is no significant effect of age on Transparency factor affecting the investment in NFO.

H17 = There is no significant effect of profession on Transparency factor affecting the investment in NFO.

H18 = There is no significant effect of interaction between age and profession on Transparency factor affecting the investment in NFO.

For factor 7 – Flexibility

H19 = There is no significant effect of age on Flexibility factor affecting the investment in NFO.

H20 = There is no significant effect of profession on Flexibility factor affecting the investment in NFO.

H21 = There is no significant effect of interaction between age and profession on Flexibility factor affecting the investment in NFO.

For factor 8 – Strong Fundamentals

H22 = There is no significant effect of age on Strong Fundamentals factor affecting the investment in NFO.

H23 = There is no significant effect of profession on Strong Fundamentals factor affecting the investment in NFO.

H24 = There is no significant effect of interaction between age and profession on Strong Fundamentals factor affecting the investment in NFO.

For factor 9 – Type of NFO

H25 = There is no significant effect of age on Type of NFO affecting the investment in NFO.

H26 = There is no significant effect of profession on Type of NFO factor affecting the investment in NFO.

H27 = There is no significant effect of interaction between age and profession on Type of NFO factor affecting the investment in NFO.

For factor 10 – Trust Worthiness

H28 = There is no significant effect of age on Trust Worthiness factor affecting the investment in NFO.

H29 = There is no significant effect of profession on Trust Worthiness factor affecting the investment in NFO.

H30 = There is no significant effect of interaction between age and profession on Trust Worthiness factor affecting the investment in NFO.

For factor 11 – Investment Options

H31 = There is no significant effect of age on Investment Options factor affecting the investment in NFO.

H32 = There is no significant effect of profession on Investment Options factor affecting the investment in NFO.

H33 = There is no significant effect of interaction between age and profession on Investment Options factor affecting the investment in NFO.

RESULTS AND DISCUSSION:

Factors affecting investment in NFOs:

The factor analysis was carried out on 30 significant items that resulted into 11 factors that affect investment in NFOs. The total percent of variance for factors is 68.826% and the Eigen values for each factor is more than one.

First factor i.e. Sustainability constituted of four items viz. Benchmark Index (item load =0.823), Volatility of inflation and deflation in the global markets (item load = 0.692), Easy availability of existing funds (item load =0.509) and Execution of NFOs under the preview of SEBI (item load = 0.339). The total load of this factor is 2.363. This factor throws light on how any NFO survives in the

market. The fund house launching any NFO should have a rooted existence which will eventually help it in being successful in the long run. Irrespective of the various fluctuations in the market the NFO should be able to survive for a longer period of time as this will have a positive effect on the investor for making investment in that particular NFO.

Second factor i.e. Market sentiments consisted of 3 items viz. Market behavior (item load =0.744), Ever changing government policies (item load =0.674) and Grading/Star ranking of NFO (item load =0.637). The total load of this factor is 2.055. In this factor the most important part is the opinion any investor holds for a fund house launching the NFO. The NFO being launched should respect the thoughts and the opinion of the investor for being successful in the crowd of other NFOs.

Publicity has evolved as the third factor which consisted of Advice of friends and relatives (item load =0.810), Advertisement in print and electronic media (item load =0.698) and Internet is the best channel (item load =0.699). The total load of this factor is 2.177. Publicity is mainly related to how an investor decides for choosing any NFO. The investor actually undergoes a systematic approach for gathering information about the various NFOs in the market before making any decision. From this factor one can make out how much time an investor devotes for choosing the most beneficial NFO for his hard earned money.

The fourth factor that has been evolved out is Growth Prospects of the NFO. It consists of 3 items viz. Stability of the investment teams of the fund house (item load =0.775), Theme of NFOs (item load =0.733) and Heavy invest by NBFCs in NFOs (item load =0.567). The total load of this factor is 2.075. Growth of an NFO is very important as it is

directly related to the reliability & trust of the investor. When any NFO is on the right track it surely grows and this is what an investor expects from any fund. The growth of the NFO mainly depends on the stability of the teams in the fund house as the teams are the actual persons on whom the growth of NFO depends as their investment will decide the future of the fund.

Easy Entry-Exit is the fifth factor that is being recognized with two constituents viz. Entry & Exit Load (item load =0.817) and Lock-in period (item load =0.731).The total load for this factor is 1.548. The entrance or exit of any NFO should be flexible enough to let any investor enter or exit from it any time he wishes to. The lock-in period should be such that the investor is comfortable with in while redeeming his units into earnings and taking home a good benefit out of his investment.

The sixth factor is Transparency which consists of three items viz. Offer document (item load = 0.710), Past Performance of the fund (item load = 0.632) and the Awareness of various taxes related to NFO(item load = 0.572). The total load of this factor is 1.914. It is very important for any fund house to maintain it's crystal clear image. A fund house can create and maintain its clear image by having a very decipherable offer document in which all the terms & conditions are mentioned related to investment in that NFO. The fund house should provide correct information about its past performance to gain the trust of the investor. Along with these, the investor also expects that the fund house provides him with complete knowledge about various tax provisions available with that NFO.

Flexibility is the seventh factor which was identified with 3 items viz. Switch Options (item load = 0.762), Fund Manager's styles & strategies

of investment in various schemes (item load =0.622) and the Tax advantage option available with the NFO (item load =0.582). The total load of this factor is 1.966. Flexibility in investment motivates an investor as he gets many options for switching and also for choosing the most beneficial scheme from a list of various schemes. Another add-on to the investment in NFO can be the tax advantage which will boost the morale of the investor for making good amount of investment as it would help him in reducing his tax liabilities.

