A STUDY OF MUTUAL FUND INVESTMENT AWARENESS OF PEOPLE IN INDIA (WITH REFERENCE TO INDEX FUNDS)

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ABSTRACT:

Over the last few years, India's mutual funds have experienced tremendous development. Mutual funds will continue to be one of the most important instruments for wealth accumulation and preservation in the next years, delivering superior returns. Mutual funds are often regarded as one of the best investment alternatives accessible due to their low cost and ease of usage in contrast to other investment options. If you want to buy stocks and bonds, a mutual fund is a better option than trying to do so on your own because of lower trading expenses. Mutual fund diversification is the most important benefit, as it decreases risk while improving profits. Investors in India enjoy a plethora of investment opportunities. Individual investors can invest in a range of different types of securities, including mutual funds. However, mutual fund investments have the advantages of stock market investment while being more risky than savings accounts and bank deposits. By pooling together funds from a wide range of participants, mutual funds are able to make investments on the stock market, based on the mutual fund's investing goals. Investing in the stock market may be out of reach for the average person. Mutual fund companies enter the fray at this point. They aggregate the funds of a large number of small investors, and professional fund managers work to ensure that these investors receive the highest potential return. Mutual funds are available in a range of sizes and formats. Index funds are mutual fund strategies that invest in the same stocks as the index and have the same weighting as the index's constituents. The research investigates investors' awareness of mutual funds and their preference for them over other investment options. The survey goes on to look at how well-informed investors are about various mutual fund schemes, including index funds.

Keyword: Mutual Funds, Index Funds, Investors’ Awareness, Investors’ Preference risk & returns.

INTRODUCTION:-

Mutual Cash are basically financial instruments through which investors with identical investment objectives pool their funds and invest in concert. Each unit in a scheme represents the unit holder's ownership portion of the pool (investor). The Net Asset Value (NAV) of the underlying scheme, as declared from time to time by the fund, shows the appreciation or depreciation in the value of the underlying investments. Management of Assets Companies are responsible for the management of mutual fund schemes (AMC). These AMCs are sponsored by a variety of corporate conglomerates, financial institutions, and banks, either independently or in collaboration with other companies. Mutual funds invest in accordance with the scheme's declared investment objective.

An investment is a financial commitment to acquire physical or financial assets. One can choose from a variety of investing options based on one's personal interests. An individual's risk and return profile dictates the type of asset class they choose to invest in. Investing can be done with both tangible and intangible assets. Physical assets include gold, commodities, and real estate. Securities are financial assets. They are certificates that encapsulate a financial transaction between two parties. Financial assets include, but are not limited to, bonds, stock shares, savings, and insurance policies. A clear understanding of one's saving objectives is necessary for prudent investing of one's own funds. It is possible to think of each investment channel as a bundle that includes a unique combination of principle value, income, ease of capital conversion, and tax implications. Each outlet has a different degree of uncertainty associated with each ingredient.

Financial gain can be generated through investing one's hard-earned money. An even tiny amount invested over the long term can yield significant rewards. Investors continually strategize their investments in order to achieve key goals such as financial stability, career progress, asset acquisition, marriage, kid education, and retirement finance, among others. To do so, investors must first determine how much money to invest. Where should you put your money? Investors must have a complete understanding of investment possibilities in order to make good decisions. Financial intermediaries and financial services firms assist investors in converting savings into investment, output, and growth. It is a system or structure for mobilising, transferring, and allocating cash. In the financial sector, a financial services intermediary is extremely valuable. A mutual fund is a well-known medium- and long-term investment choice.

Investors can choose from a wide choice of financial services products in India. Now that new technology and the internet are so widely available, investors may find out about a wide range of investment options. Direct stock market participation is prohibitively expensive for small investors, but mutual funds allow them to engage in the capital market and profit from it while also minimising their exposure to risk. If you're looking for an investment vehicle that is completely risk-free, you'll need to look elsewhere. However, for the little investor, the benefits of investing in mutual funds are substantial. For instance, a mutual fund investor is not constrained by market entry and exit timing concerns. This eliminates the investor's concern about when to buy and sell the stock. They are run by professional fund managers that monitor the market and indexes closely in order to make timely decisions that are in the best interests of investors and that aim to increase their return on investment. Thus, a mutual fund would appear to be an expertly run middleman in the finance industry. It aggregates small investor funds and distributes them across a large geographic area. The pooled assets are subsequently invested in a variety of equities and bonds, depending on the fund's type and objective. Over time, investors' shares in mutual funds grow in value, as do their interest and dividends, all of which are beneficial to the fund's investors. Net asset value (NAV) of mutual fund units is reflected in price rises (Net Asset Value). Both the structure and the investment goal of Indian mutual funds allow for them to be divided into two distinct categories.

