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# A STUDY ON INVESTORS' PERCEPTION AND INVESTMENT BEHAVIOUR TOWARDS MUTUAL FUNDS IN THE DIGITAL ERA

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## ABSTRACT

Mutual funds have become an important investment avenue for individuals seeking diversification, professional management and relatively convenient access to financial markets. The decision to invest in a mutual fund, however, is influenced not only by expected returns but also by risk perception, investment knowledge, liquidity, past experience, financial goals and confidence in fund managers and institutions. This study examines investors' perception towards mutual fund investment and identifies the major factors that influence their investment decisions. The study uses a descriptive research design and considers primary responses from 100 hypothetical respondents for academic analysis. Variables considered include awareness, safety, return expectation, liquidity, tax considerations, professional management, systematic investment plans and risk. The analysis indicates that investors generally view mutual funds positively, particularly because of diversification and professional management. At the same time, risk, lack of product knowledge and uncertainty regarding returns remain important concerns. The paper suggests stronger investor education, clearer product communication and goal-based financial guidance to improve informed participation in mutual funds.

**Keywords:** Mutual Funds, Investor Perception, Investment Decision, Risk, Return, Investor Awareness, SIP.

## 1. INTRODUCTION

Investment decisions are an essential part of personal financial planning. Individuals normally allocate their savings among bank deposits, insurance, shares, bonds, gold, real estate and market-linked financial products. Mutual funds occupy an important position in this investment landscape because they pool money from several investors and invest it in a professionally managed portfolio according to a stated investment objective. This structure allows small investors to participate in securities markets without selecting every security themselves.

Investor perception plays a significant role in determining whether a person chooses a mutual fund, continues an existing investment or shifts to another avenue. Perception is shaped by an investor's understanding of risk and return, previous experience, income level, investment horizon, financial goals and information received from financial institutions or other sources. Therefore, studying perception is useful for understanding the gap between the availability of mutual fund products and actual investor participation.

The Indian mutual fund industry has expanded considerably with the development of digital investment platforms, systematic investment plans and wider financial awareness. Despite this growth, some investors continue to associate market-linked products with high uncertainty. Others may select funds primarily on the basis of past returns without adequately considering risk, time horizon or suitability. A systematic study of perception can help identify these behavioural patterns.

This research therefore focuses on the factors that influence investors' attitudes towards mutual funds and the considerations that affect their investment decisions.

## 2. REVIEW OF LITERATURE

Previous studies on mutual fund investment have generally examined investor awareness, risk-return preferences, demographic influences and the factors affecting fund selection. Research in this area commonly observes that investors do not evaluate mutual funds solely on expected financial returns. Convenience, reputation of the fund house, transparency, liquidity and professional management also influence their choices.

Studies on investor behaviour have highlighted the importance of financial literacy. Investors who understand concepts such as diversification, asset allocation and market risk are more likely to evaluate mutual funds according to their objectives rather than relying only on informal recommendations. Financial awareness can therefore improve the quality of investment decisions.

Research concerning systematic investment plans has also indicated that SIPs can encourage disciplined investing because investments are made at regular intervals. The method may be attractive to salaried and middle-income investors who prefer gradual investment rather than committing a large amount at one time. Nevertheless, the suitability of SIPs depends on the investor's financial capacity, objective and time horizon.

Other studies have found that risk perception is a major determinant of investment behaviour. Investors who strongly prefer capital protection may favour deposits and other comparatively stable instruments, whereas investors with greater tolerance for market fluctuations may consider equity-oriented mutual funds. This demonstrates that the same product can be perceived differently by different investors.

The literature further suggests that demographic variables such as age, income, education and occupation may be associated with differences in investment awareness and preferences. However, demographic characteristics alone do not completely explain investment behaviour. Personal financial goals, previous experience and access to reliable information also matter.

## 3. STATEMENT OF THE PROBLEM

Although mutual funds provide diversified investment opportunities, investors may face difficulty in selecting suitable schemes because of the large number of products and differences in risk levels, investment objectives and costs. Some investors may also misunderstand the relationship between market risk and expected return. The central problem addressed by this study is therefore to understand how investors perceive mutual funds and which factors most strongly influence their investment decisions.

## 4. OBJECTIVES OF THE STUDY

• To study the level of awareness of investors regarding mutual fund investment.

• To identify the major factors influencing investors' choice of mutual funds.

• To examine investors' perception of risk, return and liquidity in mutual funds.

• To understand the importance of professional management and diversification in investment decisions.

• To offer suggestions for improving investor awareness and informed mutual fund participation.

## 5. RESEARCH QUESTIONS

• What is the general level of awareness among investors about mutual funds?

• Which factors are most influential in selecting mutual fund investments?

• How do investors perceive the risk and return characteristics of mutual funds?

• Does professional management influence investors' confidence in mutual funds?

## 6. RESEARCH METHODOLOGY

**Research design:** The study follows a descriptive research design because its primary purpose is to describe investors' awareness, opinions and perceptions regarding mutual fund investment.

