

GENERATIONAL INVESTMENT PATTERNS IN MUTUAL FUNDS: A COMPARATIVE STUDY OF GENERATION X AND MILLENNIALS

ABHISHEK KUMAR

Abstract

This Master's thesis examines the investment patterns in mutual funds across two distinct generational cohorts: Generation X and Millennials. The primary aim of this study is to analyze and compare the investment behaviors and preferences between these two groups, focusing on factors such as risk tolerance, investment time horizon, and preferred fund types. Utilizing a mixed-methods approach that combines quantitative data analysis of investment portfolios with qualitative surveys and interviews, this research provides a comprehensive view of how generational differences influence investment decisions.

The quantitative analysis involves a statistical examination of mutual fund holdings and transactions sourced from a proprietary database covering the period from 2010 to 2020. Meanwhile, the qualitative component features insights from over 200 individual interviews with representatives of each generation, supplemented by surveys to gauge attitudes towards various investment strategies and market outlooks.

Initial findings suggest significant divergences in the investment strategies between Generation X and Millennials. Generation X investors tend to favor income-focused and balanced funds, displaying a preference for stability and long-term growth, influenced possibly by their proximity to retirement. In contrast, Millennials are more inclined towards equity-heavy portfolios and show a greater propensity for embracing emerging market funds and ESG (environmental, social, and governance) themed investments, driven by higher risk tolerance and a longer investment horizon.

This thesis not only highlights the distinct investment preferences of these generations but also delves into the sociopolitical and economic factors that might influence these patterns. Furthermore, it discusses the implications of these generational differences for financial advisors, mutual fund managers, and policymakers. By identifying and understanding these generational investment behaviors, industry professionals can better tailor their approaches to meet the needs and preferences of each demographic group, enhancing client satisfaction and engagement.

This comparative study contributes to the financial industry's understanding of demographic shifts and their impacts on market trends, offering valuable insights for developing more targeted and effective investment products and strategies.

Introduction

A mutual fund is an investment vehicle that aggregates the funds of multiple investors who have similar financial objectives. The collected funds are invested in various securities like stocks, bonds, and other financial instruments. The profits generated from these investments, along with any increase in capital value, are distributed among the investors according to the proportion of the fund's units they hold. This makes mutual funds an accessible and beneficial investment option for the average person.

Concept of Mutual Funds

A mutual fund is a financial mechanism that aggregates the savings of numerous small investors into a collective investment scheme, aimed at generating attractive returns and capital growth while prioritizing safety and liquidity. It operates as a trust, pooling funds from investors with common financial goals and investing these in capital market instruments like stocks, bonds, and other securities. The returns and capital gains from these investments are distributed among the investors in proportion to their share of units in the fund. Mutual funds serve as dynamic financial institutions that play a vital role in the economy by channeling savings into the stock market, thereby creating a direct connection between personal savings and the capital market. This connection has both immediate and long-term effects on the patterns of savings, the development of capital markets, and overall economic growth. Within a mutual fund, various financial products are combined in different ways to form portfolios, each managed by fund managers. These managers continually assess market risks and potential returns to ensure that the mutual fund provides positive returns to its investors.

Benefits to the General Public

Investing through mutual funds offers several advantages to the general public that aren't immediately apparent when directly buying securities. Here are the key benefits of using mutual funds:

- **Diversification:** Mutual funds provide a means to spread your investment across a broad array of assets, reducing overall risk. By owning shares in a mutual fund, you might be invested in hundreds of different companies and various asset classes. This diversification helps mitigate the risk that could arise if you had invested directly in just one or a few assets.
- **Choice:** There's a vast selection of mutual funds available, each targeting different sectors or investment strategies. Whether you're interested in a sector-specific fund like an energy fund or looking for general growth opportunities, there are thousands of options to match your investment goals.
- **Liquidity:** Mutual funds offer the advantage of easily converting your investments into cash with minimal loss in value. Although some mutual funds may charge fees for redemptions, generally, selling your mutual fund shares is as straightforward as selling stocks.
- **Low Investment Minimums:** Mutual funds are accessible because they often have low initial investment requirements. Some funds allow you to start investing with as little as \$1,000, or even no minimum at all if you set up regular monthly contributions.
- **Convenience:** Owning a mutual fund relieves you from the need to monitor numerous individual investments. Instead, you only need to track the performance of the mutual fund itself. Mutual funds also facilitate easy contributions and withdrawals, enhancing their convenience.

