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Understanding the Factors Influencing Mutual Fund Selection: Investor Preferences and Decision-Making Process

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Smayan Deb

Abstract

For investors, choosing a mutual fund is a crucial choice since it affects the results of their investments. In order to better understand the variables that affect choosing a mutual fund, this study paper will concentrate on investor preferences and the selection process. Financial experts and fund managers may more effectively match their offers with the demands of investors and raise investor satisfaction by being aware of these issues.

A mixed-methods approach will be used in the report, mixing qualitative and quantitative research techniques. To learn more about the preferences and factors that financial advisers, institutional investors, and individual investors consider when choosing mutual funds, this study will include interviews and questionnaires with these groups of participants. In order to spot patterns and trends, historical data on money flows and investor behaviour will also be examined.

Introduction

The increase in mutual fund investments is legitimately considered one of the most important changes in the Indian financial industry among the many others. During and after the effects of the recession, investment behaviour underwent significant change.
Before making an investment, an investor will consider a number of factors, such as return, flexibility, capital appreciation, safety, liquidity, etc. However, the markets will struggle to gauge an investor's mood. Mutual fund and asset management firms must continuously take the initiative to adapt to changes occurring in their clients' mindsets. Investment companies may gain a crucial competitive edge by better understanding investor behaviour. From the standpoint of a fund manager, it's critical to comprehend why some investors stick with a certain fund while others choose to invest in several funds within the same fund family. Thus, this essay investigates the variables that affect the choice of mutual funds.

Mutual funds have become a well-liked form of investing, giving both retail and institutional investors the chance to diversify their portfolios and benefit from expert fund management. Choosing the right mutual funds is essential for reaching investing goals and maximising profits. However, a number of variables, such as investor preferences, financial objectives, risk tolerance, and market circumstances, have an impact on the decision-making process when choosing a mutual fund.

Both investors and fund managers must have a thorough understanding of the variables that affect mutual fund selection. While fund managers work to satisfy investor expectations and draw in new customers, investors must make educated selections that are in line with their financial goals and risk tolerance. Stakeholders may increase the efficacy of mutual fund products and raise investor happiness by acquiring insight into these contributing elements.

With a focus on investor preferences and the decision-making process, the goal of this research paper is to investigate and analyse the elements that influence the choice of mutual funds. We may learn more about the criteria investors use to choose mutual funds and identify trends and patterns in investor behaviour by looking at these elements.

To compile thorough insights, the study will combine qualitative and quantitative research techniques. To get their opinions on choosing mutual funds, financial advisers, institutional investors, and ordinary investors will all be surveyed and interviewed. In order to spot patterns and correlations, historical data on fund flows and investor behaviour will also be examined.

Performance and risk assessment, investment goals, fund features, management experience, investing styles and strategies, fees, and expenditures are some of the major deciding variables that will be looked at in this study. These variables greatly influence investor choices and must be taken into account while choosing mutual funds.

The study report's conclusions will be helpful for fund managers, financial advisers, and business experts. They will be better able to comprehend investor preferences, adapt their services to satisfy those demands, and enhance overall investment results. Additionally, a greater comprehension of the elements that investors should take into account when choosing mutual funds would help them make better investing choices.

In conclusion, this research focuses on investor preferences and the decision-making process in an effort to shed light on the variables affecting the choice of mutual funds. Investigating these variables may help investors and fund managers align better and improve our knowledge of the dynamics of mutual fund selection.

Literature Review

Evaluation of performance is an important consideration when choosing a mutual fund. Many studies have looked at how investors' choices are impacted by prior performance. Studies have shown that, in line with the idea of "chasing performance," investors choose funds with higher historical returns (Gruber, 1996). However, according to other studies (Sirri & Tufano, 1998; Wermers, 2000), investors' sensitivity to performance varies depending on characteristics including fund size, investor experience, and market circumstances.

Mutual fund selection heavily depends on investment goals. Investors often have clear financial objectives, such as saving for retirement, paying for their children's school, or building wealth. According to studies (Chen & Zhao, 2006; Barberis et al., 2018), investors match their investing goals with relevant mutual funds by taking into account variables including risk tolerance, time horizon, and targeted returns. Additionally, it has been discovered that investors' risk preferences and financial literacy have an influence on the funds they choose (Lusardi et al., 2014; Choy & Rotemberg, 2017).

Fund features also affect the decisions made by investors. The literature has looked at variables such fund size, expense ratios, turnover rates, and fund age. For instance, research suggests that because of their perceived stability and experience, bigger funds may be preferred by investors (Elton et al., 2001). Additionally, it has been shown that reduced expense ratios have a favourable effect on fund flows, showing that cost factors affect investor choices (Christoffersen et al., 2013). But there is still need for further research into how fund age affects investor choices (Busse et al., 2005).

When choosing a mutual fund, experience and reputation of the fund managers are crucial factors. When making judgements, investors often consider the track record, investing philosophy, and expertise of fund managers (Chevalier & Ellison, 1997). According to studies, funds run by top managers tend to draw in more new investors (Berk & Green, 2004). Additionally, it has been shown that investors' evaluations of fund managers' aptitude and capacity to exceed the market have an effect on fund choice (Brown & Goetzmann, 1995).

Selection of mutual funds should take these into consideration as well. Investors may choose certain investment philosophies, such as value or growth investing, or they may favour actively managed or passive index funds. According to research (Ben-David et al., 2018; Frazzini et al., 2018), characteristics including risk aversion, familiarity, and market circumstances might affect an investor's style preferences. Low expenses and the sense of market efficiency have contributed to the rising popularity of passive investment (Barclay et al., 2019).

Finally, choosing a mutual fund is significantly influenced by fees and expenditures. According to research (Khorana et al., 2016), investors evaluate mutual funds taking into account the overall cost of ownership, which includes expense ratios and transaction fees. Due to the correlation between reduced cost ratios and better net returns, investors prefer to choose these funds (Cici et al., 2015). The trade-off between costs and performance, however, is still a subject of discussion and research (Hortacsu et al., 2020).

Objective of the Study

This research focuses on the analysis of retail investors' perceptions of the mutual fund business as well as the examination of a few carefully chosen criteria and their impact on their investment in mutual funds.

