A Study on Investor's Perception for Mutual Funds

Bushra*Manju Dahiya**

ABSTRACT:
Mutual funds are considered the best option for investment in this uncertain market. People invest in mutual funds in different ways for different reasons. It is important to examine the factors affecting the decision of an investor wanting to invest in mutual funds. Although investing in mutual funds is not free from risk, mutual funds Industry is growing day by day. Investment in mutual funds has increased interest in recent years as it offers optimum risk adjusted returns to the investors. The Indian market is no exception and mutual funds have witnessed manifold growth over the years. It comes as a challenge for an ordinary investor to choose the best portfolio to invest in making it important to analyze the performance of these funds. Although understanding and analyzing the historical performance of mutual funds does not guarantee future performance, however, it can give an idea of how the fund is likely to perform in various market conditions. In this research we address several research issues. These include measuring the performance of the selected mutual schemes on the basis of risk and returns and compare the performance of these selected schemes with the benchmark index to see if the scheme is outperforming or underperforming the benchmark. We also rank funds on the basis of performance. The paper also attempts to study the outlook of citizens towards awareness with mutual funds.

Keywords: ***Mutual Funds, NAV, Decision Making, Investment, Risk, Return, Investor's Behavior***

INTRODUCTION

A mutual fund is a type of financial vehicle made up of a pool of money collected from many investors to invest in securities such as stocks, bonds, money market instruments, and other assets. Mutual funds are managed by professional fund managers who allocate the fund's assets and strive to generate profit or capital income for fund investors. The portfolio of a mutual fund is structured and maintained to align with the investment objectives described in the fund's prospectus.

• Assets Management Company (AMC) is a firm that invests pooled funds from customers and make investments including stocks, bonds, real estate, master limited partnerships, etc.

• Net Asset Value = (Assets-Liabilities)/(Number of shares)

• Portfolio Creation is a process of creation of collection of financial investments like stocks, bonds, commodities, etc. Portfolio is created by fund manager.

The main characteristics of mutual fund are as follows: -

• Investment funds really belong to the investors who group their funds. the ownership of mutual funds is in the hands of investors.

• Mutual funds are managed by investment professionals and other service providers who earn service fees from the funds.

• The fund pool is invested in a transferable investment portfolio. The value of the portfolio is updated daily.

• The investor's participation in the fund is expressed in "units". The value of an investment unit is called the Net Asset Value (NAV).

• The investment portfolio of a mutual fund is created based on the investment objectives specified by the fund.

Types of Mutual Funds-

• Investment Objective-

Growth/Equity oriented scheme- The portfolio of such stocks which have a chance for growth over a period of time. These schemes have high risks and high returns.

• Income/Debt oriented scheme- The aim of these schemes is to provide regular and steady income to investors. Such schemes invest in fixed income securities.

• Balance fund- The aim of these schemes is to provide both regular income and growth. Such scheme invests in both Debt and Equity.

• Money market or Liquid Fund- These are also income fund with a focus of providing easy liquidity, preservation of capital and moderate income. Such schemes invest in safer short-term instruments like T-Bills, CDs, Cps.

• Gilt Fund- These schemes invest exclusively in government securities.

• Index Funds- Index funds replicate the portfolio of a particular index such as the BSE Sensitive

*Assistant Professor, Asian Business School **Financial Analyst 1, MCube Financial LLC

Index (SENSEX,NIFTY).

• Investment Style-

Growth- Growth fund invest in stocks of companies that appear well positioned to capitalized on long term growth trends that may drive earnings higher.

• Value- Value funds invest in stocks that have been overlooked or out of favor in the market.

• Blend- This is a mix of both growth and value.

• Active Funds- These programs are actively managed by fund managers who choose the stocks they want to invest in.

• Passive Funds - These programs typically follow an index or market segment that defines the list of stocks the program will invest in. In these plans, the fund manager does not take an active role in stock selection.

• Market Capitalization-

Large Cap- Typically invest at least 80% of their total assets in stocks of large companies (the top 100 companies). These programs are considered to be more stable than funds focused on mid or small caps. Minimum return expected is 10-12%. The tenure of the investment should be 5-7 years.

• Mid-Cap funds- Funds typically invest around 65% of their total assets in shares of mid-cap companies (companies ranked 101-250 by market cap). These programs tend to offer better returns than large cap programs, but are also more volatile than them. Minimum return expected is 13%. The tenure of the investment should be around 8-10 years.

