Journal of Informatics Education and Research
ISSN: 1526-4726
Vol 4 Issue 3 (2024)

Retail Investors viewpoint regarding investment in Mutual Funds and Stock Market: A Comparative Study

Dr. Ratidev Samal
Assistant Professor, School of Management, Centurion University of Technology and Management

Ms. Parminder Kaur
Associate professor, Sgtbkhalsa College, University of Delhi

Dr. Pooja Prakash Srivastava
Assistant Professor, Chandigarh School of Business ,Chandigarh Group of Colleges, Jhanjeri 140307, Punjab India

Dr. Ajay Singh
Assistant Professor, Business and Management, Christ University, Bengaluru.

Abstract
The stock market and mutual funds are frequently seen by retail investors as vital parts of their financial portfolios. Because they are professionally managed and diversified, mutual funds are generally preferred over individual stocks because they lower the risk involved in selecting individual stocks. Those conservative investors looking for steady, long-term growth may find this appealing. Their allure is further increased by their accessibility, systematic investment plans (SIPs), and capacity to invest in multiple asset classes inside a single fund (Srivastav & Mittal (2016). Conversely, investors with a higher risk tolerance find the stock market appealing since it offers direct equity investments with the potential for large profits. Stocks are frequently viewed by retail investors as a means of profiting from company-specific growth prospects and market swings. They are conscious of the dangers, though, including the necessity for ongoing observation and market volatility (Dhar & Banerjee, 2021). All things considered, the stock market has the attraction of larger returns but comes with more risk than mutual funds, which provide a safer, more detached approach. Sample of 212 retail investors were surveyed to compare their viewpoint regarding investment in Mutual Funds and Stock Market and found that there is significant difference between stock market and mutual fund investment.

Keywords: Stock market, Mutual funds, Retail investors, Diversification, Risk tolerance, Systematic investment plans (SIPs), Long-term growth, Market volatility.

Introduction

In India, mutual funds are frequently seen by retail investors as a more practical and secure option for investing than direct stock market transactions. Risk aversion, the need for diversity, and the desire for professional management are some of the "determinants of investment behavior" that Kaur and Kaushik (2016) claim have an impact on mutual fund behavior. Conservative investors who value stability above big returns are drawn to mutual funds because they provide a diversified portfolio that distributes risk across a range of asset classes. Another important draw for retail investors is the professional management of these funds, since they do not have the time or knowledge to manage individual equities well. Furthermore, small, regular contributions can be made by investors because to the availability of structured investment plans (SIPs), which increases the population's accessibility to mutual funds (Yeni Tri Herliana et al., 2023). Mutual funds are a popular option for retail investors looking for moderate returns with lower risk because of their professional management, accessibility, and diversity.

Despite the inherent hazards, the possibility of large profits is frequently what motivates retail stock market participants (Patel, et. al, 2015). The "behavior of individual investors in stock market trading" is influenced by a number of factors, including market sentiment, the perception of a chance to make quick gains, the effect of financial news, and social media Akhtar et al. (2018). This was noted by Raut et al. (2020). Direct stock investments, as contrast to mutual funds, necessitate a greater degree of commitment, including ongoing market research and observation (Panagopoulos, 2022). The possibility of profiting from market swings and company-specific growth usually drives retail investors to engage in stock market trading. They are also generally more risk-tolerant. But there are drawbacks to this strategy, like "market volatility" and the possibility of suffering large losses (Joshi, 2014). Retail investors, especially those with a more aggressive investment plan, are nonetheless drawn to the stock market by the possibility of possibly larger returns than mutual funds, even in the face of these hazards.

