

Investor Perception about investing in Mutual Funds and the role of Mutual Funds in development of Indian Stock Markets

Syed Sharique Hassan

Symbiosis Centre for Management and Human Resource Development, SCMHRD Symbiosis International (Deemed University), SIU Hinjawadi, Pune, Maharashtra, India
syed_hassan@scmhrd.edu

ABSTRACT

Purpose: The Study would analyse sentiment of individuals towards investing in equities through Mutual Funds, while attempting to establish a correlation between growth of MF industry and Indian stock markets.

Methodology: Primary data collection - questionnaire floated to individuals of different sex, age, gender, education, etc., to assess their financial literacy and the factors that have contributed to increased investment in MFs. Secondary research - data from AMFI / MFs websites, analysing the increase in AUM of Equity MFs over the last two decades' vis-a-vis Market Capitalisation, using correlation. On the primary set of data, a t-test was conducted and Pearson's correlation was applied on the secondary data. A percentage analysis was done for sentiment analysis.

The Implications: The Study would help in gauging financial literacy of individuals, and also deepen our understanding of investment in stock markets through MFs.

Originality: There have been a few studies on financially literate investor's preference for direct investment over investing through Mutual Funds, but not many on investor sentiment towards stock markets in general and Mutual Funds in particular.

Keywords

Mutual Funds, Financial Literacy, Investment, Sentiment

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Introduction

An MF (mutual fund) works as a trust that collects investments from different investors, having common financial goals. The amount gathered from individuals is used to purchase units of different mutual funds such as large-cap funds, small-cap funds, mid-cap funds, etc. Diversification reduces risk by investing in various stocks and all stocks may not move in tandem with the stock market. The total dividend, interest, capital gain, or losses are divided among all the investors in the proportion of their holdings purchased. Hence, a Mutual Fund is one of the best investment opportunities for individuals who are less financially educated. It gives investors to invest in different securities managed by professionals. Also, the cost of the investment is very low.

An MF is established in the form of a trust. An MF has three distinct entities: sponsor, trustee and asset management company. The sponsor is an individual who either acts in isolation or with another corporate body and to create a fund. The total contribution by the sponsor must at least be a minimum 40% of the total worth of the managed investment. Sponsor also needs to complete the eligibility criteria prescribed under the SEBI regulations, 1996. The sponsor will not be held liable for any capital loss or shortfall caused due to the operation of various funds besides the preliminary capital support for setting up the mutual fund. The sponsor sets up the mutual fund as a trust in agreement with the various provisions of the ITA 1882. Generally, the trustee is a corporation or a board of trustees (a body of individuals). Trustee's highest obligation is to guard the interest of the mutual fund investors. Trustee should also make sure that the asset management companies function within the interest of

unitholders and in accord with the SEBI (Securities and Exchange Board of India) Regulations, 1996, the provisions of the trust deed and the Offer Document of the respective schemes. Asset management companies are appointed as fund managers of mutual funds by the trustee or trustees. Until SEBI approves AMC to act as an asset management company of the mutual fund, AMC cannot start functioning. If the deed of trust authorizes the AMC, then only it can appoint the Transfer Agent and Registrar of the MF (mutual fund). It is the registrar who processes application form, makes redemption requests, and mails the statements of account to mutual fund investors. Also, the Registrar and Transfer Agent communicate to the fund holders and even update the records on their behalf.

Comparison between Investment in a Bank and Mutual Fund (Table 1.0)

Factors	Bank	Mutual Fund
Risk	Low	Moderate
Liquidity	Fully Liquid	High, except in Close-Ended Funds
Return	Low	High
Administrative Expense	More	Less
Investment Options	Less	Numerous
Network	High	Low but rapidly increasing
Guarantee	Max. Rs.1	None

Growth and History of Mutual Funds

Mutual Funds have been one of the largest sources of investment in corporate and government securities in India. For decades, there was a monopoly in mutual funds in India. UTI was the only major fund company in the market, having funds in excess of Rs.300 billion. Currently, there are various MF companies in the country which include private and foreign companies and also state-owned banks. The mutual fund industry history can be broadly categorized into 4 phases. The first phase was from the year 1964-1987. During the start of the year 1963, Unit Trust of India (UTI) was formed under an act of Parliament. RBI had setup Unit Trust of India and UTI had to function under RBI's structural and supervisory control.

