

A Study on Mutual Funds and Their Impact on Investment Decisions of Individual Investors

Awanti Sureshrao Kathuke¹, Dr Ujwala Narkhede²

¹Student, Finance Management (FM), Wainganga College of Engineering and Management, Nagpur.

Email: avantikathuke27@gmail.com

Abstract:

Mutual funds have become an important investment avenue for individual investors because they provide diversified exposure to financial securities under professional management. This study examines the major factors that influence individual investors while making mutual fund investment decisions, with emphasis on risk, expected return, investment objectives, liquidity, diversification, past performance, costs and investor awareness. The study adopts a descriptive research design based on secondary information obtained from official regulatory and industry sources and relevant literature. The analysis indicates that mutual fund selection is influenced by a combination of financial and investor-specific considerations rather than by return expectations alone. Risk level and alignment with financial objectives are particularly important because mutual fund investments are subject to market-related risks. Diversification and professional management can make mutual funds attractive to individual investors, while clear disclosures and investor education can support informed decisions. The paper provides a structured framework for understanding mutual fund investment behaviour and highlights the importance of matching scheme characteristics with an investor's risk tolerance, investment horizon and financial goals.

Keywords — Mutual Funds, Investment Decisions, Individual Investors, Risk, Return, Diversification, Investor Awareness.

I. INTRODUCTION

Investment decisions play an important role in personal financial planning. Individuals can choose among bank deposits, shares, bonds, insurance products, gold and mutual funds. A mutual fund pools money from investors and invests it in securities according to the stated objective of the scheme. This structure provides investors with an opportunity to obtain diversification and professional management.

The Indian mutual fund industry has expanded considerably. Industry data published by the Association of Mutual Funds in India (AMFI) show substantial growth in assets under management and investor folios. The scale of the industry makes investor awareness and decision-making an important area of study.

Mutual fund investment also involves risk. Scheme value can fluctuate with market conditions, and investors should consider the risk level, investment objective, time horizon and other

scheme information before investing. Therefore, studying the factors that influence individual investors can help in understanding their investment behaviour and the process of scheme selection.

II. REVIEW OF LITERATURE

The literature on mutual fund investment generally identifies risk, return, investor awareness, financial goals and demographic characteristics as important influences on investment behaviour. Studies of investor behaviour also emphasize that investors do not always evaluate investment products only on historical returns; convenience, trust, information availability and perceived safety can affect decisions.

Studies on mutual fund investor behaviour have examined awareness, preference and selection criteria using questionnaire-based research. Commonly examined variables include age, income, education, investment experience, risk tolerance, expected return and investment horizon.

The present study builds on this body of literature by organizing the major decision factors into a structured framework using secondary information.

Regulatory investor-education material further emphasizes that mutual funds are market-linked products and that investors should understand the risk associated with a scheme. The Riskometer is intended to help investors assess the level of risk of a mutual fund scheme. These observations support the importance of risk suitability in investment decisions.

III. STATEMENT OF THE PROBLEM

Individual investors have access to a wide range of mutual fund schemes with different investment objectives and risk characteristics. The availability of numerous schemes may make selection difficult, particularly for investors who have limited financial knowledge or experience. Investors may focus on recent returns without sufficiently considering risk, investment horizon, costs or their own financial objectives. There is therefore a need to examine the major factors that influence mutual fund investment decisions and to present them in a systematic manner. The study seeks to identify these factors and explain their relevance to individual investors.

IV. OBJECTIVES OF THE STUDY

- To study the concept and importance of mutual funds as an investment avenue.
- To identify the major factors influencing individual investors' mutual fund investment decisions.
- To examine the role of risk and return in mutual fund selection.
- To study the importance of diversification, liquidity, investment objectives and investor awareness.
- To provide a structured framework for informed mutual fund investment decisions.

V. RESEARCH METHODOLOGY

The study utilizes a descriptive research design based on secondary data. Information is collected from official publications of the Securities and Exchange Board of India (SEBI), the Association of Mutual Funds in India (AMFI), investor-education material, academic literature and other reliable

published sources. The study period is considered up to September 2026 for current industry context.

