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RETAIL INVESTORS AND THE MUTUAL FUND INDUSTRY: NAVIGATING CHALLENGES IN A COMPLEX INVESTMENT LANDSCAPE

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ABSTRACT

The indication of economic growth for any country can be assessed by observing investment pattern in stock market. Retail investors are the backbone of the financial market of any country. In this respect the Indian financial market is performing very poorly. Not even five percent of total participation is from retail investors. Why are they not joining this fabulous financial market growth? What is holding them back? Is it the risk-return fear psychosis or just blunt risk averseness? Financial assets available to individual investors are manifold, having different associated benefits to choose from. All financial investments are risky but the degree of risk and return differs from each other. An investor must use his/her discretion, which is an art acquired by learning and practical experience. The knowledge of financial investment and the art of its management are the basic requirements for a successful investor. Are Indian retail investors ready to go this extra mile to get the fruit of financial growth? Let us find out!

Keywords: Neuroeconomics, AMFI, Retail Investor, Mutual Funds, Risk-Return, Psychological Barrier, Middle Income Group, Litany.

INTRODUCTION

Investment is a commitment of funds in financial or tangible assets. Investment involves risk and return. In the present dynamic global scenario, exploring investment avenues is of great relevance. Positive frame of mind, where logic will hold upper hand over emotion will lead to a constructive investment decision. Investment skills developed over a span of time are considerably influenced by experience and spadework carried out to arrive at conclusions. The success of an investment activity depends on the knowledge and ability of investors to invest, the right amount, in the right type of investment, at the right time.

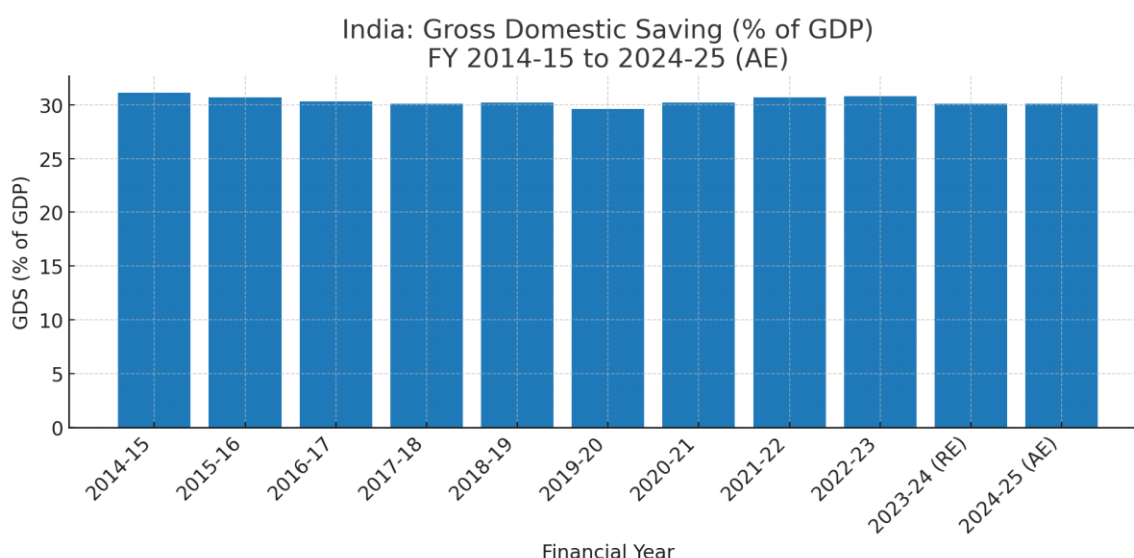
Real assets, being tangible material things, are less liquid than financial assets. Compared to financial assets, returns on real assets are more difficult to measure accurately due to the absence of broad, ready, organised and active market. Financial assets available to individual investors are manifold, having different associated benefits to choose from. All financial investments are risky but the degree of risk and return differs from each other. An investor must use his discretion, which is an art acquired by learning and practical experience. The knowledge of financial investment and the art of its management are the basic requirements for a successful

