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# **Risk Opportunities and Returns for Investors in Mutual Funds An Overview**

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**Abstract :** *The Securities and Exchange Board of India (Mutual Funds) Regulation, 1993 defines a mutual fund “a fund established in the form of a trust by a sponsor, to raise monies by the trustees through the sale of units to the, public, under one or more schemes, for investing in securities in accordance with these regulations” A mutual fund is a common pool of money into which investors place their contributions that are to be invested in accordance with a stated objective. The ownership of the fund is thus “joint” or “mutual”; the fund belongs to all investors. A single investor’s ownership of the fund is in the same proportion as the amount of contribution made by him or her, bears to the total amount of the fund.*

*Now a day’s financial markets are appeared as more efficient and significant to fight against inflation, mutual funds as a part of financial markets become popularized among investors because of their convenient nature and they also facilitates easy operations with good returns. Though they are not favored by many other investors as they are more depend upon volatile stock markets and struggling hard to differentiate product range to satisfy retail investor. It is thus, timed to understand and analyze investor’s perception and expectations, and exposes some too valuable information to defend financial decision making of mutual fund investor and asset management companies. Financial markets are becoming more extensive with wide-ranging financial products trying innovations in designing mutual funds portfolio but these changes need unification in correspondence with investor’s expectations. A mutual fund uses the money collected from investors to buy those assets, which are specifically permitted by its stated investment objective. Thus, an equity fund would buy equity assets, ordinary shares, preference shares, warrants, etc. A bond fund would buy debt instruments such as debentures, bonds or government securities. It is in these assets, which are owned by the investors in the same proportion as their contribution bears to the total contribution of all the investors put together.*

**Keywords :** *Investor behavior, Mutual funds, buying behavior, India Equity Fund*

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## **1. Introduction**

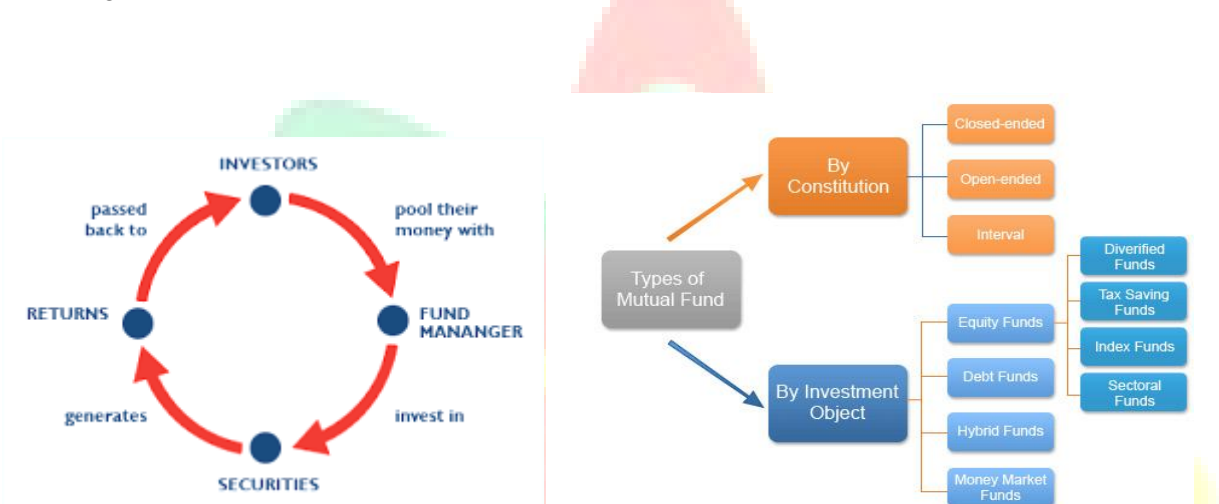
*Mutual funds were created to make investing easy, so consumers wouldn't have to be burdened with picking individual stocks.*

*Scott Cook*

Mutual Funds (MFs) have emerged to be an important investment avenue for retail (small) investors. The investment habit of the small investors particularly has undergone a sea change. Increasing number of players from public as well as private sectors has entered in to the market with innovative schemes to cater to the requirements of the investors in India and abroad. For all investors, particularly the small. One of the main advantages of mutual funds is that they give small investors access to professionally managed, diversified portfolios of equities, bonds and other securities, which would be quite difficult (if not impossible) to create with a small amount of capital. Each shareholder participates proportionally in the gain or loss of the fund. Mutual fund units, or shares, are issued and can typically be purchased or

redeemed as needed at the fund's current net asset value (NAV) per share, which is sometimes expressed as NAVPS.

