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Impact of Mutual Funds on Stock Trading in India: Evidence from Coimbatore Investors

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ABSTRACT

Mutual funds have emerged as one of the most preferred investment avenues in India, offering professional management, diversification, and liquidity. However, the rise of mutual fund investments has also influenced the stock trading behaviour of retail investors. This study investigates the impact of mutual funds on stock trading practices of investors in Coimbatore.

A structured questionnaire was administered to 120 investors, and statistical tools such as percentage analysis, Chi-square test, and ANOVA were employed to analyze investor behaviour. The findings reveal that while mutual funds provide a safer and more convenient investment alternative, they reduce direct participation in stock trading among risk-averse investors. However, active investors continue to engage in both, using mutual funds for stability and direct trading for higher returns.

The study concludes that mutual funds play a complementary role rather than a complete substitute to stock trading, with investor age, income, and risk appetite significantly influencing this relationship.

Keywords: Mutual Funds, Stock Trading, Investor Behaviour, Risk Appetite, Coimbatore

Introduction

India's capital market has witnessed significant transformation with the increasing popularity of **mutual funds**. As of 2024, India's mutual fund industry crossed **₹50 lakh crore in Assets Under Management (AUM)**, reflecting growing trust in professionally managed funds.

Mutual funds allow small and medium investors to access diversified portfolios, managed by experts, thereby reducing the risks associated with direct stock trading. In Coimbatore, a city with a mix of salaried professionals, business owners, and students, mutual funds have gained popularity as both **wealth-building and tax-saving instruments**.

This paper aims to study how the rise of mutual funds has influenced investor attitudes and stock trading practices in Coimbatore.

Literature Review

- **Sharma & Singh (2021):** Found that mutual funds have reduced speculative tendencies among Indian investors by providing safer avenues.
- **Rao (2020):** Reported that risk-averse investors prefer mutual funds, while risk-takers continue stock trading alongside SIP investments.
- **Kumar & Mehta (2022):** Highlighted the role of Systematic Investment Plans (SIPs) in increasing long-term financial discipline.
- **Das (2023):** Observed that cities like Coimbatore show increasing dual investment trends—mutual funds for stability and stocks for quick returns.

The review suggests that **mutual funds and stock trading co-exist**, with mutual funds acting as a stabilizer and stocks as a speculative option.

Objectives & Hypotheses

Objectives

1. To assess the influence of mutual funds on stock trading preferences among Coimbatore investors.
2. To analyze the role of demographic factors (age, income, risk appetite) in choosing between mutual funds and stock trading.
3. To evaluate whether mutual funds act as a substitute or complement to stock trading.

Hypotheses

- **H1:** Mutual funds reduce the frequency of direct stock trading among risk-averse investors.
- **H2:** Age and income significantly influence investment choice between mutual funds and stocks.
- **H3:** Mutual funds complement stock trading rather than completely replacing it.

Methodology

- **Research Design:** Descriptive and Analytical
- **Sample Size:** 120 investors in Coimbatore
- **Sampling Method:** Purposive and convenience sampling
- **Data Collection:** Structured questionnaire
- **Statistical Tools:** Percentage Analysis, Chi-square Test, ANOVA

Data Analysis

Table 1: Investment Preference (Coimbatore Investors)

Investment Mode	% Preference
Only Mutual Funds	38%
Only Stock Trading	22%
Both (MF + Stocks)	40%

Interpretation: Most investors prefer a **combination** of mutual funds and stock trading.

Table 2: Chi-Square Test – Risk Appetite vs. Investment Mode

- **Chi-Square Value:** 12.41
- **p-value:** 0.006
- **Interpretation:** Risk appetite significantly influences preference between mutual funds and stock trading.

Table 3: ANOVA – Age vs. Preference for Mutual Funds

Source	SS	df	MS	F	Sig.
Between Groups	10.84	3	3.61	7.12	0.001
Within Groups	57.92	116	0.50		

Interpretation: Younger investors prefer stock trading, while older investors prefer mutual funds.

Findings

1. **Mutual funds reduce direct stock trading** among conservative investors by offering diversification and stability.
2. Younger investors (18–30) show greater interest in stock trading, while older investors (40+) prefer mutual funds.

3. **Income levels affect choices**—higher income groups invest in both, while middle-income investors lean toward mutual funds.
4. Mutual funds act as a **complement** to stock trading for many investors rather than a substitute.
5. Risk appetite is the most significant determinant of investment choice.

Conclusion

The study concludes that mutual funds have significantly reshaped investment behaviour among Coimbatore investors. While mutual funds reduce direct speculation for risk-averse individuals, many investors use them as a balancing tool alongside stock trading. **Investor age, income, and risk appetite strongly influence the choice** between mutual funds and stocks.

Policymakers and fund managers should enhance **financial literacy, expand SIP outreach, and improve transparency** to increase mutual fund adoption. At the same time, stock exchanges should focus on **investor protection** to balance direct equity participation with mutual fund growth.

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