Investment Awareness Regarding Mutual Funds Among Investors

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An old axiom:

"It is not wise to put all eggs in one basket"

….was probably in the mind of those who formed the first Mutual fund.

Abstract

The Mutual fund is a part of money invested in the market securities. Income is generated by investing in shares, debentures and other securities (capital market instruments). The income earned through these investments fulfills only limited dreams of man because there are fixed amount that we can earn and very low risk here. Where there is a low risk, there is a less profit. So a mutual fund is the most suitable and systematic investment for the common man because it offers an opportunity to invest in diversified, professionally managed basket of securities at a relatively low cost. The investment portfolio is created according to the stated investment objectives of the investor. The need of study arises for learning where and how much to invest at 5 basic stages of life for optimum use of financial resources. Most of investors are not aware of the benefit of investment in mutual funds. This study reflects risk & return associated with mutual fund. The finding will help to know the investor's preference in particular securities and end of the study, it will provide the best option to invest and fulfill investor's financial goal.

Keyword: *Financial Goal, SIP (systematic investment plan), market securities, life cycle.*

Introduction

A mutual fund is pool of money invested in the market securities or part of saving invested in market securities to achieve financial goal. A fund manager holds the amount of money and invest in the market securities based the financial goal. The financial goal is depend on stage of life. Different age group of people has a different financial goal. Thus the fund manager invests the money according the financial goal and income is generated. Some investors have a very bad experience with the mutual fund industry because they invest their money without any knowledge of mutual fund and lack of awareness. They invest their fixed amount of money in mutual fund for one time but there is a proper process of investing in mutual funds. 1st step is SIP (systematic investment plan) or Monthly income plan. Some amount of money invested in mutual fund with the installment per month instead of one time investment. 2nd step is investment should be for min. 5 years because mutual fund returns depending on market risk. Many ups and downs come in the market. Mutual funds need min. 5 years to generate the income. Many researches are done in the field of mutual fund industries but very less on awareness of investors especially on SIP and Min. 5 year.

Characteristics of Mutual Fund

- The ownership is joint or mutual because it is in the hands of the investors who have pooled in their funds.
- It is managed by fund manager and a team of investment professionals.
- The investors can see their investment variations on daily basis
- The investment portfolio is created according to financial objective.
- In India, Mutual Funds are constituted as TRUST.
- Standard Risk factors are common for all mutual funds.
- Unaudited accounts must be published every 3 months.

Types of Mutual Fund

Mutual funds are divided into three parts. These are following

1. Structure:

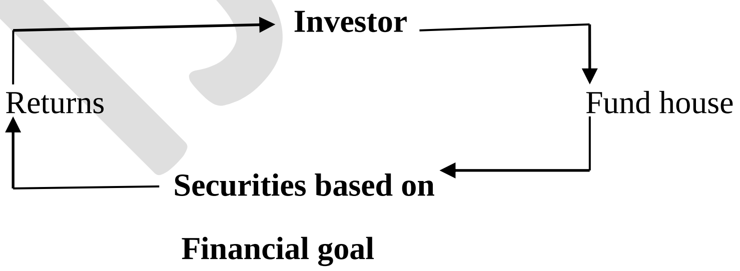
   Open ended: those mutual funds in which there is no limitation of time on investors. They can withdraw their money any time

   Close ended: In this type of mutual fund there is a fixed time limit. We can withdraw money before the time.

   Interval: It is a mix of open ended and close ended mutual fund. The interval scheme

   Time period is Jan 1 to 15 and July 1 to 15 each year.
2. Equity Fund
3. Growth Fund
4. Diversified Equity Fund
5. Equity Linked Saving Scheme (ELSS)
6. Sector Fund
7. Debt Fund
8. Arbitrage Fund

Mutual fund operation flow chart



Investor invests pool of money in the fund house. Fund manager invest in securities based on financial goal. That generates returns. That passed back to investor.

Review of Related Literature Mutual Funds in India by H. Sadhak, Response Books, A division of Sage Publications. This book is divided into six chapters. Chapter 1 deals with relationship between mutual funds and financial markets. Chapter 2 deals with UTI and changing economic environment and market pressures. Other chapters deal with resource allocation, investment research and timing. Need and scope for regulation for mutual funds. They also discuss about the growth of the mutual fund in India.

Investing in mutual funds by Kurt Peray, St.Lucie Press. This book enables investors to make independent and educated decisions to hedge their portfolios from the volatile forces in the market ,it also emphasize the need to engage portfolio managers .It also talks about how to become the ultimate decision maker.

