PROBLEM REGARDING SMALL INVESTORS IN MUTUAL FUND INDUSTRY

1 Nikita Choudhary, Research Scholar (Management)
University Dept. of Commerce & Business Administration
L.N.Mithila University, Darbhanga

2 Dr.A.K Poddar, Former-Principal,
C.M College, Darbhanga, L.N.M.U, Darbhanga Bihar

Abstract

A mutual fund is a collective investment vehicle which collects and pools money from a different investors and invests the money in bonds, equities, government securities and money market instruments. Further, the money collected in mutual fund scheme is invested by professional (expert) fund managers in different stocks and bonds as per scheme's investment policy. The gains generated from the collective investment scheme are distributed accordingly amongst the investors, after deducting proper expenses. By calculating NAV.

Key words: *Investors, Mutual Fund, Policy, Saving, SEBI*

Indroduction

A mutual fund is a professionally managed collective Investment scheme that pools money from various investors and invests it in stocks, bonds, short-term money market instruments, and many securities. Funds are selected on quantitative measures like volatility, risk adjusted returns, rolling return coupled with a qualitative analysis of fund performance and Investment styles.

Further the Mutual Fund products of leading Asset Management Organisations are made available to our valued customers through all major CRS branches. Whenever setting aside the money in mutual funds, these households can access a broad range of investments, That can help cut their risk compared to investing in a single stock or bond. Investors earn returns based on the fund performance minus expenses charged. In our country India, poor investors awareness level and financial literacy are causing big Problem biggest to mutual funds industry in structuring the household savings into mutual funds. The mass level of present investors do not understand the concept. A Mutual funds are such portfolio of investments funded by all the investors who have purchased shares in the fund. Therefore, when an individual buys shares in a mutual fund, they gain part-ownership of all the underlying assets that the fund owns. A fund performance depends on how its collective assets are performing and when the assets increases in value, A mutual fund professional manager go through the portfolio, deciding how to divide money across various industries, based on the strategy of the fund.

Reasons of Investment of Small Investors Protection

Lack of proper Knowledge about investment for earning more money. In this regard below stated causes must be considered.

Poor Skill: Small investors faces the chances of risk due to lack of proper knowledge and skill. Further the need of financial expert cannot be avoided. Mutual fund may be the right choice of small investors, because it is managed by professionally expert manager. Again, it is responsibility of fund managers to invest the collected amount in different securities for the benefits of investors by investing in mutual fund small investors can get the benefits of professionally sound fund managers. Again, a mutual funds invest money into different categories of securities such as stocks, bonds, and money market instruments, and not in any other assets. Whenever there is a loss-making instrument in portfolio, it will surely be balanced by returns from another. Again, there is wide scope to avail the hassle-free investment through mutual funds. for example, if need to pick and choose stocks and diversify, it will you have to spend considerable time selecting at least 10 of them from different sectors to avoid losses before investments . A mutual fund gives right choice of a diverse portfolio,

Returns

Mutual funds fastly provide with a scope of higher returns compared to traditional investments. This is due to because a mutual fund is market-linked which invests its assets in high-return stocks that yield high value whenever the market performs proper. Contrarily, a traditional investment is not linked to the market and can only fetch you a pre-defined assured income.

Tax Deduction

Earning from mutual fund can be treated as income, which can be taxable. Apart from other taxable income the small investors of mutual fund taxes are only payable on returns.

Reasons of Investor protection

In mutual fund investor protection is fundamental to maintaining investor confidence in the security markets. Investor protection has a profound effect on the growth and development of capital markets and also economic growth. It is a widely articulated belief that there is a positive relationship between investor protection and the valuation of organisation. Proper investor protection gives investors the confidence to invest in corporate securities, which, in turn, enhances the opportunity for organisation to raise capital at low costs and undertake more value-enhancing projects. In such environment in which investors are adequately protected, the assumption prevails that investments are safe and that highest possible returns will be possible.