In 1978 IDBI took charge of the administration and management of UTI. In the 1964 Units Scheme was the first scheme that was launched by UTI. By the end of 1988, UTI had assets worth Rs.6700 crore under its management.

The II phase began from the year 1987 and lasted till 1993. Banks entered into the mutual fund market. Spearheaded by SBI Mutual Fund in June 1987 and trailed by Canbank MF (Mutual Fund) in Dec 1987, PNB MF (Mutual Fund) in Aug 1989, Indian Bank MF (Mutual Fund) in Nov 1989, Bank of India MF (Mutual Fund) in June 1990, Bank of Baroda MF in the October of 1992. By June 1989 LIC started its own MF and by December of 1990 GIC had begun its own mutual fund. The mutual fund sector had assets worth Rs.47,004 crore under its management by the end of 1983. The third phase began in the year 1993 and ended in 2003. The III phase witnessed an increase in the number of private players and thus began a new period in the history of the mutual fund sector. Now the common Indian folks had a broad range of mutual funds to pick from. In 1993, the first set of regulations came into effect for Mutual Funds. Under which all the MFs (mutual funds) had to follow the guidelines, only UTI was exempted from the regulation.

In July 1993, the first private sector mutual fund, Kothari Pioneer (now it has merged with Franklin Templeton) got registered. The total Assets under management stood at Rs.1.21 lakh crore by the end of January 1993. The IV phase began in the month of February 2003 saw the division of UTI into 2 different entities.

Specified Undertaking of UTI (Unit Trust of India) was the first entity with assets under management valued at Rs.29,835 crore by January 2003. The second was the UTI Mutual Fund, sponsored by PNB, LIC, SBI, and BOB with AUM (assets under management) around Rs.76,000 crore.

In a country like India, real estate and gold have always been the main investment assets for ages. It is only during the last 5 years that investment in equity has emerged as a viable alternative.

According to Motilal Oswal, the equity segment of local mutual funds the Assets under Management (AUM) climbed 23% annually. In 2019, the overall equity asset being managed stood at Rs 9 lakh crore and increased consecutively for six years. In the second quarter of the financial year 2019-2020 the total share of domestic institutional investors in BSE (Bombay Stock Exchange) 500 companies reached a phenomenal 14.4%. During the last 5 years, mutual funds capitalized Rs 4.5 lakh crore in the equity market, outperforming their foreign peers by 2.6 times. Between the years 2013 and 2019, mutual funds had assets under management worth Rs.26.9 lakh crore, growing at a phenomenal average rate of 23% per annum. Mutual fund's asset under management that came through banks was 10% of the bank deposits in the year 2013 and currently, it has increased to 18%. SIPs (Systematic Investment Planning) have increased at a rate of 28% from 2016 to 2019. At the end of December 2019, the total AUM through SIPs stood at Rs.3.2 lakh crore accounting for 11% of Mutual fund AUM.

India has net household savings worth Rs.32 lakh crore annually, the 3rd largest among key economies. India's share is 0.7% in Mutual Fund assets while its global GDP share and market capital was more than 3%. This shows that there is a strong growth potential for expansion.

Objectives

1. To examine the relationship between the growth of investment in mutual funds and the growth of investment in Indian stock markets.
2. To evaluate the financial literacy of common people and its relation with the decision to invest in MFs.
3. Understand the other major reasons that influence investment in mutual funds.
4. To study the sentiments of investors when investing in mutual funds during the ongoing pandemic.

After the literature review, the intuitive assumption is that there might be a direct correlation between higher investment in MFs (Mutual Funds) and the growth of stock markets in India. Also, there might exist a strong relationship between financial education and choice to invest in MFs (mutual funds).