1. **Open - Ended Funds** – This sort of open ended fund has no predetermined maturity date and allows for the sale or repurchase of its units at any time.
2. **Close-Ended Funds** – At the time of their launch, closed-ended funds are available for subscription for a certain period of time. Either an asset management company or a stock exchange can list these funds. In order to ensure that all mutual fund schemes are categorised in the same way, SEBI has issued the following circular: SEBI/HO/IMD/DF3/CIR/2017/14 dated 6th October 2017.
3. **Equity Schemes** – A fund that invests the majority of its assets in equities and equity-based products is known as an equity scheme. Equity Schemes are a type of open-ended investment vehicle.
4. **Debt Schemes** – To qualify as a "debt scheme," a fund must invest the bulk of its assets in debt instruments for a set length of time. One-day funds, on the other hand, invest in short-term assets, whereas medium- and long-term bonds are the focus of the latter type of fund. The same goes for these programmes, which are unrestricted.
5. **Hybrid Schemes** – A mix of debt and equity assets may be appropriate depending on the investing goals and strategy employed. Investments in equity and stock-based securities are limited to no more than 25 percent of the overall fund size for conservative hybrid funds. The rest of the money is put in debt securities. An equity-based securities and debt-based goods-based Balanced Hybrid Fund invests between 40% to 60% of its assets in equity-based

securities.

6. **Solution Oriented Schemes** – To further clarify, there are two distinct kinds of Solution Oriented Schemes: The first is for the elderly, while the second is for the children of today. With regard to retirement funds, a 5-year time limit applies, while that for children's funds is set at the earlier of the latter's attainment of majority or the 5-year time limit applicable to retirement funds.
7. **Other Schemes** – An index fund is a good example of this strategy. All of these schemes are completely open-ended. Index Funds are classified as other mutual fund schemes in the SEBI Circular. An index fund is defined as one that invests at least 95% of its assets in securities that are listed on an index. Consider that the Fund's size is 100 crores, and it wants to invest in the NSE Nifty index. HDFC Bank's Nifty weighting is 10.67 percent, while Reliance Industries' is 10.69 percent. Reliance Industries should receive 10.69 crores and HDFC Bank should receive 10.67 crores of the Fund's 100 crore total.

REVIEW OF LITERATURE:

A literature review was undertaken to elicit knowledge and information regarding previous research in this field of inquiry.It is a goal of financial sector reforms to make banks and other institutions more efficient. Reducing regulatory hurdles, improving market efficiency, and encouraging self-regulation are all aims of government financial sector reforms. Additionally, efforts were taken to prevent the market from collapsing and to strengthen the investor safety system. New developments in the corporate securities market, like internet trading and fast-track transactions, have increased the global scope. The government securities market has also been bolstered by a number of initiatives. It is because of these factors that a secondary market and new products, including as mutual funds, futures, options, and other Indian-specific products, have been developed and introduced into the market.

1. **Prasad and Durga (2017)** evaluated the performance of mid cap MFs for financial year 2016-17. Nine such schemes with minimum survival period of ten years were selected and the study considered minimum investment, Beta, Expense ratio and total assets of the schemes as input variable for Data Envelopment analysis. The output variables were the return of the schemes, Sharpe ratio, alpha value and turnover of the funds. Out of the nine schemes selected, seven were found be efficient as per the analysis.