Poor investor protection is likely to have several negative effects. It hinders financial development. Investors tend to be shaky in making investment in corporate securities if they have the feeling that their rights cannot be adequately protected. When investors' rights are not protected, the ability of companies to raise capital by selling securities is impaired. Poor investor protection creates opportunities for organisation insiders to pursue private benefits, which lead to destroy investment decisions. If investment decisions are distorted, it lowers organisational image and value. Investor protection is a wide term, which refers to any form of assurance that investments made by investors may not be lost owing to frauds and unfair practices.

Challenges of Small Investors in Mutual Fund Industry

Small investors are mainly considered by having limited Capital for investment. As far as mutual fund is concerned to Small investors wants to grow their Savings, attain financial goals and plan for old age. Inspite of that mutual fund is attractive, small investors encounters various problems, which can have great impact on investment outcomes. Further Small investors from more fees and hidden expenses to market volatility and lack of transparency have disadvantage than the institutional investors. Apart from this the regulatory Stature and structural points in mutual fund can complicate the investment process for the medium and average investors.

The mutual fund industry is a significant component of the financial sector, which offers different investment opportunities to individuals. Small investors, who contribute significantly to this industry, seek to achieve their financial goals through mutual fund investments. Inspite the advantages, small investors face several problems that can hinder their investment success and financial security. The key challenges faced by small investors in the mutual fund industry, including financial literacy, high expense ratios, market volatility, complexity of products, lack of professional advice, regulatory challenges, and technological barriers.

Problems of Small Investors in Mutual Fund

Mutual Fund have become a Common and popular investment vehicle for investors mainly for small investors. Whenever mutual fund offer various benefits such as diversification and management. Further the Small investors encounter several problems which has great impact on overall investment return and investment experience. Absence of proper control, expenses, high fees, lack of information, risk related to market and performance variability and taxes are some of the common and problem. Which small investor faces, while investing in mutual fund. For investors. the tax implication relating to mutual fund investment may be very complex, which require proper planning to negate the tax burden. This may be problematic for such investors having no access to professional tax advice.

Further mutual fund can also highlight tax related challenges for small investors, whenever mutual fiends distribute dividends or capital gain to the investors, these distributions are taxable, which may create tax liability for investors, even if the share of the fund is not sold by him. Apart from this mutual fund can generate short-term capital gains. Which are taxed at upper rate than long term gain. Over period of time the performance of mutual fund can vary. When some of the fund may outperform in such period, it can underperform. Such small investors may be disappointed who select mutual fund based on high performance. Further mutual fund performance can be affected by some forces as change in management, change in investment and shift in market conditions. The above stated variables address the uncertainly and make it problematic for small investors for predicting their future investment properly. Absence of information regarding mutual fund investment is big problem for small investors, in mutual fund every investment carry risk. In mutual fund, small investors are exposed to market also the risk of losing principal money amount. While making investment in mutual fund, the Small investor grants control to the fund manager regarding specific investment decisions. The problem is this the investors have no choice to which securities the fund buys or sells and have to trust on the fund manager decision.

Problems of Small Investors in the Mutual Fund Industry

A mutual fund industry is a prime part of the financial sector, offering diverse investment opportunities to individuals looking to grow their money. Small investors, who often have limited capital, play a crucial role in this ecosystem. However, these investors face several challenges that can hinder their ability to achieve financial goals. This essay delves into the key challenges faced by small investors in the mutual fund industry, such as lack of financial literacy, mis-selling, high expense ratios, market volatility, complexity of products, and lack of professional advice, regulatory challenges, and technological barriers. Further enhancing financial literacy is essential for empowering small investors. Various initiatives have been launched to provide educational resources, workshops, and campaigns, yet there remains a need for more comprehensive and accessible financial education programs to ensure small investors are well-informed and capable of making sound investment decisions.

