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A Study of Risk and Return Perception of Investors Towards Mutual Funds

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***Abstract*— The mutual fund companies are offering different product choices based on their objective and their financial spectrum. The goals of investment among people very because some people are investing funds for their retirement sum for the terms education on marriage some for purchase of house etc. The Investors make investment based on their own choices and according to the plan for which there investing. It is not necessary that everyone could invest in lump sum as many people receive amount regularly every month and hence they prefer to invest through systematic investment plan. The study aimed to evaluate the awareness level among investors related to different mutual fund concepts, understand the risk and return perception of investors towards mutual funds and examine the perception of investors towards different benefits of mutual funds. The investors have indicated their response towards risk and return perception about mutual funds. Regression has been applied to evaluate the impact of awareness about mutual fund concepts on risk and return perception of investors towards variety of mutual funds.**

***Index Terms*— risk, return, mutual funds, awareness, regression.**

I. Introduction

Mutual funds is said to be a pool of funds which is managed by fund managers who are professionals and they are having experience in managing funds to be invested in different investment options. It is a trust which collects money from investors having common objective in investment and the amount is invested in equity, money market, bonds and also other securities. The fund managers have experience for investing in the stock market (Jonnalagadda & Bari, 2020). The income which is generated from investment of funds invested by investors in mutual funds and the gain from such investment is later distributed in a proportionate manner among investors after deduction of levies and expenses. The investors having the same objective choose a mutual fund of their choice, the amount invested in a fund is referred to as Asset under management and it is managed by the fund manager. The cost at which the mutual funds are purchased is said to be Net asset value. The number of units bought in a particular mutual fund depends upon the NAV. The NAV of all the mutual funds is different as it is dependent upon the date of inception, the portfolio of the mutual funds, the timing of investment in mutual funds, etc. These factors make changes in the NAV and accordingly it grows in the future. As an equity share is bought in the share market, in a similar manner units of mutual funds are bought from the AMCs (Kalyan & Gautami, 2018).

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NAV can be said to be a combined value of mutual funds in the market based on the amount which is invested in different securities like shares bonds and any other security is which is held by the particular fund on a specific date. The number of units are allocated depends on the NAV. The amount which is invested in the market in different securities attains a particular value on a particular date and it is then divided by the number of outstanding units in that particular scheme. This price will be said to be as the NAV per unit and whenever a person to invest in mutual funds NAV matters since the number of units will be dependent on the NAV of the mutual fund. Mutual Funds are said to be an ideal investment for the investors who are willing to invest either large sum of money or those were willing to invest on a monthly basis. Generally people do not have much time to evaluate which stock to be bought due to which reason hence if we invest in little fans the amount would be diversified among some specific security (Khinchi, 2022). There is high risk involved in investment in mutual funds whenever amount is being invested in equity mutual funds. Lesser risk will exist when amount is being invested in a balance mutual fund and even lesser will be associated with a particular mutual fund which is based on mainly debt securities. It is not necessary that each and every individual is earning a lumps are mount it could be possible that a person is doing business and will be able to invest amount on a regular basis. Some people who are salaried and receive a particular amount every month could go for systematic investment plan instead of investing and amount in lump sum. The amount which is collected in mutual funds is systematically invested in a particular security and later on the growth which is gained on the amount invested is distributed among the investors.

A particular amount of fees is charged by the investors since amount is being managed by the fund manager's. The fees which is charged from the investors is regulated by Securities and Exchange Board of India (SEBI) (Mahesh & Sujatha, 2020).

The savings rate in India is high as compared to the other countries. The Indians have a player towards creation well and it becomes necessary for the Indian investors to consider the investment option which are beyond the traditional ones. Currently the Indians are becoming aware about the investment options which are available and based on their objectives they selected investment options and accordingly make investment. The mutual fund companies are offering different product choices based on their objective and their financial spectrum. The goals of investment among people very because some people are investing funds for their retirement sum for the terms education on marriage some for purchase of house etc. The Investors make investment based on their own choices and according to the plan for which there investing. It is not necessary that everyone could invest in lump sum as many people receive amount regularly every month and hence they prefer to invest through systematic investment plan (Muthalif & Munivel, 2019). The Asset Management companies are providing many set Mutual Funds which are related to different objects and different and accordingly investors could invest There amount in different Mutual Funds which will help them to achieve their goals and life. The investors can be dependent on the fund manager's since they have more experience about financial market and accordingly they make investment to achieve the objective for which that mutual fund has been started. The investors can selected their own mutual fund and try to understand the movement of NAV previously as this will help them in making a plan to invest.

