

## **“Indian Mutual Funds and Investor Behavior: An Empirical Analysis of Investment Trends and Preferences”**

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### **ABSTRACT**

With the rapid expansion of its middle class, India is currently in a period of increased savings and investment. Increases in the Assets under management of various fund houses are indicative of the expanding mutual fund business in India. In this study, we looked at a variety of indicators that reveal investors' habits and preferences in relation to mutual funds. Many studies have examined the effects of demographic and behavioral characteristics on investors.

Empirical and analytical, the study took a survey-based approach in terms of its design, methodology, and overall point of view. This research uses original sources for its findings. The information is gathered by way of a pre-determined and well-designed questionnaire. To this end, we have employed a number of statistical tests, including the chi-squared test, the analysis of variance, the analysis of mean scores, and the ANOVA test. This research's main conclusions show that investors' investing choices are affected by their demographic characteristics. Older and more affluent investors favored high-yield, risk-free options. They are risk-averse. Brokers, dealers, investors, and officials in the stock market will all find this study useful for future research. The results of this study can be used to better understand how individual investors interact with mutual fund investments. While every effort was made to avoid them, the study is not without flaws that could potentially affect the results. The results should be interpreted with caution due to the small sample size (100 people) and the use of a convenience sampling technique. We have narrowed it down to just the Delhi/National Capital Region. There is also the possibility of making mistakes during the questionnaire's creation and data input. Implications for Practicing Investors, Agencies, and Governments This research adds to our understanding of investor behavior, perception, and attitude as it relates to mutual fund investment. The study adds to the body of knowledge in this area by establishing a framework of important values and resources that readers in this area can use.

**Keywords:** ANOVA Test, Mutual Fund Investments, Analysis of Mean Scores Assets, Chi-squared test

### **INTRODUCTION**

Indian mutual funds are investment vehicles that pool money from a large number of investors and invest it in a diversified portfolio of stocks, bonds, and other financial instruments. The Indian mutual fund industry has grown significantly in the last decade, with assets under management (AUM) increasing from INR 7.01 lakh crore in March 2013 to INR 38.55 lakh crore in February 2019.

Investor behavior plays a crucial role in the performance of mutual funds. It is essential to understand the factors that influence investor behavior in the Indian mutual fund industry. Here are some key factors that impact investor behavior:

**Risk Appetite:** The willingness of an investor to take risks is an important factor that influences their investment decisions. In general, investors with a high-risk appetite are more likely to invest in equity funds, while those with a low-risk appetite tend to invest in debt funds.

**Financial Literacy:** Investors who are financially literate are more likely to make informed investment decisions. Financial literacy helps investors understand the risks and returns associated with different types of mutual funds, and enables them to make informed investment decisions.

**Market Conditions:** The performance of the stock market and the economy can impact investor behavior. In bullish markets, investors tend to be more optimistic and invest in equity funds. In bearish markets, investors tend to be more cautious and may shift their investments to debt funds.

**Investment Horizon:** The investment horizon refers to the length of time an investor intends to hold an investment. Investors with a long investment horizon are more likely to invest in equity funds, as they have a higher potential for growth. On the other hand, investors with a short investment horizon tend to invest in debt funds.

**Fund Performance:** The performance of mutual funds is an important factor that influences investor behavior. Investors tend to invest in funds that have performed well in the past, and may switch to other funds if the performance of their current fund is not satisfactory.

**Cost of Investment:** The cost of investment, including the expense ratio of the mutual fund and any other fees associated with it, can impact investor behavior. Investors are likely to prefer funds with lower costs, as it reduces their overall investment expenses.

**Investment Goals:** The investment goals of an investor can impact their investment decisions. For example, investors with a short-term investment goal may prefer debt funds, while those with a long-term investment goal may prefer equity funds.

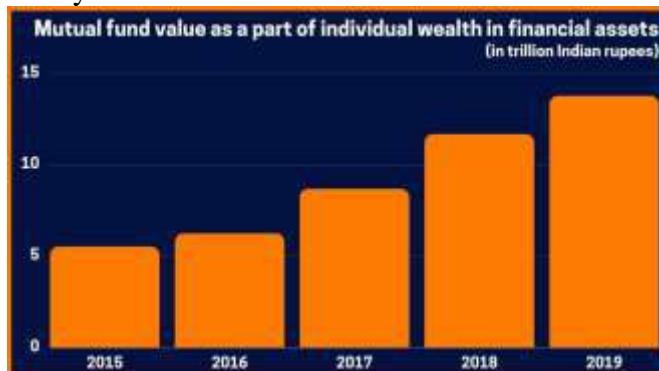
Mutual Funds have become a popular investment avenue for retail investors in India due to the wide range of investment instruments available. These include non-marketable financial assets, equity shares, money market instruments, debt instruments, bonds, precious commodities, life insurance, financial derivatives, real estate, and mutual funds. With reforms in the financial sector and the development of the Indian financial markets, mutual funds have emerged as an attractive investment option for small investors.