Literature review:

Mutual funds came into existence in India markets a little later than the western world. Mutual funds offer investors the opportunity to save even a small amount. Due to this, the mutual fund industry is developing, augmenting the assets of

both private and government mutual fund companies. Direct investment has always been perceived as riskier as compared to investment in mutual fund markets (Prabhu, 2015).

Mutual fund delivers improved capital development and income via dividends, investing opportunities, etc. The fund manager constantly tries to provide information to investors about the various investment options. Mutual funds are the best source of investment for investors who lack proper financial knowledge and have long term financial goals. Mutual fund's performance is judged on the basis gains or losses (Pandey, 2017).

The MF industry has studied the mind-sets and moods of various investors and devised innovative investment policies that can draw a large number of investors. The industry is working on the inadequacies of the mutual fund to attract investors. The function of financial agents, advisors, and brokers is being redefined to tackle the difficulties met by the Indian MF industry (Muthukrishnan, 2016).

Mutual funds in India have designed various schemes such as balanced funds, growth rate funds, tax saving schemes, etc. to fulfill the requirements of different investors by minimizing their risk and maximizing their gains (Duggimpudi, 2010).

It is also important for the industry to understand the common behavior, sentiments, patterns of different groups of investors (Shukla, 2014).

(Agrawala, 2015) conducted an experiment to comprehend the effect that demographic factors have on investment decisions related to mutual funds. It was established that an individual's demographic profile (age, marital status, and occupation) has a direct influence on his or her selection of investment.

It was also found that an investor's age, gender, and income are directly related to his or her attitude (Parihar B B S, 2009).

It was discovered that females are generally dubious when it comes to investing in these funds. The reasons were lack of knowledge & understanding related to money protection, investment procedures, investment valuation, and redressal of grievances of investment problems (Desigan G, 2006).

Social-economic factors such as education, sex, and reserves (savings) of investors are not closely related, but there is a correlation between the age of investor and saving habits (PR, 2015).

Investor's perception and choices have been studied to know why investors choose a particular fund category, the rationale behind choosing an investing scheme, level of satisfaction, financial advisor and brokers' role, sources of knowledge, inadequacies in the fund manager's service, etc. (Vasudevan).

The research showed that mutual fund investors identify risk as underperformance of a fund. Mutual funds have mediocre risk and return and this did not please investors. Many investors were not financially knowledgeable and still trusted on customary patterns of investing in banks and postal savings. Also, many investors never carried on their investment for more than a period of three years because they did not get the desired return that they were informed about at the inception of the scheme. A lot of investors also depended on their particular agents and financial advisors to invest in funds. Individuals generally opt for mutual funds

due to factors such as return, liquidity, and safety when compared with directly investing in stocks. Many of them were not aware of the SIP (systematic investment plan) (Jha, 2009).

Many individuals prefer to choose mutual funds because mutual funds are less riskier and more rewarding (Rathnamani, 2013)

Few researchers believe that maybe financial literacy makes mutual fund investor trust active management. This phenomenon is known as the "smart money" effect (Gruber, 1996).

However, there is no empirical proof that financial literacy makes mutual fund investors choose superior funds {e.g. (Gruber, 1996), (Zheng, 1999), (Sapp, 2004), and (Keswani, 2008)}; still there is no agreement on this matter. Although some researchers claim to distinguish the bad funds from good funds by using more advanced techniques rather than the funds' past performance {e.g. (Cohen, 2005), (Cremers, 2009) and (Kacperczyk, 2008)}. Based on the results of past U.S surveys, it was concluded that a normal mutual fund investor has less financial knowledge about his or her own investments, hence one cannot call this the smart money effect though using some properties of the fund one might try to predict the future outcome. The majority of the investors are hardly aware of the risk and gain connected with actively managed funds {e.g. (Capon, 1996) and (Alexander, 1998)}.

On the whole, the surveys indicated that most fund investors had limited financial knowledge and the level of financial education is key a determinant to understand the reasoning behind investing in a particular fund. Ingenuous investors, who lack the information that actively managed funds are costly, might switch to these funds on the recommendations of various brokers and financial agents.

