Determinants of Investment Decisions of Mutual Fund in Nepal

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Abstracts

Mutual funds in Nepal are financial vehicles that pool money from multiple investors to invest in diversified portfolios of securities, managed by professional fund managers. They play a crucial role in mobilizing savings and providing access to diversified investment opportunities for Nepalese investors. This study examines the factors influencing investment decisions in mutual funds in Nepal, focusing particularly on financial literacy, risk perception, investment behavior, and peer group influence. To achieve the stated objective, data were collected from the primary source using a structured questionnaire administered through convenience sampling technique. The respondents comprised 204 individual investors of mutual funds inside the Kathmandu Valley. The Smart PLS 4.0 was used to analyze the structural relationships within the proposed theoretical model. The findings of this study validated the set hypotheses that financial literacy, risk perception and investment behaviour have positive and significant effect on investment decisions among the investors in Nepalese mutual funds but the peer group has no any effect on investment decision. These results underscore the importance of targeted financial education programs and tailored investment strategies that enhance individual investor knowledge and understanding, thereby fostering more informed and independent investment decisions in Nepal's mutual fund market. The results may encourage to promote financial literacy through educational programs and

integrating it into national curricula can empower investors to make informed decisions in Nepalese context.

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Introduction

A mutual fund is a financial intermediary that pools the savings of investors for collective investments in a diversified portfolio of securities. A fund is said to be mutual as all of its returns, minus its expenses are shared by the fund investors. A mutual fund serves as a link between the investor and the securities market by mobilizing savings from the investors and investing them in the securities market so as to generate returns. Thus, a mutual fund is a skim to Portfolio Management Services (Saab, 2014). The government of Nepal has made mandatory provisions to allocate 5% of the total initial public offerings (IPO) for mutual funds. The mutual fund plays a vital role in the securities market and has its own benefits (Jasmine & Basariya, 2018).

Every human being has their different mindset to invest and save their money. saving and investing is not only their goal, but significant growth in saving and investment is the basic goal of every person. Growth in investment without higher risk is the ultimate objective of planned investor. Mutual fund systematic plan helps them to attain such objectives (Acharya & Das, 2017). Mutual fund companies provide customized schemes to small investors and update them with potential risk and return associated with the income. There schemes by the mutual funds help investors to fulfill their dream or goals of growth in their money. When it comes to saving and investing their money, every single human being has a unique way of thinking. Not only is it their objective to save and invest, but it is also the fundamental objective of every individual to achieve considerable increase in their savings and investments (Mehta & Shah, 2022). One of the ultimate goals of planned investors is to achieve growth in their investments without taking on additional risk. Mutual fund systematic plan assists these investors in achieving their goals successfully (Panda & Tripathy, 2021).

Mutual funds in Nepal have seen a noteworthy evolution, providing a structured and regulated avenue for collective investment, which has become

increasingly appealing to both retail and institutional investors (Bajrachayra, 2022). The formal introduction of mutual funds occurred with the enactment of the Mutual Fund Regulation 2067 BS (2010 AD), which established a robust legal framework under the oversight of the Securities Board of Nepal (SEBON). SEBON plays a critical role in regulating and supervising mutual funds, ensuring transparency, protecting investors' interests, and fostering market stability.

The performance of these funds has generally been promising, often outperforming traditional savings instruments like fixed deposits and savings accounts. This has made mutual funds an attractive option for investors seeking higher returns over the long term. Additionally, mutual funds in Nepal offer a range of investment options, including equity funds, debt funds, balanced funds, and more recently, hybrid and sectoral funds. These diversified products cater to varying risk appetites and investment horizons. (Bajracharya & Mathema, 2017).

The determinants of investment decisions of mutual funds in Nepal significantly contribute to the country's financial market by providing insights into investor behavior, risk assessment, and market trends. Understanding these determinants helps in formulating strategies to attract and retain investors, thereby enhancing the liquidity and stability of the financial market. Factors such as financial literacy, risk perception, investment behaviour and peer group influence are crucial in shaping investment decisions. By analyzing these elements, mutual fund managers can make informed decisions that align with investor preferences, leading to more robust portfolio management and contributing to the overall growth and sophistication of Nepal's financial sector. (Jasmine & Basariya, 2018).

Investment decisions of mutual funds in Nepal are significantly influenced by factors such as financial literacy, risk perception, investment behavior, and peer group influence. Low financial literacy among the general population leads to a limited understanding of mutual fund products, resulting in cautious and often misinformed investment choices. This lack of knowledge amplifies risk perception, causing potential investors to shy away from mutual funds due to fear of loss or misunderstanding of risk-reward dynamics. Investment behavior in Nepal is often conservative, with a preference for traditional saving methods over market-based instruments. Additionally, peer group influence plays a crucial role, as individuals tend to follow the investment choices of their social circle, which may not always be based on sound financial principles. These factors collectively hinder the growth and

development of the mutual fund industry in Nepal. However, continuous efforts are necessary by the regulatory bodies to enhance market infrastructure, increase financial literacy, and introduce investor-friendly policies are gradually mitigating these challenges. Considering this fact, this study aims is to explore the factors that influences the investment decisions in mutual fund scheme in Nepal.

Literature Review and Hypotheses

Theoretical Review

This study is interconnected with some theories such as accelerator theory, internal fund theory and neo-classical theory of investment:

Accelerator Theory of Investment

The Accelerator Theory of Investment posits that the level of investment by firms is closely tied to changes in output or demand within the economy. According to this theory, when there is an increase in demand for goods and services, firms respond by increasing their production capacity to meet this higher demand. This, in turn, leads to higher investment in capital goods, such as machinery and equipment. Conversely, when demand decreases, firms reduce their investments. The core idea is that investment is a function of the rate of change in economic output, rather than the level of output itself. This theory helps explain the cyclical nature of investment and its sensitivity to economic fluctuations, emphasizing the role of business expectations and the acceleration principle in driving investment decisions.

