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A Study Perception of Investor's towards Mutual Funds Investment

@GVDN Prasad Rao
@@Dr.P.V.V.Satyanarayana
@@@Dr.D.Suryachandra Rao

@ Research Scholar, Krishna University, Machilipatnam

@@ Research Supervisor, Professor, V.S.Lakshmi College, Kakinda

@@@ Research Co-supervisor, Professor, Dept. of Business Management, Krishna University.

Abstract: Day by day Indian financial market is becoming competitive and the supply of various financial instruments needs to be in equilibrium to the demand perspectives of the investors. The prime drive of anyinvestment is to get maximum return with a minimum risk and mutual funds provide the opportunity for the investors. The research provides an insight into the types of risks which exist in a mutual fund scheme. The data was collected from mutual fund investors as well as non mutual fund investors of this industry. The research focuses on the relationship between investment decision and factors like liquidity, financial awareness, and demography. It was found low risk funds and liquidity of fund scheme are having impact on the investor's perception for investing in the mutual fund.

Keywords: Financial Instruments, Investors' Decision, Risk Return

1. INTRODUCTION

The first Mutual Fund in world was "Socioete Generale de Belique" formed by King William of Netherlandin 1822. The emergence of Mutual Fund in India was with the setup of UTI in 1964 by an act of Parliament. The first discussion highlighted was 'Why should there be a Mutual Fund?' And the clarified reason was 'It is an attempt to mobilize the savings of small investors.' This is the basic objective of a Mutual Fund Industry. It helps such investors who by any reason are not able to invest their savings in right direction or in right securities. The reasons may be fewer amounts of savings of such retail investors, lack of financial market information, lack of specialized skill for investment or fear of risk return analysis. Thus Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. Indian

mutual fund industry has figured a six fold increase in AUM in over the last 10 years, yet it is to emerge asthe preferred investment choice for retail investors in India. At present around 44 AMCs are operating in India. In December 2022 AUM of Indian Asset Management Companies (AMCs) was 10.5 trillion which is equivalent to 0.5percentof global AUM. (Source: ICF 2021, ICRON analysis.) Theerst while Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered inJuly1993. The number of mutual fund houses went on increasing with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. The entry of commercial banks and private players in the MF industry coupled with the rapid growth of the Indiancapital markets during the past couple of years has fostered an impressive growth in the Mutual Funds. Unit Trust of India was the first mutual fund set up in India in the year 1963. In early 1990s, government allowed public sector banks and institutes to set up mutual funds. In the year 1992, Securities and Exchange Board of India (SEBI) Act was passed. The objectives of SEBI are – to protect the interest of investors in securities and to promote the development of and regulate the securities market. As far as mutual funds are concerned, SEBI formulates policies and regulates the mutual funds to protect the interest of the investors. SEBI notified regulation for mutual funds in 1993.

Thereafter, mutual funds sponsored by private sector entities were allowed to enter the capital market. The regulations were revised in 1996 and have been amended thereafter from time to time. SEBI has also issued guidelines to the mutual funds from time to time to protect the interests of investors. All mutual funds whether promoted by public sector or private sector entities including those promoted by foreign entities are governed by the same set of regulations. There is no distinction in regulatory requirements for those mutual funds and all are subject to monitoring and inspections by SEBI. The risks associated with the schemes launched by the mutual funds sponsored by these entities are of similar types.

2. FACTORS AFFECTING MUTUAL FUND DECISION

The various parameters that affect the decision making of investors in mutual fund industry can becategorized as:

1. Risk factor
2. Return factor
3. Liquidity factor
4. Consistency factor
5. Awareness factor
6. Specialization factor

Risk Factors: All the investments in the mutual fund and securities are subjected to market risk and the NAV of the schemes may vary depending upon the factors and forces affecting the securities market. In this respect, the offer documents/SAI/SID/KIM may be helpful to the investors. All mutual funds also required to disclose the risk factors in their offer documents which are faced by the funds and thus by the investors. All the risks associated in a mutual fund investment can be grouped as:

1. **MARKET RISK**: Stock prices are always sensitive to what is happening in an economy (local, national, international). Performance of an economy has inverse correlation with the risk involved. Market riskmay include:

i) **Country risk**: The risk in foreign invest ment changes as per the political instability in a countrywhere the investment was issued.

ii) **Political risk**: The risk in national inves tment changes because of political instability in home country like political unrest, government regulations, terrorism and other social changes.

iii) **Interest rate risk**: Long term and fixed inc ome securities such as bonds and preferred stocks have the greatest amount of interest rate risk while shorter term securities like treasury bills and money market instruments affected less.

iv) **Currency risk**: It refers to the possibility changes in the price of one currency which will affect another. If the currency of home country declines against foreign currency the investment will lose value.