II. Type of Mutual Fund schemes

There are different types of mutual funds. Based on the time of investment or when the mutual fund is open for investment, the funds could be divided into open ended and close ended mutual funds.

(1) Open-Ended and Closed-End Funds

(a) Open-ended mutual funds - are the ones which exists for subscription and redemption in their business in the entire year. The investors could invest in the fund and even withdraw as and when required. Hence, such funds are said to be as open ended. It becomes very easy for the investors to maintain an average price for a particular fund (Punj, 2022). There is no such maturity date for such a fund.

(b) Closed-ended mutual funds - In case of these funds, it would be open for subscription in the initial period and then it will be not be available for later on when the date is closed. It is like a limited period offer and has a fixed maturity date (Sahi & Pahuja, 2013). The close ended mutual funds are not very common and lesser people invest in such funds as more amount cannot be invested directly with the Asset management company.

(2) Actively Managed and Passively Managed funds

(a) Actively managed mutual fund - A mutual fund is said to be actively managed when the fund manager is actively engaged in management of fund's portfolio. When a mutual fund is managed efficient, it indicates the fund managers check the portfolio when investment is being made and also times the market for best investment. The fund manager would evaluate balance sheet and profit of loss account of the company and then later take the final decision of investment in mutual funds. The fund manager continuously evaluate the portfolio in which investment is being made, it is backed by an analytical research. The main aim of the active fund management is to gain more profit as compared to the other type of mutual funds. The fund manager also tries to match the timing of investment and accordingly make investment.

(b) Passively managed mutual fund - A mutual fund is said to be passively managed when it is dependent upon a particular index, in a passive fund, the fund manager remains inactive or passive and they do not make their own portfolio (Samira & Sathyanaraynan, 2018). The fund manager do not make use of their own discretion and make the final decision as per the index. The fund manager makes the decision based on the stocks which have been selected in the index. Every mutual fund is based on a particular index and investment is made in the stocks which are a part of index. The stocks could be bought and sold based on the index and cannot be changed as per the understanding of the fund manager. In passive fund, the fund manager simple replicates benchmark index of the scheme, generates same return as index.

(3) Classification by Investment Objectives

Mutual Funds can be classified based on different schemes which are associated with goals which have been free define in the mutual fund. The investment objective of the mutual fund is different and based on it the mutual funds can be categorized in the following way. The objectives of the mutual funds could be appreciation, regular income, liquidity, preservation and tax saving. Mutual funds are offering investment plans like dividend and growth options for helping the investors in tailor making their investment options (Jonnalagadda & Bari, 2020).

(a) Growth funds

- Such schemes have been designed to focus on capital appreciation.
- It primarily makes investment in assets which are growth oriented like equity.
- Investment in different growth-oriented funds needs a horizon which ranges from medium to long term. .
- Equity in the form of an asset can be classified based on investment which could be for long term or short term. Returns from the growth oriented schemes could vary since it is dependent upon the stocks which have been selected by the fund manager.
- Hence investors must be able to take volatility in the returns in the short-term.

(b) Income funds

- Such funds provide a steady and regular income for the investors.
- Income funds make investment in securities which provide fixed income like government securities, debentures and corporate bonds.
- Return from such funds is just like an income earned from investment and also provides capital gain when there is a change in the value of securities.
- The fund will distribute the income provided the portfolio generates the required returns. The income will not be guaranteed (Kalyan & Gautami, 2018)
- Returns from these mutual funds would depend upon credit quality and tenor of securities.

1. **(c) Liquid / Overnight /Money Market Mutual Funds**

- Such mutual funds provide an option to the investors for getting principal protection and liquidity with a particular return.
- The funds that are invested in money market mutual funds, the liquidity of the base security is of 91 days. Such funds provide better returns and it would depend on short term rate of interest which prevails in market.

- This mutual fund is ideal for investing surplus fund for a short period of time

III. Review of Literature

Sahi & Pahuja (2013) have discussed in the study related to recession which existed from 2009 to 2012. During the period GDP had been very low inflation rates for high and more and more people were searching for jobs. The employment opportunities that existed work and hence people suffered from the issue of unemployment. During the period of recession there was unemployment not only in our country instead entire world faced the same issue. The study focused on selection of particular mutual funds during the selected period of recession. This study aimed to evaluate the performance of selected mutual funds during the period of post global recession. In this study performance of mutual fund was evaluated through Sharpe and Treynor's ratio. Most equity mutual funds which were a part of the study have indicated out performance as compared to their benchmark.