2. **Chowdhary and Chawla (2014)** evaluated the performance of diversified Indian equity MFs. The study selected eight open-ended schemes and analysed through Sharpe's ratio, Treynor's ratio and R-squared. The study concluded that majority of the funds recorded superior performance as those were providing returns more than that of the benchmark.
3. **Narayanaswamy and Ratnamani (2013)** evaluated the performance of equity MFs in India with special reference to equity large-cap funds. The study extends over a period of three years and considered five MF schemes by the different private sector MFs. Net asset values and total return of the schemes were analysed through the values of Alpha, Beta, Standard deviation, R-squared and Sharpe ratio. The study concluded that the selected funds, except one, performed very well in high-volatile market and suggested that while evaluating the funds' performance Alpha, Beta, Standard deviation should also be seen apart from Net assets value and total return.
4. **Bhagyashree (2016)** investigated the performance of MFs with a special reference to open-ended, growth-oriented equity MFs. The study employed the Sharpe ratio, Treynor ratio, Jensen measure and found that almost all the schemes were providing more returns than the risk- free rate of return. However, the study also found that the schemes were not well-diversified and according the two ratios.
5. **Shollapur and Kuchanur (2008)** discussed the investor's perspective of investment plans offered by well-known institutions in their study. The survey was conducted in north Karnataka The study revealed that the investors strongly agree on the perceptions in case of bank deposits (80%) and life insurance policies (65%).
6. **Associated chambers of commerce and industry of india (2006)** found that investors in the future will favour mutual funds over direct stock market investments because mutual funds offer more predictable returns and less risk than direct stock market investments.
7. Investing in mutual funds, according to **Eric M. Engen and Andreas Lehnert (2000),** serves as a conduit between families and the financial markets, notably the US stock market.
8. According to **John V. Duca (2005),** during the early 1990s, US families have increased their mutual fund investments and prefer to own equity assets through mutual funds.
9. **Wermers (2003)** asserts that successful fund managers seek to maintain their past performance by investing a sizable share of new fund money in stocks that have performed

well for the fund in the past.

10. **Madhusudhan V Jambodekar (1996)** conducted research to identify investor awareness of mutual funds, information sources that influence purchase decisions, and characteristics that influence fund selection. Under the then-current market conditions, Income and Open Ended Schemes are preferred over Growth and Closed Ended Schemes, according to the study.

RESEARCH OBJECTIVES:

According to the study's goals:

- To study the awareness of the individual investors about mutual funds as compared to other investment options.
- To study the preference level of mutual funds for investment in mutual funds as compared to other investment options.
- To study the investors' awareness about Index Funds.

RESEARCH DESIGN AND METHODOLOGY:

Data was acquired from both primary and secondary sources for this report. A random sample of 300 persons was issued a structured questionnaire in order to obtain the most accurate findings. There are two parts to the questionnaire. Questions concerning the investors' personal information appear in the first portion, while questions about mutual fund awareness and preference appear in the second half. For this reason, a three-point Likert Scale was used to compose the questions. With a sample size of 300 investors, the poll was performed in different places across India.

ANALYSIS OF DATA AND RESULTS:

Analysis of Demographic Details of the Respondents:

Information was gathered via a questionnaire distributed to 300 respondents. Table No. 1 contains a summary of the responders. Respondents from the age categories, genders, educational attainment, jobs, and income and savings groups depicted in Table 1 were included in the data sources. The survey enrolled 300 respondents who had made some type of investment in mutual funds.

Table 1.Demographic Details of the Respondents

Age	Frequency	Percent
Between 25-35 Years	91	30.33
35-45 Years	68	22.67
45-60 Years	60	20.00
Above 60 Years	81	27.00
Total	300	100
Gender		
Male	203	67.67
Female	97	32.33
Total	300	100
Education		
Graduate	104	34.67
Post-Graduate	112	37.33
Professional Degree	84	28.00
Total	300	100
Occupation		
Salaried	122	40.67
Business	74	24.66
Professional	61	20.33
Retired	43	14.34
Total	300	100
Annual Income		
Less than Rs 3 lakhs	144	48.00
Rs 3 - 5 lakhs	90	30.00
More than Rs 5 lakhs	66	22.00
Total	300	100
Annual Savings		
Less than Rs 50,000	133	44.33
Rs 50,000–2,00,000	81	27.00
Rs 2,00,000 and above	86	28.67
Total	300	100

A random sample of 300 people from all around India was used to gather the bulk of the study's findings. Some 30 percent were aged 25 to 35, 22.67 percent ranged 35 to 45, 20 percent were in their mid-fifties to late-sixties, and 27 percent were over the age of sixty.

