

Investors' Preference Towards Mutual Fund: An Analytical Evidence From Kathmandu Valley

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Abstract

This paper analysis investors' preference towards mutual fund. The study was conducted inside the Kathmandu valley. In terms of familiarity with the various financial securities currently available in the Nepalese capital market, investors have high familiarity with fixed deposits, medium familiarity with shares and low familiarity with bonds and debentures and money market instruments. In case of the preference for the structure of the mutual fund, more than two-third of the total respondent were in favor of Close Ended Mutual Funds. Potential investors of mutual funds prefer family members followed by self-analysis as a medium for getting understanding to create the awareness of mutual funds; TV Advertisement and Print Newspaper are effective, as these sources are preferred by the potential investors. This study concludes that mutual funds could be an admirable institution for bridging the gap between the individual savers and the established business in Nepal. Investors are showing more interest in mutual fund these days.

Keywords: *Investors' Preference, Mutual Fund, financial securities, capital market*

Introduction

Growth of mutual funds is very slow and it took really long years to evolve the modern day mutual funds. Mutual Funds emerged for the first time in Netherlands in the 18th century and then got introduced to Switzerland, Scotland and then to United States in the 19th century. The main motive behind mutual fund investment is to deliver a form of diversified investment solution. Mutual fund is a professionally managed investment fund that pools money from many investors to purchase securities. In this era of globalization and competition, success of an industry is determined by market performance of its stock. Investors like to invest in the stock of those companies from which they can get maximum gains. However, with the passage of time many opportunities are available to the investors for investing their money in different investment channels. One such channel is to invest in mutual funds along with effective financial management. Mutual funds have seen a tremendous growth in the last few years. This is the result of combined efforts of brokerage houses and the fund managers who come to one's rescue by educating investors and making them aware of the mutual fund schemes by different modes of promotion (Brigham and Gapenski, 2007).

The investment in securities, especially in the equity of the company, dated back to 1937 when the shares of Biratnagar Jute Mills and Nepal Bank Ltd. were floated first time in Nepalese market. Similarly, government bonds were issued for the first time in 1964. For the formal establishment of capital market, Security Exchange Center was established in 1976, which was later changed to Nepal Stock Exchange on 15th January 1994. In well-developed capital markets, a new investment product has been developed named

as mutual fund. With investment in mutual funds, investors can diversify their investment, save time spent on analysis, have professional judgment; invest in liquid assets, etc. Mutual fund is gaining popularity in western as well as Asian markets. Securities Board of Nepal (SEBON) has approved regulation regarding mutual fund in 2010 as “Mutual Fund Regulations” 2067.

Statement of the Problem

Brigham and Gapenski(2007) analyzed Growth, both in terms of size and number of funds categories, in the mutual fund industry among emerging markets has been impressive. Most researches, domestic as well as international, were on the mutual funds’ performance compared to the market, qualifications, experience and investment style of fund manager, asset size and transaction cost and performance of funds during different economic cycles. Though investment in mutual funds is a very safe investment, the prospective investors of Nepali capital market have very limited knowledge on it. Bhattarai (2004) stated that investors have less knowledge of mutual fund, and the main factor for not holding mutual fund is their lack of knowledge for mutual fund and its scheme. This trend of investment is proved with many folds of applications for Initial Public Offering (IPO) and Further Public Offering (FPO). Comparing the ratio of mutual fund, it is seen in Nepalese market that attraction of investors is less in mutual funds. However, it is seen that the proportion of investment in mutual funds have increased in recent days. The success of any mutual fund, a popular means of investment, depends on how effectively an Asset Management Company has been able to understand the level of influence of these factors on the decision of investors to invest in mutual funds. Therefore, there is a need to conduct a detailed study on investments in mutual funds in this direction. Thus, this study tries to answer the following research questions:

- a. What are the factors to be analyzed by investors during investment in mutual fund?
- b. What is the awareness level of investors towards mutual funds?
- c. What are the preferences of the investors for various promotional tools of mutual funds?

Objectives

The general objective of this paper is to analyze Investors Preference towards Mutual Funds. The specific objectives of this study are as follows:

- a. To analyze the influencing factors that investors consider while investing in mutual funds.
- b. To examine the influence of mutual funds on investment decisions.
- c. To identify the awareness of the investors towards mutual funds.