- **Low Transaction Costs:** Because of the large volume of trades they conduct, mutual funds can negotiate lower brokerage fees. This keeps transaction costs low, although these savings may be offset somewhat by the volume and variety of transactions.
- **Regulation:** Mutual funds in the U.S. are regulated under the Investment Company Act of 1940, requiring registration with the Securities and Exchange Commission (SEC) and adherence to certain operational standards. This regulation adds a layer of security for investors, although it's important to note that investments can still decline in value.
- **Additional Services:** Many mutual funds offer extra services like tax reporting, reinvestment programs, and plans for automatic withdrawals and contributions, adding value beyond mere investment returns.
- **Professional Management:** Mutual funds are managed by professionals who possess the experience and resources that typical individual investors might lack. These managers and their analyst teams focus solely on maximizing returns, though it's worth noting that not all funds outperform the market.

Generation X in India & Millennials in India

Generation X in India

Indian Generation Xers were born roughly between the mid-1960s to the early-1980s, paralleling the Western definition. This generation in India witnessed significant political and economic changes, including the liberalization of the Indian economy in 1991. They grew up during a time of major socio-economic shifts, which transitioned India from a primarily agrarian economy to a burgeoning global outsourcing hub. Gen Xers in India were among the first to benefit from new job opportunities in emerging sectors like IT and financial services, which were a direct result of economic reforms.

Millennials in India

Millennials in India are typically considered to be born from the early 1980s to the late 1990s, and some definitions extend into the early 2000s. This generation is markedly tech-savvy, having grown up during the rise of the internet, smartphones, and social media. Unlike their predecessors, Indian Millennials have been exposed to global cultures and ideas from a young age due to the proliferation of the internet and satellite television.

This generation has also entered the workforce during a time of continued economic growth and relatively stable political conditions, compared to the earlier tumultuous periods. As a result, they tend to have higher expectations for their careers, seek better work-life balance, and are more likely to pursue job opportunities that align with their personal values.

Types of Mutual Funds

Types of Mutual Funds Based on Asset Class.

Equity Funds (Stock Funds)

- **Description:** Equity Funds primarily focus on investing in stocks, pooling investments from various investors to purchase shares of different companies.
- **Risk and Return:** The potential for high returns is greater with equity funds, but so is the risk of loss, as the value of stocks can fluctuate significantly based on market conditions.

Debt Funds

- **Description:** These funds invest in fixed-income securities such as bonds, treasury bills, and other debt instruments like Fixed Maturity Plans (FMPs), Gilt Funds, Liquid Funds, and Monthly Income Plans.
- **Risk and Return:** Debt funds are suitable for conservative investors seeking regular income with lower risk, as they generally provide returns through interest payments and capital appreciation at fixed rates and maturity.

Money Market Funds

- **Description:** Money Market Funds invest in short-term money market instruments like treasury bills, commercial papers, certificates of deposit, and other government-backed securities.
- **Risk and Return:** These funds are ideal for investors looking for a safe place to park their money with minimal risk and expect liquidity with modest returns over a short period (typically not exceeding 13 months).

Hybrid Funds (Balanced Funds)

- **Description:** Hybrid Funds combine the characteristics of both equity and debt funds, investing a portion of assets in stocks and the remainder in bonds. The allocation can either be fixed or vary according to market conditions.
- **Risk and Return:** These funds are geared towards investors who are willing to take on moderate risks to achieve better returns than typical debt instruments while cushioning the volatility of the stock market with stable income from bonds.

