A Study of Investors' Attitude towards Mutual fund in Kathmandu City, Nepal

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ABSTRACT

Mutual fund is an investment tool which assembles the savings of millions of small investors into huge capital formation. The primary goal behind investment in mutual fund is to earn goods return with comparatively low risk. The main purpose of doing this research is to find out a relationship between selected demographic and socioeconomic characteristics and investors' attitude towards mutual. Another purpose of this research was to rank different sources investors use to make investment decision on the basis on their preference. By using Likert scale (0 to 1) and three levels (positive, neutral, negative) in structured questionnaire, researchers have measured the level of attitude towards mutual fund and levels of preference of sources are to investment decision. It is found that, the investors attitude is not independent towards mutual fund on the basis of demographic and socio economic variable (age, gender, monthly income, investment level, educational qualification). Also, among selected sources, investors provide their highest preference to Brokers/Agents to make investment. The study has suggested some important policy measures such as regulatory change, creating investors awareness, encouraging the private companies to raise fund through mutual fund.

KEYWORDS

Investors Attitude, Mutual fund, Sources of information.

INTRODCUTION

Mutual fund is basically a company that pools the money from a group of investors (its shareholders) to buy financial securities, building a less risky portfolio than an individual investor would do (Kolosov & Soltanmammedov, 2011). It is suitable for the general investors as it provides the opportunity to the investors to invest their fund in diversified and professionally managed basket of securities at a comparatively lower cost. Changing in the economic condition, decreasing interest rates of bank deposits, precipitate nature of capital market and recent bitter experience of investors in making direct investment in capital market instruments facilitate to the

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growing importance of mutual funds. They have been playing an important role in financial inter-mediation, expansion of capital markets and growth of the financial sector. The active contribution of mutual funds in economic development can be seen by their foremost presence in the money and capital market.

An understanding on behavioral process and outcome is crucial for financial decision makers. Theoretically in behavioral finance, demographic and socioeconomic characteristic of market participants influence the investment decision. The behavioral finance mainly focuses on how investors interpret and act on micro and macro information to make investment decisions. According to (Shleifer, 1999) behavioral finance is a rapidly growing area that deals with the influence of Psychology on the behavior of financial practitioners. The various studies have been conducted in other countries but to the best of researchers' knowledge no similar studies has been found in Kathmandu City. Hence this study attempts to find out the association between different socio economic and demographic characteristics, and investors' attitude towards mutual fund.

Various researches have been carried out on behavioral finance. In a recent study indicates that mutual funds industry is growing sector because of the dynamics of investors' perception towards mutual fund and because of this to understand and to analyze investors' perception and expectation is very much important issue in financial market (Walia & Kiran, 2009). Another study on the benefit of small mutual fund investors, found that small investors get benefit from mutual fund because of diversification of investment, efficient management, affordability and liquidity (Ramamurthy & Reddy, 2005). In any countries, regularity authorizes try to interfere and impose restriction on the actions of financial intermediaries, so that they can sustain in the financial market. Because of this reason mutual funds come up with innovation products and many research support that these restrictions help in product innovation of mutual funds (Ben, Horim, & William L, 1977).

Parihar carried out the study in Agra region with 200 respondents and found that the demographic variables like age, gender, income and strong association with the investors' attitude toward mutual fund. However, education of the investors had no impact on the attitude towards mutual funds. (Parihar, Sharma, & Parihar, 2009).

On a study on awareness and acceptability of mutual funds conducted by Singh and Jha found that consumer prefer mutual fund because of safety, liquidity and return potentiality.

(Singh & Jha, 2009). Generally, female investors fell hesitate to invest in mutual fund because of lack of knowledge about fluctuation of price in market, protection of their funds and fund valuation (Desigan, Kalaiselvi, & Anusuya, 2006)

Kannad Hasan examined the factors that influence the retail investors' decision in investing. The decision of the retail investors is based on various dependent variables viz., Gender, age, marital status, educational level, income level, awareness, preference and risk bearing capacity. (Kannadhasan, 2006). A study of on age, gender, education, income, and occupation had significant association with investor's attitude towards mutual funds but they did not find any significant association with savings. (Subramanya & Murthy, 2013).

