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INVESTORS PREFERENCE TOWARDS MUTUAL FUNDS OVER OTHER INVESTMENT METHODS

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ABSTRACT

Investor's main objective is to earn higher returns keeping in mind the risk and liquidity factors. With this objective in mind, an investor is looking out for various investment avenues. A survey was conducted during the period July 2022 to August 2022. A sample of 150 individual mutual fund investors were surveyed through a pre-tested questionnaire. The investors were selected on the basis of those who have made prior investments in mutual funds and other investment methods and have some knowledge about the basic terminologies involved with Investments. An attempt has been made to find out the perception of investors regarding investment & in mutual funds and to identify the factors considered to be important by the investors before investing in any Investment Method vis a vis mutual fund. The study conducted shows that most investors are aware of various schemes of mutual funds and other Investment Methods. Diversification of portfolio and tax benefits are the main factors of mutual fund that allure the investors. Most investors are aware of advantages of Mutual Funds and the preferred reason for investing in Mutual Funds is consistent returns given by these funds

KEYWORDS: ***Investment Mutual Funds, Preference, Returns***

INTRODUCTION

A mutual fund is a collective investment vehicle that collects & pools money from a number of investors and invests the same in equities, bonds, government securities, money market instruments.

The money collected in mutual fund scheme is invested by professional fund managers in stocks and bonds etc. in line with a scheme's investment objective. The income / gains generated from this collective investment scheme are distributed proportionately amongst the investors, after deducting applicable expenses and levies, by calculating a scheme's "Net Asset Value" or NAV. In return, mutual fund charges a small fee.

In short, mutual fund is a collective pool of money contributed by several investors and managed by a professional Fund Manager.

Mutual Funds in India are established in the form of a Trust under Indian Trust Act, 1882, in accordance with SEBI (Mutual Funds) Regulations, 1996.

Mutual funds are ideal for investors who –

- lack the knowledge or skill / experience of investing in stock markets directly.
- want to grow their wealth, but do not have the inclination or time to research the stock market.
- wish to invest only small amounts.

As investment goals vary from person to person – post-retirement expenses, money for children's education or marriage, house purchase, etc. – the investment products required to achieve these goals too vary. Mutual funds provide certain distinct advantages over investing in individual securities. Mutual funds offer multiple choices for investment across equity shares, corporate bonds, government securities, and money market instruments, providing an excellent avenue for retail investors to participate and benefit from the uptrends in capital markets. The main advantages are that you can invest in a variety of securities for a relatively low cost and leave the investment decisions to a professional manager.

ADVANTAGES OF INVESTING IN MUTUAL FUNDS

Liquidity

The most important benefit of investing in a Mutual Fund is that the investor can redeem the units at any point in time. Unlike Fixed Deposits, Mutual Funds have flexible withdrawal but factors like the pre-exit penalty and exit load should be taken into consideration.

Diversification

The value of an investment may not rise or fall in tandem. When the value of one investment is on the rise the value of another may be in decline. As a result, the portfolio's overall performance has a lesser chance of being volatile.

Diversification reduces the risk involved in building a portfolio, further reducing the risk for an investor. As Mutual Funds consist of many securities, investor's interests are safeguarded if there is a downfall in other securities so purchased.

Expert Management

A novice investor may not have much knowledge or information on how and where to invest. The experts manage and operate mutual funds. The experts pool in money from investors and allocates this money in different securities thereby helping the investors incur a profit.

The expert keeps a watch on timely exit and entry and takes care of all the challenges. One only needs to invest and be least assured that rest will be taken care of by the experts who excel in this field. This is one of the most important advantages of mutual funds

Accessibility – Mutual Funds are Easy to Buy

Mutual Funds are easily accessible and you can start investing and buy mutual funds from anywhere in the world. An Asset Management Companies (AMC) offers the funds and distributes through channels like:

- Brokerage Firms
- Registrars like Karvy and CAMS
- AMC'S Themselves
- Online Mutual Fund Investment Platforms
- Agents and Banks

This factor makes mutual funds universally available and easily accessible. More so, you do not require a DEMAT Account to invest in Mutual Funds. Mutual funds are easy to buy and track performance

Schemes For Every Financial Goals

The best part of the Mutual Fund is that the minimum amount of investment can be Rs. 500. The maximum can go up to whatever an investor wishes to invest.

The only point one should consider before investing in the Mutual Funds is their income, expenses, risk-taking ability, and investment goals. Therefore, every individual from all walks of life is free to invest in a Mutual Fund irrespective of their income.

