ANALYSING INVESTOR PERCEPTIONS OF RISK-RETURN TRADEOFFS AND PERFORMANCE ACROSS VARIOUS MUTUAL FUND SCHEMES

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ABSTRACT

A mutual fund is a financial intermediary that pools together the funds of investors who share similar investment objectives, investing them across a diverse range of financial assets. This pooling provides thousands of investors with proportional ownership in diversified portfolios, which professional investment managers manage. In this analysis, primary data has been utilized to explore the investment behavior, risk tolerance, and perceptions of investors regarding various mutual fund schemes. The data analysis offers a comprehensive understanding of how various investor demographics perceive and interact with mutual funds, underscoring the importance of targeted communication and education in enhancing investment awareness and informed decision-making. The present study attempted to evaluate the awareness level of investors about different mutual fund schemes. Further, it is found that investors' perceptions about the risk and return and attitude towards the performance of different mutual fund schemes categories.

Keywords: Investors 'Perception, Mutual Fund Schemes, Investment Awareness, Investment decisions.

1.INTRODUCTION

Mutual funds have become significant participants in the financial markets of major economies. In the U.S., they manage approximately $7 trillion in assets, while in Europe the figure exceeds 3 trillion Euros. In India, mutual funds account for about ₹30,000 crores. Today investors can choose from thousands of mutual funds which range from relatively safe short-term debt funds to riskier stock and derivative options. Investor perceptions of mutual funds vary widely. Conservative investors often view them as safer than individual stocks, although they still recognize some level of risk. Conversely, aggressive investors are willing to accept higher risks in exchange for the potential of greater returns. For beginners, mutual funds may seem complex; however, seasoned investors typically understand the balance of risk and reward. Equity funds are considered high-risk, high-reward options, while debt funds are generally seen as safer with more stable returns. Hybrid funds, on the other hand, are viewed as a middle ground between the two. Market conditions also play a role—optimism runs high in bull markets, while caution prevails during downturns. Mutual funds work by pooling money from many investors to invest in a range of assets like equities, bonds, government securities, and money market instruments. In India, mutual funds are structured as trusts under the Indian Trusts Act of 1882 and regulated by SEBI (Securities and Exchange Board of India) under the SEBI (Mutual Funds) Regulations, 1996. These regulations set limits on the fees and expenses that can be charged for managing a fund, ensuring transparency and investor protection. Mutual fund investments will be the best option to invest, as they provide an opportunity to a small investor, to get better returns during a long tenure of stay in investments. A Mutual Fund is a trust that mobilizes the savings of a number of small investors who have a common financial goal. The collected monies are invested in capital market instruments such as shares, debentures and other securities. The incomes earned through these investments are shared by its unit holders in proportion to the number of units owned by them. Hence, Mutual Fund is the most appropriate investment avenue for the common man as it offers an opportunity to invest in a diversified, professionally managed portfolio of securities at a relatively low cost.

2.REVIEW OF LITERATURE

Mutual funds have already attracted the attention of global practitioners and academicians but most of the existing research available is on either accelerating the return on funds or comparing it with benchmark fund schemes. Few studies are available that focus on investor’s objective and considering risk orientation of investors that has been categorized as:

Kaur, Bharucha, J. (2021) Their study attempts to explore investors, awareness, perception, and experiences towards mutual funds in the Indian city of Indore. The study's sample size consisted of 300 investors from Indore, distributed across the city and its suburbs. A series of chi-square tests were conducted on this data. Out of the respondents, 68 are not even aware of mutual funds, and of the 196 respondents who are aware of mutual funds, only 34.69% have invested in mutual funds. The fixed deposits of banks are the most preferred channel of investment.

G Himire, Adhikari, M (2023) Studies reveal that investor awareness level, fund manager qualities, risk perceptions, and fund performance positively affected mutual fund investment decisions in Nepal. These factors played an important role in determining investors’ preferences and choices. The regression model demonstrated a good fit for the data, explaining 55.8% of the variation in investment decisions. The study also emphasized the significance of effective selection and monitoring processes for mutual fund schemes, including evaluating fund managers’ performance and assessing the risk-return profile of different options.

