

Investors Behaviour Towards Investment in Indian Mutual Funds

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Abstract:

India is going through a period of saving and investing, particularly with the development of its working class. The assets under administration of different fund companies have increased as a result of the rapid growth of the Indian mutual fund business. This study concentrated on a variety of variables that emphasize investors' preferences and behaviour toward mutual funds. Studies have been done on how different demographic and behavioural aspects affect investors. The study's design, methodology, and approach are survey-based and empirical. This study has collected data through primary and secondary data. Through the use of structured questionnaires, data is gathered. The hypotheses have employed frequency distribution, percentages, the chi square test, an analysis of variance (ANOVA), an average score calculation, and the Kruskal Wallis test. Additionally, Cronbach's Alpha (CFA) is used to gauge the variables' internal consistency.

The study's key conclusions point out that investors' investing decisions are influenced by demographic considerations. Additionally, it was discovered that older, more educated individuals favoured investments with high rates of return that were safe. Risk is avoided. The study would be helpful for academicians and scholars conducting additional research, as well as for brokers, dealers, investors, and share market administrators.

Research Applications/Limitations: This study helps to understand how investors behave when investing in mutual funds. Even with the utmost care, there were some limitations in this study that could have affected the results. It is challenging to extrapolate the results to a large population because only 100 samples of respondents of Hyderabad city were chosen for the convenience sampling method.

Relevant Applications: contributes to the corpus of information about investor behaviours, perceptions, and attitudes regarding investing in mutual funds, as well as the implications of such findings for policymaking by investors, organisations, and the government.

Originality/Value: This study presents a framework of pertinent standards and resources that will be helpful to people with an interest in the subject.

Keywords: Mutual funds, investor behaviour, risk and returns, perception and attitude

INTRODUCTION

An investor has access to a wide range of investment instruments, including non-marketable financial assets, equity shares, debt instruments, bonds, precious metals, mutual funds, life insurance, financial derivatives, real estate, etc. Mutual Funds (MFs) have become a key investment option for retail (small) investors as a result of financial sector reforms and changes to the Indian financial markets. Mutual funds have given all types of investors, especially small investors, a better choice to obtaining the advantages of expertise-based equity investments.

Fig1 Mutual Funds



A sort of trust known as a mutual fund pools the savings of numerous investors who have the same financial goals. Shares, debentures, and other capital market instruments are purchased with the money raised from investors. How much of the income and capital gains generated by these assets a unit holder receives depends on how many units they own. As a result, a mutual fund is the best investing option for the typical individual because it allows them to invest in a choice of expertly managed assets at a fair price.

A mutual fund is a specific kind of investment company that connects big businesses with small investors. Mutual funds provide an investing option for retail investors or individual investors who are unsure of the stock market but yet wish to spend a small amount of money there. Mutual funds, which are pure intermediaries, carry out the primary role of buying and selling securities on behalf of their investors or unit holders. Several investors' savings are combined by mutual funds, which then invest those funds' assets in stocks and other securities.

The development of capital markets and the creation of the equity cult in an economy are both dependent on mutual funds. Unit Trust of India's establishment in 1963 marked the beginning of the growth of the Indian mutual fund industry. Working together, the Government of India and the Reserve Bank of India were able to accomplish the main objective at the time, which was to attract small or retail investors for investment.

A mutual trust is a trust that is set up with a sponsor, trustee, assets management company (AMC), and custodian. The person who establishes a mutual fund, either alone or jointly with another body corporate, is referred to as the sponsor. The sponsor must provide at least 40% of the investment manager's net worth and satisfy the eligibility standards stipulated in the Securities and Exchange Board of India's (Mutual Funds Act, 1996) regulations. In compliance with the Indian Trusts Act of 1882, the Sponsor creates the Mutual Fund as a trust. A trustee is typically a corporation (corporate body) or a board of trustees (group of people). The trustee's main responsibility is to safeguard the interests of unit holders while also making sure that AMC complies with the requirements of the Trust Deed, the Securities and Exchange Board of India (Mutual Fund) Regulations 1996, and the offer documents of the applicable schemes. Investors choose the AMC, which keeps track of their investments. The industry's total AUM is still well short of the Trustees' goal of Rs. 97 trillion.

