Why investors avoid Mutual Funds?

EXECUTIVE SUMMARY: In spite of generating better returns than other investment products in long term, mutual funds are still avoided by most of the investors. There are some wrong notions about this product which keep them away from it. Volatility of stock market, poor performance of past investment, perception of risk and lack of awareness are some of the reasons as to why investor may not choose mutual funds as a viable option.

Often people in our country do not invest in mutual funds and the reasons given by them are quite the ones needed to be accounted for. It is a baffling situation where an interesting and a useful product like mutual funds, with a highly transparent and regulated structure is not one of the top most choices of today’s investors. One would invest in bank and post office deposits, gold and properties but would take step back in case of mutual funds. There is some wrong notion about the mutual funds that does not build up the confidence of the investors to act decisively. These wrong implications which can also term as “myths” of mutual funds are one of the reasons why most of our country’s hardworking people are not able to cope up with the moving market and rising inflation. They are unaware of what exactly are they supposed to do with the earnings. They hear rumours of drop in the market and instead of getting to the root cause of it; they perceive it to be wastage of time and money. Thanks to the media that today one is able to have access to the market in whichever way one wants and wherever possible. In spite of ample of information available, there are some reasons as to why the investor may not choose mutual funds as a viable option:

- **Afraid of volatility of the stock market:** Most of the investors have this wrong notion of mutual funds only investing in stock markets. This myth of stock markets implying reckless speculation makes one worry about the right time and the right selection and thus they stay away from this product. Mutual fund is not restricted only to equity; debt investment is also available and is equally important to have in portfolio. While on one hand where equity helps in fighting inflation, debt instruments cover up for risk. But just because investors fail to understand the concept of diversification, this product is neither being accepted nor is it being appreciated.

- **Complexity of the product:** Unless and until an investor understands the product he/she will not invest in it. Most of the times mutual fund is linked with stock market to which people are so afraid that they even do not try to understand how it works. The product which is designed to meet big and necessary needs of investors has now backfired on the mutual fund industry. The problem can be fixed if both the parties i.e. manufacturer and buyer clearly understands the purpose of the product. Manufacturer should categorise it according to the needs and investor should select accordingly.
• **Poor performance of previous investment:** On most occasions, investors follow the investment strategies recommended by friends or relatives and because of the lack of professional guidance one loses money at most of the times. This inhibits fear and negative conception about the product in the mind of investors. People should understand that everyone has a different goal and for different goals different products should be used. A single product cannot solve all the problems; hence investors should invest only into those products which suit them and not to others.

• **Perception of Risk:** All the financial products involve risk. Investments in real estate, gold, etc. are as risky as any other normal financial product. The prices may go down at any point of time. Still in spite of knowing, the investors opt for sick products rather than mutual funds. Most of the times while talking to investors they are being told that the past performance is not the indicator of future performance and the investors know that mutual fund investments are subjected to market risks. Before one could take a step in the market, negative signals are flashed towards them, and they are being informed about the possibility of losses. This creates doubts in the minds of investors and it is definite situation which will make them hesitate towards mutual funds.

• **Ambiguity of returns:** This is one of the key attribute of investments that wards away people from it. History gives a totally different idea. If the data of past 20 years is seen, then the returns are close to 11%. When the data of past 10 years is observed, then the returns are close to 17%. The investor gets confused and thus chooses not to touch instrument with a high volatility. However, knowledgeable investors know that compounding in equity investments make it attractive and help in beating inflation.

• **Lack of awareness regarding the liquidity:** People prefer bank account deposits for easy liquidity and expect the same from mutual funds. However many do not know that such kind of products do exist in the market. Open-ended funds offer the liberty to invest whenever the funds are available with an individual and any amount can be invested as well. Similarly, during the time of emergency withdrawals can also be made just like a bank account.

Thus, if these problems are solved then there will be a lot of investors in a country like India building up their wealth in a systematic way. As of now only 2-3% of investors have been investing in mutual funds and the rest of the people depend on fixed deposits, post office schemes and bank accounts. They fail to understand the weightage of benefits between all the options in front of them. So what’s your excuse of not investing into Mutual Funds?