European Economic Letters
ISSN 2323-5233
Vol 13, Issue 5 (2023)
http://eelet.org.uk

Mutual Fund Investment Strategies for Retail Investors: An Empirical Study in the Light of Market Movements

J Venugopal[1], M. Ramesh Naik[2], Nagamani.N[3], Dr. K. Chezhiyan[4]

[1]Associate Professor in Commerce, Avinash College of Commerce, Himayatnagar, Hyderabad-500029
[2]Associate Professor in Commerce, Avinash College of Commerce, Secunderabad, Hyderabad 500003
[3]Assistant Professor in Management, Tapasya college of commerce & Management, Hyderabad- 500029
[4]Assistant Professor, Department of Business Administration, Government Arts and Science College, Yeppanthattai, Perambalur. Tamilnadu

Abstract

Mutual fund investment strategies provide retail investors with diversified and professionally managed portfolios, making them an attractive option for wealth accumulation. One popular approach is index investing, where funds track a market index, aiming to replicate its returns. This strategy offers low costs and broad exposure. On the other hand, active management involves fund managers making investment decisions to outperform the market. While potentially yielding higher returns, it comes with higher fees. Asset allocation is another key strategy, where investors diversify their holdings across various asset classes like stocks, bonds, and commodities. This helps manage risk and optimize returns based on individual risk tolerance and financial goals. For those seeking stability, income funds focus on generating regular dividends, suited for conservative investors. In contrast, growth funds target capital appreciation by investing in companies with high growth potential. Careful consideration of these strategies, aligned with one's financial objectives and risk appetite, is essential for retail investors to make informed mutual fund choices.

Keywords: Mutual Fund, Investment Strategies, Retail Investors, Index Investing, Active Management, Asset Allocation, Income Funds, Growth Funds.

Introduction

The landscape of mutual funds has evolved into a pivotal arena for retail investors seeking to navigate the intricate web of today's investment opportunities. These investment vehicles present a managed portfolio diversified across an array of assets, providing a convenient avenue for individuals to pursue and realize their long-term financial objectives. This essay seeks to delve comprehensively into a spectrum of mutual fund investment strategies that have been meticulously tailored to cater to the distinct needs of retail investors. We may comprehend the consequences of these methods more fully by looking at the special qualities and benefits of each.

A salient strategy embraced by a considerable number of retail investors is the concept of index investing. In contrast to traditional active management, index funds aim to emulate the performance of specific market indices. This approach is associated with several merits, including lower costs, broader market exposure, anad reduced reliance on individual fund managers' expertise. Such an approach resonates particularly well with investors who adopt a steadfast, long-term perspective, aligning with the philosophy of holding onto investments during the ebb and flow of market volatility.

Conversely, the active management strategy involves fund managers making dynamic investment decisions in an endeavour to outperform the market. Although active management tends to incur higher fees due to the specialized knowledge and effort involved, it carries the potential for superior returns. This strategy necessitates acute market analysis, prompt decision-making, and an in-depth comprehension of economic trends. Investors who are inclined towards a more hands-on and potentially high-reward approach often gravitate towards active management, acknowledging the inherent trade-offs involved in the pursuit of potentially heightened gains.

Moving beyond the overarching categories of index investing and active management, the concept of asset allocation emerges as a crucial cornerstone. This strategy entails the careful distribution of investments across diverse asset classes, such as equities, fixed income, and alternative investments. The process of asset allocation is inherently steered by an investor's risk tolerance, financial ambitions, and prevailing market dynamics. Conservative investors might tilt towards a higher allocation in stable assets, while those pursuing growth opportunities might emphasize equities for the potential of capital appreciation. Through astute asset allocation, investors adeptly manage risk and fine-tune potential returns in alignment with their unique financial circumstances.

Furthermore, mutual fund investment strategies cater to distinct investor preferences. For instance, income funds focus on generating regular income streams, making them an attractive choice for investors seeking stability and consistent cash flows. These funds often channel investments into assets like bonds, dividend-paying stocks, and real estate securities. On the contrary, growth funds set their sights on capital appreciation by investing in companies poised for substantial growth, albeit accompanied by higher risk. These strategies underscore the importance of aligning investments with temporal goals, thus ensuring a meticulously tailored approach that resonates with individual financial aspirations.