Mutual funds as intermediation mechanism and products play an important role in India's financial sector development. Apart from pooling resources from small investors, they also provide informed decision making mechanism to them. In India Mutual funds are playing important role. The mutual funds companies pool the savings of small investors and invest those collected huge amount of funds in different sectors of the economy. They are performing like intermediary between small investor and the Indian capital market. In recent years many mutual fund companies are established. Through this competition is increased among the companies. To encounter the competition the different companies are introducing different types of mutual fund schemes with attractive returns and low risk. So it is an advantage to the investors.



### Research Objective

1. To find out the awareness level of investors regarding mutual funds
2. To know the preference of investors and their needs regarding mutual funds investment
3. Evaluate performance of mutual funds schemes on the basis of risk- return parameters
4. To find Mode of investment preferred by investor.
5. To find investors' Knowledge of risk in investment and risk analysis.
6. To find investors' Preference over switching from fund and investment.
7. To find investors' Preference over nature of fund holding.
8. To analyze the trends in returns of selected mutual funds.

### Review of Literature

Jambodekar (1996) conducted his study to size-up the direction of mutual funds in investors and to identify factors that influence mutual fund investment decision. The study tells that open-ended scheme is most favored among other things and that income schemes and open-ended schemes are preferred over closed- ended and growth schemes. News papers are used as information source, safety of principal amount and investor services are priority points for investing in mutual funds.

Sujit Sikidar and Amrit Pal Singh (1996) conducted a survey to peep in to the behavioral aspects of the investors of the North-Eastern region in direction of equity and mutual fund investment. The survey showed that because of tax benefits mutual funds are preferred by the salaried and self-employed individuals. UTI and SBI schemes were most preferred in that region of the country over any other fund and the other funds had been proved archaic during the time of survey.

Anjan Chakarabarti and Harsh Rungta (2000) emphasised the importance of brand in ascertaining competence of asset management companies. Shankar (1996) suggested that for penetrating mutual fund culture deep in to society asset management companies have to work and steer the consumer product distribution model.

Raja Rajan (1997) underlined segmentation of investors and mutual fund products to increase popularity of mutual funds.

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**Bhavin A Patel (2011)** conducted studied on “Performance Analysis of Selected Balanced Mutual Fund Schemes”. The study analysed 15 open ended selected balanced funds growth schemes launched by public sector, private sector and foreign mutual fund players in India. The study observed that HDFC Prudence Fund Growth, DSP Blackrock Balance Fund Growth are the top three funds on the basis of CAGR. The study also revealed that the funds have also outperformed the CRISIL Balanced Fund Index.

**Rama Devi & Lenin Kumar (2011)** conducted a on “Performance Evaluation of Private and Public Sponsored Mutual Funds in India”. The study analysed 340 mutual funds belonging to money market, debt, balanced and equity category of both private and public sector. The study concluded that there is no significant difference between the returns of private and public mutual funds i.e., the returns of private and public mutual fund schemes do not significantly differ from one another.

**Suminder Kaur Bawa & Smiti Brar (2011)** conducted Performance Evaluation of Income Schemes of Mutual Funds in India – A Public and Private Comparison”. This study analyzed from April 01, 2000 to March 31, 2010. Public sector income schemes are more un predictable while assessing the returns The study concludes that private sector leads the race.

### **Research Methodology**

Investor’s main objective is to earn higher returns keeping in mind the risk and liquidity factor. With this objective in mind, an investor is looking out for various investment avenues. Mutual funds offer comparatively better returns and have less risk as compared to direct investment in stock market. The investors were selected on the basis of those who have made prior investment in mutual funds and have some knowledge about the basic terminologies involved with mutual funds. An attempt has been made to find out the perception of investors regarding mutual fund investment and to identify the factors considered to be important by the investors before investing in any mutual fund.