Safety and Transparency

With the introduction of SEBI guidelines, all products of a Mutual Fund have been labelled. This means that all Mutual Fund schemes will have a color-coding. This helps an investor to ascertain the risk level of his investment, thus making the entire process of investment transparent and safe.

This color-coding uses 3 colours indicating different levels of risk-
Blue indicates low risk
Yellow indicates medium risk, and
Brown indicates a high risk.

Lower cost

In a Mutual Fund, funds are collected from many investors, and then the same is used to purchase securities. These funds are however invested in assets which therefore helps one save on transaction and other costs as compared to a single transaction. The savings are passed on to the investors as lower costs of investing in Mutual Funds.

Besides, the Asset Management Services fee cost is lowered and the same is divided between all the investors of the fund.

Best Tax Saving Option

Mutual Funds provide the best tax saving options. ELSS Mutual Funds have a tax exemption of Rs. 1.5 lakh a year under section 80C of the Income Tax Act.

All other Mutual Funds in India are taxed based on the type of investment and the tenure of investment.

ELSS Tax Saving Mutual Funds has the potential to deliver higher returns than other tax-saving instruments like PPF, NPS, and Tax Saving FDs.

Lowest Lock-in Period

Tax Saving Mutual Funds have the lowest lock-in periods of only 3 years. This is lower as compared to a maximum of 5 years for other tax saving options like FD, ULIPs, and PPF.

On top of that, one can stay invested even after the completion of the lock-in period.

Lower Tax on the Gains

With Equity linked saving scheme you can save tax up to Rs. 1.5 Lakh a year under section 80C of Income Tax (IT) Act. All other types of Mutual Funds are taxable depending on the type of fund and tenure.

Before making an investment, one should keep in mind the various advantages Mutual Fund provides. Thorough knowledge of the benefits of Mutual Funds would lead to better gains in the future.

Although there are a lot of advantages of investing in Mutual Funds, there are certain disadvantages as well

DISADVANTAGES OF INVESTING IN MUTUAL FUNDS

Cost to Manage the Mutual Fund scheme

As mentioned above, Market Analysts or Fund Managers manage and operate the mutual funds. These Fund Managers work for the fund houses that manage huge investments every day. This requires a lot of efficiencies, expertise, and experience in the subject matter.

Dilution

Due to dilution, it is not recommended to invest in too many Mutual Funds at the same time. Diversification, although saves an investor from major losses, also restricts one from making a higher profit.

Lock-in Periods

Equity-linked Saving Scheme (ELSS) have a longer lock-in period of 3 years. This debars an investor from withdrawing the investment before the lock-in period is over. However, withdrawing these funds before the lock-in period could lead to huge penalties.

A portion of the fund is kept in cash to safeguard investor's interest. This is done to compensate the investor in case he desires to withdraw the fund before maturity. This part of the cash fund does not earn any interest.

In spite of it having certain disadvantages, Mutual Funds in India are considered one of the best investment plans. The advantages and long-term benefits one incurs when investing in a Mutual Fund makes it a win-win situation for all. The professional expertise makes it easier even for a novice to investing without having any idea about it.

Comparing mutual funds with other investment methods

Inflation always has an adverse effect on the market scenario. As the value of money decreases with inflation, it becomes very important to invest your money in the right sector. Money left uninvested may lose its purchasing power as time passes.

It is very important to know where and how to invest and which channel would fetch the maximum profit.

Investing in Equity brings high risk but the returns are also high as compared to other investment plans. An investor must always keep in mind the risk factor and the goal from the investment in mind before investing.

Time is another factor that an investor must consider before investing such as short term, medium-term, and long term.

Now that we know the advantages of mutual funds, let us now compare Mutual Funds with other investment options

Mutual Fund vs Public Provident Fund (PPF)

PPF is a long-term investment plan with a lock-in period of 15 years. Though this investment is one of the most preferred options, however, due to the reduced return this has started losing its preference.

Mutual Funds do not have any lock-in period. There is flexibility in tenure for which one wants to invest.

PPF's are tax-free up to a limit of Rs. 1.5 lakh annually. Even the returns generated from PPFs are tax exempted under section 80C of the Income Tax (IT) Act.

With ELSS Fund an investor can save tax up to Rs. 1.5 Lakh a year under section 80C of Income Tax (IT) Act. All other types of Mutual Funds are taxed based on the type of fund and tenure.

Mutual Fund vs NSC

Talking of low risk and higher returns, NSC is said to be a better option for investment and save tax benefit. ELSS fund, on the other hand, can be invested through Mutual Funds in Equity Market and avail tax benefits depending on risk and returns.