**Source of data:** The study is structured around primary data collected through a questionnaire for academic analysis. Secondary information is considered from standard financial and regulatory publications for conceptual understanding.

**Sample size:** 100 respondents are considered for the illustrative analysis presented in this paper.

**Sampling method:** Convenience sampling is used for the academic model because respondents are selected based on accessibility and willingness to participate.

**Area of study:** The study is framed for individual investors in an urban/semi-urban Indian context.

**Tools for analysis:** Percentage analysis is used to summarise responses. A simple ranking approach is also used to identify relatively important investment factors.

**Period of study:**The study is presented as an academic cross-sectional analysis based on a questionnaire administered for the purpose of the research model.

## 7. PROFILE OF RESPONDENTS

| Category | Classification | Respondents |
|---|---|---|
| Age | Below 25 years | 24 |
| Age | 25–35 years | 31 |
| Age | 36–50 years | 28 |
| Age | Above 50 years | 17 |

| | | |
|---|---|---|
| Monthly income | Below ₹25,000 | 22 |
| Monthly income | ₹25,000–₹50,000 | 35 |
| Monthly income | ₹50,001–₹75,000 | 25 |
| Monthly income | Above ₹75,000 | 18 |

The illustrative respondent profile indicates representation from different age and income groups. The largest age group is 25–35 years, while the largest income group falls between ₹25,000 and ₹50,000 per month. This provides a reasonable basis for examining differences in perception within the academic sample.

## 8. AWARENESS OF MUTUAL FUNDS

| **Awareness level** | **Respondents** | **Percentage** |
|---|---|---|
| High | 38 | 38% |
| Moderate | 44 | 44% |
| Low | 18 | 18% |

Interpretation: The model results show that 82% of respondents report either high or moderate awareness. However, the presence of 18% with low awareness indicates a continuing need for basic investor education.

## 9. INVESTMENT PREFERENCES AND PERCEPTION

| **Primary reason** | **Respondents** | **Percentage** |
|---|---|---|
| Higher return potential | 27 | 27% |
| Diversification | 24 | 24% |
| Professional management | 19 | 19% |
| Tax-related benefits | 12 | 12% |
| Liquidity/convenience | 10 | 10% |
| SIP discipline | 8 | 8% |

Interpretation: Return potential is the most frequently identified reason, followed by diversification. This suggests that investors value both financial performance and the reduction of concentration risk. Professional management is also significant because investors may prefer experts to select and monitor securities.

## 10. PERCEPTION TOWARDS RISK

| **Risk perception** | **Respondents** | **Percentage** |
|---|---|---|
| Low risk | 16 | 16% |
| Moderate risk | 55 | 55% |
| High risk | 29 | 29% |

Interpretation: A majority perceive mutual funds as carrying moderate risk. The 29% who perceive high risk demonstrate why risk communication is important. Mutual funds are not uniformly low- or high-risk; the risk level depends on the underlying assets and the investment strategy of the scheme.

## 11. PREFERRED INVESTMENT MODE

| Mode | Respondents | Percentage |
|---|---|---|
| SIP | 57 | 57% |
| Lump-sum | 28 | 28% |
| Both | 15 | 15% |

Interpretation: SIP is the preferred mode among the illustrative respondents. Regular investment can suit individuals who wish to invest gradually and maintain financial discipline, although investors should still review whether the chosen scheme matches their objectives and risk capacity.

## 12. FACTORS INFLUENCING FUND SELECTION

| Factor | High importance | Moderate importance | Low importance |
|---|---|---|---|
| Past performance | 46 | 38 | 16 |
| Risk level | 61 | 29 | 10 |
| Fund reputation | 39 | 43 | 18 |
| Expense/cost awareness | 22 | 49 | 29 |
| Liquidity | 35 | 44 | 21 |
| Fund manager expertise | 42 | 40 | 18 |

Interpretation: Risk level receives the highest proportion of high-importance responses. Fund manager expertise and past performance are also important. The comparatively lower importance assigned to expense awareness indicates an area where investor education could be strengthened.

## 13. PERCEPTION OF RETURN

Investors generally expect mutual funds to provide better long-term growth opportunities than conventional savings products, while recognising that returns are not guaranteed. The perception of return is influenced by past market performance, media coverage, peer experience and the investor’s own financial objectives. A sound investment decision should therefore consider expected return together with risk, time horizon, costs and diversification.

## 14. ROLE OF DIVERSIFICATION

Diversification is one of the central advantages associated with mutual funds. Instead of depending on the performance of a single security, a diversified fund may spread investments across several securities or asset classes according to its mandate. This can reduce security-specific concentration, although it cannot eliminate market risk. Investors should understand that diversification reduces certain types of risk but does not guarantee profits or protect against all declines.

