



A Study on Factors Responsible for Investors' Preferences in Mutual Fund Schemes"

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Abstract

In recent years, mutual funds have gained significant traction as a preferred investment avenue among retail investors in India, owing to their accessibility, diversification, and potential for long-term wealth creation. Despite the rapid growth of the mutual fund industry, individual investment behavior remains complex and varies based on multiple interrelated factors. This study aims to examine the key elements that influence the investment preferences of retail investors toward mutual fund schemes.

The research explores the role of financial literacy, risk tolerance, demographic variables, fund performance, and the accessibility of digital platforms in shaping investor decisions. It also considers the influence of marketing strategies and financial advisors on investor behavior. A structured questionnaire was used to collect primary data from a sample of retail investors, and the findings were analyzed using statistical tools, including the chi-square test, to validate the hypotheses.

The results highlight that investors with higher financial awareness and digital familiarity tend to make more independent and informed investment choices. Risk appetite and personal financial goals also play a crucial role in selecting mutual fund schemes. Based on the findings, the study offers practical suggestions for mutual fund companies, financial advisors, and policymakers to enhance investor engagement and improve financial inclusion.

This research contributes to a better understanding of retail investor behavior and provides valuable insights that can help align mutual fund products and services with the actual needs and expectations of the retail investor segment

Key Words: Mutual Fund, Investment Preferences, Investor Behaviors,

Fund Performance.

Objectives of study

1. To explore the main reasons why individual investors choose to invest in mutual fund schemes.



2. To examine how personal traits such as age, income, education, and investment behavior influence mutual fund investment choices.
3. To study how an investor understands of financial concepts, willingness to take risks, and access to digital investment platforms affect their investment preferences.
4. To evaluate how factors like fund returns, promotional strategies, and advice from intermediaries impact investor decision-making.

Hypothesis 1:

H1: There is a significant relationship between an investor's level of financial literacy and their preference for investing in mutual fund schemes.

H0: There is no significant relationship between an investor's financial literacy and their preference for investing in mutual funds.

Hypothesis 2:

H1: Fund performance significantly influences investors' decisions when selecting mutual fund schemes.

H0: Fund performance does not significantly influence investors' decisions when selecting mutual fund schemes.

Research Methodology

1. Research Design

The study follows a **descriptive research design**, aimed at identifying and analyzing the key factors influencing retail investors' preferences regarding mutual fund investments. The research also incorporates **exploratory elements** to understand behavioral patterns and decision-making processes.

2. Data Collection Method

Secondary Data: Sourced from reliable databases such as **AMFI (Association of Mutual Funds in India)**, **SEBI reports**, mutual fund company websites, and published research papers, journals, and industry reports.

Review of Literature

1. Investor Behavior and Mutual Fund Preferences: **Gupta and Chander (2011)** found that Retail investors make investment choices based on a combination of personal needs, market conditions, and product awareness. Studies have shown that safety, expected returns, and liquidity are commonly



considered while selecting mutual fund schemes. In many cases, individual preferences vary depending on life stage and income level—young investors may prioritize returns, while older ones may look for capital protection.

2. Impact of Financial Literacy: Financial literacy is essential in shaping decisions regarding mutual fund investments. Lusardi and Mitchell (2014) found that people with greater financial understanding are more inclined to invest in sophisticated financial products, such as mutual funds. In the Indian scenario, Bhushan and Medury (2013) noted a significant link between financial knowledge and prudent investment practices among urban investors.

3. Fund Performance and Investor Attraction: Historical performance frequently serves as a key factor influencing investment choices. Siraj and Sudarsan (2012) pointed out that steady returns over an extended period foster investor trust, even in cases where the fund presents greater risk. Nevertheless, Barber (2005) observed that a significant number of investors often place too much emphasis on recent fund performance and overlook longer-term results or associated risks.

4. Role of Marketing, Advisors, and Digital Access: The influence of marketing and distribution is significant in markets like India, where retail investors often rely on external guidance. Sondhi and Jain (2010) noted that while marketing and promotional campaigns create awareness, they cannot ensure successful investment without the backing of advisor recommendations. As stated by Singh and Kaur (2021), the increase in smartphone usage has improved accessibility and transparency via digital investment platforms, particularly aiding younger investors.