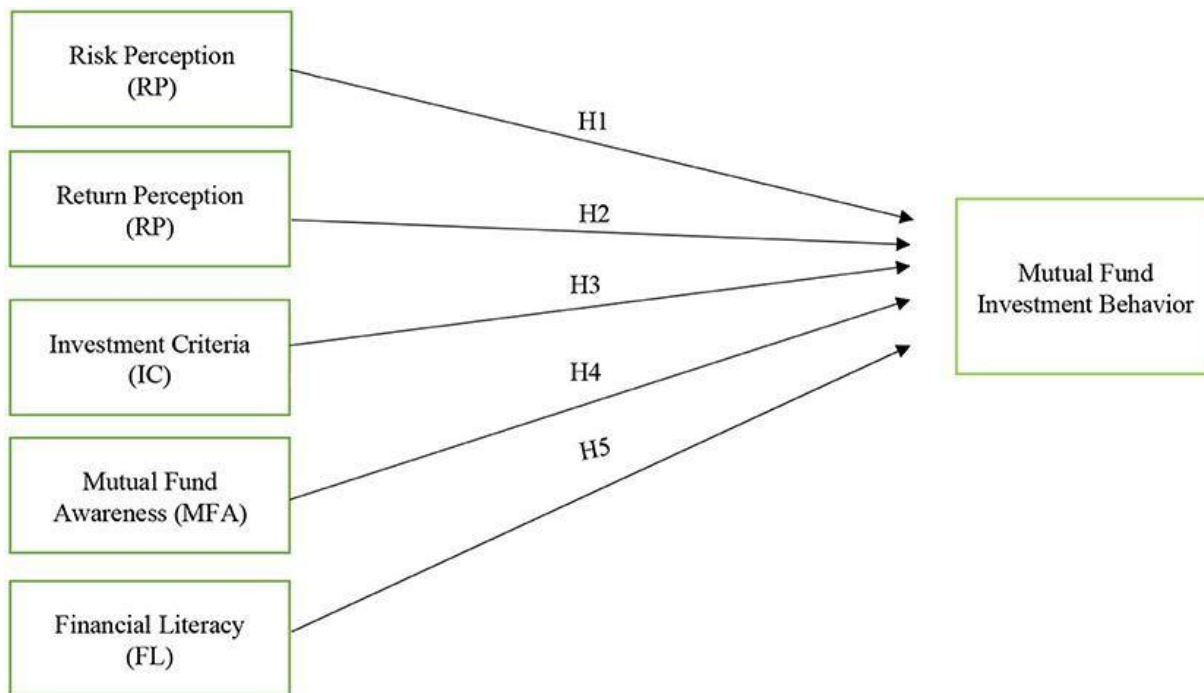


Fig2 Mutual funds Investor Behaviour

To function as the asset management business for the Mutual Fund, the AMC needs SEBI clearance. The Registrar and Transfer Agent are chosen by the AMC to represent the mutual fund, if permitted by the Trust Deed. India is one of the countries whose asset management markets are growing the fastest globally. There were 42 active asset management firms across the nation as of November 2017. During the fiscal year 2016–17, India saw a record-breaking inflow of mutual fund capital, totaling US\$51.02 billion. The Association of Mutual Funds in India (AMFI) statistics indicate that during the fiscal year 1999–2000, this was the largest investment in mutual fund schemes. Between April and January 2018, systematic investment plan (SIP) inflows into Indian mutual fund schemes reached Rs 536 billion (\$8.34 billion).

A variety of securities are available through mutual funds for investment. There are countless subcategories, the most common of which being cash, stocks, and bonds. Stock funds primarily invest in the stocks of businesses in a certain industry, such as technology or utilities. They're known as sector funds. Risk (such as high-yield or junk bonds, investment-grade corporate bonds), issuer type (such as governments, corporations, or municipalities), and bond maturity (short- or long-term) are all factors that might affect the bond funds' performance. Investing in securities that are primarily foreign, both domestic and foreign, or both domestic and foreign (domestic funds) is possible for both stock and bond funds.

Review of Literature:

In order to determine what information sources individual investors rely on, Shanmugham (2000) conducted a survey of them. The findings demonstrated how economic, social, and psychological aspects influence investing decisions.

According to a study by Singh and Jha (2009) on mutual fund awareness and acceptance, consumers primarily like mutual funds because of their return potential, liquidity, and safety, even though they may not fully understand systematic investing plans. Before investing in mutual funds, investors will take a number of variables into account.