Mutual Funds Management and Working by Lalit K Bansal. This book talks about financial services in India, the concept of mutual fund and its constitution and management .This book also talks about various mutual fund schemes in India. Firstly mutual fund comes into existence in 1822 in the form of society general de belguique. In the initial day of mutual fund, it mainly main the progress in Switzerland and little bit in franc and Germany.

Indian Scenario of Mutual Fund

The mutual fund industry comes in India is with the concept of by UTI in the year 1963. But in starting days the growth was slow; it quickly developed from the year 1987 when non-UTI players entered in industry. The mutual fund industry goes through following four phases:-

- ❖ First phase of mutual fund 1964 to 1987 (Establishment of UTI).
- ❖ Second phase of mutual fund 1987 to 1993 (Entry of public sector funds).
- ❖ Third phase of mutual fund 1993-2003 (Entry of a private sector funds).
- ❖ Fourth phase since feb.2003to up now (separation of UTI).

In the **first phase**, UTI was established in 1963 by an act of parliament. In 1978 RBI & the IDBI took over the control of UTI. In **second phase**, SBI entered as first non-UTI mutual fund provider then it was followed by can bank in December 1987, PNB in Aug 1989 and LIC in 1989. In **third phase**, the private sectors join in it. The Erstwhile Kothari pioneer was first that registered in mutual fund in July 1993. In revised registration of SEBI in 1993 the industry functions comes under SEBI. And the **fourth phase** UTI had a bad experience. It was divided into two separate entities. First one is the specified under taking of UTI with AUM of 29,835cr. The second one is UTI mutual fund ltd. It is sponsored by PNB, SBI, LIC and BOB (registered with SEBI)

Objectives of the Study

- Identify Investor demographics in different stages of life cycle.
- Determine investment options prefer by investor.
- To know the awareness of investors regarding mutual fund.

- Understand investment motivations of investors
- To find out the understanding level of investor regarding SIP.
- To analysis the returns of mutual fund with comparison of other market securities.
- To provide the best option to investors in mutual fund schemes according to their life cycle base.

Research Methodology

In the dog eat dog situation with multiple mutual funds and unique aspects of family decisions should be considered operating in Indian market, we have to predict the future of Mutual Fund Company by the performance of mutual funds. This study focus upon the performance of investors regarding which gives return of 8% at least.

Literature Survey: In this study used magazines, newspapers related to business & finance

Type of research: This research is qualitative & descriptive in nature.

Data collection Design

Sources of data

1. Primary Sources –In this study questionnaire used as primary source for collecting data.

Sample Size =In this study chosen sample of 120 candidates .Questionnaires are filled to the investors by personal meeting

2. Secondary sources –In this study collected secondary data is collected from research papers and journals

Sampling-In this study choose a sample of Bachelorship, Bridegroom, Parentage, Post parentage and dissolution who have invested in various asset class of investment.

Tools= In this study used Pie charts.

Sample Size =In this study chosen sample of 120 candidates .Questionnaires are filled to the investors by personal meeting.

Data Analysis & Interpretation

Family Lifecycle of every person

Every person passes through many stages of the life. Their needs and objectives are different in every stage of life. Mutual funds provide many schemes to invest in the different stage of the life with a different objective.

Stage I: Bachelorship – young singles adult person living apart from parents

Stage II: bridegroom – young married couple

Stage III: Parentage – married couple with at least one child living at home

Stage IV: Post parentage- an older married couple with no children living at home

Stage V: Dissolution – one surviving spouse

Stage I: bachelorship

In the 1st stage of life cycle, single young adult men and women comes under it, who have established their home apart from parents. Most of members are employed in this stage; they have to pay rent of the house, furniture, automobile and other some basic needs. The member's need and investment objective of 1st stage life is limited. Members have sufficient disposable income. Market targets the single persons with the high Varity of products.

Stage II: bridegroom

In this stage young married person comes under it. Both are working, their investment objectives are different from the stage 1st. The main goal of this stage is to make own house. So they invest according to their goal in the market securities.

Stage III: parentage

When a couple has first child, 2nd stage over. Their investment objective also changes according to the change of stage. This stage has minimum 20 year time period. E.g.: when a couple have a child, they have to expend on the child education (higher, lower, and foreign) and marriage. According to the income, they invest the money in the market securities for the child' future. There are many options in the market to invest money. When a child becomes independent then this stage is over.

Stage IV: post parentage

Because parentage extends over many years it is only natural to find that post parentage when all the children have left home and live separate with their children. It is also called empty nest age. In this stage of life they can do all that things that they never ever do when they have a many tensions of their children like educational expenses, marriage and others. In this stage, couples are financially strong because of saving and investment.

Stage V: dissolution

Dissolution stage occurs with the death of one spouse. When the Surviving spouse is working and living very well with good health, good saving, good friends and supportive family, then the economical life style again started.

