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Influence of Psychological Factors on the Perception and Behaviour of Mutual Fund Investors

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ABSTRACT

The Indian mutual fund industry is growing rapidly and this is reflected in the increase in assets of various fund houses. This research paper focused on number of factors that highlights investors' behaviour towards mutual funds and preferences of investors. The impact of various demographic and psychological factors on investors has been studied.

Traditional finance has always presumed that investors are rational in their decision making process in the stock market, about risk return trade-offs, and maximizing utility. However, behavioral finance studies revealed that human beings do not behave as rationally and their decisions at times are affected by their psychological feelings.

It is an empirical and analytical study based on survey approach. It uses primary data collected through structured questionnaire for reaching conclusion through analysis.

Key words: Mutual Funds, Investors, behaviour, perception, and attitude

Introduction

A wide array of investment instruments is available to an investor like non-marketable financial assets, equity shares, money market instruments, debt instruments, bonds, precious commodities, mutual funds, life insurance, financial derivatives, real estate etc. With reforms in financial sector and the developments in the Indian financial markets, Mutual Funds (MFs) have emerged to be an important investment avenue for retail (small) investors. For all investors, particularly the small investors, mutual funds have provided a better alternative to obtain benefits of expertise- based equity investments to all types of investors (Tyagi, Shukla, and Singh, 2020). A Mutual fund is a trust that pools the savings of a number of investors' who share a common financial goal. The money collected from investors' is invested in capital market instrument such as shares, debentures and other securities. The income earned through these investments and the capital appreciations realized are shared by its unit's holder in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment to the common man as it offers an opportunity, to invest in a diversified, professionally managed basket of securities at relatively low cost. A mutual fund is an investment company that creates a bridge between individual investors or retail investors & corporate giants. Mutual funds provide an investment options for retail investors or individual investors those who are not aware about stock market still they want to invest their funds in stock market with a small amount of money. A mutual fund is a pure intermediary which performs basic function of buying & selling security on behalf of its investors or unit holders. Mutual funds mobilize saving from a large number of investors & invest these funds in shares and other securities.

Objectives of the Study:-

The following objectives are framed to study the investors' behaviour towards various investment avenues.

1. To identify the psychological factors influencing investor Perception and behavior in the Indian mutual fund industry.

2. To examine the impact of the psychological factors influencing investor Perception and behavior in the Indian mutual fund industry.

3. To analyze the role of emotional biases in investment decision-making among Indian mutual fund investors.

4. To assess the effectiveness of financial education programs in influencing investor behavior and decision-making in the Indian mutual fund industry.

Literature Review

Raheja and Dhiman (2020) has shown that Emotional Intelligence is the only element, which influences the ways in which people develop in their lives, jobs and social skills control their emotions and get along with other people. It is EI that dictates the way people deal with one another and understand emotions. The research gap is to explore the impact of behavioral factors and investors psychology on their investment decision-making. The information is gathered from about members who are financial specialists and possess some knowledge about the Stock Market. The testing system used was purposive testing system. This study found that there was a positive connection.

Madaan and Singh (2019) assessed the impact of behavioral biases in investment decision-making in National Stock Exchange. A questionnaire is prepared and responses are collected from 385 investors, but due to inadequate data, the responses from 243 investors are only taken. The behavioral biases like over confidence, herd behavior, anchoring and herd behavior have been taken into consideration. They found that, overconfidence and herding have significant positive impact on the investment decisions when compared to other biases like loss aversion, anchoring etc. The results conclude that the individuals have limited knowledge and are more prone towards making psychological errors

Velmurugan et. al. (2015) studied the perception of investors towards investment in mutual funds in Vellore city of Tamil Nadu. They found that aged and high income investors prefer to invest in post office and bank savings due to safety purpose. They further observed that male perception towards various investment avenues is more or less equal with female investors. Lastly, it was found that the order of preference on investment towards real estate and insurance are same cross the age group though it varies with regard o stock market, gold, bank savings and post office.

Kengatharan and Kengatharan (2014) studied the behavioral finance theory which is based on psychology seeks to understand how emotions and cognitive errors influence behaviors of individual investors. Much of the researches done in the area of behavioral finance stem from work in the area of cognitive psychology which is the study of how people including investors think, reason and make decisions.

Singh (2012) in an article “A study on investors’ attitude towards mutual funds as an investment option” from International Journal of Research in Management has reiterated the need for spreading the awareness about Mutual Funds among common masses. There is a strong need to make people understand the unique features of investment in Mutual Funds. From the existing investors point of view the benefits provided by mutual funds like return potential and liquidity have been perceived to be most attractive by the invertors’ followed by flexibility, transparency and affordability.

Gitman and Joehnk (2008), researchers in behavioral finance believe that investors’ decisions are affected by a number of beliefs and preferences. The resulting beliefs and biases will cause investors to overreact to certain types of financial information and under react to others, making them to make irrational decisions and affecting their risk taking behaviors.

Research Methodology

This study involves behavioral finance applicability. None of the available questionnaires were developed and standardized exactly with the perspective of our study (Tyagi and Moses, 2020). Therefore, to collect primary data a structured questionnaire is developed and a sample survey is conducted among the mutual fund investors of Meerut city.

Findings and Discussions:

The major findings of the study reveal that demographic factors have impact on the investment decisions taken by investors. Also, it is found the aged and educated people preferred mostly safe and high return on their investment. They avoid risk. The study will be beneficial for researchers & academicians for further research, brokers, dealers, investors and share market officials.

