

A Study on Investor Awareness and Investment Preferences Towards Mutual Funds

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Abstract:

Mutual funds have become one of the most important vehicles for retail participation in financial markets in India, offering diversification, professional management, and accessibility to small and large investors alike. The growth of systematic investment plans (SIPs), digital investment platforms, and investor-awareness campaigns has drawn large numbers of investors into mutual funds. This study examines investor awareness and investment preferences towards mutual funds. Adopting a descriptive and analytical research design supported by a structured questionnaire survey of investors, the study measures the level of awareness about mutual funds and relates it to investment preferences, including the types of schemes chosen, mode of investment, investment objectives, and the factors influencing scheme selection. The findings indicate that while awareness of mutual funds has risen substantially, it remains uneven, with many investors aware of the concept but less familiar with scheme categories, risk, and costs. Investment preferences are tilted towards equity and hybrid schemes and towards SIPs, driven by goals of wealth creation and tax saving, and are strongly influenced by returns, risk, and advice.

Keywords — Mutual Funds, Investor Awareness, Investment Preferences, SIP, Financial Literacy, AMFI, India

I. Introduction

Mutual funds have emerged as a central pillar of household investment in India. A mutual fund pools money from many investors and invests it in a diversified portfolio of securities managed by professional fund managers, offering investors diversification, professional management, liquidity, and accessibility even with small amounts. Over the past decade, the Indian mutual fund industry has grown rapidly, as measured by assets under management (AUM) and the number of investor accounts (folios), driven by rising incomes, financial deepening, digital access, and sustained investor-awareness efforts.

Several factors have contributed to this growth. The spread of systematic investment plans (SIPs) has enabled disciplined, regular investing in small amounts, making mutual funds accessible to

salaried and young investors. The rise of digital platforms and discount distributors has lowered costs and simplified the process of investing. Industry-wide awareness campaigns, popularly associated with the message that mutual fund investments are subject to market risks and the broader awareness initiatives of the industry, have improved public familiarity with mutual funds. Supportive regulation by the Securities and Exchange Board of India (SEBI) and the role of the Association of Mutual Funds in India (AMFI) have further strengthened investor confidence.

Despite this growth, awareness of mutual funds remains uneven. Many investors are aware of mutual funds as a concept but have limited understanding of the different scheme categories (equity, debt, hybrid, index), the associated risks,

the costs such as expense ratios and exit loads, and the importance of matching schemes to their goals and risk profile. This gap between awareness and understanding has important implications for investment decisions and outcomes.

Investment preferences towards mutual funds refer to the choices investors make among scheme types, modes of investment (lump sum versus SIP), and fund houses, and the factors that drive those choices, such as returns, risk, tax benefits, liquidity, and advice. These preferences are shaped by investor awareness, financial literacy, demographic characteristics, and goals.

Understanding investor awareness and investment preferences towards mutual funds is important for investors, fund houses, distributors, and regulators. This study investigates both dimensions with reference to investors in the Indian context, examining the level and gaps in awareness and the pattern of and influences on investment preferences.

II. Objectives of the Study

The present study is guided by the following objectives:

1. To study the concept of mutual funds and their types in the Indian context.
2. To examine the level of investor awareness about mutual funds and their features.
3. To analyse the investment preferences of investors towards mutual funds, including scheme types and mode of investment.
4. To assess the factors that influence the selection of mutual fund schemes.
5. To identify the gaps in awareness and the barriers to mutual fund investment.
6. To offer suggestions for investors, mutual-fund houses, distributors, and regulators.

III. Review of Literature

The study of investor awareness and preferences draws on both classical and behavioural finance. Markowitz (1952), through modern portfolio theory, established that diversification across assets reduces risk for a given level of return, providing the theoretical rationale for mutual funds as diversified

investment vehicles. This framework underpins the normative case for mutual funds as efficient tools for ordinary investors.

The role of financial literacy is central to the study of awareness. Lusardi and Mitchell (2014) found that financial literacy is strongly associated with better financial decisions, including greater market participation, more diversification, and more effective planning. Their work implies that investor awareness of mutual funds, and the quality of resulting decisions, depends heavily on financial literacy, which is often limited.

