

# **Investors' Perception Towards Mutual Fund in Nepal**

**A Thesis Proposal**

**By**

**SAROJ NIRLA**

Central Department of Management

Exam Roll No: 579/15

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## **1.1 Background of the study**

Mutual funds are the firms that manage pools of others people's money. Individual buy shares of mutual funds, and the funds invest the money in certain specified types of assets, for example, common stocks, tax-exempt bonds, or mortgages. Growth of mutual fund is very slow and it took really long years to evolve the modern days mutual funds. Mutual emerged for the first time in Netherlands in the 18<sup>th</sup> century and then got introduced to Switzerland, Scotland and then United states in the 19<sup>th</sup> century. The main motive behind mutual fund investment is to deliver a form of diversified investment solution. 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. 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 ones' rescue by educating investors and making them aware of the mutual fund schemes by different modes of promotion (Kandel, 2018).

A mutual fund is a special purpose institutional setup established specially for the investment purposes and it acts as an investment conduit. Its primary function is to pool and gather resources(savings) from small investors, build a bigger corpus of large resources and invest them into a well-diversified portfolio of sound investments. It aims to maximize return as much as possible while keeping the quantum of risk associated with equities low. Despite being available in the market less than 10% of Indian household have invested in mutual funds. A recent report on Mutual Fund Investments in India published by research and analytics firm, Boston Analytics, suggests investors are holding back from putting their money into mutual funds due to their money into mutual funds due to their perceived high risk and a lack of information on how mutual fund works (Manrai, July 2018).

Mutual funds provide an opportunity for investment in a stock market with professional acumen. They provide the benefit of risk diversification with a minimum allocation of funds. The selection of mutual fund itself is tedious given growth in number of schemes offered by them. The number of world-wide regulated open-ended mutual fund schemes will be 114,131 in 2017 (Investment

Company Institute Fact Book, 2018). Investors consistently search for investment strategy to maximize their personal gains. Advertisements by mutual funds largely glorifies their past performance. While, the same comes with a disclaimer that past years' performance may not guarantee future performance. There is transparency in functioning of mutual funds and all relevant information is publicly available with such measures. But the issue is whether investors can generate profitable bets through such information. The effect of past performance and other fund characteristics on performance is widely researched in context of developed countries (Kaur, 2018).

The estimates of the importance of mutual funds in emerging markets are quite conservative because they include only the holdings of dedicated emerging market equity funds. Excluded are the holdings of global funds, which account for a substantially larger share of the stock market capitalization of emerging markets. Even though global funds hold only a small share of their assets in emerging markets, they are substantially larger than dedicated emerging markets. So international mutual funds hold a large and significant proportion of the publicly available equity, even though the total amount is not known (Graciela L. Kamnisky, 2002).

People who buy shares of mutual fund are its owners or shareholders. Their investments provide the money for the mutual fund to buy securities such as stocks and bonds. A mutual fund can make money from its securities in two ways: a security can pay dividends or interest to the fund or a security can rise in value. A fund can also lose money and drop in value. The reduced risk of portfolio comes from the benefits of diversification provided by mutual fund managers for investors. Managers charge small amount of fees for their services and for covering the costs associated with trading securities. Mutual fund today are the most studied areas in developed countries due to their efficient and effective role in reducing risk and enhancing return through professional management funds. These funds boost the incomes of small investors as well as reduce their exposure to unsystematic risks which needs to be taken into consideration for accurate results (Dadashinasab, 2012).

In the context of Nepal the mutual fund came into existence only 25 years ago. Therefore, introduction of mutual fund seems new for Nepalese investors. With the flotation of NCM Mutual

Fund in 2050 B.S. (1993 A.D.), the Nepali market entered into the era of mutual funds. It will be an open-ended scheme with a collected fund of just Rs. 100 million. These days, merchant bankers are coming up with funds 5 to 10 time larger than that, which have become a pivotal part of the Nepali stock market. Currently, there are 13 mutual fund schemes running in the Nepali stock Market. These mutual funds have to be approved by securities Board of Nepal (SEBON under Mutual Fund Regulation Act 2010 and Directives 2012) first to publish the offer letter and accept the funds as initial public offerings. When the fund units are allotted, they are listed in NEPSE (Nepal Stock Exchange) where they can be freely bought and sold.

