

COMPARISON OF INVESTOR PREFERENCES: MUTUAL FUNDS VS. OTHER INVESTMENT AVENUES

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Abstract

In the realm of investment, individuals seek avenues that can potentially generate attractive returns while managing risks. The concept of diversification is fundamental to successful investing, and mutual funds provide an accessible avenue for investors to achieve diversification in their portfolios. Mutual funds have emerged as a popular investment option, offering diversification, professional management, and accessibility to a wide range of investors. This article aims to explore the investor's preference towards mutual funds compared to other investment avenues.

1. INTRODUCTION

Investment entails the strategic allocation of financial resources towards various assets, securities, or projects, with the objective of attaining specific financial goals, generating income, or capital appreciation. It serves as a fundamental pillar of both personal finance and corporate strategy, facilitating wealth accumulation and value creation over an extended period. Through astute investment decisions aligned with one's objectives, investors stand to reap financial gains in the form of dividends, interest, or rental income. Moreover, investments offer the enticing prospect of capital appreciation, wherein the value of the investment appreciates over time.

A key strategy embraced by investors is portfolio diversification, a technique that involves spreading investments across diverse asset classes, industries, and geographic regions. This prudent approach mitigates risk by diminishing the impact of any singular investment on the overall performance of the portfolio, thus safeguarding against potential losses.

Within the investment landscape, mutual funds assume a pivotal role in financial intermediation, capital market development, and the robust growth of the Indian economy. Acting as investment vehicles, mutual funds empower small-scale investors to partake in professionally managed, well-diversified portfolios of securities, all at a cost-efficient rate. By pooling financial resources from multiple investors, mutual funds unlock substantial returns, while simultaneously affording investors the expertise of seasoned fund managers. This accessibility and proficient management render mutual funds an enticing investment avenue for individuals seeking to effectively accomplish their financial objectives.

The Indian Mutual Fund Industry has experienced a remarkable surge in growth in recent years, with impressive numbers to substantiate its success. In April 2023, the Average Assets Under Management (AAUM) soared to ₹41,52,715 crore, while the Assets Under Management (AUM) reached a substantial ₹41,61,822 crore. This signifies a remarkable expansion when compared to the AUM of ₹8.26 trillion recorded in April 2013, exhibiting a staggering growth rate of more than 5 times over the past decade. Moreover, the industry witnessed a doubling of AUM from ₹23.26 trillion in April 2013 to ₹41.62 trillion in April 2023, highlighting a robust growth trajectory achieved within a mere five-year span. Notably, the industry achieved several noteworthy milestones, crossing ₹10 trillion in May 2014, ₹20 trillion in August 2017, and ₹30 trillion in November 2020. As of April 2023, the AUM has reached an impressive ₹41.62 trillion. Furthermore, the industry accomplished a significant feat in May 2021, surpassing 10 crore folios, with a total of 14.64 crore accounts, including 11.69 crore folios under Equity, Hybrid, and Solution Oriented Schemes, predominantly catering to retail investors. These statistics vividly demonstrate the growing prominence and allure of the Indian Mutual Fund Industry.

1.1 Statement of the Problem

This study aims to compare investor preferences between mutual funds and other investment avenues. It addresses several key issues, including understanding the investment objectives that influence investor decision-making when choosing between these options. Additionally, the research conducts a comparative analysis of the demographic factors such as gender, age, education with the preference for mutual funds. The study also explores the level of investor awareness and knowledge regarding these investment options. The findings of this study will provide valuable insights into investor behaviour, assist investors in making informed decisions, and guide financial institutions and policymakers in meeting investor needs and preferences effectively.

1.2 Objectives

- To determine the awareness level of investors about different investment avenues.
- To analyze the investor's preference towards mutual funds as compared to other investment avenues.

1.3 Significance of the study

To ensure the orderly growth of the country, it is crucial to channel idle funds into productive investments. Investments not only provide investors with income-earning opportunities but also allow them to allocate their funds towards other productive activities. With a wide range of investment opportunities available, investors may face confusion in identifying the most suitable options. Therefore, understanding investor preferences is essential as it provides valuable insights for market analysis and the development of investment products. Recognizing the favoured investment avenues among investors guides financial institutions, asset managers, and policymakers in designing and offering customized investment solutions that meet investors' needs.

Investor preferences also play a crucial role in risk management. By identifying the investment avenues preferred or avoided by investors, insights into their perception of risk and return can be gained. This information assists financial institutions and regulators in implementing appropriate risk management measures and designing effective investor protection mechanisms.

