

Role of Mutual Funds in Mobilizing Savings of Indian Investors: A Cross-Sectional Study

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Abstract

By giving Indian investors a simple and effective way to invest their money, mutual funds serve a crucial part in maximizing their savings. With a diverse range of investment options and professional fund management, mutual funds offer individuals a way to participate in the financial markets without the need for extensive knowledge or expertise. Overall, mutual funds serve as a vital intermediary between individual investors and the capital markets, facilitating the mobilization of savings in a structured and efficient manner. They provide investors with access to professional management, diversification, and flexibility, making them a popular choice for Indian investors looking to maximize returns while minimizing risk. A group of 211 people (Indian investors) were surveyed to know Role of Mutual Funds in Mobilizing Savings of Indian Investors and found that Mutual funds serve as a midway between individual investors and the capital markets and facilitate the mobilization of savings in a structured and efficient manner.

Keywords: *Mutual Funds, Investment Options, Diversified Portfolio, Investment Risk, Small Investors*

Introduction

Mutual funds have emerged as a critical instrument in mobilizing the savings of Indian investors, playing a crucial role in the country's financial landscape. With their convenience and efficiency, mutual funds provide individuals with a reliable avenue to invest their hard-earned money. These investment vehicles offer diverse options, allowing investors to participate in the financial markets without the need for extensive knowledge or expertise. By pooling together funds from numerous investors, mutual funds create a powerful mechanism for collective investment. This pooling not only helps in generating substantial capital but also enables investors to access a diversified portfolio of securities, which mitigates investment risks. The ability to spread risks across multiple assets provides a level of security that individual investors might find challenging to achieve on their own.

A significant advantage of mutual funds is their accessibility to small investors. Not everyone possesses the necessary capital or expertise to directly invest in individual stocks or bonds. Mutual funds bridge this gap, offering individuals with limited resources the opportunity to participate in the financial markets and benefit from professional fund management. Fund managers play a crucial role in analyzing and selecting securities for the fund's portfolio, utilizing their expertise and experience to maximize returns while managing risks. Through mutual funds, small investors gain exposure to a well-diversified portfolio managed by professionals, reducing the risks associated with concentrated investments. This democratization of investing empowers individuals from all walks of life to grow their savings and build wealth over time. One of the primary advantages of mutual funds is their ability to pool together funds from numerous investors. Investors can access a broad portfolio of assets thanks to this pooling of resources, which helps reduce investment risk. Individuals can expose themselves to a variety of asset classes, including equities, bonds, and money market instruments, by investing in mutual funds. Small investors, who might not have the resources or knowledge to invest directly in individual stocks or bonds, find mutual funds to be particularly appealing. Through mutual funds, these investors can benefit from the professional expertise of fund managers who carefully analyze and select securities for the fund's portfolio. This enables investors to put their money into a professionally managed, well-diversified portfolio, thereby lowering the risk involved with making concentrated investments. Mutual funds also give investors the freedom to select from a variety of investment plans in accordance with their level of

risk tolerance and investment objectives. Whether one is looking for long-term capital appreciation or regular income, there are mutual fund schemes designed to cater to different investment objectives.

Another advantage of mutual funds lies in their flexibility. Mutual funds offer a wide range of investment schemes tailored to suit different risk appetites and investment objectives. Whether an investor seeks long-term capital appreciation, regular income, or a combination of both, there is a mutual fund scheme available to meet their specific requirements. This flexibility allows investors to align their investment strategies with their financial goals, ensuring a personalized approach to wealth creation. Moreover, mutual funds provide individuals with the option to invest systematically through systematic investment plans (SIPs), enabling them to invest regularly in small amounts. This approach promotes disciplined investing and helps individuals harness the power of compounding over time. The flexibility and customization offered by mutual funds make them a popular choice among Indian investors seeking to maximize returns while effectively managing their investments.

Literature Review

A paper investigates the fluid connection between foreign institutional investors (FIIs) and mutual fund investment flows. It discovers that domestic mutual funds base their investment decisions on market results, their own prior investments, and those of foreign institutional investors. It also discovers proof that FIIs' net investments have a causal impact on stock market results. The cautious and unconventional trend in mutual fund net investments in equities markets may help to explain why equity mutual funds haven't provided a strong local substitute to foreign flows in the Indian stock market. (Bose, 2012). The results of a different article are compatible with theoretical models in which funds have bargaining power over investors, and they underscore the role of the fund industry in enhancing market efficiency. Moreover, these results are consistent with models in which funds have bargaining power over investors. (Barras et. al., 2020).

