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A Study into the Way Investors Perceive Mutual Funds, Specifically Focusing on SBI Mutual Funds

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Abstract
In today's intricate and modern financial landscape, a mutual fund stands out as an optimal investment vehicle. The significance of mutual fund investments in India has been steadily increasing compared to other financial instruments. Not only do investments in mutual funds provide a safer option, but they also generate higher returns on portfolio investments. Mutual funds play a crucial role in mobilizing funds from small investors, contributing substantially to capital markets. This study provides a concise overview of the mutual fund industry, shedding light on the role of investment patterns and investor preferences influencing mutual fund investments.
Financial markets are continually evolving to offer more promising solutions to investors. Although the mutual funds industry is rapidly adapting to understand investor perceptions towards rewards, they are consistently striving to differentiate their products in response to sudden economic changes. Therefore, it is imperative to comprehend and analyze investor perceptions and expectations, extracting valuable information to support mutual fund financial decision-making. In recent years, mutual funds have emerged as a tool for ensuring financial well-being, contributing significantly to India's growth story and enabling families to benefit from the success of the Indian industry.
As information and awareness continue to rise, an increasing number of people are experiencing the advantages of investing in mutual funds. In India, the plethora of investment options poses a primary challenge for investors, ranging from bonds, fixed deposits, gold, stocks, to money market securities. Each option comes with its set of benefits and challenges, requiring investors to consider factors such as time horizon, risk appetite, and returns aligned with their specific goals.
Mutual funds offer numerous advantages, including comparatively higher Return on Investment (ROI), expert management, built-in diversification, ease of investing and monitoring, tax benefits, liquidity, and systematic withdrawal plans. The analysis and recommendations presented in this paper stem from market research on investors' saving and investment practices, providing insights into their preferences for mutual fund investments. The study findings aim to uncover investors' preferences in mutual funds, including their inclination towards specific Asset Management Companies (AMCs), preferred product types, growth or dividend options, and their choice of investment strategies (Systematic Investment Plan or One-time Plan).

Keywords: Mutual Fund, Investors, Perception, NAV, SIP

Introduction

A mutual fund serves as an investment vehicle comprising pooled funds from numerous investors, channelized into securities like stocks, bonds, and money market instruments (Bhowal & Paul, 2013). These funds are professionally managed by Fund Managers, and investors own units representing their share based on the invested amount, making them unit holders. The appreciation in investment value, along with other earnings, is distributed to unit holders after deducting expenses and taxes. The Indian mutual fund industry originated in 1963 with the establishment of Unit Trust of India, initiated by the Government of India and Reserve Bank of India.

Mutual fund investments offer various advantages that enhance their attractiveness. Qualified fund managers (Mridula & Raju, 2006; Paul T., 2014) mitigate risks by keeping a constant eye on investments, diversifying across different securities, and leveraging economies of scale for cost efficiency (Paul, 2014). The industry is highly regulated, with SEBI ensuring transparency, requiring periodic portfolio disclosures, aiding investors in making informed choices. Investors typically seek safety, regular returns, long-term growth, and tax benefits. Mutual fund schemes are tailored to meet investor preferences, market changes, and returns on various instruments, adapting to evolving investor profiles.

The success of a mutual fund relies on investor confidence, with UTI's extensive marketing network being a unique strength. However, a significant challenge is the lack of understanding among new investors about mutual fund concepts, operations, and advantages, exacerbated by aggressive selling practices promising unrealistically high returns (Paul, 2014; KPMG, 2013).

Literature Review

Warren Buffet (2000): Pradip Kar, I. Natarajan, J.P. Singh, and others estimated that only 9% of Indian households invest in shares, about 12% in mutual funds, emphasizing the need to critically examine and identify investor needs to transform savings into productive capital. Understanding investor behavior has managerial implications for policymakers.

Jambodekar (1999): Investigated mutual fund awareness among investors, identifying information sources influencing buyer decisions and factors influencing fund choices. The study revealed preferences for income and open-ended schemes over growth and close-ended schemes. Investors prioritize safety of principal, liquidity, and capital appreciation, with newspapers and magazines as primary information sources, and investor service as a differentiating factor.

