



Identifying Obstacles to Mutual Fund Investment and Strategies for Encouragement

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ABSTRACT

The present study explores the key factors contributing to people's hesitation towards mutual fund investments, despite the known benefits of diversification, professional management, and potential wealth creation. A structured questionnaire was administered to 50 respondents from diverse sectors, including private employees, government employees, NRIs, and self-employed individuals. The findings reveal that a lack of adequate knowledge, fear of market risks, preference for traditional saving options, and mistrust in financial institutions are the major barriers preventing individuals from investing in mutual funds. The study also highlights the role of misconceptions, complicated investment processes, and unreliable information sources in deepening investor reluctance. Drawing insights from existing literature and the survey results, the research suggests that targeted awareness programs, simplified investment procedures, and increased financial literacy can significantly reduce hesitation and build investor confidence. The study emphasises the need for collective efforts from educational institutions, employers, financial bodies, and regulatory authorities to make mutual funds more accessible, trustworthy, and understandable for all sections of society.

Introduction

Mutual funds are becoming an increasingly popular investment option for individuals who wish to grow their money in a safe, diversified, and professionally managed manner. They allow investors, especially those with limited market knowledge, to participate in the financial markets with ease and convenience.



Despite these advantages, many people in India are still hesitant to invest in mutual funds. Instead, they prefer more traditional and familiar savings options such as fixed deposits, gold, real estate, and chit funds. This hesitation prevents them from making the most of wealth-building opportunities that mutual funds can offer.

This study, titled “*Identifying Obstacles to Mutual Fund Investment and Strategies for Encouragement,*” aims to examine the reasons behind people’s reluctance to invest in mutual funds. It has been observed that several factors contribute to this hesitation, including lack of proper understanding, fear of market risks, complicated investment procedures, and limited trust in financial advisors or institutions. Additionally, misleading information, over-dependence on friends and family for financial advice, and preference for familiar saving methods also play a major role in keeping people away from mutual fund investments.

Recognising these barriers is essential for creating effective solutions that can help more people participate in mutual fund investments. Financial literacy, investor awareness programs, and simpler investment processes can go a long way in building trust and confidence among the public. As the Indian financial sector continues to expand and become more accessible, addressing these concerns is necessary to ensure that all individuals, regardless of background or income, can make informed investment choices that contribute to their financial security and long-term growth.

Objectives of the Study

The purpose of this study is to understand the common reasons that stop individuals from investing in mutual funds and to suggest ways to overcome these obstacles. It aims to explore how factors such as financial literacy, trust in financial institutions, and access to reliable information influence investment behaviour. The study also seeks to examine the investment preferences of people and their reasons for choosing traditional savings methods over mutual funds. By doing so, the research hopes to recommend practical and simple strategies, including awareness programs and easier investment procedures, to encourage greater participation in mutual funds among different groups of society.

Mutual Funds – An Overview

A mutual fund is a modern investment option where money from several investors is pooled together and invested in a basket of securities such as shares, bonds, debentures, and other financial instruments.



These funds are handled by professional fund managers who carefully analyze the market and make decisions on behalf of the investors. This collective approach allows even small investors to access a diversified portfolio, which would otherwise be difficult or costly to manage individually. In India, mutual funds are strictly regulated by the Securities and Exchange Board of India (SEBI) to ensure transparency, safety of funds, and fair practices.

One of the major advantages of mutual funds is the wide range of schemes available to match the needs and goals of different investors. Equity Funds mainly invest in shares and are suitable for investors seeking higher returns with a willingness to take some risk. Debt Funds invest in fixed-income securities like bonds and are usually safer, though they provide moderate returns. Money Market Funds focus on short-term instruments such as treasury bills and commercial papers. These are generally used by individuals or companies to park extra money with high liquidity and relatively low risk.

Another important category is Hybrid Funds, which combine both equity and debt in a single portfolio. This creates a balance between risk and return, making them suitable for investors with a moderate risk profile. Similarly, Gold Funds and other Commodity Funds give exposure to commodities without the need for physical possession. They also act as a safeguard against inflation and provide diversification to the portfolio.