• Small Cap funds- Typically invest about 65% of their total assets in stocks of small cap companies (ranked 251st and below by market capitalization). That's a huge list and more than 95% of all businesses in India fall into this category. These plans tend to be more profitable than large and mid-cap plans, but are also very volatile. Minimum return expected is around 14-15%. The tenure of the investment is around 10 years.

• Large and mid-cap funds- Typically invest about 35% of their total assets in stocks of mid-cap companies and 35% in large-cap companies. These plans offer a great combination of lower volatility and better returns. Minimum returns expected is around 12-13%. The tenure of the investment is 7-10 years.

• Multi-Cap funds- Typically invest about 65% of their total assets in stocks of large, mid-cap and small-cap companies in varying proportions. In these schemes, the fund manager continues to rebalance the portfolio to match the economic and market conditions as well as the investment objectives of the scheme. Minimum return expected is 13-14%. The tenure of the investment is 7-10 years.

• Sector funds-

Specialty Bond Funds- These schemes invest in specific debt securities such as municipal bonds or corporate bonds.

• Sector equity funds- These schemes invest only in stocks of one specific sector or industry, such as utilities, real estate, pharmacy, IT, banking, and so on.

• Tax-Treatment

Equity linked saving scheme (ELSS)- The ELSS fund is the only saving plan that offers tax benefits up to Rs.1.5 lakh under Section 80C of the Income Tax Act. These 13 plans invest at least 80% of their total assets in equities and equity-related instruments. In addition, these programs have 3 years blocking period.

• Non-Tax Saving Equity Funds- With the exception of ELSS, all other stock funds are tax-free savings plans. This means that the profits are subject to capital gains tax.

Different Options that Mutual Funds Offers-

• Growth option- In this the Returns are in the form of capital appreciation. There is no dividend payout in between.

• Dividend payout option- In this offer dividends are paid out to the investors. However, NAV of the mutual fund scheme falls to the extent of the dividend payout.

• Dividend reinvestment option- In this offer the dividend accrued on mutual funds is automatically re-invested by purchasing additional units of the same scheme. NAV of such scheme falls but there is an increase in number of units.

• Systematic Investment Plan (SIP)- In this plan the investor invests a constant amount at a fixed interval of time. This concept is also known as Rupee cost averaging.

• Systematic withdrawal plan (SWP)- It allows investors to withdraw a pre-determined amount/units from his fund at a pre-determined interval.

• Systematic Transfer plan (STP)- It allows investors to transfer on a periodic basis a specific amount from one scheme to another under the same fund family.

Literature Review-

Ramadevi. V and Nooney Lenin Kumar (2010), in their research Compared Indian and foreign capital Mutual funds, evaluated Different stock mutual fund plans based on risk-return parameters. Data for the period 2003 to 2009 was selected. Selected funds include 40 Diversified equity funds, 18 Equity index funds, 16 equity taxes savings funds, 5 Indian equity technology funds, 16 foreign Stock diversification, 3 foreign equity index

*Assistant Professor, Asian Business School **Financial Analyst 1, MCube Financial LLC