Singh argued that most of the respondents have no proper knowledge of the functioning of mutual funds. He found that demographic factors like gender, income and qualification have significantly influenced the investors' preference towards mutual funds. However, two demographic factors namely age and occupation have not been found influencing the attitude of investors' towards mutual funds. As far as the benefits provided by mutual funds are concerned, return potential and liquidity have been perceived to be most attractive by the investors' followed by flexibility, transparency and affordability. (Singh, 2012)

Jani et. al. made analysis on the consumers' perception towards mutual funds as an investment option in Valsad city from Gujarat. The study revealed that Consumers perception was positive toward investment in mutual funds (Jani, Patel, & Jain, 2012). Sharma et. al. studied the customers' perception and satisfaction towards the mutual funds industries. This paper identified the factors "Safety" and "Liquidity" which influence the satisfaction level of customers with respect to mutual fund companies (Sharma et al., 2012). Shah and Baser conducted a study and tries to study the impact of the two variables (age and occupation) on investor's preference towards funds reputation and brand name and minimum initial investment. Study has concluded that occupation is a variable that affects investors' preference where as age does not play any role in building the investor's preference. Mutual fund is a very popular concept among the investors but it requires more awareness to be spread among the target viewers (Shah & Baser, 2012).

Most of the studies show the scenario of Indian investors towards mutual fund. But no study is found to investigate the attitude of Nepalese investors towards mutual fund as the

researchers attempted to measure the investor's preferences towards mutual fund in Kathmandu City.

The main objective of this report is to know the investors' attitude towards mutual funds in Kathmandu city.

- To study impact of different socio economic and demographic characteristics on investors' attitude towards mutual fund.
- To study different sources investors use to make investment decision on the basis on their preference.

Methodology

Investors' attitude towards mutual fund means investors intention to invest in mutual fund. Researcher used three level of investors' attitude. Positive attitude indicates have intention to invest in mutual fund. Neutral and negative attitude indicates indifferent and no intention to invest in mutual fund respectively. And to measure the preference of each source, likert scale (0 to 1) is used. In Likert scale, 0 indicates least preference source and 1 indicates preference source.

Level of attitude towards mutual fund and levels of preference of sources are to take investment decision were considered as dependent variable. Demographic and socio economic factors of investors and seven different sources that investors frequently use to take investment decision as independent variable. Age, Gender, income level, investment level and educational qualification are used at demographic and socio economic variables (**Figure 1**). Seven different frequently used sources are given in Annex -1.
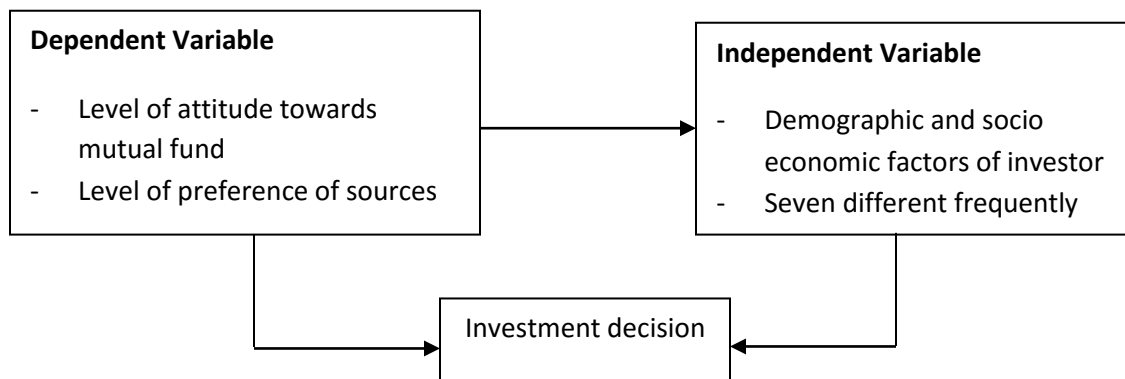

Figure 1. Conceptual framework of research study.

In this study 400 investors had been considered from Kathmandu city. But due to the data insufficiency in few questionnaires 398 have been used for data analysis. The present study is based on primary data which was collected using questionnaire method. Individual investor of Kathmandu city has been considered as sample unit.