- To examine the variables affecting retail investors' mutual fund investing choices.
- To investigate how investors feel about and favour mutual funds.
- To determine the elements that affect the investor's choice of fund or scheme.
- To determine the investors' intended use of their fund
- To determine the investors' preferred saving techniques

Research methodology

For the purpose of conducting the investor survey, the demographic was designated as semi-urban town inhabitants who possess mutual funds from any business. A questionnaire was used to assist gather the data.

Research Design:
Descriptive research is used in order to acquire comprehensive and reliable information. Surveys and several types of fact-finding inquiries are included in descriptive research.

Research Technique:
A survey technique was used for this investigation.

Research Instrument:
A questionnaire and personal interviews were employed as the study's research tools.There are both open-ended and closed-ended questions in the survey.

Source of Data:

Primary data were utilised in the investigation.Primary data is information gathered via sample-based research for the aim of study.A structured questionnaire and an in-person interview were used to gather the main data.

Sampling Procedure:

Both snowball sampling and random sampling were utilised as the sampling method in this investigation. Using the non-probability sampling approach known as "snowball sampling," current research participants find new participants throughout their social networks. Thus, it seems as if the sample group is expanding like a snowball. A simple random sample is a smaller group of people picked at random from a larger group. Every person is picked at random and solely by chance, with everyone having the same chance of being chosen at any point throughout the sampling process.

About Mutual funds

Capital markets, which had a little influence on the financial markets a decade ago, have grown to be the focal point of the Indian financial system. Institutional establishment and growth have significantly increased in India's capital market. Institutions have changed and grown in the shape of a mutual fund structure that is diverse.

A mutual fund serves as an investment conduit and is a special purpose institutional arrangement created particularly for investing. Its main job is to pool and collect small investors' funds, create a larger corpus of enormous resources, and invest those vast resources into a well-diversified portfolio of safe assets. It seeks to maximise profits while minimising the amount of risk associated with equity investments.

When you invest in a mutual fund, you rely on the portfolio management choices of the fund manager. You could not get as much return on your investment as you anticipated if the manager does not perform as well as you had intended. Of course, because index funds don't utilise managers, investing in them means avoiding management risk.
An asset management business is free to create a variety of schemes to best meet the demands of investors, according to SEBI restrictions. In India, there are already more than 400 alternatives available for investors to select from thanks to mutual fund providers.
Mutual funds are divided structurally into open ended and close ended schemes. A perpetual open-ended plan allows investors to acquire and sell units whenever they choose.An individual investor has everyday access to purchase and sell stocks. Net Asset Value, or NAV, is the reference point for all pricing. After a brief lock-in period, the disinvestment process may begin. Since the fund publishes daily sales and purchases, liquidity is immediate. They are not, however, listed on the exchange. A closed-ended plan is one in which the subscription only lasts for a certain time. The whole fund is dis-invested at the conclusion of the predetermined time period, and the corpus is then paid to the unit holders. After this procedure, the scheme is gone.
From the perspective of production

Factors Affecting Mutual Fund Investment

The following are the numerous aspects that influence a decision to invest in mutual funds:

- **Money Management Group**

The performance of the fund is influenced by the fund manager and the fund management group. By investing in assets that align with the fund's financial goals, the fund manager and their experts manage investors' money.
They keep an eye on the fund portfolio through routine assessments and analysis. As a result, one of the elements influencing the growth of mutual funds in India is the fund manager's choice of securities and timing of investments.
Fund managers are therefore better at managing investors' money when they have the necessary industry experience and a track record of success.

- **Risk Factor**

Investing involves some risk. For instance, mutual funds provide investors advantages like flexibility and cost-effectiveness, but they also run the risk of exposing investors to certain dangers. Investors are advised to comprehend the risks and make an effort to reduce those risks related to mutual funds. There are two key risk factors:

- **Availability Risk**

Mutual funds, such an ELSS, that have a rigorous lock-in time limit are connected with liquidity risk. An investor may find it challenging to sell their mutual funds without suffering a loss if they take on such risk.

- **Credit Danger**

Investments in mutual funds are frequently subject to credit risk because the issuer of the plan may fail to pay the guaranteed interest. Investment-grade assets of the highest quality often make up debt funds.

However, the fund management also makes investments in assets with weaker credit ratings in order to boost the rate of return. The likelihood of not getting the promised return increases when investing in assets with low credit ratings.

- **Consistency of Results**

Instead of only providing investors with one-time windfall rewards, a successful mutual fund regularly produces significant returns for them over time. When the stock market is in a bullish or negative phase, the fund should be able to deliver steady returns.

- **Uniformity metric**

A wise investor is aware that a mutual fund's capacity to beat its aim determines its long-term success. The excess return over its benchmark is the "alpha" of a fund.

- **Returns Aspect**

Before making a mutual fund investment, the returns component is crucial to take into account. Most investors like mutual funds with large returns. It is advisable to look at the past performance of several mutual funds before making an investment. After carefully examining its performance and consistency of returns, select the mutual funds programme that best meets your needs.

- **Fund Management Team**

The success of the fund may be considerably influenced by the fund manager and the fund management group. The money of investors is managed by the fund management and their team of professionals by spreading it across assets that support the investment goal of the fund. Additionally, they regularly evaluate and analyse the fund portfolio to actively manage it. As a result, the performance of the fund is significantly influenced by the security selection and timing of investments made by the fund management.
As a result, fund managers with strong track records and industry knowledge tend to be better at managing investors' money. Choosing funds run by knowledgeable fund managers is thus advised.

- **Financial Changes**

One of the most crucial considerations when investing in mutual funds is how successfully the fund invests in a certain area or business. This is due to the fact that certain government policy changes may have a considerable effect on several aspects of the economy. For instance, compared to other businesses, the COVID-19 outbreak had less of an impact on the healthcare industry. The stock prices were generally steady and did well in comparison to other sectors. Similar to how one sector might sometimes show stiffness while doing well for a while.

- **Fund Cash Flows**

Several investors' money is pooled together in a mutual fund. These investors have comparable financial objectives and degrees of risk tolerance. The fund makes investments in a variety of bonds and equities. The fund management has more money to invest if more participants choose to participate in the mutual fund scheme. As a consequence, the fund manager may diversify the fund effectively by investing across a variety of securities with sizeable assets.

- **AUM, or assets under management**

The mutual fund's size has an impact on its performance. Too much or too little financing may have an influence on the fund's success. To put it another way, if the fund grows too big, managing it will become difficult.
There are several significant factors to think about while investing in a mutual fund. It might be due to its size or the fund manager who manages it. The importance of the portfolio's securities and the state of the country's economy cannot be overstated. Therefore, all factors must be taken into account before making an investment.