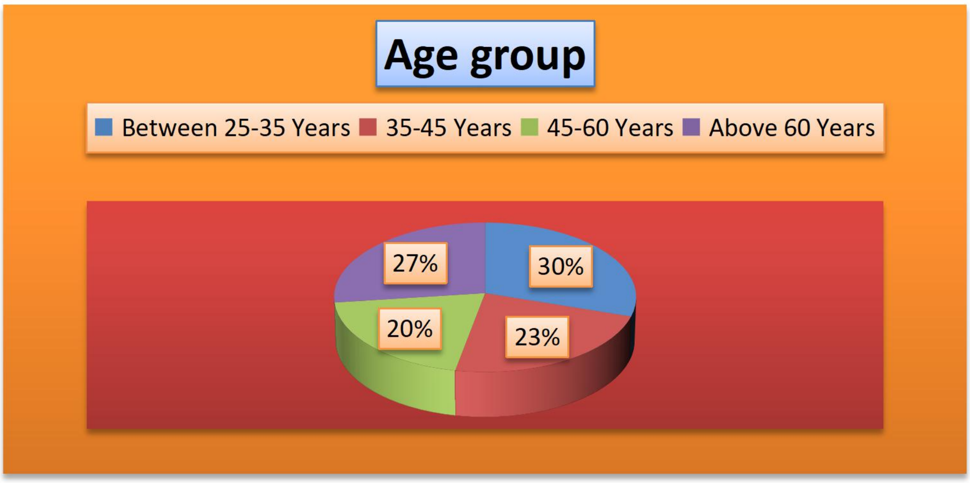

Figure 1: Age group of respondent

Male persons make up two-thirds of the sample size, while female individuals make up the remaining one-third, as represented in the chart below.

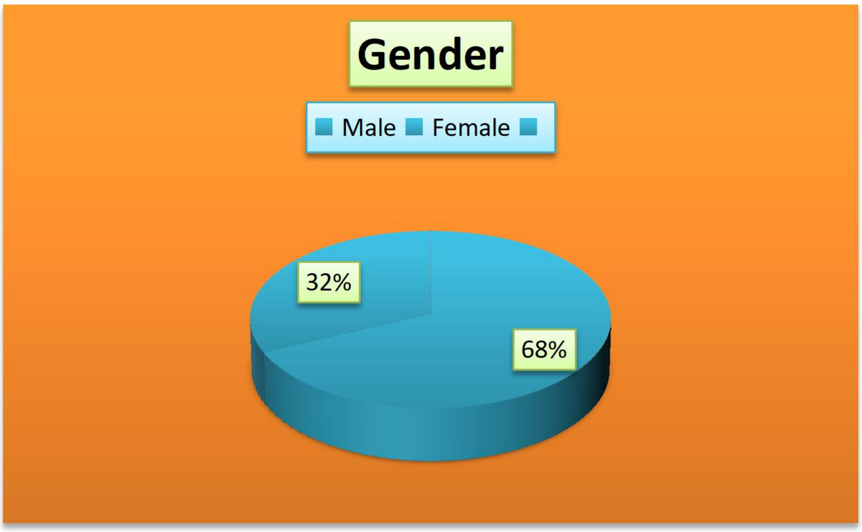

Figure 2: Gender of respondent

Male participants constituted two-thirds of the sample size, while female persons constituted the remaining one-third, as represented in the chart below.

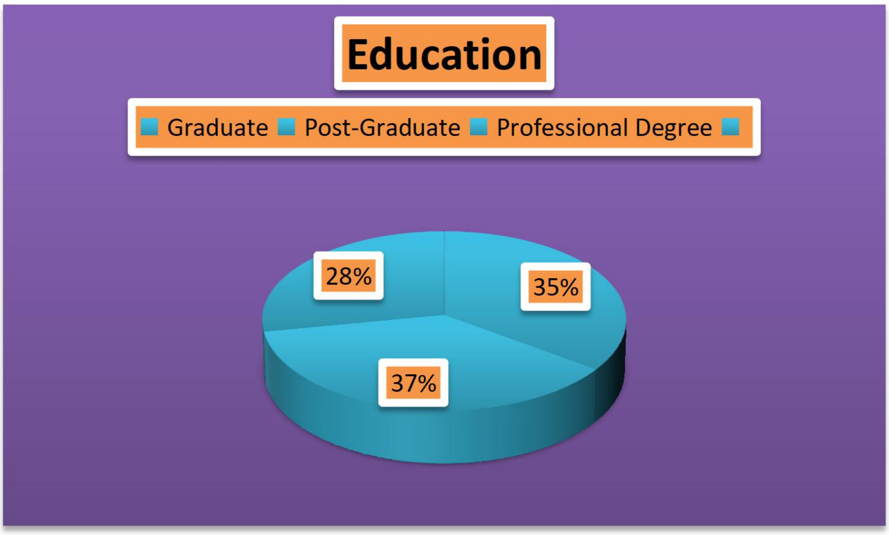

Figure 3: Education of respondent

Around 34.67 percent of respondents were graduates, 37.33 percent were postgraduates, and 28.00 percent held professional degrees.

