

LEARNING MODULES FOR TRAINING MUTUAL FUND TO INVESTORS

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ABSTRACT

Financial Education is an essential life skill and is a specialization module in adult education and training. Within the financial education domain, a sub-module would be on financial instruments, such as Mutual Funds. Mutual Funds are small retail investor-friendly investment tools. They are increasingly getting investor interest worldwide because they can provide potential solutions for short- and long-term investing. However, like any other financial/investing topic, teaching mutual fund concepts is challenging because of its unique vocabulary, jargon, and investment processes. The paper highlights broad modules that can be part of a typical mutual fund curriculum. Pedagogical Action Research is used to build the teaching modules focusing on narrativity, pupil's agency, curriculum development, practical theories, and ethics. Findings from this work can help teachers and trainers in the financial domain, mutual fund distributors, asset management companies, and the capital market regulators in building financial products that are easier to understand and invest in by small retail investors.

Keywords: financial literacy, investment knowledge, adult education, investor education

INTRODUCTION

The process of investing is simple but not easy. Topics related to finance and investing require that learners (investors) understand, observe and practice theoretical and practical aspects, failing which investment losses would be a common expected outcome. Most investors will be adults (young adults, middle-aged, retired, or even senior citizens). Their interest in learning new subjects, particularly finance and investing, levels of patience, and ability to absorb the subject will be diverse.

Realizing the importance of investing early in life can give a definite edge to individuals. Several countries have begun offering financial literacy and awareness lessons from school (Opletalová, 2015) and college levels. (Sjam, 2014) Attending financial literacy programs (FLP) bring in several advantages. It brings entrepreneurial attitudes to youngsters (Aljaouni et al., 2020) and helps in better understanding doing business (such as the Islamic way of doing business, for example) (Nur Wahyuny et al., 2018). Individuals become more socially responsible citizens. (Kuswaty, 2019) Financial freedom and family financial comfort can be achieved.

Indonesia features low public debt and a higher percentage of the younger population with rising individual income levels. Mutual Funds are excellent financial instruments for channelizing their savings into productive use and the economy's development apart from strengthening the individuals and their families' financials. (Indrakusuma, 2020) Mutual funds were introduced in the country almost 23 years ago. Despite this, the Assets Under Management (AUM) are IDR 571 trillion. (OJK, 2021) with scope for further improvement. Financial literacy is very low across the world irrespective of levels of development of financial markets. (Lusardi & Mitchell, 2011) Further, research already showed that increased financial literacy penetration would increase financial assets and improve the economy. Hence, countries like Indonesia have to put in increased efforts to improve financial awareness in general and in specific financial products designed for small individual investors, such as mutual funds, in particular.

Earlier research showed that retail investors often lack basic financial literacy and make costly mutual fund investing mistakes. (Fisch & Wilkinson-Ryan, 2014) Their ability to make good returns from investments gets hampered thereby. (Waghmare & Tatake, 2013) Further,

they lose precious time and thereby their ability to seek compounded returns. Studies emphasize that investors with technical and financial knowledge, mutual fund knowledge, and market knowledge exhibit less disposition bias in mutual fund investments and can make better investment decisions. (Jonsson et al., 2017) Hence, understanding mutual fund concepts within the broad domain of financial literacy can improve investors' ability to make critical and timely investment decisions.

Investing always carries market risks. Therefore, investors need to learn the right way to handle risk in order for their small investments to compound and generate significant returns. Innovative methods of building trust and improving investor knowledge levels are to be done by the mutual fund industry. (Nihar, 2011) The market regulators insist a separate corpus be created for the purpose of organizing awareness programs for the end investors.

The basic levels of financial literacy of salaried individuals are not influenced by socioeconomic factors such as age, gender, level of education, and form of occupation, thanks to strengthened financial infrastructure and stronger technical support that can be seen in metros. (Chhillar & Arora, 2020) The speed at which investors learn depends on how strong their motivation is. (Schwarz & Sun, 2016)

This paper formally proposes various modules that can make up a typical mutual fund investing training program. It further discusses the challenges that would be faced and suggests improvements to the financial market training program on mutual funds.