Furthermore, investor preferences have a direct impact on the liquidity and efficiency of investment markets. When investors exhibit a strong preference for specific investment avenues, it results in increased market liquidity and trading activity in those areas. This enhanced liquidity fosters efficient price discovery and facilitates smoother transactions.

Studying investor preferences also highlights gaps in investor education and awareness. Identifying areas where investors lack knowledge or understanding helps in developing educational initiatives and awareness campaigns. These efforts empower investors with the necessary information to make well-informed investment decisions.

2. REVIEW OF LITERATURE

George S. (2017), in her study revealed that high return, tax benefit, liquidity regular income, highly secured fund are the prime benefits expected by the mutual fund investors. **Geetha K. (2016)** identified various demographic factors like age, gender, income level, market knowledge, occupations and qualifications etc. have major impact on investment decision of investors. The growing middle-class household families with limited risk bearing capacity, also started investing in mutual funds. India's high rate of savings and a rapid-liberalizing economy is expected to elevate the mutual fund sector to new hikes. **Muruganandam (2015)** studied about the investor's perception towards risk and return on investment in shares of the organization. He suggested that successful companies have proper understanding of investor's mindset. He stated that the proper diversification of portfolio is important which will make the investor's to get high return and high liquidity with least risk. **Bhargava R. (2015)**, found in her study that liquidity, transparency, wide investment opportunities and convenience were the most important benefits attracting the Mutual funds investors. It is worthwhile to note that tax shelter, portfolio diversification, high yield, innovative schemes, capital appreciation, service quality and professional management have moderate effect on Mutual Fund investors. **Suresh S. (2015)**, revealed that the investors perceive poor perception about mutual funds investment. It was also found that the most of investors would like to invest in mutual funds in the future. **Agarwal, G., & Jain, M. (2013)**, suggested that the preference is given to investment in Mutual Funds amidst availability of other traditional investment avenues in the market. Moreover, it is found that return is the major criterion for investments.

3. RESEARCH METHODOLOGY

The research design is descriptive and analytical in nature. The data were collected from primary as well as secondary sources. The primary data were collected by administering questionnaire. Secondary data were collected from websites, Journals and magazines etc. The sample of the study was selected from Thrissur District, Kerala. The researcher opted 300

samples via convenience sampling. The tools used for analysis are Mann-Whitney U Test, Kruskal Wallis Test, weighted average method and Chi-Square Test.

3.1 Research Hypothesis

- 1) Male investors have a higher level of awareness towards mutual funds compared to female investors.
- 2) Younger individuals have a higher level of awareness towards mutual funds compared to older individuals.
- 3) Male investors have a higher level of preference towards mutual funds compared to female investors.
- 4) Younger investors have a higher level of preference towards mutual funds compared to older investors.
- 5) Investors with higher levels of education are more likely to exhibit a stronger preference towards mutual funds as an investment avenue compared to those with lower levels of education.
- 6) Male and female individuals have different investment objectives.
- 7) Different age groups have different investment objectives.
- 8) Investors preferring mutual funds are risk-seekers.

4. RESULTS AND DISCUSSIONS

4.1 Awareness regarding various investment avenues

Among the 300 respondents surveyed, a significant majority of 280 individuals expressed awareness regarding mutual funds. Similarly, a substantial proportion of 200 respondents demonstrated knowledge of shares, while 300 respondents exhibited awareness regarding bank deposits. Additionally, 196 respondents were found to be knowledgeable about Public Provident Fund (PPF), with 220 respondents showing awareness of insurance. Moreover, 152 respondents displayed familiarity with real estate, while 136 respondents possessed knowledge about bonds. Furthermore, 110 respondents exhibited awareness regarding gold, while 210 respondents were knowledgeable about chit funds.

4.2 Gender and Awareness level towards mutual funds

Mann -Whitney U Test is applied to determine the awareness level regarding investment avenues since the data is not normally distributed. It is found that the calculated value (0.313) is less than the table value (1.96) and thereby the null hypothesis is to be accepted i.e., there is no significant association between gender and preference level towards mutual funds. Therefore, the analysis suggests that gender does not play a significant role in determining the level of awareness individuals have regarding mutual funds as an investment avenue.

4.3 Age and Awareness level towards mutual funds

Kruskal Wallis Test is applied to determine the awareness level regarding mutual funds since the data is not normal. It is identified that the test statistic (10.30) is greater than table value (9.49) hence we reject the null hypothesis which means there is significant difference between age and awareness level towards mutual funds.

4.4 Preference regarding various investment avenues

Among the 300 respondents surveyed, it has been found that 240 individuals are currently investing in mutual funds. Additionally, 190 respondents have chosen shares as their investment option, while all 300 respondents possess bank accounts. Among them, 112 respondents have invested in Public Provident Fund (PPF), while 200 respondents have opted for insurance as an investment avenue. Furthermore, 148 respondents have invested in real estate, while 120 respondents have chosen bonds. Moreover, 100 respondents have invested in gold, and 176 respondents have opted for chit funds as their investment option.