Review of Literature

Gupta (1999) provided the findings of a thorough analysis of the perceptions of the investment risk involved in various UK personal financial services products by individual consumers and specialist financial advisers. Factor similarity test showed that there were significant differences in how financial risk was viewed between expert and lay investors.

Singh (2003) tried to locate investor expectations and objectives for various types of mutual fund products and define key features of a mutual fund to identify sustainable marketing variables in the design of a new mutual fund product. Taking a lead from this, there was also an attempt to find out the important attributes of the mutual fund product that were central to influencing investors' purchase decision. Gurung (2004) reviewed a research article on Securities Market Growth and Quality in Nepal. The Nepalese market plays a pivotal role in mobilizing and channeling savings for productive purposes and much more like providing liquidity on securities so that the risk can be reduced and returns maximized.

K.C.(2004) published an article on the topic of stock market development and economic growth in Nepal in SEBON Journal. The study suggested that financial progress matters and stock markets do super-economic growth in the financial sector over the past one-and - a-half decade, amid several problems. Pandey (2006) study to determine whether gender, age, marital status, occupation, self-employment, income, race,

and education variables can be used individually or in combination to distinguish investor risk tolerance rates and classify individuals into categories of risk tolerance. Baru and Fawcett(2013) examined the value and development of the mutual fund, assessed mutual fund operations and suggested some measures to make it a profitable scheme in India. In this report, he disclosed that around one-third of the investors entered the capital market through mutual fund investments. UTI funds were customer favorites. Together with its high capital market ponytail the financial climate in Kerala had encouraged thousands of individual investors to enter the market.

Padmaja(2013)A Consumer Behavior Report Regarding Mutual Funds With SpecialReferenceto ICICI Mutual Prudential Funds, Vijayawada. Mutual funds are a good source of returns for the majority of households, and it is especially useful for retirement-age people. However, when the market is flooded with endless investment opportunities, including mutual funds, ordinary investors often limit their choices to traditional alternatives like gold and fixed deposits. Rathnaman(2013) Trichy Investor Preferences ForMutual Fund Industry. In this report, investors are prepared to take high and low level risk; most investors belong to moderate style of investment. To order to have more investors to invest to mutual funds, mutual fund companies need to introduce some awareness program about the benefits of investing in mutual funds, and in this evolving stock market situation, safety and security given by mutual fund companies.

Prabhavathi and Kishore (2013).The attitudes of investors towards the Mutual Fund and Future Investments: A case study on India. Financial services are the aggressive market that can tap at any person. Investors have their own risk appetite, and trust in the business they enter. Mutual funds play an active role in this volatile market environment not only in promoting a healthy capital market but also in increasing liquidity on the money market. They have been identified as one of the major drivers of securities market prices. The study's analysis helps us understand the investor's attitude and behavior based on their preferences. It can be noted that investors should be cautious in selecting schemes, sectors and different asset management companies. Mutual fund industry, which has enormous growth, may better allocate resources in an emerging market economy if better controlled by market regulators with their strict regulations.

Rajasekar(2013) A Reference to Reliance Private Limited, Chennai-An Empirical Analysis Study on Investor Preference Towards Mutual Funds. Although the investment avenues are growing, investors still find mutual funds not as such a reliable investment avenue. Here tremendous scope due to people's savings and investment trend in this country, but it's not properly channelized, yet the unconscious factor and less are or moderate knowledge factors exist that don't invest in mutual funds are vital reasons for investors. Even one who spends is more comfortable with the high rate of return and not fund management professionally. Mane (2016)A Perception of Investors towards Mutual Funds in the City of Aurangabad. The level of awareness among investors of the mutual fund is very low due to having only partial knowledge of the mutual fund that prevents them from investing in the mutual fund to avoid risk-bearing factor and fear of losing money. The investors ' most choice is the fixed deposit, because they believe it's the best and the returns are stable and they're not afraid to lose the money.

