

A Study on Investment in Mutual Funds

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Abstract

Mutual funds have become one of the most preferred investment avenues for individuals seeking to grow wealth while managing risk through diversification and professional management. This study examines investor awareness, behaviour, and preferences regarding mutual fund investments, along with key factors influencing decisions such as risk appetite, return expectations, and fund type selection. It draws on primary data collected through a structured questionnaire administered to 100 investors, supplemented by secondary data from fund fact sheets and financial publications. Findings show that while awareness has improved considerably, a significant share of investors still rely on limited information sources and favour equity and hybrid schemes over debt-oriented funds. The study concludes that enhanced investor education, simplified disclosure, and continued digital accessibility are essential to strengthening investor confidence and broadening participation.

Keywords: Mutual Funds, Investment, Investor Behaviour, Diversification, Systematic Investment Plan (SIP), Risk and Return, Financial Planning

1. Introduction

The financial landscape has changed considerably over the past few decades, with a growing range of investment avenues becoming accessible across income groups. Among these, mutual funds have emerged as one of the most popular instruments, combining professional expertise with the benefits of diversification. A mutual fund pools money from a large number of investors and channels it into a diversified portfolio of securities such as equities, bonds, government securities, and money market instruments, allowing even small investors to benefit from expert decision-making that would otherwise be difficult to achieve individually.

A key strength of mutual funds lies in balancing risk and return through diversification across sectors and asset classes, reducing the impact of poor performance in any single security. They cater to a wide range of objectives, from long-term wealth creation and retirement planning to regular income and capital preservation, and offer practical advantages such as liquidity, transparency, and flexibility. Systematic Investment Plans (SIPs) allow disciplined investing with small amounts while reducing the impact of market volatility, and regular disclosure of holdings keeps investors informed. Rising financial awareness and easier digital access are drawing more individuals toward mutual funds as an alternative to traditional instruments like fixed deposits, which often fail to beat inflation over time.

The growth of the mutual fund industry in India has been notable, supported by SEBI's regulatory reforms, rising SIP participation, and online platforms, with AMFI actively promoting investor awareness. Despite this, a considerable section of the population — particularly in semi-urban and rural areas — remains under-invested due to limited financial literacy, misconceptions about market risk, and continued preference for traditional instruments such as fixed deposits, gold, and real estate. Against this backdrop, this study examines how investors currently perceive mutual funds, what drives their investment choices, and where gaps in awareness or trust persist.

2. Review of Literature

Existing studies generally agree that investor awareness of mutual funds has improved over time, aided by financial media coverage, digital distribution platforms, and simplified onboarding such as e-KYC. However, a persistent gap remains between awareness and actual participation, often attributed to risk aversion, limited trust in market-linked instruments, and insufficient understanding of fund categories and their risk levels.

Prior research highlights the growing popularity of SIPs, particularly among younger and first-time investors, owing to their affordability and disciplined structure. Demographic factors such as age, income, occupation, and financial literacy significantly influence scheme choice: younger, more literate investors lean toward equity-oriented funds, while older, more conservative investors favour debt or hybrid schemes. Fund performance, past returns, and brand reputation also shape investor confidence, alongside transparent disclosure mandated by regulators — themes this study explores further through primary data.

4. Objectives of the Study

- To study investors' awareness level regarding mutual funds as an investment option.
- To analyse factors influencing investors' decisions while investing in mutual funds.
- To examine investor preferences among equity, debt, and hybrid schemes.
- To assess the perceived benefits and risks associated with mutual fund investments.
- To offer suggestions for improving investor participation in mutual funds.

5. Research Methodology

This study follows a descriptive and analytical design aimed at capturing investor perception, awareness, and behaviour toward mutual funds, rather than establishing causal relationships between variables.

Data Sources

Primary data was collected through a structured questionnaire administered to individual investors; secondary data was drawn from journals, financial websites, fund fact sheets, AMFI reports, and prior research.

Sampling

A sample of 100 respondents was selected using convenience sampling from urban investors with varying income levels and investment experience.

Tools for Analysis

Percentage analysis, tables and graphical representation (bar and pie charts), and simple statistical tools were used to interpret responses.

Questionnaire Design

The questionnaire had three sections — demographic details (age, gender, occupation, income), awareness and prior experience with mutual funds, and investment preferences, decision factors, and perceived benefits/concerns — using mostly multiple-choice and Likert-scale items.

6. Data Analysis

The data collected was analysed to understand investor demographics, awareness levels, and investment preferences. A summary of key findings is presented below.