In current scenario, mutual funds are less attraction compared to shares of commercial banks, insurance, development banks, finance and micro finances. The various schemes/options that are available to investors worldwide are not available to local investors in Nepal. In spite of the recent growth in the Nepalese securities market, the success and performance of mutual funds is not noticeable in the country.

## **1.2 Problem Statement**

Investment decision need to undergo a through analysis of the situations prevailing based on several factors, however regardless of varied information available that justifies rationally and irrationally; investors are keen to avoid uncertainties associated with the ultimate decisions they engage in (Jagongo and Mustswenje, 2020).

Investment decisions are influenced by many factors. It is an accepted fact that the investors are the focal point of the financial market. The behavior of investors is not a static one. It varies from place to place and from security to security. Hence it is necessary to identify the factors which influence investment decisions. To boost investment and formulate appropriate theories and policies, it is necessary to understand how individuals invest in securities (Aruna and Rajashekar, 2016).

Nepal as a developing country is becoming economically more powerful requires huge capital for various developmental activities. To rise the investment among individual investors it is necessary to study the investment behavior of individuals and identify the factors that motivate them to invest, so that idle savings can be channelized into investment.

Mutual funds globally are trying to accelerate growth with continuation of a number of current trends – such as focus on product development, regulation, and risk management. Been seen that all those studies have many mutual funds in their dataset. But in Nepal there are only few listed mutual funds and the only information that an investor get is the monthly balance sheet and weekly NAV. We might question the mutual fund manager that is this information enough for investors and unit holders. Obviously, we will jump into conclusion that more analysis in-depth analysis is needed about the mutual funds. So, Performance evaluation and doing comparative analysis can help investor to find returns of individual schemes and also establish relationship between different attributes.

Hence this study contributes in the literature of developing countries about the management effectiveness of mutual fund.

This study has tried to address the following research question:

- ) Do the fund schemes have impact on investor's investment perception on Mutual fund?
- ) What is the impact of risk and return in the individual investment perception?
- ) How does investor's level of awareness affect the individual investment perception?

### **1.3 Purpose of the study**

The main purpose is to identify the investor's perception in mutual fund. The study aims to achieve the following objectives.

- ) To determine the influence of fund schemes on investment perception of Investor.
- ) To examine the effects of risk and return on investment perception of Investor.
- ) To analyze the impact of investors level of awareness on investment perception of Investor.

### **1.4 Research Hypothesis**

From the above discussion on problem and statement following hypothesis is framed.

**H1:** There is significant relationship between fund schemes and investor's investment perception on mutual fund.

**H2:** There is significant relationship between risk, return and investor's investment perception on mutual fund.

**H3:** There is significant relationship between investor's level of awareness and investor's investment perception on mutual fund.

### **1.5 Scope and limitation of the study**

The study focuses to analyze certain factors that influence investment decision in Mutual Fund. In this context, the study is meant to find the preference of the general investors regarding investment in the market. Findings of the study will be helpful to the investors, mutual fund issuing company, Issue manager of mutual fund and others regulatory bodies in order to predict future trend and give reliable information to mutual fund investors. The investing companies can decide on their future policies and strategies. Also, the study provides an understanding of the various decisions to be made by investors based on the prevailing factors and the eventual outcomes for each decision. The investor can analyze and examine the factors influencing their individual decision making with regard to their investment.

However, this study has some limitations, which are listed as below;

- J Only 100 response from the individual are taken for the study so the findings of the study may have the limitation of generalization for the entire population.
- J This study is based on three independent variables. The findings may differ in case of use of other variables.
- J The findings and conclusion may not be generalized since the study is confined only to the Kathmandu valley.
- J The study is based on primary source of data. So, reliability of the study depends upon the accuracy of the information provided by the respondent.
- J This study is limited to the decision made by only individual investors and does not consider institutional investors and professional investors.