Introduction:

One of the most well-liked investing options for people looking for professionally managed, diversified portfolios is mutual funds. Over the past few decades, the mutual fund business in India has grown significantly as a result of technical developments, governmental assistance, and rising financial awareness. Mutual funds give both small and large investors an accessible way to engage in the financial markets by combining the capital of several individuals and investing it in a variety of securities, including stocks, bonds, and money market instruments. The rapid growth of the mutual fund business in India has also been facilitated by the development of digital investment platforms, investor-friendly legislation, and systematic investment plans (SIPs). Mutual funds have made a substantial contribution to the growth of the capital market and family financial savings due to rising retail investor engagement and the growing popularity of systematic investment plans (SIPs). However, a number of variables affect mutual fund investing decisions, including market volatility, investor perception, risk tolerance, and



regulatory changes. In order to better comprehend mutual funds' role in wealth creation and the evolution of the financial system, this study looks at the growth trends, investor behavior, and performance of mutual funds in India.

Factors Influencing Mutual Fund Investment:

1. Understanding of Financial Concepts

An investor's ability to grasp financial terms such as Net Asset Value (NAV), Systematic Investment Plans (SIPs), and types of mutual funds plays a major role in decision-making. Those with stronger financial awareness tend to evaluate options more carefully and make informed choices.

2. Willingness to Take Risk

Risk tolerance greatly affects the kind of funds a person chooses. Some investors are comfortable with high-risk equity funds for better returns, while others prefer safer options like debt or hybrid funds, even if the returns are lower.

3. Past Fund Performance

How well a fund has performed in the past often influences investor decisions. Many retail investors assume that funds with a history of strong returns are likely to perform well in the future, even though this is not always guaranteed.

4. Personal Investment Goals

Investment choices are often guided by individual financial goals. Some may invest for long-term wealth creation, while others may aim for short-term needs like tax savings or emergency funds. The type and duration of the goal influence the fund selection.

5. Personal and Demographic Background:

Investor preferences often vary by age, income, education, and occupation. For instance, younger individuals may lean toward high-growth options, while older investors usually prefer stable, low-risk funds. Income levels and job stability also affect how much and where they invest.

6. Access to Digital Tools

With the rise of mobile apps and online platforms, investing in mutual funds has become more convenient. Many retail investors now prefer digital platforms for their ease of use, speed, and transparent processes.

7. Tax Benefits

Tax-saving mutual fund schemes like ELSS (Equity Linked Saving Scheme) attract investors who want to reduce their taxable income. These schemes often influence investment decisions, especially during the financial year-end.



8. Advice from Financial Agents or Bankers

Many investors rely on advice from financial advisors, agents, or relationship managers at banks. Their suggestions can have a significant impact, especially when the investor has limited financial knowledge or lacks time for personal research.

9. Advertising and Brand Trust

Mutual fund advertisements and branding campaigns can create awareness and build confidence in a particular fund house. A well-recognized brand often gains more trust, especially from first-time or cautious investors.

