

Investment in Mutual Fund: Risk and Return Tradeoff

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ABSTRACT

India is currently undergoing a phase characterized by heightened saving and investment activities, particularly driven by the burgeoning working class. The swift growth of the Indian mutual fund industry has resulted in a substantial increase in assets managed by various fund companies. This research examines multiple factors that elucidate investors' preferences and behaviors concerning mutual funds. The study investigates the influence of diverse demographic and behavioral elements on investors. The research design, methodology, and approach are grounded in surveys and empirical analysis, with data collected from both primary and secondary sources. Hypotheses were tested using frequency distribution, percentages, the chi-square test, to ensure consistency. The findings reveal that investors' perceptions are shaped by economic, social, geographical, and demographic factors, including age, gender, marital status, occupation, financial literacy or awareness, access to banking and financial services, peer influence, and geographic location. Each of these factors uniquely impacts investors' investment decisions. This study distinguishes itself through its approach and seeks to contribute to the existing literature by developing a conceptual framework.

Keywords: Mutual Fund, investment decisions, risk and return, conceptual framework

INTRODUCTION

Investors have the option to select from a diverse range of investment vehicles, including non-marketable financial assets, equity shares, debt instruments, bonds, precious metals, mutual funds, life insurance, financial derivatives, and real estate. In light of reforms in the financial sector and transformations within the Indian financial markets, mutual funds (MFs) have emerged as a prominent investment choice for retail investors. They offer all types of investors, particularly smaller ones, an advantageous means to access the benefits of professionally managed equity investments.



A mutual fund operates as a trust that consolidates the savings of multiple investors who share similar financial objectives. The capital amassed from these investors is utilized to purchase shares, debentures, and various other instruments in the capital market. The proportion of income and capital gains that a unit holder receives is dependent on the number of units they possess. Consequently, mutual funds represent an ideal investment solution for the average individual by enabling them to invest in a range of expertly managed assets at a reasonable cost.

Among various investment alternatives, mutual funds have consistently been regarded as a stable and secure method of investing. This investment approach involves a group of individuals pooling their resources under the

supervision of a fund manager, who subsequently allocates this capital into substantial projects with the aim of achieving favorable returns (Elton & Gruber, 2013). These fund managers possess professional qualifications and certifications in financial markets and economic trends, which enable them to implement more effective risk and return strategies for their investors' funds (Bubb & Catan, 2020). As a result, investing in mutual funds presents a more attractive option with improved risk and return characteristics. Mutual funds typically invest in various financial instruments, including bonds, stocks, debentures, and securities from large corporations (Rouwenhorst, 2004). Regulated by law and meticulously managed by financial professionals, investments in mutual funds yield a substantial return on investors' savings. Mutual funds are presented to investors through different schemes or investment portfolios, whereby investors hold a certain proportion of units. Nonetheless, there are distinct variations in investment behaviors between rural and urban investors. Previous research has identified factors such as financial literacy, investment size, investor expectations, and risk-return ratios (Elton et al., 2019).

However, other influences also affect the investment decisions of individuals from rural and urban backgrounds. Consequently, this study aims to explore the factors that distinguish the investment choices of rural versus urban investors concerning mutual funds. The research is organized into several sections: the study background, research methodology, literature review, factors influencing investment decisions, and the conclusion.

LITERATURE REVIEW

In order to determine what information sources investor rely on Vijiyakumar M, Kabirdoss Devi (2024) conducted a study and finds out that the balance between risk and return in SIP versus lump sum investments in mutual funds, emphasizing metrics such as annualized returns, standard deviation, and Sharpe ratio to assist investors in aligning their strategies with their risk tolerance and investment objectives. According to the study by Singh and Jha (2009) When it comes to understanding and accepting mutual funds, consumers are primarily drawn to them for their potential returns, liquidity, and safety, despite not always having a full grasp of systematic investment plans. Prior to investing in mutual funds, individuals consider various factors. Chandra & Kumar (2012), through a survey of 350 individual investors, concluded that investor behavior is shaped by several psychological heuristics and biases. Their research underscores an uneven pattern in how information is utilized and shared among investors, which has a significant impact on their investment decisions. In 2015, Budhiraja explored the investment patterns of retail investors, particularly in the mutual fund industry. The study revealed that the return rate associated with an investment option is the most significant factor for nearly all age demographics. The findings also showed a connection between risk tolerance and age groups, but no link was found between an investor's risk tolerance and their level of education. Finally, the study concluded that neither the investor's gender nor the various investor categories significantly impact the influence of other factors when making investment decisions.

M. Vishali and Muhammed Shafi M.K. delineate the objectives of their study, which encompass clarifying the notion of Sustainable and Responsible Investment (SRI), evaluating the performance metrics of selected Environmental, Social, and Governance (ESG) funds within the Indian context, and investigating the emerging opportunities and inherent challenges prevalent in this sector. In order to ascertain the efficacy of ESG funds, the research employs an array of risk-adjusted performance indicators. Significantly, the ICICI Prudential ESG Fund in the Direct Plan-Growth (FDPG) option exhibits a markedly superior overall performance in comparison to other selected ESG fund schemes in India. In contrast, the Aditya Birla Sun Life ESG FDPG option is identified as the least effective performer when evaluated against its counterparts. S. Pavitra and Parthajit Kayal elucidate the multifaceted dimensions of mutual fund performance assessment and offer enhanced insights into the investment styles that are most appropriate for diverse funds. The implications of these findings may assist fund managers in optimizing returns by employing the most suitable investment style.

OBJECTIVES

The following aims are established to explore investor behavior regarding various investment options.

- To analyze the impact of different demographic factors on investors' views of mutual funds.
- To investigate the factors that influence investor behavior during the investment process.