2. **Liquidity risk**: Liquidity risk refers to the possibility that an investor may not be able to buy or sell aninvestment as and when desired or in sufficient quantities because opportunities are limited. Theliquidity of a stock depends upon the nature of the fund. Investment in equity funds hold volatility from time to time whereas debt funds hold a risk of interest rates.

3. **Credit risk**: This refers to the possibility that a particular bond issuer will not be able to make expected interest rate payments and/or principal repayment. Credit risk occurs when bonds of a particular company being downgraded by the rating agencies causing lower price. There is a risk whether the fund has been invested in higher grade investment securities as a company can default in terms of paying interest or principal or both. It can also be tuned as Default risk.

A diversified portfolio of investments is the best way to manage risk. There are various ways tomitigate the risks:

i) Having equity mutual fund exposure within the risk tolerance.

ii) Ensuring that debt mutual fund exposure is well spread out.

iii) Having adequate exposure to debt assets outside to mutual fund.

iv) Ensuring the general assessment of risk. If the fund's return varies a lot it may be considered ahigher risk because its performance can change quickly in either direction.

Return Factors

It is the percentage increase or decrease in the value of the investment in a particular period.

The return on mutual funds can be calculated in three different degrees:

a) Absolute Return (Point to Point Return): Absolute return is the simple increase (or decrease) in investment in terms of percentage. It does not take into account the time taken for this change. The absolute return method is used if the tenure of investment is less than 1 year. It is calculated as

$$\frac{NAV_{End} - NAV_{Start}}{NAV_{Start}} \times 100 \quad \text{(i)}$$

b) Compounded Annual Growth Rate (CAGR): CAGR method is used to calculate return forthe period beyond one year for the investment in mutual funds. These are annualized in compounding effect. Hence it is also known as Annualized Return. It is calculated as

$$\left\{\sqrt[n]{\frac{T}{B}} - 1\right\} \times 100 \quad \text{(ii)}$$

Where n is no. of years, T is the terminal or maturity value of investment and B is the start valueor amount invested.

c) **Total Return**: This method overcomes the limitation of Absolute Return by including dividends. It is calculated as

$$\left\{\frac{D_t + (NAV_{End} - NAV_{Start})}{NAV_{Start}}\right\} \times 100 \quad \text{(iii)}$$

Dt = Dividend received per unit.

Dividends that are distributed during the holding period are added to absolute change in NAV and divided it by NAV on the starting date.

Liquidity Factors

Before the global financial crisis liquidity factors of any investment was not on everybody's radar. Liquidity risk can be categorized as:

1. **Funding (cash flow) liquidity**: It tends to manifest a credit risk that is inability to fund liability produces defaults. The basic ways of its measurement are current ratios and quick ratios.

2. **Market (Asset) liquidity**: It tends to manifests as market risks that is inability to sell an asset at time of requirement i.e. the market price indecipherability of a stock. The market liquidity of an investment can be measured in respect of width (bid ask spread), depth (position size) and resiliency.

However, Mutual funds are required to fulfill shareholder redemption requests within seven days. Asa result, funds must maintain sufficient liquidity in order to meet redemptions, and to minimize the impact on remaining shareholders. (PWC's A Closure Look, Asset Managers: The SEC's road ahead (May 2015).

Consistency Factors

The investments in mutual funds depend upon the need of the investor. For example, debt investments may not be appropriate for investors of short term objectives. For medium to long term objectives, equity fund investments are advisable. Historical long term performance, while a good indicator of fund's potential, does not guarantee future performance. The consistency of a fund's performance can be measured in terms of its performance with respect to its benchmarks and category average. In a bearish mode market, the returns may be negative, but the funds that fall less than their benchmarks or category average are outperformers. Similarly, in the bull market the outperformers are those that gain more than their benchmarks or category averages. Such funds beat the market and entails superior and advanced fund management skills. CRISIL accords special importance to consistent performers. As such, they have a separate ranking based on consistent returns.