- **Ratios-**

1.Alpha Ratio

A risk-adjusted return measure is alpha. It is a metric that assesses how well a fund performed in relation to its benchmark.

The alpha factor influences the rate of return on your mutual fund investment. We can make a reasonable assumption about how much return a mutual fund may provide by looking at its Alpha value. Even while a higher Alpha value might indicate greater returns, it shouldn't be the sole metric used to assess a fund's performance.

2.Beta Ratio

A mutual fund's vulnerability to rapid market changes is measured by its beta. It's a statistic that assesses a mutual fund portfolio's volatility in relation to the market as a whole. You can determine how a mutual fund reacts to changes in the market by looking at its beta. A market's or a benchmark's beta is always one. When compared to the benchmark index, a beta of less than one indicates lower volatility. A beta value higher than one indicates considerable volatility.

3.Standard Deviation

A portfolio's returns' standard deviation is a statistical indicator of how far they vary from the average. The volatility of a mutual fund is shown by its standard deviation. It displays the degree to which a mutual fund's performance deviates from anticipated returns. While a lower number denotes a tighter range of returns, a high standard deviation suggests a larger range of returns.

You must compare two funds belonging to the same category when using standard deviation as a performance ratio. In other words, without comparing a fund's standard deviation to that of other funds in the same category, ratio cannot tell if it is high or low.

4.Sharpe Ratio

A performance indicator called the Sharpe ratio aids in determining the risk-adjusted returns of a mutual fund. The returns a mutual fund provides over and above the risk-free rate of return are known as risk-adjusted returns. The greater the investment return in relation to the risk, the higher the ratio. The better Risk Adjusted Returns (RAR) are indicated by a higher Sharpe ratio. On the other side, a negative Sharpe ratio shows that risk-free investments are better than a fund with a negative Sharpe ratio.

Data Analysis

The approach for acquiring data is primary. I utilised Google Forms, a free online surveying application, as a platform to gather the main data using questions. I questioned about other people's buying practises to gather secondary data, and I read other study papers on relevant issues.

Multiple-choice questions are the format applied for the questions in our questionnaire.

The ideal technique would be to undertake the study from the viewpoint of the client, taking the aims of the research into mind. In order to aid clients comprehend why social media influenced their purchase behaviour, the researcher is undertaking this study. Although the fundamental purpose of marketing is to examine client requests, the information acquired via the questionnaire is done so from the viewpoint of the consumer so that new views may be formed. The conduct of end clients is the major subject of the research. The data analysis findings may then be evaluated to gain insights and make choices. This might include summarising major results, detecting trends and patterns in data, and creating suggestions based on the findings.

Age Disparity

The distribution of ages among the 3 age groups shown in the following pie chart is shown.

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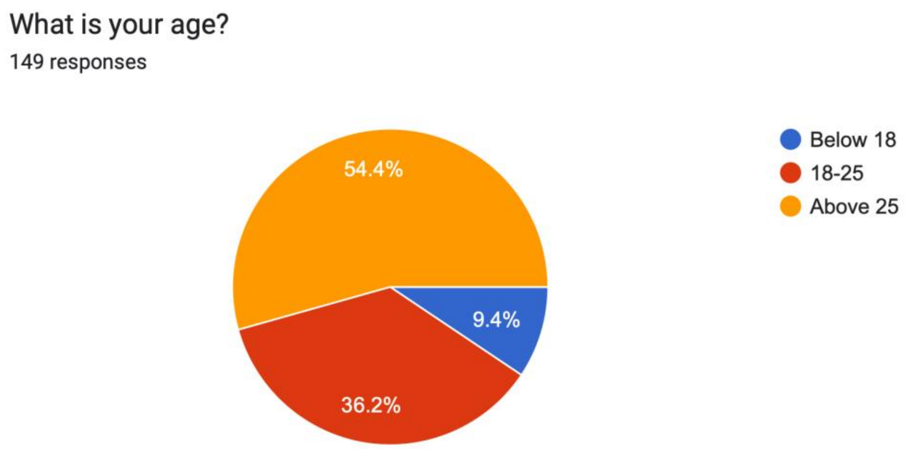
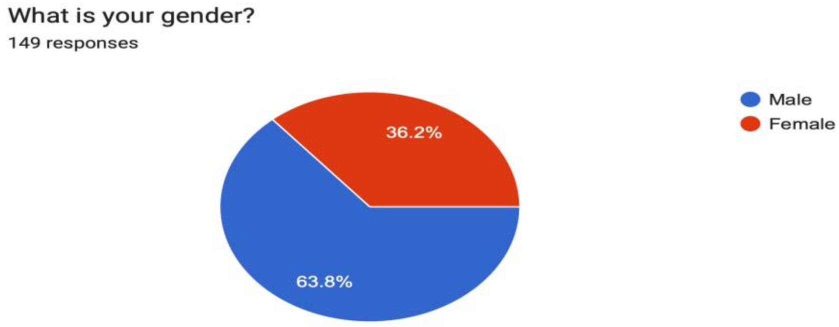


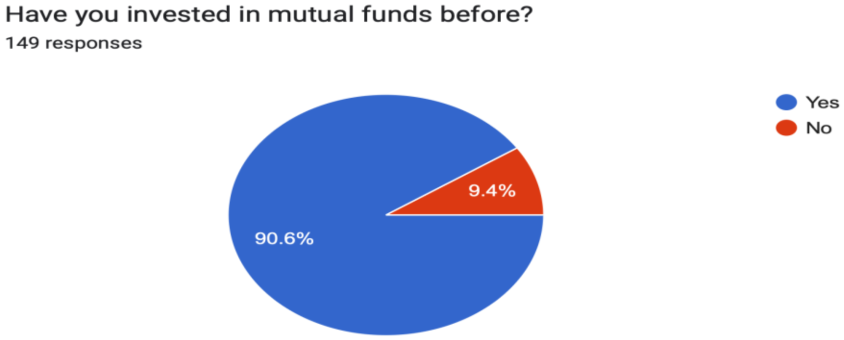
The data obtained covers three age groups: those under the age of 18 (19.4%), those between the ages of 18 and 25 (26.2%), and those above 25 (54.4%).