investor. The pre-requisite for a successful investment also lies in its liquidity, apart from risk and return on investment. Liquidity through easy marketability of investments demands the existence of a well-organized Government regulated financial system. Financial system comprises regulators, financial institutions, services, markets and instruments, which are closely related and work in conjunction with each other. The litany of new financial institutions and instruments developed in recent years, with the ostensible objective of modernizing the financial sector, is impressively long: Mutual Funds, Discount and Finance House of India, Money Market Mutual Funds (MMMF), Commercial Paper, Factoring, Certificate of Deposit and Treasury Bills. Financial services through the network of elements (institutions, markets and instruments) serve the needs of individuals, institutions and companies. It is through these elements that the functioning of the financial system is facilitated. Retail investors, namely middle-income group are not taking keen interest in investing in mutual funds. A psychological barrier regarding investment in capital market crops up to damage both sides. In the following pages, I shall try to bring out this dilemma.

India's savings rate is over 30 percent, which is one of the highest in the world. In order to accelerate economic development of our country, it is not only necessary to increase the rate of savings but also to improve the holding pattern of such savings. Savings held in the form of currency or physical assets either remain idle or unproductive or are wasted. The Government's steps to channel the financial savings are one of the major contributions for the rapid economic growth. The efforts towards financialization of savings and the general reluctance of the investing populous demand the active role of mutual funds. As investment in equity shares is too risky, mutual funds have to become efficient in mobilization and allocation of resources. But risk perception for common Indian investors is negative. By and large Indian investors particularly middle-income group are risk-averse.

The Gross domestic savings (% of GDP) in India was last reported at 30.31 in 2011, according to a World Bank report published in 2012. Gross domestic savings are calculated as GDP less final consumption expenditure (total consumption). This page gives a historical data chart, news and forecasts for Gross domestic savings (% of GDP) in India.

Table of Gross Domestic Savings (% of GDP) in India



This risk perception develops for individuals through psychological analysis. There are two aspects of human brain, the reflective or analytical part and the reflexive or intuitive part. The reflective part resides largely in the prefrontal lobe of the brain. The reflexive part has served us for innumerable number of years in an environment which is characterized by immediate threats. The reflexive brain is highly sensitive to changes in the amount of reward at stake, but much less responsive to changes in the probability of obtaining that reward.

Famous author Jason Zweig in his book *Your Money & Your Brain* wrote: “Because anticipation is processed reflexively while probability is processed reflectively, the mental image of winning \$100 million crowds out the calculation of just how unlikely that jackpot really is,” The two systems of brain continuously play in our mind and try to undo the other. As a result, we tend to believe more in recent occurrence rather than logical conclusions. If in recent past, market crashes, people come of the market selling their investments at whatever price they get. Eventually they incur loss. But what that situation wants you to be is pragmatic. Here reflective (analytical) part of your brain gets suppressed by reflexive (intuitive) part.

In the light of above, we keep our discussion restricted to mutual fund industry of India and middle-income group with their risk perception. Simple rule of investment is: your investment should grow and the growth be more than inflation rate at the least. For this to happen, your understanding of investment avenue you choose is a must. But sadly, this 'must', seldom happens in reality. Ask any average Indian, “Do you like to gamble or speculate?” The answer is spontaneous, “No”. In Indian society, we do look down upon gamblers and speculators in general. We think they are doing this for greed and greed is a vice. But knowingly or unknowingly general investors in the capital market behave more like a gambler or speculator rather than an investor.

Despite the all-round awareness of the benefits from wide retail investment in the capital market, policy initiatives taken so far in India have not been sufficient to attract small investors. That failure is obviously part of a larger problem the relatively low share of household savings that have flowed into capital market instruments. Less than 3 per cent of household savings is invested in capital markets. India has a long, well established stock market tradition. However, recent statistics continue to reveal a very low level of penetration of capital market instruments. Less than one per cent of the population-roughly less than 11 million-invest in equities. In developed countries the percentage of capital market investors to total population is higher. According to reliable estimates, it can vary between 50 and 55 per cent. (THE HINDU, May 03, 2010)

In India, the rate of conversion of household savings into investment is very low. The percentage of household savings that flow into the capital market is as poor as 6 percent, as against 25 percent in the U.S.A. and 20 percent in Japan. As the household sector's share is much higher in the country's savings, it is of utmost importance to show a right path for its deployment. The Indian household sector is characterized by a tendency to avoid risk as it lacks the mental readiness to absorb the shocks of the volatile capital market. Hence, to attract the surplus funds possessed by this sector into the capital market, institutional intermediaries are required.