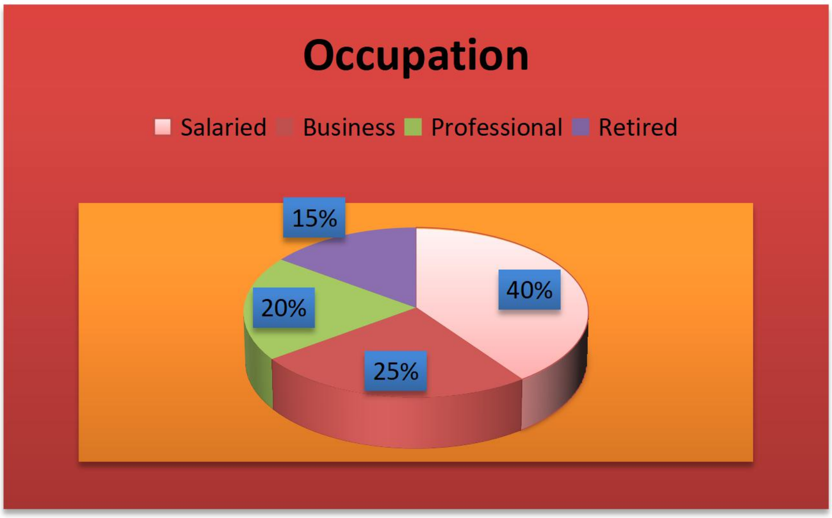

Figure 4: Occupation of respondent

Similarly, 40.67 percent of the overall population were salaried, 24.66 percent were business owners, 20.33 percent were professionals, and 14.34 percent were retired.

Annual incomes of respondents ranged between less than and more than Rs. 3 lakhs.

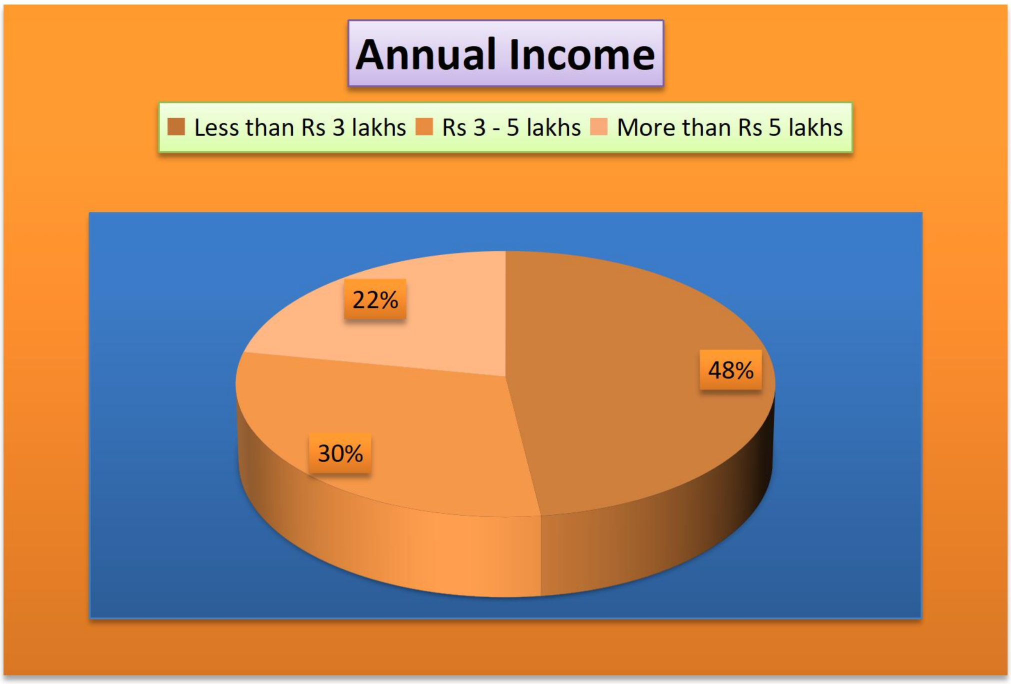

Figure 5: Annual income of respondent

Additionally, the study found that the sample investors' annual savings range from less than Rs. 50,000 to more than Rs. 2,00,000.