The data thus collected has been tabulated first and then analyzed with the help of statistical techniques like Chi square test. In this research we are trying to find out whether there is relationship between selected demographic and socio economic variable and investors' attitude towards mutual funds. This paper also ranked frequently selected used sources on the basis on preference of mutual funds investors.

Results & Discussion

Table 1. Age Vs Investors' attitude towards mutual fund.

Attitude towards Mutual Fund (%)			
Age	Positive	Neutral	Negative
Below 30	13.14	4.85	10.17
31-45 years	58.90	50.49	52.54
46-60 years	24.58	36.89	30.51
Above 60 years	3.39	7.77	6.78

Table 1 shows that out of 236 people 58.89 percentages of 31-45 years old people show positive attitude towards mutual fund and only 6.78 percentage of above 60 years old people shows negative attitude.

We are rejecting the null hypothesis as at 5 % significant level with degree of freedom 9, p value is 12.859, which is higher than 0.05 and can conclude that there is no association between age and attitude toward mutual fund.

Table 2. Gender Vs Investors' Attitude towards mutual fund.

Attitude towards Mutual Fund (%)			
Gender	Positive	Neutral	Negative
Male	80.93	75.73	74.58
Female	19.07	24.27	25.42

Above **Table 2** shows that out of 236 people, 80.93 percentage male shows the positive attitude and only 25.42 percentages female shows negative attitude towards mutual fund.

As per the result shown after the test we are failing to reject null hypotheses as at 5% significant level with degree of freedom 3, p value is 2.098 which is higher than 0.05 and can conclude that there is no association between gender and attitude toward mutual fund.

Table 3. Education Vs Investors' Attitude towards Mutual fund.

Attitude towards Mutual Fund (%)			
Education	**Positive**	**Neutral**	**Negative**
Up to SLC	3.81	0.00	1.69
Up to Higher Secondary	13.14	12.62	10.17
Bachelor	53.39	58.25	59.32
Master	29.66	29.13	28.81

Above **Table 3** shows that, out of 236 people, 83.05 percentage people having educational qualification Bachelor and Master shows positive attitude and only 1.69 percentages having educational qualification of up to SLC show negative attitude towards mutual fund.

We are failing to reject null hypotheses as at 5% significant level of freedom 9, p value is 6.054, which is higher than 0.05 and can conclude that there is no association between Education and attitude toward mutual fund.

Table 4. Income (Monthly) Vs Investors' Attitude towards Mutual fund.

Attitude towards Mutual Fund (%)			
Income	**Positive**	**Neutral**	**Negative**
Below Rs 10,000	7.62	7.77	8.47
Rs 10,001-20,000	48.30	45.63	45.76
Above Rs 20,000	44.06	46.60	45.76

Above **Table 4** shows that out of 236 people, 48.30 percentage people within monthly income level of Rs 10,001-20,000 shows positive attitude towards mutual fund and only 8.47 percentage people whose income level is below Rs 10,000 shows negative attitude towards mutual funds.

As per the result of Chi-Square tests, at 5% significant level with degree of freedom 6, p value is 0.836 which is higher than 0.05, we are failing to reject null hypotheses and can conclude that there is no association between income (monthly) and attitude toward mutual fund

Table 5. Investment Vs Investors' Attitude towards Mutual fund.

Attitude towards Mutual Fund (%)			
Saving	**Positive**	**Neutral**	**Negative**
Below Rs 2,000	11.02	13.59	15.25
Rs 2,001-4,000	42.37	35.92	35.59
Above Rs 4,000	46.61	50.49	49.15

Out of 236 people, 46.61 percentage people within investment level of above Rs 4,000 shows positive attitude towards mutual fund and 15.25 percentages people having investment below Rs 2,000 show negative attitude (**Table 5**).

As per the result shown after the test , at 5% significant level with degree of freedom 6, p value is 2.399, which is higher than 0.05,we are failing to reject null hypotheses and can conclude that there is no association between investment level and attitude toward mutual fund.

Ranking of Sources of Information according to score

Table 6. Ranking of sources of information according to score.