### **Research Methodology**

Research is divided into two different studies:

**Research 1:** Primary Research to know the preference of mutual fund investors regarding their investment.

**Research 2:** Secondary Research to evaluate the performance of Mutual funds which are preferred by most of the investors is based upon



### **Sampling Method and Sampling Frame**

**Research 1:** The primary research is based upon convenience sampling. Convenience sampling (sometimes known as grab or opportunity sampling) is a type of non- probability sampling which involves the sample being drawn from that part of the population which is close to hand.

**Research 2:** The secondary Research is based upon Judgmental Sampling. Judgmental sampling is a non probability sampling technique where the researcher selects units to be sampled based on their knowledge and professional judgment. This type of sampling technique is also known as

**Purposive sampling and authoritative sampling..**

### **Sample Size**

Primary research is conducted of 100 educated investors of LUCKNOW city.

### **Data Collection Instrument**

**Research 1:** The data collection instrument used for primary research is questionnaire. The type of questionnaire used is open and close ended structured questionnaire.

**Research 2:** The data collection instrument used for secondary research is various data available on websites like [www.mutualfundindia.com](http://www.mutualfundindia.com) and other various sources of secondary information.

### **Questionnaire**

Name: ..... Age: ..... Mob. ....

**Ques.1 What is your Qualification?**

- (a) Under-graduation      (b) Graduation      (c) Post Graduation      (d) Others

**Ques.2 What is your Occupation?**

- (a) Government      (b) Private      (c) Business      (d) Others

**Ques.3 What is your monthly family income?**

- (a) <=10000      (b) 10001-20000      (c) 20001-30000      (d) >30000

**Ques.4 Do you have any idea about Mutual Fund?**

- (a) Yes      (b) No

**Ques.5 From where you came to know about Mutual Fund?**

- (a) Advertisement      (b) Peer Group      (c) Banks      (d) Financial Advisors

**Ques.6 Where you will prefer to invest?**

- (a) Savings (b) FD (c) Insurance (d) Mutual Fund (e) PO (f) Shares (g) Gold (h) Real Estate

**Ques.7 Which is your preference while investing?**

- (a) Low Return (b) High Risk (c) Liquidity (d) Trust

**Ques.8 Which Mutual Fund Company you will prefer to invest?**

- (a) Reliance (b) SBI (c) UTI (d) HDFC (e) Others

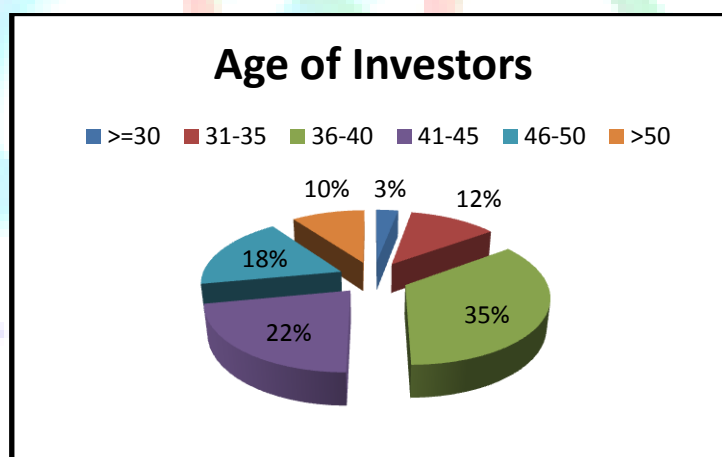
**Ques.9 Which mode of investment will you prefer?**

- (a) Long Term (b) Short Term

**Ques.10 Objective of investment?**

- (a) Preservation (b) Current Income (c) Conservative Growth (d) Aggressive Growth