The Indian household sectors' investment in mutual funds made a greater beginning in the second half of the eighties. Though apparently mutual funds were intended to cater to the needs of the retail investors, there had been no sufficient response from them. As middle-income group still believes in safety first mode and deposit bulk of their value in post office savings and bank deposits. They first think about the safety than growth. They are averse to take calculated knowledge-oriented risk. Mutual funds are supposed to be the best investment vehicle for small investors and hence there is a need to find out investors' perceptions and factors influencing their decisions. 50, there is a dire necessity to identify how far mutual funds satisfy the twin aspirations of the investors (steady appreciation of unit value and consistent return on investment).

According to neuroeconomics, you get best investment results when you strike the right balance between emotion and reason, Intuition can yield fast and accurate decisions only when the rules for reaching a good result are simple and stable. As Jason Zweig put it: "In the madhouse of the financial markets, the only rule that appears to apply is Murphy's Law. And even that guideline comes with a devilish twist: Whatever can go wrong will go wrong, but only when you least expect it to”.

Generally, investors have a tendency to “know all”, which is always detrimental for any investor, But the fact is, it is very difficult to say "I don't know" and seek right advice with right attitude. Jason Zweig says:

“Inside each of us, there lurks a con artist who is forever cajoling us into an inner con man works at convincing you that you are brilliant at it.” Warren Buffett rightly wrote: “What counts for most people in investing is not how much they know, but rather how realistically they define what they don't know. An investor needs to do a few things right as long as he or she avoids big mistakes.”

In India, risk tolerance for general (middle income group) is low. After the last crash in the Indian stock market, investors' general belief was that they knew what was going to happen, ask them in that case are they still holding their portfolio, because everybody knows that after crash market will bounce back again? Sadly, they will inform you that they sold their holding and incurred heavy losses. How stupid they can be! If you mindlessly rely on your intuitive perception of risk, you are likely to assume risks that you should avoid and shun risks that you should embrace. Jason Zweig wrote: “By making you believe that the past was more predictable than it really was, hindsight bias fools you into thinking that the future is more predictable than it can ever be. That keeps you from feeling like an idiot as you look back-but it can make you act like an idiot as you go forward.” A simple rule to follow: Educate yourself regarding investment opportunities along with their tax implications; opt for SIP (always remember 'Rome was not built in a day'); periodic analysis of portfolio. Periodically rebalance your portfolio in line with your target asset mix. This way you force yourself, through pre-determined reflective commitment, to sell what has risen and buy what has fallen. The rule of thumb for capital market investment strategy: Buy when price goes down and sell when price goes up. Alas! very few investors keep this platinum rule in mind. Emotional, illogical investing behaviour causes more damage to retail investors, which in effect hinders the broadening horizon of mutual fund industry.