Lock-in period for NSC is 5 to 10 years while in an ELSS Fund lock-in period is 3 years but one can continue even after the lock-in period without taking the cash out.

Mutual Fund vs NPS

NPS as compared to Mutual Fund has lesser returns. NPS has a limited reach to equity, stocks, and shares while through Mutual Funds one can purchase unlimited equity shares.

Mutual Fund vs ULIP

As compared to ULIP's, Mutual Funds are more transparent in matters of the fee charged and the portfolio holdings. Mutual Funds have lower expenses as compared to ULIPs which are much higher than in the case of Mutual Funds.

Returns from ULIP are lesser as compared to the returns from Mutual Funds. The lock-in period for ULIPs ranges from 3 years to 5 years depending on the investment scheme.

ULIPs too has a tax exemption of Rs. 1.5 lakh a year, while only ELSS funds have tax exemption than any other Mutual Fund.

Mutual Fund vs Fixed Deposit (FD)

In a Fixed Deposit (FD), the returns are pre-determined. The FD bank rates does not change throughout the tenure for which the money is deposited. While in Mutual Funds the scope of earning is unlimited. The longer the tenure the higher the return.

However, you must estimate your expected interest earnings for better planning by using FD calculator. Our FD calculator is easy to use, accurate results with a detailed guideline on fixed deposits

The returns on Fixed Deposit are taxable at the tax slab of the investor. In a Mutual Fund the taxation mainly depends on the holding period. The tax implication on short term and long term are different for Mutual Funds.

Mutual Fund vs. Gold ETF

An investor can either physically possess or invest upon electronically gold. This has of late become a very popular investment. The risk factor here is relatively low with better liquidity options.

ETF is listed on the Stock Exchange and hence the same is traded in the market with no exit load. This enables investors to buy/ sell at any time. ETFs usually have a lower management cost than Mutual Funds.

An ETF with a holding period for more than 36 months, qualify as long-term capital gain. LTCG has a tax rate of 20%. The tax saving avenue under section 54 and section 54EC would apply for a long-term capital gain on ETFs.

Investors Preference Towards Mutual Funds

In the past, Indians have always preferred traditional methods of investment: gold, real estate, bonds and shares. However, with an increase in financial literacy and investment acumen our preferences are changing, as more and more people have started opting for other forms of investment, including investing in mutual funds. The total assets under management (AUM) to GDP ratio, used to assess the rate of mutual funds penetration into the country, used to be around 10% in the country, way below the global average of 55%. In fact, countries like Australia and the United States have shown AUM rates of over 100%.

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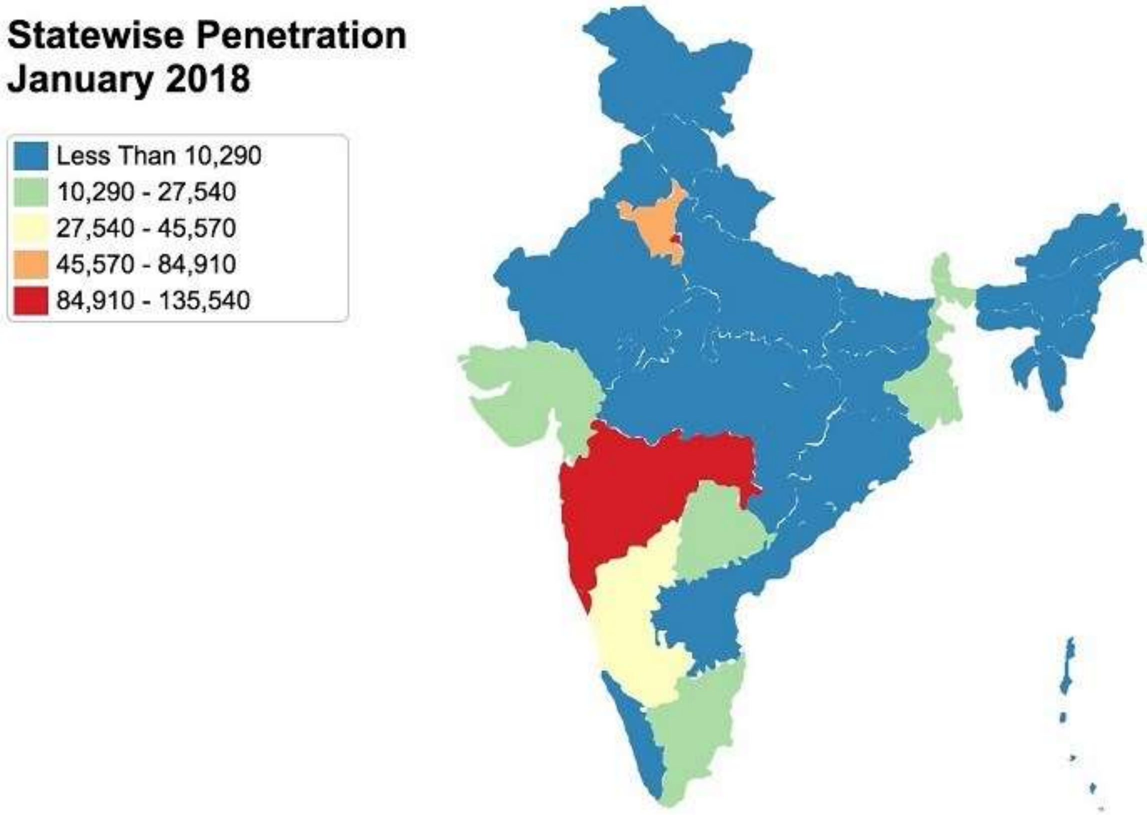
State wise Penetration of Mutual Funds across India (Source: Association of Mutual Funds in India)