Gender Distribution



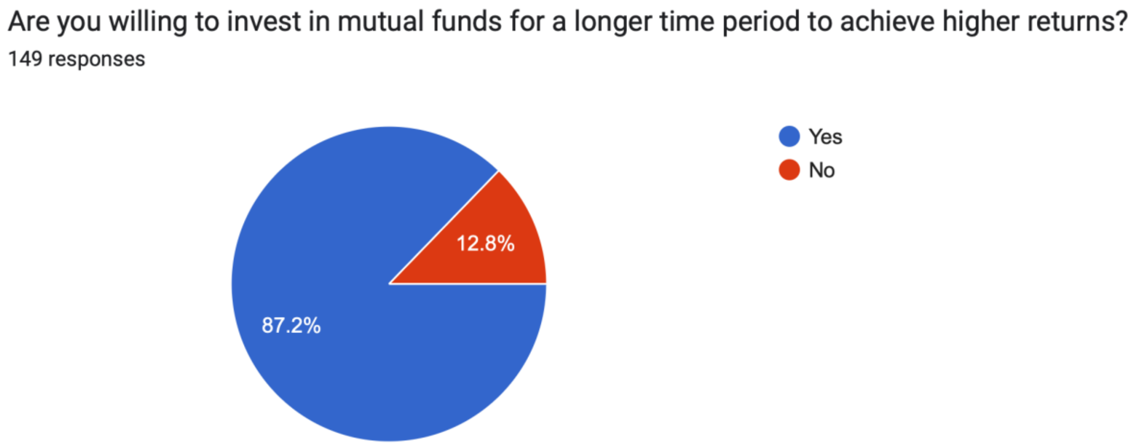
By asking these two broad questions, we can determine the range of replies, allowing us to provide a more generic analysis.
According to the replies obtained, 36.2% percent of respondents were female and 63.8% percent were male.

Investment in Mutual funds



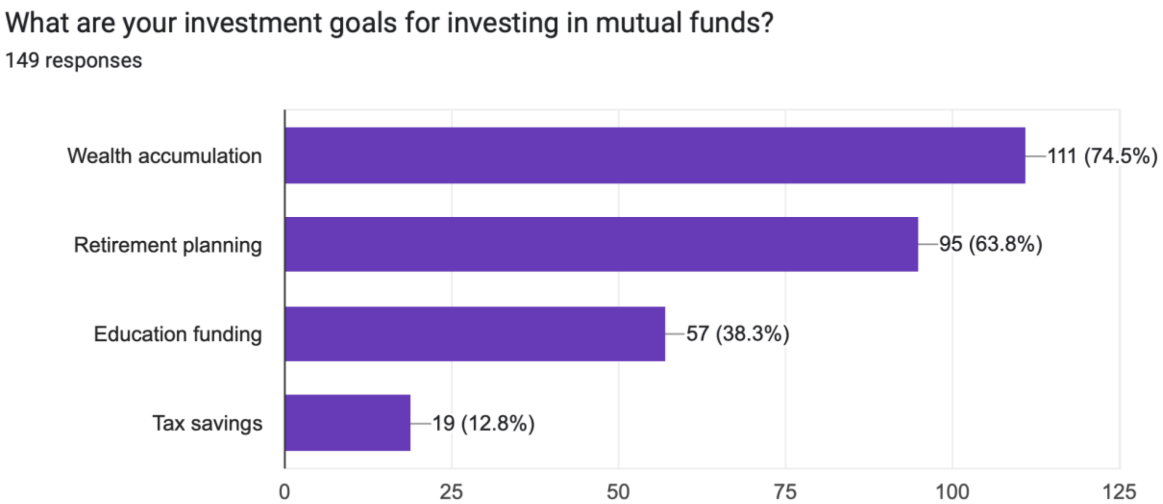
90.6% have already invested in mutual funds while 9.4% of the total population has not invested in mutual funds. People nowadays are more investing in mutual funds as they provide higher returns thank other investment options.

Investment Decision



87.2% of the total population invest in mutual funds for a longer period to maximise returns while 12.8% doesn't invest for a longer period of time. When compared to standard savings accounts or fixed-income products, mutual funds provide investors the chance to possibly earn higher returns on their investments. Mutual funds invest in a diverse range of securities, which can offer the potential for long-term capital growth and income production.

Investment Goals



74.5% of the total population invest in mutual funds for wealth accumulation while 63.8% invest in mutual funds for retire planning 38.3% for educational funding and 12.8% for tax saving. The process of steadily growing one's net worth over time is known as wealth accumulation. It entails acquiring assets with the intention of fostering long-term financial stability and boosting total wealth, such as investments, savings, homes, and other important items.