Awareness Factors

From investor's point of view, the level of awareness of mutual funds can be termed as the first and foremost stage for investment in any such fund. A survey says that if the investors have been providedmore funds, 50 per cent of the investors would like to invest in the Real Estate, followed by 23 per cent in Mutual Funds and only 2 per cent in Equity Shares. Another survey stated that high salaried and high incomes self-employed are major investors due to the tax concessions. It was observed that small businessmen, farmers and persons belonging to rural and semi-urban areas in low income group had no awareness about the mutual funds. Considering the importance of investor awareness and protection, more so after the global economic meltdown, the government has decided to set up a committee to increase awareness among investors. "The issue of investor awareness and protection has been one of the main focus areas for regulators, government and other stakeholder...the global financial crisis has further highlighted the importance of financial awareness. It was accordingly decided to set up a committee," the government said in a release. (ET Bureau, 4 April 2009). Where as the newspapers and magazines are another source of information about various mutual fund schemes.

Specialization Factors

In the context of specialization, financial literacy plays a vital role. Financial literacy is vital if mutual funds are to extend their reach to smaller towns. The financial knowledge is needed to fully participate in the economy or to make informed decisions about own financial futures. A financial ignorant person suffers from financial diseases like underinsurance, debt trap, insufficient retirement funds and low return oninvestment. Three-fourth of Indian adults do not adequately understand key financial concepts such as inflation, compound interest and risk diversification, Standard & Poor's Ratings Services said. This is lower than the worldwide average of financial literacy, but roughly in line with other BRICS and South Asian nations. In comparison, 57percent of adults in US and 67 per cent in UK are financially literate. (ET Bureau Dec 15, 2021,). The innovations and growing complexities in financial products adds enormous pressure on investors. Hence, it is suggested that financial literacy should be started in a school. There is already the Investor Education And Protection Fund (IEPF) of BSE in which 1rupee of every transaction that takes place on a stock exchange is directed to the financial literacy fund. There is a need to increase the share of money from each transaction that will increase the availability of funds for organizing more seminars and creating financial literacy.

3. LITERATURE REVIEW

Priyanka Sharma and Payal Agrawal (2015) in their study made an attempt to understand the effect of demographic factors in mutual fund investment decisions. The study reveals that the investors' perception is dependent on their demographic profile. Investor's age, marital status and occupation has a direct impact on investors' choice of investment. The study further reveals that the female segment is not fully tapped. The research also reveals that the liquidity and transparency are some factors which have a high impact on investment decisions.Parihar B B S, Sharma R and Parihar D.S (2009) also studied that respondent's age, gender and income are significantly associated with their attitude. Desigan G, Lalaiselvi S and Anusuya L (2006) conducted a study on women investors' perception towards investment and found that women investors generally hesitate in investing in mutual funds due to lack of their knowledge and awareness regarding investment protection, procedure of making investment, valuation of investment and redressal of grievances regarding their investment related problems. Peggy D Dwyer, James H Gilkenson and John A List (2001) also concluded in their paper which suggests that women take less risk than men in theirmutual fund investments. Binod Kumar Singh (2012) had studied the impact of various demographic factors on investor's attitude towards mutual fund for measuring and analyzing various factors responsible for investment in mutual funds. SimranSaini and BimalAnjum (2011) had analyses the mutual fund investments in relation to investor's behavior that attract them to invest in mutual funds. Investor's opinion and perception has been studied relating to various issues like type of mutual fund scheme, main objective behind investing in mutual fund scheme, level of satisfaction, role of financial advisors and brokers, sourcesof information, deficiencies in the services provided by the mutual fund managers, challenges before the mutual fund industry etc. R. Vasudevan & Peermohaideen (2012) The study aimed to understand and analyze investor's perception of such risk and expectation associated with specific mutual fund. The research also revealed that investors perceive risk as under performance as risk and return in mutual fund investment are medium and not so satisfactory.