Mutual Funds Based on Structure

Mutual funds can be classified according to various attributes such as risk profile and asset class. A broad structural categorization includes open-ended funds, close-ended funds, and interval funds. This classification primarily hinges on the flexibility with which individual mutual fund units can be bought and sold.

a. Open-Ended Funds

Open-ended funds offer a high level of flexibility as they do not impose any restrictions on the time period for holding the units or the number of units an investor can trade. Investors have the convenience to buy or sell units at any time based on the current Net Asset Value (NAV), which allows them to enter or exit the fund according to their financial goals and market conditions. This flexibility is one of the key reasons why the unit capital of open-ended funds is constantly changing, adjusting with each new entry and exit of funds by investors.

b. Closed-Ended Funds

In the case of closed-ended funds, the total capital and the number of units are predetermined. This means that the fund cannot issue more than the established number of units, restricting the total investment to a fixed amount. Often, these funds are introduced through a New Fund Offer (NFO) which has a specific deadline for investors to buy units. Closed-ended funds have a defined maturity period, after which the fund is liquidated and the proceeds are distributed to the investors. The fund managers are prepared to handle any size of fund capital, no matter how large, provided it stays within the initially agreed total capital at the time of the NFO. To ensure liquidity, since these funds do not allow investors to redeem their shares directly with the fund on a regular basis, the Securities and Exchange Board of India (SEBI) requires that provisions be made for investors to exit the scheme.

c. Interval Funds

Interval funds blend characteristics of both open-ended and closed-ended funds, offering a unique structure that can be appealing for certain investment strategies. These funds allow investors to purchase or sell units only during specific intervals, which are predetermined by the fund house. Outside of these specified periods, the fund remains closed to all transactions, effectively locking in the investments. Typically, no transactions are allowed for a minimum period of two years, during which the fund operates similarly to a closed-ended fund. This structure provides the fund managers with a stable capital base to execute long-term investment strategies without the concern of sudden large redemptions.

Mutual Funds Based on Investment Goals

a. Growth Funds

Growth funds predominantly invest a substantial portion of their assets in equities and sectors characterized by high growth potential. These funds are particularly suitable for investors, often Millennials, who have excess cash that they are willing to allocate to riskier investment options in pursuit of potentially high returns. Investors who choose growth funds generally have a positive outlook on the market and are prepared to tolerate higher volatility in exchange for the possibility of significant capital appreciation.

b. Income Funds

Income funds are a type of debt mutual fund that allocates its assets across a variety of fixed-income securities such as bonds, certificates of deposit, and other debt instruments. These funds are managed by experienced fund managers who strategically adjust the portfolio in response to interest rate fluctuations, ensuring that the fund's credit quality remains intact. The primary aim of income funds is to provide steady and reliable income to investors through interest earnings, while preserving capital.

c. Liquid Funds

Liquid funds are a specific type of debt mutual fund that primarily invests in short-term debt instruments and money market securities with maturities of up to 91 days. They are designed to offer investors high liquidity and safety of capital, making them an ideal choice for parking surplus cash that may be needed at short notice.

d. Aggressive Growth Funds

An Aggressive Growth Fund is tailored for investors seeking substantial financial gains and who are comfortable with taking on higher levels of risk. These funds focus on achieving high capital appreciation by investing predominantly in stocks that have potential for rapid growth. The trade-off, however, is increased susceptibility to market volatility, making these funds more suitable for investors who can handle significant fluctuations in their investment value.

f. Capital Protection Funds

Capital Protection Funds are investment vehicles designed to safeguard the principal amount while still offering an opportunity to earn returns. They are typically structured as closed-end mutual funds and aim to protect the invested capital through a conservative mix of debt securities and a smaller proportion of equities.

g. Fixed Maturity Funds

Investors choose as the FY ends to take advantage of triple indexation, thereby bringing down tax burden. If uncomfortable with the debt market trends and related risks, Fixed Maturity Plans (FMP) – investing in bonds, securities, money market etc. – present a great opportunity. As a close-ended plan, FMP functions on a fixed maturity

period, which could range from 1 month to 5 years (like FDs). The Fund Manager makes sure to put the money in an investment with the same tenure, to reap accrual interest at the time of FMP maturity.

