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A STUDY ON FACTORS INFLUENCING INVESTMENT DECISION TOWARDS MUTUAL FUNDS IN INDIA

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ABSTRACT

Mutual funds have emerged as one of the most preferred investment avenues among Indian investors due to their professional management, diversification, and accessibility. The rapid growth of the financial sector, increasing financial literacy, and technological advancements has significantly influenced investment behavior in India. The article examines the major factors influencing investment decisions towards mutual funds in India, including risk perception; return expectations, financial literacy, demographic characteristics, market awareness, and technological convenience. The study adopted the Convenience Sampling Method for selecting the respondents. Under this method, respondents who were easily accessible and willing to participate were selected for the study. The analysis was conducted with a sample size of 200 respondents. The Indian mutual fund industry has witnessed remarkable growth because of rising disposable income, digital investment platforms, and increased awareness regarding financial planning. Investors today are more inclined towards systematic and professionally managed investment options rather than traditional savings instruments such as fixed deposits and gold. The study highlights how investors evaluate various parameters before investing and emphasizes the importance of investor education and trust in fund management companies.

Keywords: Mutual Funds, Investment Decision, Investor Behavior, Financial Literacy and Risk Perception

INTRODUCTION

Investment is an important factor in economic development of a country by channelling the savings into productive activities. Mutual funds are now gaining popularity among the Indian investors in recent years as they offer a diversified investment opportunity with comparatively lower risk. Mutual funds are pools of money from a collection of investors, with the money invested in a diversified portfolio of securities, including stocks, bonds, and money market instruments. But there are many factors such as personal choice, economic situation, psychological behavior, and dynamics of the market that affect investment decisions. To achieve better financial inclusion and investment participation, financial institutions, policy makers and investors need to know about these factors. Just as vital, however, to understanding investor behavior is the information they receive about the market and the awareness they have of financial matters. With the progress of digital platforms, social media and financial education programs, investor awareness about mutual fund products has improved.Investor awareness of mutual fund products has improved with the development of digital platforms, social media, and financial education programs. Investors are also impacted by guidance and recommendations from financial advisors, peer groups and family members. Besides, tax-saving instruments like Equity Linked Savings Schemes (ELSS) promote investors to invest in mutual funds to gain tax benefits as per the provisions of the Income Tax Act.

In a decade, the Indian mutual fund industry has seen tremendous growth with the introduction of regulatory changes by Securities and Exchange Board of India (SEBI), retail investors' participation and technological advancement in the financial services sector. The SIP culture has also contributed to the active participation of investors by encouraging them to make investments in a disciplined manner. Although mutual funds are growing in popularity, investors have different tastes depending on their demographic, economic and psychological characteristics. Thus, it is important to understand the determinants of investing in mutual funds so that the fund manager, policy-maker and financial institution can develop strategies to attract and retain investors.

THEORETICAL BACKGROUND

Mutual funds have proven to be one of the most popular investment options for individual and institutional investors in India. The mutual fund is an investment scheme in which a group of investors pool their capital and invest in a variety of financial securities, including money market, bonds, equities, and other securities. Modern portfolio theory (MPT) provides a robust theoretical framework for the concept of mutual fund investment, in which diversification is key, risk management is essential, and maximizing returns is emphasized. With better returns, liquidity, professional management and flexibility, investors are moving from traditional investment vehicles like bank deposits, gold, real estate, to investing in mutual funds.