10. Flexibility and Withdrawal Ease:

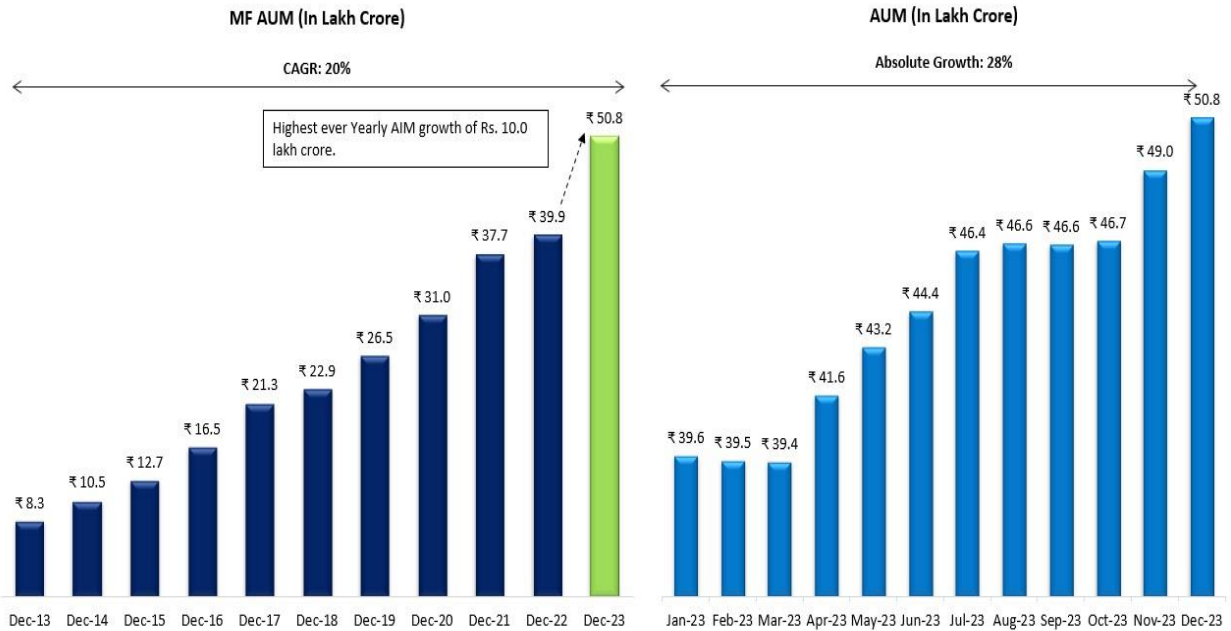
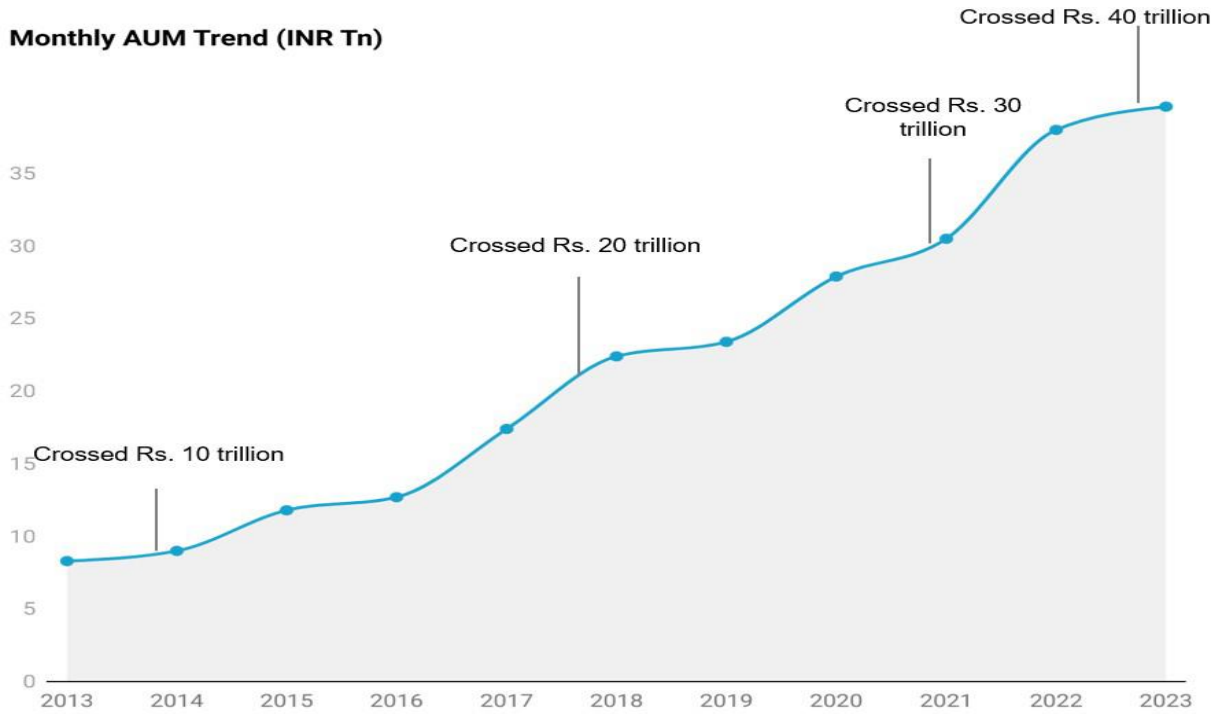
Retail investors prefer funds that offer flexible options like SIPs (monthly investments), partial withdrawals, and no lock-in periods. Liquidity and ease of exit are often key deciding factors when selecting a scheme.