NEED AND BACKGROUND OF THE STUDY

This study aims to fill several critical gaps in the current understanding of the mutual fund industry in India, particularly in relation to investor attitudes and decision-making processes:

- The primary motivation for this study is to identify and analyze the gaps left by previous literature regarding the growth of mutual funds and the dynamics of investor behavior in India.
- This research seeks to better understand the factors that influence Indian investors when choosing mutual fund schemes, as well as their expectations from these investments.
- The study will specifically investigate these aspects within Delhi NCR, offering detailed insights that can inform both local and national mutual fund strategies.

OBJECTIVES OF THE RESEARCH

- To investigate the factors that influence investors' decisions to invest in mutual funds.
- To examine the demographic elements that impact the factors shaping investors' perceptions.
- To determine the correlation between the determinants of investors' perceptions and demographic factors.

RESEARCH METHODOLOGY

The Research Design Used for the Study

Research design is ‘‘framework or blue print’’ of collecting facts and figures needed in the most pleasant possible way. The study utilizes an Exploratory Research design. The scope of this project is **Exploratory** in nature. Exploratory research is used to describe the problems that have not been examined all the more unmistakably, planned to build up needs, create operational definitions and enhance the last research outline. It decides the best research outline, information accumulation strategy and determination of subjects. Exploratory research is such a way that the respondent is able to understand clearly what the researcher wants and provides distinct information to measure the data.

Area of the study

The area of the study is in **Delhi NCR** and data collected by various age groups in different area.

Sample Size

The sample size comprises of different types of users at different age groups level, who are using e-wallet. The sample of **100 respondents** are taken into account for the study.

Method of Data Collection

The study incorporates both primary and secondary data. We have used the survey method for collecting the data and finding the best result.

Primary Data

Primary data and information on a firsthand basis. It's taken with the help of personal observation.

Primary Data Collected By:

- Questionnaire

Secondary Data

Secondary Data is collected by:

- Research paper
- The internet
- Newspapers
- Web sites

3.5 Research methodology

➤ Research design

- **Types of research**
 - Descriptive research
- **Target population**
 - Population having E-Wallet facilities
- **Area of study**
 - Delhi NCR

➤ **Data collection**

- **Method of data collection**
 - Survey- E-mail with the help of Google docs
- **Tools of data collection**
 - Questionnaire
- **Type of data collection**
 - Primary data

➤ **Sampling design**

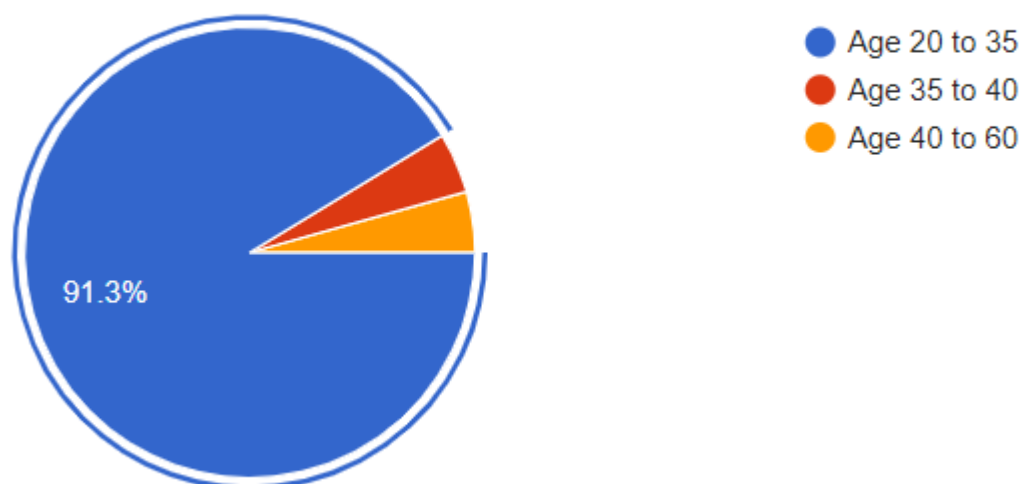
- **Sample size**
 - 100 respondents
- **Sampling technique**
 - Convenience sampling
- **Analysis tools**
 - Data Visualization