Mutual funds are not just investment products; they can be powerful tools for achieving life goals. For example, one can choose equity funds for long-term wealth creation, debt funds for stability, or hybrid funds for balanced growth. The best approach is goal-based investing, where mutual funds are selected in line with financial objectives such as children's education, retirement planning, or buying a home. In this way, mutual funds combine flexibility, professional management, and diversification, making them a suitable option for modern investors.

Opportunities and Benefits of Investing in Mutual Funds

Mutual funds provide several opportunities and benefits for investors, making them an attractive option compared to traditional savings. One of the key advantages is professional management. Since most investors may not have the expertise to track markets and make investment decisions, mutual fund managers use their experience and research to invest wisely. Another major benefit is diversification. Mutual funds invest in a variety of assets, reducing the risk of loss even if one asset performs poorly. Additionally, mutual funds are easy to access, with options to invest even small amounts through Systematic Investment Plans (SIPs). Liquidity is another positive feature, as investors can redeem their



units as per their needs, unlike fixed deposits which often have lock-in periods. Transparency is also a benefit, as investors can regularly track the performance of their investments. Furthermore, mutual funds are suitable for different financial goals like saving for children's education, retirement, or wealth creation in the long term. With all these advantages, mutual funds have become a powerful tool for building wealth and achieving financial security.

Apart from these benefits, it is always wise to include mutual funds as a part of your overall investment basket. Just like we don't put all our eggs in one basket, it is better to invest money in different places to reduce risk. Mutual funds help with this by spreading your money across various shares, bonds, and other assets, so even if one investment doesn't perform well, others can balance it out. Another big advantage is the power of compounding. When you stay invested in mutual funds for a longer period, your returns start earning more returns, which helps your money grow faster over time. This is how even small investments, if done regularly, can become big amounts in the future. Including mutual funds along with your other savings gives you both safety and better growth opportunities.

Factors Influencing People's Reluctance to Invest in Mutual Funds

Although mutual funds are known for offering better returns, professional management, and diversification, many people still hesitate to invest in them. The findings of the current study, based on a survey of 100 respondents from different sectors of the economy such as private employees, government employees, NRIs, self-employed individuals, and others, reveal several key reasons behind this hesitation. The foremost reason identified is the **lack of proper knowledge** about mutual funds. While most people have heard about mutual funds, they do not fully understand how these investments work, what risks are involved, or how returns are generated. This incomplete understanding often creates confusion and fear among potential investors. In many cases, individuals depend on information from friends, relatives, or social media platforms, which may not always be accurate or sufficient. As a result, people remain doubtful and uncertain about entering the mutual fund market.

Another significant reason that emerged from the survey is the **fear of losing money**. Compared to traditional saving methods like fixed deposits, post office schemes, or gold, mutual funds are considered riskier due to their link with the stock market. The constant ups and downs of the market create a negative perception, leading many to believe that mutual funds are unsafe and unpredictable. This perception is especially strong among people who are not financially well-informed or have previously

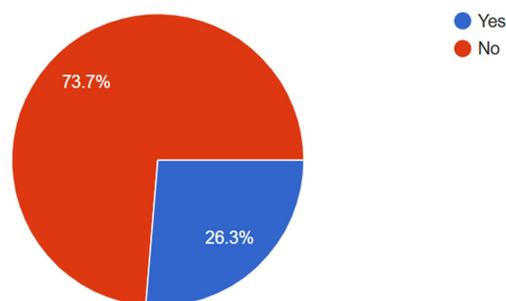


faced losses in market-linked investments. The fear of market volatility and losing hard-earned money discourages many from even considering mutual funds as a viable option.

Additionally, the survey highlights a strong **preference for traditional investment avenues**, particularly fixed deposits, gold, real estate, and chit funds. These options are perceived as safe, easy to understand, and familiar. For generations, people have trusted these methods for saving and investment, and shifting towards mutual funds seems complex and risky to them. This preference for familiar saving methods further deepens the reluctance towards exploring new avenues like mutual funds. Some respondents also mentioned that they did not have sufficient funds to invest, while others found the investment process for mutual funds complicated, time-consuming, and not user-friendly, especially for first-time investors.