Kalyan & Gautami (2018) have mentioned in the study about different mutual funds which were being provided to the investors. There has been growth in mutual funds since there is development in the infrastructure. The participation of foreign countries has risen and personal financial asset have also increased. The income of individuals have increased and also their consciousness and risk appetite. Majority people have started preferring investment in mutual funds since they are good for long term investment. This study selected certain mutual funds and the performance of this funds has been evaluated based on the risk and return. Among the farms which have been selected the lowest risk existed in UTI Contra fund as the risk was evaluated through standard deviation and the standard deviation was lowest in this particular Mutual Fund. Based on Sharpe ratio and beta, Tata contra fund was considered to be more risky.

Jonnalagadda & Bari (2020) evaluated past performance of particular category of funds which included open, growth oriented and direct plans. The returns of mutual funds was investigated based on 1 year, 3 years and 5 years. The previous performance of the mutual funds was evaluated with the help of beta, Sharpe, average return, mean and standard deviation. The index schemes which were selected in this study did not perform better than the NIFTY 50 index. The large cap funds selected in this study provided a return which was above their benchmark index i.e. BSE 100 index. On the basis of return/ risk, UTI Nifty index fund found is said to be more aggressive. Franklin India index mutual fund was more risk averse.

Mahesh & Sujatha (2020) Discussed about the problems which are being faced by investors in our country and mention in the study about the awareness among the investors related to investment process and the philosophy for opportunity in the investment market. Mutual Funds was elected in the study and the author try to understand which mutual fund is better among the one which were considered as a part of this study. The risk which is associated with the mutual funds considered evaluated based on different factors associated with risk. Different Mutual Funds were compared with Nifty 50 index. Performance of mutual fund was compared among stem based on the fat sheet which was available on the website of AMC. Different Mutual Funds were a part of the study and average return was compared to each other. Different factors were considered for evaluation of the return and dress which is being provided by the mutual funds which included the Treynor ratio, standard deviation, beta etc. Amongst various funds, Birla mutual fund indicated a high risk based on the standard deviation.

Khinchi (2022) was mainly concerned about performance of different mutual funds. T test was applied on the return provided by different selected mutual funds. The period of study considered in the study was from 2009 till 2019. The selected Mutual Funds were compared to the benchmark index which is associated with that particular Mutual Fund. Nippon India mutual fund had a high beta and indicated high risk as compared to the market return. The beta of SBI Focused Equity fund was lesser than 1.

Punj (2022) Considered different Flexi cap funds in the study and evaluated the return and risk associated with these funds. The flexi cab mutual funds are based on a variety of stocks in which they can move from small cap to large cap or to midcap company. Flexi cap indicates that the fund manager is free to invest amount of money which is interested by the investors in different companies based on their capital. It depends on the current scenario of the share market accordingly the fund manager decides which are the best companies for investment and accordingly they could move amongst different capital companies. The returns from different mutual funds was evaluated based on variety of periods including quarterly, SIP returns, etc. Aditya Birla flexi cap and Parag Parikh flexi cap funds indicated a negative return.

IV. Objectives of the Study

- To evaluate the awareness level among investors related to different mutual fund concepts
- To understand the risk and return perception of investors towards mutual funds
- To examine the perception of investors towards different benefits of mutual funds

V. Research Methodology

This study is descriptive in nature. The study is based on the risk and return perception of investors towards mutual funds. The area of study is NCR. The study aimed to evaluate the awareness level among investors related to different mutual fund concepts, understand the risk and return perception of investors towards mutual funds and examine the perception of investors towards different benefits of mutual funds. The investors have indicated their response towards risk and return perception about mutual funds. Regression has been applied to evaluate the impact of awareness about mutual fund concepts on risk and return perception of investors towards variety of mutual funds.