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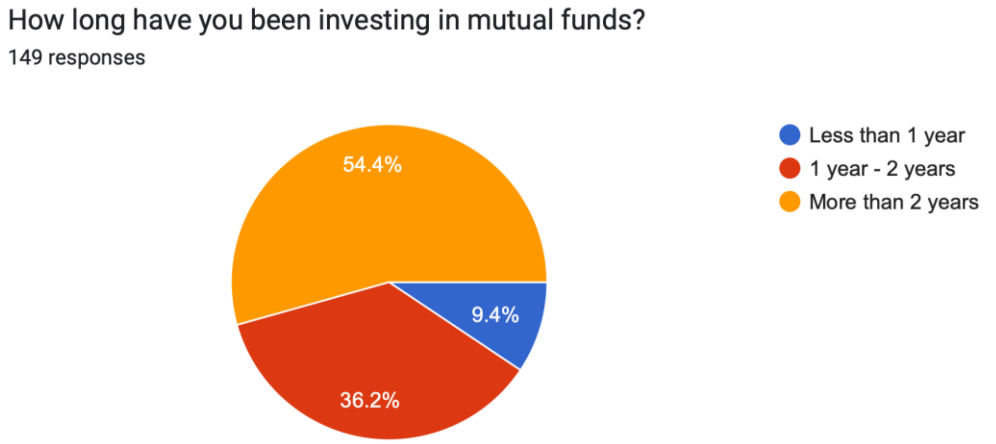
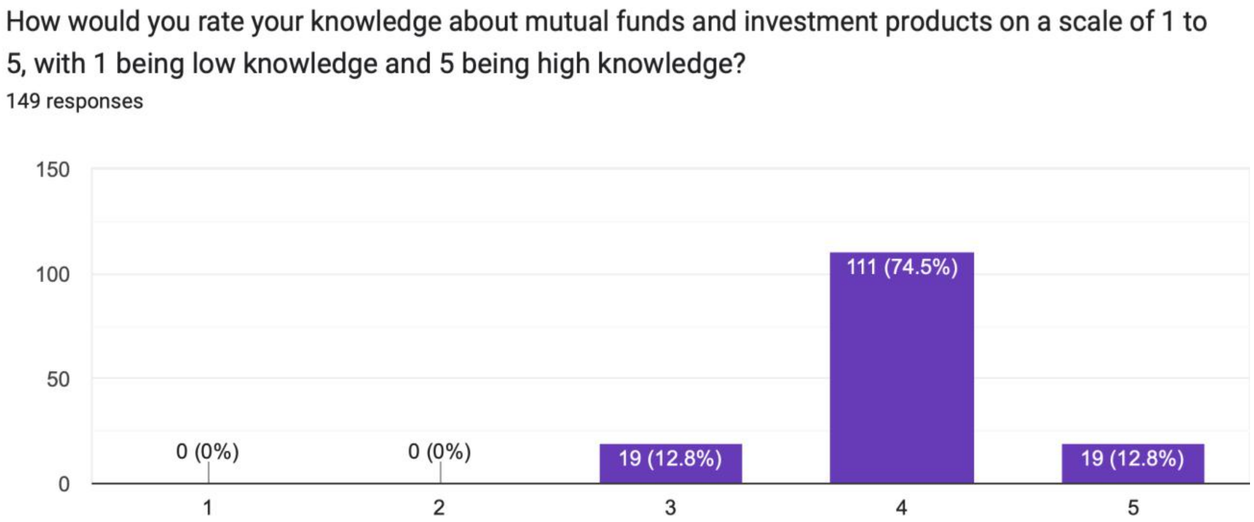
Time Duration



54.4% of the surveyed population invest in mutual funds for more than 2 years to get maximum returns from the funds invested.

Investor's Knowledge



74.5% of the total population have knowledge about where their money which is invested in various mutual funds while 12.8% of the total population have a huge knowledge about mutual funds.

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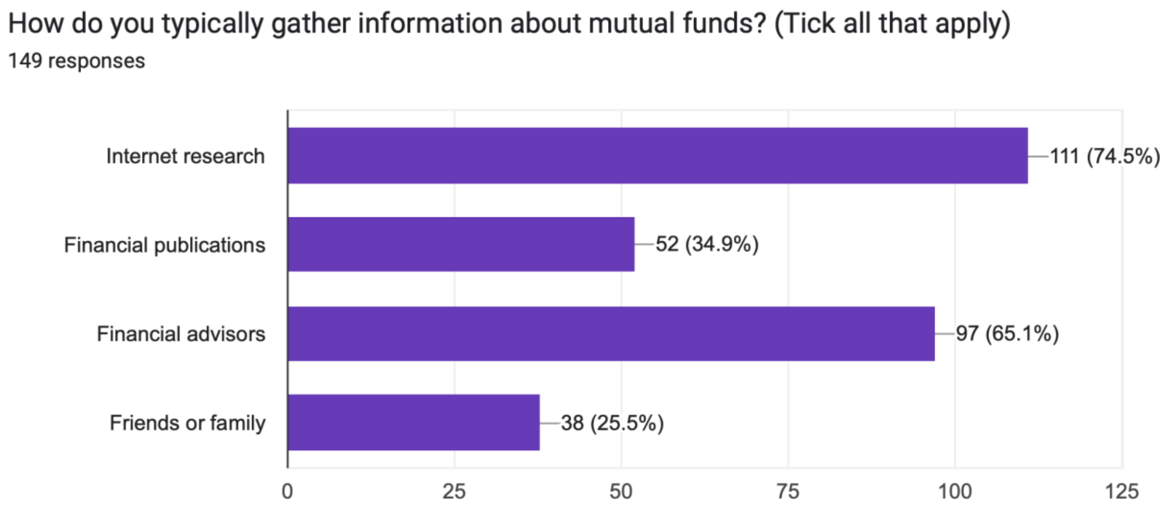
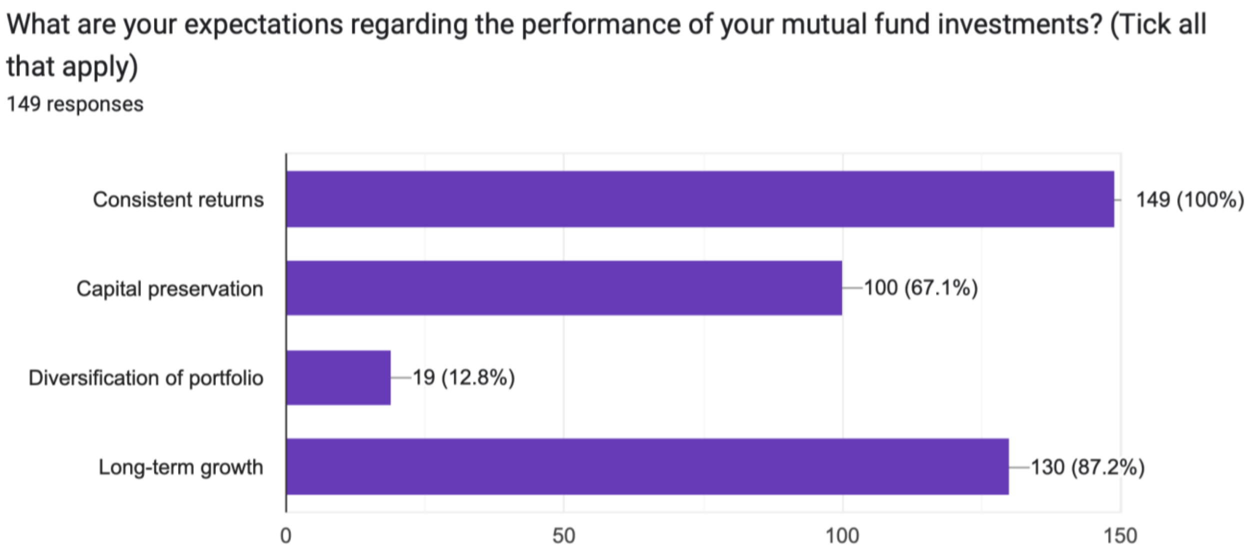
Information Gathering