The study also revealed **trust issues with financial institutions**, which further contribute to the reluctance. Some respondents expressed that past negative experiences, lack of transparency, and misleading information from financial intermediaries or agents made them sceptical about investing in mutual funds. Many individuals feel that they are not equipped to make independent investment decisions and lack the confidence to navigate the mutual fund process on their own. This lack of confidence, coupled with doubts about financial institutions, increases hesitation among potential investors.

Interestingly, the study also pointed out certain solutions that can help reduce this reluctance. Many respondents agreed that **proper awareness programs**, designed in simple and understandable language, can help clear misconceptions about mutual funds. Success stories of ordinary investors who have benefited from mutual fund investments can motivate others. A simplified and transparent investment process, along with **guidance from trusted financial advisors**, was also seen as a crucial step to encourage participation in mutual funds. These findings are in line with previous research by Rai & Bansal (2015) and Singh & Kaur (2017), which highlighted the importance of financial education and awareness in improving mutual fund participation. Thus, the study clearly shows that with the right combination of awareness, simplified processes, and trusted support, people's hesitation towards mutual fund investments can be significantly reduced.



Participation of People in Mutual Fund Investment (Based on Survey)

A large portion of the population (73%) is **not investing in mutual funds**, indicating low penetration or awareness. The gap reveals the need for **better investor education, simplified investment platforms, and trust-building measures** to increase participation.

Figure 1

Thinking Twice: Why People Hesitate to Invest in Mutual Funds (Based on survey)

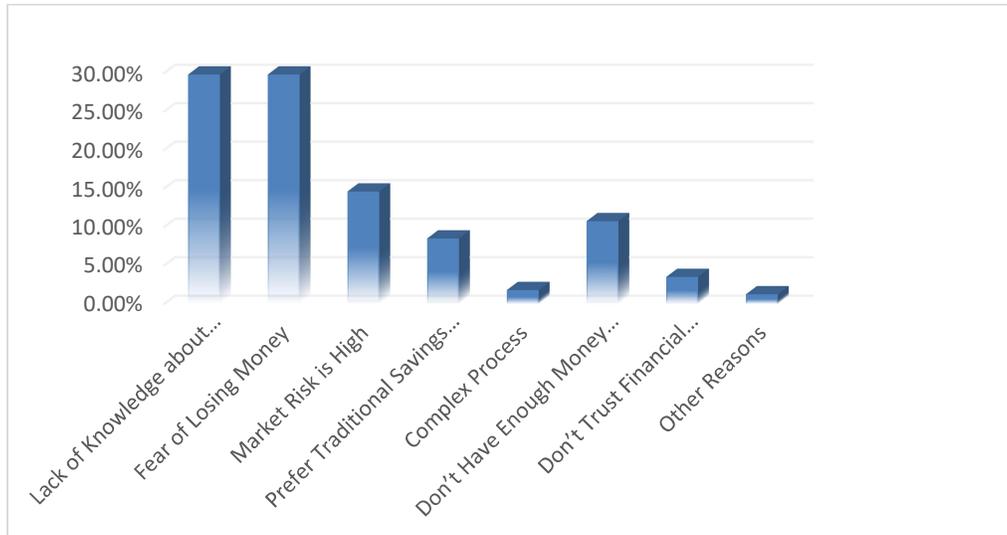


Figure – 2

The chart shows that why respondents are not investing in mutual funds, mainly due to **lack of knowledge (29.80%)** and **fear of losing money (29.80%)**. Other major reasons include **market risk (14.60%)** and **not having enough money to invest (10.75%)**. A smaller portion cited traditional savings preference, complexity, or lack of trust.