Literature Review

The EPCE model captures decision-makers' risk attitudes and retains decision information. This method produces a viable weighting system for cross-efficiency and a dependable method for ordering decision-making units (DMUs) in multi-criteria decision analysis. To demonstrate the approach's validity and dependability, a Chinese fund market mutual fund investment selection study is presented (Ning et. al., 2023). Age, total expenses, total investments, and turnover ratio are all taken into consideration when analysing the financial success of Nepali mutual funds. 320 observations were made between 12-Feb 2019 and 16-Sep 2021 using the judgemental sampling technique on a sample of 10 mutual funds. The findings of the regression demonstrated that turnover ratio has a minor impact on net asset value, while age, total investment, and turnover ratio have large positive impacts. Net asset value was positively impacted by total expense, though not significantly. Mutual fund managers may be able to gain insights from this data to enhance fund performance, and it may also assist investors in making wise investment choices. The generalizability of the results will rise with more variables added (Niraula et. al., 2023). Following are the major strategies that retail investors adopt while investing in the Mutual Funds:

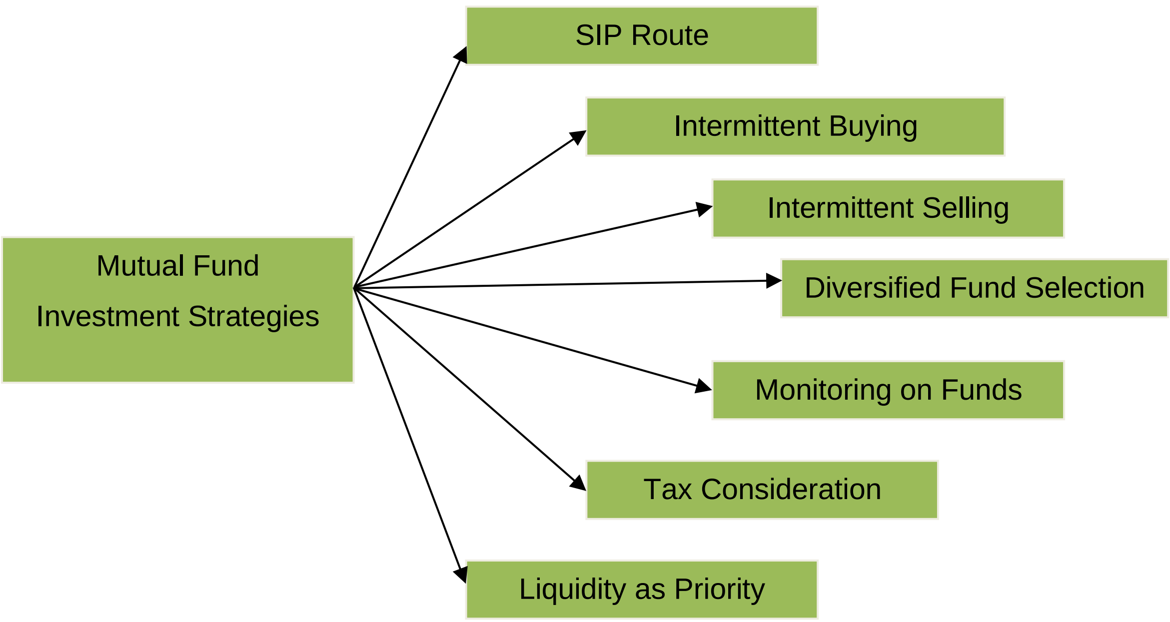

Figure 1 Mutual Fund Investment Strategies

Mutual fund flows overall and by distributor category are significantly impacted by changes to the incentive structure. Investor capital shifted towards PMS, which rewarded distributors with bigger upfront commissions. These trends result from the Securities and Exchange Board of India and Association of Mutual Funds in India policy modifications, according to the authors. These findings affect all Indian mutual fund stakeholders and alternative investment outlets worldwide (Sandhu & Deb, 2023). A two-stage portfolio optimisation strategy based on ensemble learning and maximum Sharpe ratio portfolio theory improves portfolio performance and robustness. Six prediction models are combined in the first stage to estimate asset returns, with higher potential returns being chosen for portfolio optimisation. Second, the maximum Sharpe ratio portfolio model is used to forecast asset returns. The empirical analysis compares the suggested strategy's out-of-sample performance to minimum variance, traditional maximum Sharpe ratio, 1/N, and CSI 300 index portfolio strategies. The ensemble learning method surpasses most competitors in the Sharpe ratio, Sortino ratio, Omega ratio, and Calmar ratio in stock return predictions. The trade-off between historical and prospective asset information makes the suggested two-stage portfolio optimisation strategy intriguing (Zhou et. al., 2023).