74.5% of the population gather mutual funds information from internet 65.1% from financial advisors 34.9% from



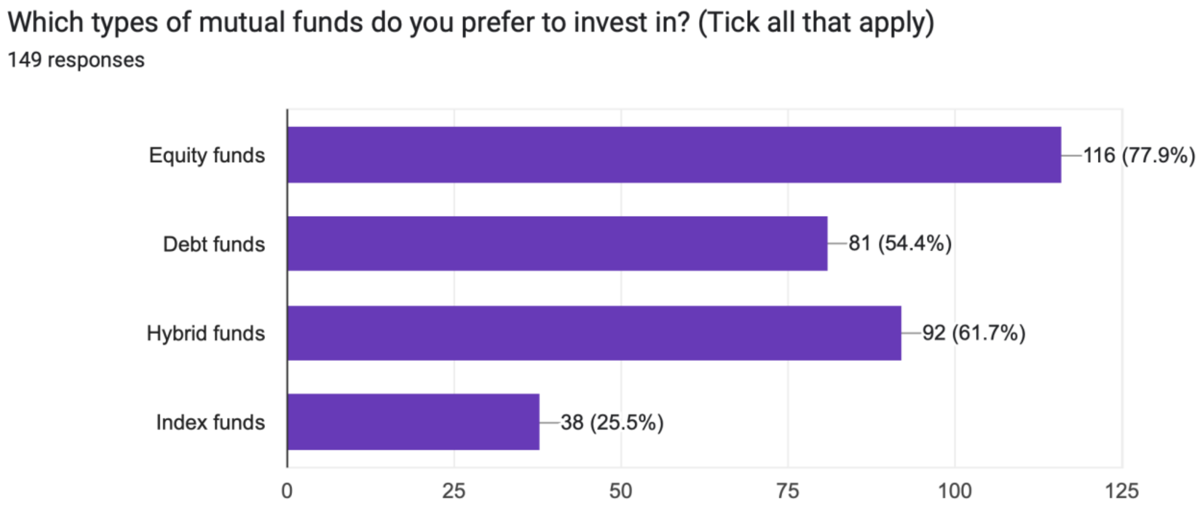
financial publications and 25.5% from friends or family.

Investors Expectations



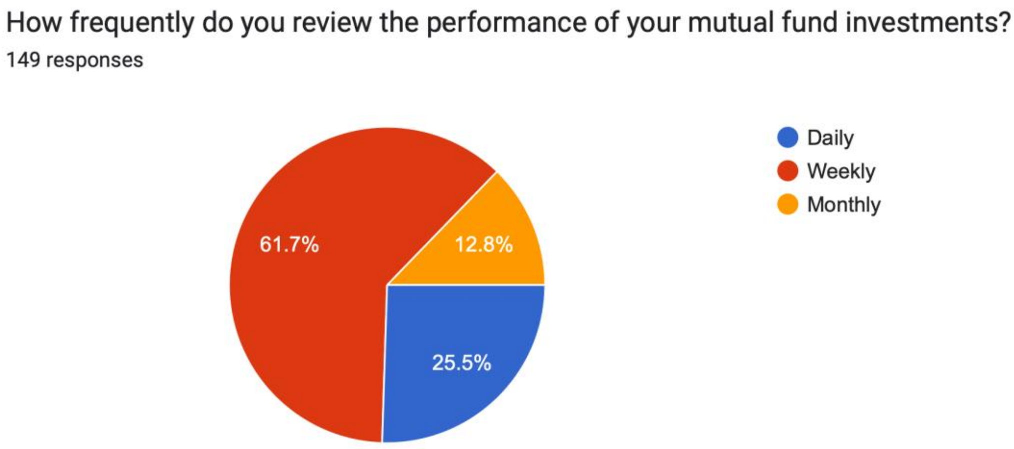
All the surveyed population beliefs in getting consistent returns, a consistent fund is one that consistently produces returns higher than its benchmark. Keeping in mind that the fund's NAV might decrease; falls or losses are ok as long as they don't exceed the benchmark.

Choice of Funds



The kind of investment vehicle that an individual investor would want the mutual fund business to use his money in shows the investor's attitude towards risk. Equity instruments are considered high risk assets since they are influenced by stock market dynamics, which might cause the value of the investor's investment to decline in the event of a persistently unfavourable market trend. Mutual fund investments' performance may vary greatly based on a number of variables, including the fund's investment strategy, general market circumstances, prevailing economic trends, and its individual holdings. Before investing in mutual funds, it is normally essential to do extensive research, evaluate your risk tolerance, and take your investment objectives into account.

Performance Review



61.7% of the population review their mutual funds performance weekly while 25.5% daily and 12.8% monthly. To keep track of their performance and make sure they are in line with their investing objectives, investors routinely examine their mutual fund investments. Although some individuals may opt to analyse their investment portfolios more regularly, many financial experts advise doing so at least once a year. big developments in the financial markets or big life events may also call for more regular evaluations and alterations to investment strategy. To get personalised advice about your unique investing requirements and objectives, it's always a good idea to speak with a financial adviser or investment specialist.