Though there are various ways to financial literacy, most of the definitions largely suggest the skill with which an individual can obtain, comprehend and gauge the information to make the best decision that protects their financial future. After examining a number of papers on financial literacy, (Huston, 2010) suggested that the subject should also embrace the use of financial knowledge; it stated that without the know-how of how to use financial knowledge an individual is not financially literate.

After looking at various definitions for this research, OECD's definition of financial literacy was chosen for this research, "A combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing."

(Bahadur, 2015), explored the two pillars of the economy: financial literacy and financial inclusion. Data was collected from 202 people living in Mumbai and Thane district. On the basis of the data, it was found that individuals had very a low degree of financial proficiency and the study proposed to develop financial literacy programs at the school level and national-level programs to teach people at the grass-root level.

Various researches around the globe have found that a substantial portion of people is less financially literate {for instance, (Lusardi, 2008), (Tufano, 2009); (Van Rooij, 2011)}.

It was seen that low financial literacy leads to inefficient financial outcomes such as planning for retirement (Mitchell, 2007) borrowing decisions (Tufano, 2009), and buying equities (Van Rooij M. L., 2011).

Financial literacy's different dimensions should be measured separately. It was found that over-indebtedness was lower among people having higher financial literacy (Schicks, 2014).

Sex has an impactful influence on financial proficiency. Men are more financially educated than their female counterparts, but if women were provided with education, wealth management and assurance by their spouses, their awareness could increase (Fletschner, 2011).

(Hsu, 2011) discovered that women take active participation in financial management as soon as their spouses start losing cognitive skills.

(Swamy, 2014) found that in families where females make financial contribution were more financially literate.

Field surveys of a few nations showed that financial literacy was low among the people, especially the young. Studies conducted in the U.S found that the youth of the nation had low financial proficiency (Lusardi A. M., 2010).

A major difference was found between men and women, with the latter showing less financial literacy. The results perfectly showed that knowledge (financial) among adults is low (Lusardi A. &, 2014), elder females (Lusardi A. &, 2008), and students in high school (Mandell, 2008) in the US. Even in other developed and developing nations, people had low levels of financial knowledge. On the basis of different studies, it was found that Indians have less financial literacy.

The VISA study conducted in the year 2020 placed India at 23rd position among the 28 nations that were surveyed. Although there have been differences in the result found on the basis of the target groups, and the population, many studies found a noteworthy progressive impact of education and financial income on financial knowledge.

It is thus observed that there have been a few studies on financially literate investor's preference for direct investment over investing through Mutual Funds, but not many on investor sentiment towards stock markets in general and Mutual Funds in particular.

Accordingly, on the basis of literature review, and the objective(s) of the Study, the following hypotheses were framed:

Hypotheses

H01: There is no significant relationship between the increase in Mutual Fund investment and the growth of Indian Stock Markets.

H02: There is no significant relationship between financial literacy of people and the manner in which they invest in mutual funds.

Methodology and data analysis:

Research Design and Research Methodology

This Study has been undertaken in the form of descriptive research. The survey method of descriptive design was used

to obtain primary data with respect to financial literacy, current sentiments of people towards the macro-economic factors and factors that affect investing in mutual funds. Secondary data was collected from BSE / NSE / Money Control websites to analyze the relationship between mutual funds and the stock market.

Survey Location and Target Population

The survey was carried out pan India. Individuals - both males and females - who have invested in mutual funds even once were considered as target respondents for the primary questionnaire.

Sampling technique:

Convenience Sampling technique and Snowball Sampling technique, both were used for the collection of the primary data, while the secondary data was collected from numerous websites.

Questionnaire Design: (Table 2.0)
(Financial Literacy Questions) (Finra, n.d.)

○ Let us assume you have Rs. 100 in a bank account earning 2 % interest a year. What amount will you have after a span of 5 years?
○ Let us say that the interest rate that your savings account gives you is 1 percent per annum and the rate of inflation is 2% a year. After a year, would your money buy more when compared to today, exactly the same or less than today?
○ What would happen to the bond prices if there is a rise in the interest rate? Increase, decrease, remain constant, or no relationship exists?
○ A 10-year loan generally requires higher EMI payments than a 20-year loan. Will the total interest paid over the required term of the loan would be less?
○ One company's stock provides safer returns when compared to a mutual fund unit.
○ The interest rate on Rs. 1000 is 20% compounded annually. How many years will it take for the amount to double if you did not pay any amount?

