# Consumers' Perception towards Mutual Funds as an Investment Vehicle

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**Abstract**

Liberalization, privatization, and globalization have opened up numerous vistas for value creation and management, especially in capital and money markets, for the nation. Indians are traditionally known for their orientation towards savings and safe investments. For boosting the development of the economy and making India more innovative, savings and investments are essential. The mutual funds in India are becoming an important investment vehicle that is gaining momentum. The purpose of the present research is to identified consumers perception towards mutual funds as an investment option. In this study, I have highlighted the factors preferred the most while investing money. The majority of the consumers have invested their money through the financial adviser and they believe that the adviser of the company has cleared their doubts before investing. Convenience sampling is conducted for this study and collected the response from consumers. It is a descriptive research design and I have collected the primary data based on the various factors.

## INTRODUCTION TO MUTUAL FUNDS

A mutual fund is a trust pooling the wealth of different investors who share a common financial purpose. It is a financial intermediary pooling investors ' funds for joint investment into a diversified portfolio. A fund is said to be "mutual," because all its returns are shared by the creditors of the fund. This pool of money is invested to a stated purpose. The raised money is then invested in capital market instruments such as stocks, debentures, and other securities of this kind. The unit holders share the capital appreciations achieved in proportion to the number of units held by them. The Securities and Exchange Board of India (Mutual Fund) Regulations,1996 defines a mutual fund as" a fund established in the form of a trust to raise through the sale of units to the public or a section of the public under one or more schemes for investing in securities, including money market instruments". (SEBI, 1996) According to the definition given above, a mutual fund in India can raise money through the selling of units to the general public. It can also be formed under the Indian Trust Act in the form of a trust. Thus, in accordance with the definition above, the mutual funds are permitted to diversify their activities in the following areas: • Portfolio management services • Management of offshore funds • Providing advice to offshore funds • Management of pension or provident funds • Management of venture capital funds • Management of money market funds • Management of real estate funds. A mutual fund functions as a financial intermediary between the investor and the stock market by mobilizing investors' savings and thus investing them in the capital market in order to generate profits. Each shareholder participates in the gain or loss of the fund. Units are issued and they can be redeemed as when needed. The Net Asset Value (NAV) of the fund is calculated daily Securities portfolios are diversified across a wide cross-section of sectors and industries and therefore the risk involved is relatively minimized. Diversification reduces risk, because all stocks may not shift simultaneously in the same direction and proportion. The mutual fund assigns units to the investors according to the amount of money they invest and the investors are known as unit holders. Mutual fund is a shared savings plan. It plays a key role in mobilizing small investor savings and channelling the same towards profitable projects in the Indian economy.

## MUTUAL FUND – AN INDIAN PERSPECTIVE

The Indian Mutual Fund industry has witnessed significant growth in the past few years driven by favourable economic and demographic factors such as rising income, rising saving rate, rising income earning-spending activity etc. Mutual funds in India were firstly launched in July 1964 by UTI, with the objective of employment of individual savings into gigantic capital formation by investing it in capital market, besides that there was strong need for channelizing household savings for circulation and making it available for corporate for their productive use. At the same time, it was felt that UTI could be an effective option to bridge the gap between individual saving and capital formation. UTI enjoyed the monopoly for almost two decades. In early nineties the following players entered into the market. They are SBI (1987), Can Bank (1987), LIC (1989), Indian Bank (1990), Bank of India (1990), PNB (1990), GIC (1991) etc. Presently the concept of mutual fund has become very familiar to almost all retail Consumers. The key benefits of mutual funds are that, it can be started with nominal amount of INR 500, besides that tax benefit is also available in some schemes, smart moves by experts, advantage of equity return and at the same time Consumers can reap the benefit of economies of scale.

## REASONS FOR INVESTING IN MUTUAL FUNDS

### Professional Investment

Management When an individual invests in a mutual fund, his/her money is being managed by professional experts who have in depth knowledge about the various schemes available. This is one of the main reasons of investing in mutual funds. As full-time, high-level investment experts, a good investment manager is more able to monitor the enterprises in which the mutual fund has invested, rather than the investors doing it all alone. The experts have the know-how that retail investors might not possess to trade in the markets.

### Low Investment

Threshold A mutual fund enables an individual to participate in a diversified portfolio for as little as Rs.5000 and even lesser. Being a no-load fund, one pays little or almost no sales charges to own such mutual funds.

### Convenience

Mutual fund investment has its own convenience. The paper work that comes up with every transaction is reduced. One also saves on how much energy they spend in investment analysis as well as actual market monitoring and transaction management. They don't have to do anything with a mutual fund, as they can now place an order online with the broker to purchase. Another advantage is that within a family of mutual funds, one can easily move the money from one fund to another. This will allow the individual to rebalance their portfolio in anticipation of significant economic shifts, if necessary.

### Liquidity

In an open-ended scheme, it is possible to retrieve the funds at any point of time at the prevailing NAV from the mutual fund itself. Thus, mutual funds are highly liquid when compared to traditional investment options like fixed deposits and bonds, which have fixed lock-in periods.

