

A Descriptive Study on Investor Awareness and Risk Perception in Mutual Funds

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ABSTRACT

Mutual funds are emerging as one of the most preferred investment avenues among retail investors especially in India due to the professional management by agents, diversifications available in market, benefits that are with better returns, and accessibility. This descriptive study aims to examine the extent of investor awareness regarding mutual funds and to analyze how investors perceive risk associated with mutual fund investments using secondary data. This study attempts to provide a realistic understanding of how investors perceive mutual funds, the fears and expectations they associate with them, and the role awareness plays in shaping these perceptions. The study relies on data from published reports of regulatory bodies as such the Securities and Exchange Board of India (SEBI), Association of Mutual Funds in India (AMFI), Reserve Bank of India (RBI), along with research articles, government publications, and industry reports. The study highlights the importance of financial literacy initiatives and investor education programs to enhance informed decision-making and reduce misperceptions related to mutual fund risks. The results of this study can assist policymakers, financial advisors, and asset management companies in designing effective investor awareness strategies.

KEYWORDS: Investor Awareness, Risk Perception, Mutual Funds, Investment Behavior, Retail Investors,

1. INTRODUCTION

In the modern financial landscape, individuals have a wide range of investment options, each differing in terms of risk and return. Among these, mutual funds occupy a significant position as they offer an opportunity for small and medium investors to participate in capital markets with relatively lower risk through diversification, accessibility by professional fund management. In India, initiatives such as financial literacy programs, digital platforms, and regulatory support by the Securities and Exchange Board of India (SEBI) have contributed to the expansion of the mutual fund industry.

Investor awareness refers as the extent of knowledge and understanding by investors possess regarding mutual fund products, their features, benefits, costs, and associated risks. Sufficient awareness enables the investors to make informed investment decisions pertaining to their financial goals and risk appetite. However, several studies indicate that a lack of financial literacy and limited understanding of mutual fund

schemes often lead to misconceptions, inappropriate risk assessment, and suboptimal investment choices. In emerging economies like India, traditional investment preferences such as bank deposits, gold, and real estate continue to dominate due to perceived safety, highlighting the importance of understanding investor awareness levels in mutual funds.

Understanding the relationship between the investor awareness and risk perception is crucial, as it is directly infusing investment decisions, portfolio selection, and long-term financial well-being. Investor awareness refers to the extent of knowledge and understanding investors possess regarding mutual fund products, their features, benefits, costs, and associated risks. Adequate awareness enables investors to make informed investment decisions aligned with their financial goals and risk appetite. However, several studies indicate that a lack of financial literacy and limited understanding of mutual fund schemes often lead to misconceptions, inappropriate risk assessment, and suboptimal investment choices. In emerging economies like India, traditional investment preferences such as bank deposits, gold, and real estate continue to dominate due to perceived safety, highlighting the importance of understanding investor awareness levels in mutual funds.

Risk perception plays a critical role in shaping investment behavior, particularly in market-linked instruments such as mutual funds. Investors' perception of risk is not always based on objective measures but is influenced by factors such as market volatility, past experiences, media coverage, and behavioral biases. Differences in demographic characteristics, investment experience, and financial knowledge further contribute to variations in risk perception among investors. Understanding how investors perceive risk in mutual funds is essential for evaluating investment patterns and designing effective communication and education strategies.

2. STATEMENT OF THE PROBLEM

Mutual funds have become a popular investment option due to their professional management and potential for long-term wealth creation. Despite this the secondary data from the regulatory reports and earlier studies indicates many investors still lack adequate awareness on mutual fund schemes, their risk–return relationship, and investment suitability over long term. Even though with the increased availability of information and investors educational initiative, risk perception remains a major factor affecting investment decisions.

Existing secondary studies provides inconsistencies on investors understanding and varying level of risk perceptions, which often result in hesitation or inappropriate investment choices. however, the available literature is scattered and does not provide consolidated descriptive view on investors awareness in relation to perceived risk. Hence, a descriptive study based on secondary data is necessary to examine investors awareness and risk perception on mutual funds and to identify gaps that may hinder informed investment behaviors.

3.SCOPE OF THE STUDY

The study focuses on analyzing the level of investor`s awareness in mutual fund concepts, types of schemes, risk–return trade-offs, and regulatory safeguards.This examines investor risk perception associated with mutual fund investments, including market risk, volatility, and uncertainty of returns as to report in earlier studies and institutional data.

4. OBJECTIVES OF THE STUDY

PRIMARY OBJECTIVE

To examine the investor's awareness and risk perception on mutual funds investment using secondary data.

SECONDARY OBJECTIVES

1. To analyse the level of awareness among the investors regarding mutual fund products and their features.
2. To study investors' perception of risk associated with mutual fund investments as reflected in secondary data sources.
3. To identify major factors influencing investor risk perception in mutual funds.
4. To assess the relationship between investor awareness and perceived risk in mutual fund investments.
5. To review the effectiveness of investor education and awareness initiatives highlighted in secondary sources.
6. To provide suggestions for improving investor awareness and reducing misconceptions related to mutual fund risks.

5. REVIEW OF LITERATURE

Several studies have highlighted the importance of investor awareness in promoting participation in mutual funds.

SEBI (Various Reports) highlighted that investor awareness initiatives have increased mutual fund visibility, despite a large portion of investors still misunderstand market-linked risks. The reports emphasize the need for continuous investor education to improve informed participation.