Kannadashan (2006): Explored factors influencing retail investor decisions, finding dependence on variables like gender, age, marital status, education level, income, awareness, preference, and risk-bearing capacity. Paul & Garodia (2012) emphasized the impact of demographic variables on investment patterns and identified varying expectation levels among different investor categories.

Paul (2014): Identified a communication gap between mutual fund houses and retail investors, concluding that mutual fund houses have fallen short of meeting investor expectation

Concept of mutual fund

Mutual funds are widely embraced across various income brackets, offering investors a professionally managed and diversified portfolio of stocks. These investment schemes, typically overseen by asset management companies, bring together a group of individuals, pooling their funds to invest in a variety of securities such as stocks, bonds, and other financial instruments.

By investing in mutual funds, small or individual investors gain access to professionally curated portfolios that encompass equities, bonds, and other securities. Shareholders participate proportionally in the fund's gains or losses, as the performance is tracked through changes in the total market capitalization derived from the collective performance of the underlying investments.

Functioning as a company, a mutual fund pools funds from numerous investors and strategically invests in securities like stocks, bonds, and short-term debt. The collective holdings constitute the fund's portfolio, with investors purchasing shares that signify their ownership in the fund and entitlement to the generated income.

This investment vehicle offers individuals access to well-managed and diversified portfolios at an affordable cost. Mutual funds are categorized based on the securities they invest in, their objectives, and the desired returns. Investors should be mindful of annual fees, known as expense ratios, as well as potential commissions, as these factors can impact the overall returns of mutual funds.

It's noteworthy that a significant portion of funds in employer-sponsored retirement plans is directed towards mutual funds, underscoring their prevalence and popularity in the investment landscape.

Advantages of Mutual Funds:

Liquidity: Mutual funds offer easy entry and exit options, with transactions occurring once a day after the release of the Net Asset Value (NAV).

Diversification: To mitigate risks associated with market movements, fund managers diversify investments across various asset classes, ensuring that poor performance in one class can be offset by higher returns in others.

Expert Management: Fund managers handle research, asset allocation, and decision-making, making mutual funds accessible for investors who prefer professional management. Evaluating a fund manager's reputation is crucial, and their fee is included in the expense ratio.

Cost Efficiency for Bulk Transactions: Buying multiple units of mutual funds incurs lower processing fees and commission charges compared to purchasing individual units.

Investing in Smaller Denominations (SIP): Investing in smaller denominations through Systematic Investment Plans (SIPs) provides exposure to the entire stock, reducing average transactional expenses and benefiting from market fluctuations.

Alignment with Financial Goals: Various types of mutual funds cater to investors with diverse income levels, expenditures, investment goals, and risk appetites.

Cost-Efficiency: Investors can choose zero-load mutual funds with lower expense ratios, providing a budget-friendly option aligned with their financial goals.

Quick & Painless Process: Starting with one mutual fund and gradually diversifying is simplified with easily identifiable funds. Fund managers, with their teams, handle investment decisions, aiming to consistently outperform benchmarks.

Tax Efficiency: Investors can benefit from tax-saving mutual funds under Section 80C, and despite a 10% tax on Long-Term Capital Gains (LTCG) above Rs.1 lakh after a year, mutual funds have historically provided higher returns than other tax-saving instruments.

Automated Payments: To avoid forgetting or delaying Systematic Investment Plans (SIPs), investors can opt for paperless automation with timely email and SMS notifications.

Safety: Contrary to the misconception that mutual funds are less safe than bank products, they are rigorously regulated

by statutory bodies like SEBI and AMFI, ensuring investor protection.
Systematic or One-Time Investment: Investors can plan their mutual fund investments based on their budget and convenience, choosing between SIPs or lump sum investments.

Recent Observations:
The Indian mutual fund industry has significant growth potential, given that household savings amount to Rs 20-30 lakh crores.
A shift in household savings from physical assets to financial savings is observed, highlighting the growth in the financial savings sector.
India's saving culture, with annual savings of Rs 20-30 lakh crores, indicates substantial opportunities for the mutual fund industry.
From January to June 2020, mutual funds made an overall investment of approximately Rs 39,500 crores, showing a four-fold increase from the previous year.
Equity mutual fund inflows saw a 95.5% drop in June 2020, while debt fund schemes and SIP accounts showed improvements.

