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AN INDIAN PERSPECTIVE ON INVESTORS' ATTITUDES ON MUTUAL FUND INVESTMENTS

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ABSTRACT:
The Indian financial industry is become more competitive by the day and the supply of different financial instruments must match investor demand. The main goal of any investment is to maximize profit while minimizing risk and mutual funds give investor this chance. The study sheds light on the different kinds of hazards that can be present in a mutual fund scheme. Both mutual fund investors and those who did not invest in mutual fund in this business provided the data. The study focuses on how variables like liquidity, financial literacy and demography relate to investing decisions. Low risk funds and fund scheme liquidity were found to have an effect on investors' attitudes towards mutual fund investing.
Keywords: Financial Instrument, Investors Decision, Risk, Return

1. INTRODUCTION:

Sociaete Generale de Belique established by King Willam of the Netherlands in 1822 was the world's first mutual fund. With the establishment of UTI in 1964 through a parliamentary statute, mutual funds first became popular in India. Why should there be a mutual fund? was the topic of discussion that was first brought up. It is an attempt to mobilize the savings of small investors was the explanation given. This is the mutual fund industry's main goal. It assist those investors who for whatever reason are unable to allocate their funds to the appropriate stocks or direction. These retail investors may have smaller savings, lack of knowledge of the financial markets, lack specialized skills for investing or be afraid of risk-return analysis. A mutual fund then is a trust that combines the savings of several investors with similar financial objectives. At this time, there are roughly 44 AMCs operating within India. The AUM of Indian Asset Management Companies was recorded at 10.5 trillion in December 2014, equating to 0.5 percent of the global AUM. Kothari Pioneer holds the distinction of being the first private sector mutual fund, having been registered in July 1993.
There has been a notable increase in the number of mutual fund houses, as many foreign mutual funds have launched their offerings in India. The industry has also seen various mergers and acquisitions. The involvement of commercial banks and private players in the mutual fund sector, combined with the rapid development of Indian capital markets over the last few years, has led to remarkable growth in mutual funds. Following this, mutual funds backed by private sector organizations gained entry into the capital market. The regulations were updated in 1996 and have seen amendments over the years. SEBI has also provided guidelines to mutual funds at various intervals to ensure the protection of investors' interests. All mutual funds, whether sponsored by public sector, private sector, or foreign entities, are regulated by the same set of rules. There is no distinction in the regulatory requirements for these funds, and they are all under the supervision and inspection of SEBI. The risks associated with the schemes offered by these mutual funds are of similar types.

2. FACTORS EFFECTNG MUTUAL FUND INVESTMENT DECISION:

Investor decision-making in the mutual fund industry is influenced by several key parameters, which can be grouped as follows:

- Risk Factor

- Return Factor
- Liquidity Factor
- Consistency Factor
- Awareness Factor
- Specialization Factor
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Risk Factor:

Investments in mutual funds and securities are inherently subject to market risk, which can lead to fluctuations in the Net Asset Value (NAV) of the schemes based on various market influences. In this context, the offer documents, including the Statement of Additional Information (SAI), Scheme Information Document (SID), and Key Information Memorandum (KIM), can provide valuable insights for investors. Additionally, mutual funds are mandated to outline the risk factors present in their offer documents, which impact both the funds and the investors. The risks associated with mutual fund investments can be categorized as follows:

- **Market Risk**:

Stock prices are consistently influenced by economic conditions at local, national, and international levels. The performance of an economy typically has an inverse relationship with the associated risks. Market risk may encompass:

i. Country risk pertains to the fluctuations in foreign investment due to the political instability present in the nation where the investment is made.

ii. Political risk involves the variations in domestic investment that arise from political instability within the home country, including factors such as civil unrest, government policies, terrorism, and other societal changes.

iii. Interest rate risk is most pronounced in long-term and fixed-income securities, such as bonds and preferred stocks, while shorter-term instruments like treasury bills and money market assets experience comparatively less impact.

- **Liquidity Risk:**

  It pertains to the chance that an investor may face difficulties in buying or selling an investment at their preferred time or in adequate amounts due to limited opportunities. The liquidity of a stock is influenced by the type of fund involved. Equity funds tend to exhibit volatility over time, while debt funds carry the risk associated with interest rate fluctuations.