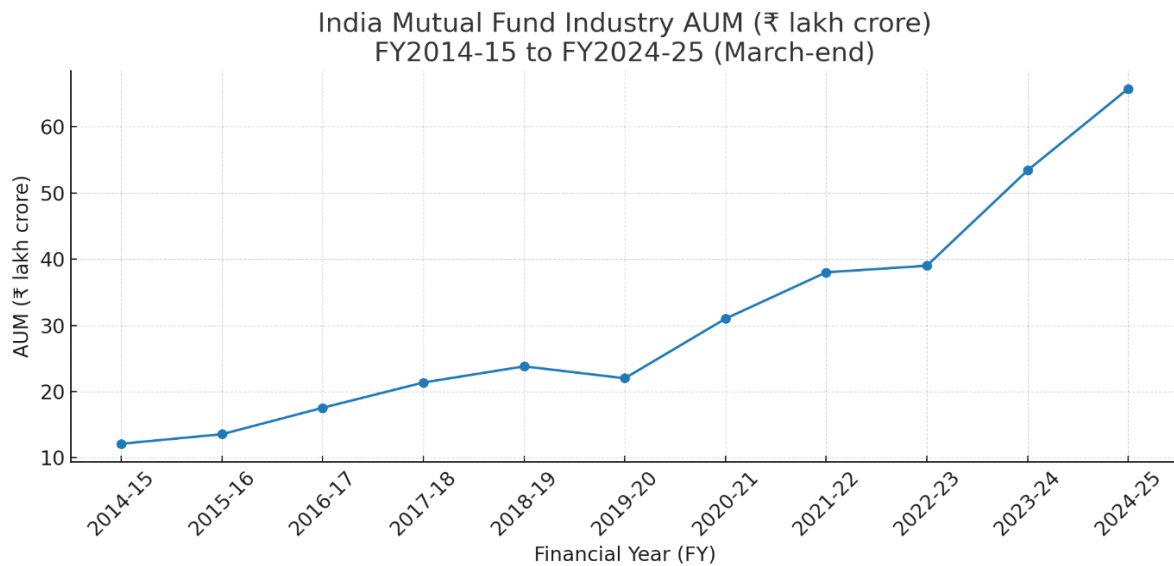
Today, more private sector mutual funds are coming into the fray. An average investor is unable to take a decision as to which bandwagon should he hop on to. As household sector's share is much larger in the country's savings it is utmost essential to guide its deployment in the right direction. Thus, there is a need for the present study to bring to light the performance of the mutual funds, which can help the retail investors to make a valued judgment in terms of deploying their savings to the capital market through the mutual fund vehicle. With the growing institutionalization, retail investors are gradually keeping out of the primary and secondary market, and looking forward to mutual funds for their investments. Among the mutual funds, it is expected that debt-oriented schemes will continue to dominate the mutual fund industry satisfying the needs of yield, security and liquidity fairly well besides being attractive from the tax point of view. While equity-oriented schemes will gain more significance in future, their popularity will depend on the conditions of the stock market and the kind of tax relief accorded to them. Hence, it is of utmost importance to study the performance of growth schemes of mutual fund industry, which is a near substitute for direct investment in shares. Analysis of risk-return of schemes and its relationship with the market will provide information on the performance of sample schemes, fund managers' ability in selecting and timing security related transactions in the present scenario of multitudinous mutual fund schemes.

The Indian capital market having a long history spanning over a century has passed through the most radical phase. It witnessed unprecedented developments and innovations during the eighties and nineties. One such development was the increased role the mutual fund industry played in financial intermediation. Mutual fund, as an institutional device, pools investor's funds for investment in the capital market under the direction of an investment manager, Mutual funds bridge the gap between the supply and demand for funds in the financial market. In 1987, the public sector banks and insurance companies were permitted to set up mutual funds. Accordingly, the LIC and GIC and six public sector banks initiated the setting up of mutual funds, bringing out a new era in the mutual fund industry. The financial sector reforms were introduced in India as an integral part of the economic reforms in the early 1990s with the principal objective of removing structural deficiencies and improving the growth rate of financial markets. Mutual fund reforms attempted for the creation of a competitive environment by allowing private sector participation. The SEBI formulated the Mutual Fund Regulations in 1993, establishing a comprehensive regulatory framework for the first time, while the Indian Mutual Fund Industry

(IMFI) had already passed through two phases of development.

The graph indicates the growth of assets over the years.

Growth Graph



India has become the world's fourth largest economy besides U.S.A., China, and Japan. Although the Indian capital market witnessed some significant changes during the eighties, both the primary and the secondary segments continued to suffer from some serious deficiencies. Many unhealthy practices prevailed in the primary market to attract retail investors. High pricing of new issues, difficulties in analysing the prospects of a company, underpricing of shares in the market after listing have discouraged and aroused hesitation among many investors to enter the stock market. The secondary market had become highly volatile and technical for small investors.

