

Understanding Mutual Funds and Investors Behaviour

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ABSTRACT

Mutual funds play a significant role in the investment landscape, offering investors diversified portfolios managed by professionals. This paper delves into the intricate relationship between mutual funds and investor behavior, aiming to comprehend the factors influencing investment decisions within this context. By analyzing existing literature, this study explores how psychological biases, market conditions, fund characteristics, and regulatory frameworks impact investor behavior in mutual funds. Additionally, it investigates the implications of investor behavior on fund performance and market efficiency. Through a comprehensive understanding of these dynamics, this research seeks to provide insights into effective strategies for both investors and fund managers to navigate the complexities of the mutual fund industry.

EXECUTIVE SUMMARY

The project focuses on exploring Mutual Funds and Investors' Behavior, emphasizing the customization of mutual funds by Asset Management Companies (AMCs) to meet diverse investor needs. Understanding the regulatory framework set by SEBI for mutual fund operations is foundational. The analysis zeroes in on RELIANCE Mutual Funds' schemes, employing market research to provide recommendations for potential investors. The internship involved raising awareness of mutual funds across various investor segments. Data collection involved utilizing diverse sources like fund fact sheets and questionnaires, leading to informed recommendations based on thorough analysis.

INTRODUCTION

The overview provides insights into the evolution and significance of mutual funds in India's financial landscape, detailing their emergence as a preferred investment avenue. Initially monopolized by the Unit Trust of India (UTI), the mutual fund industry saw a transformative shift with the entry of public sector banks and financial institutions in the late 1980s. Liberalization in 1991 paved the way for private sector participation, intensifying competition and diversifying offerings. The industry evolved through four distinct phases, each marked by significant developments and regulatory changes. Notably, the post-2003 period witnessed consolidation and growth post-UTI bifurcation. However, investing in mutual funds involves inherent market risks, necessitating careful consideration of factors such as NAV fluctuations and fund objectives.

BRIEF HISTORY OF THE ORGANIZATION

The summary encapsulates the transition of Reliance Mutual Fund to Nippon India Mutual Fund (NIMF) following Nippon Life Insurance's acquisition of Reliance's stake in October 2019. NIMF, with assets

worth Rs. 2,07,288 crore, is managed by Nippon Life India Asset Management Limited and offers a wide array of mutual fund products. Sundeep Sikka leads the organization as CEO, steering its operations and strategic initiatives. Nippon Life Insurance, one of Japan's largest private life insurers, plays a significant role in NIMF's operations through its asset management arm, Nissay Asset Management Corporation. Registered with SEBI, NIMF aims to promote various schemes to the public, fostering growth in the capital market and providing diversified investment opportunities to investors while contributing to India's financial sector development.

ORGANIZATIONAL STRUCTURE

SWOT Analysis

The organizational structure and SWOT analysis of Reliance ADAG highlight key aspects of the company's operations and market positioning. Strengths include a diversified brand strategy, robust distribution channels, multiple income streams, large installed capacities, experienced management, skilled workforce, and favorable government policies. Weaknesses revolve around a focus on emerging markets, uncertain returns in mutual funds, and concerns about the fee structure impacting investor returns. Opportunities lie in tapping into rural markets, collaborating with multinational corporations, leveraging celebrity endorsements, and launching innovative schemes tailored to consumer needs. Threats include increased competition from local and multinational players, the impact of hedge funds on market downturns, and competition from established players like HDFC and Kotak Mahindra.

MUTUAL FUNDS

Mutual funds serve as professionally managed investment vehicles pooling funds from multiple individuals to invest in securities, offering advantages like diversification, expert management, liquidity, convenience, reinvestment options, and a range of choices. The Indian mutual fund industry has experienced significant growth, aiming to expand assets under management (AUM) and investor accounts by 2025.

Advantages include diversification, expert management, liquidity, convenience, reinvestment options, and a range of choices, enabling investors to participate in financial markets while mitigating risks and maximizing returns.

Disadvantages encompass the lack of guarantees, potential limitations on significant gains due to diversification, and potentially high costs from sales commissions and management fees.

Overall, mutual funds provide investors with a comprehensive and accessible means of participating in financial markets, offering benefits like diversification, professional management, and convenience, while also presenting challenges such as market volatility and costs.

OBJECTIVE OF STUDY

The primary aim of this study is:

1. To understand the multitude of factors that influence customers' decision-making processes when investing in mutual funds.
2. To analyze the operational mechanisms of mutual funds.
3. To assess the investment preferences and level of knowledge among investors.
4. To examine the personal and social characteristics of investors.

RESEARCH METHODOLOGY

The research methodology employs a descriptive survey research design with a mixed-method approach to investigate the association between organizational performance and traits such as training and development. The objective is to analyze mutual fund and investor behavior.

Convenience sampling is utilized to select 40 participants from various regions, with structured questionnaires distributed to students, employed individuals, and self-employed individuals.

Data is collected through structured questionnaires, and analysis is conducted using pie charts and tables to identify patterns or gaps. The methodology follows a systematic approach, including defining study objectives, questionnaire development, data collection, analysis, and drawing conclusions. Suggestions are provided based on the analysis findings to address the research objective.

Overall, the methodology employs a structured and systematic approach to gather and analyze data to fulfill the research objective of analyzing mutual fund and investor behavior.

