Layman's Attitude towards Mutual Fund Investments, A Study with Special Reference to Kerala

Shaju M J
Associate Professor in Economics Baselius College Kottayam India

Abstract

A mutual fund is a professionally managed investment fund that pools money from many investors to purchase securities. These investors may be retail or institutional in nature.

Mutual funds have advantages and disadvantages compared to direct investing in individual securities. The primary advantages of mutual funds are that they provide economies of scale, a higher level of diversification, they provide liquidity, and they are managed by professional investors. On the negative side, investors in a mutual fund must pay various fees and expenses.

Primary structures of mutual funds include open-end funds, unit investment trusts, and closed-end funds. Exchange-traded funds (ETFs) are open-end funds or unit investment trusts that trade on an exchange. Mutual funds are also classified by their principal investments as money market funds, bond or fixed income funds, stock or equity funds, hybrid funds or other. Funds may also be categorized as index funds, which are passively managed funds that match the performance of an index, or actively managed funds. Hedge funds are not mutual funds; hedge funds cannot be sold to the general public and are subject to different government regulations.

Introduction

In India different investment avenues are available to investors. Mutual funds also offer good investment opportunities to the investors. Like all investments, they also carry certain risks. Mutual fund is a mechanism for pooling money by issuing units to the investors and investing funds in securities in accordance with objectives as disclosed in offer document. Investments in securities are spread across a wide cross-section of industries and sectors and thus the risk is diversified because all stocks may not move in the same direction in the same proportion at the same time. Mutual funds issue units to the investors in accordance with quantum of money invested by them. Investors of mutual funds are known as unitholders. A mutual fund is required to be registered with Securities and Exchange Board of India (SEBI) before it can collect funds from the public. Unit Trust of India was the first mutual fund set up in India in the year 1963. In late 1980s, Government allowed public sector banks and institutions to set up mutual funds. In the year 1992, Securities and Exchange Board of India (SEBI) Act was passed. The objectives of SEBI are – to protect the interest of investors in securities and to promote the development of and to regulate the securities market.

India's mutual fund industry has the potential to grow exponentially as the country's mutual fund penetration levels remain considerably low compared to large economies.

Over the past five years, the industry's Asset Under Management(AUM) has seen a compound annual growth rate (CAGR) of 20.6 per cent, and equity-oriented AUM has

increased at a CAGR of 25 per cent. Despite the high growth India's mutual fund AUM-to-GDP ratio remains significantly low at 15 per cent as compared to global average of 75 per cent. Similarly, equity AUM to market cap stood at five per cent as against a global average of 30 per cent. India's penetration levels by any measure remain considerably lower compared to other large economies. India has more than 50 crore income tax permanent account numbers but only 2.2 crore mutual fund investors. This reaffirms that the industry has the potentially to grow exponentially. India's mutual fund regulatory framework is among the top in terms of global best practices.
The present study is to assess investors attitude towards mutual funds and also to compare the return from mutual fund with the interest rate on bank deposits

Mutual funds are normally classified by their principal investments, as described in the prospectus and investment objective. The four main categories of funds are money market funds, bond or fixed income funds, stock or equity funds, and hybrid funds. Within these categories, funds may be sub classified by investment objective, investment approach or specific focus.

The types of securities that a particular fund may invest in are set forth in the fund's prospectus, a legal document which describes the fund's investment objective, investment approach and permitted investments. The investment objective describes the type of income that the fund seeks. For example, a capital appreciation fund generally looks to earn most of its returns from increases in the prices of the securities it holds, rather than from dividend or interest income. The investment approach describes the criteria that the fund manager uses to select investments for the fund.

Bond, stock, and hybrid funds may be classified as either index (or passively-managed) funds or actively managed funds.

Objectives

1. To find the investors' attitude towards Mutual Funds.
2. To compare the returns or benefits between Mutual Funds and Bank Investments.

Methodology of the Study
The information for the study has been randomly collected using questionnaire from only invested respondents and secondary data. This primary data collection has been analyzed and interpreted using the statistical tools of figures, tables, etc…

Data Analysis
Objective 1: To find the consumer behavior towards Mutual Funds.

Table 1: REASONS FOR PREFERRING MUTUAL FUNDS

Sl. No	Parameters	Percentage
1	Returns	20%
2	Low risk factor	70%
3	Credit rating	0%
4	Inflation	0%
5	Company	0%
6	Lock in period	10%

Source: Primary data

Table 1 shows the reasons for preferring mutual funds. Most of the investors are considering low risk factor for their investment. They are not interested in taking risks.20% of investors are considering returns and 10% are considering lock in period, which means Mutual Funds Tax saver plans have three year lock in period and other tax saver plans like insurance, FD, etc. have five year lock in period.

Objective 2: To compare the returns or benefits between Mutual Funds and Bank Investments.

Table 2: Comparison between Bank returns and Mutual Fund returns

Investment Tool	Investment Period	Return
Bank Fixed Deposit	1 year	8 % Maximum
Bank Recurring Deposit	3 year	8.6 % Maximum
Mutual Fund Large cap deposit return	3 Year	15 % Maximum
Mutual Fund Small cap deposit return	1 year	33 % Maximum

Source: Secondary Data

The table 2 shows the huge break between bank deposits and Mutual Funds in terms of their returns. The maximum return that we are obtained from bank deposits is 8.6 % per annual, but large cap mutual funds provided average 15% principal growth. The stunning return which attracts huge investors provided by small cap mutual funds, which offers 33 % return annually. So, if we rationally analyses the psychology of an investor, we can assume that he will choose mutual fund investments instead risk factor of mutual funds.

Conclusion

Mutual funds have advantages and disadvantages compared to direct investing in individual securities. The primary advantages of mutual funds are that they provide economies of scale, a higher level of diversification, they provide liquidity, and they are managed by professional investors. On the negative side, investors in a mutual fund must pay various fees and expenses.

The study reveals the truth that the investors prefer mutual funds against equity investments due to the lowered risk factor, and also it provides decent returns when we comparing with the equity investments in our economy. Mutual funds also provides tax saver plans with sufficient returns which have lesser lock in period that attract taxable individuals and institutions in our nation.

In the study, it is found that mutual funds offer two times higher returns than the bank deposits. So all the above facts clearly tell us the truth that the mutual funds have greater potential in India, but clogged by lack of popularity in our nation. So we need to give proper awareness for mutual funds which will give an advantageous effect in our economy.

Suggestions

- Most people didn’t know about Mutual Funds. So making awareness about Mutual Funds in the society is essential.
- Intervention of Government is essential in the field of Mutual Funds.
- The government should promote Tax Saver investments in India.
- Investors consider return as the important parameter for investing.
- The Government authorities should provide more awareness about Systematic Investment Plans. It provides better returns from equities.

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