*Analyzing to according to Age*

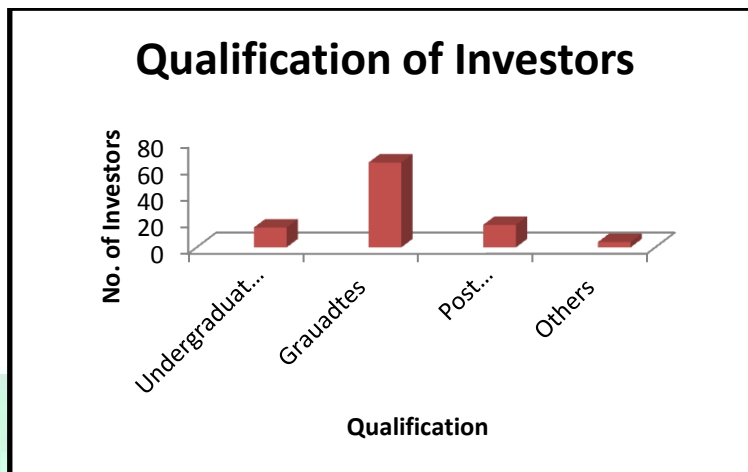


Here, it is been found that most of the investors i.e,35% of the investors who invest in Mutual Fund lies in between the age group of 36-40, they are more reluctant as well as experienced in this field of Mutual Fund.

Then the Second highest age group lies in between the age group of 41-45 (22%), they are also aware of the benefits in investing in mutual fund.

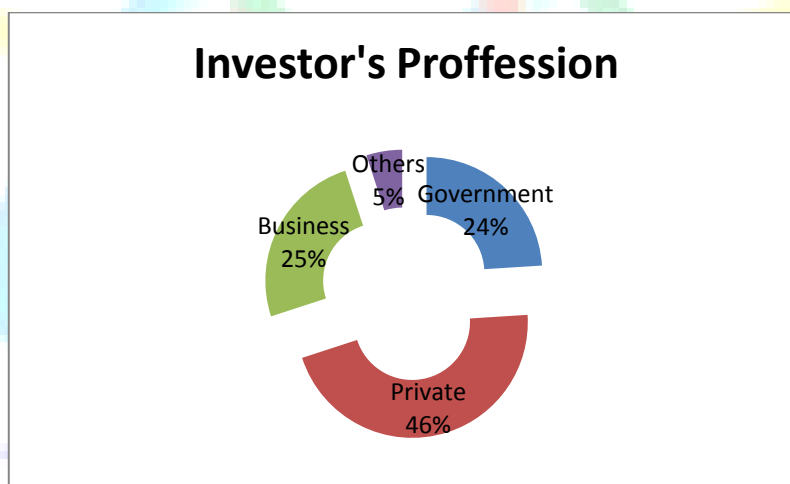
The least interested group is the Youth Generations.

### Analyzing according to Qualification



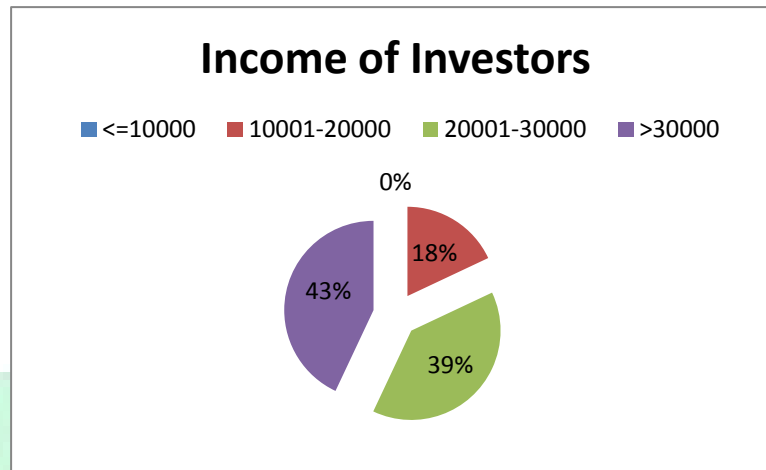
Out of survey of 100 people, 71% of the investors are Graduates and Post Graduates and 16.67% are Under Graduates and Others, around 12.5%, which may include persons who have passed their 10<sup>th</sup> standard or 12<sup>th</sup> standard invests in Mutual Funds.