METHOD

The current paper uses the Pedagogical Action Research method proposed by (Niemi, 2019). Then, the proposed model is validated against the five principles of validation as proposed in (Heikkinen et al., 2007). The overall aim is to improve teaching efficiency, identify and investigate areas of concern by adult participants, test education and investment theories, evaluate and implement investment education plans, and meet the learning process's challenges.

The sample/observation audience for the present research are adult individual investors of varying ages, gender, socioeconomic backgrounds, and having different knowledge levels. Their common objective is to learn about investing in mutual funds.

RESULTS AND DISCUSSION

Teaching grown-up adults involve the trainer facing challenges that are different from that of teaching school children. This research follows the five approaches to pedagogical action research development as proposed by (Waring & Evans, 2015) and those that are duly modified by (Niemi, 2019), which are as follows:

1. Approach to Narrativity
2. Approach to Pupil's Agency
3. Approach to Curriculum Development
4. Approach to Practical Theories
5. Approach to Ethics

Approach to Narrativity: This involves understanding individual investor experiences so that the trainer can get a holistic view of the investor's needs. Trainers can ask participants (investors) to fill in a questionnaire form that subtly captures data necessary to understand the training program's experience and expectations. When time permits, the Common Account Statement (CAS) or spreadsheet files that reflect the investors' existing investments could be studied. Demographic information can help understand and assess the potential future investment needs of the investor. In some cases, Narrative Interviews via telephone conversations and chat conversations over social media can be done.

Approach to Pupil's Agency: Pedagogical action research gives much importance to the pupil's agency. In the case of (Heikkinen et al., 2007), the focus came from the principle of workability that involves tools that the pupil (investors/participants) will use. In the early days of training, tools involved preparing presentations and sharing handouts. Later stages involve creating tables with the latest data, simple to comprehend calculations, giving assignment work (which the participants can do as homework before they come up for the next session), doing quick multiple-option polls

during online webinar sessions, amongst others. The key idea is to re-engage the investor to connect with the subject and not lose interest in the subject amidst their busy routine office/personal life. Individual investors have some unique skills (such as distinguishing excellent and lousy fund managers), which can be otherwise difficult to capture from statistical analysis. (Dyakov & Verbeek, 2019)

Approach to Curriculum Development: Curriculum for the adult investors will be different and requires a bit of customization because of investors' varied needs. For example, a middle-aged adult investor would focus on meeting financial goals, prioritizing children's education, and settling in life with their own house. On the other hand, a person close to retirement wants to make a consolidated corpus to build the retirement kitty quickly. Each financial goal is different, and owing to changing risk-rewards over time, the investor has to select the different kinds of financial instruments at different parts of time.

In the context of the present research, the curriculum related to teaching mutual funds for adult investors would involve the following modules:

1. Introduction to Mutual Funds
2. Types of Mutual Fund Schemes
3. Passive Investing with Index Funds and ETFs
4. REIT, InvIT, and other Investment Tools and
5. Practical related to Scheme Selection and Portfolio Design
6. Mutual Fund Taxation

Introduction to Mutual Funds: The two biggest fears for investors in their financial learning process are:

1. Financial Jargon or Financial vocabulary
2. Lack of knowledge on process flow for dealing with financial aspects

Trainers have to give special attention to participants from a non-financial background and teach the subject with multiple phrases or

terms so that conceptual understanding becomes easy. This module can make the participant familiar with the mutual funds' overall working and introduces them to various financial intermediaries such as AMC, Registrar, Regulator, and Distributor. Advantages and Disadvantages of using mutual funds are discussed so that the right perspective of how to use them can be framed. Documentation processes such as Know Your Customer (KYC), Transmission Forms, Account Statements, the Factsheet structure, and Monthly Portfolio Disclosure Statement can be explained. Terms such as NFO, Load structures, choice of plans (Growth vs. Dividend), investment models (SIP, STP, SWP), Risk-o-meter, portfolio turnover, and side-pocketing can be explained.