Using survey data from 350 individual investors, Chandra & Kumar (2012) came to the conclusion that investor behaviour is influenced by a number of psychological heuristics and biases. Their findings highlight an uneven structure of information use and distribution among investors, which significantly affects their investment behaviour.

The effect of demographics on the investment options chosen by investors in the cities of Hyderabad and Secunderabad was studied by Sireesha & Laxmi in 2013. They discovered that factors such as gender, age, and peer group had an impact on investing decisions. They also discovered that while investors are less concerned with money growth and liquidity, they do want their money to be safe and risk-free.

In the Tamil Nadu city of Vellore, Velmurugan et al. (2015) conducted research on how investors perceive investing in mutual funds. They discovered that older and higher-earning investors favour post office and bank savings for reasons of safety. They also noted that male and female investors have more or less the same perceptions of different investment opportunities.

Budhiraja (2015) identified the investment behaviour of retail investors with a focus on the mutual fund sector. They discovered that the rate of return connected with the investment option is the most crucial aspect for practically all age groups. The results of the study indicated that risk appetite and age groups are related, but that there is no relationship between investor risk appetite and educational attainment. Last but not least, neither the gender of the investor nor the different classes of investors much affect the influence of other aspects while investing.

Baral (2016) investigated the development of mutual funds in India and examined the industry's growth trajectory. In India, where regular investors account for 97.7% of the country's 4.70 crore investor accounts, mutual funds have become a significant financial middleman on a worldwide scale.

The current state of the Indian mutual fund industry and recent development initiatives announced by regulatory authorities were noted by Virk & Singh (2017). Sanjay and Raj (2019) made an effort to examine the mutual fund industry's growth in AUM, Investor Accounts, Investor-wise (Retail & HNI) growth rate, and Scheme-wise (Investor Account) growth rate over time. They discovered that the MF industry is expanding in terms of AUM and scheme-wise policy as well, but that there is a discrepancy between equity and debt.

Objectives of the study:

The ensuing goals are set up to investigate how investors behave in relation to various investment opportunities.

- **To examine how different demographic factors affect investors' perceptions of mutual funds.**
- **To research the elements that affect how investors behave when making investments.**
- **To learn how investors view the characteristics of low risk/safety, liquidity, high returns, and reputation of the company.**
- **To identify the variables influencing investors' choice of or preference among various investment opportunities.**

HYPOTHESES ARE TESTED

For the investigation of investors' attitudes about mutual funds, the following null hypotheses have been chosen.

- The amount invested in a mutual fund and the investor's yearly income are unrelated.
- Investor qualifications and mutual fund knowledge are independent of one another.
- The most important factor considered while making an investment decision and the investor's age are unrelated.
- The individual investor's occupation and the quality that appeals to him the most are unrelated.
- Investors' perceptions of low risk/safety, liquidity, corporate repute, and high returns are not significantly different.
- The respondents' preferences for different investment options do not differ significantly based on their age or income level.

RESULT ANALYSIS METHODS

The study uses a survey approach and is empirical and analytical. The study's approach intends to examine how retail investors like to invest their money and how demographic analysis might be used to allocate these preferences using primary data. A diverse sample of 100 educated investors in mutual funds from Hyderabad city of India was chosen for this study using a sampling technique. The majority of the information needed for this analytical investigation came from primary sources, but secondary data sources were occasionally taken into consideration as well.

The secondary data was gathered from relevant research papers, books, journals, reports, and websites that were approved sources of information, including Mutual Funds of India, the Association of Mutual Funds of India (AMFI),

the Reserve Bank of India (RBI), and Securities and Exchange Board of India (SEBI). Direct interviewing and a structured questionnaire with open-ended and closed-ended questions were employed as the data collecting methods to extract the needed information from primary sources.

The demographic profile of investors is covered in Part I of the questionnaire, and investor behaviour is covered in Part II. The sample was collected using judgement and practical sampling techniques. Cronbach Alpha was used to assess the reliability of the nine-item subset. The Cronbach Alpha for the 100 sets of answers was 0.842. This demonstrates that the items' internal consistency is fairly high. Several statistical methods, primarily descriptive statistics (percentages, frequency distributions, and averages), ANOVA, Chi-square test, Average Mean Score, and Kruskal Wallis test have been utilised to analyse the obtained data. The data was examined using SPSS, a software package for social sciences.

