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A STUDY ON INVESTOR AWARENESS, PERCEPTION AND PREFERENCE TOWARDS MUTUAL FUNDS IN INDIA

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ABSTRACT :

Mutual funds have become an important investment option for individuals seeking professional fund management, diversification and opportunities for wealth creation. However, investors differ in their awareness of mutual funds, their perceptions of risk and return, and their preferences regarding investment schemes and methods. This paper examines investor awareness, perception and preference towards mutual funds in India, focusing on investors' understanding of mutual fund concepts, the factors influencing investment decisions, perceived benefits and risks, and the role of financial literacy in investment behaviour.

The study adopts a descriptive and conceptual research design based on secondary information and established financial literature, and proposes a structured questionnaire for future primary data collection. The paper highlights that investor education, transparent information and goal-based investment planning are important for informed financial decisions, and offers recommendations for improving awareness and understanding of mutual funds among existing and potential investors.

Keywords: Mutual funds, investor awareness, investor perception, investment preference, financial literacy, risk and return.

1. Introduction

Investment plays an important role in personal financial planning. Individuals invest their savings to achieve goals such as higher education, purchasing a house, retirement planning and long-term wealth creation. In India, people invest in several financial instruments, including bank deposits, gold, shares, bonds and mutual funds. With increasing access to financial information and digital investment platforms, mutual funds have become an important option for individuals who want exposure to financial markets without directly selecting and managing every security themselves.

A mutual fund pools money from several investors and invests it in securities according to a specified investment objective, such as equity shares, debt instruments, money-market instruments or a combination of asset classes. Investors receive units representing their share in the scheme, and the value of these units is reflected in the Net Asset Value (NAV). Mutual funds are managed by professional fund managers and offer different schemes according to investors' financial objectives and risk tolerance. However, they are market-linked investments, and their returns are not guaranteed.

1.1 Investor awareness, perception and preference

Investor awareness refers to the knowledge and understanding individuals possess about mutual funds, including scheme types, Systematic Investment Plans (SIPs), NAV, risk and return, expense ratios and exit loads, direct and regular plans, and investment objectives and time horizons. Investor perception refers to the opinions, beliefs and attitudes individuals hold towards mutual funds; some regard them as convenient because of diversification and professional management, while others consider them risky because their values fluctuate. Perceptions are shaped by personal experience, financial knowledge, family and friends, advisers, advertisements and online information. Investor preference refers to the choices investors make, such as the preferred scheme category, SIP or lump-sum investment, investment amount, platform or distributor, expected duration and main financial objective.

1.2 Need for the study

Individuals differ in financial knowledge and investment experience. Some understand the basic features of mutual funds but cannot compare schemes or evaluate risk, while others avoid mutual funds because of uncertainty, fear of losses or a lack of reliable information. Studying awareness, perception and preference together can identify where financial education needs strengthening and support more informed investment decisions.

2. Statement of the Problem and Objectives

Despite the availability of many mutual fund schemes and digital platforms, investors may find it difficult to understand products and select suitable schemes. Some focus mainly on expected returns, while others rely on recommendations without fully understanding the associated risks and costs. Limited financial literacy and fear of market fluctuations may also affect participation. This study therefore examines investor awareness, perception and preference towards mutual funds and the factors that may influence investment decisions.

2.1 Objectives

1. To examine investor awareness regarding mutual funds in India.
2. To understand investor perceptions of mutual funds in terms of risk, return, convenience and safety.
3. To identify factors influencing investor preferences for different mutual fund schemes.
4. To examine the role of financial literacy and investment experience in investment decisions.
5. To identify common barriers that may discourage individuals from investing in mutual funds.
6. To suggest measures for improving investor awareness and promoting informed investment decisions.

2.2 Research questions

The study addresses the following questions: What is the level of awareness of mutual funds among individual investors? How do investors perceive the benefits and risks of mutual funds? What factors influence preferences for different schemes? What major challenges do potential investors face? How can investor education improve investment decision-making?

