



# FACTORS INFLUENCEING INVESTOR'S PREFERENCE TOWARDS MUTUAL FUNDS

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**ABSTRACT:** The Indian mutual fund industry is growing rapidly, and this is reflected in the increase in Assets under the management of various fund houses. Mutual fund investment is less risky than directly investing in stocks and is therefore a safer option for risk-averse investors. The present paper aims to find out the factors affecting investors' preference towards mutual funds. This research investigates the motivating factors that encourage investors to invest in the mutual fund industry. A Descriptive research design was adopted, and primary data was collected through a structured questionnaire from 213 respondents. The data was analyzed using percentages as well as statistical tools like correlation, chi-square test, Mann-Whitney U test, and Kruskal-Wallis test to determine the significance of various factors. It was found that financial awareness, liquidity & transparency, risk & return, and convenience are some of the major factors that the investor will investigate while investing in mutual funds. The findings will help mutual fund companies to identify the areas required for improvement and can also improve their marketing strategies. It will help the Mutual Fund companies to create new and innovative products according to the orientation of investors.

**Keywords:** Financial Awareness, Liquidity & Transparency, Risk & Return and Convenience.

## 1. INTRODUCTION

A mutual fund is a company that pools money from many investors and invests the money in securities such as stocks, bonds, and short-term debt. The combined holdings of the mutual fund are known as its portfolio. Investors buy shares in mutual funds.

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## FACTORS

### Financial awareness

Financial awareness is knowing the state of your finances at any given time. It's a working understanding of your income and expenses, knowing how to budget, track expenses, save for emergencies, and invest for the future. Financial awareness also involves taking the time to understand certain financial concepts and terminology so you can make confident financial decisions.

### Liquidity and Transparency

Liquidity refers to how easily an asset can be bought or sold in the market without initiating significant price changes. It is essential in evaluating financial health, market efficiency, and investment feasibility. A liquid asset can be quickly converted into cash, whereas an illiquid asset may require time and incur losses during conversion. Understanding what liquidity is helps investors make informed financial choices.

Transparency is the extent to which investors have ready access to the required financial information about a company, such as price levels, market depth, and audited financial reports. Investors also require transparency from investment firms and funds regarding the various fees that will be charged to them.

### **Risk and returns**

Risk and return are two important parts of investing. Risk is the chance that you might lose money, while return is the money you make from your investment, and usually, investments with higher risk have the chance for higher returns.

### **Convenience**

Mutual funds make it convenient for small savers to mobilize their savings and convert them into securities. It has two broad dimensions divisibility and maturity. Mutual funds can offer securities in varying sizes after adjusting their denominations that suit the individual saver. Primary securities of higher denominations are converted into indirect securities of lower amounts/denominations. The minimum required investment in mutual funds can be as low as a thousand rupees as compared to individual securities exchanges wherein a minimum of six to seven thousand is required. Flexibility is easier to achieve. Mutual funds on the other hand are the manufacturers of liquidity in the financial market.

## **2. OBJECTIVES OF THE STUDY**

1. To evaluate how financial literacy affects investment behavior.
2. To identify investors' perceptions toward liquidity & transparency of funds.
3. To study how mutual funds improve investment convenience through affordability, flexibility, and liquidity.
4. To Compare mutual funds with other stock market investment options based on the risk associated with them.
5. To determine the role of return volatility in shaping investor decisions.

## **2. NEED OF THE STUDY**

1. Understanding the impact of financial literacy on investment decisions can lead to better outcomes for investors.
2. Assessing investor views of liquidity and transparency can optimize investment products.
3. To Understand how mutual funds' cost, flexibility, and liquidity increase their attractiveness.
4. Comparing mutual funds with other stock market assets reveals risk tolerance and preferences.
5. Understanding how return volatility affects investor behavior helps design investing strategies.

## **3. SCOPE OF THE STUDY**

This study's scope includes a thorough investigation of the ways in which risk variables, liquidity, transparency, and financial literacy affect investor behavior, especially when it comes to mutual fund investments. It evaluates the attitudes, risk tolerance, and decision-making processes of retail investors with the potential to include institutional investors. To give a more comprehensive knowledge of the risk, and profiles involved, the study will compare mutual funds with other stock market investment options, such as stocks and bonds, even though its primary focus will be on mutual funds. The study will consider the present market circumstances and trends over a specified period, and the geographical scope may differ based on the location or market being examined. It will also assess how return volatility affects investor decisions and how financial. The study will consider the present market circumstances and trends over a specified period, and the geographical scope may differ based on the location or market being examined. It will also assess how return volatility affects investor decisions and how financial products might be customized to satisfy investors' various needs.