Mutual funds distributors have not only been helping investors in such cities understand what schemes to invest in, but also helping them understand how to navigate effectively through volatility in markets, thus helping them be more confident and secure about investing in mutual funds. This was particularly important during the 2015-16 financial year, when despite a falling market, there was a steady positive inflow into the mutual funds industry due to distributors going to next mile to help customers keep their investments and invest more at low next asset values (NAV).

Another major cause of improved mutual fund penetration in the country is digitalisation, which has led to an overall shift in investment to financial securities rather than traditional assets. Digitalisation has penetrated in every industry and market, transforming the way industries operate, and the mutual funds market is no different. A market report published by Ernst and Young discussed the impact of digital business value drivers on the mutual funds market. Due to the increase use of digital access points, such as the ability to research and purchase mutual funds online and on mobile, there has been an increase in customer demand for the same.

Additionally, due to digitization, customers also feel more empowered and confident about their investments, as they have access to more sources of online trading, direct-to-consumer advisors and low-cost automated solutions for portfolio and risk management. Combined with the personalised service offered by mutual fund houses due to their ability to predict customer and tastes and preferences by using big data analytics, on an average about 3.38 lakh new portfolios are added to the market every month in the last two years. Digitalisation is seeping into the already growing industry, prompting more and more people to invest into mutual funds.

As we trace the growth of the mutual funds market in a post-demonetised nation, we see there is a push to invest in financial products as customers feel more confident about their ability to evaluate the risk, growth and vulnerability of such products. Mutual fund houses have been going the extra mile to help customers understand the benefits and ease of investing in mutual funds have all expanded the industry from Rs. 5.87 trillion in 2012 to over Rs. 15.63 trillion in 2016. With a consistent and steady economic growth of 7.4% for the last quarter, the Indian economy is slowly recovering from its slowdown, and this is likely to increase investments in the sector further, with plenty of more room for expansion.

Why mutual funds in conclusion

- Safety
- Higher Return

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- Trust on Mutual Fund Companies
- Low Knowledge Of Equity & Financial Market and thus Easy way to Invest

OBJECTIVES OF THE STUDY

- To analyse the investor's preference towards investment in mutual funds when other investment avenues are also available in the market.
- To find out the overall criterion of investors regarding investment.
- To find the main bases of different investment avenues, an investor thinks before investing.

RESEARCH METHODOLOGY

Investor's main objective is to earn higher returns keeping in mind the risk and liquidity factors. With this objective in mind, an investor is looking out for various investment avenues.

A survey was conducted during the period July 2022 to August 2022. A sample of 150 individual mutual fund investors were surveyed through a pre-tested questionnaire. The investors were selected on the basis of those who have made prior investments in mutual funds and other investment methods and have some knowledge about the basic terminologies involved with Investments. An attempt has been made to find out the perception of investors regarding investment & in mutual funds and to identify the factors considered to be important by the investors before investing in any Investment Method vis a vis mutual fund.