Distribution of Respondents by Investment Preference

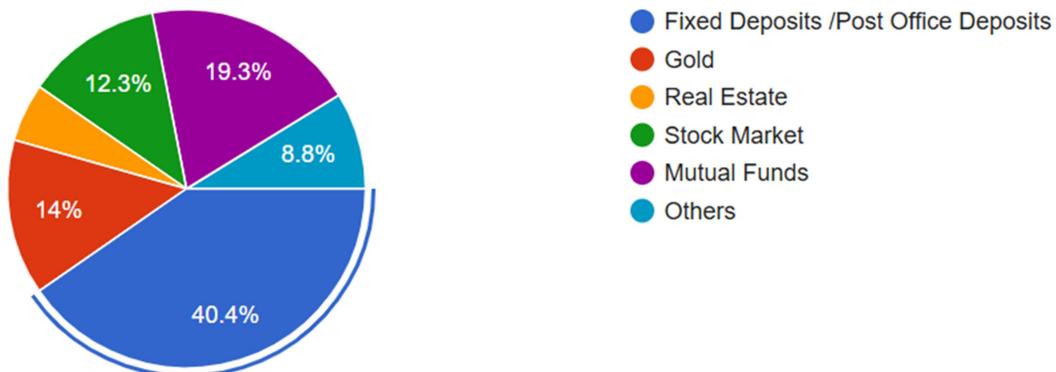




Figure -3

Fixed Deposits are the most preferred investment, chosen by 40.4% of respondents due to their safety and guaranteed returns. Mutual Funds (19.3%), Gold (14%), and Stock Market (12.3%) show moderate interest, while Real Estate (5%) is least preferred. This indicates a strong preference for low-risk and traditional options among most investors.

Strategies to Overcome Reluctance Towards Mutual Fund Investments

The hesitation towards investing in mutual funds remains high among various sections of society, as revealed in this study. Interestingly, even people with good educational backgrounds and well-paying jobs are also hesitant to invest in mutual funds. The reasons are not only limited to lack of knowledge but also include fear of market risks, complicated investment processes, and general mistrust. Therefore, addressing these issues requires a combination of practical, easy-to-implement strategies to make people more comfortable with mutual fund investments.

One of the most effective long-term solutions is introducing **financial literacy as a part of college studies**. Many young people enter the working world without any formal education on personal finance, investments, or risk management. By making financial literacy a compulsory subject in schools and colleges, students can develop a basic understanding of different investment avenues, including mutual funds. This will not only reduce fear and confusion but will also help create financially responsible individuals who can make better investment decisions from an early stage.

For those who are already working, employers can play a key role. Companies, especially in the private and public sectors, should organise **money management and investment awareness programs** for their employees. These programs can be conducted either online or offline, in collaboration with certified financial professionals. Such sessions can cover basics like the importance of saving, the role of mutual funds, how to select suitable funds, and the long-term benefits of systematic investing through options like SIPs. When trusted experts explain these concepts in a simple and practical manner, employees may feel more confident and motivated to start investing.

The situation is even more challenging in the **unorganised sector**, where most workers have little or no access to financial education. For them, mutual funds seem as complicated as "rocket science," as commonly mentioned during the study. Many in this group believe mutual funds are only for the rich or highly educated. To address this, focused awareness programs should be organised for the unorganised sector in their local language, using simple, relatable examples. Instead of using technical terms, financial

concepts should be explained through real-life situations, stories, and visual aids. In rural areas, community meetings or short workshops can be organised with the help of NGOs, local leaders, or cooperative societies to spread awareness.

It is encouraging to note that **SEBI, through the National Institute of Securities Markets (NISM), is already conducting financial literacy programs in colleges.** However, these programs need to be expanded in terms of reach and frequency. More partnerships with educational institutions, private organisations, and local bodies can help ensure that a wider group of people benefit from such programs. Additionally, online financial literacy platforms, mobile applications, and interactive social media campaigns can help spread awareness at a faster pace, especially among the younger population.

