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INVESTIGATING INVESTOR VIEWS ON MUTUAL FUNDS: A SPECIAL LOOK AT SBI MUTUAL FUNDS

[1]K. Anuradha, [2]Dr. Pawan Kumar
[1] Research Scholar of NIILM UNIVERSITY, KAITHAL
[2]Professor,Department of Commerce,NIILM UNIVERSITY, KAITHAL

Abstract

In an evolving and complex financial landscape, mutual funds serve as an optimal investment option. Their significance in the Indian market is increasingly noticeable, particularly when contrasted with other investment avenues. Mutual funds offer a safer investment platform, often delivering better returns compared to other asset classes.This research aims to shed light on the mutual fund sector, particularly focusing on investors' behavior and preferences. As financial markets strive to be more efficient, the mutual fund industry is adapting rapidly. They are tailoring their offerings based on changing economic conditions and investors' risk-reward expectations. Given the dynamic nature of the market, it is crucial to delve into investor attitudes and aspirations to provide insights beneficial for the mutual fund industry.

Keywords: *Mutual Fund, Investors, Views, SBI, platform*

Introduction

Mutual funds serve as an aggregated investment mechanism that pools resources from numerous investors to allocate in a diverse range of financial instruments such as equities, bonds, and money market assets. Managed by professional asset managers, each investor owns 'units' that signify their share of the overall fund based on their investment amount. Hence, they are often referred to as unit holders. After deducting expenses and taxes, any profits or incomes from the investment are distributed proportionally to these unit holders.

India's mutual fund sector was initiated in 1963 with the creation of the Unit Trust of India, a joint venture by the Government of India and the Reserve Bank of India. Mutual funds are appealing for various reasons, including expert fund management, risk mitigation through diversified portfolios, and cost-efficiency, as the operational costs are spread across a large pool of investors.

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Regulatory oversight is another strong suit for mutual funds in India. The Securities and Exchange Board of India (SEBI) mandates transparency, requiring mutual funds to disclose their portfolios at regular intervals. This helps investors verify whether the funds are aligned with their investment objectives.

Investor preferences vary and can include principal safety, steady returns, long-term capital growth, and tax advantages. Mutual funds are designed to cater to these different needs, influenced by market trends, asset returns, and changing investor demographics. These funds are usually promoted by a network of branches, representatives, and agents.

Investor confidence is vital for a mutual fund's success. UTI, for example, has a unique advantage with its extensive marketing network across India. Despite these strengths, there is often a lack of understanding among new investors about the nature, operations, and benefits of mutual funds, which can result in waning confidence.

Literature Review

Warren Buffet and others estimated that only a small percentage of Indian households invest in stocks and mutual funds. They argue that understanding investor needs is critical for channeling savings into productive investments. Studies by Jambodekar and Kannadashan also explored factors like investor awareness, demographic variables, and information sources that influence investor decisions.

Jambodekar's study, for instance, found that income and open-ended schemes are generally more popular than growth and closed-ended ones. It also highlighted the importance of safety, liquidity, and capital appreciation to investors.

Kannadashan looked into the various factors affecting retail investor decisions, such as age, income level, and risk tolerance. A study by Paul & Garodia pointed out that demographic variables have a significant impact on investment patterns and that the level of expectation varies among different investor categories. Another study indicated that there exists a communication gap between mutual fund companies and retail investors, impacting investor satisfaction.

By exploring these aspects, the literature aims to provide insights into investor behavior and needs, aiding policy formulation and managerial decision-making within the mutual fund industry.

Concept of mutual fund

Overview of Mutual Funds

Mutual funds offer a convenient way for individual investors of all economic backgrounds to gain exposure to a broad range of assets. They are professionally managed investment programs where assets are pooled together from multiple investors to purchase a diverse set of financial instruments like stocks, bonds, and other short-term securities.

Investors in mutual funds own shares that signify their portion of the total asset pool. As a result, any gains or losses from the investments are distributed among shareholders in proportion to their ownership.

Types and Features

Mutual funds can invest in a variety of financial assets and come in many forms based on their goals, risk levels, and investment strategies. Each mutual fund has a portfolio, the collective assets in which the fund invests. Mutual funds are commonly organized into categories based on what kinds of assets they specialize in and what returns they aim for.

Costs associated with mutual funds often include yearly fees, also known as expense ratios, and sometimes commissions. These costs can influence the net returns earned by investors.

Advantages of Investing in Mutual Funds

1. **Ease of Transactions**: Buying and selling mutual fund shares is generally straightforward, typically occurring once daily after the Net Asset Value (NAV) is calculated.

2. **Risk Diversification**: Mutual funds spread investment risks by diversifying the asset classes they invest in, such as equities, debts, and money market instruments.

3. **Professional Management**: The benefit of professional fund management frees investors from the responsibility of market research and asset allocation.

4. **Cost Efficiency for Bulk Purchases**: Buying multiple shares at once can reduce transaction costs and fees.

5. **Small Investment Amounts**: Small periodic investments, known as Systematic Investment Plans (SIPs), allow investors to capitalize on market volatility, averaging out transaction costs.

6. **Alignment with Financial Objectives**: A wide variety of mutual funds are available that can align with different financial situations and goals.

7. **Cost-Effective Options**: Investors can choose from low-cost, no-load funds with minimal expense ratios.

8. **User-Friendly Operations**: Modern technology makes it easier to manage investments and track fund performance.

9. **Tax Benefits**: Tax-saving mutual funds provide tax exemptions under Section 80C of the Indian Income Tax Act, 1961, although Long-Term Capital Gains are taxable over a certain limit.