Markets for equity shares, real estate, derivatives, and other assets have become highly dynamic. Unprecedented global and national events have brought in substantial changes in the securities market. Capital market, being the major supplier of corporate finance, ought to grow in a healthy manner to pump in more money. Investment in corporate securities demands investors to understand the complexities of market, to keep track of market movements and to make scientific investment decisions. The growing popularity of mutual funds proves that it is an ideal investment vehicle for small investors having limited information and knowledge to enter the today's complex and modern capital market. The domestic mutual fund industry has grown by 50 percent particularly through Systematic Investment Plan (SIP) from retail participants.

But there is still a long way to go as only five percent of the households are investing in mutual fund schemes. Liberalization of economic policies, metamorphic changes in the Indian Financial System, brought about increase in the share of household savings, changes in investment attitude and preferences. The Gross Domestic Savings for 2007-08 to 2011-12 range from 34.02 percent to 30.31 percent, under the growth scenarios of seven to nine percent respectively, against 30.7 percent in 2004-05. Household sector's financial savings for 2009-10, 2010-11 and 2011-12 are Rs.9898.0 billion, Rs.9913.1 billion and Rs.9690.8 billion respectively. For the same period mutual funds recorded Rs.330.4 billion inflow (2009-10), but outflow of Rs. 115.6 billion (2010-11) and Rs.106.2 billion (2011-12). (Source: RBI data)

The household savings' rate is increasing and is expected to accelerate with the reinforcement of benign demographic dynamics, financial sector liberalization and increasing human development index. As the household sector's share in financial assets is expected to go higher in the country's savings, it is of utmost importance to show a right path to individual investors. With an emphasis on increase in domestic savings and

improvement in deployment of investible funds into the market, the need and scope for mutual fund operations have increased and is expected to increase tremendously in future. Mutual funds seek to serve those individuals, who have the inclination to invest but lack the background, expertise and sufficient resources to diversify their investment among various sectors. Even though mutual fund industry is growing, still there is a long way to go. The penetration level in rural areas is not very high. The funds have grown more because of the changing demographic profile. More number of investors, particularly youth, whose disposable income has gone up, opt mutual fund to enter securities market indirectly.

Indian investors have little information to take prudent investment decisions. Such information drought is the breeding ground for misguidance and the investor is likely to be inspired by the agents to opt for a particular scheme without an in-depth analysis. The information drought p regarding performance of mutual funds in India is perhaps a major cause for the Indian mutual fund industry for not attaining the status of its counterparts in U.S.A., U.K. and other developed countries. An average investor obtains investment advice and practical information from investment outlets, such as business magazines and web sites. However, the information on performance of mutual funds over a period of time is scantily available for all the investors.

The mutual fund industry gained momentum in 1993 with the entry of private sector in the wake of liberalization and globalization. Further, the industry gained a coveted status after the implementation of the SEBI (Mutual Funds) Regulations 1996. Of the varied category of mutual fund schemes, growth oriented mutual funds are expected to offer the advantages of diversification, market timing and selectivity. A growth scheme has to generate capital appreciation for its unit-holders by investing a substantial portion of its corpus in high growth equity shares or other equity related instruments of corporate bodies. The principal objective of growth schemes with growth options is to ensure maximum capital appreciation. Dividend reinvestment plan also has advantage from tax point of view. Equity diversified funds are giving returns which are more than inflation rate.

CONCLUSION

Mutual funds play a crucial role in the economic development of a country. The active involvement of mutual funds in the economic development can be seen by their dominant presence in the money and capital markets the world over. Their presence is, however, comparatively stronger in the economically advanced countries. Investors who need to make themselves properly educated must first become rational for decision making.

The role of the mutual funds in the form of financial intermediation, by way of resource mobilization, allocation of resources, and development of capital markets and growth of 81 corporate sector is very conspicuous. Mutual funds also play an important role in the stock by way of ensuring stability as supplier of large resources and through steady absorption of floating stocks. Mutual funds are well known for their benefits in the following forms to their investors:

- Professional expertise in buying and selling of units;
- Professional management of securities transactions;
- Opportunity to hold wide spectrum of securities;
- Long-term planning by fund managers;
- Investors protection
- Safety of funds;
- Spreading of risk;
- Dissemination of information on the performance of the mutual funds, schemes, and fund managers.