Digital financial tools reveal lucrative and risky areas for prudent investment. responsible investment patterns were shown employing digital financial assets using general scientific approaches. Asset management organisations and investment funds can exploit green digital financial assets' diversity to establish socially responsible investing strategies (Khutorova & Nasibov, 2023). Due to market competition, there are many investing options, however, mutual funds are best for regular investors. Professionals manage these products' diverse portfolios at a low cost. Corporate professionals should invest in mutual funds (Gaurav et. al., 2023).

Due to the financial market's nonlinearity and volatility, trading signals predictions is difficult to study. A new algorithm predicts financial trading points using piecewise linear representation (PLR) and deep learning. PLR predicts turning moments from trading data as a three-class classification problem. The framework uses CNN-LSTM to extract spatial and temporal domain information. US, Turkish, and daily ETFs are tested. With varied investing methods, the proposed technique outperforms (Chen & Zhu, 2023). Investors globally adopt value and contrarian investment techniques, but they choose stocks differently. Using India's Bombay Stock Exchange (BSE) results from 1990-91 to 2018-19, both methodologies are used to choose stocks. Analysts' forecasts and a Venn diagram illustrate stock selection. Contrarian and value investing strategies pick different equities at different periods, yet both can be effective for market efficiency. Researchers, analysts, and investors learn about investment strategies and portfolio construction (Jagirdar & Gupta, 2023).

Investors and market stability depend on stock market analysis. It requires a comprehensive analysis method to handle quantitative and qualitative data. ER and HBRB are used to analyse stock markets. The strategy uses a stock market sentiment evaluation model, an investment decision model, and the 2010–2019 Shanghai Stock Index. Experimental results suggest that the proposed stock market analysis method can help investors make investment decisions (Chen et. al., 2023). The growth of financial markets has increased investment in securities and financial instruments, showing the psychological factors that influence investors' investment intents and decisions. This review examined recent literature on investor behaviour. The review found six investor behaviour themes: personal, social, market, firm-specific, product-related, and demography. The findings offer theoretical and practical insights into investor behaviour to boost the financial industry and economy (Hassan et. al., 2023).

Since previous studies focus on major global financial markets, the pandemic's influence on ASEAN-5 stock indices has been of interest. The pandemic may prevent trend-followers from dominating the market. Asset allocation strategists should routinely examine and climate test their baskets to ensure shock resistance. The report helps institutional and ordinary investors construct investment baskets during uncertainty (Hamil et. al., 2023). Context, investment focus, venture analysis, and choice comprised the impact-investing selection process model. Social ideals and missions defined each phase. Impact investor typologies and selection methods were discussed. Social companies should explain impact investment and provide a framework for investees. Impact investing can influence sustainable development, climate change, and inclusive development (Agrawal & Jespersen, 2023).

Innovation dividends require the capital market to promote company innovation. Corporate R&D's impact on short-term performance expectations was examined in Shanghai and Shenzhen A-share companies. Corporate R&D spending reduces short-term performance expectations, whereas institutional investors' shareholding portion reduces tolerance. China's innovation-driven strategy continuously enhances the capital market's tolerance for corporate R&D, especially for high-tech enterprises, but reduces it for state-owned companies. Prospect theory suggests Chinese capital market investors will accept bigger short-term performance losses for significant company R&D expenditure (Chen et. al., 2023). To survive, Asian enterprises change their capital structures to avoid financial turmoil and insolvency. Moderation helps explain varying relationships. Life cycle stages moderate capital structure, while gross national income per capita does not. Life cycle and GDP moderating effects were also examined. Moderator variables appear to strongly affect target capital structure adjustment. The stages of an enterprise's life cycle and per capita income should be considered by investors when building their international investment portfolios. The government should also subsidise interest rates to help businesses during critical phases like introduction and decline (Xin et. al., 2023).

The unequal impact of investor attitudes on herding behaviour and stock returns in S&P 500 markets pre- and post-Covid 19 was explored. daily data from May 15, 2000 (Pre Covid) to February 20, 2020, and February 20 to May 13, 2022 (Post Covid) was analyzed. Trading volume and modified multiple regression analysis are used to measure investor sentiment. COVID-19 enhanced herding in S&P 500 markets. Investor sentiment boosts stock returns, whereas COVID-19 hurts them. The study reveals investor sentiments may predict herding behaviour. This research will illuminate portfolio and market inefficiency, trading methods, and risk management dynamics (Bagh et. al., 2023).