Srivastava, et al. (2023) The study examines the mutual fund scheme performance of 25 mutual fund schemes with growth options classified as per market capitalization. The findings showed that fund managers in different funds were successful at their fund selectivity skills but not the market timing skills in the selected period. Even while funds outperformed when assessed using several risk-adjusted criteria, the market timing abilities of fund managers were found negative in all cases.

Paudel, et al (2024) in their findings reveal that younger investors exhibit a higher tolerance for risk, while older investors prioritize safety and stability. Metrics such as earnings per share (EPS), rate of return, and dividend per share (DPS) significantly influence investment decisions. The study also highlights the importance of liquidity, with investors favoring assets that can be easily converted into cash without significant loss.

3. OBJECTIVES OF THE STUDY

The study was conducted with the following objectives.

1. To assess the overall awareness level of investors about different mutual fund schemes.
2. To identify Investors’ perceptions about the risk and return of mutual funds schemes.
3. To analyze investor attitudes towards the performance of different mutual fund schemes categories.

4. RESEARCH METHODOLOGY

Research methodology is the way to systematically and scientifically solve a research problem. The researcher investigates and describes the result, predicts the research phenomena, and presents the findings for future research in support of the research methodologies. The present study has been conducted in two districts of Himachal Pradesh. i.e. Shimla, Solan. The tools and techniques of research including percentage methods have been used, and a sample size of 400 with quota sampling methods has also been applied. In this research paper, data was gathered from both primary and secondary sources, including reports from the Association of Mutual Funds in India (AMFI). Institutions such as the Securities and Exchange Board of India (SEBI) and the Reserve Bank of India (RBI) conducted financial literacy surveys.

5.DATA ANALYSIS AND INTERPRETATIONS

The data collected through the well-structured questionnaire are analyzed and interpretation is made on the basis of such analysis are represented as below:

5.1 Awareness level of investors about different schemes of mutual fund

A Mutual fund is an efficiently managed firm of collectively investments that collect funds from many investors and puts it in stock, bonds, short-term money market instruments and or in others securities.

Table 5.1. Awareness level regarding the Mutual Fund Investment

Awareness level	Frequency	Percentage
Yes	334	83.5
No	66	16.5
Total	**400**	**100.0**

Source: Data collected through questionnaire

Table 5.1 & Fig.5.1 shows that 83.5% of respondents have good knowledge about the Mutual fund investment. While as 16.5% respondents have no knowledge about the Mutual fund investment.

