

## **A STUDY ON INVESTORS' AWARENESS TOWARDS MUTUAL FUNDS AND THEIR SCHEMES: A THEORETICAL FRAMEWORK**

**Venkatadhri Reddy Perumal**

Team leader  
Voya Financial, Bangalore

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### **ABSTRACT**

Mutual funds have become one of the most popular investing options for individual investors due to the fact that they are managed by professionals, offer the benefits of diversification, are liquid, and are easy to access. One of the most sought-after investment channels is mutual funds, which have recently gained popularity. The success of investing in mutual funds, on the other hand, is mostly reliant on the investors' awareness and comprehension of the different schemes that are offered by mutual funds. Mutual funds offer a wide variety of investment opportunities. There is a correlation between the level of awareness of investors and the decisions they make regarding investments, the way they perceive risk, the funds they choose, and their long-term financial planning. The purpose of this article is to research the level of awareness that investors have regarding mutual funds and the schemes that they offer. A theoretical framework is built in order to accomplish this investigating. All of the following are taken into consideration: the concept of investor awareness, the factors that have an effect on investor awareness, the theoretical underpinnings of investor awareness, and the connection between investor awareness and investment behaviour. A foundation for future empirical research that will be carried out with the purpose of acquiring this understanding is provided by the framework. This study will be carried out with the objective of gaining an understanding of how awareness contributes to informed investment decisions and the expansion of the mutual fund sector.

**Keywords:** Investor Awareness, Mutual Funds, Investment Behaviour, Financial Literacy, Mutual Fund Schemes and Investment Decision.

### **INTRODUCTION**

On the financial market, investors have access to a wide range of investment options, including equities, bonds, fixed deposits, insurance products, and mutual funds, amongst others. One of these alternatives that has gained a great level of popularity is mutual funds. This is owing to the fact that mutual funds provide investors with portfolios that are professionally managed and include a variety of investment options. The money that is contributed by a number of different investors is combined with the money that is donated by other investors, and then it is invested in a wide variety of assets in accordance with established investment objectives.

There is still a large amount of investors who do not have sufficient awareness regarding the characteristics, advantages, dangers, and performance of various mutual fund schemes, despite the fact that mutual funds are growing increasingly popular. A significant connection exists between the level of awareness that investors possess and the choices that they make about the allocation of their portfolios and the investments that they choose to make. People who have a higher level of awareness are more likely to make decisions that are rational with regard to investments, whereas people who have a lower level of awareness commonly make poor investment choices and suffer financial losses as a result of their actions.

An awareness of the levels of knowledge that investors possess is necessary because of the rapid expansion of the mutual fund industry, the rapid advancement of technology, and the growing number of initiatives that aim to expand financial inclusion. All of these factors have contributed to the necessity of attaining this understanding. It is essential for policymakers, financial institutions, and researchers who are interested in boosting investment participation and financial well-being to conduct research on the understanding of mutual funds and the schemes that they apply. This is because of the fact that this is the case.

## **CONCEPT OF MUTUAL FUNDS**

A mutual fund is a financial intermediary that pools funds from various investors and invests them in a diversified portfolio of securities such as equities, bonds, money market instruments, and other assets. The fund is managed by professional fund managers who make investment decisions on behalf of investors.

Mutual funds are classified into various categories:

### **EQUITY MUTUAL FUNDS**

Equity Mutual Funds are investment schemes that primarily invest in the shares of publicly listed companies. These funds aim to generate long-term capital appreciation by participating in the growth of businesses across various sectors. The performance of equity funds is directly influenced by stock market movements, making them relatively high-risk but potentially high-return investments. They are suitable for investors with a long investment horizon and a higher risk tolerance. Equity funds may be diversified across large-cap, mid-cap, and small-cap stocks or focused on specific sectors. Professional fund managers actively manage these portfolios to maximize returns while controlling investment risks.