funds, 2 foreign equity property tax savings fund and 2 foreign equity technology funds. The performance of the selected fund uses an average fund return, standard deviation, risk-return, Sharpe's relationship, Treynor's relationship and Janson's relationship. This is the highlight 88% of India's diversified equity mutual funds it produced higher returns and returns for Indian stocks. Mutual funds have significantly different returns from foreign stocks investment. Dr. Sarita Bahl; Meenakshi Rani (2012) attempted to study in their project "Comparative analysis of Mutual Fund Schemes in India" during which 28 selected projects were studied from 2005 to 2011. The evaluation is based on the analyzing the measures of Sharpe, Treynor and Jensen. Outcome Research shows 14 out of 29 sample mutual fund plans perform better Benchmark returns. All selected mutual plans showed positive returns. Syed Husain Ashraf and Dhanraj Sharma (2014) attempted to study the "Performance Evaluation of Indian Equity Mutual Funds based on Established Benchmarks Index". It has been from 2007 to 2012. Using risk to evaluate the performance of selected mutual fund plans and return analysis, Hypothesis testing, Sharpe ratio, Treynor ratio, Jensen ratio, Fama's measure. As a result, selected mutual fund plan outperformed the market benchmark indexes in the outcome of Sharpe, Treynor and Jensen based on NAV and the reasons for the funds better performance High-quality, efficient fund selection and timing for fund managers. The result of the Fama measurement is 70% of mutual fund plans are net positive selectivity representing excellent stock option by fund managers. S. M. Adhav and P Chauhan (2015) assessed the performance of mutual fund schemes of selected Indian organizations as far as risk-return relationship to analyze the performance of MF schemes of chosen Indian organizations dependent on benchmark index and presumed that during the last 5 years the performance of selected Indian companies' mutual funds is better. Mamta & Oza (2017) in their study has compared the different schemes of diversified equity mutual funds. This study provides some important data on performance of diversified equity mutual fund schemes so as to help the investors in taking correct investment decisions for allocating their funds in best performing mutual fund schemes. This study utilized the benchmark portfolios according to the scheme goals such as BSE Sensex, for all equity schemes. In the study of (Priyan, 2018) it is very critical for performance evaluation, because in this study of large-cap stocks. Sharpe (1992) proposed a stock mutual fund using exposure style analysis. The research uses the constrained quadratic organization factor model from January 2011 to April 2015. For evaluating Dynamic background style drift, a rolling period exposure style analysis of the funds has been carried out by using a 36-month rolling-period window. The results of the study show a certain degree of active management and good selection skills. Saxena & Sheikh (2019) found from the study that gender is no impact on mutual fund investment intention however middle age group, high income group and investors with finance-related education are highly positive about mutual funds' investments. One-way ANOVA with independent sample T-test have been used to analyze the data. M. Jayalakshmi and V. Palanichamy (2020) assessed the performance of selected HDFC mutual funds undergrowth scheme and compare the risks and returns of the programs with the benchmark index with the help of various measures such as the portfolio of Sharpe, Treynor and Jenson and conclude that Sharpe and Treynor gives a positive response to the decision-making process while Jenson's measures give the negative response. Tripathi & Japee (2020) found that most of the mutual funds are performing well. The researcher selected 15 different mutual fund schemes and separated them by large-cap, midcap and small-cap. They used financial ratios for the study. J.K. Raju (2020) found that there is no significant relationship between monthly income and awareness about mutual fund investment.

Research Methodology

This study is based on both primary and secondary data. The questionnaire has been used as a data collection tool to collect the response from the respondents for primary data. Responses have been collected from 60 respondents. The time frame for this research study is from November 2020 to November 2021. The returns of the selected large cap scheme have been compared for one year with an annual return. The tools used for the research are Returns, Beta, Alpha, Standard Deviation, Sharpe, Treynor and Jenson ratios.

Data Analysis and Interpretation

Option	Response (Out of 60)
Student	44
Businessperson	3
Private firm employees	10
Self Employed	3

Table-1

**Assistant Professor, Asian Business School **Financial Analyst 1, MCube Financial LLC*

The table showed 73.3% of the respondents were students, 16.7% of the respondents were private firm employees, 5% of the respondents were businessperson and 5% of the employees were self-employed.

Annual Income of Respondents

Option	Response (Out of 60)
Below 1 lakh	38
Between 1 lakh and 5 lakhs	5
Between 5 lakhs and 10 lakhs	11
Above 10 lakhs	6

Table-2

The annual income according to the table was analyzed as 63.3% of the respondents were below 1 lakh, 8.3% of the respondents were between 1 lakh and 5 lakhs, 18.3% of the respondents were between 5 lakhs and 10 lakhs and 10% of the respondents were above 10 lakhs.

Do you know about Mutual Funds?

Option	Response (Out of 60)
Yes	53
No	1
Maybe	6

Table-3

The knowledge of the respondents regarding mutual funds is 88.3% of the respondents were aware about mutual funds and 1.7% were not aware.

Are you an investor in Mutual Funds?

Option	Response (Out of 60)
Yes	24
No	36

Table-4

As per the table 40% of the respondents were investing in mutual funds whereas 60% of the respondents were not investing.

You have not invested in mutual funds because-

Option	Response (Out of 36
It is not a lucrative investment instrument	2
No Safety of funds	4
No/Less liquidity	7
No Knowledge about how to invest	24
No satisfactory returns on investment when compared to other investment instruments	8
No Knowledge where to invest	16
It is related to share market, so it is very risky and the returns are not guaranteed	11

Table -5

According to the data in the table 67% of the respondents did not invest in mutual funds as they had no knowledge about how to invest. Therefore, it is necessary to spread awareness regarding the process of investment in mutual funds.

What is your investment pattern?

Option	Response (Out of 55)
Monthly (SIP)	21
Once in six months	3
Once in a year	1
No investment in mutual funds	30

Table-6

As per the data presented in the table 38% of the respondents preferred Monthly (SIP) as their investment pattern.

You have invested in which type of Mutual Fund Scheme?