DATA ANALYSIS AND INTERPRETATION

The analysis of the data obtained from the questionnaire, which takes into account each factor, is shown below: Statistical Profile of Investors (Percentage Analysis)

The investor's investment preference has been categorized based on a number of socioeconomic aspects and a few specific investment profile factors, i.e.

Table 1 Distribution of Sample Data

Variables	Category	Frequency	Percentage
Gender	Male	56	56
	Female	44	44
Age	Total	100	100
	Less than 30 years	43	43
	30-40	27	27
	40-50	19	19
	More than 50 years	11	11
	Total	100	100
Occupation	Professionals	18	18
	Business	23	23
	Salaried	57	57
	Retired	2	2
	Total	100	100
Education	High School	3	3
	Graduation	26	26
	Post Graduation	49	49
	Total	100	100
	Professional	22	22
Total		100	100

Income Status	Less than 5 lakh	51	51
	5-15	34	34
	15-25	12	12
	More than 25 lakh	3	3
	Total	100	100

Source: Authors' Findings.

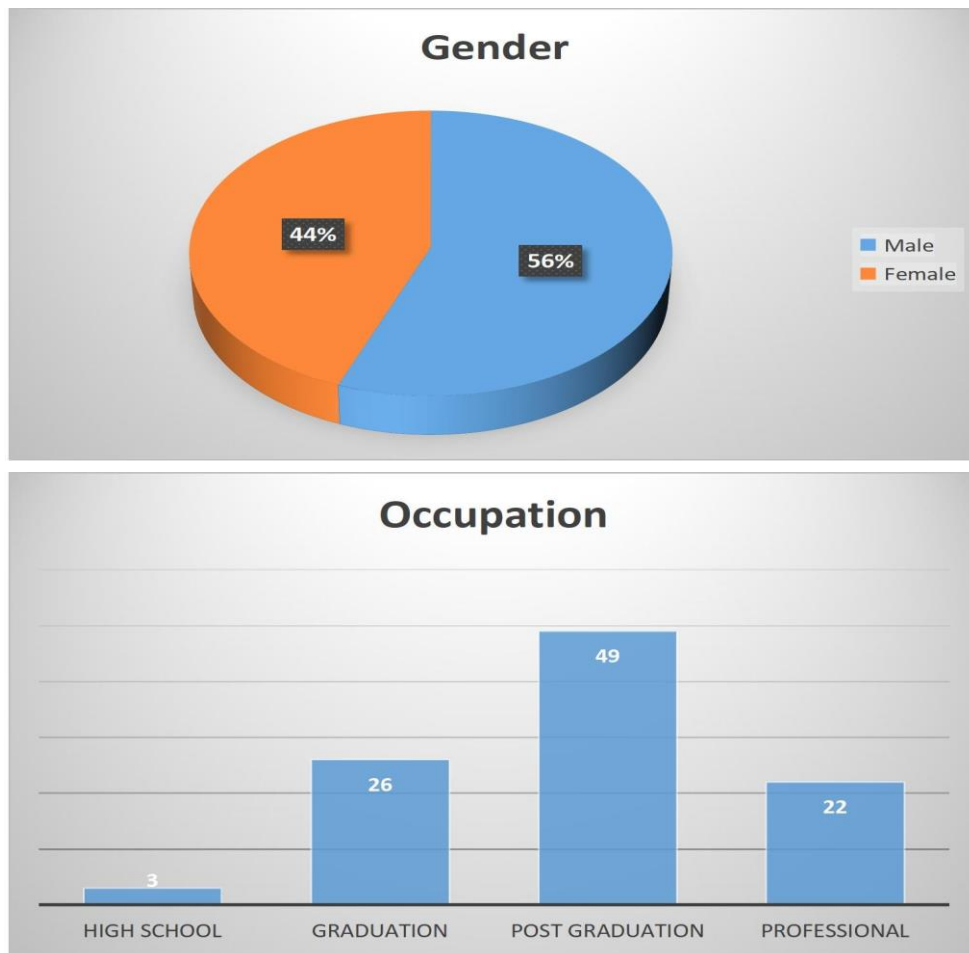


Figure3 Gender of the respondents

Figure4 Occupation details

Only 8% of the investors were female, as shown in the table above, with 92% being men. The aforementioned graph makes it evident that the majority of investors are under the age of 30, followed by those between the ages of 30 and 40. The majority of investors follow businesspeople and other professionals in the salaried profile. Most of the responders had post-graduate degrees, followed by investors with graduate degrees and people with professional degrees. According to the investor's annual income profile, 51% of investors have incomes of less than Rs 5 lakh, while 34% have incomes ranging from Rs 5 lakh to Rs 15 lakh.