GRAPHICAL REPRESENTATON OF THE DATA

Table 1: Preference of investors towards different investing avenues

AVENUES	NO. OF RESPONDENTS	PERCENTAGE
Mutual Funds	70	58%
PPF	36	30%
Gold	47	38%
LIC	34	28%
Banks	42	34%
Real Estate	60	49%
Equity Shares	56	46%
Bonds	4	3%

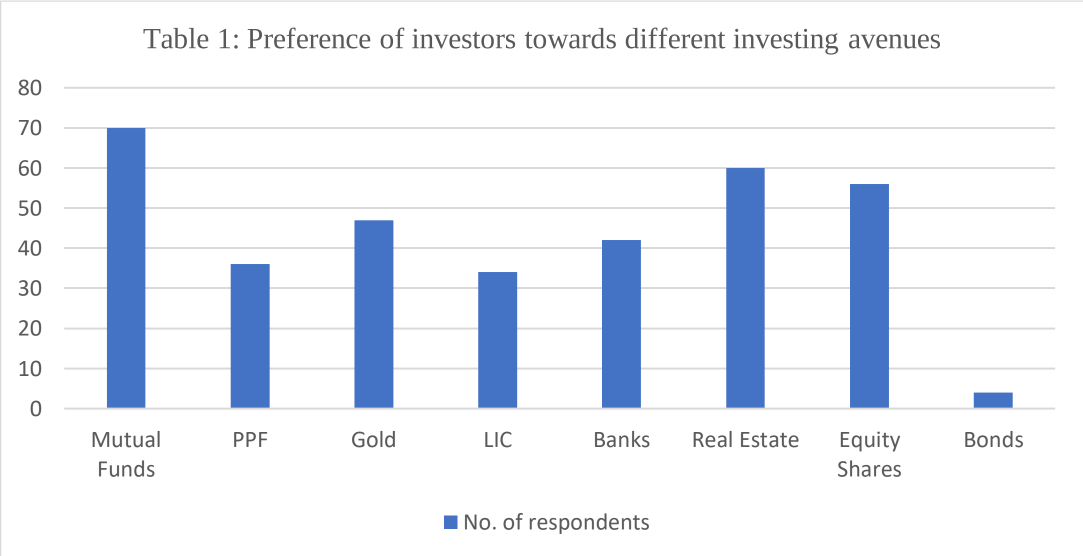

Table 2: Criteria for Investment

Options	No. of Respondents	Percentage
Liquidity	56	46%
Safety	76	62%
Return	79	65%
Convenience	37	30%
Tax Planning	31	25%

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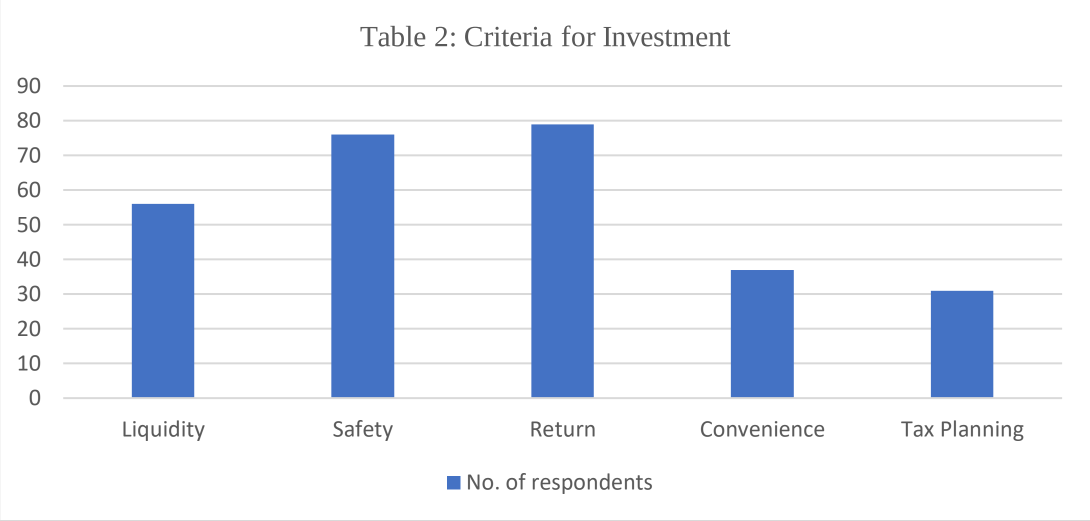
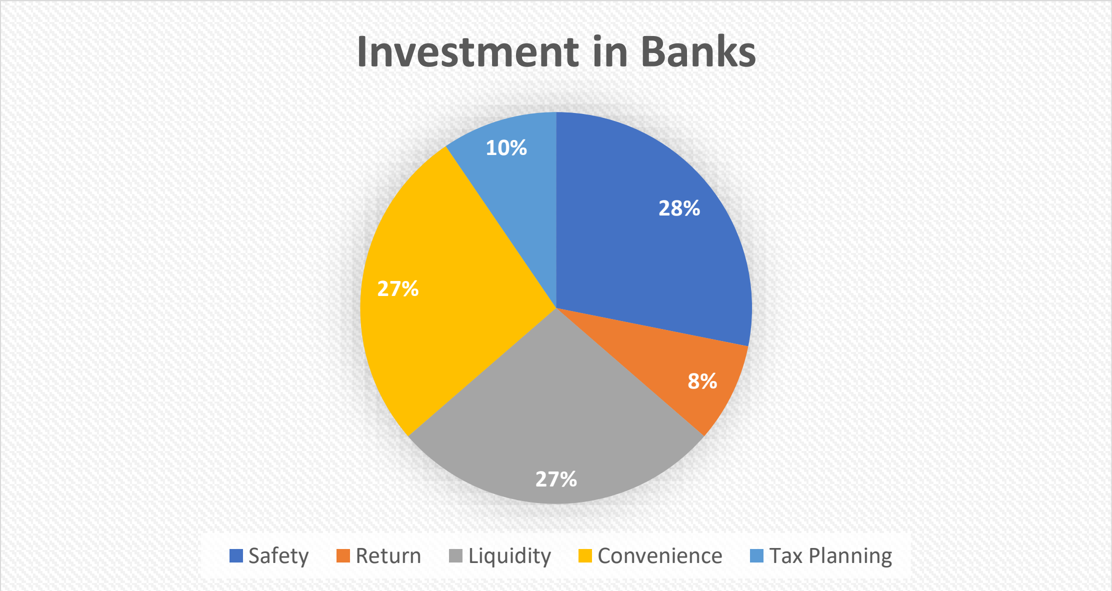