### **1.6 Conceptual Review**

Conceptual review is related with all review focuses on mutual fund (investment companies) investment companies undertake the task of pooling the fund and investing in securities. Investment company are specialized financial intermediaries that collect money be selling units to the investors and invest in portfolio of securities. The units are securities issued by investment companies to raise funds from the investors. They provide professional services to the investors

and take management fee for the services provided. The managers of the funds are paid fixed management fees and any advantage that accrue through appreciation on the value of the securities pass to the investor. So, we can say the popularity of mutual fund investment among private investors has grown dramatically all over the world during last 40 years. Therefore, mutual fund performance has always been one of the most researched areas of finance. At the end of 2016, mutual fund assets worldwide were \$40.4 trillion. Total net assets in worldwide regulated funds hit \$49.3 trillion at year-end 2017, it increases to \$50.01 trillion at the end of the first quarter of 2018. (Tara prasad Udpadhy, 2019)

a. Open end and Closed end Mutual fund

Open-ended means easily sell back to company at Net Asset value (NAV). These funds not sell in secondary market, that fund continually create new unit and demand. They are also called unit trust. These funds are in different varieties and these can be easily purchased and resold to fund management company which offers unit value daily. If any open-ended fund holders want to sell its, fund he will sell those units to the company at present market price (NAV) and company obliged to buy units from unit holder at present price. Close-ended funds having the share like in public company. Its fund issue fixed number of shares and floated through an IPO (Initial Public Offering) same as public company. There are many features of close ended funds like small amount of investment and diversification also possible, expertise of managers and market knowledge helpful for all types of mutual fund investors, investors can easily buy or sell their units at any time at stock exchange (Waqas Ahmed, June 9, 2015).

b. Mutual Fund Scheme

It is defined by MF regulation that “Scheme” means the scheme that has obtained approval pursuant to regulation 24 from the SEBON. (SEBON) the objective of these scheme is to provide the fixed income or dividend for fixed period to its unit holders.

c. NEPSE

Nepal Stock Exchange, in short NEPSE, is established under company Act-2007. The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transaction in its trading floor through member, market intermediaries,

such as broker, markets. At present there are 50 member brokers with 43 branches, who operate on the trading floor as per the Securities Act-2007.

d. Mutual fund performance

(Bajracharya, Mutual Fund Performance in Nepalese Mutual Fund units; An analysis of Monthly returns, July 2016) according to his analysis Mutual Fund has emerged as the best in term of variety, flexibility, diversification, liquidity as well as tax benefits. Mutual fund investors can gain access to investment opportunities that would otherwise be unavailable to them due to limited knowledge and resources. Mutual funds have the capability to provide a solution to most investors requires, however the key is to do proper selection and have a process for monitoring and controlling. In Nepal, the mutual fund industry is at growing stage and it is incorporating a higher number of new funds ever year. He also mentioned that the mutual funds have not performed better than their benchmark indicators. Some of the funds have performed better than the benchmark of its systematic risk but with respect to volatility most of the funds have not performed better. In the sample, funds are not highly diversified unless few mutual funds and because of their high diversification they have reduced total risk of portfolio whereas, other mutual' s funds have low diversified portfolio and have more risk.

e. Liquidity

According to (adhikari, July 22, 2021) Liquidity has been a hot topic in the Nepalese financial market in recent times. Liquidity is the available surplus cash or an asset/security that can be easily converted into cash. In general, liquidity is the cash equivalent assets used to address financial obligations. The motion of the capital market is more or less driven by liquidity. Excess liquidity helps the capital market rise, and on the contrary, low liquidity means a fall in the index.

## **1.7research Methods**

This chapter mainly emphasize on the research process and methods design to meet the stated objectives of the study. It covers research plan, design, description of the sample, instrumentation, data collection procedure, validity and reliability of data and analysis plan.

### **1.7.1 Research Design**

The research is quantitative in nature. This study employs a descriptive research design and causal-comparative research design to deal with the fundamental issue associated with the investor's perception in mutual fund with reference to Nepalese market. The descriptive research design has been adopted for fact-finding and searching for adequate information about the factors affecting investment decisions. This study has also employed causal-comparative research design to determine the cause and effect of independent variables such as fund schemes, risk and return, and investor's level of awareness with dependent variables i.e. investment decision in mutual fund to analyze the factors affecting investment decision. Data has been collected by formulating the self-administered questionnaire consisting of various questions from classification questions, single response questions, multiple response questions and Likert scale questions. Statistical tools SPSS software has been applied to process data collected and a descriptive technique has been adopted to determine the factors affecting investment decisions. The finding of the research is totally based on the data and facts provided by the sample respondents.