The degree of financial literacy exhibited by retail investors has a major impact on their decision to engage in the stock market. "Attitudinal factors, financial literacy, and stock market participation" are tightly related, according to Sivaramakrishnan et al. (2017). Due to their increased knowledge of market dynamics, investment risks, and possible returns, investors with higher levels of financial literacy are more inclined to participate in stock market activities. Investors that are financially literate are better equipped to make judgments and have less anxiety when it comes to market volatility (Shah, 2018). Furthermore, it improves their capacity to evaluate the reliability of market data, reducing the impact of herd mentality and sentimental judgment. However, because they view direct stock market investments as being excessively complicated and hazardous, individual investors with less financial literacy typically avoid them. Since mutual funds provide a simpler and less daunting way to invest, for many investors, they end up being the go-to option (Kumar, 2014). Financial literacy is therefore a key factor in determining Indian retail investors' preferences between mutual funds and direct stock market involvement.

Literature Review

According to Mushinada and Veluri (2019), retail investors tend to exhibit "overconfidence," which leads them to overestimate their ability to predict market movements, resulting in frequent trading and potential losses. This bias is compounded by the "herd mentality," where investors follow the actions of others rather than making independent decisions based on fundamental analysis (Setiawan et al., 2020). Such behavior often causes irrational market trends, contributing to volatility. Furthermore, retail investors are prone to the "disposition effect," wherein they hold onto losing stocks for too long, hoping for a reversal in fortune, while quickly selling off winning stocks to lock in gains. This bias disrupts optimal investment strategies and affects overall portfolio performance. Understanding these behavioral biases is crucial for retail investors as they navigate the complexities of the Indian stock market, as these biases can significantly impact their returns and long-term financial goals (Salar & Shamim, 2017).

The investment decisions of retail investors in India are also influenced by the activities of domestic and foreign institutional investors. Arora (2016) highlights the significant correlation between the investment patterns of institutional investors and the stock returns in India. Retail investors often perceive institutional investors as having superior information and insights, which leads them to mimic their actions Ritzer-Angerer (2019). This "follow-the-leader" approach can sometimes work to their advantage, particularly when institutional investors drive the market upwards. Retail investors, driven by fear of missing out, may enter the market at inflated prices or exit prematurely, thus affecting their overall returns. This behavior underscores the importance of understanding the broader market dynamics and the potential risks associated with simply following institutional investors without conducting independent analysis (Singh & Tripathi, 2016).

The disparity in investment outcomes between retail investors and wealthier market participants is another critical aspect of the Indian stock market. Campbell et al. (2019) discuss how wealthier investors tend to achieve better returns due to factors such as access to superior information, better financial advice, and the ability to take on more risk. Retail investors, who often lack these advantages, may find themselves at a disadvantage. This disparity can lead to a perception that the "rich get richer" in the stock market, while average retail investors struggle to keep pace. Moreover, the tendency of retail investors to react emotionally to market fluctuations—often buying high during market euphoria and selling low during downturns—exacerbates this issue. As a result, retail investors may not fully realize the long-term benefits of investing in the stock market, reinforcing the need for financial literacy and disciplined investment strategies to bridge the gap between retail investors and their wealthier counterparts.

Retail investors' investment decisions are significantly influenced by ambiguity, according to Li et al. (2017). They assessed that investors frequently face uncertainty about future returns, which forces them to make cautious investment decisions. The Indian setting is a prime example of this cautious attitude, since retail investors favor mutual funds over direct stock market investments because of their professional management and perceived safety. The propensity of Indian retail investors to select equity-linked mutual funds, which provide exposure to the stock market with a hedge against direct market volatility, is indicative of their "risk-averse nature". This conduct highlights a larger trend of people avoiding direct market risk exposure and depending instead on fund managers' experience to help them navigate the intricacies of the stock market.

On the other hand, Boda and Sunitha (2018) highlighted how Indian retail investors' investing decisions are influenced by psychological aspects. They explored that "investor psychology" plays a significant role in influencing investment behavior, with feelings like greed and fear frequently influencing one's willingness to participate in the market. Indian retail investors are especially vulnerable to behavioral biases such as herd mentality, which causes them to follow the decisions of other investors instead of doing their own research (Dewan, Gayatri, & Dewan, 2019). During market volatility, this "herd behavior" is particularly common when investors make judgments based on fear of losing money or missing out on possible gains. Since mutual funds are seen as a safer alternative to direct stock investing due to their perceived lack of volatility, the preference for them, as observed in the previous study, may also be related to psychological comfort.