The Investor's Favorite Investment Avenue Is Behavior Analysis

Savings accounts are preferred by the majority of investors (57%) followed by mutual funds(53%). 18% of people choose to invest in the post office.

Investors' annual income and mutual fund investment amounts

The relationship between an investor's income and their mutual fund investment has been evaluated using the chi square test.

Table 2 Incomes of Investors and Amount of Investment in Mutual Funds Amount of Investment (in Rs.)

Annual Income	Less than 50000	50000-100000	More than 100000	Total
Less than 5 lakh	29	22	0	51
5-15 lakh	4	22	8	34
15-25 lakh	2	6	4	12
More than 25 lakh	0	1	2	3
Total	35	51	14	100

Table 2's calculated and tabulated values for the Chi square are 30.169 and 12.592, respectively. H_0 is rejected because the calculated value is smaller than the tabular value. The amount invested in a mutual fund and the investor's yearly income are correlated.

Qualification of Respondents and Mutual Funds Knowledge

Chi square analysis has been used to determine the relationship between investor qualification and mutual fund knowledge.

Qualification	Ignorant	Partial Knowledge	Aware of specifics	Fully Aware	Total
High School	0	0	3	0	3
Graduation	3	7	14	2	26
Post-Graduation	0	29	15	5	49
Professional	0	1	18	3	22
Total	3	37	50	10	100

Table 3 Qualifications of Respondents and Knowledge about Mutual Funds

The calculated value of $\chi^2 = 288.779$ and the tabular value of $\chi^2 = 16.919$, both at the 5% level of significance, indicate an inference. The null hypothesis is disproven. As a result, investor qualifications and mutual fund knowledge are interdependent. Typically, it is stated that a person's qualifications would also influence his understanding of the numerous investing opportunities.

Investors' ages and the most important considerations when making investments

The ANOVA test has been used to determine whether there is a correlation between investors' age and the criteria they value most when making investment decisions.

Table 4 Factors Preferred the Most by Investors

Age	Liquidity	High Return	Low Risk	Company Image	Total
Less than 30 Years	8	21	9	5	43
30-40 years	7	14	5	1	27
40-50 years	5	6	5	3	19
50 Years & Above	2	3	5	1	11
Total	22	44	24	10	100

Table 5: ANOVA

Inference: The null hypothesis is rejected at the 5% level of significance since the p value is less than 0.05. The null hypothesis is disproven. Age of the investors and the factors most important when making investment decisions are interdependent.

Investor Behaviour Analysis (Average Score Analysis)

The average score analysis has been used to study the elements influencing investment decisions. To determine the factor that has the most influence on decision-making, the respondents' ages were compared to the major factors that affected their investment choices.

Table 5 Mean Score Analysis of Age vs. Factors Influencing Investment in Mutual Funds

Age	Liquidity	High Return	Low Risk	Reputation of the Company	Total
Less than 30 years	1.146	1.98	2.57	2.57	2.87
30-40	1.44	1.55	2.16	2.87	2.92
40-50	1.22	1.24	2.15	3.68	2.86
More than 50 years	1.17	1.21	2.43	3.47	2.52
Total	1.19	1.68	2.34	2.72	2.64

Table 6 the rate of return is the main element that influences decision-making for people of all ages. Next, the risk element has an impact on the choices made by investors of all ages. When making financial selections, the over-50 age group focuses primarily on the risk associated with the transaction.

Investors' occupations and the qualities that most entice them to invest in mutual funds The association between investor occupation and the elements that appeal to investors the most when investing in mutual funds has been investigated using the ANOVA test.