Alamelu and Indhumathi (2017) Investors Perception AgainstMutual Funds At Tamil Nadu's Madurai District. The latest survey revealed that the majority of investors have a positive approach to investing in the Mutual Fund. The study revealed that the attitude of the investors depends on the demographic profile, and assessed that the investment option directly affects the age, marital status, and occupation of the investors. However, the study revealed that the female segment is not completely exploited and even higher-income group people have low targets. Consequently, fund managers should take steps to target the female segment and the higher income community segment to raise further investment in Mutual Fund Investment Avenue that would really help the industry flourish. However, the research findings were on factors influencing the attitude of investors towards mutual funds in the public and private sectors. Such factors give them the requisite boost in the investment cycle.

Lamichhane (2017) has published an article titled Nepalese Stock Market Turnover. The study concluded that certain companies cover market turnover in the stock market. Such businesses also hold

higher market weight in the stock market as regards overall share trading. The stock turnover reflects such restricted companies that occupy enormous weight of the total value of the sale of securities. The portfolio of various companies is not idle, so that risk diversification in Nepalese stock market is not possible.

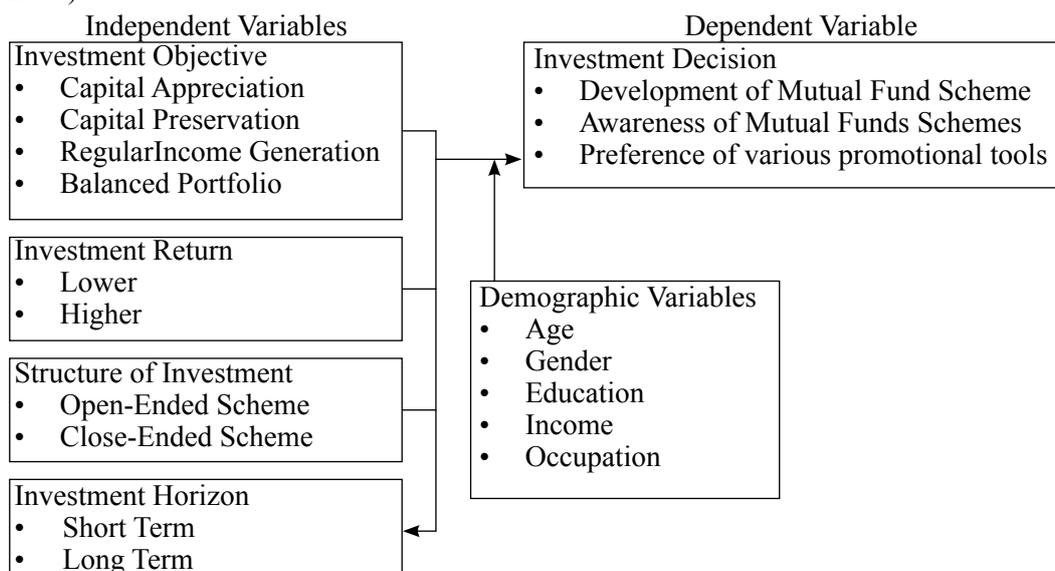
Sineni and Reddy (2017) Investors Perception and Satisfaction Rates With Mutual Funds in Andhra Pradesh's Rayalaseema. The study explored the MF investments in relation to investor's level of perception and satisfaction has been investigated relating to various factors like Schemes, Risk and Return, Services, Relationship, Claims, Grievances, Fund management, NAV Update, Security, Entry and Exit Load, offer based on Return, Existing Fund based on (AMCS), Promptness in giving information Clarification towards technical doubts, Reminding premium payment, Informing time about default payment Satisfied with remedial measures.

Amsaveni and Ranjini (2018) Attitude of investor towards mutual fund in Coimbatore city. The investors are found to have a good and positive attitude towards their investment in Mutual Funds. Some investors prefer high return mutual funds, and feel the risk factor is also high in mutual fund investment. Although the investors are not aware of the risks associated with the investment, their attitude towards the mutual funds is positive. The investors are happy about their investment in Mutual Funds. The investors also think the concern's annual reports and other publications help them assess their investment results. Factors related to age, gender, education, employment, and occupation have influenced investors' attitude towards Mutual Fund. Investors who save variables do not influence investor attitudes.

Samira and Sathyanaraynan (2018). A report with special reference to Salem district on investor preference towards mutual funds. India has the second fastest growing service industry growing at an average annual rate of 9 per cent and the most important contributor to the service industry is the mutual fund industry. To conclude all the respondents knew about the mutual funds but only 75 percent of the respondents knew about the existence of mutual funds as an option for investment. The mutual fund firms should pursue an aggressive campaign to advance mutual fund awareness.