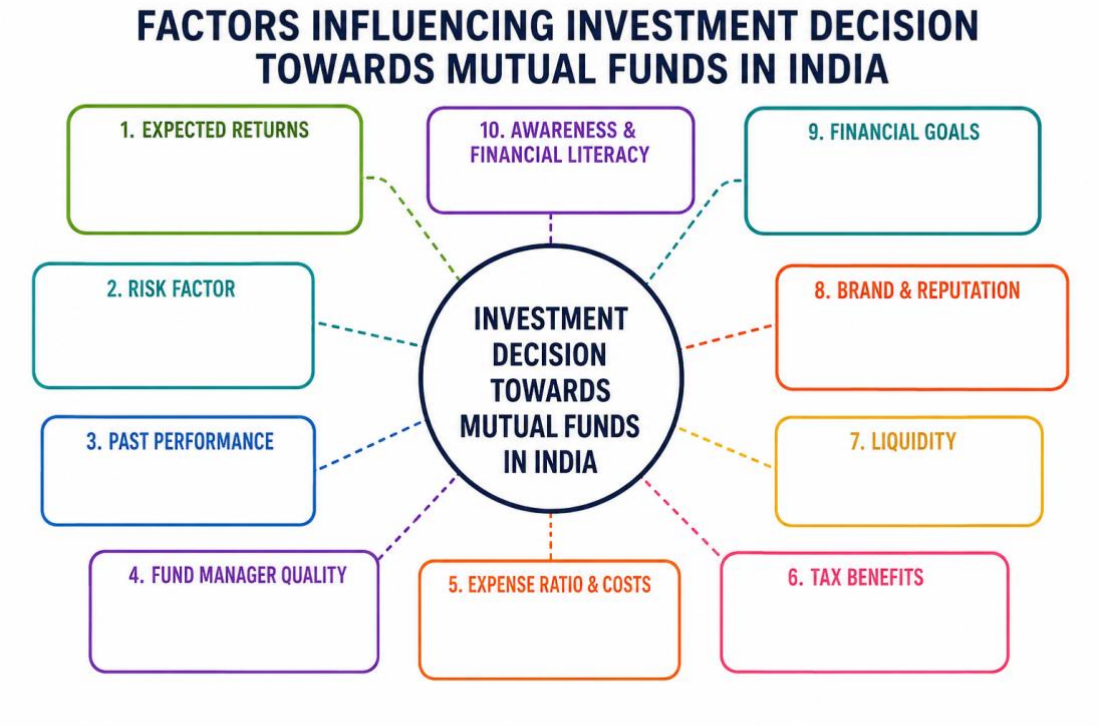
Decision making in investment is a complex process affected by rational and behavioral aspects. Traditional financial theory makes the assumption that investors have a rational, utility-maximizing approach, with a goal of minimizing risk and maximizing wealth. But, in behavioural finance theory, psychological, social and emotional factors are also part of the factors affecting investment decisions. When it comes to investing in mutual funds, investors consider various factors like expected returns, risk perception, tax benefits, past performance, liquidity, convenience and professional fund management before deciding to invest in a mutual fund. The increasing awareness about financial planning and wealth creation has significantly contributed to the growth of mutual fund investments in India.

One of the key factors in investment decisions is risk perception. Investors usually like the investment instruments that offer them with the right level of risk and return. One of the key attractions of mutual funds is the diversification of investment, which also helps in reducing investment risk. The same applies for the performance of the funds, as investors are likely to use past performance to gauge future potential. A professional fund management is also of great importance as investors trust the fund managers to make proper investment decisions for them.

CONCEPT OF MUTUAL FUNDS

A mutual fund is a professionally managed investment vehicle that collects money from multiple investors and invests it in diversified financial instruments. The primary objective of mutual funds is to provide investors with capital appreciation, income generation, and risk diversification.Mutual funds in India are regulated by the Securities and Exchange Board of India (SEBI), which ensures transparency, investor protection, and proper functioning of fund houses.

Figure: 1



Factors Influencing Investment Decision Towards Mutual Funds

1. Risk Perception

The risk factor is among the most critical factors that influence investment decisions. When investing in mutual funds, investors' first step is to assess the risk level associated with the scheme. Conservative investors would opt for low risk debt funds, while aggressive investors may find equity oriented funds to be more lucrative. Market volatility and uncertainty have a significant impact on investor confidence and investment decision.

2. Return Expectations

One of the few reasons why investing in mutual funds is encouraged is because of the Expected return. Mutual fund investors look at the performance of their mutual funds relative to other investment options like bonds, bank deposits, insurance policies, and stocks. As the historical performance of mutual funds becomes better and keeps repeating, more investors are drawn to the investments.

3. Financial Literacy

Financial Literacy is the capacity of a person to comprehend financial concepts and investment products. Investors who have a better understanding of the financial world are more likely to invest in mutual funds, as they know about the significance of investing in a diversified portfolio, managing risk, and building wealth over time. People are deterred from entering into mutual fund investments due to lack of financial awareness.

4. Liquidity and Convenience

Mutual funds offer high level of liquidity and flexibility thus allowing investors to redeem units easily. Over the years, the investment process has been made easier and simpler with the advent of online investment platforms, mobile applications and digital payment systems, making investing in mutual funds more feasible for all investors in India.

5. Professional Fund Management

This leads to an improved investor confidence as it is managed by trusted, experienced fund managers. Investors trust fund managers' ability to make appropriate security selections and portfolio management. The trust of people in asset management companies and fund managers plays a significant role in their investment decisions.