Test of Kruskal-Wallis

This test has been used to determine whether there is no discernible variation in the respondents' preferences for different investment routes according to their age and income level. The information about age, yearly income, and investment options is provided in the table below:

Table 7 Age, Annual Income and Investor's Perception towards Investment Avenues

Investment Avenues	Age	Chi-Square	Asymp. sig.	Annual Income	Chi-Square	Asymp. sig.
Saving account	Less than 30 years	12.54	.003*	Less than 5 lakh	0.856	.629
	30-40			5-16		
	40-50			16-27		
	More than 50 years			More than 25 lakh		
Mutual Funds	Less than 30 years	15.44	.007*	Less than 5 lakh	9.22	.025*
	30-40			5-16		
	40-50			16-27		
	More than 50 years			More than 25 lakh		
Gold/Silver	Less than 30 years	13.14	.000*	Less than 5 lakh	3.97	.185
	30-40			5-16		
	40-50			16-27		
	More than 50 years			More than 25 lakh		
Stock Market	Less than 30 years	24.56	.002*	Less than 5 lakh	2.165	.578
	30-40			5-16		
	40-50			16-27		
	More than 50 years			More than 25 lakh		
FDs	Less than 30 years	3.87	.127	Less than 5 lakh	2.922	.422
	30-40			5-16		
	40-50			16-27		
	More than 50 years			More than 25 lakh		
Insurance	Less than 30 years	6.82	.085	Less than 5 lakh	6.44	.069
	30-40			5-16		

	40-50			16-27		
	More than 50 years			More than 25 lakh		
Real Estates	Less than 30 years	3.92	.143	Less than 5 lakh	2.05	.319
	30-40			5-16		
	40-50			16-27		
	More than 50 years			More than 25 lakh		
Post Office	Less than 30 years	11.26	.005*	Less than 5 lakh	8.45	.017*
	30-40			5-16		
	40-50			16-27		
	More than 50 years			More than 25 lakh		

Source: Author's findings. *Significant at 5% level.

The table shows that there is a strong correlation between age and investment strategies. With the exception of the variables FDs, real estate, and insurance, the calculated values of the Kruskal Wallis test for all variables, including saving account (0.002), mutual funds (0.006), gold/silver (0.000), stock market (0.001), and post office (0.003), are all less than the fictitious value ($=0.05$) at the 5% level of significance. Thus, the null hypothesis is disproved. As a result, there is a considerable relationship between investor behaviour toward various investment routes and age.

Additionally, we used the same technique to investigate the relationship between income level and investors' perceptions of various investment possibilities. At a 5% level of significance, the computed value of variables like mutual funds and the post office is lower than the fictitious value ($=0.05$). Thus, the null hypothesis is disproved. It follows that there is a correlation between investors' income position and how they perceive certain variables. The order perception for investments in mutual funds and the post office is therefore consistent regardless of income level, whereas it differs for savings accounts, the stock market, insurance, money market accounts, gold and silver, and real estate.

RESULT OF THE STUDY

The study's conclusions show that return potential and liquidity continue to be important elements when it comes to motivating people to invest in mutual funds. The majority of investors follow businesspeople and other professionals in the salaried profile. Savings accounts are preferred by the majority of investors (57%) followed by mutual funds (53%). The majority of investors are capable of taking on moderate risks, with low-risk investors coming in close second. Only 38% of investors used brokers and agents, while 28% invested in mutual funds based on advice and knowledge from friends and family.

The factors that investors value most while making investment decisions are dependent on one another, as are the investors' ages, mutual fund knowledge, and educational backgrounds.

SUGGESTIONS

Investors are advised to keep their investments for a long time while considering their risk tolerance and saving habits,

to use private financial consultants to help them create an investment portfolio that will lower their risk exposure, to avoid investing in highly volatile securities, to gather as much information as they can before making an investment, and to conduct periodic reviews of their investments and risk analysis.

To manage the risk associated with investments, investors should carefully and sensibly diversify their mutual fund holdings. Additionally, it is advised that investors develop a practise of regular saving because little sums of money saved over time will grow into larger capital bases, allowing them to continually make extra income despite shifting market conditions. One of the main recommendations is to put a decent portion of your money in liquid securities so that you can cover any unforeseen circumstances.

CONCLUSION

The study has highlighted the variations in investment behaviour among distinct classes of investors based on demographic variations. According to the report, investors are aware of the numerous mutual fund plans. Investors are drawn to mutual funds by their superior return, safety, and tax advantages. The nation's mutual fund industry has a lot to learn about and anticipate. The business is becoming more important as the country's working class and youth population develop, despite the obstacles it faces in terms of lack of awareness and poor financial literacy.

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