Option	Response (Out of 53)
Equity Funds	25
Debt Funds	12
Hybrid Funds	7
Solution-oriented funds	5
Other schemes	24

Table-7

47% of the respondents preferred equity funds to invest in mutual fund scheme, 22% preferred debt funds, 13% preferred hybrid funds while 9% preferred solution-oriented schemes.

Are you aware of the share market and its functioning?

Option	Response (Out of 59)
Yes	49
No	10

Table-8

Looking at the data regarding awareness among respondents for share market and its functioning it was observed that 83% of the respondents were aware and 17% were not aware.

Are you aware of the fact that Mutual fund companies (AMC's) will invest your money in Share market?

Option	Response (Out of 58)
Yes	44
No	14

Table-9

*Assistant Professor, Asian Business School **Financial Analyst 1, MCube Financial LLC

76% of the respondents were aware about the fact that mutual fund companies invest money in share market and 24% of the respondents were not aware.

What advantages do you find when you invest in Mutual funds?

Option	Response (Out of 58)
Professional Management	23
Diversification	13
Return potential	10
Low Cost	6
Liquidity	14
Flexibility	4
Choice of Schemes	12
Tax Benefits	11
Well Regulated	3

Table-10

The advantage for investing in mutual funds according to the 96% of the respondents was professional management, 58% of the respondent found liquidity as an advantage, 54% found diversification as an advantage.

What do you look before investing in a particular mutual fund scheme?

Option	Response (Out of 58)
Past Performance (NAV)	18
Ratings (By CRISIL, ICRA, etc.)	12
Asset Management Company (AMC)	8
Expert Advice	10

Table-11

While investing for a particular mutual funds 75% of the respondents look at the past performance (NAV), 50% of the respondents look for Ratings (by CRISIL, ICRA etc.), 33% look for Asset Management Company (AMC), 42% of the respondents look for Expert Advice

Can Mutual Funds be viewed as Risk-free investments?

Option	Response (Out of 58)
Yes	23
No	35

Table-12

As per the data shown in the table it can be analyzed that 40% of the respondents viewed mutual funds as risk-free investments.

Secondary Data- Top Performing Equity Large Cap mutual funds Returns-

Large Cap fund	1 M	Cat Avg returns	3 M	Cat Avg returns	1 Y	Cat Avg returns
Franklin India Blue Chip fund- Direct-Growth	4.61%	2.02%	11.06%	11.12%	58.66%	48.27%
Tata Large Cap Fund- Direct-Growth	2.86%	2.02%	11.44%	11.12%	54.83%	48.27%
UTI Master share Unit Scheme-Direct- Growth	3.13%	2.02%	12.68%	11.12%	52.09%	48.27%
ICICI Prudential BlueChip Fund-Direct- Growth	3.06%	2.02%	11.93%	11.12%	51.44%	48.27%
SBI Blue Chip Fund- Direct-Growth	2.09%	2.02%	10.78%	11.12%	51.18%	48.27%

Table-13

The above table showed the returns provided by 5 top performing large cap mutual funds which are Franklin India Blue Chip fund- Direct- Growth, Tata Large Cap Fund- Direct- Growth, UTI Master share Unit Scheme- Direct- Growth, ICICI Prudential BlueChip Fund- Direct- Growth, SBI Blue Chip Fund- Direct- Growth for 1 month, 3 months and 1 year in comparison with the category average in respective months.

*Assistant Professor, Asian Business School **Financial Analyst 1, MCube Financial LLC

Risks-

Table-14

The above table showed the risks of mutual funds on various parameters like Sharpe Ratio, Treynor's Ratio and Jenison Alpha in comparison to category average with respective ratios.

Large Cap Fund	Standard Deviation	Cat Avg	Beta	Cat Avg
Franklin India Blue Chip fund- Direct- Growth	21.97%	18.2%	0.96%	0.82%
Tata Large Cap Fund- Direct- Growth	21.24%	18.2%	0.96%	0.82%
UTI Master share Unit Scheme- Direct- Growth	19.77%	18.2%	0.92%	0.82%
ICICI Prudential BlueChip Fund- Direct- Growth	20.38%	18.2%	0.93%	0.82%
SBI Blue Chip Fund- Direct- Growth	21.74%	18.2%	1.0%	0.82%

Table-15

The above table showed the risks involved in these top large cap mutual funds scheme on the basis of standard deviation and Beta in comparison to category average. Standard deviation and Beta analyze the volatility in the market.