A mutual fund is essentially a trust that pools the savings of a group of investors who share a common financial goal. The money collected from investors is invested in capital market instruments such as shares, debentures, and other securities. The income earned from these investments and the capital appreciation realized are distributed among unit holders in proportion to the number of units owned by them. For retail investors, mutual funds offer the benefits of expertise-based equity investments at a relatively low cost. Mutual funds serve as a bridge between individual investors and corporate giants, providing investment options to those who are not well-versed in the stock market but still wish to invest their funds in it. As pure intermediaries, mutual funds buy and sell securities on behalf of their investors or unit holders, mobilizing savings from a large number of investors and investing them in shares and other securities.

The inception of Unit Trust of India in 1963 marked the evolution of the Indian mutual fund industry. Its primary objective was to attract small investors through the collective efforts of the Government of India and the Reserve Bank of India. Mutual funds are crucial for the development of capital markets and the creation of an equity culture in the economy.

Mutual funds are trusts that consist of a sponsor, trustee, AMC, and custodian. A mutual fund's "sponsor" is the individual or group of people responsible for creating the fund. Sponsor must meet eligibility conditions established by the Securities and Exchange Board of India (Mutual Funds), 1996, and provide at least 40% of the net worth of the investment managed. The Sponsor has established the Mutual Fund as a trust in compliance with the Indian Trusts Act of 1882. Typically, a trustee is a corporation or a group of individuals serving as a board of trustees (body of individuals). The Trustee shall act in the best interests of the Unitholders and shall cause the Asset Management Company to act in line with the Trust Deed and the Offer Document of the Schemes and the Securities and Exchange Board of India (Mutual Fund) Rules 1996. It is the investors who appoint the AMC and for whom it maintains the database. AUM in the industry lags below the Trustees' aggregate investment of Rs. 97 trillion as the Manager of Mutual Funds. For the AMC to serve as the Mutual Fund's asset manager, it must first receive approval from SEBI. If the Trust Deed permits it, the AMC will appoint the Registrar and Transfer Agent as the mutual fund's agent. India's asset management sector is expanding at an impressive rate. In November 2017, there were 42 asset management firms in the country. In FY 2016–17, India saw a record-breaking influx of US\$51.02 billion into mutual funds. According to information compiled by the Association of Mutual Funds in India (AMFI), this represented the largest sum invested in mutual fund schemes since the 1999–2000 fiscal year. In April 2017 and January 2018, the SIP method brought in Rs 536 billion (US\$ 8.34 billion) for India's mutual fund schemes (Figure 1).

Several types of securities are available for investment in mutual funds. Although cash, stocks, and bonds are the most ubiquitous, there are actually hundreds of different types. Stock funds typically invest in companies within a specific sector, like information technology or utility companies. Sector funds are the specialized investment vehicles that focus on a specific industry.



**Fig. 1: Progress of Mutual Fund Industry in India**

Risk (such as high-yield or junk bonds, investment-grade corporate bonds), issuer (such as federal or state governments, companies, or local governments), and bond maturity are three factors that might differentiate bond funds (short- or long-term). Stock and bond funds can be classified as either "domestic" (investing primarily in U.S. securities), "global" (investing in both U.S. and foreign assets), or "international" (investing primarily in foreign securities) (international funds).

## REVIEW OF RELATED LITERATURE

"Investor behavior in the Indian mutual fund industry: An empirical analysis" by **Nidhi Prakash (2015)** - This study examines the factors that influence investor behavior in the Indian mutual fund industry. The author uses a sample of over 400 mutual fund investors and analyzes their investment patterns, risk tolerance, and investment goals.

"Investor preferences and behavior towards mutual funds: A study of Indian retail investors" by **Jyoti Kumar and Alok Kumar (2016)** - This study aims to understand the investment preferences and behavior of retail investors in India towards mutual funds. The authors analyze data from a survey of 500 retail investors and find that investors are more likely to invest in mutual funds that offer high returns and have low risk.

One such study is by Sharma and Sharma (2016), who analyzed the investment behavior of Indian investors in equity mutual funds from 2012 to 2014. They found that investors preferred growth-oriented schemes over income-oriented schemes, and that fund performance and reputation were the most important factors influencing investment decisions. However, investors tended to underestimate the risk associated with equity mutual funds and had a tendency to chase past performance.