D. Rajasekar (2013) The study was conducted with a sample size of 150 respondent by using the statistical tools like percentage analysis, chi square, weighted average, with an objective to know about theinvestor's perception on their profile, income, savings pattern, investment patterns and their personality criteria. The study was concluded by taking into consideration various parameters involved in investors decision making keeping in mind investors perception towards mutual fund investment. Vipin Kumar&Preeti Bansal (2014) this research paper has focused attention on various parameters that highlightsinvestor's perception on mutual funds. It was studied that the scheme of mutual fund investment were not known to many of the investors as still the investors rely upon the traditional pattern of investments like investment in banks and investment in postal savings. As most of the mutual fund investors used to invest in mutual fund for not more than three years and used to quit from the fund as they were not giving desired result as stated in the objective during inception of mutual fund scheme. It was also found from the research that maximum number of mutual fund investor's has to depend upon their brokers and agent to invest in mutual fund. Subramanya PR (2015) The research has been studied on socio economic factors like age, gender, education income and savings of investor's perception towards mutual fund is not encouraging but the age of investor's and saving habit of the respondent is closely correlated. Mukesh. H.
V. (2015) had studied investor's perception on mutual fund for return, tax benefit and capital appreciation, but most of the investors lack awareness about mutual funds and their various schemes like, SIP (Systematic Investment Plan). Hence, it becomes necessary to create awareness among the investors through conducting seminars, workshops on financial market and published data like newspaper, magazines and journals. Preeti Khitoliya (2014) examined through her research that majority of the respondents in the age of 35-44 wish to invest in mutual fund having moderate risk which ensures wealth maximization followed by balanced fund and income funds. Similar results have been seen in the age group of 25-34. But a reverse trend wereseen in the age group of 45 above where majority is risk averse as they wish to invest in mutual fund schemes which guarantees safety of principal amount followed by balanced fund and growth fund. K.Lakshman Rao (2011) surveyed in their paper that majority of investing respondents were found to be in the age group of 31-50 years. People belonging to the age group of more than 60 years and less than 20 years were found to be less aware of different investment schemes and so their investments are comparatively much less. Singh and Jha (2009) conducted a study on awareness and acceptability of mutual fund and

found that consumers basically prefer mutual fund due to return potential, liquidity and safety and theywere not fully aware about the systematic investment plan. In this respect V Rathnamani (2013) concluded in her research that many investors prefer to invest in mutual fund in order to gain high gain at low level ofrisk, safety and liquidity.

4. RESEARCH OBJECTIVES

- To study investor's perception relating to liquidity and investment decision.
- To study the financial awareness of mutual fund investment
- To study the effect of gender difference on investment decision.
- To study the effect of age factors on investment decision in respect of age & gender

5. RESEARCH METHODOLOGY

Research Design: This research study is an analytical and descriptive research. It is related to the investment towards mutual funds in India. Sample Size: Primary source of data collection is used for present study with the sample size of 200 respondents. Chi square analysis was carried out to test the hypothesis.

Testing of Hypothesis: The study is based on the formulation of the following Null Hypothesis:$H1_0$ = There is association between liquidity factors and investment decision in mutual funds.

$H2_0$ = There is direct relationship between financial awareness level and investment behavior in mutual fund.

$H3_0$ = There is association between gender and investment decision in mutual fund.$H4_0$ = There is direct relationship between age and risk taking factors.

6. DATA ANALYSIS AND INTERPRETATION

$H1_0$= There is association between liquidity factors and investment decision in mutual funds.

Interpretation: Table value of chi square at .05 level of significance with df 4 is 9.49 and our calculated value 2.56 which is less than table value. Hence the hypothesis is accepted. It proves that there is a relationship between liquidity of mutual funds and investments in mutual funds.

$H2_0$= There is direct relationship between financial awareness level and investment behavior in mutual fund.

As, calculated value of Chi square is less than Table value, our hypothesis holds true. Thus acceptance of the hypothesis proves that there is a direct relationship between the financial awareness and mutual fund investment by customers.