- To understand how investors perceive aspects such as low risk/safety, liquidity, high returns, and the reputation of the company.
- To determine the factors that affect investors' preferences or choices among different investment opportunities.

RESULT ANALYSIS

The study uses a survey approach and is empirical and analytical. The study's approach intends to examine how retail investors like to invest their money and how demographic analysis might be used to allocate these preferences using primary data. A diverse sample of 100 educated investors in mutual funds for this study using a sampling technique. The majority of the information needed for this analytical investigation came from primary sources, but secondary data sources were occasionally taken into consideration as well. The secondary data was gathered from relevant research papers, books, journals, reports, and websites that were approved sources of information,

DATA ANALYSIS AND INTERPRETATION

The analysis of the data obtained from the questionnaire, which takes into account each factor, is shown below: Statistical Profile of Investors (Percentage Analysis) The investor's investment preference has been categorized based on a number of socioeconomic aspects and a few specific investment profile factors, i.e.

Table 1 Distribution of Sample Data

Variables	Category	Frequency	Percentage
Gender	Male	66	66
	Female	34	34
	Total	100	100
Age	Less than 30 Years	37	37
	30-40	24	24
	40-50	30	30
	More than 50 Years	13	13
	Total	100	100
Occupation	Professional	23	23
	Business	18	18
	Salaried	49	49
	Retired	10	10
	Total	100	100
Education	High School	5	5
	Graduation	26	26
	Post-Graduation	49	49
	Professional	24	24
	Total	100	100
Income Status	Less than 5 Lakh	51	51
	5-15	34	34

	15-25	14	14
	More than 25 Lakh	1	1
	Total	100	100

Table 2

	Gender	Favorable		Neutral		Unfavorable		Total
	Male	40		20		6		66
	Female	20		10		4		34
	Total	60		30		10		100

Gender vs. Perception of Mutual Funds

Table 2's calculated and tabulated values for the Chi square are respectively.

For $\chi^2 = 0.179$ with 2 degrees of freedom, $p \approx 0.914$.

Since $p > 0.05$, you fail to reject the null hypothesis.

H_0 is rejected because the calculated value is smaller than the tabular value. We conclude that there is a significant association between gender and the perception of mutual funds.

Qualification of Respondents and Mutual Funds Knowledge

Chi square analysis has been used to determine the relationship between investor qualification and mutual fund knowledge.

	Ignorant	Partial Knowledge	Aware of Schemes	Fully Aware	Total
High school	0	0	4	0	4
Graduation	0	8	16	2	26
Post-Graduation	3	28	14	3	45
Professional	0	0	18	5	23
Total	3	36	51	10	100

Qualification	Ignorant	Partial Knowledge	Aware of Schemes	Fully Aware	Total
High school	0.12	1.44	2.04	0.4	4
Graduation	0.78	9.36	13.26	2.6	26

Post-Graduation	1.35	16.2	22.95	4.5	45
Professional	0.69	8.28	11.73	2.3	23
Total	2.94	35.28	49.98	9.8	98

CRITICAL VALUE 16.9189776

P Value 4.56E-05

The calculated Chi-Square statistic exceeded the critical value of 16.9189776 indicating result statistically significant. Additionally, the p-value of 0.000045 is far less than the common levels of 0.05, confirming that the association between education level and mutual fund awareness highly significant. This means that there is strong statistical evidence to reject the null hypothesis (which states there is no association between qualification and awareness), and we can conclude that educational qualification significantly influences individuals' awareness and knowledge of schemes. Specifically, higher qualifications appear to be associated with greater awareness and understanding of mutual funds.

The ANOVA test has been used to determine whether there is a correlation between investors' age and the criteria they value most when making investment decision.

Table 4 Factors Preferred the Most by Investors

Age	Liquidity	High Return	Low Return	Total
Less than 30 Years	8	23	5	36
30–40 Years	8	16	8	32
40–50 Years	10	8	1	19
50 Years and above	7	5	1	13
Total	33	52	15	100

Anova: Single Factor

SUMMARY

Anova: Single Factor

Groups	Count	Sum	Average	Variance
Column 1	4	33	8.25	1.583333
Column 2	4	52	13	66
Column 3	4	15	3.75	11.58333

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	171.1667	2	85.58333	3.243158	0.086961	4.256495
Within Groups	237.5	9	26.38889			
Total	408.6667	11				

P-value = 0.0869 This implies that there is no statistically significant difference in the investment preferences (liquidity, high return, low return) across different age groups.

SUGGESTIONS

Investors are recommended to maintain their investments over an extended duration while taking into account their risk tolerance and saving behaviors, to engage private financial advisors to assist them in formulating an investment portfolio that mitigates their risk exposure, to refrain from investing in excessively volatile securities, to accumulate comprehensive information prior to making an investment, and to execute regular evaluations of their investments and risk assessments.

In order to effectively manage the risks associated with investments, investors ought to judiciously and strategically diversify their mutual fund portfolios. Furthermore, it is advisable for investors to cultivate a habit of consistent saving, as modest amounts of money saved over time can accumulate into substantial capital, thereby enabling them to generate additional income despite fluctuating market conditions. A primary recommendation is to allocate a significant portion of one's funds into liquid securities to ensure coverage for any unexpected circumstances.

CONCLUSION

Based on demographic differences, the study has brought attention to the differences in investment behavior among various investor classes. Investors are aware of the various mutual fund programs, the survey claims.

The greater return, safety, and tax benefits of mutual funds attract investors. There is plenty for the country's mutual fund business to learn and expect. Despite the challenges it encounters, such as low knowledge and financial literacy, the industry is growing in importance as the nation's working class and youth population mature.

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