Another study by **Banyal and Dhankar (2017)** examined the impact of demographic and socio-economic factors on the investment behavior of Indian mutual fund investors. They found that factors such as age, income, education, and investment experience had a significant impact on investment behavior, with younger and more educated investors tending to invest in equity mutual funds.

"A study on investor behavior towards mutual funds in India" by **R. Manickam and S. Sivakumar (2017)** - This study investigates the factors that influence investor behavior towards mutual funds in India. The authors survey over 200 investors and find that investors are more likely to invest in mutual funds that have a good track record and offer high returns.

"A study on investor behavior towards mutual funds with reference to Chennai city" by **T. Nagarajan and P. Saravanan (2018)** - This study analyzes the investment behavior of mutual fund investors in Chennai city. The authors use a sample of over 200 investors and find that investors are more likely to invest in mutual funds that have a good reputation, are managed by professional fund managers, and offer high returns.

**Chakraborty and Banerjee (2018)** analyzed the factors influencing the investment behavior of retail investors in Indian mutual funds. They found that fund performance, risk, and past

experience were the most important factors influencing investment decisions. However, they also found that investors tended to ignore important information such as expense ratios and portfolio diversification while making investment decisions.

**Singh and Yadav (2019)** examined the impact of macroeconomic factors on the performance of Indian mutual funds. They found that factors such as GDP, inflation, interest rates, and exchange rates had a significant impact on mutual fund performance.

"An empirical analysis of investors' behavior towards mutual funds in India" by **Ankita Jain and Kavita Jain (2019)** - This study examines the investment behavior of mutual fund investors in India. The authors use a sample of over 500 investors and find that investors are more likely to invest in mutual funds that have a good reputation, are managed by professional fund managers, and offer high returns. They also find that investors are more likely to invest in mutual funds that are diversified and have low expenses.

The author's major goal in writing this essay is to research investor attitudes about mutual funds in Delhi NCR.

## OBJECTIVES

Specifically, the following goals are set up to Investigate how investors think about various Investment vehicles.

- To examine how different types of Investors' demographics affect their opinions of Mutual Funds.
- To investigate what influences Investors' decisions.
- To find out how Investors feel about the company's low Risk/safety, liquidity, high Returns, and Reputation are the primary goals of this survey.

## HYPOTHESES

- The investor's annual income and the amount invested in the mutual fund are two separate variables.
- Investors' qualifications are unrelated to their familiarity with mutual funds.
- The investor's age and the factor they value most while making financial decisions are unrelated.
- Investors' opinions on high returns, minimal risk, great liquidity, and a reputable company are all relatively consistent.

## RESEARCH METHODOLOGY

The research is analytical and empirical, based on a survey design. The study's framework is built around the idea of analysing, with the help of primary data, the preferred investment path of retail investors and how demographic analysis is used to distribute these preferences. With this in mind, we have randomly sampled 100 high-net-worth individuals from the Delhi NCR area of India who have invested in mutual funds in order to get a representative cross-section of the population. While primary sources provided the bulk of the information used in this analysis, other resources were also considered as necessary. The secondary data came from official sources including the Securities and Exchange Board of India (SEBI), the Association of Mutual Funds in India (AMFI), the Reserve Bank of India (RBI), the website of Mutual Funds in India, and other related works. Direct interview and a structured questionnaire (with both open-ended and closed-ended questions) were employed to collect the necessary data from primary sources. There is a demographic profile of investors covered in Part I of the questionnaire, and their investing habits are covered in Part II. The sample was gathered using a combination of inference and convenience. Descriptive statistics (percentages, frequency distributions, and averages), analysis of variance, chi-square test and average mean score are among the statistical methods used to examine the data. The acquired data has been analysed using the SPSS (Software Package for the Social Sciences) programme.

## DATA ANALYSIS AND INTERPRETATION

The analysis of the questionnaire data is shown below, taking into account the various factors.

### Demographic Summary of Investors (Percentage Analysis)

A number of socioeconomic indicators and a few select investment profile factors (such as risk tolerance) have been used to categorize investors' investing preferences.