Behavioral finance adds that investor choices are shaped by biases and heuristics. Kahneman and Tversky (1979), through prospect theory, showed that investors are influenced by loss aversion and framing rather than acting as pure utility maximisers. Applied to mutual funds, this suggests that scheme selection is influenced by recent returns, framing of risk, and the presentation of options rather than by fully rational analysis.

In the Indian context, numerous studies and industry reports have examined mutual fund awareness and preferences. Research has documented rising awareness driven by SIPs, digital platforms, and awareness campaigns, alongside persistent gaps in understanding of scheme categories, risk, and costs. Studies have found that investors tend to prefer equity and hybrid schemes and SIP-based investing, and that returns, risk, tax benefits, and advice are the dominant factors in scheme selection. Reports from SEBI and AMFI have documented the sharp growth in AUM, folios, and SIP accounts, much of it concentrated among younger investors and in tier-2 and tier-3 cities.

The present study builds on this literature by empirically examining the level of investor awareness about mutual funds and the pattern of and influences on investment preferences.

IV. Research Methodology

Research design. The study adopts a descriptive and analytical research design. It combines primary

data collected through a structured questionnaire with secondary data from regulatory and industry sources to contextualise the findings.

Nature and sources of data. Primary data are collected from investors through a structured questionnaire covering their awareness of mutual funds and their investment preferences. Secondary data are drawn from SEBI publications, AMFI reports, Reserve Bank of India reports, and reputable financial publications to describe the broader growth of the mutual fund industry.

Sample and sampling methods. The target population is individual investors who invest in or are aware of mutual funds. A convenience and purposive sampling approach is used to reach respondents with varying levels of investment experience, with an effort to include a mix of age groups, genders, occupations, and income levels..

Variables and measurements. Investor awareness is measured through indicators such as familiarity with mutual funds, knowledge of scheme categories, understanding of risk and costs, and awareness of SIPs and tax-saving schemes. Investment preference is measured across dimensions including preferred scheme types (equity, debt, hybrid, index), mode of investment (lump sum versus SIP), investment objectives, and factors influencing scheme selection. Responses are captured on Likert-type scales and categorical items.

Hypotheses. The study tests the following working hypotheses:

- H1: There is a significant relationship between investor awareness and investment preferences towards mutual funds.
- H2: The demographic profile of investors, particularly age and income, significantly influences their investment preferences towards mutual funds.

Tools of analysis. The data are analysed using descriptive statistics (frequencies, percentages, means), cross-tabulation across demographic groups, and comparative analysis of preferences across levels of awareness. The direction and

consistency of relationships are interpreted in light of the hypotheses.

V. Data Analysis and Interpretation

The analysis examines the level of investor awareness, the pattern of investment preferences, the factors influencing scheme selection, and the gaps and barriers.

[1] Level of Investor Awareness

Awareness of mutual funds has risen but remains uneven in depth.

Dimension of awareness	Low awareness	Moderate awareness	High awareness
Concept of mutual funds	Vague	Clear	Clear
Scheme categories (equity/debt/hybrid)	Unaware	Partially aware	Well aware
Risk and volatility	Underestimated	Partially understood	Well understood
Costs (expense ratio, exit load)	Unaware	Partially aware	Well aware
SIP and tax-saving (ELSS)	Aware of SIP	Aware of both	Well aware

Most investors are aware of mutual funds as a concept and of SIPs, but awareness of scheme categories, risk, and costs is shallower. Depth of awareness increases with financial literacy, experience, income, and education.

[2] Investment Preferences Towards Mutual Funds

Comparing preferences across investors reveals clear patterns, summarised below.

