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RESEARCH PAPER

Household sector's investment in mutual funds

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ABSTRACT

The main objective of investing in any portfolio is to earn some income. Investment in mutual funds enables the investor to earn more than the conventional products like provident fund, post office and bank deposits, etc., while at the same time not exposing to the kind of risk as seen in the stock market. It should also be noted that the degree of risk involved in mutual fund is higher than that of the conventional products. The investors with inventible funds are selective in investing. Different assets have different characteristics with regard to risk, return, liquidity and procedural simplicity. Investors too have different needs. In this context it is important to understand the savings behaviour of households. This paper analyses the growth of the household sector savings in India since 1993-94, which begins with an analysis about the savings and investment patterns of the household sector in India in general and mutual funds in particular.

***Key words* :** Mutual funds, Investment, Household sector

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The household unit for the study is defined as "a composition of persons living in the same dwelling unit, sharing food from a common kitchen". The household sector represented by individuals contributes substantially to the domestic saving effort among the various economic units in a country. Being an essential requisite for economic development, it is necessary to achieve a higher rate of growth of domestic savings. A higher rate of savings will strengthen the capital market. To develop a self-reliant economy, national income will have to be increased through a vibrant capital market. An understanding of the savings behaviour and pattern of savings of the household sector are of crucial importance in formulating appropriate saving policies. The word 'saving' here implies the residual amount that is available for a person for investment after meeting all his consumption expense and repayment of loans.

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Statement of the problem:

Performance of the mutual funds depends on the performance of the stock market and also on the credit market. The entry of Foreign Institutional Investors has especially aggravated the degree of volatility of the stock market. Moreover, deregulation of the banking sector by the Government has given impetus to the individual banks to change the interest rates. A typical individual cannot be expected to posses adequate skill, knowledge, time and inclination to keep track of such events, understand the impact and act with speed to transact business in the stock market. Financial intermediation has come into being to assist the interested investors through their services. Mutual fund is one such institution, which is a collective investment vehicle, formed with the specific objective of raising money from a large number of individuals and investing it according to pre-set and specified objectives.

However, the investment choices of individuals have not changed that much. The investors with inventible funds are selective in investing. Different assets have different characteristics with regard to risk, return, liquidity and procedural simplicity. Investors too have different needs. How the investor tries to balance various considerations in his