- **Credit Risk:**

  This pertains to the likelihood that a specific bond issuer may fail to fulfill anticipated interest payments and/or repay the principal amount. Credit risk arises when a company's bonds are downgraded by rating agencies, leading to a decrease in their market value. There is a concern regarding whether the fund has invested in higher-rated securities, as a company may default on its interest or principal obligations, or potentially both. This situation is also referred to as default risk.

To effectively manage risk, a diversified investment portfolio is essential. Various strategies can help mitigate risks:

i) Keeping equity mutual fund investments aligned with your risk tolerance.
ii) Spreading debt mutual fund investments across different avenues.
iii) Ensuring adequate investment in debt assets outside of mutual funds.
iv) Performing a comprehensive risk evaluation. A fund that experiences considerable return variability may be classified as higher risk due to its potential for rapid performance changes.

Return Factor:

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The return on an investment over a specific period is expressed as the percentage change in its value, whether that change is an increase or a decrease. There are three distinct methods to calculate the return on mutual funds.

- Absolute Return
- Compounded Annual Growth Rate
- Total Return

Liquidity Factors:
Prior to the global financial crisis, liquidity considerations in investments were not widely acknowledged. Liquidity risk can be divided into two main categories:

1. Funding (cash flow) liquidity: This type of risk often presents as credit risk, where the inability to meet liabilities leads to defaults. Common metrics for assessing this risk include current ratios and quick ratios.
2. Market (Asset) liquidity:
This risk is associated with market conditions, specifically the inability to sell an asset when needed, which can result in unpredictable market prices for stocks. Market liquidity can be evaluated based on factors such as bid-ask spread (width), position size (depth), and market resilience.

Consistency Factors:
Investment choices in mutual funds are largely influenced by the individual investor's objectives. For instance, debt investments may not suit those with short-term goals. Conversely, for medium to long-term aspirations, equity fund investments are recommended. While historical long-term performance serves as a useful indicator of a fund's potential, it does not ensure future results. The reliability of a fund's performance can be assessed by comparing it to its benchmarks and the average performance of its category. In a declining market, funds that experience smaller losses than their benchmarks or category averages are considered outperformers. In a rising market, outperformers are those that achieve greater gains than their benchmarks or category averages. Such funds demonstrate superior market performance, reflecting advanced fund management capabilities. CRISIL places significant emphasis on consistent performers, offering a distinct ranking system based on steady returns.

Awareness Factor:
From an investor's standpoint, the degree of awareness regarding mutual funds is the essential first step in the investment process. A survey reveals that if given more financial resources, 50% of investors would prefer to allocate their funds to Real Estate, with 23% choosing Mutual Funds and only 2% selecting Equity Shares. Another survey highlighted that high-income individuals and self-employed professionals are the predominant investors, primarily due to the tax advantages available to them. It was found that small-scale entrepreneurs, farmers, and individuals from rural and semi-urban low-income demographics are largely uninformed about mutual funds. In light of the critical need for investor awareness and protection, particularly following the global economic downturn, the government has decided to establish a committee dedicated to promoting investor education. "The focus on investor awareness and protection has been a priority for regulators, the government, and other stakeholders... the global financial crisis has further emphasized the need for financial literacy. Therefore, a committee has been formed," the government announced in a statement. Furthermore, newspapers and magazines provide additional information regarding various mutual fund options.

Specialization Factor:

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Financial literacy is a critical component in the context of specialization. For mutual funds to effectively reach smaller towns, a strong foundation in financial knowledge is necessary. Individuals must be equipped to participate in the economy and make informed decisions about their financial futures. Those who lack this knowledge often encounter financial challenges such as underinsurance, debt traps, insufficient retirement savings, and low investment returns. Standard & Poor's Ratings Services reports that 75% of Indian adults do not fully understand essential financial concepts, including inflation, compound interest, and risk diversification. This level of understanding is below the global average but is comparable to other BRICS and South Asian nations. In contrast, 57% of adults in the U.S. and 67% in the U.K. are financially literate. The growing complexity of financial products adds significant pressure on investors. As a result, it is advisable to introduce financial literacy programs in schools. The Investor Education and Protection Fund (IEPF) of BSE currently directs 1 rupee from each stock exchange transaction to support financial literacy efforts. Increasing the share of funds from these transactions is necessary to organize more seminars and enhance financial education.