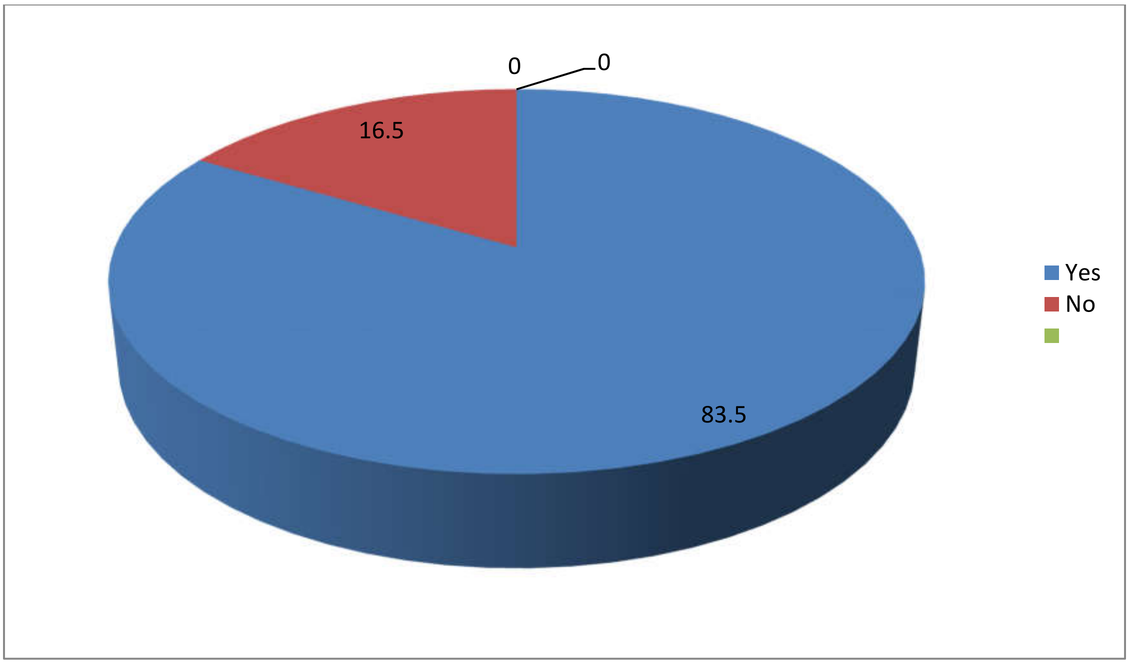

Fig. 5.1 Awareness level regarding the Mutual Fund Investment

5.2 Mutual fund scheme preferred

The investing in Mutual fund depends on an investor's financial goals, time horizon, and need for liquidity. Closed-end funds are better suited for those who are looking to invest their money for a longer period and are comfortable with limited access to their funds. On the other hand, open-end funds offer more flexibility and are ideal for those who might need to access their investment in the short term or who prefer the ability to withdraw funds as needed.

Table 5.2 Mutual fund scheme preferred

Mutual fund schemes	Frequency	Percentage
Open Ended Schemes	328	82
Closed Ended Schemes	72	18
Total	**400**	**100.0**

Source: Data collected through questionnaire

Table 5.2 and Figure 5.2 presented the preferences of investors in mutual fund schemes. The data shows that a significant majority of investors, 82% prefer to invest in open-ended schemes. In contrast only 18% favor of closed-ended schemes. The preference for open-ended schemes is likely due to the flexibility they offer, allowing investors to withdraw their money as needed.

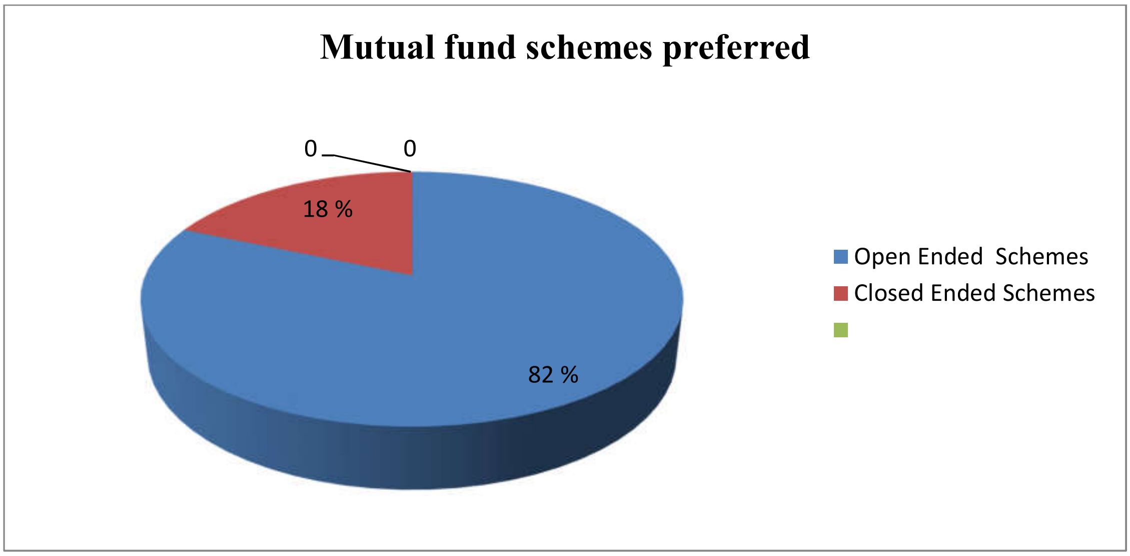

Fig: 5.2 Mutual fund scheme preferred

5.3 Perception of investors about risk and return of mutual fund schemes

The perception of Mutual fund risk and return varies by investor basis. Conservative investors see them as riskier as but safer than stocks, while aggressive investors accept higher risk for potential returns. Novice investors may sight them as complex, while experienced ones understand the risk-return balance. An equity fund has been as high-risk, high-reward, debt funds as safer with stable returns, and hybrid funds offer equilibrium. Market conditions also influence perceptions, with hopefulness in bullish markets and caution in bearish ones.

