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A STUDY OF MUTUAL FUNDS AS A POTENTIAL SOURCE OF INVESTMENT

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ABSTRACT

As they provide both individual and institutional investors with a diverse and expertly managed portfolio, mutual funds have become a popular investment solution.The goal of this research study is to thoroughly investigate the traits, advantages, dangers, and performance of mutual funds as a kind of investment. This article aims to give investors a thorough grasp of the potential of mutual funds within their investment portfolios by looking at different kinds of mutual funds, historical returns, risk considerations, and the influence of market movements.

1. INTRODUCTION

The establishment of the Unit Trust of India (UTI) by the Indian government in 1964 marked the beginning of the mutual fund sector in that country. UTI has been a major force in the sector during the past 36 years, having assets of more over Rs. 52000 crores (Rs. 520 billion) as of the month of December 2001.In 1987, mutual funds were permitted to be established by public sector banks as well as two insurance firms (Life Insurance Company and General Insurance Company). The Indian capital market's regulatory agency, the Securities and Exchange Board of India (SEBI), introduced a thorough framework for mutual funds in 1993 and permitted private corporate entities to introduce mutual fund schemes. since then, the private and joint sectors have launched a number of mutual funds. There were 35 mutual fund companies as of March 2002, with 433 schemes and Rs. 100594 (Rs. 1005 billion) in assets under management. The Indian mutual fund business has been in competition for roughly ten years.

India's mutual fund industry has an interesting history of development and expansion.Here’s a brief overview:

1963: the establishment of the Unit Trust of India (UTI), the concept of mutual funds was first presented in India. The primary objective was to raise people's modest savings and use them to purchase a variety of assets.

1987: The first non-UTI mutual fund in India was SBI Mutual Fund,The mutual fund business began diversifying and become more competitive as a result.

1991: India's economy was founded to foreign capital flows and investments with the introduction of economic liberalization reforms. Therefore, it has a favorable effect on the mutual fund sector by raising interest from both domestic and foreign investors.

1993: Since the Securities and Exchange Board of India (SEBI) Act was passed, SEBI has been in control of supervising the securities market, which includes mutual funds. The mutual fund sector now has transparency, regularity, and investor protection thanks to SEBI's rules.

1996: The industry experienced a significant change with the SEBI (Mutual Funds) Regulations. The market was launched to private-sector mutual funds, which resulted in the growth of mutual fund offerings and the creation of multiple asset management firms (AMCs).

2003: In the process of enabling small, regular investments, Systematic Investment Plans (SIPs) have made mutual fund investing more accessible to regular investors. Long-term wealth growth and careful investing were encouraged by this strategy.

2009: The purpose of the Association of Mutual Funds in India (AMFI) is to promote the interests of the Indian mutual fund sector.In terms of industry research, investor education, and upholding moral principles, AMFI is essential.

2010: In India, the mutual fund sector developed quickly due to increasing disposable incomes, regulatory changes, and investor awareness. The implementation of rules such as the Total Expense Ratio (TER) and the classification and simplification of mutual fund schemes enhanced visibility and made it easier for investors to make decisions.

In essence, mutual funds are financial instruments that combine the assets of multiple people with comparable financial goals. In charge of managing the funds collected from various investors, a fund manager makes investments in a variety of financial products, such as shares, bonds, and company stocks.According to the Securities and Exchange Board of India (SEBI), which monitors mutual funds in India, investing in mutual funds is the most straightforward method of accumulating money. The net asset value (NAV) of the mutual fund, which is determined at the end of each trading session, is used by the fund management company to issue and redeem mutual fund units. The total value of the fund's shares, less expenses, is divided by the total number of units issued to determine the NAV.

2. LITERATURE REVIEW

In their research paper, Dhandyayuthapan & Pratheep (2018) analyze secondary data with the aim of examining the performance of specific mutual fund schemes in HDFC and evaluating the performance of those schemes using the Jensen, Treynor, and Sharpe ratios. Additionally, they examined the performance of thirty open-ended, diversified equity schemes, using the daily closing net asset value (NAV) of each plan to determine the fund schemes' returns.

