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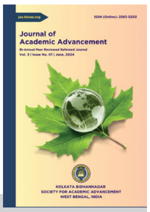

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Unveiling the Truth for Indian Investors: Dispelling Misconceptions about Mutual Funds

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ABSTRACT

Over time, mutual funds are an excellent means of accumulating money. Nevertheless, people continue to have misconceptions about mutual funds. A myth is a widely believed but inaccurate idea or concept. Mutual funds have given rise to countless myths. These misunderstandings often cause unnecessary concern and worry among investors, preventing them from reaping the numerous benefits of mutual funds. The main objective of the study is to inform and aware regular Indian investors about the myths and realities of the mutual fund industry. The study gathers secondary data from a range of sources, including books, journals, periodicals and online sites. To make things simpler for readers, the myths and realities have been expressed in plain terms. Simple illustrations have been used as well. From December 2022 to December 2023, the mutual fund companies in India witnessed an increase in assets of Rs. 40.76 trillion to Rs. 51.09 trillion. Additionally, according to AMFI data, 'direct' investment is also on the rise and roughly 22% of retail investors made direct investments in December 2023 (as against 20% in December 2022). There exist myths about "Systematic Investment Plan", "Know Your Client", age of investment, DEMAT account, fund rating, NAV, holding period, diversification, fund types, tax implications, fund house insolvency, historical performance, and so on in mutual funds.

The study exposes the truth and dispels myths. These mutual fund misconceptions exist only to deter individuals from investing in mutual funds. Mutual fund investing, when done correctly, maybe a very effective way to put funds to constructive use. Investor awareness is a gradual process. Investors need to bust myths about mutual funds if they intend to increase the size of their holdings. Acquiring knowledge about the truths underlying these misconceptions empowers investors to make better decisions and confidently navigate the mutual fund industry.

Keywords: *AMFI, Investor Awareness, Mutual Funds, Myth, Realities*

1. BACKGROUND

Mutual funds are an excellent instrument for long-term wealth accumulation. Despite a nearly six-decade operational history and constant promotions from the Association of Mutual Funds in India (AMFI), individuals continue to have misunderstandings about mutual funds. A lie uttered a thousand times appears to sound like reality. The false beliefs about mutual funds are not helpful anyway. A myth is a commonly accepted but incorrect notion or concept. Mutual funds have given rise to numerous myths. These beliefs frequently instil unnecessary anxiety and worry in investors, preventing them from enjoying all the countless advantages of mutual funds. Those who invest in mutual funds are often victimized because of widespread fallacies about mutual funds as an investing instrument. These fallacies stem from either a lack of familiarity with the mutual fund offering or how mutual funds sell the product.

However, it is vital to conquer these myths since they will help anyone make an informed and knowledgeable decision regarding mutual fund investments. Due to an increase in financial understanding and literacy, many Indian investors - who have historically been conservative - now favour mutual funds over fixed deposits and gold. Younger people, especially those in Generation Z, make up a sizable component of the investor population. They are more willing to take on market risks in return for possibly bigger rewards. In terms of location, mutual fund investments are concentrated in metropolitan areas, but semi-urban and rural areas are becoming more and more involved. A fair mix of people who prefer debt funds for stability and equities funds for decent returns make up those with varying levels of risk tolerance. The vibrant and active mutual fund market in India has been supported by strong regulatory environment and measures implemented by the Securities and Exchange Board of India (SEBI) to improve transparency and safeguard investors. Mutual fund investors, both current and prospective, find things simple and convenient thanks to ongoing technology improvements and reliable digital platforms. Investors have tried to reduce market volatility, as seen by the fact that a sizable majority of them choose to make investments through SIPs.

2. SIGNIFICANCE OF THE STUDY

For the Indian mutual funds industry to grow significantly, investors must participate spontaneously. Retail investors are the backbone of the mutual fund sector. As a result, their readiness and excitement for buying and selling mutual fund units will be critical to the industry's ability to compete with other sectors. Unfortunately, myths surrounding mutual funds frequently generate an atmosphere of confusion, doubt, fear, and worry among mutual fund investors. This reduces their participation. This paper attempts to explain many myths and realities so that investors can make confident, fear-free decisions. Investor awareness is a gradual but significant process. This paper seeks to inform Indian mutual fund investors about common misunderstandings in the industry and the reality.