11. Influence from Friends or Family

Sometimes investment decisions are made based on recommendations from people close to the investor. This peer influence, while not always based on research, plays a role in the mutual fund choices of many individuals.

Data Analysis:

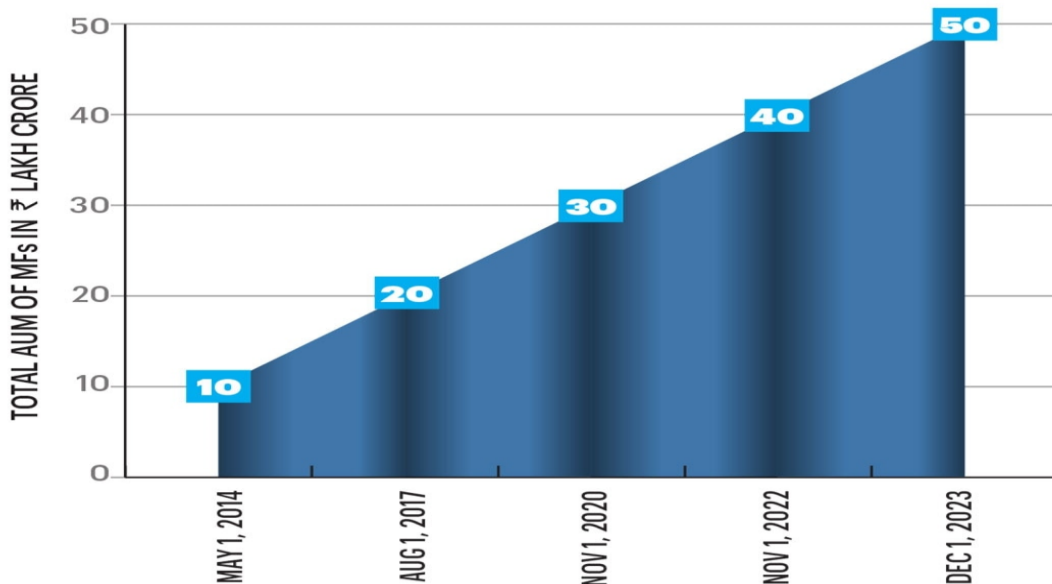
As per below data of AUM (Asset Under Management) indicate remarkable growth in mutual fund industries. There are some graph indicate the AUM growth of mutual fund industries in recent year since 2015 to 2025.