The questionnaire was prepared in two stages. In the first stage, the questions were designed on the basis of literature review and various financial literacy test websites. The questions were refined in the second stage, on the basis of responses received from a few mutual fund investors in the first stage.

In this part of the questionnaire (financial literacy test), options for answers were provided in Multiple Choice form: i.e. True / False / Don't Know or different numbers, as applicable.

Another set of questions asked the respondents to rate (on a scale of 1 to 5) the factors on the basis of which they invest in mutual funds.

Tools used

An online form was floated amongst a cross-section of people to collect primary data, and T-Test was applied to the primary research data. Pearson Correlation Model was used for analyzing the secondary research data

\Sample Profile (Primary Data)

There were 120 respondents surveyed, out of which 70% were males and 30% were females. The age profile of the respondents was as under:

(Table 3.0)

Age-group	% Respondents
18-25 years	69%
26-35 years	20%
36-45 years	3%
46-60 years	6%
Above 60 years	2%

The selection of respondents was purely on a random basis, except that all were adults and had passed at least High School. Sample size of 120, comprising a cross section of men and women of different age groups, financial status and educational background, was considered to be adequate to ensure that there would be no bias in the results of the Survey towards any particular investor group, although almost all respondents were from Middle or Upper Middle Class.

All respondents were asked to take a financial literacy test and on the basis of the financial literacy test, their responses to the subsequent questions were analysed. The financial literacy test consisted of 6 easy questions as enumerated above. Respondents who answered more than 4 questions correct were grouped together in one group named Group A and respondents who had got than 5 questions correct were grouped in another group named Group B.

Both the groups were asked to rate the factors which affect the decision relating to an investment in mutual funds. The following 10 factors were selected on the basis of the literature review:

1. Liquidity
2. Fund's past performance
3. Fund Manager's experience
4. Comparison with other Mutual funds
5. Risk
6. Risk Diversification
7. Professional Management of the Fund House
8. High Volatility in the Market
9. Return
10. SIP (Systematic Investment Plan) / SWP (Systematic Withdrawal Plan)

Secondary Data (Table 4.0)
(in Rs. crore)

Year	Net Purchases by DII (All market instruments)	Net Mutual Fund Purchases /Sales (Equity only)	Market Capitalization of NSE
2010-2011	(16,395)	(20,573)	67,02,616
2011-2012	(3,786)	(1,117)	60,96,518
2012-2013	(66,936)	(22,857)	62,39,035
2013-2014	(54,072)	(21,274)	72,77,720
2014-2015	(19,264)	41,154	99,30,122
2015-2016	78,687	63,889	93,10,471
2016-2017	29,932	54,735	1,19,78,421
2017-2018	1,14,600	1,41,482	1,40,44,152
2018-2019	72,407	80,412	1,49,34,227

(Source: moneycontrol and NSE)

Hypothesis Testing

H01: There is no significant relationship between the increase in Mutual Fund investment and growth of Indian Stock Markets.

Pearson Correlation Model was applied on the above secondary data, i.e. Net Mutual Fund Purchases/Sales (Equity) and Market Capitalization of NSE (National Stock Exchange).

Findings:

Pearson Correlation (Table 5.0)

Correlations		
	Net Equity Investment by Mutual Funds	Market Capitalization of NSE
Net Equity Investment by MFs	1	.895**
Pearson Correlation		.001
Sig (2-tailed)		
N	9	9
Market Capitalization of NSE	.895**	1
Pearson Correlation	.001	
Sig (2-tailed)		
N	9	9

** Correlation is significant at 0.001 level(2-tailed).

This goes to establish that there is a significant relationship between the increase in Mutual Fund investment and growth of Indian Stock Markets.

Hypothesis Testing

H02: There is no significant relationship between financial literacy of people and the manner in which they invest in mutual funds.