 Long Term Goals

– Investing for higher education of children where the money required after 10-
15 years.

– Investing for marriage of their children where the money required after 15-20
Years.

– Planning for retirement and to meet expenses for 25-30 years after retirement.

 Short / Mid Term Goals

– Purchasing a flat after 5 years with accumulated funds worth 10Lacs and
Balance with a loan.

– Saving to buy a car costing around 4lac after 3 years.

– Protecting the family through adequate insurance (Life/Health).

– Savings to have a Family Holiday.

– Managing Debt and Cash flows -

– Having arrangement of annual exp i.e. LIC premium, other annual premiums,
Child annual school fee, buying assets for house.

For Short/Mid term goals investor invests in fixed income products

While investing in Fixed Income Products we look for....

- Perceived Safety
- Need for Liquidity
- Return of Capital

Let's look at some general goals of a person who invest money in the market securities for their child education.

Assuming: Current Age

Self: *30 yrs* Child: *3 yrs*

Child Education : 18 yrs

Higher Education	:	Current Cost	Future Cost
Engineer	:	Rs. 10 Lacks	Rs.28 Lacks
Medical	:	Rs. 15 Lacks	Rs.41 Lacks
Foreign Study	:	Rs. 25 Lacks	Rs.69 Lacks
Child Marriage	:	24 yrs	
		Current Cost	Future Cost
Marriage	:	Rs. 10 Lacks	Rs.41 Lacks
Retirement:	:	60 yrs (Self)	
		Current Cost	Future Cost
Monthly House Hold Expense	:	Rs. 15,000	Rs. 1,14,184
Retirement Kitty	:	Rs.3.54 Crores	

Assuming inflation @ 6% Life Expectancy-90 yrs

Are we on Track to Achieve the Critical Life Goals in our Lives?

If a person can save Rs.4,000/- per month How much will be his wealth when he needs money for his child's higher education?

Assuming:

Current Age: 3 yrs.

Higher Education Age: 18 yrs.

Invests in an Asset class which give returns of 8%

At the time of his child's higher education his wealth would beRs.13.5 Lacks Amount Required: Rs. 28 Lacks. Amount he have: 13.5 Lacks, Shortfall: 14.5 Lacks to cover the shortfall he will look for Education loan which is liability on child

Mutual fund helps you achieve your goals in life……

Child education –saving years: 15 yrs

Education	target	SIP
Engineer	Rs.28 lacks	Rs 4500
Medical	Rs.41 lacks	Rs.6700
Foreign study	Rs.69 lacks	Rs.11200

Child marriage –saving years:

Target : Rs 41 lacks

SIP amount: 2000

Amount actually paid: 5.04 lacks

Assuming returns of 15% GAP figures are rounded off.

This example shows that difference of returns in the fixed securities and mutual fund.

Findings of the Study

In this research following findings are found-

- 20% are from bachelorship, 9.2% are bridegroom, 19.2% are parentage, 35.8% are post-parentage, 15.8% are dissolution.
- 61.2% investors said that they are satisfied with their doing investment in Fixed deposits, 18.4% investors said they do invest their money in share market. 6% in Real estate, 4% in insurance,4% in bonds,1% in gold, 4% in commodity only 2% investor invest his money in mutual funds.
- 98% investors are even not aware of Mutual fund So Most of them don't know even where the money pooled in MF is being invested .they are not fully aware of the brokerage structure of MF advisory business, earning potential of the industry, past performance of the industry, various products available in MFs industry etc.

Conclusion

On the basis of this study that how to make optimum utilization of mutual funds as asset class in different stages of family life cycle. In the Bachelorship Stage of life one should invest in MID CAP FUNDS plus go for aggressive equity risk. In the bridegroom stage of life one should invest in Large Cap Fund go for equity balanced fund. In the Parentage stage of life one should invest in by going in equity balanced fund classify asset class and same time do risk capitalize. In the Post-parentage stage of life one should go for MONTHLY INCOME PLANS and diversified by at least 20% in debt schemes. In the stage of Dissolution Purely Debt Not to take risk I personally suggest go for govt. securities where can easily get 9% return. "It is not wise to put all eggs in one basket "according to this axiom we should not invest all money in one place. First of all we have to find our financial goal (short term and long term),with the help of investment advisor invest the money in SIP(systematic investment plan) or withdraw the money with SWP(systematic withdrawal plan) and invest the money in different fund schemes with STP(systematic transfer plan).according to them we have to invest in the market securities. Small investors cannot achieve wide diversification on his own investment due to lack of knowledge in investment management. Diversification helps reduce the risk in investment. Tax benefit also involved in the mutual fund schemes for investor.

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