2.3 Scope

The study focuses on individual investors and potential investors in India. It covers awareness of mutual fund concepts, attitudes towards market-linked investments, investment preferences and the factors influencing decisions, along with financial literacy, investment goals, risk tolerance, experience and access to reliable information. It provides a conceptual framework and questionnaire for further primary research.

3. Review of Literature

3.1 Portfolio diversification

Markowitz (1952) explained the importance of diversification in managing portfolio risk: the risk of a portfolio depends not only on the risk of individual investments but also on how their returns move in relation to one another. Mutual funds can provide diversification by investing in multiple securities, although diversification does not eliminate all investment risks or guarantee profits.

3.2 Investor psychology

Kahneman and Riepe (1998) examined the role of psychological factors in financial decision-making, highlighting how emotions, judgement and individual preferences can influence investment decisions. Investors may give excessive importance to recent market performance or act on fear and overconfidence, which can shape their perceptions of mutual funds and their willingness to invest.

3.3 Financial literacy

Lusardi and Mitchell (2014) discussed the importance of financial literacy in economic decision-making. In mutual fund investing, financial literacy includes understanding risk, return, diversification, inflation, compounding and investment costs. Investors with a better grasp of these concepts may be better prepared to compare alternatives and judge whether an investment suits their goals.

3.4 Investor education and regulation in India

The Securities and Exchange Board of India (SEBI) regulates mutual funds in India, and the Association of Mutual Funds in India (AMFI) provides industry information and investor-education resources. Investor education helps individuals understand the features, risks and costs of market-linked products, and regulatory disclosures support informed decisions when investors know how to interpret them.

3.5 Research gap

Existing theory and investor-education resources emphasise knowledge, risk assessment and disciplined investing. However, awareness, perception and preference are distinct dimensions: an investor may know about mutual funds yet avoid investing for fear of losses, while another may invest regularly

without fully understanding the scheme. A primary survey can examine these dimensions separately and show how awareness and perceptions are associated with preferences.

4. Conceptual Background

4.1 Types of mutual funds

- **Equity funds** invest primarily in shares of companies; they may offer long-term growth but can experience considerable price fluctuations.
- **Debt funds** invest mainly in debt securities and money-market instruments; they carry risks such as interest-rate risk and credit risk.
- **Hybrid funds** invest in a combination of equity and debt, with allocation varying across schemes.
- **Index funds and ETFs** seek to track a specified market index and generally follow a passive approach, subject to tracking difference.
- **Liquid funds** invest in short-maturity debt and money-market instruments; they are not equivalent to bank deposits and are not risk-free.

4.2 Systematic Investment Plan

A SIP allows an investor to invest a fixed amount, for example ₹2,000, at regular intervals in a scheme. SIPs can encourage regular saving and disciplined investing and allow units to be purchased at different market levels over time. However, they do not guarantee profits or eliminate market risk.

4.3 Direct and regular plans

A direct plan is purchased without a distributor's commission in its expense structure, whereas a regular plan is purchased through a distributor and generally has a higher expense ratio. Investors should compare costs and consider whether they need the services a distributor offers.

4.4 Risk, return, NAV and expense ratio

Risk is the possibility that an investment produces an outcome different from what the investor expects, including a loss, while return is the gain or loss over a period. Generally, greater potential returns involve greater risk. NAV is the per-unit value of a scheme and changes as the market value of its investments changes and expenses are accounted for; a lower NAV does not automatically mean a scheme is cheaper or better value. The expense ratio represents the recurring expenses charged to a scheme in relation to its assets and directly affects the returns investors receive, so comparing costs is an important part of evaluating schemes.

5. Research Methodology

The study follows a descriptive and conceptual research design, examining awareness, perception and preference using secondary information and established financial literature. Secondary data are drawn from academic literature, SEBI resources, AMFI investor-education material and general mutual fund information. No primary survey results are claimed in this version; the questionnaire in the Appendix can be used for future data collection.

The proposed population comprises individual investors and potential investors in India aged 18 years and above. For a student research project, a sample of approximately 100–200 respondents may be considered, using convenience sampling if respondents are selected by accessibility. As this is a non-probability method, findings should not be generalised to the entire Indian population. Participation should be voluntary, responses confidential, and unnecessary personal information should not be collected.