### Analyzing according to Occupation



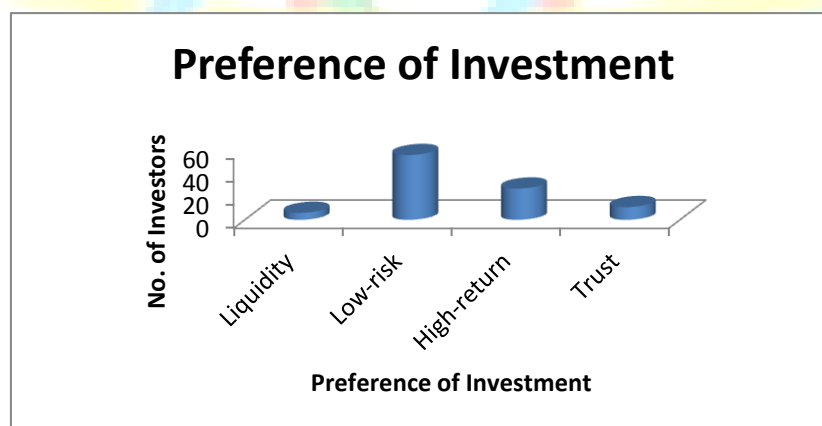
Here it is amazed to see that around 46% of the investment is been invested by the persons working in Private sectors, according to them investing in Mutual Funds is more safer as well as more gainer. Then we find that the businessmen of around 25% gives more preference in investing in mutual funds, they think that investing in mutual fund is better than investing in shares as well as Post office. Next we see that the persons working in Government sectors of around 24% only invests in Mutual Fund.

### Analyzing according to Monthly Family Income



Here , we find that investors of around 43% with the monthly income of Rs. >30000 are the most likely to invest in Mutual fund , than any other income group.

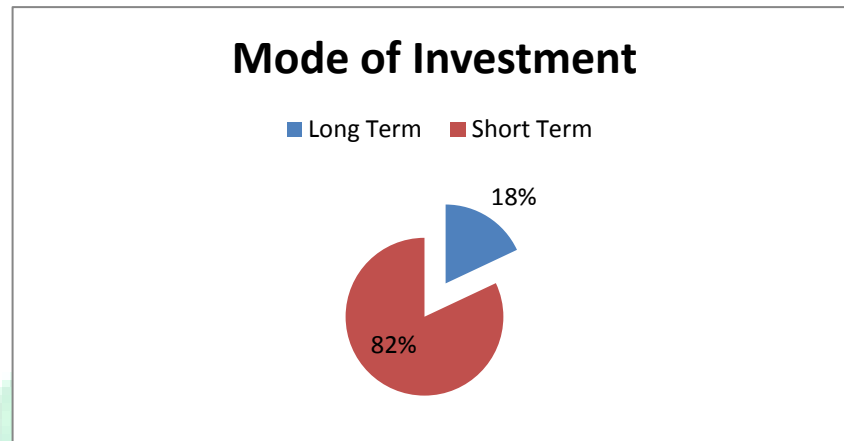
### Analyzing data according to factors seen before investing



As it can be clearly Stated from the above Diagram that investors before investing, the main criteria that they used to give more Preference is Low Risk. According to them, if a scheme is low risk, it may or may not give a very good return, but still 56% of the investors choose low risk as the option while investing in Mutual Funds. Then we see that 27% of the investors take High return as one of their most important criteria. According to them, if there is no high return then we should opt for Post office and not mutual fund.11% of the investors take trust as one of their important factors Only 4% of the Investors think liquidity as their most preferable options.