Kumar, 2018 While analyzing the performance of mutual funds involves many factors and dimensions, this study concentrated on five: the information measure, Treynor measure, Jensen differential measure, Sortino measure, and 22 Sharpe measure. The degree of connection between mutual fund performance and fund size was evaluated by computing correlation coefficients among all the factors. The results showed that there was no meaningful correlation between fund size and performance.

Investor preferences were found by Gupta & Jain (2008) among the foremost categories of financial assets, including share investments, indirect investments through different mutual fund schemes, exchange-traded gold funds, bank fixed deposits, and government savings plans. This data came from a survey that was conducted among 1463 homes in India. Interesting details on the relationship between investors' opinions about various investment kinds, their age and income, portfolio diversification strategies, and the overall standard of market regulation are provided by the study.

In his research, "Investment Choice of Individual Investors," Jasmeen (2009) discovered that while a significant portion of investors selected for high-risk investments, the majority of investors preferred low-risk options. This could be feasible as investor trust would increase as more Indian private investors become aware of the ethical and transparent investing atmosphere. The survey also demonstrated that there is no significant correlation between respondents' age, gender, religion, level of education, income, and occupational profile and the amount of risk they accept on investments.

A research by Bhurghate (2012) attempted to understand the investment habits of middle-class Nagpur investors.52 investment objectives and middle-class families' preferences for investment tools and models were investigated in this study. Bank deposits, shares, mutual funds, real estate, Kisan Vikas Patrika, and postal deposits were among the investment alternatives available for the research. A sample size of 300 houses was employed in the investigation. To do the analysis, statistical methods like the mean and percentage were employed. According to the poll, bank deposits were the most preferred investment option, with life insurance coming in second. Postal savings and insurance fund investments came in third and fourth, respectively. The findings of Vijay Agarwal and Nupur Gupta (2013) are comparable to this. The least advised investment avenue was determined to be real estate. Investments in stocks were not the most common among all age groups.

In their paper "A Study on Preferred Investment Options Among People and Factors for Investment" (Study on Preferred Investment Options and Factors Considered While Investing), Joseph and Prakash (2014) wanted to understand the preferred investment option among Bangalore City residents as well as the range of available investment options. There are new financial products accessible in the modern world. Because the average person lacks the financial understanding to determine what aspects should be taken into account to make wise investment decisions, selecting the best possibilities has become challenging and complex.Further analysis reveals that investors are more likely to stick with more conventional investments like bank deposits, insurance, postal deposits, etc., rather than investing in the stock market and shares. By being aware of investment opportunities and their benefits and drawbacks, you can make the best financial decisions for yourself.

3. OBJECTIVES OF THE STUDY

a) To study mutual fund investing market trends in India.

b) to determine how customers view mutual funds as an investment choice in relation to other investment options.

SCOPE OF THE STUDY:

The study is not only about equities mutual funds; it has some connection to all aspects of investing.

4. RESEARCH METHODOLOGY

This study is classified as a descriptive research study. It has been dealing with the examination of Chennai customers' attitudes on mutual funds. A systematic questionnaire was used to get feedback from 125 customers.

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5. DATA ANALYSIS AND INTERPRETATION