Table 1: Demographic Profile of Respondents

Category	Classification	Percentage
Age Group	Below 25 years	22%
	25 – 40 years	41%
	41 – 55 years	26%
	Above 55 years	11%
Gender	Male	58%
	Female	42%
Occupation	Salaried	52%
	Self-employed / Business	28%
	Student	12%
	Others	8%

Table 2: Awareness of Mutual Funds

Response	No. of Respondents	Percentage
Fully Aware	42	42%
Partially Aware	38	38%
Not Aware	20	20%

Table 3: Preferred Type of Mutual Fund Scheme

Scheme Type	No. of Respondents	Percentage
Equity Funds	45	45%
Debt Funds	18	18%
Hybrid Funds	27	27%

Money Market Funds	10	10%
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Table 4: Factors Influencing Investment Decision

Factor	No. of Respondents	Percentage
Returns	35	35%
Safety / Risk	25	25%
Liquidity	20	20%
Tax Benefits	12	12%
Brand / Fund House Reputation	8	8%

A majority of respondents possess at least a partial understanding of mutual funds, and returns remain the most influential factor guiding decisions, followed by safety and liquidity. Equity funds emerged as the most preferred scheme type, reflecting a growing risk appetite among investors seeking long-term wealth creation.

Table 5: Mode of Investment Preferred

Mode	No. of Respondents	Percentage
Systematic Investment Plan (SIP)	58	58%
Lump Sum Investment	32	32%
Both SIP and Lump Sum	10	10%

Table 6: Primary Source of Information about Mutual Funds

Source	No. of Respondents	Percentage
Financial Advisors / Distributors	30	30%
Online Platforms / Mobile Apps	34	34%
Friends and Family	18	18%
Advertisements / Media	12	12%
Bank Representatives	6	6%

SIPs are the most preferred mode of investing, reinforcing a trend toward disciplined, long-term investment habits. Online platforms and mobile applications have overtaken traditional channels such as bank representatives as the leading source of information, reflecting the growing influence of digital tools on investment decisions.

7. Major Benefits of Mutual Funds

- **Diversification:** Spreads investment across multiple securities, reducing overall portfolio risk.
- **Professional Management:** Managed by experienced fund managers with market expertise.
- **Liquidity:** Units can be easily bought or redeemed, offering flexibility to investors.
- **Variety of Options:** A wide range of schemes catering to different risk appetites and goals.

- Tax Benefits: Certain schemes, such as ELSS, offer tax deductions under applicable law.
- Rupee Cost Averaging: SIP investments help average out purchase cost during market fluctuations.

8. Findings

- 42% of respondents are fully aware of mutual funds, while 20% still lack adequate knowledge, indicating scope for further investor education.
- The 25–40 age group forms the largest share of respondents, suggesting mutual funds appeal strongly to investors in the early-to-mid stages of their careers.
- Equity funds are the most preferred option (45%), reflecting a growth-oriented inclination among investors.
- Returns are the primary factor influencing investment decisions, followed by safety and liquidity.
- SIPs are gaining popularity for their affordability and discipline, preferred by 58% of respondents over lump sum investments.
- Tax benefits and fund house reputation play a comparatively smaller role than returns and safety.

9. Conclusion

The study shows that mutual funds have gained considerable acceptance as a preferred investment avenue, owing to diversification, professional management, and flexible options such as SIPs. While awareness has improved, a portion of investors still need better financial literacy to fully understand the risks and benefits of different schemes. Growing reliance on digital platforms signals a shift from traditional advisory-led models toward self-directed, app-based investing.

Overall, mutual funds remain an effective tool for achieving long-term financial goals, provided investors make informed choices aligned with their risk appetite, objectives, and horizon. The findings reinforce the importance of continued investor education, transparent communication, and accessible digital infrastructure in sustaining mutual fund participation in the years ahead.

10. Suggestions

- Conduct regular investor awareness programs, particularly targeting semi-urban areas and older age groups.
- Provide simplified, jargon-free disclosure documents to help investors make informed decisions.
- Further promote digital platforms and mobile applications, especially among first-time investors, with adequate safeguards against misinformation.
- Encourage investors to assess risk appetite and financial goals before selecting a fund type, rather than relying solely on past returns.
- Strengthen transparency norms and grievance redressal mechanisms to build investor trust.
- Offer structured investor education content within apps, such as risk-profiling tools and goal-based calculators.

11. Scope for Further Research

This study focused primarily on urban investors and a relatively limited sample size. Future research could extend to rural and semi-urban populations for a more comprehensive understanding of mutual fund awareness across demographic segments, and adopt longitudinal designs to track how awareness and participation evolve with market cycles, regulatory changes, and technological advancements.

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