Table: 5.3 Classification of risk associated with Mutual fund

Risk Associated with Mutual fund	Frequency	Percentage %
Low	89	22.3
Moderate	262	65.5
High	49	12.3
Total	**400**	**100.0**

Source: Data collected through Questionnaire

Table 5.3 shows that out of 400 respondents' higher percentage of about 65.5% belong to moderate risk associated. On the other hand, 22.3% of respondents are associated with low risk, and followed by 12.3% of respondents are higher perception of investors about risk and returns towards Mutual fund schemes.

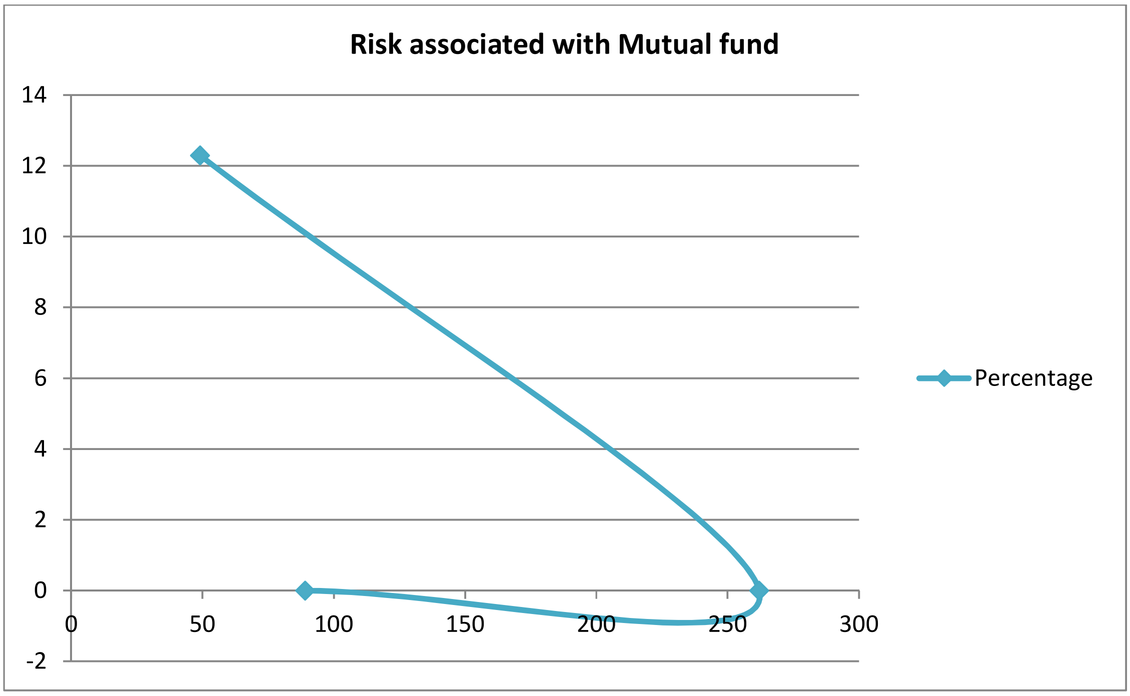

Fig.5.3 Classification of risk associated with mutual fund

Table 5.3 & fig; 5.3 depicts and gives a clear indication of 65.5% of respondent's perception about risk and returns found moderate risk is associated with Mutual fund schemes.