SCOPE OF THE STUDY

The scope of the research on "Understanding Mutual Funds and Investor Behavior" encompasses various aspects related to mutual funds and the behavior of investors who invest in them. This includes but is not limited to:

- 1. Overview of Mutual Funds:** Providing a comprehensive understanding of what mutual funds are, how they function, their types, structure, and regulatory framework.
- 2. Investment Strategies:** Exploring different investment strategies employed by mutual funds, such as active management, passive management (indexing), sector-specific funds, etc.
- 3. Investor Behavior:** Investigating the psychological and behavioral factors influencing investors' decisions regarding mutual fund investments. This may include risk tolerance, investment goals, cognitive biases, and emotional influences.
- 4. Performance Analysis:** Evaluating the performance of mutual funds over different time periods and comparing them against relevant benchmarks. This involves analyzing factors such as returns, volatility, and consistency of performance.
- 5. Market Trends and Dynamics:** Examining trends in the mutual fund industry, including asset allocation preferences, fund flows, regulatory changes, and market conditions.

LIMITATIONS OF THE STUDY

- 1. Data Availability:** One limitation of the research may be the availability and reliability of data, especially concerning investor behavior. It may be challenging to access comprehensive and accurate data on investors' decision-making processes and behavior.
- 2. Sample Bias:** The research may be subject to sample bias, particularly if the study relies on survey data or interviews with a specific group of investors. This could limit the generalizability of the findings to the broader population of mutual fund investors.
- 3. Time Constraints:** Conducting in-depth research on mutual funds and investor behavior may require considerable time and resources. Therefore, there may be limitations in terms of the depth and breadth of analysis that can be achieved within the scope of the research project.
- 4. Complexity of Factors:** Investor behavior is influenced by a multitude of factors, including economic conditions, market sentiment, and individual preferences. It may be challenging to isolate and analyze the impact of each factor comprehensively.

- 5. Regulatory Environment:** Changes in regulatory policies and frameworks governing mutual funds may affect the findings and conclusions of the research. Keeping up-to-date with regulatory developments and their implications is essential but may pose challenges in terms of timing and accuracy.

FACTS AND FINDINGS

1. **Age Group Distribution:** Young adults aged 20-25 show strong interest, while experienced investors above 30 constitute the second largest group.
2. **Gender Distribution:** Male investors outnumber female investors.
3. **Occupation Distribution:** Employed individuals form the majority, followed by students.
4. **Income Distribution:** Most investors have lower annual incomes.
5. **Investment Duration:** Many investors are new, with a significant portion investing for 1-3 years.
6. **Familiarity with Reliance Mutual Funds:** A large number of respondents are familiar with Reliance Mutual Funds.
7. **Sources of Information:** Financial advisors and friends/family are relied upon, along with financial news websites and social media.
8. **Perception:** Most perceive Reliance Mutual Funds to perform well compared to competitors.
9. **Awareness of Types of Mutual Funds:** A majority are aware of the different types offered.
10. **Investment Frequency:** Varies among respondents, with annual, monthly, and quarterly investments.
11. **Reasons for Redeeming Investments:** Market fluctuations significantly influence decisions.
12. **Satisfaction with Performance:** Most respondents are satisfied or neutral.
13. **Future Investment Plans:** A significant portion plans to decrease investments.
14. **Perception of Communication and Support:** Rated positively by respondents.
15. **Customer Service:** Majority find it highly satisfactory.

Overall, the findings provide insights into the demographics, behaviors, perceptions, and satisfaction levels of investors in Reliance Mutual Funds, suggesting areas of strength and opportunities for improvement.

RECOMMENDATIONS

1. **Target Younger Investors:** Focus on engaging with the 20-25 age group through tailored marketing and educational initiatives.
2. **Diversify Gender Representation:** Implement initiatives to attract more female investors and diversify the investor base.
3. **Expand Outreach:** Reach out to other occupational groups like self-employed individuals, retirees, and students to broaden the investor base.
4. **Accessible Investment Options:** Introduce investment options suitable for lower income groups to make investing more accessible.
5. **Enhance Investor Education:** Invest in comprehensive investor education programs to increase familiarity with Reliance Mutual Funds.

CONCLUSION

In conclusion, the outlook for Reliance Mutual Funds appears promising, particularly due to its strong appeal among younger investors, which bodes well for future growth and expansion. The positive

perception of the company's performance compared to its competitors enhances its brand reputation and market standing, contributing to its overall success. However, it's crucial for Reliance Mutual Funds to address concerns among investors who are considering decreasing their investments, ensuring their confidence in the company's stability and offerings. Despite this challenge, the company's commitment to excellent communication, support, and customer service underscores its dedication to investor satisfaction, which remains a key strength moving forward. By effectively addressing investor concerns and maintaining its high service standards, Reliance Mutual Funds can continue to thrive in the competitive mutual fund market.

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3. <https://www.slideshare.net/>
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5. <https://fastercapital.com/>

Reference Books:

1. Financial Institutions and Markets
2. Investment Management
3. Association of Mutual Funds in India (AMFI) Publications and Quarterly Reports
4. Securities and Exchange Board of India (SEBI)
5. Investopedia
6. Mutual Fund Performance