Out of all the respondents their main criteria for investment was Return which holds 65% of the total responses, the next criteria was Safety at 62%. This shows us that in the Indian Market, Individuals main reason to invest is to get significant return in the future or to ensure financial safety/security for their future needs.

Rating of different models of investment

Table 3: Investment in Banks

Basis	No. of Respondents	Percentage
Safety	65	28%
Return	19	8%
Liquidity	63	27%
Convenience	62	27%
Tax Planning	22	10%

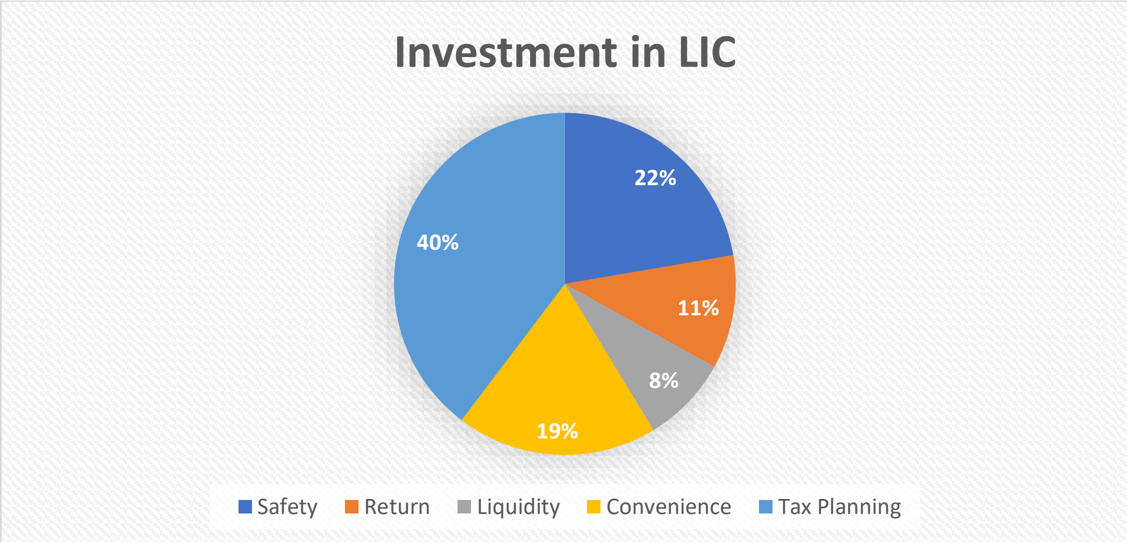


Analysis

As we can see, out of the sample size of Individuals, Majority invested their money in banks due to the safety it provided for their investment, also close came reasons of Liquidity of Investment i.e., ability to encash it at a given period & Convenience of Investment regarding the easy method of Investing money in banks without any risk, rules or regulations.