### Variety

People are spoilt for choice while investing in mutual funds. They have a variety of schemes to choose from based on your investment objective or strategy. There are funds which focus on blue-chip stocks, technology stocks or a mixture of stocks and bonds. The greatest challenge would be to pick the right bond that would suit our needs.

**Transparency**

SEBI's Mutual Funds Regulations have made the sector transparent. One can trace the investments made on their behalf so they can know the industries and stocks in which they are being invested. The mutual funds have the obligation to publish their portfolio information periodically.

**Tax Benefits**

Equity-Linked Savings Scheme (ELSS) is a form of equity fund and the only mutual fund scheme which qualifies under Section 80C of the Income Tax Act for a tax deduction of Rs.1.5 lakh per annum.

**TYPES OF MUTUAL FUNDS**

**Open-Ended Schemes**

These schemes have no maturity period. They can be bought and sold at any point in time. Such schemes are not traded on the stock exchange. Investors can buy or sell mutual fund units at NAV prices on any business day. These schemes have unlimited capitalization. Open ended schemes are mostly preferred for their liquidity. The main advantage of open-ended schemes over close ended schemes is that the investors can enter and exit at any point in time. In such a case the issuing company has the responsibility to provide for an entry and an exit. They are also highly liquid. Therefore, whenever an investor is in need of money, he can sell the units as such schemes have no fixed duration attached to them.

**Close-Ended Schemes**

These schemes have a fixed maturity period before which they cannot be sold on the stock exchanges in which they are listed. Such schemes are traded on the stock exchange. Investors can buy such schemes only during the initial issue. Once the initial issue is done, such schemes can issue units only in the case of rights or bonus issues.

**BASED ON ASSETS**

**Equity Funds**

These are funds which invest in stocks. Such funds carry high risk and also provide high returns. Such schemes are preferred for long time investment i.e., growth funds as maximum the returns. Equity funds have less tax liability when compared to debt funds. Example: DSP Black Rock Focus 25 Fund is an equity fun

**Debt Funds**

These funds invest in instruments like debentures, government securities, bonds etc. Companies and Government raise funds through the issue of these funds. You put your money in these funds for which you get a fixed rate of interest till the maturity period. Hence debt funds are considered as a low risk and low returns investment. People who want regular income and are not ready to take up risk invest in such funds. The return of principle amount after maturity in debt instruments is guaranteed which is not the case in Equity funds. Example: HDFC high interest – dynamic fund is a debt fund.

**Hybrid Funds**

Hybrid funds, also known as balanced funds, invest in both equity as well as debt instruments. Therefore, they are less risky than equity funds but riskier than debt funds. The returns expected from a hybrid fund are more than debt funds but less than equity funds. Example: SBI Magnum Balanced Fund (G) is a hybrid fund.

## KEY MARKET PLAYERS AND THEIR SIZE

Below is a list of top mutual fund companies in India arranged according to their AUM size, as of 2020.

| AMCs | AUM (in Rs Cr) |
|---|---|
| SBI Mutual Fund | 364,363 |
| HDFC Mutual Fund | 356,183 |
| ICICI Prudential Mutual Fund | 326291.18 |
| Aditya Birla Sun Life Mutual Fund | 214,592 |
| Nippon India Mutual Fund | 180,061 |
| Kotak Mahindra Mutual Fund | 167,326 |
| Axis Mutual Fund | 134,316 |
| UTI Mutual Fund | 133,631 |
| IDFC Mutual Fund | 101,770 |
| Franklin Mutual Fund | 79,808 |

**Source: Money Control**

## Literature Review

Everyone makes investments to realize a desired goal. There is a diverse basket of investment alternatives. For this, an investor needs to study the investment pattern and make appropriate investment decision from the overall perspective (Penaranda, 2016). Investment in financial term is the relevance of money to hold assets for long or short spans of time with the aim of maximizing profits and receiving interest for those investments. Savings and investments are used mutually and are related to each other (Sireesha & Laxmi, 2013). Based on the judgment of Achar (2012), the individual personality of investors, such as age, sex, marital position, and standard of living determine the savings and investment behaviour. It was viewed that factors like size of the family, annual income, and annual savings are significantly associated with investments.

## Significance of the study

The stock market has seen a new turn in and has opened various avenues for investing thus, mutual fund being one of the avenues which has more than forty four houses offering approximately 2500 schemes across various asset classes like equity, debt, hybrid and commodities has seen a big boom also with this rapid growth a large number of players have entered the market and are trying to gain a market share in this rapidly improving market, Thus, also showing a shift in the consumer perspective. With the government and various mutual funds wildly promoting their schemes and also investors showing interest in the market. I have collected the secondary data and analysed on the topic “Consumer’s perception towards Mutual Funds as an investment vehicle”. With the main focus that the study would help to know the preferences of customers, mode of investment preferred, anticipation of risk, the returns they expect, etc.