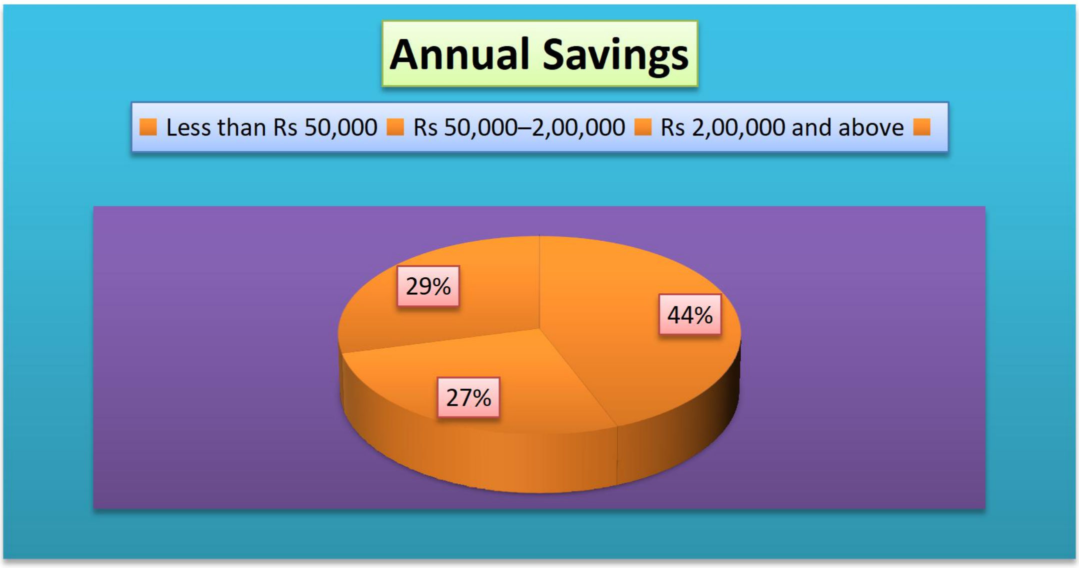

Figure 6: Annual savings of respondent

Awareness of Mutual Funds:

We wanted to find out, in comparison to other investment options, "how much investor knowledge there is regarding mutual funds." Responses ranged from "totally unaware" to "fully aware," and were graded on a three-point scale using a variety of alternatives. Data in Table 2 summarises investor knowledge of various investment options, such as mutual funds. Table 2 sums up the findings.

Table 2.Level of Awareness of Mutual Funds:

Sl. No.	Investment options	Fully Aware	Partly Aware	Not Aware
1	Bank deposits	100%	0%	0%
2	Life Insurance	100%	0%	0%
3	Gold	100%	0%	0%
4	Mutual funds	88.6%	11%	0%
5	Shares	82%	18%	0%
6	Pension Plan and Provident fund	56.4%	43.6%	0%
7	Real estate	92%	8%	0%
8	Debenture and Bonds	42.4%	38.4%	19.2%
9	Derivatives Market	24.8 %	45.2 %	30 %