Table: 1 Table representing respondents based on gender wise statistics

Gender	Frequency	Percent
Male	50	50
Female	50	50
Total	100	100

Above table shows gender statistics of respondents. As we have taken sample size of 100 people, 50 (representing 50% of total population) are the male respondents while 50 (representing 50% of total population) are female respondents

Table:.2 Table representing respondents based on age statistics

Age Group	Frequency	Percent
0-20 years	52	52.5
21-30 years	42	42.5
31-40 years	6	5
40 years and above	-	-
Total	100	100

Most of the respondents (52.5%) belonged to age group of 21-30 followed by 42.5% respondents in the age group of 0-20. 6%respondents belonged to other age group.

Table:.3 Table representing respondents based on annual income statistics

Annul income	**Frequency**	**Percent**
0-1 Lac	42	42
1-5 Lac	28	28
5-10 Lac	18	18
10-20 Lac	6	6
20- Lac and above	6	6
Total	100	100

42% respondents have an annual income of 0-1 Lakh **,** 28% respondents have an annual income of5-10 Lakh **,** 18% respondents have an annual income of 1-5 Lacs, **,** 6% respondents have an annual income of 20 Lacs and above.

Table:.4 Table representing respondents based on qualification statistics

Annul income	**Frequency**	**Percent**
Secondary School Examination (10th)	6	6
Higher Secondary Examination (12th)	9	9
Graduate	36	36
Masters	30	30
Pursuing Graduate	17	17
Others	2	2
Total	100	100

36% respondents are graduates , 30% respondents are Masters , 17.% respondents are pursuing Graduate, 6% respondents are 10^{th} , 9% respondents are $12^{th.}$

Table:.5 Table representing respondents based on duration of investments statistics

Duration of Investment	**Frequency**	**Percent**
0 to 1	25	25
1 to 3	33	33
3 to 5	22	22
5 to 10	9	9
10 & above	11	11
Total	100	100

Most of the respondent's investment duration varies from 1-3 years. (33%) ,25% people invest for 0-1 years , 22.% people invest for 3-5 years , 9% people invest for 5-10 years , 11% people invest for a time period of 10 years and above.

Table:.6 Table representing respondents based on occupation statistics

Occupation	**Frequency**	**Percent**
Employee of Government	37	37
Employee of Private	30	30
Professionals and Business	20	20
Cultivation/Agriculture	6	6
House-wife	7	7
Total	100	100

37.% respondents are employee of government , 30% respondents are employee of private , 20% respondents are professionals and business , 6% respondents are from Cultivation/Agriculture and 7% respondents are House-wife .

Table:.6 Table representing respondents based on factors that are consider before investing in mutual funds statistics

Factors	**Frequency**	**Percent**
Risk	15	15
Return	50	50
Time period	10	10
Fees and charges	-	-
Brand name of mutual fund	-	-

Other	25	25
Total	100	100

50% respondents are consider return before investing in mutual funds , 10% respondents are consider time period before investing in mutual funds , 25% respondents are not want to invest in mutual funds, 15% respondents are consider risk .

Table:.7 Table representing respondents based on emotional attachment that consider before investing in mutual funds statistics.

Factors	**Frequency**	**Percent**
Yes	57	57
No	43	43
Total	100	100

57. % respondent feel no emotional attachment in investing in mutual funds only 43% respondent feel emotional attachment in investing in mutual funds.

Table:.8 Table representing respondents based on feeling of anxious or stressed when the value of your mutual fund portfolio decreases statistics.

Factors	**Frequency**	**Percent**
Yes	55	55
No	45	45
Total	100	100

55% respondent feel anxious or stressed when the value of your mutual fund portfolio decreases .

Table:.9 Table representing respondents based on tend to hold on to a mutual fund even when its value has decreased significantly statistics.

Factors	**Frequency**	**Percent**
Yes	65	65
No	35	35
Total	100	100

65% respondent tend to hold on to a mutual fund even when its value has decreased significantly

Table:.10 Table representing respondents based on participation in any financial education programs related to mutual funds in the past statistics.

Factors	**Frequency**	**Percent**
Yes	45	45
No	55	55
Total	100	100

Only 45% respondents are participated in financial education programs related to mutual funds in the past

Conclusion

Investors should keep their investment for long time keeping in mind the level of risk involve and saving pattern, they should take help of private financial consultants' to have investment portfolio so as to reduce risk in investment, they should not invest in high volatile funds, they should collect all possible information before investment, periodical review should be done for investment and risk analysis should be done regularly and properly, maintain proper records for each transaction. A careful and reasonable diversification of investment in mutual fund should also be there on investor's part to balance the risk involved in investment. It is also suggested that investor should have a habit of regular saving to earn some more extra consistently through changing market scenario since small savings will grow into bigger capital base. One of the strong suggestions is that to invest a reasonable part of investment in to liquid security so that to meet any contingency.

The study has brought to light the differences in the patterns of investment among various classes of investors based on demographical differences. The study conducted shows that the investors are aware of various schemes of mutual funds. Better return & safety and tax benefit is the main factors of mutual fund that allure the investors. The mutual fund industry in the country has a lot to explore and look forward to. Despite the challenges it faces in terms of lack of awareness and low financial literacy, there is a growing importance of the industry with the increase in the youth population and the working class of the country.

Limitations and Future Implications

Although this stage is too early to discuss the limitations of the study but there are some general limitations of the proposed study that can hinder the accuracy of the results. Firstly the research does not claim to include all the external factors affecting. Secondly, besides mutual fund investments some equally important factors might be omitted. Moreover, the present study focuses on selected mutual funds investors only.

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