## Objectives of the Study

- ✓ To understand the customers' perception towards mutual funds as an investment option, in comparison to the various investment avenues available.
- ✓ To understand the various factors influencing the investment decisions of individuals.
- ✓ To understand if there is a relation between demographics like age, gender and occupation of the individual and the investment decision made by them towards mutual funds.

## Research Methodology

Convenience sampling is conducted for this study and collected the data feedback from the participants. It is a descriptive research design and carrying out semi structured interviews and participants observation on consumers' perception towards mutual funds as an investment vehicle. Primary data has been collected on the various factors. I have collected 120 questionnaires for doing this research. After the collect of the data its interpreted in own words and used the pie chart for graphical representation.

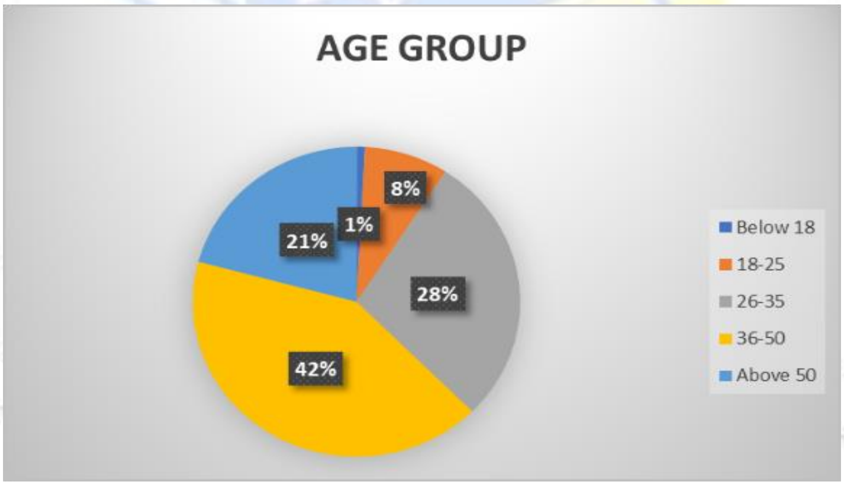
## Data Analysis and Interpretation

1. Demographic profile of the customers.

### (I) Age of Respondents

| Age Group | Below 18 | 18-25 | 26-35 | 36-50 | Above 50 | Total |
|---|---|---|---|---|---|---|
| No of Respondants | 1 | 10 | 34 | 50 | 25 | 120 |
| Parcentage | 0.8 | 8.4 | 28.3 | 41.7 | 20.8 | 100 |

Source: - Primary Data

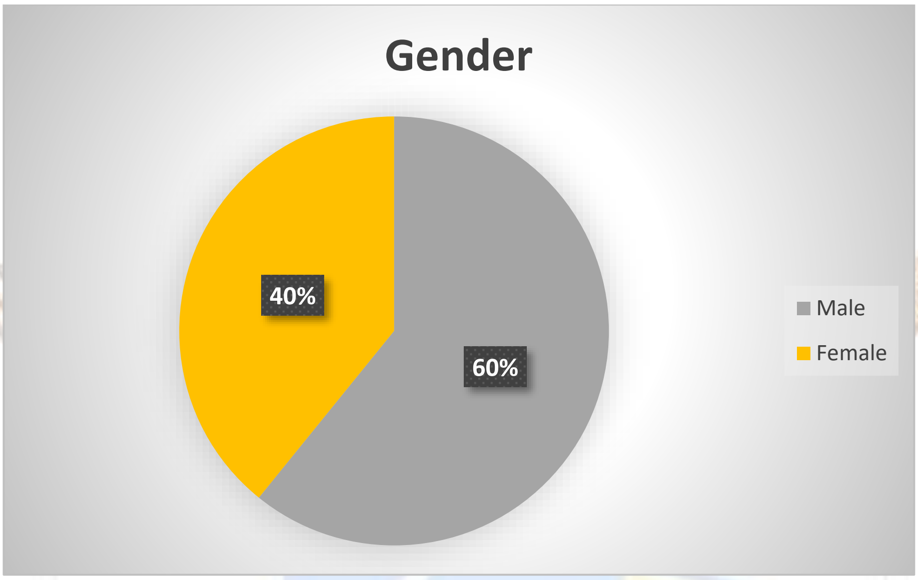



**Interpretation: -** The age group of the consumers is spread across all age segments. In this analysis 62% consumers, they have the positive perception towards mutual funds and the 37% consumers they are not much positive about it.