This module often starts with what is already known to the investor. It ends up with several takeaways that can inspire and precipitate further reading and expanding their understanding of the subject.

Types of Mutual Fund Schemes: Mutual Funds offer a plethora of investment options, such as based on structure, assets, risk-bearing capacity, and motive of investment. (Mehta, 2020) Investors often relate their investment horizon to style and narrow down the schemes of a given type. (Amadi & Amadi, 2019) The availability of too much choice often confuses investors. Further, during the investment journey, the investor will have to move from high-risk scheme types to low-risk scheme types and understand all the choices available to them even though the investor might not be investing in all of them at a time.

Thanks to financial engineering, financial innovation, and growing investor needs are increasing the number of scheme categories and sub-categories over the years. From a scheme composition perspective, the various types of mutual fund schemes that regulators allow AMCs to offer to investors include:

1. Equity Schemes
2. Debt Schemes
3. Hybrid Schemes
4. Solution-oriented Schemes
5. Other Schemes

Each of these categories, in turn, will have several sub-categories.

Equity Schemes Category comprises of the following sub-categories: Multi-Cap, Flexi Cap, Large Cap, Large & Mid Cap, Mid Cap, Small Cap, Dividend Yield, Value & Contra, Focused, Sectoral / Thematic, and ELSS funds.

Debt Schemes Category comprises of the following sub-categories: Overnight, Liquid, Ultra Short Duration, Low Duration, Money Market, Short Duration, Medium Duration, Medium to Long Duration, Dynamic Bond, Corporate Bond, Credit Risk, Banking & PSU, Gilt, Gilt with 10-year duration and Floater funds.

Hybrid Schemes Category comprises of the following sub-categories: Conservative Hybrid, Balanced Hybrid / Aggressively Hybrid, Dynamic Asset Allocation, Multi-Asset Allocation, Arbitrage, and Equity Savings funds.

Hybrid Schemes Category comprises of two categories: Retirement Funds and Children Funds

Other Schemes Category comprises of two categories: Index funds/ETFs and Fund of Funds (FoF)

Passive Investing with Index Funds and ETFs: Passive funds such as Index Funds and ETFs are getting investor attention as fund managers struggle to bring in alpha over the benchmark indices. Hence, individual investors have to spend time understanding the situations in which passive funds make sense to invest over active funds. Within passive investing, the module has to discuss differences between Index funds and ETFs and explain terms specific to passive investing, such as market makers and tracking error.

Spreadsheet-based templates can be shared with participants to jot down transactions they do and maintain a log.

REIT and InvIT and other Investment Tools: Real Estate Investment Trust (REIT) and Infrastructure Investment Trust (InvIT) have

become modern alternatives to investing in real estate and infrastructure. Further, High Networth Investors (HNI) can consider tools like Portfolio Management Services (PMS) and Alternative Investment Funds (AIF) that invest in riskier and less liquid asset classes like antiques, gold, amongst others.

Practical on Scheme Selection and Portfolio Design: Investors require hands-on practical sessions to comprehend the theoretical aspects and prepare a practical implementation plan with real money.

Broadly there are two expectations in this regard:

1. Selecting the mutual fund scheme that is right for the investor
2. Building a portfolio comprising of multiple schemes that suit various financial goals

The first goal can be achieved by reviewing all schemes within a scheme category that suits a specific long-term investor goal, such as retirement planning. The analysis ends with the investors short-listing up to four best schemes that suit the investor's risk-reward expectations and then doing portfolio overlap analysis. The takeaway from this is to end up with two schemes.