DATA ANALYSIS AND INTERPRETATION

Figure 1:

Demographic analysis of respondents

On the basis of Age Group.

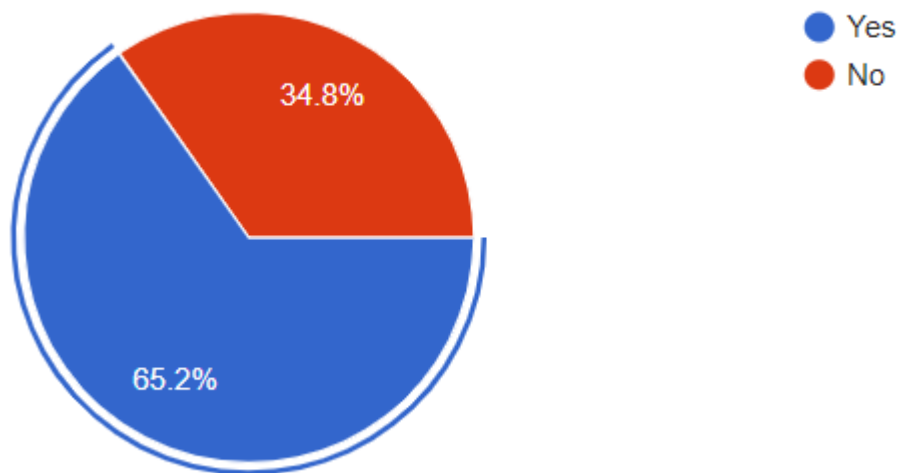


INTERPRETATION

The above chart clearly describes, out of 100 respondents, 91.30 % were in the age group of 20-35 years, 4.3 % were 35-40 years in the age group, 1% were 45-60 years in the age group, and none of the respondents were above 60 years in the age group.

Figure 2:

Do you invest in mutual funds?



INTERPRETATION

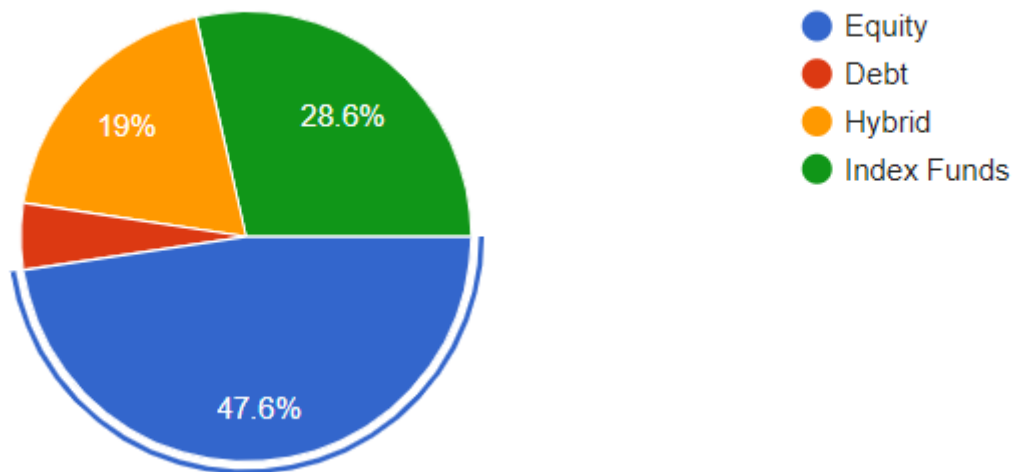
The above chart clearly describes, out of 100 respondents, 65.20 % were invest in mutual funds and the remaining 34.80 % people do not invest in mutual funds.