The eighth factor in this list is Strong Fundamentals of the NFO. It consists of 3 items viz. NFOs of Indian Mutual Funds (item load = 0.683), Fundamental analyses of funds (item load = 0.545) and Investment & allocation of funds of the NFOs (item load =0.470). The total load of this factor is 1.698. It is very necessary that a fund house has a strong foundation. It is generally seen that an Indian investor prefers investment in Indian fund houses as compared to foreign fund houses because they have certain belongingness and a level of trust up on the Indian fund house. The fund houses should keep this point in mind while making any sort of investment and/or fund allocation in various foreign companies. An important factor for choosing any fund house is its fundamental analyses. Some investors also prefer to go through the foundation of the fund house before making any decision.

Types of NFO is the ninth factor with 2 items viz. Open/Closed ended types of NFOs (item load = 0.817) and the Track Record of the fund manager (item load =0.714). The total load of this factor is 1.531. The type of NFO is an important aspect which plays a vital role while deciding the amount of investment. The performance of the fund manager is the deciding factor for choosing the type of NFO as the fund manager is the one who

will actually give the final word in the investment strategies. The overall allocation of funds depends on the style a fund manager adopts for making the investment. So the growth and success of any NFO largely depends on the fund manager.

The tenth factor is Trust Worthiness. It consists of two items viz. Risk Factors involved in NFO (item load = 0.743) and Image of Trustees/Sponsors (item load =0.641). The total load of this factor is 1.384. The image of the trustees & sponsors play a very important role while choosing a fund house. Though the stock market is very risky but when a fund house is backed by renowned trustees and sponsors then the risk of losing money in the investment is lessened and the investor is somewhat tension free because he believes that his money is in right hands. So it is very important for a fund house to have reliable and renowned trustees ad sponsors. It overall impacts the image and identity of that fund house in the market.

Last but not the least, the eleventh factor is Investment Options which consists of two items viz. Various schemes available with NFO (item load = 0.851) and Option of SIP in NFO (item load = 0.488). The total load of factor is 1.339. As the need of every investor is different from any other investor, therefore, it is expected from any NFO to have a number of schemes so that each investor could find the most beneficial investment according to his investment needs and investment capacity. A fund house need to have a variety of schemes to let every investor chose his best option. Along with various schemes a fund house can also have the SIP option to add another feather in their cap.

Table: 4 Hypotheses Testing:

S.No	Factor	Hypotheses	Result
1.	Sustainability	H01	Accept

		H02	Accept
		H03	Accept
2.	Market Sentiments	H04	Accept
		H05	Reject
		H06	Accept
3.	Publicity	H07	Accept
		H08	Accept
		H09	Accept
4.	Growth Prospects	H10	Accept
		H11	Accept
		H12	Accept
5.	Easy Entry-Exit	H13	Accept
		H14	Accept
		H15	Accept
6.	Transparency	H16	Accept
		H17	Accept
		H18	Accept
7.	Flexibility	H19	Accept
		H20	Accept
		H21	Accept
8.	Strong Fundamentals	H22	Accept
		H23	Accept
		H24	Accept
9.	Type of NFO	H25	Accept
		H26	Accept
		H27	Accept
10.	Trust Worthiness	H28	Accept
		H29	Accept
		H30	Accept
11.	Investment Options	H31	Accept
		H32	Accept
		H33	Accept

Thirty three hypotheses that were set on the basis of 11 factors were tested and the results are tabulated in annexure no.. The results indicated that the sigma value ('p') for hypotheses H05 was less than 0.05 and therefore, this hypotheses was rejected at 5% level of significance.

All the other 32 hypotheses were accepted as the sigma value ('p') is greater than 0.05. It was found that there is no significant difference in the effect of age and profession in the selection of NFOs. It was found that there is no significant difference in the effect of youngsters, middle-aged and senior group of investors on Sustainability, Flexibility, Trust Worthiness, Transparency, Publicity and Growth Prospects. Age and the interaction between age and profession were not having any significant effect on these factors.

The study found that there is a significant difference in the effect of service class, business class and professionals group on Market Sentiments of NFO selection. Since the investors have different mindset about the market therefore people in different professions hold different opinion about investment decisions when profession is the parameter.

CONCLUSION:

The various factors derived from the analysis shows that the investors mainly look for reliable, trust worthy, flexible and a growth oriented NFO. The investors prefer NFO of an Indian fund in comparison to a foreign fund because they find the Indian Mutual Fund industry much better in terms of foundation and stability.

This study has revealed that people of different age groups and non similar professions expect almost the same features in an NFO. The criterion for selecting an NFO is very common with people of all the age groups. Even in case of professionals, salaried and business class people, the factors that are considered before making any decision regarding NFO are almost same. From the study it can be said that all type of investors go through all the factors in a more or less similar manner.

Profession was found significant only in case of 'Market Sentiments' factor.

IMPLICATIONS OF THE STUDY:

With respect to investors:

This study will help an investor in understanding and knowing the factors which are vital for any investor to consider while making his/her selection decision about particular mutual funds and hence helping him to ensure that they check out all the factors before a final decision is taken. This will also help in evaluating the fund's performance whether it is consistent with competition while exerting a strong disciplinary force to sustain its position in the market.

With respect to fund houses/managers:

The study is carried out in the light of two independent variables- age and profession which has a direct link with the income of an individual so the study will help the fund houses in deciding various fee charged for investing in mutual funds. This study will also help the fund managers in understanding the expectations and ascertaining that they fulfill the expectations of the investors and provide them schemes in NFOs accordingly.

With respect to researchers:

As not much research work has been done in the field of NFOs, this study will help the new researchers to carry this research to new dimensions. Each factor derived out from the analysis has a wide spectrum and scope for further investigation. This research would in fact give new and innovative ideas to the researchers in the field of mutual funds to broaden the horizon of NFOs.

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