Group Statistics(Table 6.0)

Financial Literacy	N	Mean	Std. Deviation	Std. Error Mean
FLit	10	3.9610	.26405	.08350
FNlit	10	3.9900	.30908	.09774

Independent Sample Test(Table 7.0)

Levene's Test for Equality of Variances	t-test for Equality of Means						
	F	Sig.	t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
Equal Variances assumed	.049	.827	(226)	18	.824	-.02900	.12855
Equal Variances not assumed			(226)	17.571	.824	-.02900	.12855

Since the significant value is more than 0.05 (p > 0.05), therefore, we do not reject the null hypothesis.

Thus, our survey results indicate that financial literacy has no significant effect on the manner of individuals while investing in Mutual Fund.

Sentiment analysis:

- Out of all respondents investing in mutual funds, only 23% were continuing with SIPs during the ongoing pandemic.
- Respondents were asked about their current sentiments on the various macro-economic factors of the economy, seeking their responses on a 5-point scale that ranged from very negative to very positive. Analysis of the responses is furnished in the table below: (Table 8.0)

Sentiment Factors	Very Negative	Negative	Neutral	Positive	Very Positive
Economic Growth	21.31 %	50.81 %	13.11 %	8.2 %	6.55 %
Rising Inflation	8.2 %	39.34 %	32.79 %	18.03 %	1.64 %
Unemployment	40.98 %	39.34 %	6.56 %	3.27 %	9.84 %
Currency Rate	14.75 %	39.34 %	26.23 %	16.39 %	3.28 %

Discussion:

As we can see from the data analysis and findings that there is a high correlation between purchases and net equity mutual funds. The correlation of 0.895 signifies a high correlation. Over the year's Mutual funds have significantly contributed to the growth of the economy. Banks and financial institutions have played a major role in channeling the money from the hands of the retail investors to the equity stock markets.

In the second hypothesis, we ran an independent sample t-test and found that the significant value is greater than 0.05. It means financial literacy has no significant effect on the purchase intention of an individual when buying mutual funds. Group A (more financially literate individuals) had more or less given the same rating to factors that affect buying of mutual funds when compared to Group B (less financially literate individuals). We found that Group B (lesser financially literate people) was more focused on returns provided by a mutual fund when compared to Group A (more financially literate people). Professional management was one of the factors where group A (more financially literate) had a greater focus on. Overall, there was no significant difference in the ratings given by both the groups.

In sentiment analysis, Group A had bleaker sentiments related to the economy when compared to Group B. Group A had more negative sentiments about unemployment and economic growth than Group B. Individuals who were investing in mutual funds were more pessimistic about the economy than individuals who were not investing in mutual funds. Mutual funds in the last few months have witnessed a decline in SIP collection and in the number of new folios that have been opened.

The current scenario:

The ongoing coronavirus pandemic created an uncertain environment and market volatility due to which inflows into the equity market fell to five months' low of ₹5,256 crore in May 2020.

According to the Association of Mutual Funds in India, the mutual funds witnessed a total inflow worth Rs.70,813 crore in all segments in the month of May 2020. During the month of April 2020, the total inflow across all segments stood at Rs.45,999 crore. According to the data collected, the total inflows into equity schemes and open-ended equity-linked schemes were Rs.5,256 crore, however, the

total outflow was seen was of Rs.211 crore from close-ended funds. In the month of April 2020, there was a net investment of Rs.6,213 crore in these schemes. Before the pandemic, the equity schemes witnessed investments worth Rs.11,723 crore in March 2020, Rs.10,796 crore in February 2020, Rs.7,877 crore and “Rs.4,449 crore” in the month of January 2020 and December 2019, respectively.

The total inflows into the equity funds, though lower when compared to previous months, continued to remain positive mainly because of the SIP inflows. According to Morningstar India, “Large and Multi-Cap funds were the most preferred funds by the retail investors because of the market volatility and uncertain economic environment.”