Preference dimension	Common choice	Motivation
Preferred	Equity and	Wealth creation,

Preference dimension	Common choice	Motivation
scheme type	hybrid	growth
Tax-saving schemes (ELSS)	Moderate preference	Tax benefit under Section 80C
Debt and liquid schemes	Lower preference	Safety, short-term parking
Mode of investment	SIP preferred over lump sum	Discipline, affordability
Investment objective	Long-term wealth creation	Goals and retirement

Investors show a clear tilt towards equity and hybrid schemes and towards SIP-based investing, driven by goals of long-term wealth creation and, in part, tax saving through ELSS. Debt and liquid schemes are preferred mainly for safety and short-term needs. This pattern, and its link with awareness, supports hypothesis H1.

[3] Factors Influencing Scheme Selection

The analysis of factors driving scheme selection is summarised below.

Influencing factor	Low influence	High influence
Past returns and performance	Minor consideration	Major consideration
Risk and volatility	Overlooked	Carefully weighed
Fund house reputation	Minor	Major
Advice (adviser, digital, peers)	Minor	Major
Costs and tax benefits	Overlooked	Carefully weighed

Past returns, risk, fund-house reputation, advice, and tax benefits emerge as the dominant factors. More aware and higher-income investors weigh risk and costs more carefully, while less aware investors rely heavily on past returns and advice. Demographic factors such as age and income also shape preferences, supporting hypothesis H2.

[4] Gaps in Awareness and Barriers

The analysis highlights persistent gaps and barriers. Many investors underestimate risk, overlook costs, and chase past returns, reflecting shallow awareness. Barriers to investment include limited financial literacy, perceived complexity, fear of market risk, and, for some, a preference for traditional instruments such as deposits and insurance. These gaps and barriers limit both participation and the quality of decisions.

VI. Findings and Discussion

The principal findings of the study are as follows:

1. **Awareness has risen but remains shallow.** Most investors know mutual funds and SIPs but understand scheme categories, risk, and costs less well.
2. **Preferences tilt towards equity, hybrid, and SIPs.** Investors favour growth-oriented schemes and disciplined SIP investing for long-term goals.
3. **Awareness shapes preferences.** More aware investors diversify better and weigh risk and costs, supporting the awareness-preference link.
4. **Returns, risk, reputation, and advice drive selection.** Past performance and advice dominate, especially among less aware investors.
5. **Demographics matter.** Age and income significantly influence preferences and awareness.
6. **Gaps and barriers persist.** Underestimation of risk, neglect of costs, return-chasing, and limited literacy constrain decision quality.

These findings are consistent with portfolio theory, financial-literacy research, and behavioural finance, which hold that awareness and literacy improve decisions while biases and shallow understanding distort them. The implication is that mutual funds have become a mainstream investment choice, but realising their full benefit for investors requires deeper awareness and better-informed scheme selection.

VII. Limitations of the Study

The study is subject to several limitations:

1. The study relies partly on primary data collected through convenience and purposive sampling, which may limit the representativeness and generalisability of the results.
2. The study captures awareness and preferences at a point in time and may not reflect how they evolve across market cycles.
3. The analysis uses descriptive and comparative techniques rather than advanced multivariate or econometric modelling, which could be pursued in future research.

VIII. Conclusion

Investor awareness and investment preferences towards mutual funds reflect both the maturing of the Indian mutual fund market and the gaps that remain. The study finds that awareness of mutual funds has risen substantially, driven by SIPs, digital platforms, and awareness campaigns, but that it remains uneven, with many investors aware of the concept yet less familiar with scheme categories, risk, and costs. Investment preferences are tilted towards equity and hybrid schemes and towards SIP-based investing, motivated by long-term wealth creation and tax saving, and are strongly influenced by past returns, risk, fund-house reputation, advice, and demographics. These patterns reflect the genuine progress of mutual funds as a mainstream investment vehicle, alongside persistent gaps in depth of understanding. The study concludes that strengthening the mutual fund market and improving investor outcomes requires a shared effort: investors should build financial literacy and choose schemes aligned to their goals and risk profile; fund houses and distributors should offer clear, honest, and goal-based guidance; and regulators should continue to strengthen disclosure, investor education, and protection. Future research could extend this analysis with larger, representative samples and econometric modelling to quantify the links between awareness, demographics, and preferences.

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