Overview of SBI Mutual Funds:
SBI Mutual Fund Trustee Company Private Limited, established as a trust in 1882, controls SBI Mutual Fund, a Joint Venture between the State Bank of India and Amundi, a French asset management company.
SBI Mutual Fund, operational since June 29, 1987, and incorporated on February 7, 1992, is the second Mutual Fund in India.
SBI Mutual Fund has achieved several milestones, including launching India's first 'Contra' fund and acquiring Daiwa Mutual Fund in 2013.
SBI Mutual Fund also introduced an ESG Fund, focusing on Environment, Social, and Governance, and managed India's offshore funds effectively.
The fund aims to deliver long-term, correct investments in a diverse range of Indian companies, utilizing an innovative approach and a knowledgeable team for risk management.
SBI Mutual Fund pioneered the launch of an ESG Fund in India, emphasizing sustainable investment in major markets.
In 2015, the Employees' Provident Fund of India invested Rs 5,000 crores in a Mutual Fund through SBIMF Sensex ETFs.

Objectives of the Study:
Awareness Level: Assess the awareness level of investors in mutual funds.
Portfolio Preferences: Explore the preferences of investors regarding different portfolios.
Investment Reasons: Understand the reasons behind investors choosing SBI Mutual Funds.
Preferred Channels: Identify the most preferred channels for mutual fund investments.
Investor Interest: Determine the level of investor interest in SBI Mutual Funds.
Comparative Study: Conduct a comparative analysis between SBI Mutual Funds and other leading mutual funds in the current market.
Research Design:
Type of Research: Descriptive and analytical research, involving a structured and well-thought-out approach.
Population: Investors and non-investors in mutual funds.
Sample Size: 50 participants, aged between 20-70 years, selected through non-probability, convenience sampling.
Data Collection Tools: Primary data collected through structured questionnaires via Google Forms, supplemented by secondary data from internet sources and books.
Data Analysis: Utilization of bar graphs, pie charts, and SPSS software for comprehensive data analysis.

Limitations of the Study:
- Time constraints and a limited survey period of 60 days.
- Some respondents may have been unresponsive, introducing a potential for data collection errors.
- The possibility of errors in data analysis due to a relatively small sample size that may not fully represent the entire market.
- Limited access to information about the actual functioning of organizations due to the impact of COVID-19.
- Inclusion of only 50 participants due to time constraints and convenience.

Major Findings of the Study:
- 70% of participants have invested in mutual funds, with 30% not having invested.
- Reasons for not investing include lack of awareness (6%), perceived high risk (4%), and unspecified reasons (20%).
- SBI Mutual Funds are preferred by 42% of investors, followed by HDFC (10%), ICICI (10%), and AXIS (8%).
- Reasons for choosing SBIMF include association with State Bank of India (26%), consistent good returns (12%), and agent advice (4%).
- 36% did not invest in SBIMF due to lack of awareness, 14% due to perceived lower returns, and 10% due to agent

advice.

- In mutual fund investments, 54% prefer SBIMF, 34% prefer Reliance, and 12% prefer AXIS.
- Preferred channels for investors: Financial advisors (50%), banks (28%), and AMC (22%).

Recommendations/Suggestions:

- Provide training to financial advisors to enhance their understanding of mutual fund schemes and objectives, as they are a significant influence on investors (50% preference).
- Increase awareness about SBIMF schemes to attract more investors, addressing the 36% who were not aware of it.
- Encourage investors aged 50 and above to consider lower-risk mutual funds by providing education and information tailored to their needs.
- Promote awareness and expert knowledge regarding debt portfolio schemes to increase investment in this less risky option (24% preference).
- Emphasize the potential for higher returns with SBIMF to address concerns of the 14% who perceive lower returns.

Conclusions:

Mutual funds serve as trust vehicles that pool the savings of investors with common economic goals. They offer diverse investment opportunities, managed by professional fund managers. The benefits of mutual fund investments include risk reduction, liquidity, affordability, convenience, flexibility, and variety. It is crucial for investors to identify reputable mutual fund management companies and choose suitable schemes aligned with their financial objectives.

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