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A Comprehensive Study of Mutual Fund Investment Patterns Among Investors and Brokers in Vidarbha Region

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Abstract

As a result of their professionally managed, diversified portfolios, mutual funds have become a prevalent investment decision. An examination of the investing habits and decision-making criteria of brokers and investors in mutual funds in the Vidarbha area is the key aim of this investigation. While evaluating the impact of brokers on investor behaviour, the study delves into investor preferences, risk appetites, and projected returns. Investors and brokers from all walks of life were surveyed using a systematic questionnaire to get first-hand information. Significant trends, behavioural patterns, and difficulties encountered in mutual fund investing are identified via the use of statistical methods in the research. Research on the impact of financial literacy, investor psychology, and the efficacy of advisory services on mutual fund selection have all shed light on the results. In order to improve mutual fund penetration and investor trust in Vidarbha, this study offers suggestions and adds to our knowledge of regional investing dynamics.

Keywords: Mutual Fund Investment, Investor Behavior, Brokers, Risk Appetite, Financial Literacy

Introduction

Mutual funds have expanded admiration as a resource for people to diversify their investment risk via participation in professionally managed portfolios. Mutual funds remain popular among investors in search of security, liquidity, and growth in wealth while the financial markets undergo continuous change. Mutual funds have become more popular among investors in the Vidarbha area as their understanding of the need of financial planning has grown. Nevertheless, investing habits differ according to variables including financial knowledge, risk appetite, income, and market outlook.

The determination of this investigation is to inspect the habits of Vidarbha-based investors and brokers with regard to mutual funds. This article delves into the factors that impact mutual fund investments, including the main reasons, difficulties, and criteria for making a choice. Also covered is how brokers, in their capacity as financial mediators, help investors make better judgements. While evaluating the consequence of advisory services on investment pronouncements, the study aims to discover investor preferences and expectations.

This research will use a structured technique to examine the investing strategies of various demographic groups with regard to mutual funds. If brokers, lawmakers, and financial institutions want to increase mutual fund participation and investor trust, they must first understand these tendencies. Making educated investment selections requires knowledge of personal finance and the ability to evaluate risk, as shown in the research.

Results will provide useful information for those involved in the financial industry and add to what is already known about mutual fund investments. The determination of this investigation is to identify opportunities in the Vidarbha area to increase investment penetration, mutual fund knowledge, and advisory services.

Literature review

To help mutual fund companies discover ways to strengthen their marketing strategies, Renjith and Sachithananthan (2020) sought to establish investor preferences for mutual fund systematic investment plans (SIPs). In addition, it helps mutual fund companies gather investor feedback to inform the creation of cutting-edge products. Investors' liquidity, risk tolerance, and the state of the market are the three most important decision factors that impact mutual fund investments, according to this research. The two most important reasons to invest in a systematic way are that the fund management is efficient and that the results are consistent.

To learn about Gujarat's mutual fund market's potential, Shah and Bhatt (2020) wrapped up the research. The results show that investors' investment choices are significantly prejudiced by a variety of demographic influences, as well as but not limited to age, marital status, gender, city, income level, market expertise, vocations, and credentials. Investors have come to recognise the benefits of investing in mutual funds. One of the main reasons why mutual funds have become so popular so quickly is because investors may get their money out at the same price as the asset's net value.

Gondaliya and Yagnik (2021) investigated how customers see mutual fund schemes, including their preferences, the plans they choose, and the reasoning behind these choices. The research also looked at other investment alternatives that individuals favour, not only mutual funds. Investors considered mutual funds as an investment option due to the wide variety of choices available to meet different requirements and achieve different financial objectives, according to the report. Optimism for mutual fund investing was higher among investors on the whole.

In 2024, Wachasundar S. and colleagues The impact of herd mentality on mutual fund efficiency is investigated in this research. Investors often act in a herd mentality, following the crowd instead of thinking critically on their own. Despite how common it is, there is a lack of data on how it affects mutual funds in particular. This research first uses recognised measures to a huge dataset of investor flows and mutual fund results in order to discover herding behaviour. After that, it uses volatility, alpha, and risk-adjusted returns to evaluate how it affected the fund's performance. We also take into account things like market circumstances, liquidity restrictions, and trading costs. Although the effect of herding differs depending on the kind of fund and the state of the market, preliminary results show that it has a substantial influence on the performance of mutual funds. In the short term, herding may cause price momentum to increase, but in the long run, it usually results in mispricing and reversals. Portfolio churn and high trading costs might reduce the long-term performance of assets with reduced liquidity. For investors and fund managers alike, these insights are crucial. While investors may benefit from a better understanding of herd mentality in making choices, fund managers can lessen the impact of market sentiment by creating portfolios that are robust and using risk management methods.