Table 5.4 Investors expectation risk towards Mutual Funds

Investors Expectation	Frequency	Percentage (%)
No Risk	51	12.8
Low Risk	109	27.3
Balanced Risk	188	47.0
High Risk	52	13.0
Total	**400**	**100.0**

Source: Data collected through questionnaire

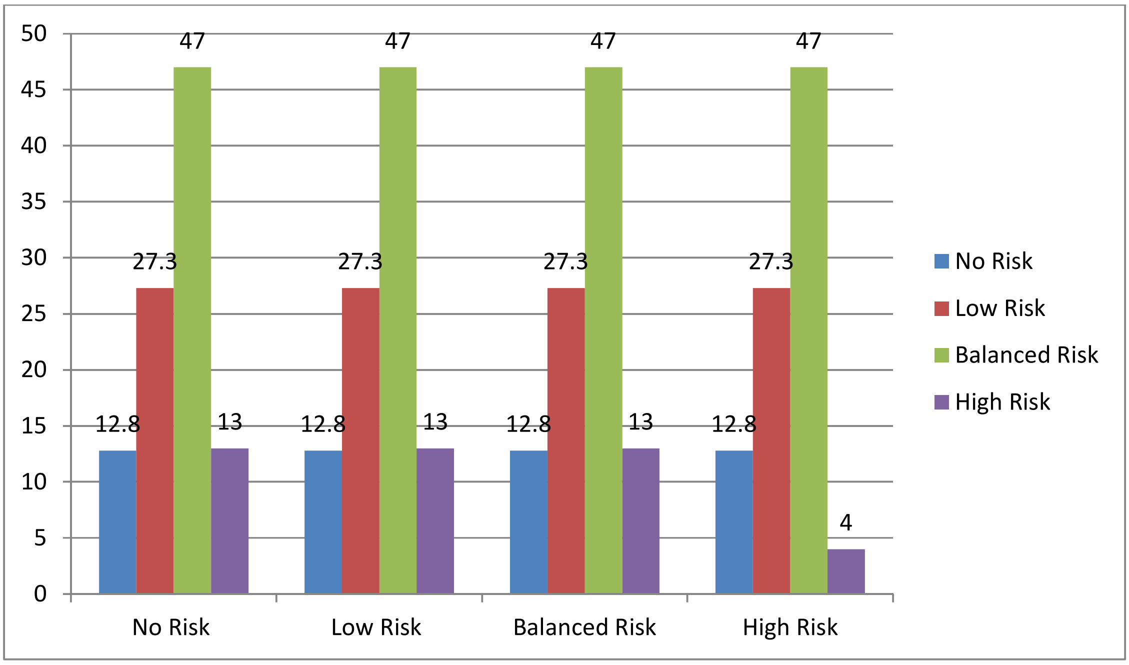

Fig 5.4: Investor expectations risk toward mutual funds

Table 5.4 & fig. 5.4 has been seen that 47.0% of investors are expecting balanced risk when they invest in mutual fund scheme, and followed by 27.3% they expect low risk invest in mutual fund, another is 13.0% of respondents expect high risk as compare to low risk investors. While 12.8% of investors expect no risk in different kind of securities.

Table 5.5 Expected return from their mutual fund investments.

Returns	Frequency	Percentage
Less than 10%	60	15.0
Between 10-% 20 %	142	35.5
Between 20% - 30 %	108	27
More than 30%- 40%	90	22.5
Total	**400**	**100.0**

Source: Data collected through questionnaire

Table 5.5 reveals that 142 investors expect returns between 10-20% from their mutual fund investments. followed by 108 investors who expect returns in the range of 20-30%. Additionally, 90 investors anticipate returns of more than 30%, while 60 investors expect returns of less than

10%. The data suggests that a significant portion of investors, 35%, are highly aware of mutual fund schemes, particularly in Himachal Pradesh, as they have realistic return expectations. This group is slightly larger than the 27% of investors who expect returns between 20-30%.