### **DEBT MUTUAL FUNDS**

Debt Mutual Funds invest primarily in fixed-income securities such as government bonds, corporate bonds, treasury bills, and money market instruments. The primary objective of these funds is to provide stable income and preserve capital while generating moderate returns. Compared to equity funds, debt funds generally carry lower risk because they are less affected by stock market volatility. They are suitable for conservative investors seeking regular income and relatively predictable returns. Different types of debt funds cater to varying investment horizons and risk profiles. Professional management ensures efficient allocation among debt instruments to optimize returns and maintain portfolio stability.

### **HYBRID FUNDS**

Hybrid Funds combine investments in both equity and debt instruments within a single portfolio. The primary objective of these funds is to balance risk and return by leveraging the growth potential of equities and the stability of fixed-income securities. Depending on their investment strategy, hybrid funds may allocate varying proportions to equity and debt assets. They are suitable for investors seeking moderate risk with diversified exposure. Hybrid funds help reduce portfolio volatility while offering opportunities for capital appreciation and income generation. Professional fund managers actively adjust asset allocation based on market conditions to achieve the fund's investment objectives.

### **INDEX FUNDS**

Index Funds are passive investment vehicles designed to replicate the performance of a specific market index, such as the Nifty 50 or Sensex. Instead of actively selecting stocks,

these funds invest in the same securities and proportions as the underlying index. As a result, their performance closely mirrors the benchmark index. Index funds typically have lower expense ratios because they require minimal active management. They provide broad market exposure, diversification, and transparency to investors. Suitable for long-term investors, index funds offer a cost-effective way to participate in market growth while reducing the risks associated with active fund management.

## **SECTORAL AND THEMATIC FUNDS**

Sectoral and Thematic Funds focus their investments on specific industries, sectors, or investment themes. Sectoral funds concentrate on industries such as banking, technology, healthcare, or energy, while thematic funds invest in broader themes like infrastructure, digital transformation, or sustainability. These funds offer the potential for higher returns when the chosen sector or theme performs well. However, they also involve higher risk due to limited diversification and greater exposure to sector-specific market fluctuations. Investors in these funds require a strong understanding of market trends and risk tolerance. Professional fund managers identify opportunities within targeted sectors and themes.

## **EXCHANGE-TRADED FUNDS (ETFs)**

Exchange-Traded Funds (ETFs) are investment funds that are traded on stock exchanges, similar to individual stocks. ETFs typically track a market index, commodity, sector, or asset class and aim to replicate its performance. Investors can buy and sell ETF units throughout the trading day at market prices, providing greater liquidity and flexibility. ETFs combine the diversification benefits of mutual funds with the trading convenience of stocks. They generally have lower management costs due to passive investment strategies. ETFs are suitable for investors seeking transparent, cost-efficient, and diversified investment options while maintaining easy access to market opportunities.

## **INVESTOR AWARENESS: MEANING AND IMPORTANCE**

Investor awareness refers to the extent to which investors possess knowledge and understanding regarding investment products, market operations, risk-return relationships, and investment strategies. In the context of mutual funds, awareness includes knowledge about:

Investor awareness is important because it helps individuals:

### **1. Make Informed Investment Decisions**

Investor awareness enables individuals to make well-informed investment decisions by understanding the features, risks, returns, and objectives of various mutual fund schemes. Knowledge about market conditions, fund performance, and investment strategies helps investors evaluate available alternatives effectively. Informed investors are less likely to rely on rumors or incomplete information and are more capable of aligning their investments with their financial goals. This leads to rational decision-making, minimizes investment mistakes, and enhances the likelihood of achieving desired returns over the long term.

### **2. Assess Risks Appropriately**

Awareness helps investors understand the different levels of risk associated with various mutual fund schemes. Equity funds, debt funds, hybrid funds, and sectoral funds each carry distinct risk-return profiles. By assessing these risks appropriately, investors can select investments that match their risk tolerance and financial objectives. A clear understanding of

market volatility, interest rate fluctuations, and economic conditions enables investors to make prudent choices. Proper risk assessment also prevents unrealistic expectations and helps investors maintain confidence during periods of market uncertainty.