Conceptual Framework

It is found out that earlier studies of retail investor behavior have examined motivation from economic perspectives or studied relationships between economic, behavioral, and demographic variables. The study revealed that individual's base their stock purchase decisions on classical wealth-maximization criteria combined with diverse other variables. They do not tend to rely on a single integrated approach (Agapova, 2006).



(Source: Thaler, Kahneman and Knetsch, 1991, Independent Variable)

Figure 1: Conceptual Framework

Methodology

The finding of the research explains the real picture of the study and the major finding of this research is used to recommend focusing on the specific factors necessary for the development of mutual fund schemes. The research is based on descriptive and analytical methods.

Population and Sample Size

The population for this study comprises the investors of the Kathmandu Valley working in different fields. The sample size for this study includes 156 respondents. Those respondents are from different categories of investors such as business persons, working people, retired employees etc. In this paper Convenience sampling was employed for collecting data from the respondents for the research.

Data Analysis Methods

In this paper, Microsoft excel and SPSS (version 20) have been used to organize the data, determine significant relationships and identify difference, similarities with and between different categories of respondents. For this research purpose descriptive statistics, reliability analysis, and correlation were performed in order to accomplish the objectives of the study. The data analysis includes demographic profile of respondent, frequency distribution for several measures, descriptive analysis of variables and Pearson correlation hypothesis testing.

Data Presentation and Analysis

Respondents' Profile

Table 1

Gender Status of Respondents

Gender	Number of Respondents	Percentage
Male	92	59 %
Female	64	41 %
Total	156	100

Source: Field Survey, 2019

Table 1 shows that majority of respondent (59%) are male which shows that most of Nepalese investors invest in mutual fund are male.

Table 2

Age Status of Respondents

Age	Number of Respondents	Percentage
Below 29	69	47.44%
30 – 39	44	28.20%
40 – 49	32	20.51%
50 and above	11	3.85%
Total	156	100%

Source: Field Survey, 2019

Table 2 shows that 47.44% respondent were of age group below 29, 28.20% respondents were from age group 30-39 years, 20.51% respondents were from age groups 40-49 years and 3.85% of respondents were from age group of 50 years and above.

Table 3

Employment Status of Respondents

Employment Status	No of Respondents	Percentage
Banking and Financial Institutions	81	51.92%
Manufacturing Industry	31	19.87%
Insurance Companies	15	9.62%
Trading Companies	29	18.59%
Total	156	100%

Source: Field Survey, 2019

Table3 represents the employment status of the respondents. The respondents who are involved in Banking and Financial Institutions represented 51.92% of the total sample. Likewise, the respondents involved in manufacturing industries represented 19.87%.

Descriptive Analysis*Familiarity with various Investment Securities*

The respondents were asked to rate their own familiarity with the various investment securities, namely, shares, bonds, fixed deposits and money market instruments. The scale ranged from 4 being most familiar to 1 being unfamiliar.

[Note: for the mean scores, following scale will be used:

1 < Mean score < 1.5 = Unfamiliar, 1.5 < Mean Score < 2.5 = Low Familiarity, 2.5 < Mean Score < 3.5 = Medium Familiarity, Mean score > 3.5 = High Familiarity]

Table 4

Familiarity with various Investment Securities

Monthly Saving	Familiarity with Shares	Familiarity with Bonds and Debentures	Familiarity with Fixed Deposit	Familiarity with Money Market
Less than Rs. 5,000	2.76	2.17	3.38	2.34
Rs. 5,000 to Rs. 20,000	2.94	2.28	3.61	2.33
Above Rs. 20,000	3.00	2.68	3.79	2.58
Mean	2.90	2.38	3.59	2.42

Source: Field Survey, 2019

Table 4 represents the familiarity of the investors towards various investment securities with respect to their monthly savings. Firstly, under the savings category of less than Rs. 5,000 the respondents have mean score of 2.76 under the familiarity with shares. This shows that on an average the respondents of this category have medium familiarity with shares.