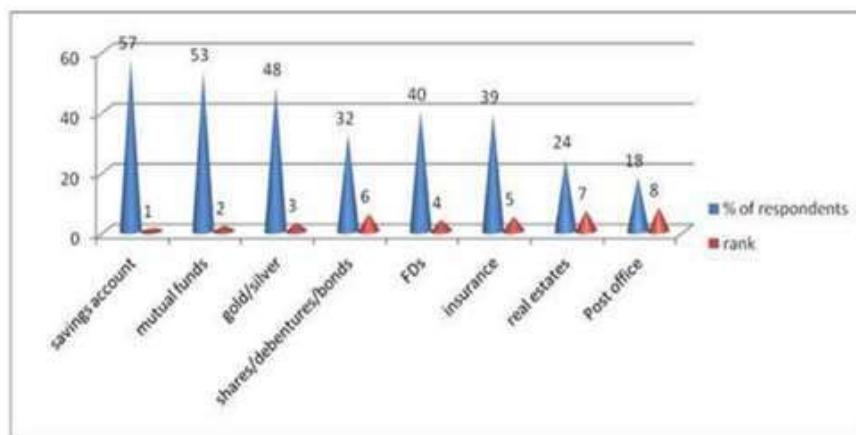
**Table 1 Data Distribution**

Variables	Category	Frequency	Percentage	
Gender	Male	92	92	<b>Behavioral Analysis</b>
	Female	8	8	
Age	Total	100	100	<b>Investment Analysis</b>
	Less than 30 years	43	43	
	30-40	27	27	
	40-50	19	19	
Occupation	More than 50 years	11	11	<b>Investment Intent</b>
	Total	100	100	
	Professionals	18	18	
	Business	23	23	
	Salaried	57	57	
Education	Retired	2	2	<b>Preference</b>
	Total	100	100	
	High School	3	3	
	Graduation	26	26	
	Post Graduation	49	49	
Income Status	Professional	22	22	<b>Investment</b>
	Total	100	100	
	Less than 5 lakh	51	51	
	5-15	34	34	
	15-25	12	12	
Income Status	More than 25 lakh	3	3	<b>Investment</b>
	Total	100	100	

### Investment Avenue Preferred by the Investor

#### Income of Investors and Amount of Investment in Mutual Funds

**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 shows that the estimated value of Chi square is 30.169, while the tabulated value is 12.592. Ho is discarded because the calculated value is smaller than the tabulated value. Investor's annual income and the amount invested in the mutual fund are correlated.

#### Qualification of Respondents and Knowledge about Mutual Funds

**Table 3 : Qualifications of Respondents and Knowledge about Mutual Funds**

<b>Qualification</b>	<b>Knowledge About MF</b>				
	<b>Ignorant</b>	<b>Partial Knowledge</b>	<b>Aware of Specific Schemes</b>	<b>Full Aware</b>	<b>Total</b>
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

To draw a conclusion, we know that, at the 5% level of significance,  $\chi^2 = 288.779$  and  $\chi^2 = 16.919$  are both accurate. We therefore conclude that H0 is false. Hence, mutual fund expertise and investor suitability are intertwined. The extent to which a person is educated about potential investment opportunities is often assumed to be a function of his qualifications.

#### **Age of Investors and Most Important Considerations While Investing**

For this reason, we have conducted an ANOVA test to see if there is a correlation between the ages of investors and the preferences that influence their investment choices.

**Table 4 : Factors Preferred the Most by Investors**

<b>Age</b>	<b>Factors Preferred the Most</b>				
	<b>Liquidity</b>	<b>High Return</b>	<b>Low Return</b>	<b>Reputation of the Company</b>	<b>Total</b>
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

#### **ANOVA Table**

<b>Source of Variation</b>	<b>SS</b>	<b>dF</b>	<b>MS</b>	<b>F</b>	<b>P-value</b>	<b>F critical</b>
Rows	140	3	46.66667	4.117647	0.042854	3.862548
Columns	149	3	49.66667	4.382353	0.036706	3.862548
Error	102	9	11.33333			
Total	391	15				

The null hypothesis is rejected at the 5% level of significance since the p value is less than 0.05. We therefore conclude that H0 is false. Investors' ages and their preferences for various considerations while making financial decisions are intertwined.

#### **Analysis for Investor's Behavior (Average Score Analysis)**

Using an average score analysis, we examined the variables that have a role in making investment decisions. Age was compared to the elements that influenced the respondents' investment decisions in order to determine the most essential one.

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

<b>Age Group</b>	<b>Rate of Return</b>	<b>Risk Involved</b>	<b>Past Performance</b>	<b>Government Policy</b>	<b>Initial Requirement of Funds</b>
Less than 30 years	1.14	1.96	2.56	2.58	2.58
30-40	1.08	1.23	2.10	2.87	2.76
40-50	1.00	1.04	2.15	3.10	2.34
More than 50 years	1.11	1.00	2.43	3.40	2.50
Total	1.15	1.65	2.34	2.78	2.60

Table 5 demonstrates that across the board in terms of age groups, the rate of return is the most influential element in decision making. Next, investors of all ages are impacted by the risk element in making investment selections. When making financial decisions, people over the age of 50 give primary weight to the level of risk involved.