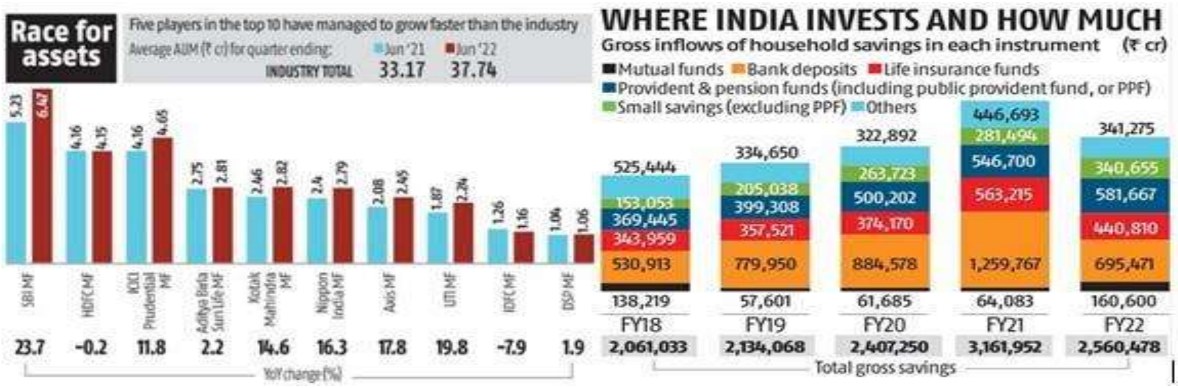

Figure 1 Market Trends of Mutual Fund Investments

Source: AMFI and Business Standard Sep 28, 2022

The Association of Mutual Funds in India (AMFI) acknowledged that the average assets under management (AUM) for the domestic mutual fund (MF) sector increased 13.8% year over year to Rs 37.74 trillion for the quarter that ended in June 2022. Increased investment in the equity scheme was the reason for the asset increase. In comparison to the industry average, State Bank of India MF, the largest participant, strengthened its position by increasing its AUM by 23.7 percent to Rs 6.47 trillion.The second-ranked ICICI Prudential MF had an 11.8% increase in AUM to Rs 4.65 trillion. The AUM of HDFC MF, the biggest listed mutual fund, decreased marginally to Rs. 4.15 trillion over the course of the previous year. With a 14.6% growth in average AUM, Kotak MF rose to fourth place. Aditya Birla Sun Life MF, whose AUM increased by just 2.2%, was overtaken by it. For the three months that ended in June, the Sensex declined 9.5%, while the BSE Mid Cap and BSE Small Cap indices sank 10% and 12.2%, respectively. For the first five months of 2022, net inflows into equity funds was Rs 97,476 crore.

This is another article from the September 28, 2022, edition of Business Standard The gross inflows from retail investors into mutual funds (MFs) increased by 150% in 2021–2022 (FY22), even as household savings fell by 19% year over year. Data from the Reserve Bank of India (RBI) shows that domestic mutual funds saw gross inflows of Rs 1.6 trillion from households in FY22. With families saving a total of Rs 25 trillion in the most recent fiscal year, MFs' share of gross savings was 6.3%, the highest level in the preceding four fiscal years. In actuality, MF gross inflows reached their greatest level in at least 10 years. According to data from the Association of Mutual Funds in India, the industry attracted over 10 million new investors and brought in a total of Rs 1.2 trillion. The industry has realized that investors are become more sophisticated as flows into mutual funds (MFs) remain robust even during times of elevated volatility. Despite a 45% year-over-year decline in FY22, retail investors' bank deposits still accounted for 26% of all household savings, or Rs 6.9 trillion. RBI data reveals that provident and pension funds, including public provident funds, had the second-highest shares, each at 23 percent, followed by modest savings programs (13 percent). This shows that even while MFs' portion of total household savings increased from 2% to 6% in only a single year, they are still only the sixth most popular investment choice for retail investors.

CUSTOMER'S PERCEPTION OF MUTUAL FUNDS AS AN INVESTMENT OPTION

1. Respondents gender

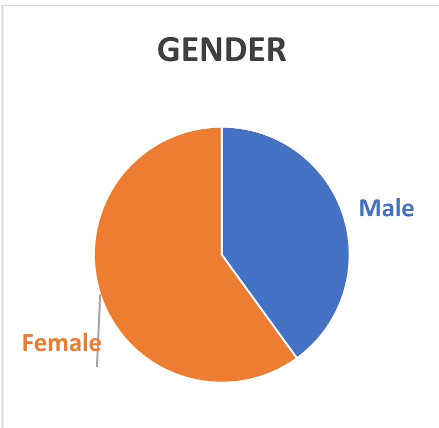

Figure 2 Gender

Table 1 gender of respondents

Gender	No of responds	percentage
Male	50	40
Female	75	60
Total	125	100

Interpretation: Out of a total 110 sample size, 50 % are males and 75 % are females