VI. Data Analysis

6.1 Demographic profile

(1) Gender of the investors

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	82	68.3	68.3	68.3
	Female	38	31.7	31.7	100.0
	Total	120	100.0	100.0	

The study considered males and females who are investing in mutual funds. The number of males as a part of this study are more as compared to the females. The awareness about mutual funds is more among the males and they are able to evaluate the risk and return related to the mutual funds. The approach of males and females is different towards Mutual Funds since the amount of risk which would be taken by them also differs. The mails are more risk hours as compared to the females and it becomes very difficult for the females to consider those Mutual Funds which are more risky. The equity Mutual Funds are rescue as compared to the other mutual fund even a balanced mutual fund provides the medium risk.

(2) Residential status of the investors

Residential_Status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Urban	65	54.2	54.2	54.2
	Rural	55	45.8	45.8	100.0
	Total	120	100.0	100.0	

Majority respondents in this study are from urban area. The awareness about Mutual Funds is much better in the urban areas as compared to the rural areas and it is very important for all the individuals to understand the functioning of mutual funds and then plan out the best mutual fund to be invested based on their risk and return reference. The advisors should also make an attempt to explain various controlling factors associated with mutual fund so that the customers will be able to understand mutual fund in a better manner and then decide for their investment. The AMCs should make people aware about mutual funds, which would help the investors to understand the mutual funds better and then make the right investment.

(3) Age of the investors

Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 25	4	3.3	3.3	3.3
	25 - 30	57	47.5	47.5	50.8
	30 - 35	45	37.5	37.5	88.3
	35 - 40	5	4.2	4.2	92.5
	Above 40	9	7.5	7.5	100.0
	Total	120	100.0	100.0	

Majority investors who have been a part of this study are in the age group of 25 – 30 years. The age group of the investors also matters and it is connected with the awareness level of them since when they are of a higher age group they will be able to understand Mutual Funds in a better manner because of their own experience and the discussion which they have had with their friends or family members in a very younger age it becomes very difficult for the investors to understand Mutual funds in a better way because they have not evaluated the recent trends which is associative the mutual funds. The investors should try to understand about the mutual funds which exist and then they should try to evaluate their historic returns before planning for any kind of investment. The amount which is invested in mutual funds depends on the amount which is available with them and also on the time when it needs to be withdrawn.

(4) Annual Income of the investors

Annual_Income

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 1, 00,000	1	.8	.8	.8
	1,00,000 to 2,00,000	7	5.8	5.8	6.7
	2,00,000 to 3,00,000	1	.8	.8	7.5
	3,00,000 to 4,00,000	2	1.7	1.7	9.2
	4,00,000 to 5,00,000	8	6.7	6.7	15.8

More than 5,00,000	101	84.2	84.2	100.0
Total	120	100.0	100.0	

Majority investors have their income level as more than Rs. 500000 as their annual income. There are different mutual fund which are available and customers can easily invest in them based on their own objectives. There is some customers who do not earn regular income and their might be in a particular business where they could have received profit in some months and my face any kind of laws in a few. The amount which is available for them to be invested. It is very important to understand which is best suited for them and accordingly they can choose the investment option which is best suited for them. The investors whose income is low can also invest in mutual funds. Mutual funds are of different variety and people can easily invest in mutual funds through a simple procedure. Redemption from mutual funds is also very easy and people could understand about mutual funds and invest as per their own choice after evaluation through the previous performance.

6.2 Risk and return perception of the investors

(a) Risk perception of the investors

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Growth schemes	120	1	5	3.86	1.362
Tax savings Schemes	120	1	5	3.49	1.598
Income Schemes	120	1	5	2.28	.995
Balanced Schemes	120	1	5	3.23	1.235
Exchange – traded funds	120	2	5	3.82	1.257
Money Market Schemes	120	1	3	2.08	.972
Index Schemes	120	2	5	4.21	.647
Sector Specific Schemes	120	1	5	3.62	1.551
Valid N (listwise)	120				

The above table indicated that the risk associated with the mutual funds and the highest risk based on the mean response is of index schemes. The above type of mutual funds were evaluated based on the risk associated with them and the investors indicated their perception towards the mutual funds through 5 point likert scale which ranged from 5 (high risk) to 1 (low risk). The mutual funds associated with index are performing based on the portfolio which is a part of index. The fund manager is unable to make any changes in the portfolio since it is based on a particular index. Such funds are said to be passive funds, since the same proportion of stocks is maintained in the index mutual funds and they provide a similar response. The growth schemes have their mean response as 3.86 and it also indicates higher risk.