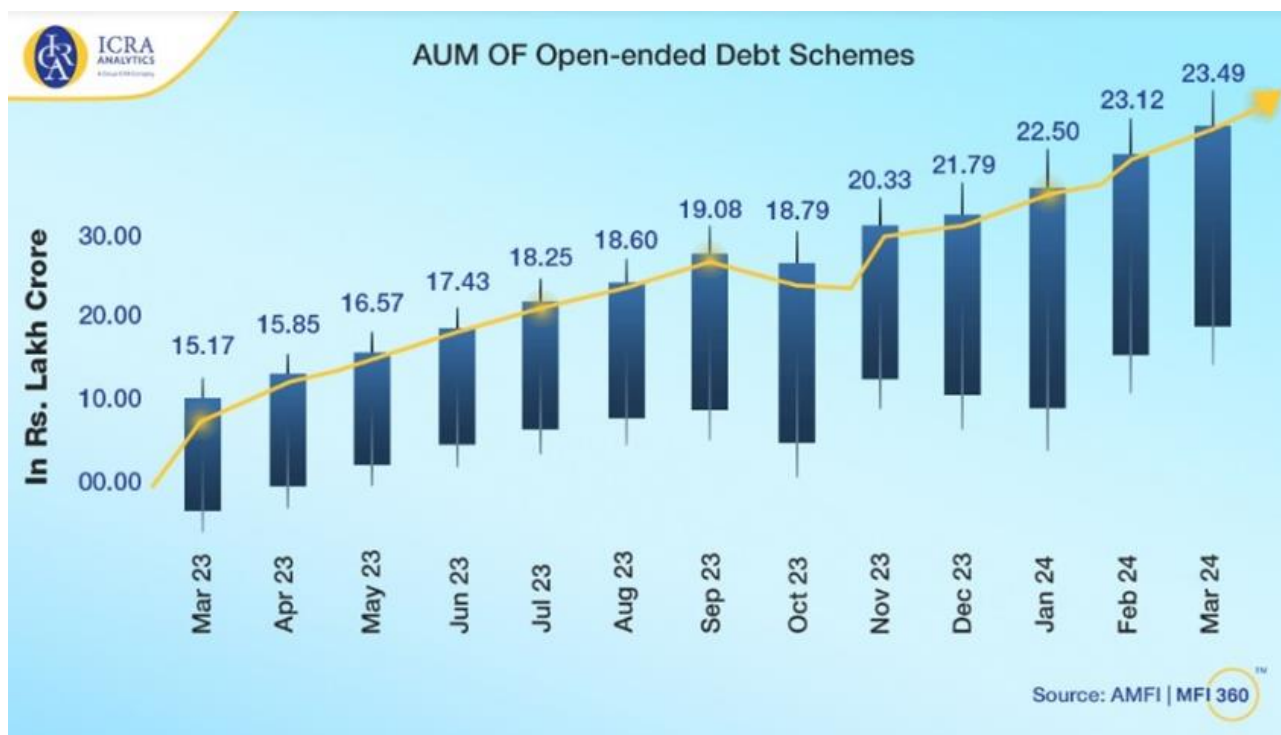


AUM MILESTONES

Initially, a ₹10-lakh crore jump in AUM took three years The last ₹10-lakh crore jump in AUM took just 13 months



SOURCE AMFI



Source: AMFI | MFI 360

Here's an illustrative overview of the **growth trajectory of the Indian mutual fund industry** over the past decade, based on verified data:



Key Figures & Trends (2015–2024)

1. Remarkable Expansion in AUM

- The Assets Under Management (AUM) of India's mutual fund industry surged from approximately 11.73 trillion in June 2015 to around 74.41 trillion by June 2025—a more than sixfold increase over ten years [AMFI India](#).
- In just five years, AUM tripled—from 25.49 trillion in June 2020 to 74.41 trillion in June 2025.

2. Milestones in AUM Growth

- Crossed 10 trillion in May 2014.
- Surpassed 20 trillion by August 2017.
- Achieved 30 trillion by November 2020.

3. Surpassing ₹74 Trillion by Mid-2025

- As of June 2025, the average AUM was 74.79 lakh crore (74.79 trillion), while the closing AUM stood at 74.41 lakh crore..

4. Outpacing Bank Deposits & Expanding Reach

- Mutual fund AUM as a proportion of bank deposits increased from 12.6% in 2015 to over 31% by May 2025.
- Penetration increased beyond major urban centers: contribution from B15 cities rose from 25% (March 2020) to 35% (March 2025), while B30 cities also improved share significantly.

5. Surging Retail Participation

- The number of mutual fund folios crossed 10 crore (100 million) in May 2021.
- By June 2025, the industry had a staggering 24.13 crore folios (241 million)—with approximately 19.07 crore folios under equity, hybrid, and solution-oriented schemes, which are largely driven by retail investors.



6. Recent Growth Momentum

- In FY25, AUM jumped by 23%, reaching 65.7 trillion from 53.4 trillion the previous year mint.
- Mutual funds surpassed the 50 trillion AUM mark in 2023, experiencing the largest-ever annual growth at that time.

7. Shifting Composition of Assets

- Equity funds dominate with ~60% share, followed by debt (~26%), hybrid (~8%), and other categories (~5%) as of mid-2025 The Economic Times.
- Passive funds have steadily gained traction, now constituting 17% of total AUM.