### **1.7.2 Subjects**

The subject of this study is the total proportion, sample size and the variable used in the research. The dependent variable of the study is investment decision in mutual fund where as independent variables of the study are fund schemes, risk return and investor's level of awareness.

### **1.7.3 Population and Sample**

The population of the study will be all investors who invest in mutual fund in Nepal. Since the population is scattered throughout Nepal and there is major concentration of large size, the investors residing in Kathmandu Valley were only taken as sample for the research.

Simple random sampling is used to avoid any biases associated with the data collection task. In this survey, the sample will be selected from the mutual fund investors in Nepal. As the research aims at exploring the behavior factors of individual investors, a relatively large sample is recommended.

Regarding the sample size, 100 questionnaires were distributed. There were valid survey responses among completed surveys forms, excluding those with missing information responses

the sample size calculation will be based on  $p = 0.05$  where the probability of committing type I error is less than 5% or  $p < 0.05$ .

$$S = \frac{X^2 NP (1-P) + d^2(N-1) + X^2 P (1-P)}{d^2} \dots \dots \dots (1)$$

Where,

S = required sample size

X<sup>2</sup> = table value of chi-square for 1 degree of freedom at the desired confidence level (0.005=1.7.841)

N= population size

P = Population proportion (assumed to be 0.05) since this would provide the maximum sample size

d= degree of accuracy expressed as proportion (0.05)

### **1.7.4 Source of Data**

The study used both primary and secondary data as its sources of information. Primary data is collected with structured questionnaire administrated to the investors of mutual fund. The data so collected were presented in tabulated, calculated based on percentages outcomes to draw inferences.

The secondary data have been cited and referenced through previous research works, articles and related journals, and also online available information.

### **1.7.5 Instruments**

Accurate and systematic data collection is critical to conducting scientific research. Data collection allows us to collect information that we want to collect about our study objectives. This helps to relate with the outputs of the research project report. Simple and direct questions are included in the close ended and self-administered questionnaire in order to avoid any confusion on the part of respondents.

The questionnaire included different sections for the ease of the respondents. The first section included personal information of the respondents to draw some conclusion on the basis of demographic profile of the respondents. The second section includes questions related to objectives of the study that consist of multiple-choice questions so that respondents can mark one of the several choices of answers. In the third session, the sample respondents were given scenario-based question to which they were asked to mark their response in a range of Likert scale questionnaire from 1 to 5 points where 5 will be for strongly disagree, 4 for disagree, 3 for

neutral, 2 for agree and lastly 1 for strongly agree. The respondents ticked the most appropriate response to each statement as per the request. The questionnaire has been included in the appendix.

### **1.7.6 Data Analysis Methods and Procedure**

Data can be collected from two sources: primary source and secondary source. Data collected through primary sources like questionnaire, observation interview etc. are primary data. These data are in raw form and requires further processing. Data which are collected from secondary sources like journals, articles, bulletins, reports etc. are secondary data. These data can be either published or unpublished but they are already processed by other individuals. After the observation, the respondents were selected based on simple random sampling.

### **1.7.7 Method of Statistical Analysis**

The data collected were statistically analyzed through SPSS. Data analysis will be carried out through frequencies, mean, percentage, standard deviation and independent sample t- test were performed as appropriate to accomplish the objective of the study.

#### **a. Descriptive Statistics**

Descriptive statistics has been used to summarize the collected data, and describe and understand its basic features to facilitate easy comparison. It includes the calculation of frequency and percentage schedules. The central representative value of entire data sets is drawn by the use of mean and standard deviation is used to measure the dispersion.

#### **b. Reliability and Validity**

Reliability is fundamentally concerned with issue of consistency of measures. There are three prominent factors- stability, internal reliability and inter-observer constancy. Validity showed how much any measuring instrument measures what it is intended to measure. Several ways of establishing validity are face validity, concurrent validity, predictive validity, construct validity and convergent validity. It can use Cronbach's alpha method to assess the reliability or internal consistency of the set of data or test items.