2. Age of respondents

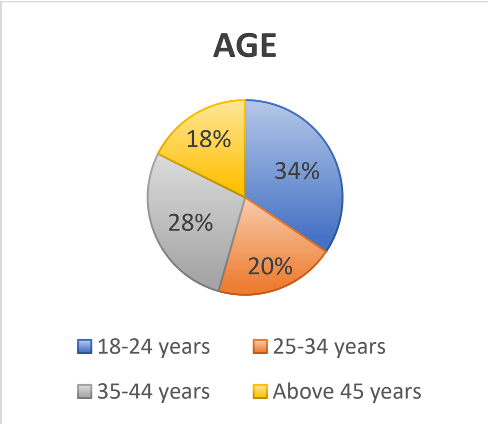

Figure 3 Age

Table 2 age of respondents

Age	No of responds	percentage
18-24 years	43	34.4
25-34 years	25	20
35-44 years	35	28
Above 45 years	22	17.6
Total	125	100

Interpretation: The respondents are spread out throughout all age groups in terms of their age group. Most respondents, however, are between the ages of 18 and 24 (43 respondents), followed by 25 and 34 (25 respondents), 35 and 44 (35 respondents), and over 45 (22 respondents).

3. Annual savings of respondents

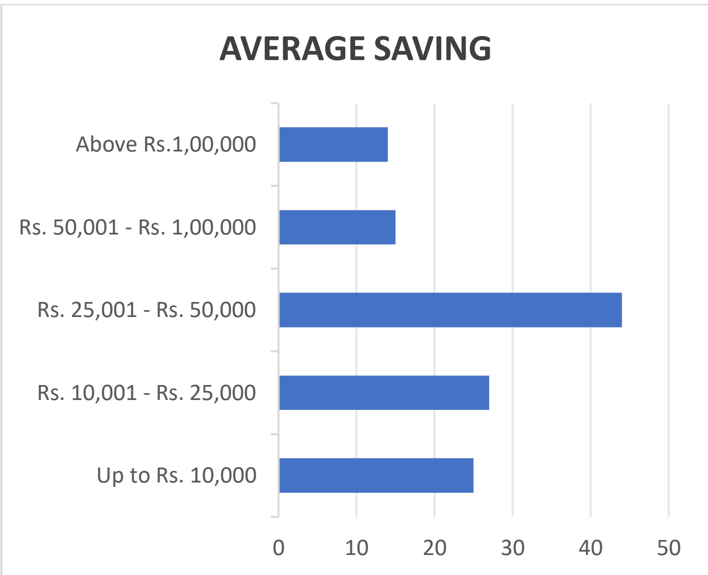

Figure 4 Average savings

Table 3 annual savings of respondents

Annual savings	No of responds	percentage
Up to Rs. 10,000	25	20
Rs. 10,001 - Rs. 25,000	27	21.6
Rs. 25,001 - Rs. 50,000	44	35.2
Rs. 50,001 - Rs. 1,00,000	15	12
Above Rs.1,00,000	14	11.2
Total	125	100

Interpretation: Around 44 respondents have annual savings of about Rs 25000 to Rs 50000 out of total income which comprises around 35.2 percent of all, followed by 27 percent that is respondents' annual savings is Rs 10000 to Rs 25000. Out of the total income of the respondents, 25 respondents are one whose annual savings is around Rs 10000.

4. Preferred factors while investing

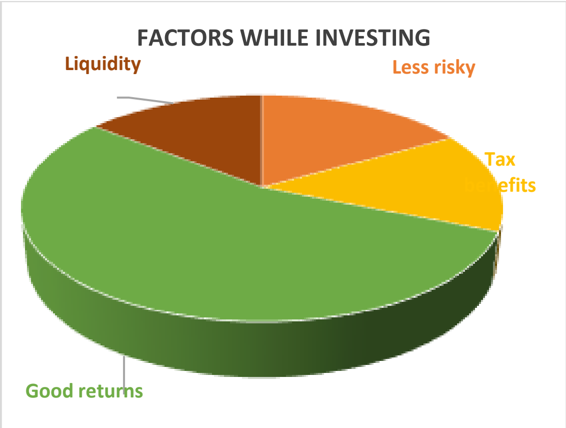

Table 4 factors preferred while investing

Factors	No of responds	percentage
Less risky	21	16.8
Tax benefits	18	14.4
Good returns	68	54.4
Liquidity	18	14.4
Total	125	100

Factors 4 factors considered while investing

Interpretation: Out of 125 respondents, 54.4 % favor receiving strong returns on their investments, 14.4 % think about tax benefits before investing, 16.8 % prefer lower risk, and 14.4 % opt for liquid assets which is the same as of tax benefits.