Conclusion

In conclusion, mutual fund investment strategies represent a dynamic toolkit that empowers retail investors to adeptly manoeuvre the multifaceted terrain of finance. Index investing champions simplicity and resilience, while active management champions the pursuit of potentially augmented returns at the cost of heightened risk exposure. Asset allocation stands as a foundational strategy, enabling investors to craft portfolios that mirror their risk appetite and financial ambitions. By comprehending the intricacies of these strategies, investors are equipped to make informed decisions, harmonizing their investments with their distinctive objectives and preferences. These strategies are poised to play a critical role in influencing the financial successes of retail investors across the global stage as the investing landscape continues to evolve, and they are well positioned to do so.

References

[1] Agrawal, A., & Jespersen, K. (2023). How do impact investors evaluate an investee social enterprise? A framework of impact investing process. Journal of Entrepreneurship in Emerging Economies. https://doi.org/10.1108/jeee-04-2022-0129.
[2] Bagh, T., Khan, M. A., Fenyves, V., & Olah, J. (2023). Asymmetric Effect of Investors Sentiments on Herding Behavior and Stock Returns: Pre and Post Covid-19 Analysis. Montenegrin Journal of Economics, 19(1), 43-55.
[3] Che Hassan, N., Abdul-Rahman, A., Mohd Amin, S. I., & Ab Hamid, S. N. (2023). Investment Intention and Decision Making: A Systematic Literature Review and Future Research Agenda. Sustainability, 15(5), 3949.
[4] Chen, Y., & Zhu, Z. (2023). Integrating Piecewise Linear Representation and Deep Learning for Trading Signals Forecasting. IEEE Access, 11, 15184-15197.
[5] Chen, Y., Liu, J., Gao, Y., He, W., Li, H., Zhang, G., & Wei, H. (2023). A new stock market analysis method based on evidential reasoning and hierarchical belief rule base to support investment decision making. Frontiers in Psychology, 14, 1123578.
[6] Chen, Y., Wang, Y., Zhao, H., & Xu, W. (2023). Will R&D make investors more tolerant? Analysis based on the performance forecast of Chinese listed companies. Plos one, 18(1), e0280237.
[7] Gaurav, K., Ray, A. S., & Pradhan, A. (2023). Investment Behavior Of Corporate Professionals Towards Mutual Funds In India. International Journal of Accounting & Finance Review, 14(1), 30-39.
[8] Hamil, N. W. B., Zainudin, A. D. B., & Wider, W. (2023). Evidence of COVID-19's financial epidemiology on the ASEAN-5 stock indices. Asian Economic and Financial Review, 13(3), 180-191.
[9] Jagirdar, S. S., & Gupta, P. K. (2023). Value and Contrarian Investment Strategies: Evidence from Indian Stock Market. Journal of Risk and Financial Management, 16(2), 113.
[10] Khutorova, N., & Nasibov, M. (2023). New areas for the development of responsible investment using digital financial instruments. Finance and Credit. https://doi.org/10.24891/fc.29.2.315.

[11] Ning, Y., Zhang, Y., & Wang, G. (2023). An improved DEA prospect cross-efficiency evaluation method and its application in fund performance analysis. Mathematics, 11(3), 585.

[12] Niraula, D., Ghimire, P., & Tamang, K. B. (2023). Net Assets Value and its Determinants of Mutual Funds in Nepal: An Analysis of Monthly Returns. The Batuk, 9(1), 1-9.

[13] Sandhu, H., & Guha Deb, S. (2023). Do changes in distributors' incentive structure drive mutual fund flows?. International Journal of Bank Marketing, 41(3), 508-526.

[14] Xin, Y., Amin, M. S., Khan, H., Zheng, J., & Quddoos, M. U. (2023). Unleashing the Moderating Influence of Firms' Life Cycle Stages and National Income on Capital Structure Targeting Behavior: A Roadmap towards Sustainable Development. Sustainability, 15(4), 2945.

[15] Zhou, Z., Song, Z., Ren, T., & Yu, L. (2022). Two-Stage Portfolio Optimization Integrating Optimal Sharp Ratio Measure and Ensemble Learning. IEEE access, 11, 1654-1670.