In the month of April 2020, the majority of the equity-oriented MF categories witnessed a positive inflow of investments. Investments worth Rs.1,556 crore, Rs.758 crore and Rs.737 crore and Rs.712 crore, were seen in Large capital schemes, Multi-capital schemes, ELSS (equity-linked saving schemes), and the hybrid of big capital & middle capital respectively.

The mutual fund industry registered the lowest addition of folios in three months in May 2020. The month of May only saw the opening of 6.12 lakh new folios, taking the overall folio count to 9.10 crore. If we compare the last 2 months since the inception of the novel coronavirus, the months of April 2020 and March 2020 had 6.82 lakh and 9 lakh new folios, respectively. One key point is that the mutual fund industry witnessed a consistent rise in the number of new folios in the past 5 years. An investor is allowed to have multiple folios (Folios are numbers designated to individual investor accounts). As per the latest data from the Association of Mutual Funds in India, for the month of May 2020, the number of folios with 44 fund houses rose to 9.10 crore as against 9.04 crore in April. In the equity category, maximum number of investor accounts were added in Large-Cap funds. Large Capital funds in equities saw an addition of 111,118 new investor accounts. Multi-Cap funds (equities) saw the second highest addition of new folios, a total of “53,549” new folios. In terms of the inflow, Multi-Cap funds witnessed a larger inflow when compared with Large Cap funds.

Advantages of Mutual Funds to Individuals

- **diversification**

Diversification means investing in a range of products. For instance, let's say you buy fruits from one vendor. On one of the days, if he/she falls sick, you won't have any apples to eat. If you buy fruits from more than one vendor, if one of the vendors falls ill, you'll still have the supply from the others.

The chance of all the vendors becoming sick at the same time is very little. This is the reason why one should diversify while investing.

We all want to have better returns on our investment and therefore diversification is a better bet.

Mutual Funds automatically diversifies your fund and lessens your risk. Instead of directly purchasing shares, bonds, and other investments on your own, a financial expert buys these on your behalf.

- **Simplicity**

When investing the most arduous task is to collect the data and information to evaluate the asset class performance. If all the information was easily accessible, investing would be a child's play. Mutual funds, examine, and assort the by themselves. All an investor has to do is evaluate the performance of the fund. Mutual funds allow an investor to compare the funds on the basis of different metrics, such as risk level, price, and return. Since the information is easily available to all, the investor has the option to make on astute choices.

- **Liquidity**

Often an investor never looks at the liquidity of the fund. In finance, liquidity mostly denotes the easiness with which an asset can be converted into cash. For instance: If one wants to dispose of his or her business, how much time it will take him or her to sell the business and get the required money? The time taken can vary from a few weeks to a couple of months. Liquidity is one of the advantages of a mutual fund. You can easily sell of your investment and get your money back.

- **professionally managed**

Investing is clearly not a simple errand. Investing, whether it is in shares, gold, debt securities, real estate, etc. depends on an array of factors that regularly need to be considered and comprehended. Most individuals generally think that they can easily understand the investing strategies. A great number of individuals end up suffering losses. Proficient specialists are in charge of these funds, and thus this is an added advantage to the investor. This means that one does not need to worry about the fund manager's credibility one should just focus on the type of fund he or she wants to invest in. Once an investor invests in a fund, he or she should be at ease. The fund manager will take the necessary steps to protect the investor's money. But this does not mean that you should not review your investments. One should always look at his or her investment intermittently and regularly.

- **Mutual Funds - Tax efficient**

MFs (mutual funds) are generally more tax-efficient when compared to different investments. There is no taxation on long-term capital gains, i.e. if an investor sells his investment even after just one year of buying it, he or she need not pay any amount as tax. In case of debt funds, if you hold an investment for a period of more than 3 years, there is no long-term capital gain tax. Apart from these funds, one can find other types of funds, such as ELSS funds, that have an exemption under section 80 C and an investor can save money up to Rs 1.5 lakhs. Some important features of tax-saving funds are: It is an alternate course to the direct stock market. A minimal investment of Rs 100 per month is required. Mutual funds generally have a lock-in-period which varies from 3 days to a year. Even the returns on mutual funds are tax-free.