5. Preference of respondents regarding different investment avenue

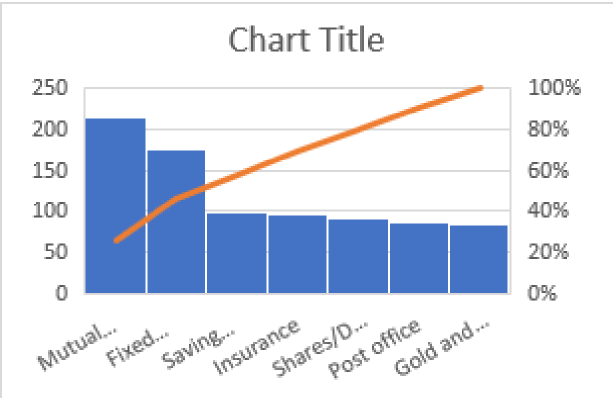

Table 5 Preference of respondents regarding different investment avenues

Particulars	Investment preference	rank
Mutual funds	215	I
Fixed deposit	175	II
Saving account	98	III
Insurance	95	IV
Shares/Debentures	92	V
Post office	85	VI
Gold and silver	83	VII

Interpretation: The given data reflects respondents' investment preferences across a range of investment opportunities. How many respondents selected each investment avenue as their preferred option reveals their preferences. The ranking column shows how each investment avenue is ranked according to how many respondents said they favored it.The data suggests that among the given investment avenues, mutual funds are the most favored choice among the respondents with a 215 cumulative score and is ranked as 1, followed by fixed deposits with a cumulative score of 175 ranked II, saving accounts cumulative score of 98 ranked III, insurance cumulative score of 95 ranked IV, shares/ debentures with cumulative score of 92, post office investments with cumulative, and real estate in descending order of preference. Post offices and Real estate are ranked in descending order.

6. FINDINGS AND CONCLUTIONS

A wide range of features offered by mutual funds could not be easily accessible through alternative investment strategies. By choosing the right combination of schemes under the direction of skilled fund managers in line with their investing aims, people can get closer to their objectives.According to a statistical analysis, a sizable percentage of participants are between the ages of 18 and 24. These respondents made mutual fund contributions ranging from 10% to 25% of their income.

Among the main factors affecting their mutual fund investment decisions are tax advantages and lower risks.It can be seen from analyzing their preferences across different investing avenues that they are especially focused on fixed deposits and mutual funds, most likely because of the moderate degree of risk involved. The Systematic Investment Plan (SIP), that provides an expected return rate of 10% to 15%, is the primary investment strategy selected by the respondents, who also show a tendency to seek advice from financial consultants.

When mutual funds have a comparatively low level of risk, a significant portion of the 135 respondents—75 in total invest their profits in funds. However, the study indicates that these investors have little understanding of mutual funds and are either just partially knowledgeable about them or mostly concentrate on the particular schemes in which they are currently engaged. The remaining 50 respondents who have not invested, on the other hand, show less knowledge of mutual funds, frequently as a result of concerns about the increased risk associated with mutual fund schemes.

7. CONCLUSION

The market for mutual funds in India has grown significantly in the last few years. The business had 200 or more funds just a few years ago. It now has an impressive sum of over a thousand dollars. The mutual fund business is experiencing a boom due to the growing demand from investors. At the same time, the field of investing has been expanded to involve sectors like gold, real estate, and other commodities. People have become increasingly comfortable with the idea of putting their savings into mutual funds in this shifting climate.

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