Based on the survey conducted, the primary reasons why some Indians do not invest in mutual funds are summarized into five key factors:

1. Awareness
2. Tradition
3. Risk
4. Income
5. Complexity

Figure 3:

Type of Mutual Funds Preferred.

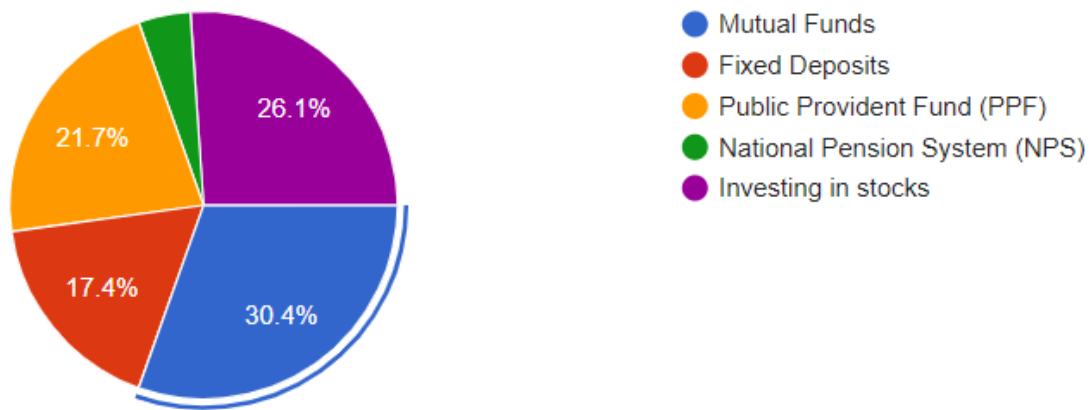


INTERPRETATION

The above chart clearly describes, out of 100 respondents, 47.60 % were invest in Equity Fund and 28.60 % were invest in Index fund and 19% invest in Hybrid fund and the remaining 4.80 % people invest in Debt funds or others fund.

Figure 4:

Where do you primarily invest your money?

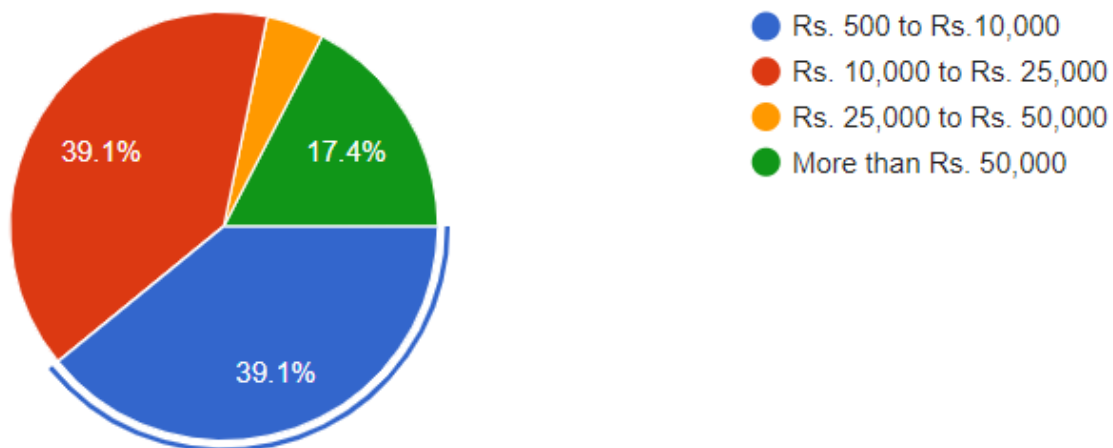


INTERPRETATION

The above chart clearly describes, out of 100 respondents, 30.40 % were primarily invest in Mutual Fund and 26.10 % were invest in Stocks and 21.70 % invest in Public Provident Funds and the remaining 17.40 % people invest in Fixed Deposits or others fund.