10. **Automated Payments**: Automation allows for hassle-free investments, reinforced by notifications and alerts.

11. **Regulated for Safety**: Mutual funds in India operate under strict regulatory oversight from governing bodies such as SEBI and AMFI.

12. **Flexible Investment Options**: Whether investors prefer SIPs or lump-sum investments, mutual funds offer a range of investment structures to suit different financial capabilities.

Additional Investment Types

- **Systematic Transfer Plan (STP)**: Allows scheduled transfers between schemes within the same fund house.
- **Debt Funds**: Invest in fixed-income securities, aiming for capital growth.
- **Sector Funds**: These funds focus on a specific industry, providing targeted exposure to a particular sector of the market.

Recent observations:

About Mutual Funds in India

The mutual fund sector in India has immense growth possibilities, backed by domestic savings that range between Rs 20-30 lakh crores annually. There's an evident shift from traditional assets like real estate and gold to financial assets, highlighting the potential for growth in the mutual fund industry.

As per an official report from SEBI, the mutual fund investment for the first half of 2020 was nearly Rs 39,500 crores, marking a significant uptick compared to the same period in the previous year, when it was around Rs 8,735 crores. However, inflows into equity schemes saw a sharp decline in June 2020, standing at just Rs 240.55 crores compared to Rs 5,256.52 crores in May. But the number of active SIP accounts has seen a gradual increase.

SBI Mutual Funds

The Trust that governs SBI Mutual Fund was established under the Trust Act of 1882. This mutual fund is a collaboration between State Bank of India, one of India's leading banks, and Amundi, a French asset management firm. Originating in 1987, it has the distinction of being

India's second mutual fund initiative. In terms of innovation, SBI Mutual Fund has several industry-firsts, like launching a 'Contra' fund and being the first to introduce an ESG fund in India.

Objectives of the Study

1. Assessing investor awareness of mutual funds.
2. Determining portfolio preferences.
3. Understanding the reasons behind investments in SBI Mutual Funds.
4. Identifying the most commonly used channels for investment.
5. Measuring investor interest in SBI Mutual Funds.
6. Conducting a comparative analysis with other leading mutual funds.

Research Design

- **Methodology**: The research will be descriptive and analytical. Contrary to popular belief, descriptive studies can be intricate and require a high level of research skill.
- **Population and Sample**: The population includes both investors and non-investors in mutual funds, with a sample size of 50 individuals aged between 20-70 years.
- **Sampling Method**: A non-probability, convenience sampling approach will be used.
- **Data Collection**: Both primary and secondary data will be gathered. Primary data will be collected through surveys, and secondary data will be sourced from the internet and books.
- **Data Analysis Plan**: SPSS software will be used for data analysis, presenting the findings through bar graphs and pie charts.

Limitations of the Study

- Time constraints.
- Non-responsive participants.
- Potential errors in data collection and analysis.
- Limitation on the number of respondents due to the COVID-19 pandemic.

Major findings of the study

Investment in Mutual Funds

The survey reveals that a substantial majority of 70% of respondents have invested in mutual funds, leaving 30% who haven't ventured into this investment vehicle. A detailed breakdown shows that lack of awareness is a hurdle for 6% of those who haven't invested, while 4% cited high-risk factors as a deterrent. Interestingly, 20% of the respondents chose not to provide a reason for their non-investment.

Choice of Mutual Fund Companies

When it comes to specific investments, 42% of the participants have put their trust in SBI Mutual Funds (SBIMF), followed by HDFC and ICICI, each capturing 10% of the investor pool. AXIS Mutual Funds attracted 8% of the investors.

Reasons for Choosing SBIMF

Among those who invested in SBIMF, 26% did so because of the fund's association with the State Bank of India. Another 12% were influenced by SBIMF's consistent history of good returns, while 4% made their investment based on recommendations from financial advisors.

Reasons for Not Choosing SBIMF

On the flip side, lack of awareness kept 36% of the respondents from investing in SBIMF. Another 14% believed that SBIMF offers lower returns compared to other options, and 10% refrained due to advice from financial consultants.

Preferred Asset Management Companies (AMCs)

In terms of preferred AMCs, 54% of respondents leaned towards SBIMF, 34% favored Reliance, and 12% chose AXIS Mutual Funds.

Channels for Investment

Regarding the mode of investment, 50% of investors used financial advisors, 28% utilized banking channels, and 22% went directly through Asset Management Companies (AMCs).

Recommendations

1. **Training for Financial Advisors**: Since half of the investors prefer financial advisors, mutual fund companies should focus on educating them about the various schemes and objectives, as they are instrumental in shaping investment decisions.

2. **Enhance SBIMF Awareness**: SBIMF needs to ramp up awareness initiatives, given that 36% of the non-investors are uninformed about their offerings.

3. **Targeting Older Demographics**: Older individuals, particularly those over 50, represent 12% of the survey and could be encouraged to invest in lower-risk mutual funds.

4. **Promoting Debt Portfolio Schemes**: Debt funds appear to be an attractive option, with 24% of the respondents showing interest. Greater awareness and expertise in this area could boost investments.

5. **Highlighting Higher Returns**: SBIMF should disseminate information about its high-return potential to counter the perception held by 14% of respondents that it offers less competitive returns.

Conclusions

Mutual funds serve as collective investment platforms that pool the savings of numerous investors with aligned financial objectives. These funds, managed by professionals, offer a plethora of advantages including risk diversification, liquidity, and affordability. Choosing the right fund management company and the appropriate scheme is crucial for maximizing the benefits of mutual fund investments.

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