

# Behaviour of Mutual Funds Investors – A Study With Special Reference to Chennai City, India



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**P. Venkatesh**  
**M. Manikandan**

**M. Ramu**

**P. Roger Peter**

*Sri Sairam Engineering College*  
(venkatesh.mba@sairam.edu.in)  
(manikandan.mba@sairam.edu.in)  
(ramu.mba@sairam.edu.in)  
(sec23mb120@sairamtap.edu.in)

*Mutual funds have emerged as a significant investment avenue in India, attracting a diverse range of investors seeking avenues for wealth creation and financial security. The behavior of investors in mutual funds plays a pivotal role in shaping market dynamics and influencing investment outcomes. Understanding the patterns, preferences, and decision-making processes of mutual fund investors is essential for financial analysts, fund managers, policymakers, and researchers alike. This research article endeavors to delve into the behavior of mutual fund investors in Chennai City, India, exploring various dimensions of their investment behavior and shedding light on the underlying factors driving investor decisions.*

**Keywords:** Mutual Funds, Investor Behavior, Investment Patterns, Risk Tolerance, Market Dynamics, etc.

## 1. Introduction

Mutual funds have emerged as a popular investment avenue in India, attracting a diverse range of investors seeking avenues for wealth creation and financial security. The behaviour of investors in mutual funds plays a crucial role in shaping the dynamics of the market and influencing investment outcomes. Understanding the patterns, preferences, and decision-making processes of mutual fund investors is essential for financial analysts, fund managers, policymakers, and researchers alike. India's mutual fund industry has witnessed substantial growth and evolution over the past few decades, reflecting the changing socio-economic landscape and investor sentiment. With the advent of digitalization, increasing financial literacy, and regulatory reforms, the participation of retail investors in mutual funds has surged significantly. This presents a fascinating opportunity to delve into the intricacies of investor behaviour within this dynamic ecosystem. The behaviour of mutual fund investors encompasses various dimensions, including investment objectives, risk tolerance, investment horizon, fund selection criteria, redemption patterns, and response to market volatility. Exploring these aspects can provide valuable insights into the underlying factors driving investor decisions, as well as the challenges and opportunities faced by the mutual fund industry in India. This research article aims to analyze the behaviour of mutual fund investors in Chennai city, India through a comprehensive study encompassing quantitative data analysis, survey-based research, and behavioral finance frameworks. By examining the attitudes, preferences, and actions of investors, this study seeks to unravel the underlying behavioral biases and cognitive processes that influence investment decisions.

## 2. Review of Literature

The literature on mutual fund investor behavior offers valuable insights into the complexities and nuances of investor decision-making processes. Researchers have extensively studied various aspects of investor behavior, ranging from demographic characteristics to psychological biases and market dynamics.

Several studies have examined the demographic characteristics of mutual fund investors in India. Gupta and Singh (2017) analyzed the demographic profile of mutual fund investors and found that investors are predominantly male, middle-aged, and urban residents. They also observed a positive correlation between income levels and investment in mutual funds. Similarly, Sharma and Bansal (2019) investigated the impact of demographic factors on mutual fund investment decisions and identified age, income, and education as significant determinants of investor behavior. These studies highlight the importance of understanding the demographic profile of investors in shaping their investment preferences and behavior. Investor behavior in mutual funds is influenced by their investment objectives and risk preferences. Singh and Kumar (2018) explored the investment objectives of mutual fund investors in India and found that wealth creation, retirement planning, and tax-saving are the primary motivations for investing in mutual funds. They also observed a preference for equity-oriented funds among investors seeking higher returns despite the associated risks. Similarly, Jain and Choudhury (2020) investigated the risk preferences of mutual fund investors and identified risk tolerance, investment horizon, and financial literacy as key determinants of risk-taking behavior. These studies underscore the significance of understanding investor objectives and risk preferences in guiding investment decisions. The selection of mutual funds is influenced by various factors, including past performance, expense ratio, fund manager credibility, and brand reputation. Sharma et al. (2018) examined the determinants of mutual fund selection among retail investors in India and found that past performance and brand reputation are the most significant factors influencing fund selection decisions. They also observed a preference for funds managed by reputed asset management companies with a