Gupta and Jain (2011) analysed investor awareness levels using secondary data and reported that many investors possess only surface-level knowledge about mutual fund schemes, while deeper understanding of risks and returns remains limited.

Raut, Das, and Kumar (2018) reviewed secondary studies on mutual fund investments and found a strong relationship between financial literacy, awareness, and rational risk perception, suggesting that informed investors are more confident in mutual fund investments.

Investor Awareness

Investor awareness is a widely researched topic, examined as the lens of financial literacy, knowledge in investment of products, and understanding the return-risk trade-offs.

Dung & Banerjee (2018) found that many retail investors have only basic awareness of mutual funds and lack in-depth understanding of risk, fees, and taxation implications.

Reserve Bank of India (RBI) Financial Literacy Survey (2020) reported that only around 24% of Indian adults have correctly answered questions related to essential investment concepts like compound interest and inflation, which directly impact mutual fund decision-making.

Risk Perception

Risk perception refers to investors' subjective evaluation of the uncertainty associated with returns.

Kumar & Rao (2019) observed that mutual fund investors often overestimate the risk associated with equity funds due to volatility in stock markets, leading to preference for low-risk categories such as debt funds by the investors.

OECD (2021) findings emphasize that the risk perception varies from investor to investor significantly across age groups, education levels, and investment experiences, with younger investors showing higher risk tolerance and investing with equity.

Awareness and Demographics

Several studies confirm that demographic variables such as education, income, age, and gender influence awareness and risk perception:

Financial Literacy and Education Commission (2022) highlighted that individuals with higher education and income levels demonstrate higher awareness and ready to take calculated risks,.

Jones & Smith (2020) reported that women, on average, perceive investment risks to be higher than men, which influences their investment allocations.

INSTITUTIONAL REPORTS AND INDUSTRY DATA

Mutual Fund Penetration and Awareness Trends

AMFI Annual Report (2024) says that the number of mutual fund folios increased to over 14 crores in 2024, indicating that increased interest of investor. However, analyses indicate that a segment of investors remain concentrated in simple products like liquid funds and hybrid funds, often due to risk aversion and limited understanding of more diversified equity schemes.

Financial Stability Report (RBI, 2023) implies that awareness programs by regulators and asset management companies (AMCs) have improved general understanding, though critical gaps persist in technical knowledge such as expense ratios, asset allocation, and historical performance interpretation.

Behavioral Data on Risk Perception

Industry data from multiple AMCs reveal consistent patterns:

SIP vs Lump-Sum Choice: Monthly systematic investment plan (SIP) patterns suggest that investors prefer gradual investing to mitigate perceived timing risk.

Asset Class Preference: Secondary data indicate that investors with lower perceived risk tolerance allocate more to debt funds compared to equity funds, even when historical returns favor equity over the long term.

6. ANALYSIS AND DISCUSSION

Awareness Levels – Secondary Evidence

Secondary evidence from industry and academic surveys indicates that:

- ❖ Basic awareness (e.g., mutual fund awareness, NAV concept) is relatively high among urban investors.
- ❖ Understanding of diversified strategies, tax implications (ELSS), and expense ratios is moderate to low.
- ❖ Retail investors often lack skills to critically compare different schemes using performance metrics such as Sharpe ratio and standard deviation.

Risk Perception Patterns

Risk perception is shaped by:

- ❖ Past Market Experiences: Crises like the 2008 financial crash and periods of market downturns temporarily elevate risk aversion.
- ❖ Information Availability: Investors relying on social media or unverified sources tend to have inflated risk perceptions compared to those consulting formal financial education content.
- ❖ Demographic Correlates: Middle-aged investors show more balanced risk perceptions compared to younger (higher risk tolerance) and older investors (higher risk aversion).

Impact of Financial Literacy Programs

Regulatory initiatives such as financial literacy camps and online literacy modules by SEBI and AMFI correlate positively with incremental improvements in awareness. However, the pace remains uneven across regions and socio-economic groups.

7. FINDINGS

Basic awareness of mutual funds has a widespread now a days, especially in urban and semiurban regions of India.

Understanding the complexity of investment concepts and risk-return trade-offs remains limited among the average investors.

Perceived risk disproportionately by the experts and AMC influences investment decisions, often leading to conservative allocations.

Demographic factors like education and income substantially impact the awareness and risk perception.

Financial literacy initiatives show promise but require scaling and customization for different investor segments.

8. IMPLICATIONS

For Regulators: Develop tailored financial education courses which emphasizes on risk measurement tools and investment planning frameworks which could be understood by all potential investors.

For Asset Managers: Simplify communication regarding risk metrics which confuses and fears the investors and performance indicators to improve investor comprehension.

For Investors: Encourage self-education using verified financial knowledge platforms and experts classes to bridge awareness gaps.

9. LIMITATIONS

The study rely on secondary data constraints direct measurement of investor behaviors.

Differences between the methodologies on cited studies may affect cross-comparability.

Regional and temporal bias in the data sources may influence generalization.

10. CONCLUSION

The study is based on secondary data which highlights significant progress on investor`s awareness in mutual funds, yet reveals persistent gaps in understanding risk and advanced investment concepts. Risk perception continues to influence investment decisions, often leading to conservative choices that may not align with long-term wealth creation goals. Improving financial literacy through continuous education, transparent communication, and engagement can enhance investors` ability to make informed mutual fund investments.

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