The second goal of the investor is to build a mutual fund investment portfolio that could comprise of a basket of investment tools – both active tools and passive tools (such as Index funds, ETFs, or even REITs and InvITs)

Mutual Fund Taxation: Taxation is undoubtedly an exciting topic for working adults. (Barieyah Mat Bahari & Ming Ling, 2009) Investors have to keep an eye on tax implications on their investments. However, this is easier said than done because tax laws keep changing (almost every year). Further, the applicability of taxation varies from individual to individual depending on the assessee's role, socioeconomic status, and the choice of investments being made. Taxation of equity and non-equity investments are often different. Further, some investments provide tax exemptions. Investors will have to understand dividend taxation, tax deduction at source, and

other such basic tax jargon to better plan their investments.

Approach to Practical Theories

The teaching module will comprise one or more multiple practice sessions. Participants are introduced to various online financial calculators during the theoretical sessions as a preparation. They are then supplemented with sessions on the following:

1. identification and personal financial goals
2. Scheme selection
3. Building and evaluating mutual fund portfolios
4. Preparing a plan to move from high-risk equity asset classes to low-risk debt asset classes as financial goals come closer.

Because the participants work on their investment portfolios, they are naturally interested and curious to evaluate their portfolios. Hence, they are motivated to learn the subject.

Approach to Ethics

Action Research dimensions of ethics as specified by (Gelling & Munn-Giddings, 2011) are as follows:

1. Value
2. Scientific validity
3. Fair participant selection
4. Favorable risk-benefit ration
5. Independent review
6. Informed consent
7. Respect for enrolled participants

Unlike typical research, Value in Action Research is demonstrated by understanding the outcomes of the participants. An observation of the participants' investment portfolio, better decision making, and ease of transacting with mutual funds will reveal this.

Scientific validity in action research involves proper utilization of precious resources (such as time of the participants) and bringing demonstrable and verifiable outcomes, which involves good and proper teaching and communication skills of the trainer. The trainer

needs to engage the participants throughout the session. Appropriate qualitative and quantitative measuring tools can be used to access this.

Fair participant selection involves selecting participants in an unbiased manner. Since the program is voluntary, investors of all sizes (small and large portfolios), age groups, gender groups, and different financial backgrounds are welcome to join the learning session. A diversified audience can bring in a variety of questions for discussion and debate, thereby helping participants learn and visualize things not prior experienced in their lives.

Action Research challenges the individual's comfortable status quo nature because learning always forces them to move out of their comfort zone. A favorable risk-benefit ratio should promise individuals, both at the individual module level and at the program level, that the participants' efforts will help them in both the short-run and the long-run.

Independent review as a part of ethics requires an expert to check and judge the curriculum's quality and rigorous nature. This can be achieved when participants transform their portfolio into a better portfolio, show it to their peers, and take views and suggestions from them.

Informed consent involves taking consent from the participants about their involvement in research. This can be a part of the activity by informing the participants through a disclaimer at the beginning of the program. This is a common practice in almost all programs involving finance.

Respect for enrolled participants is multifaced. This involves respecting and protecting the confidentiality of individuals and their investment portfolios. This is achieved by telling the participants not to share their financial portfolios in an open forum but to share in a private window. Participants will be warned of potential risks on financial data exposure if they are accidentally forward the details in an open group. Participants can freely withdraw from the activity if they feel it might not value add to them. Of course, the withdrawal rate is found to be low because the participants join the program

with a specific desired outcome. Participants are warned of the pros and cons of all financial instruments because investing always carries risk irrespective of the investor perceiving it or not. The findings of the research are shared back to the participants upon the work getting reviewed and published. This helps the participants in getting an overview and a revision to the overall subject again.

CONCLUSION

This study attempts to build a model curriculum that can be used to teach mutual fund concepts to individual investors who wish to learn the art of scheme selection and portfolio design so that they invest on their own and thereby have full control over investments as they progress towards their personal financial goals.

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