### **3. Select Suitable Investment Schemes**

Different mutual fund schemes are designed to meet diverse investment needs and objectives. Investor awareness allows individuals to compare various schemes based on factors such as risk level, expected return, investment horizon, liquidity, and tax benefits. By understanding these characteristics, investors can choose schemes that align with their financial goals, whether wealth creation, income generation, or capital preservation. Suitable scheme selection improves investment efficiency and increases the likelihood of achieving desired financial outcomes while maintaining an appropriate balance between risk and return.

### **4. Avoid Fraudulent Investment Practices**

A well-informed investor is better equipped to identify and avoid fraudulent investment schemes and misleading financial offers. Awareness of regulatory guidelines, fund disclosures, and authorized financial institutions helps investors distinguish legitimate investment opportunities from fraudulent activities. Understanding the importance of verifying information through reliable sources reduces the risk of becoming a victim of scams. Investor awareness also encourages careful examination of investment documents and terms, thereby protecting financial resources and promoting greater confidence in participating in the financial market.

### **5. Achieve Financial Goals Effectively**

Investor awareness plays a crucial role in helping individuals achieve their short-term and long-term financial goals. By understanding investment products and their potential returns, investors can create appropriate financial plans and allocate resources efficiently. Awareness helps in selecting investment schemes that correspond with specific objectives such as retirement planning, children's education, home purchase, or wealth accumulation. Regular monitoring and informed adjustments to investment portfolios further enhance the likelihood of meeting financial targets, ensuring greater financial security and long-term economic well-being.

### **6. Improve Portfolio Diversification**

Portfolio diversification is a key strategy for reducing investment risk and improving overall returns. Investor awareness enables individuals to understand the importance of spreading investments across different asset classes, sectors, and mutual fund schemes. By diversifying investments, investors can reduce the impact of poor performance in any single asset or sector. Awareness of diversification benefits encourages balanced portfolio construction and effective risk management. A well-diversified portfolio enhances stability, protects against market fluctuations, and increases the potential for achieving consistent returns over time.

## **REVIEW OF THEORETICAL PERSPECTIVES**

### **1. Financial Literacy Theory**

Financial Literacy Theory emphasizes that individuals with adequate financial knowledge and skills are better equipped to make informed financial decisions. Financial literacy includes understanding financial concepts such as savings, investments, risk management, and portfolio diversification. In the context of mutual funds, investors with higher financial

literacy are more likely to understand different mutual fund schemes, evaluate their risk-return profiles, and select suitable investment options. This theory suggests that increased awareness and education improve investment behavior, reduce financial mistakes, and enhance wealth creation. Therefore, financial literacy serves as a foundation for investor awareness and successful participation in mutual fund investments.

## **2. Behavioral Finance Theory**

Behavioral Finance Theory explains how psychological factors and cognitive biases influence investors' financial decisions. Unlike traditional finance theories that assume investors act rationally, behavioral finance recognizes that emotions, perceptions, and mental shortcuts often affect investment choices. Common biases include overconfidence, herd behavior, loss aversion, and anchoring. In mutual fund investments, investors with limited awareness may make decisions based on emotions or market rumors rather than objective analysis. Greater awareness and financial knowledge help investors overcome these biases, evaluate investment opportunities more rationally, and make informed decisions that align with their financial goals and risk tolerance.

## **3. Theory of Planned Behavior (TPB)**

The Theory of Planned Behavior (TPB), developed by Ajzen (1991), proposes that an individual's behavior is influenced by three key factors: attitude toward the behavior, subjective norms, and perceived behavioral control. In the context of mutual fund investments, investor awareness positively shapes attitudes by increasing understanding of investment benefits and risks. Subjective norms refer to social influences from family, friends, financial advisors, and peers that affect investment intentions. Perceived behavioral control reflects an investor's confidence in managing investments. According to TPB, greater awareness enhances positive attitudes and confidence, leading to stronger intentions and increased participation in mutual fund schemes.