## 15. ROLE OF PROFESSIONAL MANAGEMENT

Professional management is another important factor shaping investor perception. Fund managers and their teams conduct research, portfolio monitoring and investment decisions within the scheme’s stated mandate. For investors who lack the time or expertise to research securities individually, this feature can increase convenience. Nevertheless, professional management does not guarantee superior performance, and investors should examine the scheme objective, risk profile, portfolio and relevant disclosures before investing.

## 16. DIGITAL ERA AND MUTUAL FUND INVESTMENT

The digital era has significantly transformed the way investors access, evaluate, and invest in mutual funds through mobile applications, online investment platforms, fintech services, and digital advisory tools. These technological developments have made mutual fund investment more convenient, faster, accessible, and transparent. Investors can compare mutual fund schemes, monitor fund performance, complete transactions, and receive investment-related information in real time. Digital KYC, online account opening, Systematic Investment Plans (SIPs), and automated investment facilities have further simplified the investment process and encouraged greater participation among retail investors.

## 17. FINDINGS OF THE STUDY

1. The illustrative sample shows a generally positive attitude towards mutual funds, although investors remain conscious of market risk.
2. Most respondents have at least a moderate level of awareness, but a meaningful minority has low awareness.
3. Return potential is the leading stated reason for considering mutual funds.
4. Diversification is a major perceived advantage and contributes to investor confidence.
5. Risk level is one of the most important factors considered when selecting a fund.
6. SIP is the preferred investment mode among the illustrative respondents.
7. Professional management is valued because it provides convenience and investment expertise.
8. Past performance influences decisions, but reliance on past performance alone may lead to unsuitable choices.
9. Expense and cost awareness appears comparatively weaker than awareness of return and risk.
10. Investor education is therefore necessary to improve product understanding and goal-based selection.

## 18. DISCUSSION

- The findings indicate that investor perception is multidimensional. Investors balance the possibility of higher returns against the possibility of market fluctuations. This is important because mutual fund investment cannot be evaluated using return alone. A scheme that has generated strong historical performance may still be unsuitable for an investor whose financial goal requires stability or who has a short investment horizon.
- The strong preference for SIP reflects the appeal of regular investment and financial discipline. However, SIP should not be treated as a guarantee of profit or as a method that removes market risk. Its usefulness depends on the suitability of the underlying scheme, the investor’s ability to continue contributions and the time available for the investment objective.

- The study also highlights an awareness gap regarding costs. Expense ratios, exit loads where applicable and other charges can affect investor outcomes. Transparent communication of these factors can help investors compare alternatives more effectively.
- Overall, investors appear to appreciate mutual funds as a professionally managed and diversified investment avenue, but better understanding of risk, costs and suitability is required for more informed decisions.

## 19. IMPLICATIONS

For mutual fund institutions, the findings suggest the importance of simple communication, investor education and transparent disclosure. For financial advisers and distributors, the results emphasise the need to match products with investor objectives and risk capacity. For investors, the key implication is that investment decisions should be based on financial goals and suitability rather than advertisements, peer pressure or isolated historical returns.

## 20. SUGGESTIONS

• Conduct regular investor-awareness programmes explaining basic mutual fund concepts, risk categories and investment horizons.

• Provide simple comparisons of scheme objectives, risk levels, costs and liquidity features.

• Encourage investors to identify financial goals before selecting a mutual fund.

• Investors should avoid selecting schemes solely on the basis of recent or historical returns.

• Greater attention should be given to expense-related information and the effect of costs on long-term outcomes.

• SIP may be considered for disciplined investing when it is consistent with the investor's cash flow, objective and risk capacity.

• Digital platforms should present risk and product information in clear, non-technical language.

• Investors should review their portfolio periodically rather than reacting to short-term market movements.

• Financial education should focus particularly on first-time and low-awareness investors.

• Investors should use regulated and reliable sources of information and verify scheme documents before investing.

## 20. LIMITATIONS OF THE STUDY

1. The analysis uses an illustrative sample of 100 respondents and should not be treated as a representation of all Indian investors.
2. Convenience sampling may introduce selection bias.
3. The study focuses on perception and does not measure actual investment performance.
4. Investor opinions may change with market conditions, economic circumstances and personal financial situations.

5. The percentage tables are constructed for academic research-paper presentation and should be replaced with field-survey results if the paper is submitted as primary empirical research.

## 21. CONCLUSION

Mutual funds have emerged as an important investment avenue because they combine pooled investment, diversification and professional management. The study finds that investors generally have a favourable perception of mutual funds, particularly in relation to return potential, diversification and professional management. At the same time, market risk and incomplete product knowledge remain significant concerns. The analysis demonstrates that investor perception is influenced by both financial and behavioural factors. A responsible investment decision requires consideration of the investor's objective, time horizon, risk capacity, liquidity needs and understanding of the product. Improving financial literacy and providing transparent, accessible information can help investors make better-informed choices. Thus, the long-term development of mutual fund participation depends not merely on increasing the number of investors but also on improving the quality of investment decisions. Mutual funds can be useful components of a diversified financial plan when selected appropriately and reviewed in accordance with changing financial goals.

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