Emergence of mutual funds in the Indian scenario is a product of constraints on the banking sector to tap the fruits of the capital market and the reluctance of the investors to take a direct plunge into complex and erratic capital market operations. Mutual fund entered the arena of this service sector in an admirable manner. The IMFI is one among the top 15 nations in terms of assets under management, which has crossed USD 100 billion. As a globally significant player the IMFI is attracting a bigger chunk of household investments and is expected to witness five to six times growth in the next seven to eight years. It is expected that the industry's AUM may grow to USD 500-600 billion by 2015 as more global players are planning and ready to set up asset management businesses in India. Retail investors (middle income group) need to shed their inhibition about capital market. They need to become investment smart with unbiased view towards economic development of India as well as their personal wealth creation. Hope Indian retail investors will go this extra mile to get the fruit of financial growth.

Additional/Revision Data:

1. About the “Mutual Funds Sahi Hai” Campaign

Launched by: Association of Mutual Funds in India (AMFI)

Campaign Name: Mutual Funds Sahi Hai

Tagline Meaning: “Mutual Funds are Right” — a message to create awareness and trust about mutual fund investments among retail investors in India.

2. Launch Date

Official Launch: March 10, 2017

It was India's first large-scale mutual fund education campaign aimed at the mass retail audience, focusing on increasing awareness, busting myths, and simplifying investment.

3. Cost of the Campaign

Initial Budget (2017–18): ₹100 crore

Later Spending (2019–2022): Additional ~₹250 crore cumulatively

Over time, AMFI consistently invested in TV, print, digital, and social media channels, and the campaign ran in 12+ Indian languages to reach wider demographics.

4. Objectives

Educate the public about mutual fund basics

Dispel myths like “mutual funds are only for the rich” or “too risky”

Promote SIP (Systematic Investment Plan) as a disciplined investment habit

Grow retail participation in mutual fund investments

5. Impact on Mutual Fund Industry in India

a) Growth in Mutual Fund Assets (AUM)

Date	Total AUM (₹ crore)
March 2017 (Pre-campaign)	₹17.54 lakh crore
March 2023 (post-campaign 6 years)	₹39.42 lakh crore
March 2024 (Latest)	₹53.40 lakh crore

Growth: Over 3x increase in 7 years after the campaign.

b) Retail Investor Participation

Number of SIP accounts (March 2017): ~ 1.6 crore

Number of SIP accounts (March 2024): ~ 7.4 crore

Monthly SIP inflow (2017): ₹ 4,000 crore

Monthly SIP inflow (2024): ₹ 20,000 + crore

This reflects widening financial literacy and comfort with long-term investing.

c) Impact Metrics Attributed to the Campaign

- Increased awareness of equity-based investing across Tier-II and Tier-III cities.
- Demystified mutual funds for the average Indian investor (especially millennials).
- Boosted confidence in Systematic Investment Plans (SIPs).
- Made “Mutual Funds Sahi Hai” a popular household phrase in India.

6. Endorsement and Credibility

- The campaign was non-commercial, i.e., not promoting any specific AMC (Asset Management Company).
- It was supported by SEBI as part of investor education initiatives.
- Used real-life scenarios in ads to connect with audiences emotionally and practically.

7. Post-Campaign Developments

- AMFI launched Phase 2 (2020 onwards): Focused on SIPs, retirement planning, and goal-based investing.
- Newer campaigns like "Mutual Funds Sahi Hai 2.0" launched in 2023, focusing on millennials and digital platforms.

Summary

Metric	Pre-Campaign (Mar 2017)	
Post-Campaign (Mar 2024)		
Mutual Fund AUM	₹17.54 lakh crore	₹53.40
lakh crore		
SIP Accounts	~1.6 crore	~7.4 crore
Monthly SIP Contribution	₹4,000 crore	
₹20,000+ crore		
Campaign Budget	₹100 crore (initial)	₹350 crore+
(total estimated)		

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