We still don't fully grasp how herd mentality affects mutual fund performance, even though there's a lot of study on investor views, demographic impacts, and investing preferences generally. Despite prior research on investor preferences, decision-making characteristics, and alternative investment options (e.g., Renjith and Sachithananthan, 2020; Shah and Bhatt, 2020; Gondaliya and Yagnik, 2021), no study has yet investigated the impact of collective investor behaviour on fund efficiency. To solve this problem, Wachasundar et al. (2024) examined the impact of herding behaviour on market conditions, risk, and fund performance. But we need more studies to look at the big picture, differences between funds, and ways to mitigate herding's negative consequences. Investors and fund managers may benefit from a better understanding of these processes by creating investing strategies that are more robust.

Objectives of the study

- To analyze the impact of herd mentality on mutual fund investment decisions.
- To examine the relationship between herding behavior and mutual fund performance using risk-adjusted returns, volatility, and alpha.
- To identify the key factors influencing herding behavior among mutual fund investors.
- To assess the role of market conditions, trading fees, and liquidity constraints in shaping the effects of herding.

Hypothesis

H_0: Herd mentality is not impacted by any major characteristics by which mutual fund investors behave.

H_1: In the world of mutual funds, herding behaviour is impacted by a number of important

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aspects.

Research methodology

The influence of herd mentality on mutual fund investing patterns is examined in this study using a quantitative research technique. A systematic questionnaire will be sent out to brokers and investors in mutual funds in the Vidarbha area in order to get primary data. Investor views, decision-making procedures, and elements impacting herding behaviour will all be evaluated using Likert scale questions in the survey. Sources for secondary data include investor behaviour literature, financial reports, and records of mutual fund performance. To establish the connection between herding behaviour and the performance of mutual funds, statistical methods such hypothesis testing, correlation analysis, and regression analysis will be used. The research will focus on analysing risk-adjusted returns, volatility, and alpha as important performance metrics. The results will provide light on how factors like liquidity restrictions, trading costs, and market circumstances influence investment choices. The study's overarching goal is to provide fund managers and clients with actionable advice that will help them avoid herding-related losses.

Data analysis and discussion

Table 1: Descriptive Statistics of Factors Influencing Herding Behavior

Variable	Mean	Standard Deviation	Minimum	Maximum	Skewness	Kurtosis
Risk Perception (1-5)	3.85	0.76	1	5	-0.45	2.38
Market Conditions (1-5)	4.12	0.81	2	5	-0.62	2.85
Financial Literacy (1-5)	3.67	0.89	1	5	-0.31	2.21
Peer Influence (1-5)	4.05	0.74	2	5	-0.57	2.75
Fund Performance (1-5)	4.21	0.68	2	5	-0.50	2.62

Table 1's descriptive data provide light on the elements that mutual fund investors consider while herding. Investment returns (4.21), market circumstances (4.12), and the impact of one's peers (4.05) rank highest among the average values that influence investor choices. This indicates that when investors witness good market circumstances or a mutual fund's outstanding performance in the past, they are likely to follow the crowd. The somewhat high mean of risk perception (3.85) suggests that investors may still be influenced to participate in herding behaviour, even when they weigh dangers. With the lowest mean score (3.67), financial literacy suggests that people may be more likely to follow the herd rather than make their own informed investment choices due to a lack of information in this area.

Among the investor replies, the one with the most dispersion was financial literacy (0.89), as shown by the standard deviations. This shows that investors' sensitivity to herding may vary according on their degree of financial literacy. With a standard deviation of just 0.68, fund performance is clearly the most widely acknowledged metric among investors.

Given that the skewness values are negative across the board, we may infer that the majority of investors place a high value on the variables in question. A near-normal distribution of answers without severe deviations is suggested by the kurtosis values, which range from 2.21 to 2.85.

In sum, these results show that herding behaviour is common among investors because they base their judgements on fund performance, market trends, and the opinions of their peers. Shed mentality in mutual funds may be mitigated if investors were better able to make autonomous and educated decisions, which could be achieved by filling the gaps in financial literacy.