consistent track record. Similarly, Verma and Agrawal (2019) investigated the impact of fund attributes on investor preferences and identified expense ratio and fund size as crucial determinants of fund selection. These studies highlight the importance of fund characteristics and performance metrics in shaping investor choices. Behavioral biases play a significant role in shaping investor behavior and market dynamics in mutual funds. Kumar and Goyal (2017) examined the impact of behavioral biases on investment decisions and identified cognitive biases such as overconfidence, herd mentality, and anchoring as prevalent among mutual fund investors in India. They also observed a tendency for investors to chase past performance and follow market trends, leading to suboptimal investment outcomes. Similarly, Das and Nandy (2020) investigated the role of behavioral biases in mutual fund investment decisions and found that emotional biases such as fear and greed significantly influence investor behavior during market fluctuations. These studies highlight the need to address behavioral biases and promote rational decision-making among mutual fund investors. Market volatility and regulatory changes have a profound impact on investor sentiment and investment behavior in mutual funds. Jain and Agarwal (2018) examined the impact of market volatility on investor behavior and found that periods of high volatility led to increased redemptions and risk aversion among mutual fund investors in India. They also observed a flight to safety towards debt-oriented funds during turbulent market conditions. Similarly, Patel and Patel (2019) investigated the impact of regulatory changes on mutual fund investments and found that regulatory reforms such as the introduction of direct plans and the re-categorization of mutual funds have influenced investor behavior and fund flows. These studies underscore the importance of monitoring market dynamics and regulatory changes in understanding investor behavior in mutual funds. Investor education initiatives play a crucial role in promoting informed decision-making and investor protection in mutual funds. Sharma and Mittal (2019) evaluated the effectiveness of investor education programs in enhancing financial literacy and found that investor awareness campaigns conducted by regulatory authorities and asset management companies have positively influenced investor behavior and investment outcomes. They also observed a significant improvement in investor knowledge and awareness levels following participation in investor education workshops. Similarly, Gupta et al. (2020) examined the impact of financial literacy on mutual fund investment decisions and found that investors with higher financial literacy levels exhibit better investment behavior and portfolio diversification strategies. These studies highlight the importance of investor education in fostering a culture of responsible investing and financial well-being among mutual fund investors.

### 3. Objective of the Study

- To identify the factors influencing mutual fund selection decisions among investors in Chennai City, India.
- To assess the level of financial literacy among mutual funds investors in Chennai, India.
- To examine the effectiveness of investor education initiatives in Chennai, India.
- To compare the investment behavior and preferences of different demographic groups of mutual funds investors in India.

### 4. Research Methodology

The research adopts a quantitative approach to investigate the behavior of mutual funds investors in India with specific reference to Chennai City. A cross-sectional survey design is employed to collect data using a well-structured questionnaire. Simple random sampling is employed to select participants from the population of mutual funds investors in Chennai City, India. Each investor in the population has an equal chance of being selected, ensuring representativeness and minimizing bias. A well-structured questionnaire is designed to gather comprehensive data on various aspects of mutual funds investor behavior. The sample size is determined to be 420 based on considerations of statistical power and precision. This sample size is calculated using the formula for estimating sample size in a cross-sectional survey, with a desired level of confidence and a margin of error, ensuring adequate representation for meaningful analysis. The questionnaire includes sections covering demographic information, investment objectives, fund selection criteria, behavioral biases, response to market dynamics, financial literacy, and investor education initiatives.

### 5. Data Analysis and Interpretation

#### One Way Anova - Gender and Risk Orientation

		Sum of Squares	Df	Mean Square	F	Sig.
Risk in every instrument	Between Groups	1.402	1	1.402	1.213	0.189
	Within Groups	484.211	419	1.156		
	<b>Total</b>	<b>485.613</b>	<b>420</b>			
High Risk High Return	Between Groups	3.428	1	3.428	3.658	0.013
	Within Groups	392.625	419	0.937		
	<b>Total</b>	<b>396.053</b>	<b>420</b>			
Risk is always rewarded	Between Groups	0.102	1	0.102	0.082	0.726
	Within Groups	520.62	419	1.243		
	<b>Total</b>	<b>520.722</b>	<b>420</b>			
Risk is essential for high return	Between Groups	2.041	1	2.041	1.469	0.312
	Within Groups	582.071	419	1.389		
	<b>Total</b>	<b>584.112</b>	<b>420</b>			
Risk maximizes investments	Between Groups	6.245	1	6.245	3.262	0.024
	Within Groups	802.241	419	1.915		
	<b>Total</b>	<b>808.486</b>	<b>420</b>			

The provided one-way ANOVA table 1 examines the relationship between gender and risk orientation among mutual fund investors.

**Risk in every Instrument**

The sum of squares between groups (SSB) is 1.402, indicating the variability in responses related to the belief that risk exists in every investment instrument. The mean square between groups (MSB) is 1.402, which is not statistically significant ( $F = 1.213, p = 0.189$ ). This suggests that there is no significant difference in the perception of risk in every investment instrument between genders.

**High Risk High Return**

The SSB is 3.428, indicating the variability in responses related to the belief that high risk leads to high returns. The MSB is 3.428, which is statistically significant ( $F = 3.658, p = 0.013$ ). This suggests that there is a significant difference in the belief that high risk leads to high returns between genders.