3. LITERATURE SURVEY

Prominent investment instruments like mutual funds are frequently praised for their convenience, skilled management, and diversification. A corpus of research, however, has surfaced that casts doubt on many of the widely held beliefs regarding mutual funds and suggests that there are several myths regarding their benefits and performance. This overview of the literature highlights the misconceptions surrounding mutual funds.

According to Elton et al. (1996), the advantages of mutual fund diversification are sometimes exaggerated because many funds make investments in similar assets and industries, which increases the risk of correlation. According to Wermers (2000), mutual fund managers frequently exhibited herding behaviour, which is the imitation of other managers' trades, diminishing the advantages of diversification. This implies that risk is not necessarily decreased by diversification, which is the primary advantage of mutual funds. Barber et al. (2005) debunked the idea that "low fees correlate with better performance." They discovered that although low-cost funds generally beat high-cost funds, this is not always the case and that many low-cost funds performed worse than market benchmarks. Seshamohan & Prasad (2008) debunked the misconception that only wealthy investors should use mutual funds. In actuality, mutual funds provide a means by which investors of different means can engage in the stock market and take advantage of expert management of the funds.

With worry, According to Fama and French's (2010) analysis of mutual fund performance, only some mutual funds systematically beat the market over an extended period. When they do, luck rather than talent is frequently the cause. This study indicates that there is actual evidence to refute the idea that professional management produces higher performance. Palmiter (2016) noted that financial intermediaries frequently offer contradictory advice, influencing clients to select expensive, poorly performing funds that generate commissions for the advisers. Sharma (2021) explained several mutual fund misconceptions, citing the AMFI, and urged investors to be aware of the reality, since mutual funds are an excellent financial mechanism for all investors. The belief that there will never be additional market expansion, according to Siegel & Sexauer (2022), breeds negative attitudes towards investing and results in wasted opportunities for possible rewards. Dhawan (2022) highlighted five myths about mutual funds and suggested that investors should make informed decisions according to their risk capacity, time horizon for investment, and requirements.

Gautam (2022) noticed that despite having repeatedly demonstrated their ability to outperform a wide range of suboptimal investment products such as bank FDs, PPFs, and so on, many clients continue to avoid mutual funds due to several myths about them. Hafeez (2023) addressed common misconceptions about mutual fund investment. According to the researcher, as mutual funds become more popular amongst investors, it is critical to distinguish reality from myth. According to Bhasin (2023), myths, fallacies, and close-to-true lies frequently mislead mutual fund investors and drive them to make unwise financial decisions. The author also stated that if one invests in equity funds, one should diversify between large, midcap, and small-cap enterprises. This can be accomplished using Flexi Cap funds or ELSS that invest across market capitalization. According to Dutta (2024), despite a plethora of investing possibilities, mutual funds remain an appealing option for generating wealth. She dispelled key mutual fund fallacies and explained the truth to inform investors.

4. RESEARCH GAP

The brief review of the literature reveals that there is no extensive research on the topic in the Indian context. The majority of the pieces were published in newspapers, magazines, and blogs. As part of their investor awareness campaigns, AMCs, regulators, brokerage houses, and the government have been educating mutual fund investors by dispelling certain untruths. However, this study includes an in-depth analysis of myths and realities for the benefit of individual retail investors.

5. OBJECTIVES OF THE STUDY

The article seeks to explain various myths and realities associated with mutual fund investing so that investors, particularly retail investors, can make informed decisions without fear. Investor awareness is a gradual but significant process. This study aims to educate Indian mutual fund investors on typical industry misconceptions and realities. The study's primary objective is to educate ordinary Indian investors about the truths and falsehoods surrounding the mutual fund business.

6. METHODOLOGIES ADOPTED

The study collects secondary data from a variety of sources, including books, journals, magazines, reports, and online resources. To make things easier for readers, the myths and reality have been stated in simple words. Simple illustrations have been added as well to make some issues apparent. Data about retail involvement in the Indian mutual fund business have been obtained from the Association of Mutual Funds in India's website (AMFI).