If primary data are collected, the analysis may use frequency distributions, percentage analysis, tables and charts, cross-tabulation of awareness by demographic characteristics, and comparison of investment preferences across respondent groups. All numerical findings should be calculated from actual responses.

6. Analysis and Discussion

6.1 Awareness

Awareness involves more than recognising the term "mutual fund." It includes understanding scheme categories, NAV, expenses, risk labels and investment objectives. An investor who knows about SIPs but not market risk may still need financial education, and one who knows about equity funds may not understand how their risk differs from that of debt funds. Awareness should therefore be assessed at different levels, from basic recognition to the ability to compare schemes.

6.2 Perception

Investors may view mutual funds positively because of diversification, professional management and convenience, yet market fluctuations and uncertain returns can create negative perceptions. Those who have experienced losses may become cautious, while those who have earned positive returns may develop greater confidence. Such experiences influence decisions but do not indicate whether a particular scheme is suitable for an individual.

6.3 Factors influencing preference

- **Financial goals:** long-term wealth creation, retirement or other objectives.
- **Risk tolerance:** some investors accept market fluctuations while others prefer lower volatility.
- **Investment horizon:** the period for which money can stay invested influences scheme suitability.
- **Income and savings:** regular income and available surplus affect amounts and frequency.
- **Financial knowledge:** limited knowledge makes scheme selection difficult.
- **Advice and trust:** recommendations from advisers, distributors, family and online sources.
- **Costs and convenience:** expense ratios, ease of transactions and access to services.

6.4 Role of SIPs

SIPs provide a structured way of investing regularly and may suit individuals who prefer to invest smaller amounts periodically rather than wait for a large lump sum. Regular investing can support financial discipline, but suitability depends on the selected scheme and the investor's goals and risk tolerance; a SIP is not a guaranteed-return product.

6.5 Barriers to investment

Potential barriers include limited financial knowledge, fear of market losses, confusion about scheme categories, difficulty comparing funds, unrealistic return expectations, lack of trust in financial advice, insufficient savings after essential expenses, and dependence on unverified information. Addressing them requires clear information, investor education and suitable financial planning.

6.6 Financial literacy

Financial literacy enables investors to understand risk, return, diversification, inflation and costs, and to distinguish guaranteed products from market-linked investments. It supports better questions and comparisons, although it cannot eliminate investment risk.

6.7 Overall discussion

The conceptual analysis suggests that awareness, perception and preference should be studied together: awareness concerns what investors know, perception how they evaluate mutual funds, and preference the choices they make. A future survey can examine whether respondents who understand mutual fund features report greater confidence, whether perceived risk is associated with lower investment interest, and which factors influence preferred investment methods. These relationships should be tested with actual survey data rather than assumed in advance.

7. Key Observations

The following are conceptual observations from the literature and discussion, not statistical findings from a completed survey.

1. Awareness should include practical knowledge of risk, costs and scheme objectives rather than simple recognition of mutual funds.
2. Investor perceptions may influence confidence and willingness to participate in market-linked investments.
3. Preferences vary with financial goals, risk tolerance, income and investment horizon.
4. SIPs can encourage disciplined investing but do not guarantee returns.
5. Understanding expense ratios and scheme features is important when comparing alternatives.
6. Reliable investor-education resources can reduce confusion and improve understanding.
7. Primary research is required to measure the prevalence of these views within a defined sample.

8. Suggestions and Recommendations

- **Improve financial education:** explain NAV, SIPs, expense ratios, risk categories and diversification in simple language.
- **Encourage goal-based investing:** investors should identify objectives and time horizons before selecting a scheme, since no scheme suits everyone.