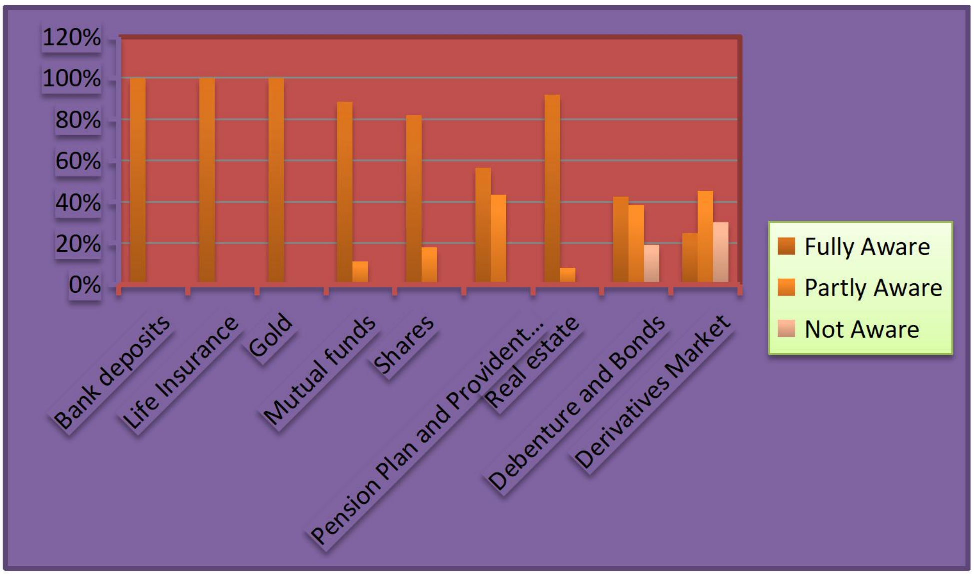

Figure 7: Level of Awareness of Mutual Funds

A cursory examination of the data presented in Table 2 reveals that the majority of investors were aware of all available alternatives, except for Debentures and Derivative Markets, which some investors were unaware of.

Preference for Investment Options:

Table 3 shows Mutual Funds' preferences for different investing options. The possibilities have been ranked based on the information available to us. It's clear that people choose bank savings, life insurance, gold, and mutual fund schemes as investment vehicles, with pension and provident funds and real estate coming in second and third place, respectively

Table 3 provides further detail, revealing that 61.6 percent of investors preferred bank deposits, whereas 63.2 percent of investors in the sample selected mutual funds. Most people chose life insurance schemes (52%), gold investments (57.2%), and pensions and provident funds (52.4%). Figure 3 displays the total degree of preference for the top five rated selections.

Table 3.Levels of Preference of Mutual Funds

Sl. No.	Investment options	Highly Preferable	Preferable	Not Preferable	Mean	Rank
1	Bank deposits	61.6%	38.4%	0	2.61	1
2	Gold	57.2%	42.8%	0	2.57	2
3	Real estate	50.8%	35.2%	14%	2.37	6
4	Life Insurance	58%	33.2%	8.8%	2.49	4
5	Pension Plan and Provident fund	52.4%	38.8%	8.8%	2.44	5
6	Shares	52%	36%	12%	2.4	7
7	Debenture and Bonds	36%	39.2%	24.8%	2.11	8
8	Mutual funds	63.2%	27.6%	9.2%	2.54	3
9	Derivatives	24.8%	45.2%	30%	1.95	9

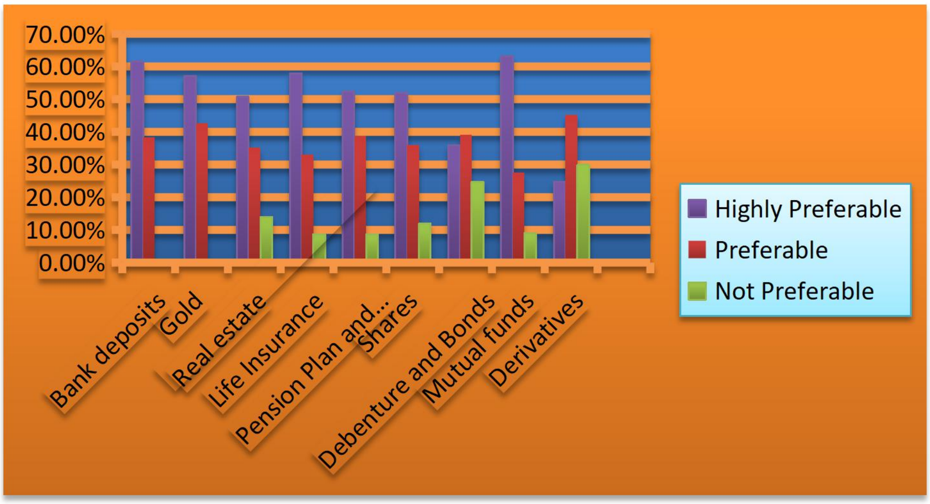

Figure 8: Levels of Preference of Mutual Funds

Awareness of Mutual Fund Schemes:

Investing in mutual funds can be broken down into five categories, each of which is detailed in the accompanying table. More than 80% of mutual fund investors were aware of these schemes, according to the data.