### (ii) Gender

| Gender | | Percentage |
|---|---|---|
| Male | 73 | 60 |
| Female | 47 | 40 |
| Total | 120 | 100 |

Source:- Primary Data

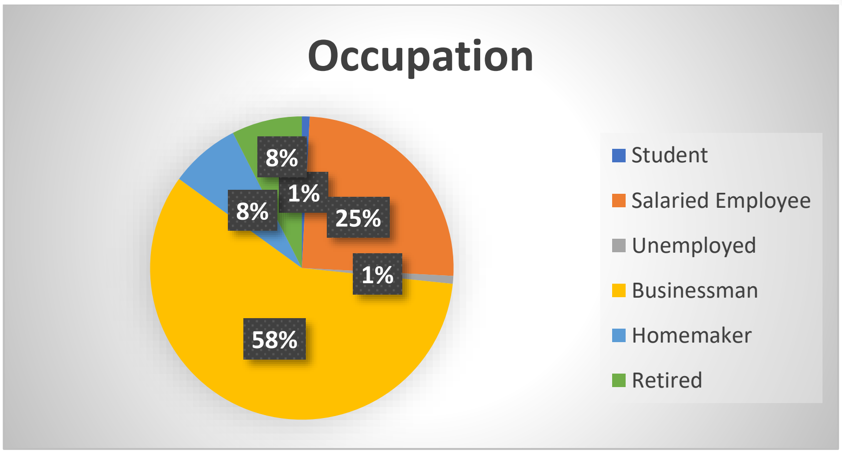



**Interpretation: -** Out of 120 respondents surveyed, 73 were male and 47 were female. Hence, the percentage of male respondents were high rather than female.

### (iii) Occupation

| Occupation | No Of Respondants | Percentage |
|---|---|---|
| Student | 1 | 0.8 |
| Salaried Employee | 30 | 25 |
| Unemployed | 1 | 0.8 |
| Businessman | 70 | 58.4 |
| Homemaker | 9 | 7.5 |
| Retired | 9 | 7.5 |
| Total | 120 | 100 |

Source: - Primary data

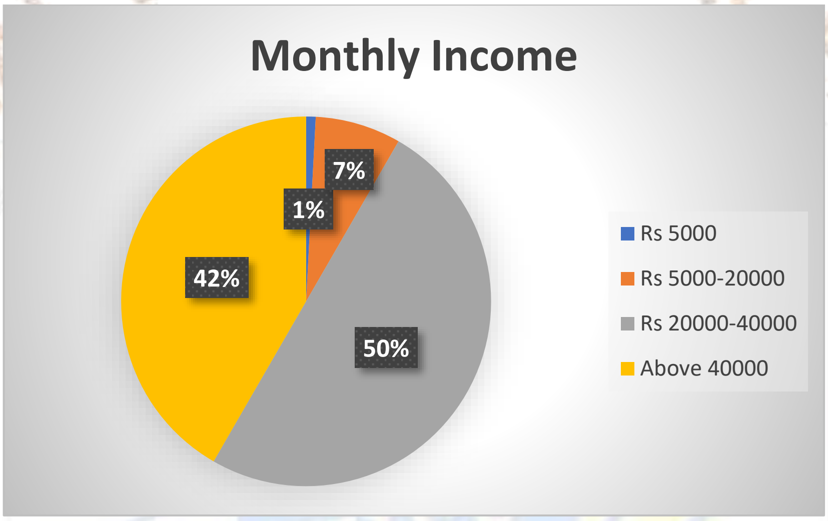


**Interpretation:** - Pei chart shows that, 58% are under the group of businessmen so there is high possibility to invest their money in the mutual funds and others schemes. Alongside this, 25% they are under the group of salaried employees, they also want to invest their money for the same.

**(iv) Monthly Income**

| Monthly Income | No Of Respondants | Percentage |
|---|---|---|
| Rs 5000 | 1 | 0.8 |
| Rs 5000-20000 | 9 | 7.5 |
| Rs 20000-40000 | 60 | 50 |
| Above 40000 | 50 | 41.7 |
| Total | 120 | 100 |

Source: - Primary data



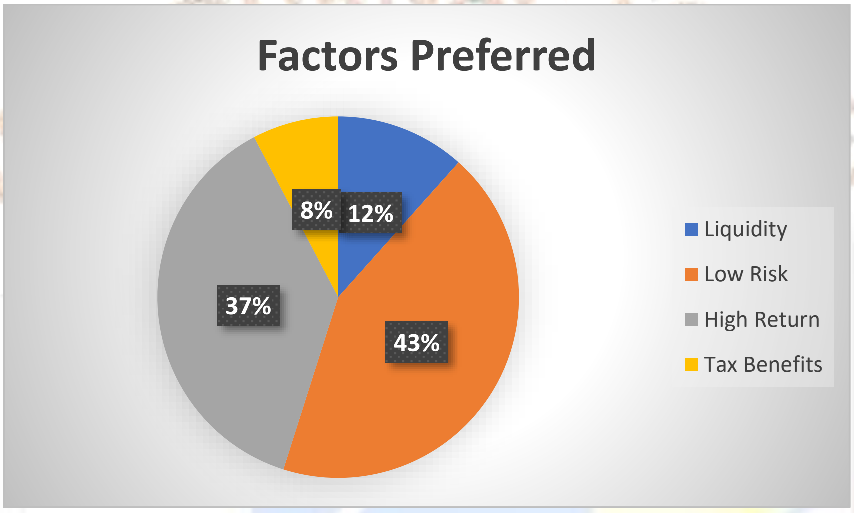

**Interpretation: -** Pei chart shows that, 50% people they are included from businessmen and on the other hand, 42% are the salaried employees so their income is higher than the other group of percentages like students, homemaker, and retired persons. so, from the two categories (Employee and businessmen) there is high chance to invest in mutual funds and the other schemes.