Raut (2020) assessed the impact of financial literacy on Indian retail investors' investment choices in more detail. Retail investors' approach to mutual funds and stock market investments is greatly influenced by their level of "financial literacy" and past behavior. Since they are more knowledgeable about risk management techniques and market dynamics, Indian retail investors with greater levels of financial literacy are more inclined to make direct stock market investments. Nonetheless, given their lack of financial literacy, most Indian retail investors continue to show a preference for mutual funds. These investors tend to take a more cautious approach as a result of their "investment decision-making process" being impacted by information from financial advisors or the media, as well as past experiences. There may be a gradual change in favor of more stock market participation as investors gain confidence in their capacity to make wise investment decisions as financial literacy increases.

Chauhan et al. (2020) assessed that "herd behavior" has a big impact on investors' decisions and frequently causes them to follow the herd rather than doing their own research. This inclination is fueled by things like "peer influence," "market trends," and the desire to attain "portfolio diversification" with the least amount of work. The opportunity to invest in a diversified "portfolio" without in-depth market expertise and the professional "asset management" that mutual funds provide make them appear safer and more managed to many retail investors than direct stock investing. But their faith in the stock market is often influenced by dominant "market sentiments" and "media narratives," which can lead to investing decisions that are reactive rather than intelligent. They emphasize that although mutual funds provide a structured investing option, many individual investors may be susceptible to "irrational exuberance" or "panic selling" based on transient market fluctuations due to a lack of financial literacy.

Objective

1. To compare the Retail Investors viewpoint regarding investment in Mutual Funds and Stock Market.

Hypothesis

Ho *There is no significant difference between investment in Mutual Funds and Stock Market.*
Ha *There is significant difference between investment in Mutual Funds and Stock Market.*

Methodology

Sample of 212 retail investors were surveyed to compare their viewpoint regarding investment in Mutual Funds and Stock Market. The primary data of this study was collected through “random sampling and survey method.” Comparative mean and independent t-test was applied to analyze and evaluate the data to get the end results.

Findings

Basic details of the respondent are represented by the table below in which it is found that in total 212 respondents 57.1% are male and rest 42.9% are female in which 23.6% are below 38 yrs of age, 43.9% are from the age group 38-48 yrs and rest 32.5% are above 48 years of age. 37.3% of respondents are in service sector, 24.1% in business, 32.0% are self-employed and rest 6.6% are in some other occupational sector.

Table 1 Basic Details of the Respondents

Variable	Respondent	Total Percentage
Gender		
Male	121	57.1
Female	91	42.9
Total	**212**	**100**
Age profile		
Below 38 yrs	50	23.6
38-48 yrs	93	43.9
Above 48 yrs	69	32.5
Total	**212**	**100**
Occupation		
Service	79	37.3
Business	51	24.1
Self-employed	68	32.0
Others	14	6.6
Total	**212**	**100**

Table 2 Retail Investors viewpoint regarding investment in Mutual Funds and Stock Market

Retail Investors viewpoint	Comparative mean		t value	Mean diff.	Sig.
	Stock market	Mutual funds			
Investors with a higher risk tolerance	4.01	3.71	1.377	0.30	0.17
Control over investment	4.11	3.91	0.922	0.20	0.36
Time and Knowledge Intensive	4.06	3.68	1.706	0.38	0.09
Retail investors' views is heavily influenced by market sentiment	4.13	3.81	1.615	0.32	0.11
Ability to spread investments across a wide range of assets	3.21	3.41	0.953	0.20	0.34
Preference of Retail investors towards Professional Management	3.87	4.09	1.110	0.22	0.27
Convenience in investment	4.05	3.90	0.684	0.15	0.49
Attraction towards potential returns	4.00	3.8	0.867	0.20	0.39
Herd behavior	3.06	3.84	3.465	0.78	0.00
Levels of financial literacy	4.02	3.89	0.817	0.13	0.41