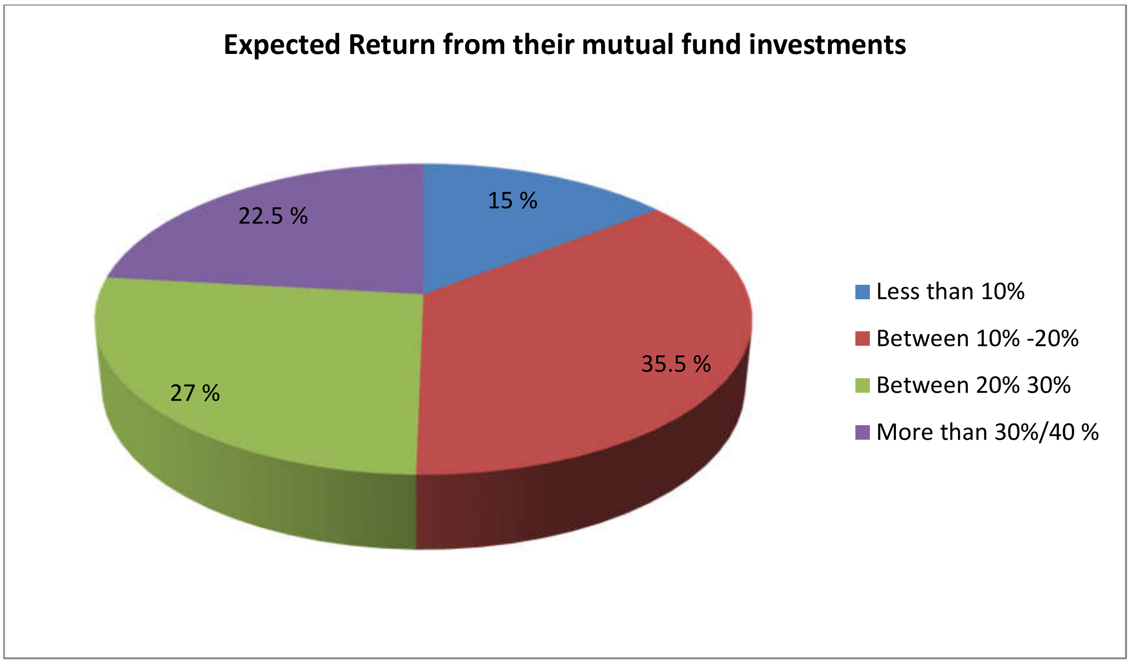

Fig. 5.5 Expected return from their mutual fund investments.

5.4 Perception of investors about performance of different mutual fund schemes

On the basis of performance of the mutual funds, the investors should decide when to enter or exit from a mutual fund scheme.

Table 5.6 Satisfied overall performance of their current or past mutual fund investment

Performance current/past Mutual fund investment	Frequency	Percentage
Yes	294	73.5
No	106	26.5
Total	**400**	**100.0**

Sources: Data collected through Questionnaire

Table 5.6 shows that a significant majority of respondents, 73.5% out of 400, are satisfied with the overall performance of their current or past mutual fund investments. In contrast, 26.5% respondent's express dissatisfaction. The strong level of satisfaction perception of investors about different Mutual fund scheme suggests that mutual funds are generally meeting the expectations of investors within this sample, reflecting positively on the perceived effectiveness of these investment vehicles. The relatively small proportion of dissatisfied investors may aim to specific concerns or individual experiences that could be addressed by financial advisors or Mutual fund companies.