2. **Customers' perception towards mutual funds as an investment option.**

(i) **Factors preferred the most while investing money**

| Factors | No.of.Respondants | Percentage |
|---|---|---|
| Liquidity | 14 | 11.6 |
| Low Risk | 52 | 43.3 |
| High Return | 45 | 37.4 |
| Tax Benefits | 9 | 7.7 |
| Total | 120 | 100 |

Source: - Primary data

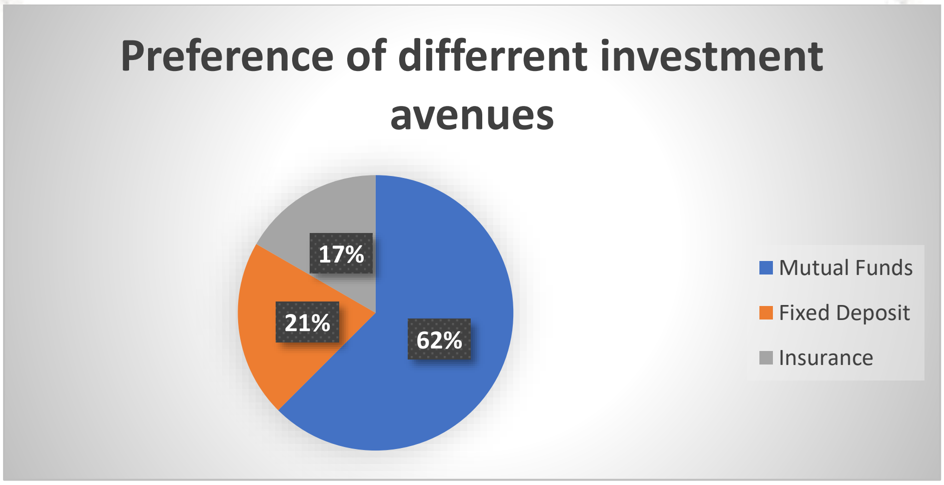



**Interpretation**: - In this analysis, 80% consumers are aware of mutual fund and they have invested their money in mutual fund because of they believe there is low risk of mismanagement and they want to get high return on a particular amount and on the other hand 20% of the consumers have invested just because of and tax benefits.

(ii) **Respondents' preference regarding the different investment avenues**

| Particulars | Preference | Percentage |
|---|---|---|
| Mutual Funds | 75 | 62.5 |
| Fixed Deposit | 25 | 20.8 |
| Insurance | 20 | 16.7 |
| Total | 120 | 100 |

Source: - Primary data

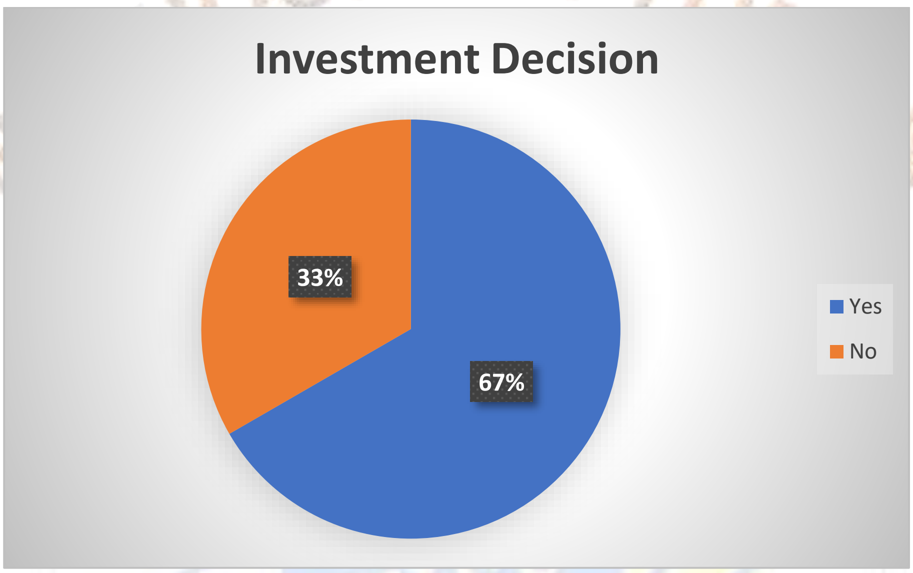


**Interpretation**: - In this analysis, 62% the majority of the consumers are highly preferred for mutual fund, remaining 21% consumers have invested in the fixed deposit and 17% less percentage of consumers have invested in insurance.