Summary Table of AUM Data

| Metric | Value/Trend |
|--------------------------------|------------------------------------|
| AUM (Jun 2015 → Jun 2025) | 11.73T → ₹74.41T |
| AUM Growth (5 years) | Tripled (2020 → 2025) |
| Mutual Fund AUM vs Bank AUM | 12.6% → 31% of Bank Deposits |
| Number of Folios (2021 → 2025) | 10 crore → 24.13 crore |
| FY25 AUM Growth | +23% (₹53.4T → ₹65.7T) |
| Asset Composition | Equity ~60%, Debt ~26%, Hybrid ~8% |
| Passive Fund Share | ~17% of AUM |

Interpretation

- **Robust industry expansion** highlights the growing trust in mutual funds as a mainstream investment tool.
- The **pervasive reach into smaller cities** underscores spreading financial awareness and penetration.
- **Retail investor participation has drastically increased**, demonstrated by soaring folio numbers.



- The rise in **passive investment vehicles** suggests growing investor preference for cost-efficient, index-linked instruments

Conclusion

The mutual fund industry has witnessed remarkable growth over the past decade, driven by increasing investor awareness, technological advancement, and supportive regulatory frameworks. As more retail investors explore mutual funds as a tool for wealth creation, it becomes essential to understand the factors that shape their investment choices.

This study highlights that investor preferences are influenced by a combination of factors such as financial literacy, risk appetite, fund performance, and digital accessibility. Demographic attributes like age, income, and education also play a critical role, as do behavioral factors and the influence of advisors or marketing channels.

One of the key findings is that investors with higher financial awareness are more confident in choosing appropriate fund types and are less likely to rely on hearsay or informal advice. Meanwhile, the rapid adoption of digital platforms has empowered tech-savvy individuals to make more independent and informed investment decisions.

Despite the progress, a large segment of investors still makes decisions based on partial knowledge, emotional bias, or third-party influence. This underlines the importance of continued investor education, transparent fund disclosures, and accessible digital tools.

In conclusion, for mutual funds to become a truly inclusive investment option, stakeholders including fund houses, regulators, and advisors must work together to improve financial literacy, simplify investment processes, and align fund offerings with the diverse needs of retail investors.

Suggestions:

1. Enhance Financial Literacy through Targeted Programs

Financial literacy remains a major factor in informed investment decisions. Mutual fund companies, educational institutions, and government agencies should offer free or low-cost workshops, online modules, and multilingual resources to educate the public about mutual fund basics, risk, and long-term benefits.

2. Simplify Fund Information and Disclosures

Many retail investors struggle to understand complex fund documents. Simplifying scheme details, risk-o-meter tools, and return projections in easy-to-read formats (including regional languages) can help more investors make informed choices.



3. Strengthen Digital Access and App Usability

Digital platforms have become the backbone of mutual fund investing. Fund houses should continue investing in intuitive, secure, and mobile-friendly apps that cater to first-time investors and offer features like investment calculators, goal tracking, and chat-based support.

4. Customize Schemes Based on Demographics and Goals

Investment products should be designed keeping in mind the diverse needs of different investor groups. For example, younger investors may benefit from high-growth equity-oriented funds, while older individuals might prefer stable income schemes or hybrid funds.

5. Regulate Distributor and Advisor Practices

Since many retail investors rely on third-party advisors, it's important that mutual fund distributors follow ethical practices. SEBI and AMFI should monitor advisor behavior more closely and ensure that recommendations are aligned with investor profiles—not based on commission-driven motives.

6. Promote Long-Term Investing Over Speculation

Retail investors often enter and exit mutual funds based on short-term market sentiment. Educational campaigns should focus on the benefits of long-term investing, SIP discipline, and the dangers of reacting emotionally to market volatility.

7. Introduce Feedback and Rating Mechanisms

AMCs (Asset Management Companies) can add feedback systems where investors can rate fund performance, advisor services, and platform usability. These insights can help companies continuously improve their offerings.

8. Encourage Financial Inclusion in Rural Areas

While urban areas are rapidly adopting mutual funds, awareness in rural or semi-urban regions is still low. Mutual fund companies can collaborate with banks, microfinance institutions, and local bodies to conduct outreach programs and offer vernacular-language content.

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