6. Tax Benefits

Investors who are looking for tax deductions under the Income Tax Act invest in tax-saving mutual funds like Equity Linked Savings Schemes (ELSS). Deductions in taxes for investing in mutual funds encourage the individuals to invest some part of their income in mutual fund.

7. Demographic Factors

Demographic variables such as age, income, education, occupation, and marital status influence investment behavior.

- Young investors tend to prefer equity mutual funds for higher growth potential.
- Middle-aged investors focus on balanced investment options.
- Retired individuals generally prefer low-risk debt funds.

Higher income and educational qualification positively impact investment participation.

8. Market Information and Awareness

Availability of investment-related information through media, financial advisors, and social networking platforms affects investor decisions. Advertisement campaigns and investor awareness programs conducted by financial institutions also influence investment behavior.

9. Past Performance of Funds

Investors often consider historical performance, Net Asset Value (NAV), ratings, and reputation of mutual fund schemes before investing. Consistent performance creates trust and encourages long-term investment.

10. Influence of Financial Advisors and Peer Groups

Recommendations from financial advisors, friends, relatives, and colleagues play an important role in investment decisions. Many investors depend on expert guidance while selecting mutual fund schemes.

Research Gap

The previous studies are primarily focused on the various factors like risk and return, investor awareness, demographic influence, financial literacy and performance assessment of mutual funds. Some of the studies focused on psychological and behavioral aspects of investment decision-making, whereas some focused on how the financial advisor and market conditions influenced the investor's preference. Various studies have been carried out on the behaviour of investors and factors affecting mutual fund investments in India and other countries. But there is a lack of research on how these and other factors, including professional fund management, liquidity, market awareness, tax benefits, peer influence and risk perception, influence investment decision making in India. Most of the previous studies were confined to a particular region or particular population and lacked a comprehensive study on the investor’s perception regarding the mutual funds. Furthermore, the dynamics of the markets, technological developments and growing financial knowledge have greatly influenced the behavior of investors in recent years. Hence, it is observed that there is a need to carry out the study again to analyse the factors affecting investment decisions in the mutual funds in India. In the present study, authors try to bridge this gap by applying statistical tools and empirical evidence in detail to analyze the perceptions of investors.

SIGNIFICANCE OF THE STUDY

The present study is significant as the mutual funds have emerged as one of the fastest growing avenues of investments in India. As investor financial literacy and awareness grows, it has become critical for financial institutions, policymakers and fund managers to understand the factors that can impact investment decisions. The study can assist in identifying relevant factors affecting investors to invest in mutual funds as an investment option.

The results obtained from the study will be beneficial for asset management companies (AMC) to develop appropriate investment product and marketing strategies in response to the preferences of their investors. The study also offers some interesting information regarding investor behavior, risk perceptions and expectations of returns, liquidity, and professional fund management. The findings can serve as valuable tools for financial advisors and policymakers to enhance investor education initiatives and encourage informed investment choices.

In addition, the study also makes a meaningful contribution to the academic literature as it provides an insight into investor perception on mutual funds in India. It will also be useful for researchers who want to study the behavior of investors, financial markets, and the performance of mutual funds in the future. In conclusion, the research underscores the increasing relevance of mutual funds in the Indian financial system and the importance of comprehending investor preferences to foster the sustainable growth of the mutual fund industry in India.

STATEMENT OF THE PROBLEM

The Indian mutual fund industry has witnessed significant growth in recent years, driven by rising investor awareness, technological advancements, and the growing variety of investment options available. Even with this growth, there is still a lot of confusion and uncertainty in the minds of investors while choosing appropriate one for mutual funds. The decision to invest can be affected by a number of factors including risk attitude, return expectation, tax advantages, liquidity, information about the marketplace, financial advisor or peer group recommendations, and professional fund management. Each investor will prioritize these factors depending on his or her financial objectives, financial knowledge, and risk tolerance.

Many investors may not have the knowledge of finance, and they are guided heavily by external sources when they decide on investing. The market fluctuations, performance of past funds, and emotional reactions all affect the investors in some cases, more than rational analysis. Besides, with the rising competition among the different mutual fund companies and the number of different schemes, it becomes difficult for the investors to find suitable investment opportunities. While some studies have focused on investor behavior towards mutual funds, there is a need to know the perception of investors about the factors affecting their investment decision in the current market scenario. Thus, the current research study is designed to study the different factors affecting the investment decision on mutual funds in India and to find out the degree of consensus among the investors towards the factors.

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Research Design

The present study is descriptive in nature and focuses on identifying the factors influencing investment decisions towards mutual funds in India.