**(iii) Investment decision towards Mutual Funds**

| Particulars | No.of.Respondance | Percentage |
|---|---|---|
| Yes | 80 | 66.6 |
| No | 40 | 33.4 |
| Total | 120 | 100 |

Source: - Primary data

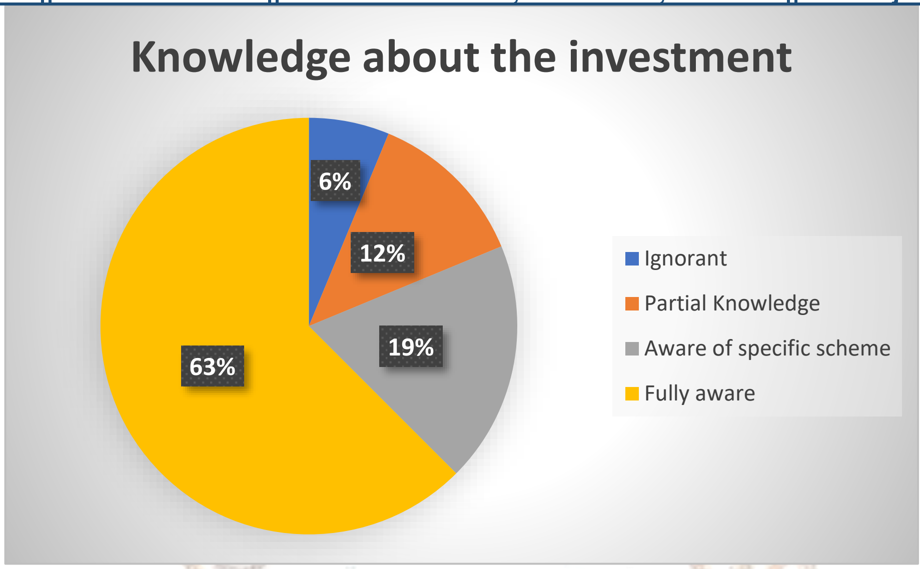



**Interpretation**: - In this analysis, 67% of the consumers they have clear knowledge and good perception about mutual funds so they have taken their decision to invest their money in mutual fund and 33% of the consumers they are not very much interested and they are little bit confused about the various schemes of the investments so they didn't invest their money.

**(iv) If yes, do you have any knowledge about the investment?**

| Particulars | No.of.Respondance | Percentage |
|---|---|---|
| Ignorant | 5 | 6.25 |
| Partial Knowledge | 10 | 12.5 |
| Aware of specific scheme | 15 | 18.75 |
| Fully aware | 50 | 62.5 |
| Total | 80 | 100 |

Source: - Primary data

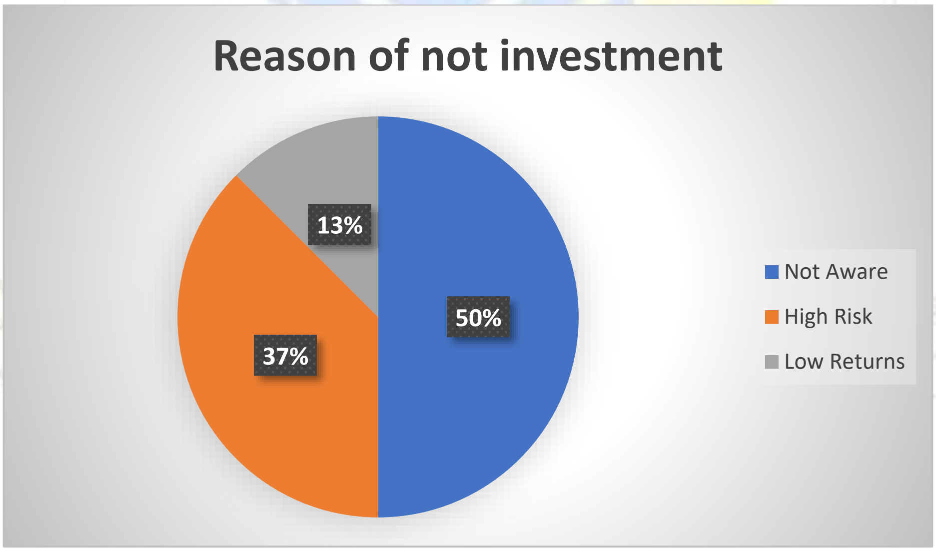



**Interpretation: -** From the previous stage of analysis, I got 62% consumers are interested towards mutual funds. In this analysis the data shows that 83% consumers are fully aware and have partial knowledge about all types of schemes. Alongside this, 19% are aware of the specific schemes and 6% this is a smaller number of consumers have ignored about the investment.