Table 4: Investment in LIC

Basis	No. of Respondents	Percentage
Safety	27	22%
Return	13	11%
Liquidity	10	8%
Convenience	23	19%
Tax Planning	48	40%



Analysis

As we can see from the Sample size, Individuals in the market Invest In LIC, primarily due to the benefits, it gives out in Tax Planning to them, closely followed by Safety of the Investment and Convenience. There is several selling points for LIC investment over Mutual Funds is because of it being widespread awareness and presence of LIC Agents in every neighbourhood.

Table 5: Investment in PPF

Basis	No. of Respondents	Percentage
Safety	47	28%
Return	19	11%
Liquidity	9	5%
Convenience	34	20%
Tax Planning	62	36%

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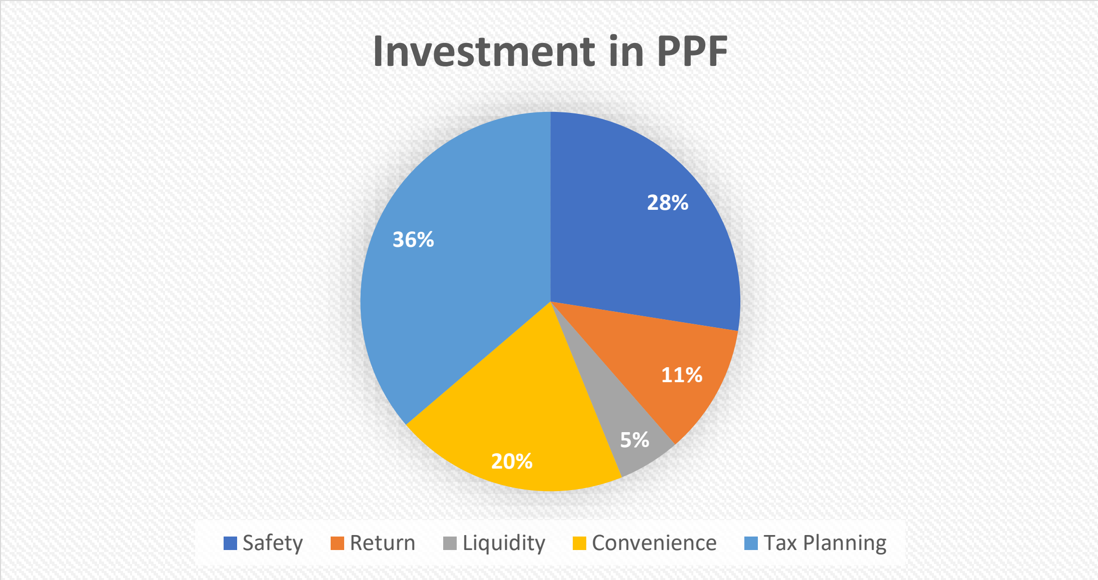
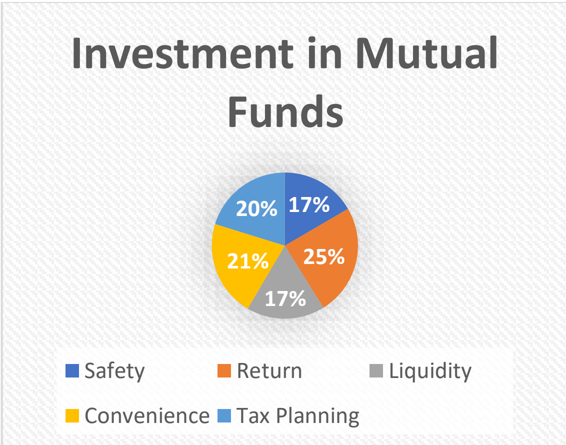


Analysis

The reason for Investment in PPF is for tax planning purposes according to the survey, followed by Safety that comes from the Investment. The main reason for investing in PPF is that it is one of the most popular long term and tax saving schemes for depositors.

Table 6: Investment in Mutual Funds

Basis	No. of Respondents	Percentage
Safety	46	17%
Return	68	25%
Liquidity	48	17%
Convenience	59	21%
Tax Planning	56	20%



Investment in Mutual Funds are done majorly due to the return on investment it provides, but our data shows that individuals invest in it also to get all the other benefits like safety, liquidity, convenience, Tax Planning. The advantages of Mutual Funds are listed above but major points for investing is Risk Diversification, SIP plans and Variety of Investment.