7. ANALYSIS AND INTERPRETATION

Myth and Reality: This section incorporates various myths and realities in connection with mutual funds.

Myth 1

Equity Mutual Funds will deliver consistent returns every year

Reality: Returns from equity mutual funds are not guaranteed and are dependent on the market performance. Still, when discussing the growth rate of equities funds, an annualized return of over 10% is assumed over the long run. However, this does not imply a consistent annual growth rate of over 10%. In actuality, due to the volatility of equities, equity mutual funds can provide both negative and positive returns over time.

Myth 2

Investing in a fund with a lower NAV is preferable to a higher NAV

Reality: To accomplish goals like children's education or retirement investors often invest in solution-oriented mutual funds which focus on these goals. These schemes invest in a mix of equities and debt and an investor has to remain invested for a specific period before redemption. In fact, in the opinion of experts, investing in proper large-cap and mid-cap schemes may be more advantageous than investing in solution-oriented mutual fund schemes because such schemes suffer from a lack of flexibility and have a lesser potential for high returns.

Myth 3

Investing in a fund with a lower NAV is preferable to a higher NAV

Reality: If an investor believes that investing in a mutual fund with a lower NAV is a better 'bargain' than purchasing a fund with a higher NAV, he or she should rethink once again. It is assumed that an investor invests Rs 5,000 each in Scheme I (an NFO with a NAV of Rs 10) and Scheme II (an existing plan with a NAV of Rs 25). As such, he has 500 units of Scheme I (5000/10) and 200 (5000/25) units of Scheme II. After one year NAV of Scheme I become Rs. 11 and the NAV of Scheme II becomes Rs. 30. As a result, the return from Scheme I is 10% and the return from Scheme II is 20%. Further, an existing scheme with a good track record is always preferable to a new scheme.

Myth 4

Mutual funds are just suitable for long-term investing

Reality: Mutual funds can help individuals achieve their short-term, medium-term, and long-term goals. For targets that must be attained within two to three years, one will find short-term funds, liquid funds, and various other debt funds. Likewise, hybrid funds (aggressive or conservative) are useful for medium-term targets. An investor should opt for equity funds for long-term targets. To be precise, selecting a particular mutual fund should be guided by factors like the requirements of the investor, the time frame, and his/her tolerance for risk.

Myth 5

Mutual Funds are only for Experts

Reality: As soon as the money is invested in mutual funds, a professional or a group of professionals having a solid understanding of the financial markets (known as the fund manager or fund managers), makes the investments on your behalf in case of an actively managed fund. As such, mutual funds are suitable for those investors who do not have adequate knowledge and experience about the market but are willing to participate in the market.

Myth 6

One needs a lot of money to invest in mutual funds

Reality: A SIP allows an investor to invest a predetermined sum in a mutual fund scheme every month, starting at Rs 500 or even less. After that, when one's income grows, one can raise one's investment amount with a top-up. Even certain fund houses allow one-time investment with as little amount as Rs. 500. Accordingly, the perception that investing in a mutual fund requires a lot of money does not hold good.

Myth 7

More funds in the portfolio imply better diversification

Reality: "The idea of excessive diversification is madness" - Charlie Munger. Warren Buffett thinks that broad diversification is only necessary in cases when investors lack knowledge. Many mutual fund holdings don't necessarily translate into better investments. It would be wrong to purchase identical funds from different AMCs with distinctive names.

Since putting all money in one fund is a risk, it is often believed one should buy several funds to diversify one's portfolio. In contrast to this common belief, putting money into a lot of funds does not provide adequate diversification, as the funds in question may overlap. To establish a well-diversified portfolio, an investor should simply invest in 4 - 6 funds from various categories.

Myth 8

Investing in mutual funds requires a DEMAT Account

Fact: Anyone can purchase units of mutual funds in either physical or dematerialized format. As such, owning a Demat account is not a prerequisite for making investments in mutual funds. Further, for small retail investors wishing to invest only in mutual funds, a Demat Account is not required since it will add to the cost in the form of annual maintenance charges. However, investors already have a Demat Account by investing in stocks have the choice of investing in mutual funds in both forms.