**(v) If not, why didn't you invest in Mutual Funds**

| Particulars | No.of.Respondance | Percentage |
|---|---|---|
| Not Aware | 20 | 50 |
| High Risk | 15 | 37.5 |
| Low Returns | 5 | 12.5 |
| Total | 40 | 100 |

Source: - Primary data

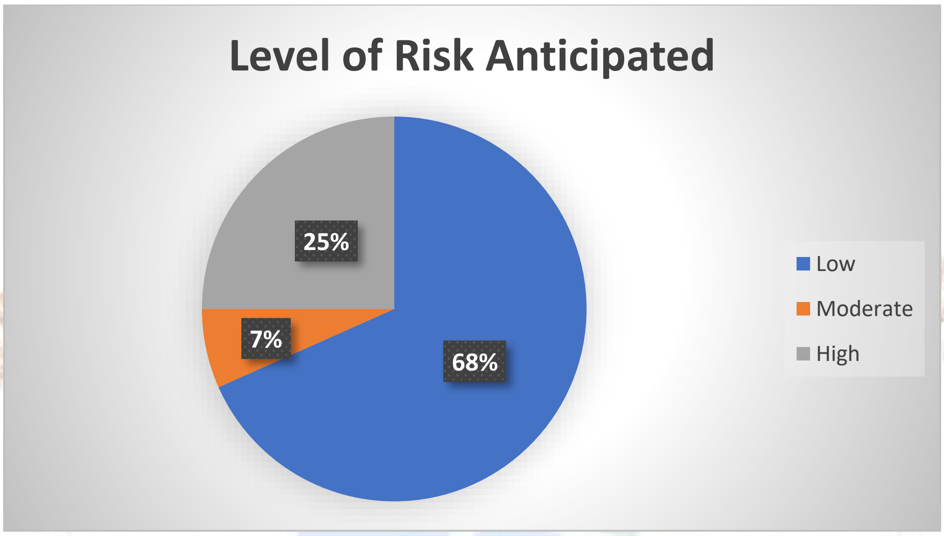



**Interpretation: -** In the previous stage of interpretation, I got 40 consumers they were not aware for investment and rather they didn't investment. Based on 40 consumers in this analysis shows that, 50% are not aware about the mutual funds, and remaining 50% they have had wrong concept about high risk and low returns of the mutual funds.

### (vi) Level of risk anticipated from mutual fund

| Perticulars | No.of.Respondants | Percentage |
|---|---|---|
| Low | 82 | 68 |
| Moderate | 8 | 7 |
| High | 30 | 25 |
| Total | 120 | 100 |

Source: - Primary Data

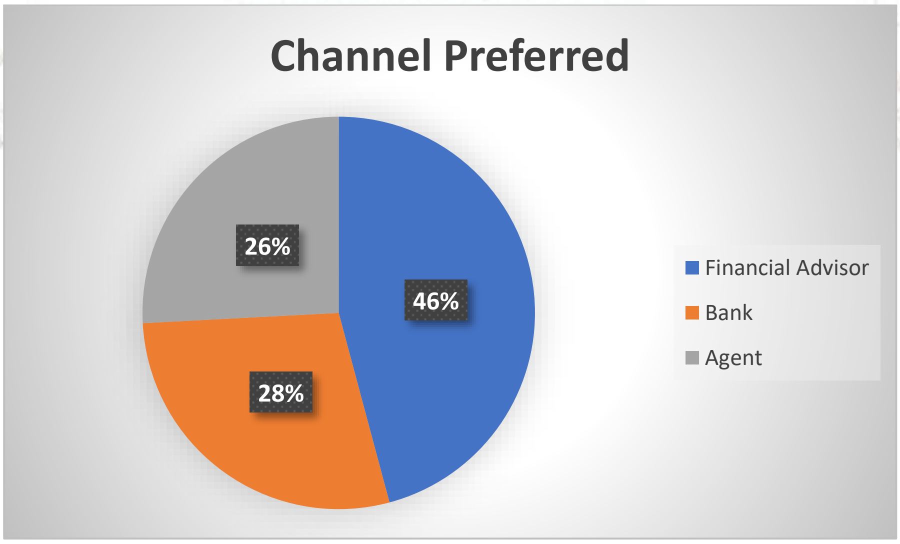



**Interpretation: -** In this analysis, 68% the majority of the consumers agree that there is a low anticipated risk in the mutual funds and 32% consumers said that, in the mutual fund there is a high risk of return on investment.

### (vii) Channel preferred while investing in Mutual Funds.

| Particulars | No.of.Respondance | Percentage |
|---|---|---|
| Financial Advisor | 55 | 45.8 |
| Bank | 34 | 28.4 |
| Agent | 31 | 25.8 |
| Total | 120 | 100 |