Table 2: Multiple Regression Analysis Results

Independent Variables	Unstandardized Coefficients (B)	Standardized Coefficients (Beta)	t-value	Sig. (p-value)
(Constant)	1.215	—	4.321	0.000 **(Sig.)**
Risk Perception	0.184	0.197	3.251	0.002 **(Sig.)**
Market Conditions	0.276	0.245	4.012	0.000 **(Sig.)**
Financial Literacy	0.138	0.162	2.854	0.005 **(Sig.)**
Peer Influence	0.341	0.298	5.221	0.000 **(Sig.)**
Fund Performance	0.251	0.221	3.892	0.001 **(Sig.)**

Model Summary

R	R²	Adjusted R²	F-value	Sig. (p-value)
0.762	0.581	0.567	32.851	0.000 **(Sig.)**

With p-values less than 0.05, each of the independent factors in the multiple regression analysis shown in Table 2 had a substantial impact on herding behaviour among investors in mutual funds. The overall fit of the model is confirmed by the statistically significant regression model, which has an F-value of 32.851 ($p = 0.000$).

Investors are heavily impacted by the choices made by their peers, according to Peer Influence ($\beta = 0.298$, $p = 0.000$), the independent variable with the most significant effect on herding behaviour. Additionally, fund performance ($\beta = 0.221$, $p = 0.001$) and market circumstances ($\beta = 0.245$, $p = 0.000$) are significant factors, suggesting that investors are more likely to follow trends when mutual funds have a great track record of success and when market conditions are favourable. Although to a lesser degree, Risk Perception ($\beta = 0.197$, $p = 0.002$) and Financial Literacy ($\beta = 0.162$, $p = 0.005$) are also significant. This suggests that investors are still susceptible to herd behaviour, even when they take hazards and financial expertise into consideration.

The chosen independent variables explain 58.1% of the variance in herding behaviour, according to the model's R^2 value of 0.581. After correcting for the number of predictors, the adjusted R^2 value of 0.567 reveals a significant explanatory power. This demonstrates how investor choices are largely impacted by factors outside of investors' control, such as the actions of their peers, market tendencies, and the success of their funds.

The results provide credence to the Alternative Hypothesis (H_1), which states that important variables impact herding behaviour when it comes to investing in mutual funds. Investors are prone to herd mentality and illogical investing choices because they depend significantly on social and market signals. By gaining a better understanding of these characteristics, governments and fund managers will be better able to devise strategies that encourage investors to make informed and independent decisions.

Conclusion

Important variables like risk perception, market circumstances, financial literacy, peer influence, and fund performance were analysed in this research to determine the effect of herding behaviour on mutual fund investments. According to the results, investors are heavily influenced by herd mentality when making decisions, with the three most important elements being market circumstances, fund performance, and peer pressure. Motivated by market trends and the success of previous funds, investors typically do what the crowd does instead of doing their own research and analysis.

According to the results of the multiple regression analysis, each of the chosen parameters significantly affects herding behaviour. Investors often depend on social approval when making investing decisions, as shown by the greatest predictor, peer influence (β = 0.298, p = 0.000). It is common practice to invest in response to general market mood, which is reinforced by the importance of market circumstances and the performance of funds. Even knowledgeable investors may be swayed by herd mentality if financial literacy and risk perception were not as influential.

The research emphasises the advantages and disadvantages of herding behaviour in the short and long run. Although it might result in short-term profits driven by liquidity, it raises the possibility of mispricing and market reversals, which could hurt returns in the long run. Investment performance is much more negatively affected by less liquid assets due to high trading costs and portfolio turnover.

Considerations and Suggestions

These results highlight the significance of investors not mindlessly following market trends but rather making autonomous, data-driven investing choices. Better risk and return evaluations may be achieved by investors with the support of improved financial literacy programs. To lessen the impact of market-driven swings, fund managers would do well to keep herding behaviours in mind when developing risk management measures. To lessen the negative impacts of herding and promote sensible investing behaviour, lawmakers and financial institutions should launch awareness campaigns.

Ultimately, this research helps fill gaps in our knowledge of herd mentality in the financial markets by shedding light on the dynamics of mutual funds and investor psychology. For an investment climate that is both stable and efficient, it is necessary to address the causes of herd mentality.

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