The Benefits of Mutual Funds to the Economy

- Growth of Financial Sector
- The expansion of financial division advances the 4 pillars of the financial structure: effectiveness, dependability, straightforwardness, and consideration.
- Mutual Funds pool the assets from various small investors and invest it, therefore assisting in capital markets.
- Also, mutual funds offer types of support to small investors so that they make wiser choices. The support services provided by these mutual funds lessen the risk of small investors.
- Thus, Mutual funds assist investors to invest in mutual funds. The MFs (mutual funds) industry has been increasing at a solid speed of about 20% per annum over the last decade.

Mutual Funds: An avenue for Investment

- Mutual funds have had an unprecedented growth since 2003. Indians usually set aside 30% of their salary, a portion which is exceptionally excessive.
- The working-class has always found mutual funds a decent alternative for stacking away their cash. The broadening of shared reserve plans has made it easier for more investors to come together and pool in their assets.
- In the last 4-5 years there has been an increase in the fondness of mutual funds among the retail investors when compared to their fondness for physical assets. This has given an advantage to the administration (AUM)
- Mutual Funds have positively affected the Finance sector regarding steady investment. The pooled cash is giving some assistance to improve the business.

Break-down of Household Savings

- A huge sum of investment came into the investment sector through mutual funds. The majority of the family savings were channeled into the mutual fund market. Of total family savings, more than INR 50,000 crore was placed in debt instruments and shares.
- Due to fall in land prices and asset classes like gold (which is used to protect against inflation) price sinking, a lesser number of investors are now pursuing physical assets.
- All this has led to an improvement in the investment of savings of the people. Also, a rise in mutual fund investment will lend support to equity prices.

Market Development because of mfs (Mutual Funds)

The money markets in India have been on a very basic level influenced by the presence of Mutual Funds. It has even bolstered the Government Securities market somewhat. In 1991, when the money market mutual funds (MMMF) were started it provided investors with a new channel to invest in short term securities. Now, the money market instruments are within individual reach and even in the reach of retail investors. It is due to SEBI's revised regulations and approval that allows investors to buy rated corporate bonds and debentures that the MMMFs are valid today.

Indian investors are eager to invest in brands that have solid goodwill and positive past record.

Conclusion & suggestions:

More financially literate people take similar factors into consideration while buying a mutual fund when compared to less financially literate people, so there is no significant difference.

One of the key factors to keep in mind is the allocation of funds to the different asset class (debt, commodities, etc.). There might be a possibility since a financially literate individual has more knowledge he/she might be able to better allocate funds to the different asset classes. A more financially literate person might not get influenced by advisors / agents and may be able to take decisions wisely.

The Paper covers financial literacy of the surveyed population and combines it with the investing pattern of individuals, especially with regard to mutual funds. The Paper also gauges the investing sentiment of people in the current economic scenario in the backdrop of the ongoing pandemic of COVID-19.

The Paper covers financial literacy of the people on the basis of gender and also analyses the financial literacy of people and their investing pattern.

The practical implication of this Paper is that when fund managers are designing a fund or financial advisors are marketing a fund, they need not be unduly concerned about the educational qualifications or financial literacy of an individual, because similar parameters are considered by both financially educated and less financially educated individuals.

Mutual funds have played an integral role in taking the savings of the people and directly injecting it into the markets and thereby in the economic growth of the country. Taking the current scenario into consideration where the economic prospects of the country are bleak, mutual funds must expand more into semi-urban and rural areas (beyond top 60 cities and towns).

Limitations:

The research is limited to the study of only equity mutual funds. A sample size of only 120 individuals was taken which might not represent the whole market. Due to the paucity of resources, individuals above the age of 60 were not a substantial part of the research. Also, the lowest qualified individual in the sample was a standard-12 student. Factors related to marketing and promotion of mutual funds that affect buying behaviour were not considered, further research could be conducted on this topic.

Also, a lot of new websites have striking interfaces and faster purchase options which might influence the buying behaviour of individuals, and this is another area that could be further explored.

The multiple choice financial literacy test had a few calculations based questions which some people would not have been able to answer or they may have randomly marked the answers.

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