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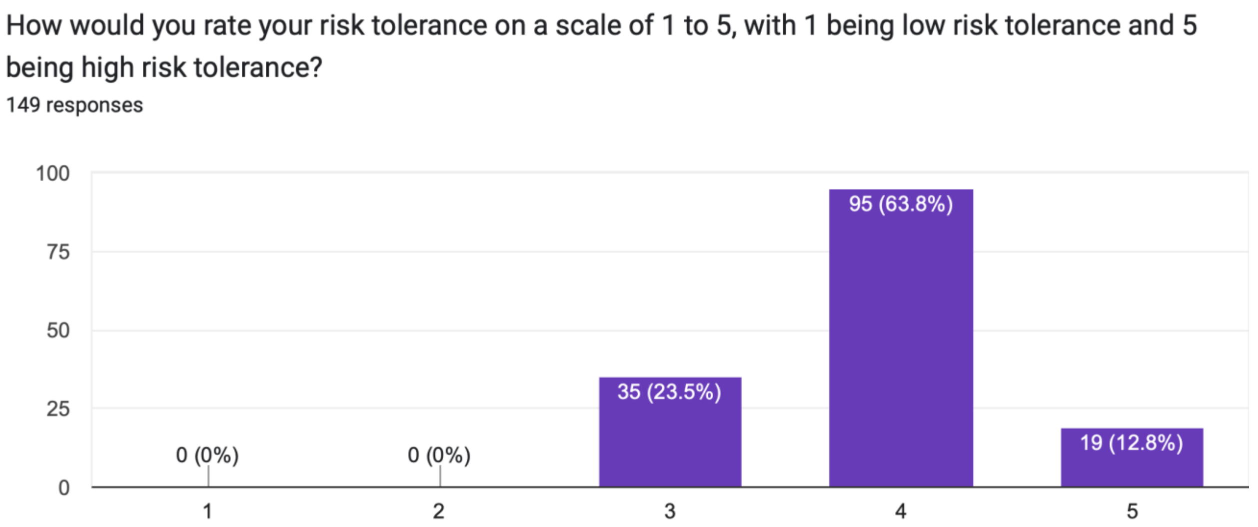
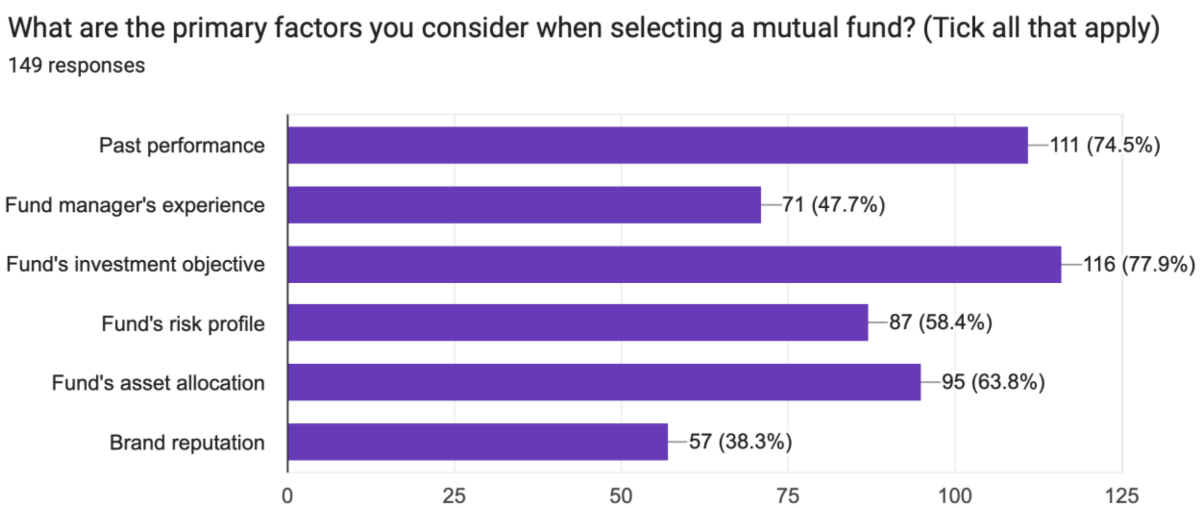
Risk Tolerance



About 63.8% of the population have high risk tolerance and are ready to take risks n their mutual fund investments. A person's willingness and capacity to absorb changes in the value of their assets or prospective losses are referred to as their risk tolerance. It is a personal measurement that differs from person to person and is frequently influenced by elements including financial objectives, time horizon, financial stability, investing expertise, and attitudes towards risk.

Factors on Selecting Mutual Funds



77.9% of the investors select funds based on fund investment objective , 74.5% of investors based on past performance , 63.8% by fund's asset allocation , 58.4% on fund risk profile and 38.3% on brand's reputation.

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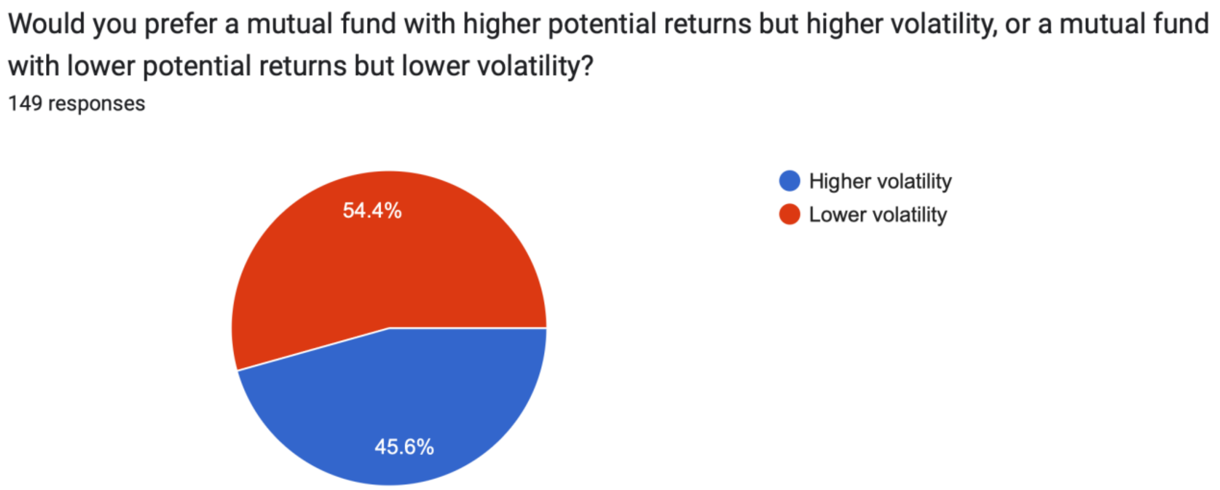
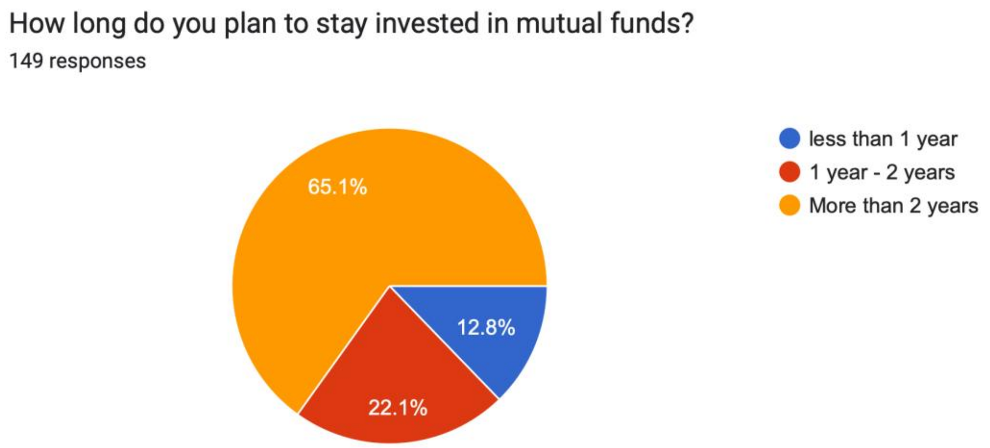
Volatility Rate