## **4. REVIEW OF LITERATURE**

**Jani & Jain (2013)** examined the impact of various demographic factors like age, gender, education, income etc. on the buying behavioural pattern of both Investors. The investment decision of rural and urban investors is influenced by age gender, occupation; educational qualification, income etc.

**J. Lilly and Dr. Anasuya (2014)** evaluated 49 ELSS mutual fund schemes using Sharpe, Treynor, Sortino ratios, and Jensen's alpha. Their study found that LIC NOMURA MF Growth and Dividend schemes delivered the highest returns with higher risk. These schemes outperformed others in overall performance metrics.

**Goel & Khatik (2017)** observed that while investors are aware of mutual funds, few actively invest in them. The study emphasizes the need for firms and consultants to promote financial literacy and awareness. Demographic studies support this by showing the link between investor knowledge and mutual fund participation.

**Debata et al. (2018)** examined the impact of investor sentiment on stock market liquidity in emerging markets, finding that sentiment positively influences liquidity and negatively affects illiquidity. Sarkar and Sahu (2018) analyzed SIP investments and investor behavior in select districts of West Bengal, highlighting key factors influencing individual stock market investments.

**Wattanatorn and Tansupswatdikul (2019)** studied mutual fund market liquidity in Southeast Asia from 2001 to 2017. Analyzing funds from Thailand, Indonesia, and Malaysia, they assessed fund managers' liquidity timing ability. The study found that well-performing portfolios were liquidated effectively while underperforming ones struggled with timely liquidation.

**Arpita Gurbaxani and Dr. Rajani Gupte (2021)** studied the impact of COVID-19 on investor behavior in a small town in Madhya Pradesh. The pandemic led to reduced investment in SIPs due to income loss, job cuts, and a focus on emergency funds. Investors have become more risk-averse, preferring safer options, and there is a need for better investor education on market timing and investment products.

**Dr. P. Subramanyam (2021)** studied the impact of retail investor opportunities on mutual funds in Andhra Pradesh. The research found that these opportunities significantly affect mutual funds, but no major differences were observed across gender, age, occupation, qualification, or income.

**Priyanka Sharma and Payal Agrawal (2021)** studied the effect of demographic factors on mutual fund investment decisions. They found that age, marital status, and profession significantly influence investor choices. Liquidity and transparency also strongly impact investment decisions.

**Shabgon & Mousavi (2024)** explored the impact of emotions and cognitive errors on investor behavior. The study highlighted how social, cognitive, and emotional factors influence individuals' economic decisions. These factors affect both investment outcomes and resource allocation.

**Vikrant Vala, Dr. S. O. Junare, and Dr. Ashish Joshi (2024)** analysed investor preferences for mutual funds in Gujarat. The study found high returns and liquidity were key factors, with 52.86% investor satisfaction. Equity SIP choices were influenced by social, economic factors, fund performance, and advisor roles.

## 5. CONCLUSION

According to the report, mutual funds' accessibility, ease of use, and liquidity make them widely regarded as desirable investment options. The majority of investors favor mutual funds over direct stock market investments due to their ease of investment and withdrawal. But the results also show that investors need to be more financially literate, especially when it comes to knowing the many kinds of funds, risk concerns, and ways to save money on taxes. For fund providers to increase investor confidence, transparency in fees and returns is still a crucial component that requires more focus.

The fact that demographic characteristics like age, gender, and educational attainment have no bearing on opinions and preferences about mutual funds is another noteworthy finding. This suggests that investor education programs, internet projects, and awareness efforts can be used widely to reach a large audience without requiring precise targeting. Increasing involvement will also be greatly aided by the development of digital platforms that make online investing simpler and safer. Mutual funds have a solid basis of investor trust overall, and the industry may develop and satisfy investors even more if concentrated efforts are made in the areas of education, transparency, and digital ease.

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