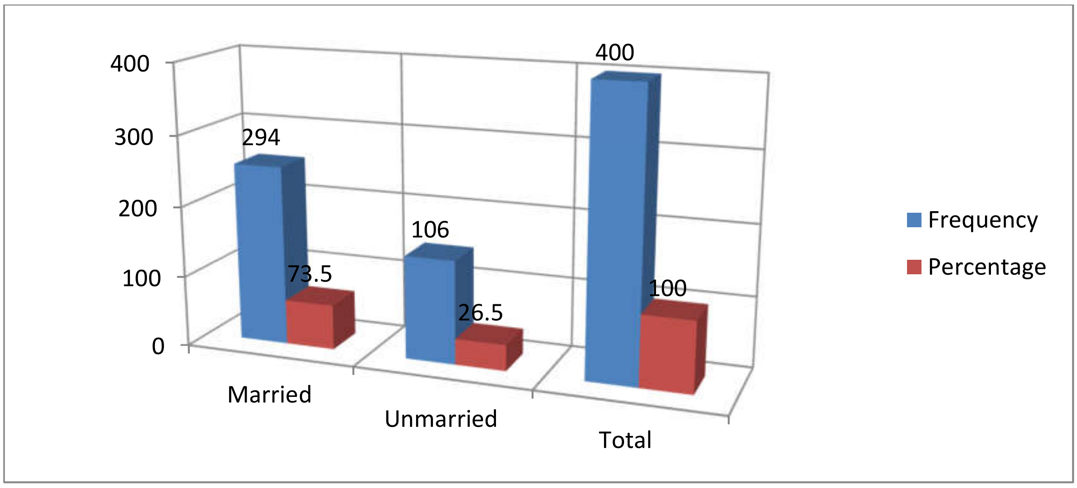

Fig. 5.6 Satisfied with the overall performance of current or Past Mutual Fund investment

Table 5.7 Compare the performance of Mutual fund schemes with relevant Benchmark

Relevant Benchmark	**Frequency**	**Percentage**
Yes	312	78
No	88	22
Total	**400**	**100.0**

Sources: Data collected through Questionnaire

Table 5.7. shows that a large majority of respondents, 78% out of 400, compare the performance of their mutual fund schemes with relevant benchmarks. Meanwhile, 22% respondents do not engage in such comparisons. This indicate that perception of investors about performance of

different Mutual fund schemes in the sample are actively monitoring and evaluating the effectiveness of their investments against industry standards or benchmarks, indicating a more informed and analytical move towards to investing. The smaller group that does not make such comparisons may either lack awareness or feel confident in their investments without needing to assess them against external standards.

6. FINDINGS OF THE STUDY

1. A significant majority of investors, 82% prefer to invest in open-ended schemes. In contrast only 18% favor closed-ended schemes.
2. The finding shows that the high satisfaction rate indicates a favourable outlook towards mutual fund investments among the majority of participants.
3. Further perception of investors about performance of different mutual fund schemes in the sample are actively monitoring and evaluating the effectiveness of their investments against industry standards or benchmarks, indicating a more informed and analytical move towards to investing.
4. A majority of investors (78%) compare relevant benchmark monitoring and evaluating their investment behaviour highlights varying levels of financial literacy and engagement among mutual fund investors.

7. CONCLUSION

The present study on analysing investor perceptions of risk-return trade-offs and performance across various mutual fund schemes in two districts of Himachal Pradesh. The results of the present study show that the majority of the respondents expect balanced risk in their security as compared to low risk in the perception of investors about the risk and returns of mutual fund schemes. The Indian investors exhibit a diverse range of risk-return preferences, significantly influenced by individual goals, market cycles, and evolving investment options. Mutual funds in India have delivered annualized returns of 12-15% over the long term. The success of any mutual fund scheme depends upon how the mobilized fund is effectively managed and utilized. An asset management company plays the pivotal role in fund management. Hence, the sponsor of the mutual fund company should select a good asset management company in order to attract more investors. In order to attract more investors towards mutual fund schemes, the mutual fund companies should provide more investors' services. The awareness level of investors 83.5% of respondents have good knowledge about mutual fund investment. While 16.5% of respondents have no knowledge about mutual fund investment. The data shows that a significant majority of investors, 82%, prefer to invest in open-ended schemes. In contrast, only 18% favour closed-ended schemes. The preference for open-ended schemes is likely due to the flexibility they offer, allowing investors to withdraw their money as needed. The strong level of satisfaction perception of investors about different mutual fund schemes suggests that mutual funds are generally meeting the expectations of investors within this sample, reflecting positively on the perceived effectiveness of these investment vehicles. The relatively small proportion of dissatisfied investors may point to specific concerns or individual experiences that could be addressed by financial advisors or mutual fund companies.

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