- **Explain risks clearly:** communicate that mutual funds are market-linked, returns are not guaranteed and investment value can decline.
- **Promote informed comparison:** compare objectives, portfolio composition, benchmarks, costs and risks rather than relying only on recent performance.
- **Improve awareness of costs:** clarify expense ratios, exit loads and differences between direct and regular plans.
- **Use reliable information:** refer to official SEBI and AMFI resources and scheme documents, and avoid decisions based on social-media claims or unverified return projections.
- **Promote responsible advice:** advisers and distributors should explain features, risks and costs clearly and consider the investor's circumstances.
- **Conduct awareness programmes:** colleges, institutions and financial organisations can run workshops on mutual fund basics and responsible investing.
- **Conduct further research:** collect responses from a clearly defined sample, use suitable statistical methods and report findings and limitations transparently.

9. Limitations

This version does not include primary survey findings, and the conceptual discussion cannot establish the exact awareness level of all Indian investors. Investor behaviour may differ by age, income, location and experience; a convenience sample may introduce selection bias; and regulations, scheme features and market conditions may change over time.

10. Conclusion

Mutual funds give individuals access to professionally managed portfolios and a range of investment options. They can support different financial objectives, but suitability depends on the investor's circumstances and the features of the selected scheme. Investor awareness, perception and preference are interconnected: knowledge helps individuals understand available options, perceptions influence confidence and willingness to invest, and preferences reflect personal goals, resources and risk tolerance.

The study underlines the importance of understanding investment objectives, market risk, diversification, expense ratios and investment horizons before investing, and stresses that neither SIPs nor professional fund management guarantee profits. Financial literacy and transparent communication, accompanied by responsible advice and reliable information, can help investors evaluate alternatives more carefully. Because primary survey results have not been collected for this version, the observations should not be treated as statistical conclusions about Indian investors; a future survey can provide empirical evidence on the awareness, perceptions and preferences of a defined group of respondents.

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Appendix A: Questionnaire

Participation is voluntary, and responses will be used only for the stated academic research purpose. Respondents select the option that best represents their opinion.

1. Age group: 18–25 / 26–35 / 36–45 / 46–55 / Above 55 years.
2. Occupation: Student / Salaried employee / Self-employed / Business / Other.
3. Monthly personal income (optional): No personal income / Below ₹25,000 / ₹25,001–₹50,000 / ₹50,001–₹1,00,000 / Above ₹1,00,000 / Prefer not to say.
4. Have you heard about mutual funds? Yes / No.
5. Do you currently invest in mutual funds? Yes / No / I plan to invest in the future.

6. Where have you learned about mutual funds? Family or friends / Bank or distributor / Financial adviser / Social media or online platforms / Newspapers or news channels / College or workplace / Other.
7. Which concepts are you familiar with? SIP / NAV / Expense ratio / Riskometer / Direct and regular plans / Equity, debt and hybrid funds / None of these.
8. Which type of mutual fund would you prefer? Equity / Debt / Hybrid / Index fund or ETF / Not sure / I do not prefer mutual funds.
9. Which investment method do you prefer? SIP / Lump-sum / Both / Not sure.
10. Main reason for considering mutual funds? Long-term wealth creation / Financial goal planning / Diversification / Potential returns / Convenience / Tax-related considerations / Other / Not applicable.
11. Biggest concern regarding mutual funds? Market risk or possible loss / Lack of knowledge / Confusing costs and charges / Lack of trust / Difficulty selecting a scheme / No major concern / Other.
12. How would you rate your understanding of mutual funds? Very good / Good / Average / Limited / No understanding.
13. How important is professional fund management to you? Very important / Somewhat important / Neutral / Not very important / Not important.
14. Before investing, how often do you compare scheme objectives, risk and costs? Always / Often / Sometimes / Rarely / Never / Not applicable.
15. Would simple and reliable investor education make you more confident about mutual funds? Yes / No / Not sure.

Appendix B: Proposed Data Analysis Plan

After collecting responses, the researcher may calculate the frequency and percentage of respondents in each category; prepare tables and charts of awareness of mutual fund concepts; compare awareness across age groups, occupations and investment experience; examine preferred investment methods and fund categories; summarise common perceived benefits and concerns; and discuss findings in relation to the objectives and literature, stating the sample size, sampling method and limitations clearly. Actual survey results should be inserted only after responses are collected and analysed; hypothetical percentages must not be reported as real findings.