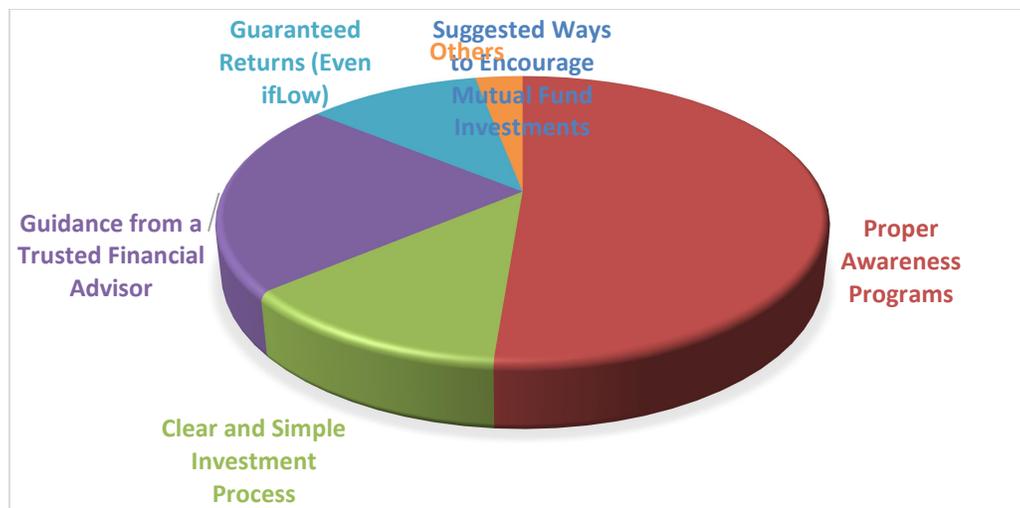


Figure - 4

The chart shows that **51%** of respondents believe **awareness programs** are the most effective way to encourage mutual fund investments. **22%** prefer guidance from a **trusted financial advisor**, while **12.5%** value a **simple and clear investment process**. Smaller groups prioritize **guaranteed returns (11%)** and **other reasons (3%)**, highlighting the need for both education and trust.

Apart from these, mutual fund companies and financial institutions should simplify the entire investment process. Often, people hesitate because they find the paperwork or digital processes complicated. Easy-to-use mobile apps with clear instructions, availability of regional language options, and dedicated customer support can make the process smoother and more investor-friendly. Testimonials and success stories of small investors who have benefited from mutual funds should be widely shared to build trust.



Lastly, regulatory bodies like SEBI can consider introducing low-risk, beginner-friendly mutual fund schemes targeted at first-time investors. These schemes can act as a safe entry point, helping people experience mutual fund investing with minimum risk and building confidence over time.

In conclusion, reducing hesitation towards mutual fund investments requires combined efforts from educational institutions, employers, financial institutions, regulators, and society as a whole. Through consistent awareness programs, simplified processes, and easy access to reliable information, the fear and confusion surrounding mutual funds can be replaced with confidence and informed decision-making.

Research Methodology

The research followed a descriptive method, focusing on understanding people's hesitation towards mutual fund investments. The primary data was collected through a structured questionnaire designed using Google Forms. A total of 50 respondents participated in the survey, covering various sectors of the economy such as private sector employees, government employees, NRIs, Freelancers, and others. The sample included both male and female respondents from different age groups and income levels to get a broad understanding of the issue. The questionnaire included both open-ended and close-ended questions related to mutual fund awareness, investment experience, sources of information, reasons for hesitation, confidence in making investment decisions, preferred investment types, and suggestions to encourage investment in mutual funds. The responses were analysed to identify common patterns and reasons behind people's reluctance towards mutual fund investments.

Conclusion

The study highlights that, although mutual funds offer numerous advantages like professional management and diversification, a large segment of the population remains hesitant to invest in them. This hesitation is primarily driven by limited awareness, concerns over market volatility, and a strong inclination towards conventional savings options. Additionally, complex investment processes, misleading information, and a general lack of trust in financial institutions further discourage individuals from considering mutual funds, even among those who are well-educated and financially stable.

Addressing these concerns requires joint efforts from educational institutions, financial service providers, regulatory bodies, and employers. By simplifying the investment process, promoting financial education, and ensuring greater transparency, confidence among potential investors can be enhanced. With consistent awareness initiatives and easy-to-understand investment platforms, mutual funds can be



positioned as a reliable and accessible investment avenue for individuals across all economic and social backgrounds.

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