Sources of Data

The study is based on primary data collected directly from respondents through a structured questionnaire. Secondary data were collected from journals, books, websites, reports, and related research articles to support the study.

Sampling Technique

The study adopted the Convenience Sampling Method for selecting the respondents. Under this method, respondents who were easily accessible and willing to participate were selected for the study. The analysis was conducted with a sample size of 200 respondents.

Area of Study

The study was conducted among mutual fund investors in India.

Tools Used for Analysis

The collected data were analyzed using statistical tools such as:

- Mean
- Standard Deviation
- Mean Rank
- Kendall's Coefficient of Concordance

Objective of the Study

1. To identify the factors influencing investment decisions towards mutual funds in India.
2. To analyze the perception of investors towards mutual fund investments.

ANALYSIS, FINDIMGS AND RESULTS

Investment in mutual funds has gained significant importance in India due to increasing financial awareness, rising disposable income, and the need for diversified investment opportunities. Investors consider several factors before making investment decisions in mutual funds. These factors include risk perception, professional fund management, tax benefits, liquidity, past performance, and market awareness. Understanding investor perception towards these factors helps financial institutions and policymakers design suitable investment strategies and improve investor confidence. The present analysis examines the perception of investors towards the factors influencing investment decisions towards mutual funds in India using mean, standard deviation, and mean rank values.

H0: There is no significant difference among respondents regarding the factors influencing investment decisions towards mutual funds in India.

H1: There is a significant difference among respondents regarding the factors influencing investment decisions towards mutual funds in India.

Table 1: Perception towards Factors Influencing Investment Decision towards Mutual Funds in India

Factors	Mean	Std. Deviation	Mean Rank
Risk Perception	3.65	1.017	3.98
Influence of Financial Advisors and Peer Groups	3.64	1.237	3.99
Past Performance of Funds	3.61	1.283	3.84
Market Information and Awareness	3.64	1.089	4.06
Tax Benefits	3.20	1.048	3.50
Professional Fund Management	3.81	1.077	4.44
Liquidity and Convenience	3.81	1.205	4.21

The table reveals the perception of investors towards various factors influencing investment decisions in mutual funds in India. Among all the factors, Professional Fund Management recorded the highest mean score of 3.81 with a mean rank of 4.44, indicating that investors highly prefer mutual funds managed by experienced and skilled professionals. Similarly, Liquidity and Convenience also obtained a high mean value of 3.81 and a mean rank of 4.21, showing that easy withdrawal and operational convenience strongly attract investors.

Market Information and Awareness secured a mean value of 3.64 with a mean rank of 4.06, suggesting that availability of market-related information and investor awareness positively influence investment decisions. Influence of Financial Advisors and Peer Groups achieved a mean of 3.64 and a mean rank of 3.99, indicating that recommendations from advisors, friends, and relatives play a notable role in investor decisions. Further, Risk Perception recorded a mean value of 3.65 and a mean rank of 3.98, implying that investors carefully evaluate the level of risk before investing in mutual funds. Past Performance of Funds obtained a mean of 3.61 and a mean rank of 3.84, reflecting that historical returns and performance records moderately influence investors. Among all the factors, Tax Benefits received the lowest mean value of 3.20 and a mean rank of 3.50, indicating that although tax-saving benefits are considered important, they are comparatively less influential than other factors such as fund management and liquidity. Overall, the findings indicate that investors in India give greater importance to professional management, liquidity, market awareness, and risk evaluation while making mutual fund investment decisions.