### One Way ANOVA

Several motivations for putting money into different investment vehicles have been compared using an analysis of variance (ANOVA) test. It investigated whether investors' views on the company's perceived safety, liquidity, potential for large returns, and reputation differ significantly from one another. Below is information regarding investors' views on investment security, liquidity, and profitability?

**Table 6: One Way ANOVA Table**

Variables	Low Risk	Liquidity	High Returns	Status of the Company
Mean	3.65	3.30	3.56	3.25
N	800	800	800	800
S.D	1.230	1.547	1.215	1.472
F Value	3.472	2.165	0.788	2.564

The F-values are 3.472 and 2.165, respectively, and the Significance Levels are 0.003 and 0.043 at the 5% level, as shown in the table above. Since Significance is smaller than  $\alpha=0.05$ , the mean difference between investment reasons of low risk/safety and Liquidity is significant at the 5% level across all investment channels.

### FINDINGS

The study has revealed that return potential and liquidity are the main factors considered by investors when investing in mutual funds. The majority of investors belong to the salaried category, followed by businessmen and other professionals. Surprisingly, the study found that more investors prefer to invest in saving accounts rather than mutual funds. Most investors have moderate risk capacity, with a close second being those who fall into the low-risk category.

The study also found that a relatively low percentage of investors seek the help of brokers or agents when investing in mutual funds, with a larger number relying on recommendations from friends and family. The factors that influence investment decisions are often linked to the age of the investor, and their knowledge about mutual funds tends to be dependent on their level of education.

Overall, the findings suggest that there is still much work to be done in raising awareness about mutual funds among investors in India, and providing access to accurate and reliable information. Nevertheless, with the right education and support, the mutual fund industry has the potential to grow significantly in the coming years, particularly among the younger generations and working-class demographics.

### SUGGESTIONS

**Increase Investor Education:** There is a need to increase investor education and awareness programs to help investors make informed investment decisions. Educational programs can be designed to cover various topics such as the basics of mutual fund investing, risk management, and asset allocation.

**Improve Transparency:** Asset management companies should focus on improving transparency and communication with investors to build trust and confidence in the mutual fund industry. Investors should be provided with clear information about the fees and expenses associated with mutual funds.

**Customized Mutual Fund Products:** Asset management companies can offer customized mutual fund products that are designed to meet the specific investment needs of different investors. This can include products that are tailored for different risk profiles or investment objectives.

**Reduce Risk:** Investors should be made aware of the risks associated with mutual fund investing and should be encouraged to invest in a diversified portfolio of funds to reduce risk.

**Encourage Long-term Investment:** Asset management companies can encourage long-term investment by offering incentives for investors who stay invested for longer periods. This can

include reduced fees or bonuses for investors who hold their investments for a certain period of time.

**Increase Accessibility:** Mutual fund products should be made more accessible to investors, particularly those in remote or rural areas. This can be achieved through the use of digital platforms or by partnering with local banks and financial institutions.

**Improve Investor Protection:** Regulatory bodies should focus on improving investor protection by enforcing strict regulations and monitoring the performance of mutual funds. This can include regular audits, increased disclosure requirements, and stricter penalties for non-compliance.

## CONCLUSION

Based on the literature reviewed, it can be concluded that investors' behavior towards mutual funds in India is influenced by a range of factors such as income level, age, education, risk tolerance, investment objectives, and past performance of mutual funds. The studies suggest that investors prefer mutual funds with higher returns and lower risk, and are more likely to invest in funds with a strong brand name or a reputable asset management company. The empirical analysis of investment trends and preferences among Indian mutual fund investors has revealed significant differences in investment patterns based on demographic factors. The study highlights the level of awareness among investors regarding different mutual fund schemes, with a preference for schemes offering better returns, safety, and tax benefits. Despite challenges such as low financial literacy and awareness, the mutual fund industry in India has great potential for growth due to the increasing youth population and working-class demographics. The industry has much to explore and can look forward to a bright future, with a focus on improving education and communication to help investors make informed decisions.

Moreover, the studies indicate that Indian investors tend to have a short-term investment horizon and exhibit a herd behavior, where they tend to follow the investment decisions of others. They also tend to invest more in equity-oriented mutual funds compared to debt-oriented funds, despite the higher risk associated with equity investments. Overall, the studies suggest that there is a need for investor education and awareness programs to help investors make informed investment decisions and reduce the impact of behavioral biases on their investment decisions. Additionally, asset management companies should focus on improving their transparency and communication with investors to build trust and confidence in the mutual fund industry.

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