2. LITERATURE REVIEW:

In their 2015 study, Priyanka Sharma and Payal Agrawal explored how demographic factors influence mutual fund investment decisions. Their findings indicate that investors' perceptions are closely linked to their demographic characteristics. Specifically, factors such as age, marital status, and occupation significantly affect investment choices. Additionally, the research highlights that the female investor segment remains underutilized.

V. (2015) examined investors' perceptions regarding mutual funds in terms of returns, tax advantages, and capital growth. However, a significant number of investors remain uninformed about mutual funds and their diverse schemes, such as the Systematic Investment Plan (SIP). Therefore, it is essential to enhance investor awareness by organizing seminars and workshops focused on the financial market, as well as disseminating information through newspapers, magazines, and journals.

Binod Kumar Singh (2012) conducted a study examining how different demographic factors influence investors' attitudes toward mutual funds, aiming to identify and analyse the various elements that drive investment in these financial products.

R. Vasudevan and Peermohaideen (2012) conducted a study to explore and analyze investors' perceptions regarding the risks and expectations linked to particular mutual funds. The findings indicated that investors view risk primarily as underperformance, noting that the risk and return associated with mutual fund investments are moderate and often unsatisfactory.

The research conducted by Parihar B B S, Sharma R, and Parihar D.S (2009) revealed a significant correlation between respondents' age, gender, and income with their attitudes.

A study by Desigan G, Lalaiselvi S, and Anusuya L (2006) focused on the perceptions of women investors towards investment. It was found that women tend to be reluctant to invest in mutual funds primarily due to insufficient knowledge and awareness about investment protection, the investment process, valuation, and grievance redressal related to their investment issues.

A study conducted by A List (2001) indicated that women tend to engage in less risky behaviour compared to men when it comes to their mutual fund investments.

3. OBJECTIVE OF THE STUDY:

- To assess how investors perceive liquidity and its role in their investment decisions.
- To evaluate the financial knowledge related to mutual fund investments.
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4. RESEARCH METHODOLOGY:

This research study is an analytical and descriptive research. It is related to the investment towards mutual funds in India. This research study employs both analytical and descriptive methodologies. It focuses on investments in mutual funds within India.

5. TESTING OF HYPOTHESIS:

H_{01}: There is no association between liquidity factors and investment decision in mutual funds.
H_{02}: There is direct relationship between financial awareness level and investment behaviour in mutual fund.

6. DATA ANALYSIS AND INTERPRETATION:

H_{01}: There is no association between liquidity factors and investment decision in mutual funds.

Table 1: liquidity Factors and Mutual Fund Investment Decision

Category	*Very Important*	*Nutral*	*Not So Important*	*Total*
Indivisual	75	10	5	90
NRIs	30	8	2	40
Corporate	55	12	3	70
Total	160	30	10	

The chi-square table value at a significance level of 0.05 with 4 degrees of freedom is 9.49, while our calculated value is 2.56, which is below the table value. Therefore, the hypothesis is accepted. This indicates that there exists a relationship between the liquidity of mutual funds and investments in mutual funds.

H_{02}: There is direct relationship between financial awareness level and investment behaviour in mutual fund.

Table 2: Financial Awareness and Investment Behaviour

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

7. FINDINGS:

- Low-risk funds appeal to investors participating in mutual fund schemes.
- Male investors exhibit a greater interest in mutual fund investments compared to their female counterparts.
- Both young individuals and senior citizens demonstrate a limited awareness of mutual fund information.
- Investors in mutual funds regard the liquidity of fund schemes as a significant consideration for their investment decisions.

8. CONCLUSION:

The mutual fund industry continues to face challenges in attracting a larger base of investors. Enhancing financial literacy among women and young individuals is likely to yield significant benefits for this sector. Consequently, the government is taking steps to incorporate financial education at the school level. Existing mutual fund investors should refrain from withdrawing their investments, as their experience in the field is invaluable. In the Indian market, where financial instruments are increasingly prevalent across various demographics, the mutual fund industry has substantial potential for growth if it focuses on key factors that enhance investor satisfaction, ultimately contributing to its expansion. To promote mutual fund investments, organizations should engage in public education regarding the advantages of mutual funds through advertising and publicity campaigns, including stall exhibitions. Initiatives such as the District Adoption Program (DAP) and the Investor Awareness Program (IAP) conducted by each Asset Management Company (AMC) aim to raise awareness about mutual funds in areas with little to no exposure. In the first half of the current fiscal year, AMCs have organized 6,600 IAPs across 250 cities, reaching approximately 260,000 participants.

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