Figure: 2

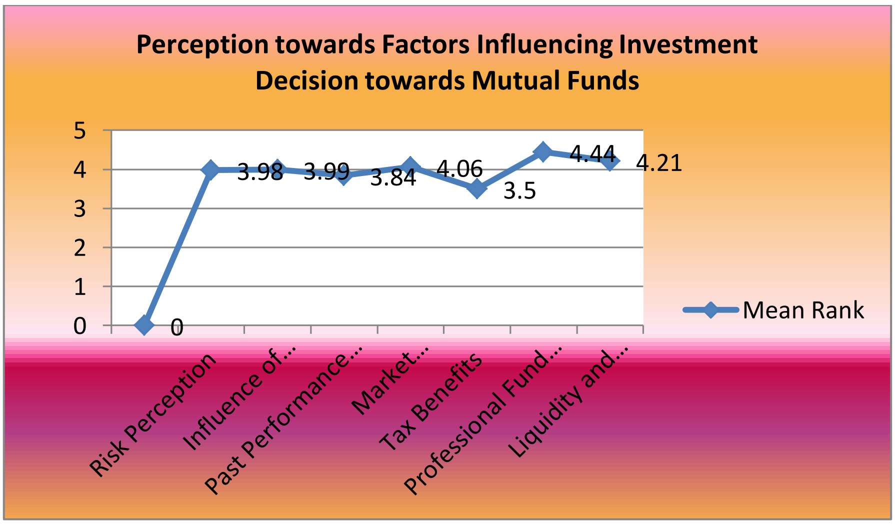

Table 2: Kendall's Coefficient of Concordance

N	200
Kendall's W[a]	.022
Chi-Square	26.910
df	6
Asymp. Sig.	.000

Kendall's Coefficient of Concordance (W) was applied to measure the degree of agreement among the respondents regarding the factors influencing investment decisions towards mutual funds in India.

The analysis was conducted with a sample size of 200 respondents. The value of Kendall's W is 0.022, which indicates a very low level of agreement among the respondents regarding the ranking of the influencing factors. This suggests that investors have diverse opinions and preferences towards the factors affecting mutual fund investment decisions.

The calculated Chi-Square value is 26.910 with 6 degrees of freedom. The Asymptotic Significance value (p-value) is 0.000, which is less than the standard significance level of 0.05. Hence, the result is statistically significant.

Therefore, the null hypothesis stating that there is no agreement among respondents is rejected. It can be concluded that although the degree of agreement is low, there exists a statistically significant level of concordance among investors regarding the factors influencing investment decisions towards mutual funds in India.

SUGGESTIONS

1. Financial institutions should conduct investor education programs to improve financial literacy.
2. Mutual fund companies should enhance transparency regarding risks and returns.
3. Simplified investment procedures and digital platforms should be promoted further.
4. Awareness campaigns should target rural and semi-urban populations.
5. Investors should evaluate risk tolerance before selecting investment schemes.

IMPLICATIONS OF THE STUDY

The present study has significant implications for investors, mutual fund companies, financial advisors, and policymakers. The findings reveal the important factors that influence investment decisions towards mutual funds in India, such as professional fund management, liquidity, market awareness, and risk perception. Understanding these factors helps asset management companies design investor-friendly schemes that match the expectations and preferences of different categories of investors.

The study also highlights the importance of investor awareness and financial education in promoting mutual fund investments. Financial institutions and policymakers can use the findings to develop effective awareness programs and improve financial literacy among retail investors. The role of financial advisors and peer influence identified in the study indicates the need for transparent and ethical financial guidance to investors.

Furthermore, the study contributes to behavioral finance literature by explaining how investors evaluate various investment-related factors before making decisions. The results may help fund managers improve investment strategies and communication practices to increase investor confidence. The study also provides valuable insights for future researchers in the areas of investor behavior, mutual fund performance, and financial decision-making. Overall, the study supports the sustainable growth and development of the mutual fund industry in India.

RECOMMENDATIONS

Based on the findings of the study, several recommendations can be made to improve investor participation in mutual funds in India. Mutual fund companies should focus on increasing investor awareness through financial literacy programs, seminars, workshops, and digital campaigns. Providing simple and transparent information about mutual fund schemes can help investors make informed investment decisions. Asset management companies should strengthen professional fund management practices and maintain consistent fund performance to build investor confidence. Since liquidity and convenience are major influencing factors, companies should continue improving online investment platforms and digital transaction facilities to provide easy access for investors.

CONCLUSION

Mutual funds have become an essential investment option in India due to their flexibility, diversification, and professional management. Various factors such as risk perception, expected returns, financial literacy, demographic characteristics, and technological convenience influence investor decisions towards mutual funds.The growth of the Indian mutual fund industry depends largely on improving investor awareness and building trust among investors. Financial institutions and policymakers should focus on promoting financial education and transparent investment practices to encourage greater participation in mutual fund investments. A better understanding of investor behavior will help mutual fund companies design suitable investment products and strategies for diverse investor groups in India. Financial advisors should offer unbiased and ethical guidance based on investor needs, financial goals, and risk tolerance. Investors should also be encouraged to evaluate risk and return carefully before selecting mutual fund schemes. Government agencies and regulatory authorities like the Securities and Exchange Board of India (SEBI) should continue implementing policies that protect investor interests and improve transparency in the mutual fund industry.

In addition, tax-saving mutual fund schemes may be promoted more effectively to attract investors seeking tax benefits. Regular investor education and awareness initiatives can further enhance trust and participation in mutual fund investments across India.

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