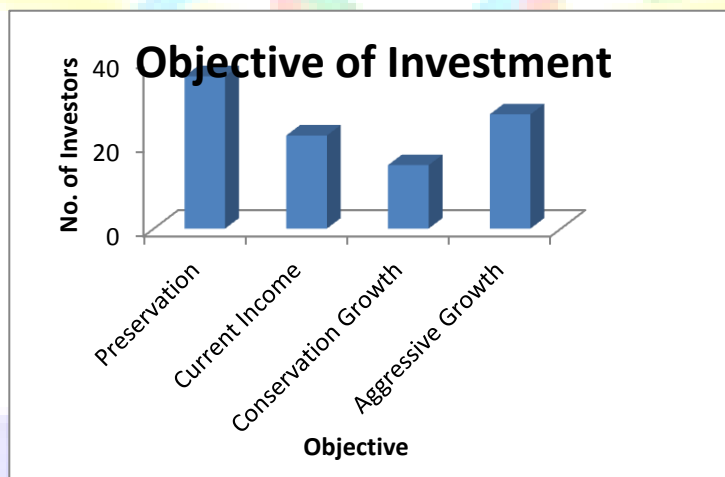


### Analyzing data according to mode of investment



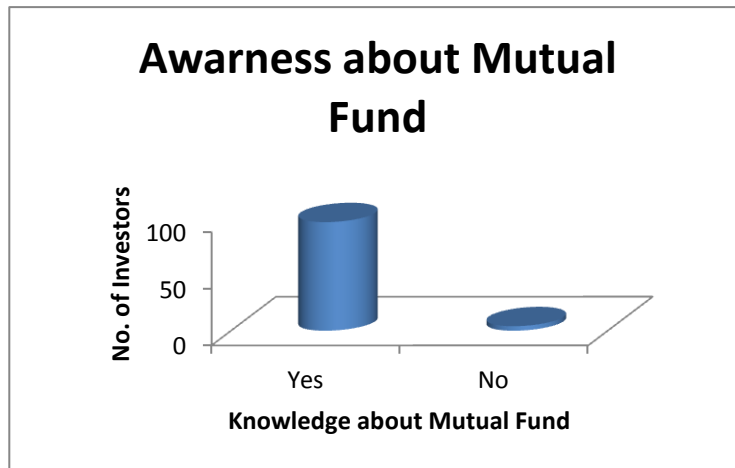
It can be clearly stated from the above Figure that 82% of the investors like to invest in SIP, as the investor feels that they are more comfortable to save via SIP than the Long term. While 18% of the investors find SIP as very burdensome, and they are more reluctant to save in Long term investment.

### Analyzing data according to objective of investment



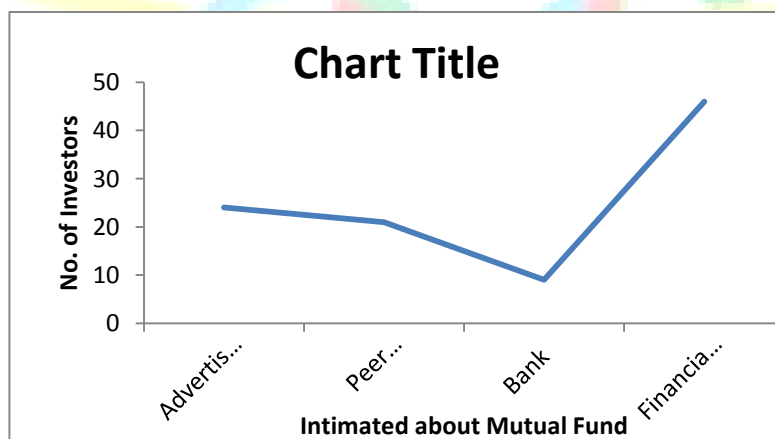
Here we see that 36% of the investor's objectives are to preserve the principal amount, so that it can be used as a savings for the future period. While 22% investors invest to get derive their current income through investing in Mutual Funds. While 15% and 17% of the investors invest to get a conservative as well as aggressive growth.

**Analyzing data according to awarness about Mutual Fund**



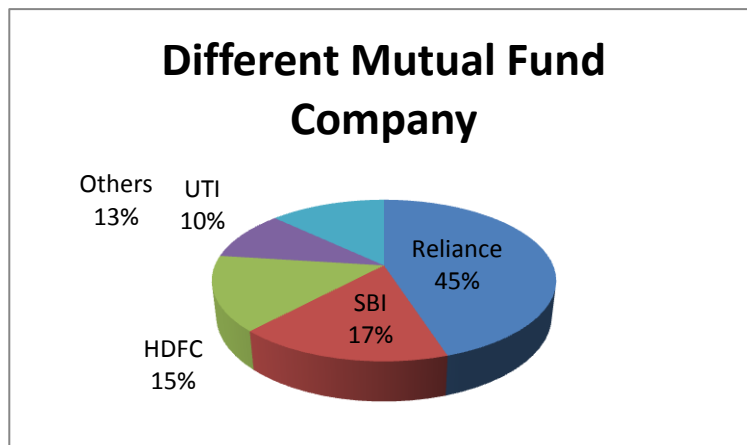
From The total lot of 100 people, 96 people are actually aware of the fact of Mutual fund and are regular investors of Mutual Funds. People were there who have just heard the name or rather are just aware of the fact of existence of the word called Mutual Fund, but doesn't know anything else about Mutual Funds.