Myth 9

Investing in mutual funds has a lock-in period and cannot be readily redeemed

Fact *:* Tax-saving mutual funds, popularly known as Equity Linked Savings Schemes (ELSS) have a three-year lock-in period. However, mutual funds do not have a lock-in period. As such, an investor can enter into or exit from such funds according to his/her wish by buying or redeeming the units instantly. However, 'Exit Load' may apply for premature withdrawals for certain mutual funds depending on the duration of the investment.

Myth 10

Investors should go by Mutual Fund Ratings

Fact: A mutual fund rating hinges on the fund's prior performance. Previous success, however, does not guarantee continued success. Second, the mutual fund may have used a strategy that was effective during that period. That is not a guarantee that the approach will prove effective in different situations. Mutual fund investors must apply their due diligence before investing. They should examine the prior performance, and the portfolio mix, and try to grasp what the fund manager is saying in his monthly remarks about the fund. The MF ratings can help an investor make an investing decision, but these ratings cannot be treated as a rule of investment.

Myth 11

You are "too young" to begin investing in mutual funds.

Fact: On the flip side, the earlier one starts investing in mutual funds (particularly in equity funds), the more wealth one can build. There is no such thing as being "too young" for investing in a mutual fund. Professionals also contend that starting investing in mutual funds at a young age is beneficial. This is because it permits one to stay invested for a longer period, giving one an edge whenever the market experiences an extraordinary crisis.

Myth 12

SIP refers to an investment instrument

Fact: Many individuals believe that «SIP» refers to investment instruments other than mutual funds. People thus frequently express their wish to invest in SIP. However, a systematic investment plan (SIP) is just a method of investing in mutual funds regularly. In this case, a predetermined sum will be debited from the investor's bank account and invested in a mutual fund scheme of his choice on a specific date.

Myth 13

SIPs are most appropriate for equity mutual funds

Fact: SIPs continue to be a proper choice regardless of the sort of Mutual Fund in which one invests. SIPs are appropriate for all types of mutual funds, including equity, debt, and hybrid. Any information claiming otherwise is false.

Myth 14

If the mutual fund business declares bankruptcy, investors will lose money

Fact: Mutual funds are extremely safe with regard to structure. SEBI's stringent regulations make it virtually difficult for investors to lose their money as a consequence of fraud or an AMC going insolvent. AMC does not own investors' mutual fund units (it only makes buying and selling decisions). The custodian holds the units and all of the money, which is incredibly secure.

Myth 15

Debt funds perform better than equity funds

Fact: Debt funds and equity funds both have several benefits and drawbacks. However, it is inaccurate to conclude that one is superior to the other because they fulfil different objectives. For example, debt funds remain steady during market downturns. Equity funds, on the other hand, have an enviable track record to deliver higher returns. Choosing a mutual fund depends on various factors like the risk appetite, the time horizon to invest, and the goals of the investor among other things.

Myth 16

Know Your Customer (KYC) is required many times for investing in mutual funds

Fact: Though KYC is required when buying units of mutual funds for the first-time investor, it is a simple once-only procedure. Through electronic banking, the procedure is now smooth and requires just a handful of steps. So, the investor should not have any concerns regarding the KYC requirement. Doing KYC once allows individuals to easily invest across multiple mutual funds.

Myth 17

Mutual funds are taxed the same way as any other financial instrument

Fact: Tax treatment differs depending on the category of fund and the holding period. Capital gains from equity-oriented and non-equity funds have differing tax effects. Long-term capital gains (LTCG) from equity mutual funds are tax-free up to Rs. 100000 and then taxed at a lower rate of 10%, regardless of the investor's tax bracket, whereas short-term capital gains (STCG) are taxed at a flat rate of 15% for all persons.

Myth 18

Mutual funds cannot be used to generate regular income streams

Reality: A mutual fund is an investment vehicle that provides the investor with an opportunity to have regular income flow in two ways: by investing in a dividend option or through a Systematic Withdrawal Plan (SWP). Such possibility of earning income at regular intervals may be beneficial for certain investors like retired individuals.

Myth 19

SIPs eliminate every risk

Reality: Investment through a SIP is convenient. Further, it also allows for long-term averaging. If one has been investing in an equity mutual fund through a SIP, one is likely to receive decent risk-adjusted returns over time. However, an SIP does not wholly remove the risk of poor returns if an investor exits during a downturn. However, if one stays invested for the long term and the market recovers, one is expected to earn a handsome return. The SIP also cannot protect an investor if he chooses a poor scheme that underperforms the benchmark or peers.