Figure 5:

What is the range of your annual investment amount?



INTERPRETATION

The above chart clearly describes, out of 100 respondents, 39.10 % were invest around Rs. 500 to Rs. 10,000/- in Mutual Fund and 39.10 % were invest around Rs. 10,000 to Rs. 25,000/- and 17.40 % invest some were around Rs. 25,000 to Rs. 50,000/- and 4.3 % invest more than Rs. 50,000/-

FINDINGS

The popularity of mutual funds can be attributed to the fact that many people would like to invest in the stock market but lack the knowledge, time, or drive to do so on their own.

Mutual funds were found to make up a significant portion of the portfolios of common investors in the survey. However, due to the peace of mind they provide, the Post Office Scheme and insurance continue to draw a sizable clientele.

More and more people are turning to mutual funds as a way to invest in the stock market and diversify their portfolios as the interest rate on savings deposits continues to drop. In order to gain exposure to the stock market, most people invest in mutual funds rather than individual stocks.

Mutual funds are seen as a stable investment option, so more and more millennials are buying into them. These people have enough disposable income to take moderate risks. According to the numbers, most investors make use of equity-based plans to increase their portfolio sizes.

The problem is that most people still don't know enough about mutual funds and other investment vehicles to choose wisely.

Mutual fund information sharing is essential.

The study concludes that the attractive returns offered by mutual funds are a major draw for investors. But they like taking safe risks occasionally. Investments should not be held for more than three years. Factors such as age and wealth play a significant role in determining the composition of an investor's equity fund portfolio.

CONCLUSION

What it takes for a business to thrive in today's competitive market is clearly outlined by my findings in this area of study. A career highlight for me was contributing to Mahindra's success.

From them, I learned a lot about running a business and providing excellent service to customers.

I couldn't have finished what I'd set out to do without their help. In this final section, I'll sum up the study's key findings and explain why they matter.

Many people have the wrong idea about mutual funds and immediately think of the stock market.

The SIP protocol is favored for its ease of use.

Most people work diligently all their lives to amass a comfortable retirement nest egg.

Intelligent people think six to twelve months ahead and plan accordingly.

Investors buy mutual funds primarily for the returns they can earn.

In order to supplement the previous finding of two AMCS.

Maximizing short-term profits is not the best strategy, despite widespread belief to the contrary.

The SIP protocol is popular due to its user-friendly nature. Because the charges are subtracted out of your account on a consistent basis.

Making regular, small payments towards a SIP investment plan is simple on the wallet.

RECOMMENDATIONS

Private investors may be on the rise, but that doesn't mean they all have the expertise to make wise bets. Keeping investors informed of the most recent investment opportunities necessitates well- executed campaigns to raise awareness of these opportunities.

India's GDP growth rate has been relatively stable in the recent past at around 7% per year. There is reason for investors to be concerned about the knock-on effects of this increase. A well- diversified stock strategy can help mitigate the volatility of a fund.

As the number of financially-independent millennials who express an interest in investing continues to rise, it would be wise for businesses to reach out to this demographic as soon as possible.

There is considerable economic potential in underserved areas, such as rural areas and secondary cities.

The new rule that allows mutual fund investments of up to 10% of a co-op's capital opens up a previously untapped but crucial market. The Systematic Investment Plan (SIP) and related initiatives have given investors a wider range of opportunities than ever before. Hedging strategies also appear to be the norm in today's financial markets.

The second benefit is having your mutual fund portfolio managed by professionals. The potential for AMC's to secure private funding in this context is enormous.

99.

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