**Analyzing data according to from where they came to know about Mutual Fund.**



Here from the Line Graph it can be clearly stated that around 46% of the investors came to know the benefits of Mutual Fund from Financial Advisors. According to the suggestions given by the financial advisors, people use to choose Mutual Funds Scheme. Then Secondly,24% and 21% of the people used to know from Advertisement and Peer group respectively. Lastly 9% of the investors do invests after being intimated by the Banks about the benefits of Mutual Funds.

**Analyzing data according to investors choice of investing in different Mutual Fund Companies.**



From this above Pie Chart it can be clearly stated that 45% , 17% of the people like to invest in large cap companies where return is comparatively less but risk is low thus they invest in Reliance, SBI respectively. 15%, 10% of the people like to invest in Mutual Fund Companies like HDFC, UTI, etc. where risk is slightly higher than the above two mentioned companies as well as return is also slightly high 13% of the investors like to invest in the Small Cap’s and Mid Cap’s companies.

**Returns (NAV as on 01 FEB, 2015)**

Period	Returns (%)	Rank #
1 mth	3.8	13
3 mth	6.0	23
6 mth	13.8	18
1 year	52.6	18
2 year	33.5	7
3 year	24.5	5
5 year	18.9	1

# Source : Moneycontrol Rank within 49 Balanced Schemes.

**Absolute Returns (in %)**

Year	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Annual
2014	6.3	22.2	5.8	9.2	-
2013	-5.8	-0.3	-2.3	15.4	8.0
2012	15.5	-0.8	6.2	2.5	26.3
2011	-3.1	4.6	-5.1	-6.6	-10.8
2010	4.0	6.7	9.9	0.6	24.5

**\* Returns of mutual funds over 1 year are Annualized**

	1 mth (%)	3 mth (%)	6 mth (%)	1 yr (%)	2 yr (%)	3 yr (%)	5yr (%)
Fund Returns	3.8	6.0	13.8	52.6	33.5	24.5	18.9
Category avg	3.2	5.6	10.4	40.4	23.5	16.7	10.3
Difference of Fund returns and Category returns	0.6	0.4	3.4	12.2	10.0	7.8	8.6
Best of category	5.0	11.3	20.6	62.2	36.2	28.2	18.9
Worst of category	1.7	2.0	4.6	30.5	17.8	14.6	8.7

**Review by Crisil**

**Conclusion**

People who lie under the age group of 36-40 have more experience and are more interested in investing in Mutual Funds. There was a lot of lack of awareness or ignorance, that's why out of 100 people, 75 people have invested in Mutual Fund and 25 people is unaware of investing in Mutual Funds. Generally, People employed in Private sectors and Businessman are more likely to invest in Mutual Funds, than other people working in other professions. Generally investors whose monthly income is above Rs. 20001-30000 are more likely to invest their income in Mutual Fund, to preserve their savings of at least more than 20%. People generally like to save their savings in Mutual Fund, Fixed Deposits and Savings Account. Many people came to know about Mutual Fund from Financial Advisors, Advertisement as well as from their Peer group, and they generally invest in the Mutual Fund by taking advices from their Legal Advisors. Investors generally like to invest in Large Cap Companies like Reliance, SBI, etc. to minimize their risk. The most popular medium of investing in Mutual Fund is through SIP and moreover people like to invest in Equity Fund though it is a risky game. The main Objective of most of the Investors is to preserve their Income. The study conducted shows that most of the investors are aware of various schemes of mutual funds. The Mutual Fund investors mainly belong to the Diversification of portfolio and tax benefit is the main factors of mutual fund that allure the investors.

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