Research shows that mutual funds that have a more secure source of funding are more inclined to invest in private companies. Furthermore, it discovers that financing rounds that include participation from mutual funds have greater redemption, better IPO-related rights, and less board presence. (Chernenko et. al., 2017). Another article examines from January 2000 to May 2010, the association between investment flow in mutual funds and stock market performance in India. Granger causality analyses using the Toda and Yamamoto technique show that results from the stock market and the flow of investments into mutual funds are causally related in one direction. The government and monetary authorities should endeavor to lessen the market's volatility and enhance its efficiency since increasing stock market activity attracts mutual funds to the capital market (Mishra, 2011).

A paper looks at the factors that influence the choice of individuals to put money in mutual funds and examines how investor perception mediates this effect. Individual investors were given 300 questionnaires, and the results were analyzed using Smart PLS 3. The findings showed that risk and return, asset liquidity, demographic variables, ease of use, lower transaction costs, tax advantages, and transparency were the main drivers and maintained substantial correlations with mutual fund investment. The perception of the investor continued to operate as a mediating factor between all of these factors and mutual fund investment. (Ul-Hameed et. al., 2019). The findings of another research indicate that mutual funds achieved higher returns than the market overall, which ultimately led the researchers to the conclusion that the Indian Capital Market is not Strong form Efficient. (Ikram & Khan, 2011).

Research examined the connection between fund characteristics and market performance in Portugal. The sample consisted of 124 money market, bond, and equity funds which operated between 2004 and 2011. The methodology utilised consisted of two independent phases: constructing a multi-factor model with panel data and comparing the returns of each class of investments with reference markets. The findings demonstrated that only fixed-income mutual funds outperformed Portuguese funds in terms of benchmark performance. Investors can choose the finest funds by taking into account mutual fund characteristics including their age and size, cost, prior performance, and low trading activity. (Lobão, & Gomes, 2015). Another article discovered convincing evidence of herding in Indian mutual funds, particularly when they

trade in well-known indices or stocks with high market capitalizations. In the Indian stock market, more so than in Western countries, the herding effect influences both stock purchases and sells. (Patro & Kanagaraj, 2012).

An article classified Chinese mutual funds based on their past investment behaviour. The findings indicate that the majority are quasi-indexers (58.58%), followed by transient funds (31.27%) and dedicated funds (3.38). While transient funds focus on good operating performance and growth prospects, dedicated funds mostly invest in small, highly liquid listed companies. All types of mutual funds in China seek to invest in state-controlled listed enterprises. (Yang et. al., 2014). Another paper states that investors benefit greatly from the identification of key fund characteristics since it helps them choose mutual funds wisely and make informed investment decisions. Investors can benefit from these insights by selecting funds more prudently and by investing more wisely. (Babbar & Sehgal, 2018).

Research looked at how investor awareness, attitude (perception of outcome), and socioeconomic circumstances affected how they made investments in mutual funds. The main poll in Delhi-NCR generated 450 valid replies, on which the results were based. According to the research, individual investors' socioeconomic variables, awareness, and perception can all be utilised to explain their investment behaviour. The investing decision was not impacted by risk perception. Age, gender, occupation, income, and education are socioeconomic factors that have an impact on how informed people are about mutual funds. (Kaur & Kaushik, 2016). Another paper is the first to show that U.S. mutual fund investors benefit from tax-management advice, which helps investors avoid taxable fund payouts, one of the numerous previously theorized advantages of receiving financial advice. Additionally, it aids in other facets of tax administration, such as selling tax losses. (Cici et. al., 2015).

Objective: To know the Role of Mutual Funds in Mobilizing Savings of Indian Investors.

Methodology: A group of 211 people (Indian investors) were surveyed to know Role of Mutual Funds in Mobilizing Savings of Indian Investors. A checklist question was used to analyze and interpret the data. In a checklist question respondents choose “Yes” or “No” for all the questions.

Data analysis and interpretation

Table 1 Role of Mutual Funds in Mobilizing Savings of Indian Investors

S. No.	Role of Mutual Funds in Mobilizing Savings of Indian Investors	Yes	% Yes	No	% No	Total
1	Mutual funds offer individuals a way to participate in the financial markets without the need for extensive knowledge or expertise	162	76.8	49	23.2	211
2	Enables investors to put their money into a professionally managed and well-diversified portfolio	153	72.5	58	27.5	211
3	Give investors the freedom to select from a variety of investment plans in accordance with their level of risk tolerance and investment objectives	171	81.0	40	19.0	211
4	Mutual funds serve as a midway between individual investors and the capital markets	166	78.7	45	21.3	211
5	Facilitate the mobilization of savings in a structured and efficient manner	160	75.8	51	24.2	211
6	Provide investors with access to professional management, diversification, and flexible funds	177	83.9	34	16.1	211