4.5 Gender and Preference level towards mutual funds

Mann -Whitney U Test is applied to determine the preference level with regard to mutual funds since the data is not normally distributed. It is found that the calculated value (0.10) is less than the table value (1.96) and thereby the null hypothesis is to be accepted i.e., there is no significant association between gender and preference level towards mutual funds.

4.6 Age and Preference level towards mutual funds

Kruskal Wallis Test is applied to determine the association between age and preference level regarding investment avenues since the data is not normal. It is identified that the test statistic (10.00) is greater than table value (9.49) hence we reject the null hypothesis which means there is significant difference between age and preference level towards mutual funds.

4.7 Education and Preference towards mutual funds

Kruskal Wallis Test is applied to determine the association between education and preference level regarding investment avenues since the data is not normal. It is identified that the test statistic (11.45) is greater than table value (9.49) Hence we reject the null hypothesis which means there is significant difference between education and preference level towards mutual funds. Hence it can be concluded that preference towards mutual funds are associated with the respondent's educational status.

4.8 Objectives for Investment

The major objectives identified are liquidity, tax benefits, capital appreciation, regular return, and safety. The weighted score ranking of investment objectives shows that regular return is the utmost objective considered by the respondents with a score of 18.80. Safety ranks as the second important objective (16.53). The liquidity and capital appreciation ranks as third and fourth objectives with score of 14.67 and 13.27 respectively. The fifth ranked by the respondents is tax benefits (12.39) respectively. The investors who prefer safety, focus on Banks(92.83 percent) , Insurance(86.00 percent) , PPF (89.23 percent)whereas the investors

who prefer tax benefits (81.45 percent), regular income (87.68 percent)and capital appreciation(82.00 percent)prefer mutual funds.

4.9 Relationship between Gender and Investment Objectives

Mann Whitney U Test is applied to determine the association between gender and investment objectives since the data is not normal. It is identified that the test statistic (2.19) is greater than table value (1.96) Hence we reject the null hypothesis which means there is significant difference between gender and investment objectives. Hence it can be concluded that investment objectives are associated with the gender. It has been found that the male investors give more importance to capital appreciation whereas female investors more importance to safety.

4.10 Relationship between Age and Investment Objectives

Kruskal Wallis Test is applied to determine the association between age and investment objectives since the data is not normal. It is identified that the test statistic (10.00) is greater than table value (9.49) Hence we reject the null hypothesis which means there is significant difference between age and investment objectives.

4.11 Relationship between the Level of Preference towards mutual funds and risk level

It has been observed that out of 240 respondents, 63.25 percent of the respondents have moderate level of risk perception towards mutual fund product. In the case of high risk group investors, 8.50 percent of the respondents give highest level of preferences towards mutual fund products. While, among the low risk group 28.25 percent of the respondents attach lowest level of preferences towards mutual fund products. Therefore, the study indicates that moderate and low risk group investors attach more importance to mutual fund products than high risk group. However, the chi-square test shows no significant association between the level of preference towards mutual fund products and risk group with the p value of 0.15.

5. CONCLUSION

This research study aims to discern and analyze investor preferences concerning various investment avenues. The study's findings indicate that approximately 80 percent of the respondents allocate their investments to mutual funds. However, it is observed that the level of awareness surrounding mutual funds is comparatively lower than that of other investment avenues. Moreover, there exists a significant disparity between different age groups in terms of their investment objectives. The study reveals an association between investor preferences for mutual funds and their educational backgrounds. Risk-averse investors tend to gravitate towards the safety and security offered by banks (92.83%), insurance (86.00%), and Public Provident Fund (PPF) (89.23%). Conversely, investors seeking tax benefits (81.45%), regular income (87.68%), and capital appreciation (82.00%) exhibit a preference for mutual funds. Furthermore, the study highlights the divergence between male and female investors, with males emphasizing capital appreciation while females prioritize safety in their investment decisions.

Lastly, investor preferences inform policy decisions related to investor protection, market regulation, and financial inclusion. Understanding what investors value and prefer guides policymakers in formulating regulations and policies that promote investor confidence, maintain market integrity, and ensure access to suitable investment avenues.

In conclusion, analyzing investor preferences towards investment avenues offers valuable insights for market analysis, product development, risk management, market efficiency, investor education, and policy formulation. This knowledge contributes to the growth and development of investment markets while ensuring investor protection and empowerment.

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