## **4. Information Asymmetry Theory**

Information Asymmetry Theory explains situations where one party possesses more or better information than another during a financial transaction. In the mutual fund industry, fund managers, financial advisors, and investment institutions often have greater access to information than retail investors. This information gap can lead to poor investment decisions and increased uncertainty among investors. Investor awareness helps reduce information asymmetry by improving understanding of mutual fund schemes, performance indicators, risk factors, fees, and regulatory requirements. Well-informed investors can better evaluate investment alternatives, ask relevant questions, and make independent decisions, thereby promoting transparency, efficiency, and confidence in financial markets.

### **Analysis and Results**

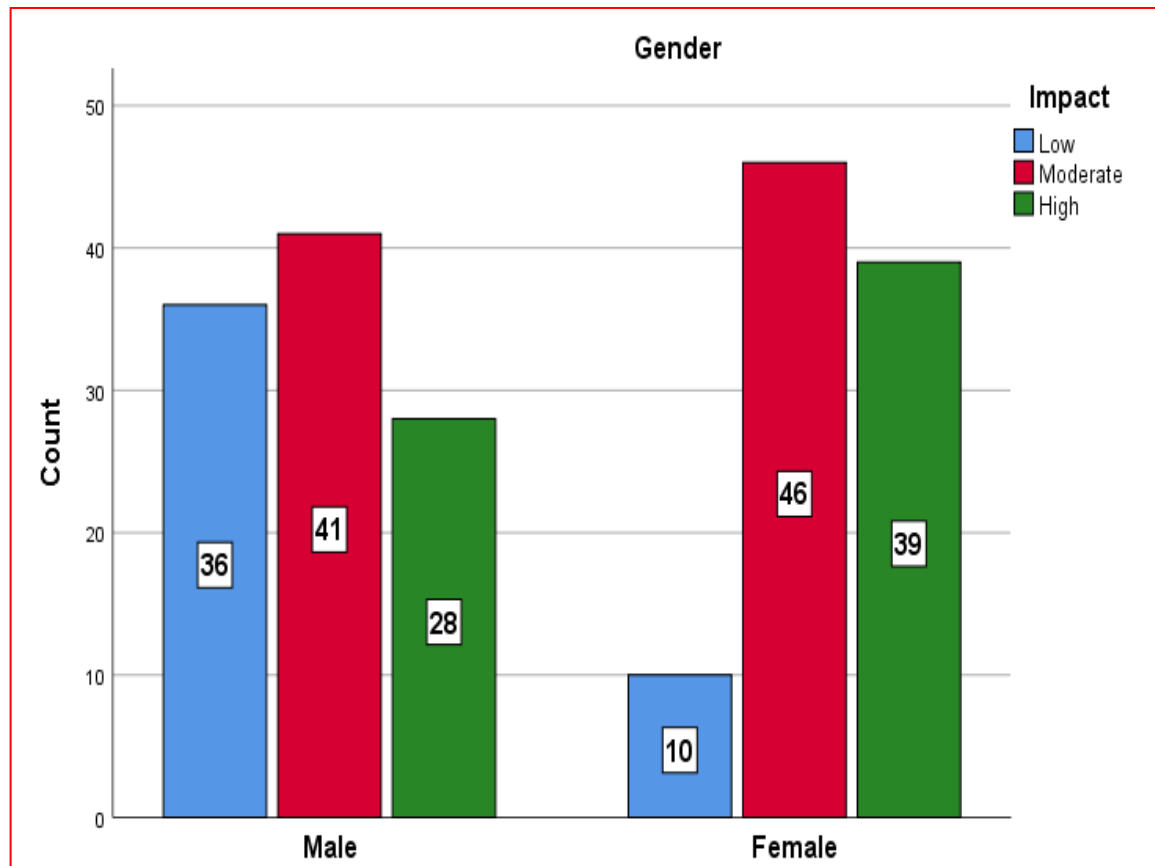
Gender is an important demographic factor that may influence investors' awareness of mutual funds and their various schemes. Differences in access to financial information, investment experience, educational background, and financial decision-making roles can contribute to variations in awareness levels between male and female investors. Therefore, examining the association between gender and the level of awareness towards mutual funds provides valuable insights into investor behavior and helps identify groups that may require targeted financial education initiatives.