Source: - Primary data

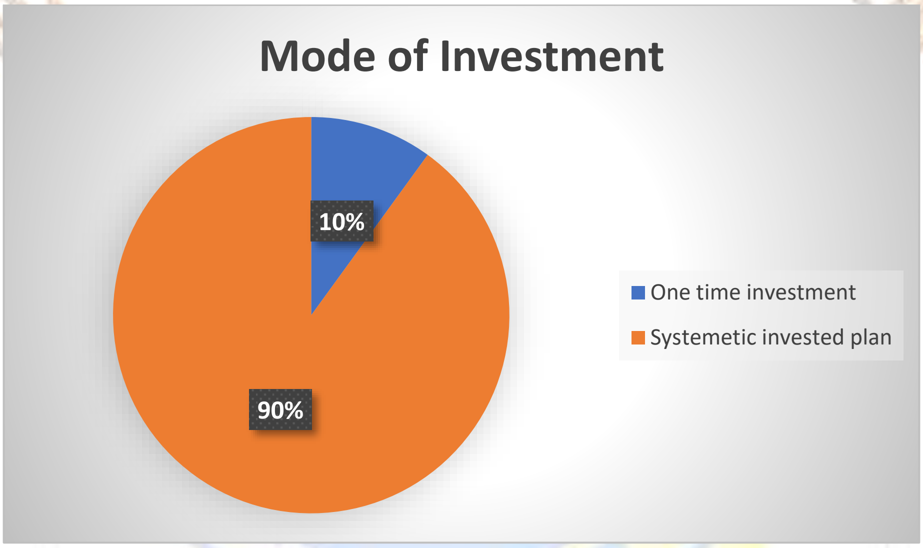


**Interpretation: -** In this analysis, 46% the majority of the consumers have invested their money through the financial adviser and they believe that the adviser of the particular company has cleared their doubts before investing and the other hand, 28% of the consumers they have also invested money in mutual fund through the bank and their agents.

**(viii) Mode of Mutual fund investment preferred**

| Particulars | No.of.Respondents | Percentage |
|---|---|---|
| One time investment | 12 | 10 |
| Systematic invested plan | 108 | 90 |
| Total | 120 | 100 |

Source: - Primary data




**Interpretation**: - In this Analysis, I found that 90% the majority of the consumers are invested in the systematic investment plan (SIP) this suggest that people have to avoid one time investment to mitigate their risk involved in the investment process.

**Findings**

- This study revealed that 67% Consumers have positive perception towards investment in mutual fund and 33% Consumers have negative perception towards it.
- The age of consumers and their attitude towards mutual fund are significantly concerned with each other. Age plays very important role in determining their perception towards mutual fund as an investment.
- 58% are under the group of businessmen so there is high possibility to invest their money in the mutual funds and others schemes. Alongside this, 25% they are under the group of salaried employees they also want to invest their money.
- Consumers invest in mutual fund for various reasons like high return, liquidity, and tax benefits. 80% of the consumers have invested mostly in the mutual funds that is why the first rank is allocated to low risk and high return and second rank is given to the tax benefit and liquidity.
- From the data analysis I found that 67% of the consumers are very much interested and focused on the mutual funds and they have invested their savings in the mutual funds and other schemes.

- 46% the majority of the consumers have invested their money through the financial adviser and they believe that the adviser of the company has cleared their doubts before investing and the other hand, 54% of the consumers they have also invested money in mutual fund through the bank and their agents.
- From the data analysis I found that 68% the majority of the consumers are agreed that there is a low anticipated risk in the mutual funds and 32% consumers said that in the mutual fund there is a high risk of return on investment.
- From the data analysis I found 83% the majority of the consumers they have partial knowledge about all types of schemes. Alongside this, 19% of the consumers are aware of the specific schemes.
- 90% the majority of the consumers have invested in the systematic investment plan (SIP) this is very affordable and easiest process to them.

## Recommendations

- Mutual funds offer a wide range of benefits which probably wouldn't be available in any other investment plan. With the right set of schemes chosen by their fund managers as per their investment objective, they would no longer be far away to accomplish their goals. As it was observed that customers were willing to take help of the financial advisors, the mutual fund companies should give them the right training and make them aware of all the schemes available in the market with respect to the investment objectives. Moreover, they should reach to as many potential customers as possible which would help the industry to work exceptionally well in the coming years. Their work wouldn't be that difficult because many people have basic knowledge about its working. Once they possess complete knowledge and are assured about their funds, they would no longer hesitate to make investment.
- Very consumers want to invest in mutual funds and it is among one of the preferred investment options, but they do not invest in them due to lack of knowledge regarding mutual funds. It was found that people weren't completely aware of the benefits offered by mutual funds and hence had a hesitation to make investment in such schemes. People should be made aware of its working through innovative marketing techniques and plans, which would further encourage them to invest and hence earn returns to meet their economic objectives. Customers should be made aware that ignorance is no longer bliss and that they are losing a lot by not making a right choice of investment.

## Conclusion

Mutual funds provide a viable investment option for retail investors who lack the time and experience to research and invest in stocks and bonds. The present study takes up understanding the extent of awareness about mutual funds and analysing the perception of the investors towards mutual funds. The above research on customers" perception towards Mutual Funds as an investment option has helped to understand the financial behaviour of the investors in connection with the preferences of Brand, Products, channel etc. These are operated by a team of professional fund managers with descriptive research advice from investment analysts. Being institutions with good market bargaining power, mutual funds have access to crucial corporate information that individual investors are unable to access. Thus, the present study takes up understanding the extent of awareness about mutual funds and analysing the perception of the investors towards mutual funds. It was observed that many customers had a positive perception about mutual funds and agreed that it was a profitable investment but hesitated to do so because of lack of awareness. It was observed that Financial Advisors are the most preferred channel for mutual fund investment. Nowadays people are also taking help of banks with whom they hold their account.

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