Table 2 compares the Retail Investors viewpoint regarding investment in Mutual Funds and Stock Market. Higher mean values are shown by the investors for investing in stock market like Investors with a higher risk tolerance (4.01), Control over investment (4.11), Time and Knowledge Intensive (4.06), Retail investors' views is heavily influenced by market sentiment (4.13), Convenience in investment (4.05), Attraction towards potential returns (4.00), Levels of financial literacy4.02 except Herd behavior, Ability to spread investments across a wide range of assets and Preference of Retail investors towards Professional Management where higher mean values are shown for mutual funds. The results of Independent Samples Test which was applied to compares the Retail Investors viewpoint regarding investment in Mutual Funds and Stock Market. Higher mean values are shown by the investors for investing in stock market shows that there is significant difference between stock market and mutual fund investment as the value under Sig. column is below 0.05.

Conclusion

The stock market and mutual funds are becoming more and more popular choices for Indian retail investors looking to build wealth, but their opinions differ depending on a number of variables, including market circumstances, risk tolerance, and financial literacy. Individuals who desire professional management, diversification, and a comparatively lower risk

profile frequently select mutual funds (Mittal et al., 2023). Their appreciation for systematic investment plans (SIPs), which lower market timing risks by enabling disciplined investing over time, stems from this. On the other hand, those who seek bigger returns through direct equity investments and have a greater risk tolerance are drawn to the stock market (Paul, Mittal & Srivastav, 2016). The ability to directly profit from market fluctuations and having control over investing decisions are important to this group. Conversely, the inherent risks associated with investing in mutual funds and direct stocks may put off more cautious individual investors. The mood of investors is greatly impacted by market volatility, economic swings, and legislative changes. Direct stock investments need careful consideration and a deep grasp of market dynamics, whilst mutual funds provide a buffer through their diversified portfolios. To conclude, the attitude of Indian retail investors toward mutual funds and the stock market is cautious but enthusiastic. Although the stock market attracts people ready to take on higher risk in exchange for possibly larger profits, mutual funds are valued for their ease and ability to reduce risk (Chew & Ng, 2021). Diversified investment portfolios are expected to become more popular as financial literacy rises, encouraging regular investors to adopt a balanced approach to investing.
The study was conducted to compare the Retail Investors viewpoint regarding investment in Mutual Funds and Stock Market and found that there is significant difference between stock market and mutual fund investment in terms of different factors like risk tolerance, Control over investment, Time and Knowledge, Convenience returns.