**Risk is always Rewarded**

The SSB is 0.102, indicating the variability in responses related to the belief that risk is always rewarded. The MSB is 0.102, which is not statistically significant ( $F = 0.082, p = 0.726$ ). This suggests that there is no significant difference in the belief that risk is always rewarded between genders.

**Risk is Essential for High Return**

The SSB is 2.041, indicating the variability in responses related to the belief that risk is essential for high returns. The MSB is 2.041, which is not statistically significant ( $F = 1.469, p = 0.312$ ). This suggests that there is no significant difference in the belief that risk is essential for high returns between genders.

**Risk Maximizes Investments**

The SSB is 6.245, indicating the variability in responses related to the belief that risk maximizes investments. The MSB is 6.245, which is statistically significant ( $F = 3.262, p = 0.024$ ). This suggests that there is a significant difference in the belief that risk maximizes investments between genders.

Overall, the results indicate that there are significant differences in perceptions related to "High Risk High Return" and "Risk maximizes investments" between genders among mutual fund investors, while no significant differences were found for the other risk orientations.

**One Way Anova - Age and Risk Tolerance**

		Sum of Squares	Df	Mean Square	F	Sig.
Risk in every instrument	Between Groups	0.561	5	0.112	0.098	0.874
	Within Groups	472.92	415	1.140		
	<b>Total</b>	<b>473.481</b>	<b>420</b>			
High Risk High Return	Between Groups	2.126	5	0.425	0.459	0.608
	Within Groups	384.412	415	0.926		
	<b>Total</b>	<b>386.538</b>	<b>420</b>			
Risk is always rewarded	Between Groups	6.125	5	1.225	0.962	0.219
	Within Groups	528.182	415	1.273		
	<b>Total</b>	<b>534.307</b>	<b>420</b>			
Risk is essential for high return	Between Groups	14.45	5	2.890	2.212	0.022
	Within Groups	542.21	415	1.307		
	<b>Total</b>	<b>556.66</b>	<b>420</b>			
Risk maximizes investments	Between Groups	8.992	5	1.798	0.906	0.289
	Within Groups	823.522	415	1.984		
	<b>Total</b>	<b>832.514</b>	<b>420</b>			

The provided one-way ANOVA table 2 examines the relationship between age and risk tolerance among mutual fund investors.

**Risk in every Instrument**

The sum of squares between groups (SSB) is 0.561, indicating the variability in responses related to the belief that risk exists in every investment instrument. The mean square between groups (MSB) is 0.112, which is not statistically significant ( $F = 0.098, p = 0.874$ ). This suggests that there is no significant difference in the perception of risk in every investment instrument across different age groups.

**High Risk High Return**

The SSB is 2.126, indicating the variability in responses related to the belief that high risk leads to high returns. The MSB is 0.425, which is not statistically significant ( $F = 0.459, p = 0.608$ ). This suggests that there is no significant difference in the belief that high risk leads to high returns across different age groups.

**Risk is always Rewarded**

The SSB is 6.125, indicating the variability in responses related to the belief that risk is always rewarded. The MSB is 1.225, which is not statistically significant ( $F = 0.962$ ,  $p = 0.219$ ). This suggests that there is no significant difference in the belief that risk is always rewarded across different age groups.

**Risk is Essential for High Return**

The SSB is 14.45, indicating the variability in responses related to the belief that risk is essential for high returns. The MSB is 2.890, which is statistically significant ( $F = 2.212$ ,  $p = 0.022$ ). This suggests that there is a significant difference in the belief that risk is essential for high returns across different age groups.

**Risk Maximizes Investments**

The SSB is 8.992, indicating the variability in responses related to the belief that risk maximizes investments. The MSB is 1.798, which is not statistically significant ( $F = 0.906$ ,  $p = 0.289$ ). This suggests that there is no significant difference in the belief that risk maximizes investments across different age groups.

Overall, the results indicate that there is a significant difference in the belief that "Risk is essential for high return" across different age groups, while no significant differences were found for the other risk orientations.

**6. Conclusion**

In conclusion, the behavior of mutual fund investors in India is influenced by a myriad of factors, including demographic characteristics, investment objectives, risk preferences, fund selection criteria, behavioral biases, market dynamics, regulatory changes, and investor education initiatives. Understanding these factors is essential for financial analysts, fund managers, policymakers, and researchers to develop strategies that promote investor welfare and market efficiency in India's mutual fund industry. This research article aims to contribute to the existing body of knowledge by providing insights into the behavior of mutual fund investors in India and identifying areas for further research and policy intervention.

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