The paper helped in studying the awareness of mutual funds in Delhi, Noida. The study was conducted and the data was collected from 60 respondents from Delhi, Noida. Opinions of these respondents was collected with the help of a well-structured questionnaire. With the help of data analysis and Interpretation, conclusion was prepared. With the help of the findings the following conclusions were drawn. People knew about mutual funds i.e., 88.3% of the respondents knew about mutual funds but still few people are investing in mutual funds which was 40%. The reason of respondents for not investing in mutual funds is that the respondents have no knowledge about how to invest. The respondents are giving preference to equity i.e., 47% otherwise they prefer to invest in other investment instruments. 47% respondents are liking a Systematic investment plan (SIP). The respondents are also aware of the working of the stock market. 75% of the respondents also know that Asset Management Company (AMC) invests its money in the stock market. Investors are investing in mutual funds because of the advantages of Professional management, diversification, liquidity, return potential, low cost, tax benefits and others. Investors are giving referring to mutual funds scheme as risky investment but still they want to invest in it.

The research paper analyzed 5 top performing equity large cap funds which are Franklin India Blue Chip fund- Direct- Growth, Tata Large Cap Fund- Direct-Growth, UTI Master share Unit Scheme- Direct- Growth, ICICI Prudential BlueChip Fund- Direct-Growth, SBI Blue Chip Fund- Direct-Growth on the basis of returns and risks. For calculating risk Beta, Standard deviation, Sharpe Ratio, Treynor ratio and Jension's Alpha has been taken into account.

On the basis of returns in past 1 month Franklin India Blue Chip fund gave 4.61% returns, Tata Large Cap Fund gave 2.86%, UTI Master share Unit Scheme gave 3.13%, ICICI Prudential BlueChip Fund gave 3.06%, SBI Blue Chip Fund gave 2.09% in comparison to average category 2.02%. On the basis of returns in past 3 months Franklin India Blue Chip fund gave 11.06% returns, Tata Large Cap Fund gave 11.44%, UTI Master share Unit Scheme gave 12.68%, ICICI Prudential BlueChip Fund gave 11.93%, SBI Blue Chip Fund gave 10.78% in comparison to average category 11.12%. On the basis of returns in past 1 Year Franklin India Blue Chip fund gave 58.66% returns, Tata Large Cap Fund gave 54.83%, UTI Master share Unit Scheme gave 52.09%, ICICI Prudential BlueChip Fund gave 51.44%, SBI Blue Chip Fund gave 51.18% in comparison to average category 48.27%.

The Beta of Franklin India Blue Chip fund was 0.96%, Tata Large Cap Fund was 0.96%, UTI Master share Unit Scheme was 0.92%, ICICI Prudential BlueChip Fund was 0.93%, SBI Blue Chip Fund was 1.0% in comparison to average category 0.82% which showed high volatility in the funds. The Standard Deviation of Franklin India Blue Chip fund was 21.97%, Tata Large Cap Fund was 21.24%, UTI Master share Unit Scheme was 19.77%, ICICI Prudential BlueChip Fund was 20.38%, SBI Blue Chip Fund was

21.74% in comparison to average category 18.2% which showed high volatility in the funds.

On the basis of risks and returns UTI Master share Unit Scheme gave better returns when associated with the risk as it had the lowest Beta and Standard Deviation in comparison to other funds which showed that the fund has lowest volatility as compared to other funds. Also, the returns were also similar or more than the other funds. The Sharpe ratio of the fund was 0.9% compared to category average of 0.68% Treynor's Ratio was 0.19% compared to category average of 0.15% and Jenison's Alpha was 2.88% compared to category average of 1.09% which showed it has given better risk- adjusted returns compared to other funds in the market.

Future Scope of Study-

• Mutual funds are not simple inves-tments and require a lot of awar-eness about capital market and related laws. This necessitates a need for investor's education through seminar, conferences etc. This can also be done through regular use of television, internet, newspapers and professional magaz-ines/journals.

• Investors need to consider statistical parameters like standard deviation, beta, Sharpe ratio, Treynor's Ration, Jenson's Alpha while investing in mutual funds apart from considering NAV and Total Return to ensure consistent perfor-mance of mutual funds. The past performance of the selected mutual fund schemes was studied to check the performance on the basis of Sharpe ratio, Treynor ratio, and Jensen's ratio to measure result, and whose results will be insightful for current and future prospective investors for taking wise investment/financial decision.

Limitations-

• The study is based on historical data. The expected returns and standard deviation, beta was calculated using past data. Hence, the accuracy of the study is dependent on whether the future will reflect the past data.

• The study only compared Top 5 Equity large cap mutual funds. Other schemes are not evaluated in this study.

• The time period was limited to collect responses from respondents with the help of questionnaire.

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*Assistant Professor, Asian Business School **Financial Analyst 1, MCube Financial LLC