Table 7: Investment in Gold

Basis	No. of Respondents	Percentage
Safety	49	26%
Return	32	17%
Liquidity	50	26%
Convenience	49	26%
Tax Planning	10	5%

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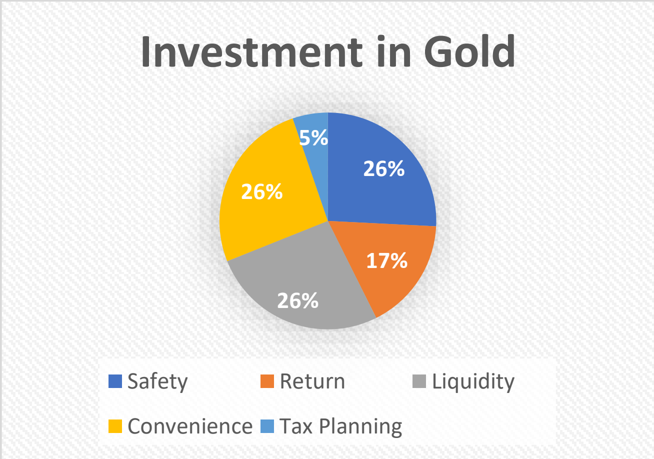
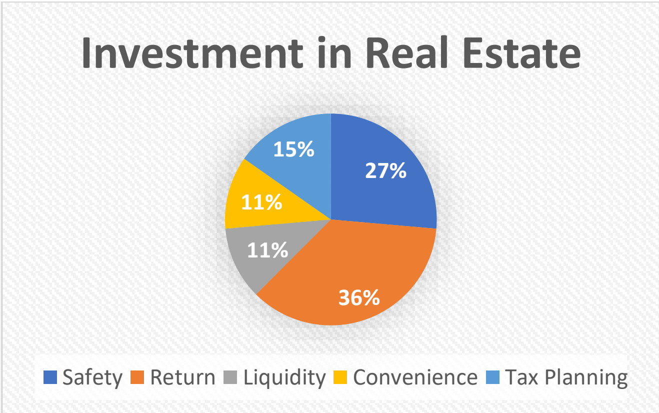


This type of Investment is made not looking at Tax Planning benefits, but to ensure Safety, Liquidity, convenience & liquidity of the Investment. Investing in Gold can act as a hedge against inflation and deflation alike as well as a good portfolio Diversifier as well it is a highly liquid asset.

Table 8: Investment in Real Estate

Basis	No. of Respondents	Percentage
Safety	38	27%
Return	52	36%
Liquidity	16	11%
Convenience	16	11%
Tax Planning	22	15%



Investment in Real Estate is done mainly on the reason of high return on Investment, due to increase in retail rates in the future, due to developments in the neighbourhood and higher demand for property. This is closely followed by the Safety, investment in Real estate provides the Individual a tangible asset which is highly Liquid and the Investment Return is High.

able 9: Investment in Equity Shares

Basis	No. of Respondents	Percentage
Safety	11	6%
Return	64	38%
Liquidity	44	26%
Convenience	39	23%
Tax Planning	12	7%

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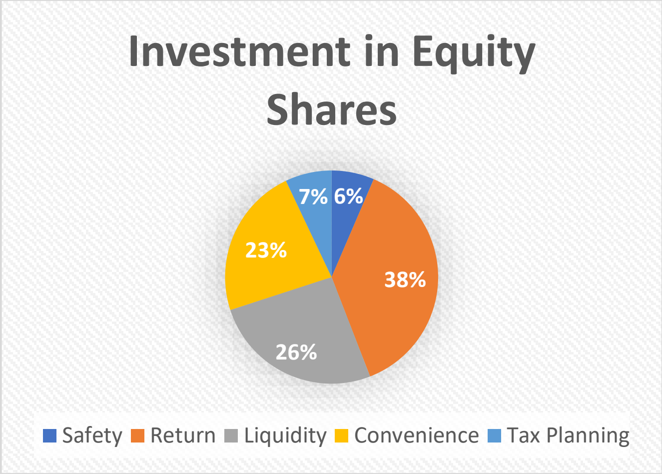

Investment in equity shares is done mainly due to the high rate of return on this kind of investment, which is followed by the liquidity this investment method carries. Advantages of Investing in Equity Shares are as follows 1) Ownership of Company, 2) Higher Returns compared to MF, 3) Dividend diversified investment, 4) Liquidity.

CONCLUSION

The study conducted shows that most investors are aware of various schemes of mutual funds and other Investment Methods. Diversification of portfolio and tax benefits are the main factors of mutual fund that allure the investors. Most investors are aware of advantages of Mutual Funds and the preferred reason for investing in Mutual Funds is consistent returns given by these funds.

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