References

1. Arora, R. K. (2016). The relation between investment of domestic and foreign institutional investors and stock returns in India. Global Business Review, 17(3), 654-664.
2. Boda, J. R., & Sunitha, G. (2018). Investor's psychology in investment decision making: A behavioral finance approach. International Journal of Pure and Applied Mathematics, 119(7), 1253-1261.
3. Campbell, J. Y., Ramadorai, T., & Ranish, B. (2019). Do the rich get richer in the stock market? Evidence from India. American Economic Review: Insights, 1(2), 225-240.
4. Chauhan, Y., Ahmad, N., Aggarwal, V., & Chandra, A. (2020). Herd behaviour and asset pricing in the Indian stock market. IIMB Management Review, 32(2), 143-152.
5. Kaur, I., & Kaushik, K. P. (2016). Determinants of investment behaviour of investors towards mutual funds. Journal of Indian Business Research, 8(1), 19-42.
6. Li, C. W., Tiwari, A., & Tong, L. (2017). Investment decisions under ambiguity: Evidence from mutual fund investor behavior. Management Science, 63(8), 2509-2528.
7. Mushinada, V. N. C., & Veluri, V. S. S. (2019). Elucidating investors rationality and behavioural biases in Indian stock market. Review of Behavioral Finance, 11(2), 201-219.
8. Raut, R. K. (2020). Past behaviour, financial literacy and investment decision-making process of individual investors. International Journal of Emerging Markets, 15(6), 1243-1263.
9. Raut, R. K., Das, N., & Mishra, R. (2020). Behaviour of individual investors in stock market trading: Evidence from India. Global Business Review, 21(3), 818-833.
10. Sivaramakrishnan, S., Srivastava, M., & Rastogi, A. (2017). Attitudinal factors, financial literacy, and stock market participation. International journal of bank marketing, 35(5), 818-841.
11. Paul, J., Mittal, A., & Srivastav, G. (2016). Impact of service quality on customer satisfaction in private and public sector banks. *International Journal of Bank Marketing*, *34*(5), 606-622. doi: 10.1108/ijbm-03-2015-0030
12. Srivastav, G., & Mittal, A. (2016). Impact of Internet Banking on Customer Satisfaction in Private and Public Sector Banks. Indian Journal of Marketing, 46(2), 36-49. doi: 10.17010/ijom/2016/v46/i2/87252
13. Mittal, K., Rawat, D., Bhadade, P., & Cacal, D. (2023). Investment Criteria in Mutual Funds: An Empirical Study from Retail Investors' Perspective. *Journal of Informatics Education and Research*, *3*(1).
14. Setiawan, B., Yanuar Andrianto, & Fitri Safira. (2020). Investment Decisions and Investor Experience in Choosing Financial Technology (Fintech) Services: Peer-To-Peer Lending. *Proceedings of the 3rd Asia Pacific Management Research Conference (APMRC 2019)*.
15. Dhar, P., & Banerjee, S. (2021). Does Value Averaging Score Over Rupee Cost Averaging? *Asia-Pacific Journal of Management and Technology*, *01*(03), 29–33.

16. Yeni Tri Herliana, Kusuma Ratnawati, & Djumahir Djumahir. (2023). The Role of Personality Traits as Mediation: The Effect of Financial Literacy and Risk Perception on Investment Decision. *Journal of Business and Management Review*, *4*(6).
17. Panagopoulos, A. (2022). The Use of Sustainable Financial Instruments in Relation To The Social Impact Investment. ESG Policies, Capital Markets' Approach and Investors' Protection. An Innovative Perspective. *SSRN Electronic Journal*.
18. Kumar, R. (2014). Mutual Funds, Insurance, and Pension Funds. *Strategies of Banks and Other Financial Institutions*, 207–242.
19. Shah, K. (2018). An empirical study of consumer behavior towards sbi mutual funds company. *Abhinav-National Monthly Refereed Journal of Research in Commerce & Management*, *7*(9), 31–35.
20. Joshi, P. (2014). Forecasting Volatility of Bombay Stock Exchange, *International Journal of Current Research and Academic review*, 2(7), 222-230.
21. Singh, S., & Tripathi, L.K. (2016). Modelling Stock Market Return Volatility: Evidence from India, *Research Journal of Finance and Accounting*, 7(13), 93-101.
22. Salar, S.A.A., & Shamim, M. (2017). Trading Behavior of Domestic Institutional Investors and Volatility of Indian Stock Market, *Amity Journal of Finance*, 2(1), 47-55.
23. Dewan, A., Gayatri, R., & Dewan, R. (2019). A Research on Investment Behavior of Corporate and Individual Investors from Southern India, *International Journal of Innovative Technology and Exploring Engineering*, 8(6S4),1493-1501.
24. Akhtar, F., Thyagaraj, K. S., & Das, N. (2018). The impact of social influence on the relationship between personality traits and perceived investment performance of individual investors: Evidence from Indian stock market. International Journal of Managerial Finance, 14(1), 130-148
25. Patel, J., Shah, S., Thakkar, P., & Kotecha, K. (2015). Predicting stock and stock price index movement using trend deterministic data preparation and machine learning techniques. *Expert systems with applications*, *42*(1), 259-268.