(b) Return perception of the investors

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Growth schemes	120	1	5	3.82	1.436
Tax savings Schemes	120	1	5	3.68	1.397
Income Schemes	120	1	5	2.29	1.095
Balanced Schemes	120	1	5	3.11	1.269
Exchange – traded funds	120	1	5	3.78	1.325
Money Market Schemes	120	1	3	2.09	.961
Index Schemes	120	2	5	4.21	.721
Sector Specific Schemes	120	1	5	3.57	1.586
Valid N (listwise)	120				

Based on the table above, the return as expected by the investors is highest among the index schemes and it is followed by growth schemes. The risk and return associated with the mutual funds depends on the objective of the fund and also the portfolio which is being managed by the fund manager. There is a restriction about the investment which is being made in equity and debt based on the objective. The return is associated with the investment options that are selected by the fund manager and hence the investors considered in the study have indicated that the return mistakes from the Index higher as compared to the other fund. There is a need to the customers are aware about where is investment option that has chosen manager and the object on which the mutual fund is based on.

6.3 Awareness about concepts related to mutual funds

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Asset Management Company (AMC)	120	1	3	3.10	.771

New fund offer (NFO)	120	1	5	2.51	1.588
Systematic withdrawal plan(SWP)	120	1	5	2.46	1.555
Systematic investment plans (SIP)	120	1	5	3.28	1.231
Money market	120	1	5	2.79	1.309
Securities exchange board of India (SEBI)	120	1	5	3.64	1.165
Equity Link saving scheme (ELSS)	120	1	4	3.47	1.115
Valid N (listwise)	120				

The above table indicates the awareness about various financial terms associated with mutual funds. The investors are more aware about SEBI and they are lesser aware about the other terms associated with mutual funds. The level of awareness among the investors related to various concepts associated with mutual fund is very important so that they will be able to understand by mutual funds in a better manner. The investor should try to evaluate different which are plants which are available based on the previous performances and accordingly they should try to select their own objectives. It is important for the Advisors to make the customers aware about mutual fund and accordingly suggest them the best plants which would suit all the financial goals. The amount invested in mutual funds could be big or small and it could also be invested based on lump sum or systematic investment plan. When the investors try to understand more about the mutual funds only than there is a possibility that they will be able to overcome any issues of challenges which are associated with it.

6.4 Investor's perception towards advantages of mutual funds

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Affordable	120	1	5	2.84	1.335
Professional services	120	1	5	3.10	1.318
Transparency	120	1	5	3.10	1.318
Cost effective	120	1	5	3.14	1.422
Liquidity	120	1	5	3.58	1.559
Multiple products	120	1	5	3.28	1.550
Tax benefits	120	1	5	3.78	1.361
Diversification	120	1	5	3.77	1.375
Flexible	120	1	4	3.13	1.276
Convenience	120	1	5	2.86	1.285
Valid N (listwise)	120				

There are majority of investors who have considered the mutual fund investment based on the options available and the advantages which it could provide to the investors. The highest mean indicates that more investors believe that mutual funds provide tax benefits and also diversification. Mutual Funds provide different benefits and it depends on the investors which they find as a benefit or any other reason for which they are chosen Mutual Funds a good investment option. It is important for the investors to understand the amount which is being invested in different investment options through mutual funds. Before the start investing in a particular mutual fund it is very important for them to evaluate it historical performance and decide which mutual fund is best for the investment. Awareness place a key role as it helps the investors to understand the reasons of selecting the right investment option. It is also important that they decide about the objectives for which there investing and the period for waste amount of investment is being made.

VII. Conclusion

The mutual fund companies are offering different product choices based on their objective and their financial spectrum. The goals of investment among people very because some people are investing funds for their retirement sum for the terms education on marriage some for purchase of house etc. The risk and return associated with the mutual funds depends on the objective of the fund and also the portfolio which is being managed by the fund manager. There is a restriction about the investment which is being made in equity and debt based on the objective. The return is associated with the investment options that are selected by the fund manager and hence the investors considered in the study have indicated that the return mistakes from the Index higher as compared to the other fund. There is a need to the customers are aware about where is investment option that has chosen manager and the object on which the mutual fund is based on. It is important for the Advisors to make the customers aware about mutual fund and accordingly suggest them the best plants which would suit all the financial goals. The amount invested in mutual funds could be big or small and it could also be invested based on lump sum or systematic investment plan. When the investors try to understand more about the mutual funds only than there is a possibility that they will be able to overcome any issues of challenges which are associated with it.

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