#### **c. Correlation Analysis**

Correlation Analysis is used to quantify the association between dependent and independent variables. Correlation analysis measure and analyze the degree of relationship between two or more variables, which precisely determine the direction and degree of relationship (Creative Research systems, 2016). The most widely used type of correlation coefficient is Pearson’s Correlation. It has been employed for the purpose of this study. the significance level is kept at 0.05, which means there is 95% of confidence level.

### 1.7.8 Conceptual framework

A conceptual framework relates concepts, empirical research, and relevant theories to advance and systematize knowledge about related concepts or issues. This study focuses on the investor’s perception on mutual fund with reference to Nepali mutual fund investors. Following conceptual framework is developed to link a relation ship between independent variables and dependent variables. Investment decision on mutual fund is dependent variable and there are three independent variables which are fund management, Risk and return and investors level of knowledge.

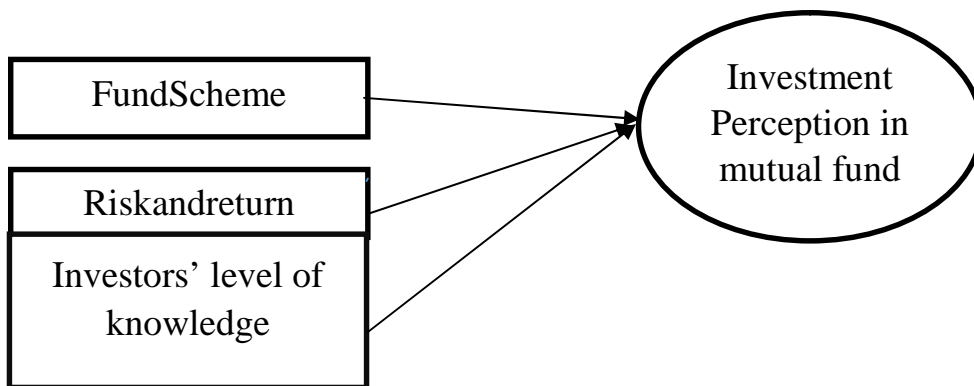


Fig 1conceptual framework showing dependent and independent Variables

### 1.7.9 Definition of the Terms

The following section deals with the different terms used in the research paper.

#### **Financial market:**

Financial market implies a market in which securities are purchased or sold. Funds are transferred in the financial markets when one party purchases financial markets when one party purchases financial assets previously held by another party. Financial markets facilitate the flow of funds and thereby allow financing and investing by households, firms, and government agencies.

**Investors:**

An investor is someone who invests in securities and assets of companies in a primary market or secondary market. All those investors having DEMAT account fulfil the criteria of investor and considered as population for the study.

**Decision-making**

With institutional investors, investments are usually overseen by different individuals in the organization. For example, the board of director makes the decision-making process more challenging as people are likely to purpose different ideas on what trades to make. As an investor, individual is boss of himself and the sole decision maker it comes to buying and selling shares. It depends upon us what decision we are individually taking to invest in mutual fund.

**1.8 Chapter Plan**

The thesis study report will be comprised of the following chapters:

**Chapter I – Introduction:**

This chapter gives an overview of the background of the study, focus of the study, problem statement, and research objectives, conceptual framework, significance of the study, limitation of the study.

**Chapter II – Literature Review:**

This chapter reviews the theoretical base of the study as well as the previous studies on mutual funds, its fund size and the performance evaluations.

**Chapter III – Research Methodology:**

This chapter covers the method used in the conduct of this study from the process of data collection to data analysis.

**Chapter IV – Results:**

This chapter discusses the result of data analysis. Here we analyze the impact of fund size over the performance of mutual funds in Nepal. And the result of correlation between fund size and Net assets Value (NAV) will be presented.

#### **Chapter V – Conclusion:**

This chapter will summarize the overall study and discusses the conclusion drawn from the findings of the study. Finally, some recommendations to mutual fund companies and investors willing to invest in mutual funds will be made on the basis of findings of this study.

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