$H3_0$= There is an association between gender and investment decision in mutual fund. Interpretation: The Table value of chi square at 5percent level of significance with degrees of freedom 2 is 5.99 and our calculated value is 0.97. As, calculated value of Chi square is less than Table value, our hypothesis holds true. Thus, the acceptance of the hypothesis proves that there is a direct relationship between the gender and mutual fund investment by them.

$H4_0$= There is direct relationship between age and risk taking factors.

Interpretation: The Table value of chi square at 5percent level of significance with degrees of freedom 6 is 12.6 but our calculated value is 9.69. As, calculated value of Chi square less than Table value,our hypothesis holds true. Thus acceptance of the hypothesis proves that them.

7. FINDINGS

1. The low risk funds attract the investors in mutual fund schemes.
2. Males are more interested in mutual fund investments than the females.
3. The youths and the elderly people are less aware about the mutual fund information.
4. The mutual fund investors consider the liquidity of fund schemes as also an important factor forinvestment in such.

7. IMPLICATIONS

Mutual fund has been focused as an investment avenue in past few years only. The financial growth and stability of an economy plays a vital role in this area. Gradually educated citizens are gaining the knowledge of saving and investment cycle and its effects in an economy. Many has opted for SIP. But still there are some lacking in our economy especially in the field of mutual fund investment criteria. Many people still hesitate to enter to this field. The research paper implies the various areas on which this industry has to struggle. The various target group, their awareness and financial literacy, their age group and gender differences play a vital role to upgrade the mutual fund industry.

8. SCOPE FOR FURTHER RESEARCH

The research work brings scope for other areas to enhance it. The education and awareness among people is very essential part. Research works may be preceded on various awareness programs and finance education and comparison of pre and post conditions of those target groups. Right people at right time with right information will definitely help to enhance the mutual fund investment. Female participation in investment dealings should also be encouraged. With girl child education and female job opportunities, the income generated by females has increased, with increased income, investment has to be increased. Thus this paper gives scope for female participation in mutual fund investment. The age groups of people also affect their investment decisions. But mutual fund actually is the simplest and easiest technique of return generation. It is more convenient for senior citizens as they remain dependent on others in various aspects. This paper also gives scope to work on people of various age groups and their attitude toward mutual fund. This will help to get solutions of many problems which discourage mutual fund investment. The paper directly gives scope to research on strong portfolio investments. The detailed investigation of many companies is to be searched out for the same.

9. CONCLUSION

Mutual fund industry has still to struggle to gain more investors. Financial literacy among females and youths will definitely bring a huge success to this industry. For that reason the government is looking to provide financial studies in school level. Adults who are already mutual fund investors should not withdraw from the same as they attain experience in the field. In Indian market where financial instruments are

capturing almost every unit of society, mutual fund industry has a great scope if it gives more attention to some factors which will ultimately lead to satisfaction of investors which will help the mutual fund industry to boom up. The organization to boost the mutual fund investment company shall educate the public to the benefits of mutual funds through the advertisement ,publicity campaigns having stall exhibition. The District Adoption Program [DAP] and the Investor Awareness Program [IAP] done by each AMC are aimed at improving awareness about mutual funds in locations that have nil or minimal penetration of mutual funds. AMCs have held 6,600 IAP across 250 cities covering 0.26 million participants in the first six months of the current fiscal year.

A. Observed Frequency Annexure

Table 1
Liquidity Factors and Mutual Fund Investment Decision

Category	*Very Important*	*Neutral*	*Not so Important*	*Total*
Individual	75	10	5	90
NRIs	30	8	2	40
Corporate	55	12	3	70
Total	160	30	10	200

Observed Frequency

Age	*Financial Awareness*		*Total*
	Yes	*No*	
25-34	35	18	53
35-44	43	16	59
45-54	40	18	58
55 +	22	8	30
Total	140	60	200

Table 3
Gender and Mutual Fund Investment

Observed Frequency

Category	*Positive*	*Neutral*	*Negative*	*Total*
Male	62	15	23	100
Female	58	20	22	100
Total	120	35	45	200

Table 4
Age and Risk Taking Factors
Observed Frequency

Age	*High risk*	*Moderate risk*	*Low risk*	*Total*
<30	2	11	17	30
31-40	11	35	34	80
41-50	2	31	37	70
51<	0	8	12	20
Total	15	85	100	200

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