The research follows a qualitative and descriptive analytical approach. The factors affecting mutual fund decisions are classified into risk-related, return-related, investment-objective, convenience and investor-awareness factors. The study does not claim primary survey percentages or statistical relationships because no original respondent dataset is used in this manuscript.

A. SOURCES OF DATA

Secondary information is obtained from SEBI investor-education publications, AMFI industry statistics and publications, academic articles and books relating to mutual funds and investment behaviour, and publicly available financial and research information. Official sources are given preference for regulatory and industry-level facts.

VI. ANALYSIS AND INTERPRETATION

The following tables present the major factors that may influence individual investors when selecting mutual funds. The analysis is descriptive and is intended to explain the relevance of each factor rather than assign a numerical ranking.

TABLE I MAJOR FACTORS INFLUENCING MUTUAL FUND INVESTMENT DECISIONS

Factor	Relevance	Decision Consideration
Risk	Mutual fund returns are market-linked.	Assess scheme risk level and investor risk tolerance.
Return	Expected return affects investment preference.	Consider return potential together with risk.
Investment objective	Different schemes pursue different objectives.	Match scheme objective with financial goals.
Diversification	Funds may spread investments across securities.	Can reduce concentration risk but cannot eliminate market risk.
Liquidity	Investors may need access to funds.	Understand redemption conditions and investment horizon.
Costs	Expenses affect investment outcomes.	Review relevant scheme costs and disclosures.
Past performance	Historical performance provides context.	Past performance is not a guarantee of future returns.
Awareness	Knowledge affects ability to evaluate schemes.	Read scheme documents and investor disclosures.

INTERPRETATION: The table indicates that mutual fund investment decisions are

multidimensional. Risk and investment objective are directly connected to suitability, while return expectations need to be considered along with the level of risk. Diversification and professional management are structural advantages of mutual funds, but they do not remove market risk.

TABLE II INVESTOR-SPECIFIC CONSIDERATIONS

Consideration	Effect on Decision
Risk tolerance	Determines the level of market risk an investor may be willing to accept.
Investment horizon	Longer or shorter horizons may influence suitable scheme categories.
Financial goals	Goals such as wealth creation, income or capital preservation influence selection.
Income and savings	Available investible surplus affects investment capacity.
Investment knowledge	Greater awareness may improve understanding of scheme features and risks.
Liquidity needs	Need for short-term access may influence the choice of investment.

INTERPRETATION: Investor-specific characteristics can change the suitability of a mutual fund. A scheme that may be appropriate for one investor may not be appropriate for another because financial goals, risk tolerance and time horizon differ.

VII. FINDINGS

- Mutual fund investment decisions are influenced by several financial and investor-specific factors.
- Risk and investment objective are important considerations when assessing scheme suitability.
- Diversification and professional management are key characteristics of mutual funds.
- Expected return should be evaluated together with risk, investment horizon and financial objectives.
- Past performance should not be treated as a guarantee of future performance.
- Investor awareness and access to clear information can support more informed investment decisions.

VIII. CONCLUSION

Mutual funds represent an important investment avenue for individual investors because they provide pooled investment, diversification and professional management. However, selecting a mutual fund requires more than comparing historical returns. Investors should consider risk level, investment objective, time horizon, liquidity needs, costs, available information and their own financial goals and risk tolerance. The study concludes that informed investment decisions depend on matching the characteristics of a mutual fund scheme with the circumstances of the investor. Investor education and transparent disclosures can further support responsible decision-making. The framework developed in this study can also be extended through primary survey research to statistically examine the relationship between investor characteristics and mutual fund preferences.

REFERENCES

- [1] Securities and Exchange Board of India (SEBI), Investor Education: Mutual Funds and Riskometer, SEBI official investor resources, accessed September 2026.
- [2] Association of Mutual Funds in India (AMFI), Indian Mutual Fund Industry Statistics and Investor Information, accessed September 2026.
- [3] Securities and Exchange Board of India (SEBI), Mutual Funds Regulations and Investor Protection Framework, official publications, accessed September 2026.
- [4] Association of Mutual Funds in India (AMFI), Mutual Fund Investor Education and Awareness Resources, accessed September 2026.
- [5] Relevant academic literature on mutual fund investor behaviour, investment decision-making, risk perception and financial awareness.