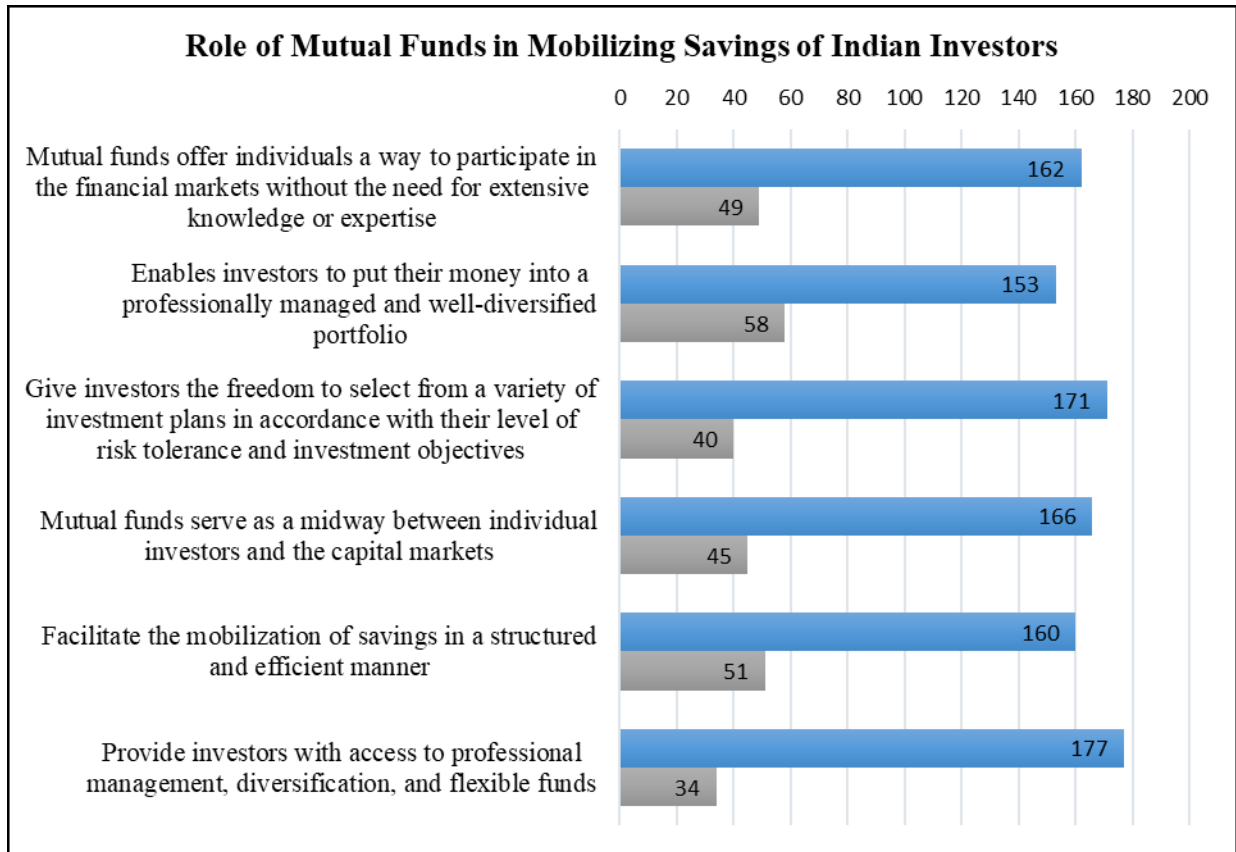


Figure 1 Role of Mutual Funds in Mobilizing Savings of Indian Investors

Table and figure 1 shows Role of Mutual Funds in Mobilizing Savings of Indian Investors. It is found that around 76.8% of the respondent accept that Mutual funds offer individuals a way to participate in the financial markets without the need for extensive knowledge or expertise followed by mutual fund enables investors to put their money into a professionally managed and well-diversified portfolio (72.5%), Give investors the freedom to select from a variety of investment plans in accordance with their level of risk tolerance and investment objectives (81.0%), Mutual funds serve as a midway between individual investors and the capital markets (78.7%), Facilitate the mobilization of savings in a structured and efficient manner (75.8%) and Provide investors with access to professional management, diversification, and flexible funds (83.9%).

Conclusion

In conclusion, mutual funds have revolutionized the way Indian investors mobilize their savings. With their convenience, efficiency, and professional management, mutual funds offer a platform for people to access the financial markets and gain from diversity. These investment vehicles offer small investors the opportunity to grow their savings while managing risks effectively. Furthermore, the flexibility and customization offered by mutual funds ensure that investors can align their investments with their financial goals. Mutual funds are anticipated to play an increasingly important role in directing money towards profitable investments and bolstering the country's financial development as India's economy continues to rise.

The study was conducted to know the Role of Mutual Funds in Mobilizing Savings of Indian Investors and found that maximum people accept that Mutual funds offer individuals a way to participate in the financial markets without the need for extensive knowledge or expertise, mutual fund enables investors to put their money into a professionally managed and well-diversified portfolio and also give investors the

freedom to select from a variety of investment plans in accordance with their level of risk tolerance and investment objectives.

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