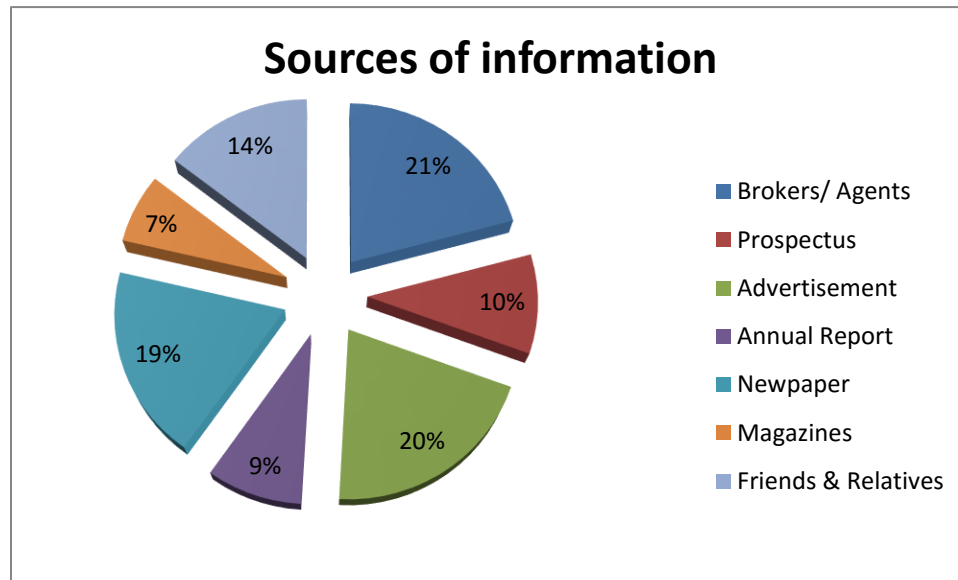|	**N**	**Minimum**	**Maximum**	**Sum**	**Mean**	**Std. Deviation**
Brokers / Agents	400	.00	1.00	281.00	.7025	.45773
Prospectus	400	.00	1.00	131.00	.3275	.46989
Advertisement	400	.00	1.00	274.00	.6850	.46510
Annual Report	400	.00	1.00	119.00	.2975	.45773
Newspaper	400	.00	1.00	255.00	.6375	.48132
Magazines	400	.00	1.00	92.00	.2300	.42136
Friends and Relatives	400	.00	1.00	196.00	.4900	.50053
Valid N (list wise)	400					

Figure 2. Sources of information.

Above **Table 6** shows the score of different from where the investors collect their information. In this table highest possible value is 400 (400 x 1 = 400) and lowest possible value is 0 (400 x 0 = 0). Broker / Agents is in the highest position with 281 score. There are three sources those mean value is more than 0.60, which is the average score for each sources. It indicates that investors give more than average value on these three sources. These are (according to the score): Brokers / Agents (281), Advertisement (274), Newspaper (255). In the other hand, investors give least preference on Magazines and score for it is 92. Mean value for Magazines is 0.23. It indicates investors give below average important on the information from Magazines (**Figure 2**).

CONCLUSIONS & RECOMMENDATIONS

Mutual funds have emerged as the best in terms of variety, flexibility, diversification, liquidity as well as tax benefits. Mutual funds 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 a growing stage and it is incorporating a higher number of new funds every year.

From the above analysis, research found that there is no association between investors' attitude towards mutual fund on the basis of demographic and socio economic. Investors provide their highest preference on brokers/ Agents as a source of information and other hand, investors give their least preference on Magazines. However, research found two sources of information on which investors provide their important more than average. There are advertisement and newspaper.

Chi square test is used to find out the relationship between investors' attitude and demographic and socio economic as to find out intensity and direction to the relationship needs further research. By using Likert scale, this paper ranked the sources frequently used by investors to make investment decisions as to explore the reasons behind their preference needs further research in this field.

Policy maker can undertake action to ensure sufficient return on investment in mutual fund. Planners should encourage private companies to raise fund through mutual fund. To create awareness among the market participants Security board of Nepal can take both education and training program.

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Web Sites

www.nepalstock .com

www.sharesansar.com

www.sebon.gov.np

www.nrb.org.np

Annex -1

The sources of information used in this paper are:

i.   Brokers/ Agents

ii.   Prospectus

iii.   Advertisement

iv.   Annual Report

v.   Newspaper

vi.   Magazines

vii.   Friends & Relatives.