### Gender and Level of Awareness

Gender	Level of Awareness			Total
	Low	Moderate	High	
Male	36	41	28	105
	34.3%	39.0%	26.7%	100.0%
Female	10	46	39	95
	10.5%	48.4%	41.1%	100.0%
Total	46	87	67	200
	23.0%	43.5%	33.5%	100.0%
Results	16.330a	2	.000	

The table presents the relationship between gender and the level of awareness towards mutual funds and their schemes. Among male respondents, 34.3% exhibit low awareness, 39.0% demonstrate moderate awareness, and 26.7% possess high awareness. In contrast, female respondents show comparatively higher awareness levels, with only 10.5% reporting low awareness, 48.4% indicating moderate awareness, and 41.1% demonstrating high awareness. The Chi-square test result ( $\chi^2 = 16.330$ ,  $p < 0.001$ ) indicates a statistically significant association between gender and awareness level. Since the p-value is less than 0.05, the null hypothesis is rejected. This finding suggests that gender significantly influences investors' awareness towards mutual funds and their schemes. Female investors in the study appear to possess higher levels of awareness compared to male investors, highlighting the importance of considering gender differences when designing investor education and awareness programs.

FIGURE: 1



### IMPLICATIONS OF THE STUDY

It is important for investors, financial institutions, politicians, and researchers to take into consideration the findings of the study that investigated investors' understanding of mutual funds and the schemes that they offer. When it comes to investors, the findings underline the significance of having financial education and awareness in order to make educated decisions regarding investments, evaluate risks, and choose mutual fund schemes that are suitable and aligned with their financial goals. It is possible for investors to improve their portfolio performance and avoid making typical investment blunders if they have increased awareness. Providing mutual fund firms and other financial institutions with significant insights into the aspects that influence investor awareness, the study enables these entities to build effective educational programs, awareness campaigns, and communication strategies that are friendly to investors. The findings can be utilised by policymakers and regulatory agencies to reinforce initiatives aimed at promoting financial literacy and investor safety measures, which will ultimately encourage a greater number of individuals to participate in the mutual fund industry. In addition, the research makes a contribution to the existing body of academic literature by presenting a theoretical framework that may be utilised as a basis for further investigation into investor behaviour, financial literacy, and investments in mutual funds. Increasing investor knowledge can, in general, lead to better informed financial decision-making, lead to a greater penetration of mutual funds, and help to the creation of a financial system that is more efficient and inclusive.

## CONCLUSION

A significant factor that determines whether or not an investor is successful in participating in mutual fund investments is investor knowledge. As the products offered by mutual funds become more varied and complex, investors need to have sufficient knowledge to evaluate the various options that are accessible to them and to make decisions that are based on accurate information. A number of factors, including demographic features, financial literacy, information sources, and technology improvements, all have a role in the level of awareness regarding mutual funds and the schemes utilised by them. The theoretical framework that has been provided provides a conceptual link between the aforementioned criteria and investment behaviour.

The promotion of informed investment decisions and the encouragement of wider involvement in mutual fund markets can be accomplished by financial institutions and policymakers through the enhancement of investor knowledge through the use of education, technology, and effective communication tactics. In the future, empirical research that is based on this approach has the potential to provide useful insights into the behaviour of investors and contribute to the mutual fund industry's sustainable growth.

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