Myth 20

Comprehending the stock market is a pre-requisite before investing in mutual funds

Reality: In actively managed mutual funds, fund managers do all the work for the investors so far as the investment of their hard-earned money is concerned. But choosing the right fund is important as well. For this, an investor who is not versed in the nitty-gritty of the financial market can take assistance from an investment advisor or a competent mutual fund distributor before investing.

Myth 21

"Invest and forget" should be the motto in mutual funds investment

Reality: Investors frequently put their money in mutual funds without reviewing the investments they made. They believe that over time such investments will turn into a sizable wealth. Nevertheless, this may not be the best strategy. It is strongly advised that an investor should evaluate his/her portfolio frequently. The investor should also reconsider his/her asset allocation in light of which he might have to initiate measures to fix things during investment.

Myth 22

Redeem units of mutual funds after the lock-in period is over

Reality: There is no lock-in period for mutual funds other than equity-linked savings strategies (ELSS). Some investors tend to redeem mutual fund units following the lock-in period or the end of a high exit-load period. An investor may or may not do so. He can also keep the units for the future if the chosen fund performs well. Delaying redemption entirely or partially may also be advantageous from a tax standpoint, particularly in the case of equity funds.

Myth 23

Monitoring mutual fund investments is tough

Fact : Fund houses send regular email and SMS alerts about transactions involving investments. Consolidated account statements (CAS) can be acquired, which include all transactions between fund houses and schemes, making tracking easier.

Myth 24

Investors should invest in funds based on past returns

Reality: While past returns can certainly indicate that the fund performed well in the past, there is no certainty that it will do similarly in the future. The future performance of the fund is entirely dependent on the decisions made by the fund manager and other factors. The HDFC Top 200 is a perfect example of a fund that once reigned the mutual fund market but is no longer among the top ten funds.

Myth 25

Investors cannot contribute greater lump sum amounts to their SIP funds

Reality: Many investors believe that once they have started an SIP in fund A, they cannot add further money to the same fund under the same folio. This is not correct. Whenever an investor invests in a fund (SIP or one-time), he is assigned a folio number. Investors can add funds to the same folio at any time. So, if Mr. X is doing Rs 5,000 SIP in fund A and now wants to add a further Rs. 20,000, he can do so.

Myth 26

The SIP duration and amount cannot be changed

Reality: The majority of investors who adopt SIPs believe that the duration and amount are fixed. However, SIP is an extremely customizable investment option. An investor can change the duration and amount as desired under certain conditions. Furthermore, modifying the SIP tenure and amount is a simple operation that simply requires paperwork.

8. MAJOR FINDINGS OF THE STUDY

Numerous fallacies about mutual funds might mislead investors and undermine their faith. As a result, dispelling such misunderstandings is critical to ensuring retail investors' voluntary involvement in mutual funds.

Mutual fund myths encompass SIP, KYC, investing age, DEMAT account, fund rating, NAV, holding duration, diversification, fund types, tax implications, fund house bankruptcy, past performance, and so on. All of these myths were debunked and the truth was revealed.

CONCLUDING OBSERVATIONS

Mutual funds can help one meet one's financial objectives in an efficient way. In real life, there are a variety of funds that will properly suit one's various life goals. As such, investors are advised to avoid myths and invest in mutual funds based on their investing timeframe and risk tolerance.

Investors need to clear their minds of any misconceptions they might have regarding mutual funds. Each of these mutual fund misconceptions exists solely to deter people from making investments in mutual funds. Mutual fund investments, when undertaken properly, may be a very effective method for putting funds to good use. Widespread fallacies about mutual fund investing must be refuted if investors desire to grow the amount they are investing. Learning the truth behind these myths allows investors to make better choices and confidently traverse the mutual fund environment.

For retail investors to choose mutual funds wisely, they need to be aware of these misconceptions. Investors can choose appropriate funds, set reasonable expectations, and create an investment portfolio that is diversified and fits their risk tolerance and financial objectives by knowing the truths behind these fallacies.

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