Investment Objective

With the aim of understanding the investment objective of the potential investors, the respondents were asked to fill in their investment objective. This particular question would help us design the mutual fund scheme for Nabil Invest. The Table-5 shows the investment objective of the respondents with respect to their monthly savings. A total of four options were provided to the respondents regarding the type of investment objective they could chose and they were capital appreciation, capital preservation, regular income generation and balanced approach.

Table 5

Investment Objective with Respect to Monthly Savings

		Investment Objective				Total
		Capital Appreciation	Capital Preservation	Regular Income Generation	Balanced	
Monthly Saving	Less than Rs. 5,000	3	2	21	13	39
	Rs. 5,000 to Rs. 20,000	30	2	35	10	77
	Above Rs. 20,000	16	2	4	18	40
Total		49	6	60	41	156

Source: Field Survey, 201

Table 5 shows that out of total 156 respondents, 49 respondents have chosen capital appreciation; 6 respondents have chosen capital preservation; 60 respondents have chosen regular income generation and 41 respondents have chosen balanced approach as their investment objective.

Existing Information Source Used by Investors

While making investment decision, investors rely on various sources for information that can aid in their decision-making process. The result of the survey that asked the potential investors of mutual funds regarding the existing source of information that they use to make the investment decision is shown as follows.

Table 6

Existing Information Source used by Investors

		Responses	
		N	Percent
Existing Information Source	Self-Analysis	72	46.20%
	Family members	80	51.30%
	Broker's Advice	2	1.30%
	Professional Help	2	1.30%
Total		156	100%

Source: Field Survey, 2019

Table 6 shows that most of the responses are for self-analysis for making their investment decision followed by family members. There is very low percentage of responses for Broker's Advice and Professional Help.

Preferred Medium for Getting Information of Value of Mutual Fund

The research also asked the respondents regarding the preferred means for getting the information of their investment value of their investment in mutual fund. The result of the survey is as follows.

Table 7

Preferred Medium for Getting Information of Value of Mutual Fund

		Responses	
		N	Percent
Preferred Media for Getting the information of Investment Value of Mutual Fund	Company Website	88	56.40%
	Newspaper	16	10.30%
	Daily E-mail Updates	37	23.70%
	TV Scrolls	13	8.30%
	Others	2	1.30%
Total		156	100%

Source: Field Survey, 2019

Table 7 shows that the most of the responses is for company website followed by daily email updates and newspaper for getting the information regarding the value of the investment in the mutual fund. Hence, issue managers shall, therefore, provide the value of investment in fund daily through its websites, newspaper and email updates.

Correlation analysis

This section deals with the analysis of possible relationships between prior formulated variables.

Table 8

Correlation between factors

Correlation between	Correlation coefficient	Sig. value	Result	Findings
Risk Perception and Investment Decisions	0.583	0.000	Significant	positive relationship
Characteristics of Mutual Funds and Investment Decisions	0.644	0.000	Significant	significant relationship
Influencing Factors and Development of Mutual Fund Schemes	0.081	0.000	significant	positive relationship
Investment Objective and Investment in Mutual Funds	0.257	0.000	significant	positive relationship
Return on Investment and Investment in Mutual Funds	0.488	0.000	significant	positive relationship
Promotional Tools and Investment in Mutual Funds	0.290	0.000	significant	positive relationship

** Correlation is significant at 0.01 level(2-tailed).

There is positive relationship between risk perception of investors and investment decisions, influencing factors and development of mutual fund schemes, investment objective and investment in mutual funds, return on investment and investment in mutual funds, promotional tools and investment in mutual funds and there is significant relationship between characteristics of mutual funds and investment decisions.

Conclusion

With the data analysis and presentation of the research mentioned in the previous, the major conclusions of the research are as follows:

In terms of familiarity with the various financial securities currently available in the Nepalese capital market, the investors have high familiarity with fixed deposits, medium familiarity with shares and low familiarity with bonds and debentures and money market instruments. From the analysis, it was known that mutual funds could be an admirable institution for bridging the gap between the individual savers and the established businesses in Nepal. It could be the medium to attract small Nepalese investors to help them enter into the Nepalese securities market. The government of Nepal should also formulate separate laws and policies regarding mutual funds so that general public can familiarize themselves with the various types of mutual fund and take decision regarding investment in them.

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