Table 4.Level of Awareness of different types of Mutual Fund Schemes

Sl.No.	Mutual Fund Schemes	Fully Aware	Partly Aware	Not Aware
1	Equity Fund	100%	0%	0%
2	Debt Fund	100%	0%	0%
3	Hybrid Fund	95%	5%	0%
4	Index Fund	80%	15%	5%
5	Exchange Traded Fund	67.6%	12.4%	20%

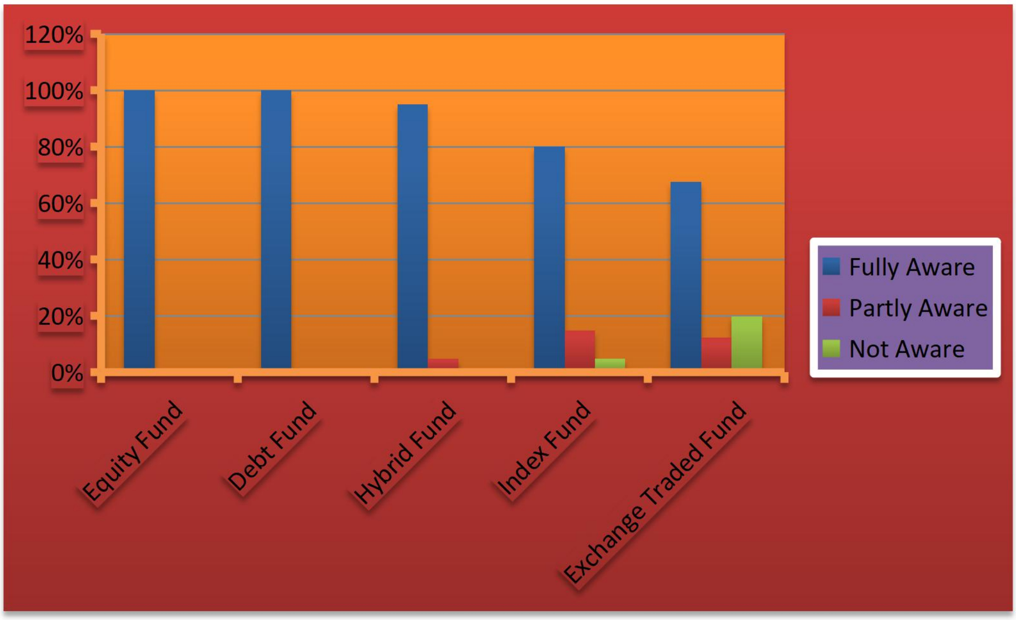

Figure 8: Level of Awareness of different types of Mutual Fund Schemes

MAJOR FINDINGS OF THE STUDY:

Several key conclusions emerged from the current research, which was carried out across a region that included numerous Indian cities:

Awareness of Investment Options:

A critical part of the study was determining respondents' awareness of various investing possibilities. Nine investment choices were analysed for this purpose. Investors preferred bank savings, gold, and life insurance policies to other mutual fund schemes, according to the findings. Some people were unaware of some extra investment options. For example, 19.2% of the study population had never heard of Debentures and up to 30% had never heard of Derivatives.

Preference for Investment Options:

Despite the fact that awareness plays a factor, Bank Deposits came out on top, followed by Life Insurance Policies, Gold, Mutual Fund Schemes, Pension Plan & Provident Fund, and Real Estate.

Most participants favoured Bank Deposits, which had a mean index score of 2.61, but a sizable majority preferred Mutual Funds, which had a mean index score of 2.54. Following Life Insurance (2.49), which came in at number four, were Pensions and Provident Funds (2.44).

According to the SEBI-NCAER Survey (2000), bank deposits appeal to people of all income levels, and the outcomes of the aforementioned study support this conclusion. Since mutual funds have grown to be a substantial middleman between individuals and the financial markets, Engen and Andreas Lehnert's (2000) findings have been affirmed.

Awareness of Mutual Funds Schemes:

ETFs (Exchange Traded Funds) were used to test the knowledge of the sample group on mutual fund schemes by looking at a variety of different mutual funds. According to a survey, investors can choose from a wide variety of mutual fund schemes.

CONCLUSION:

The goal of this research was to find out how much individual investors know and care about mutual funds. To do this, a random sample of respondents was surveyed and an empirical analysis was conducted.

Mutual Funds were shown to be the most popular investment option, however Bank Deposits were the most popular. To put it another way, it isn't an investment opportunity to put money in the bank.

As a result, asset management organisations may benefit from the study's findings in terms of enhanced service and policy implementation. It is certain to help asset management companies in their efforts to increase mutual fund awareness. The financial industry's mutual funds are entering a pivotal period.

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