54.4% of the surveyed population selects the fund which have less volatility rate because these investors invest in long term mutual funds and maximise their returns. 45.6% of the population choose high risky funds to get higher potential returns un short term. The phrase "volatility rate" often refers to a measurement of how much a financial instrument, such as a stock, bond, or index, changes in price or value over a given time period. Volatility is frequently used as a gauge for the possible risk involved in an investment.

Investment Duration



Most of the surveyed population about 65.1% invest in long term mutual funds which is more than 2 years to get more benefits from the amount invested while 34.9 % of the population invest in mutual funds which is less than 2 years.

Findings-

- Under 18 years old (19.4%), between 18 and 25 years old (26.2%), and over 25 years old (54.4%).
- Men made up 63.8% of responders, while women made up 36.2%.

- 9.4% of the overall population has not yet invested in mutual funds, compared to 90.6% who have.
- To maximise returns, 87.2% of the population invests in mutual funds for a longer length of time, compared to 12.8% who do not.
- 63.8% of the population invests in mutual funds for retirement planning, compared to 74.5% who do so for wealth creation. 12.8% for tax savings and 38.3% for supporting education.
- 54.4% of those who participated in the poll had held mutual funds for more than two years.
- 12.8% of the population has a vast amount of information about mutual funds, compared to 74.5% of the public who are aware of where their money is placed in different mutual funds.
- A consistent fund is one that regularly generates returns greater than its benchmark, according to all respondents who believed in receiving consistent returns.
- The majority of people (77.9%) invest in equities funds. 25.5% of index funds, 54.4% of debt funds, and 61.7% of hybrid funds.
- 25.5% of people check their mutual fund performance daily, 12.8% monthly, and 61.7% do it once a week.
- About 63.8% of people have a high risk tolerance and are willing to take chances while investing in mutual funds.
- 77.9% of investors choose their funds based on the investment aim, followed by historical performance, 74.5% by asset allocation, 63.8% by risk profile, and 38.3% by reputation of the brand.
- Because they invest in long-term mutual funds and want to optimise their profits, 54.4% of those polled choose the funds with the lowest volatility rates. In order to get better potential profits in the near term, 45.6% of the population chooses high-risk investments.
- While 34.9% of the population invests in mutual funds with a period of less than two years, 65.1% do so in order to get a greater return on their investment.

Suggestions:-

The outcomes of this research, as described above will enable mutual fund businesses to strengthen their weak areas about the elements that impact investors decision making as reference to choosing of a mutual fund, the facilities or alternatives they anticipate from a mutual fund. This chapter consists of broad proposals to mutual fund firms. Mutual Fund Company should strive to apply these few suggestions:

1. Investors have higher propensity towards entirely new and unique schemes and so the MF businesses should endeavour to offer novel schemes for diverse class of investors.
2. Investors paid greater value to agency network and infrastructure, so mutual fund businesses should improve the funds to attract more clients
3. MF business may leverage brand name and Image of fund manager as a major promotional strategy for acquiring market share.

4. Tax incentive is the most significant purpose for investing in MFs, hence MF providers should develop tax saving mutual funds for Gujarat state.

5. Asset Management Companies should aim to develop strong image in public and should deliver better services to investors as these are proved to be given suitable attention by the investors.

Here are broad guidelines that mutual fund firms should take into consideration which are on the basis of 4P's of marketing strategy.

Product:
Companies should concentrate on product up gradation and aim to create new and unique schemes to attract all the type of investors notably investors from age group 35-50 years from salaried class. On examining these elements we can reach the conclusion that investors major purpose of investing in mutual funds is liquidity and predictable income. MF schemes should offer improved liquidity and predictable income to participants. Companies should develop close ended funds since investors view them less risky.

Price:
The research indicated the primary component that impact the investor's perspective is Monetary factor which comprises liquidity, greater return, burden of entry/exit costs etc. Therefore the mutual fund firms should concentrate on these aspects before starting a fund

Place:
Graduate investors between age group 35-50 years professional as well as business class having annual income between Rs 2-5 Lakhs give maximum weightage to stable income therefore MF companies should bring schemes with stable return for these classes of investors in these states

Promotion:
The image of an asset management organisation and fund manager may be employed as important promotional strategy notably for investors from 20-35 years age groups. Investors with monthly income between Rs 2-5 Lakhs have stronger predisposition towards ads and brand name,Companies may consequently utilise ads as an effective promotional strategy for investors. The study reveals that normally retired investors have higher propensity towards agent /brokers guidance when picking the fund. Therefore mutual fund firms should supply sufficient training to its representatives.

Conclusion

In conclusion, a number of variables, such as investor preferences and the decision-making process, affect the choice of mutual funds. When selecting mutual funds, investors take into account their investing objectives, risk tolerance, and intended investment results. Additionally, they assess things like the fund's investing philosophy, fees and costs, fund manager experience, fund size, and track record of success. To make judgements that are in line with their financial goals and risk tolerance, investors must perform rigorous study and analysis. It's also a good idea to get professional counsel from financial planners or other professionals who may offer advice catered to specific situations.

The advent of an assortment of Savings and Investment choices and the remarkable expansion in the secondary market for financial assets in the recent years in India has opened up an entirely new sector of wealth creation and management.The market potential may be accessed by examining investor behaviour to discover their anticipation and describe investor's personal circumstance and risk preference and then apply to an investment plan.
Presently, more and more funds are joining the business and their sustainability relies on clever marketing decisions of mutual fund firms, to live and prosper in this extremely promising field, in the face of such intense competition. Running a successful MF demands thorough grasp of the characteristics of the Indian Stock Market and also the mindset of the small investor. Under such a circumstance, the current exploratory research is an effort to understand the financial behaviour of MF investors in relation with scheme preferences and selection.

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