The Role of SEBI in Investors Protection

SEBI has given out various measures to ensure the investor protection from time to time. It has published directives, driven many Investor awareness programmes, set up investor protection Fund compensate the Investors. These are

Guidelines: SEBI has issued guidelines to companies (bringing new issues in the market) mutual funds, portfolio managers, merchant bankers, underwriters, lead managers, etc. These guidelines are for bringing transparency in their operations and also for avoiding exploitation of investors by one way or the other. SEBI has introduced a code of advertisement for public issues for ensuring fair and truthful disclosures. In order to reduce the cost of issue, the underwriting is made optional on certain terms. These steps are also for the protection of Investors. SEBI keeps watch on all intermediaries and see that they follow the guidelines in the right spirit. It also takes panel actions when the guidelines are not followed. These steps give protection to investors.

Advertisements: SEBI issues public interest advertisements to enlighten investors on the basic features of different instruments and minimum precautions they should take before choosing an Investment. The SEBI desires to create awareness among investors about their rights and about remedies if problem arise. It has published some booklets for the information and guidance of investors.

Complaints: The investors can make complaints to SEBI if they face problems relating to their investment in industrial securities and financial assets. SEBI receives thousands of complaints relating to non-receipt of refund orders, allotment letters, non- receipt of dividend or interest and delays in the transfer of shares and debentures. SEBI is making efforts to solve such complaints through appropriate measures.

Education: SEBI is aware that investor education is Important for his protection. It encourages the formation of investor associations that disseminate information through newsletters. SEBI is bringing out two monthly publications for the investors.

Surveys: SEBI has also conducted surveys in respect investment and opportunities for the benefit of small investor findings of the surveys are given wide publicity so as to provide guidance to Investors regarding their investment decisions.

Stock-invest: SEBI has introduced stock investor instrument useful while submitting application for shares. These instrument introduced through the co-operation of banks gives protection to investors as they get interest on the application money till the allotment.

The basic function of a mutual fund is to pool money from different investors and invest it in a diversified portfolio of securities, aiming to generate returns and distribute risk across various assets.

Mutual funds pool funds from various investors and invest in a diversified portfolio of securities. These professionally managed funds offer a way for individuals to invest in a variety of assets, Mutual fund investing offers instant diversification, and the fund's holdings help mitigate risks.

A Mutual funds are good for Such investors

- Lack the knowledge and skill of investing in stock markets directly.
- Want to grow their wealth, but do not have the inclination or time to do it.

Conclusion

The effect of mutual funds on small investors has been profound, providing them with opportunities to diversify their investments, access professional management, and achieve higher returns. By making investment accessible, affordable, and convenient, mutual funds have empowered small investors to participate in the financial markets and build wealth more effectively. Through education and regulatory oversight, mutual funds continue to enhance financial literacy and trust among small investors, contributing to a more inclusive and robust financial system. Mutual fund industry is the fastest growing sectors in the India. Investors seeking portfolio diversification, investment expertise and liquidity at a low cost are selecting mutual funds as their investment vehicle.

References

1. Krishanan M.Y and Ramarao C.K, (1998), Mutual Funds Growth and Development, Journal of Indian Institutes of Banker, 41, 226-232
2. Joshi (2014), Mutual fund in India, Deep and Deep Publication, New Delhi, PP 244-251
3. Khan and Jain.(2010), Indian Financial System, Tata Mcgraw Hill Publishing Company Limited, New Delhi, PP 145- 152
4. https://navi.com>blog> mutualfund
5. Krishnan, (2011), Mutual Fund And Hedge Fund, Cyber Tech Publication, New Delhi, PP 209- 216

6. Kesbani and Stolin. (2016), Investor Reaction to Mutual Fund Performance: Evidence From Distribution Channels, Journal of Financial Research, 4(2) 326-339
7. Khurana and Tufano. (2009), Explaining The Size of The Mutual Fund Industry Around The Globe, Journal of Financial Economics, 8(2),54-57
8. https://www.schwab.com
9. Romania. (2014), Mutual Fund: Promotion And Development, International Journal Of Economics, 6(4) 29-34
10. Barbar and Odeon. (2008), Out Of Sight Out Of Mind: The Effects Of Expenses On Mutual Fund Flows, Journal Of Business Review, 291- 299
11. Kothari. (2006), Research Methodology, New Age Publishers, New Delhi, PP 107-114