Internal Fund Theory of Investment

The Internal Fund Theory of Investment, also known as the pecking order theory, suggests that firms prefer to finance their investments using internally generated funds, such as retained earnings, before seeking external financing. According to this theory, companies prioritize internal funds because they are less costly and do not require revealing sensitive information to external parties, which might lead to adverse selection and higher financing costs. If internal funds are insufficient, firms then turn to debt financing, and only as a last resort, they issue new equity. This hierarchy of financing preferences reflects the desire of firms to minimize the costs associated with asymmetric information and to maintain control over their operations. The theory underscores the importance of internal cash flow in driving

investment decisions and the potential impact of financial constraints on a firm's ability to invest.

Neo-classical Theory of Investment

The Neo-Classical Theory of Investment posits that firms make investment decisions based on the marginal productivity of capital and the cost of capital. According to this theory, firms will continue to invest in capital goods such as machinery, buildings, and technology until the marginal productivity of the last unit of capital equals the marginal cost of acquiring that capital. This equilibrium ensures that the returns on investment are maximized. Additionally, factors such as interest rates, taxes, and expectations about future profitability play crucial roles in determining the cost of capital. Higher interest rates, for instance, raise the cost of borrowing funds for investment, thus potentially reducing the level of investment.

Empirical Review

New investment schemes offered by financial intermediaries that pool investors' money to purchase various financial securities. These schemes can be classified into open-ended funds, closed-end funds, and unit investment trusts. The main categories of these funds include stock or equity funds, bond or fixed-income funds, money market funds, and hybrid funds (Kumar, 2014). A mutual fund is a professionally managed fund focused on the collection, growth, and safety of investors' funds. Mutual funds are trusts that pool the savings of investors and invest in capital market instruments. The income generated is distributed among the unit holders (Shah, 2018). Peer influence significantly impacts investors' choices, especially among retail investor communities (Sarkar et al., 2020).

According to Ritzer-Angerer (2019), trust in financial institutions plays an indispensable role in making investment choices. Since mutual funds and Systematic Investment Plans are often facilitated by financial intermediaries. The perceived credibility and trustworthiness of these institutions can significantly influence an investor's decision. Similarly, peer group influence largely has its impact on investors choices, especially among retail investor communities (Sarkar et al., 2020). Various studies have underscored the importance of this trust, indicating that institutions with a history of transparency, consistent communication, and ethical practices are more likely to attract and retain retail investors for SIPs. Moreover, regulatory changes that

promote transparency, investor protection, and financial literacy can further enhance the appeal of SIPs (Bajracharya & Mathema, 2017).

Research has consistently demonstrated that a favorable regulatory environment, financial knowledge of investors and investment behaviour which prioritizes investor interests, can significantly boost the growth of mutual fund investments, including Systematic Investment Plans (Singal & Manrai, 2018). The expansion of mutual fund schemes clearly indicates their appeal to small-scale investors. These innovative mutual fund schemes alter investors' perspectives on market risk and returns. Mutual fund programs offer numerous opportunities for wealth accumulation and growth (Acharya & Das, 2017). Investors often choose mutual funds to diversify their portfolios and achieve their financial goals, even without extensive knowledge of market fluctuations (Acharya & Das, 2017). The varying risk exposure across different mutual fund schemes provides security and potential tax benefits to investors (Zanvar & Bhola, 2016).

Financial Literacy and Investment Decision

Financial literacy significantly influences mutual fund investment decisions, highlighting the importance of understanding financial concepts to achieve better investment outcomes. Individuals with higher financial literacy are more likely to choose low-cost mutual fund alternatives, thereby avoiding the pitfalls of high fees associated with actively managed funds. This knowledge enables them to make more informed decisions, focusing on long-term growth and risk management rather than succumbing to behavioral biases and high-cost investments (Ghose & Dhar, 2018). Additionally, financial literacy empowers investors to diversify their portfolios effectively, improving their overall financial well-being and increasing their participation in the financial markets (Saleem et al. 2017). As mutual fund investments become more accessible, promoting financial education can bridge the gap between potential and actual investors, fostering a more inclusive investment environment (Arathy et al. 2015). Based up on these facts, the following hypothesis has been proposed:

H_1: Financial literacy significantly influences investment decisions.

Investment Behavior and Investment Decision

Investment behavior and mutual fund investment decisions are deeply influenced by a variety of factors, reflecting a complex interplay of economic trends,

investor sentiment, and regulatory environments. Investors often rely on mutual funds due to their diversification benefits and professional management (Das & Mohapatra, 2017). Recent studies highlight that individual investor behavior in mutual funds is influenced by psychological factors such as risk perception, herd behavior, and cognitive biases (Barber & Odean, 2020). Additionally, the rise of digital platforms and robo-advisors has transformed how investors access and choose mutual funds, with an increasing focus on transparency, fees, and performance metrics (Deloitte, 2023). Amidst market uncertainties and evolving regulatory landscapes, understanding investor behavior remains crucial for mutual fund managers to tailor their strategies effectively and enhance investor trust and satisfaction (Ferreira et al., 2022). Based on these, the following hypothesis has been proposed:

H_2: Investment behaviour has a significant influence on the investment decision of mutual fund.

Peer Group and Investment Decision

Peer group influence significantly shapes mutual fund investment decisions, often driving choices based on social validation and perceived market trends (Bergstresser et al. 2009). Recent studies highlight that investors are susceptible to herding behavior, wherein they mimic the investment actions of their peers rather than conducting independent analysis (Huang et al., 2020). This tendency can lead to increased allocations to popular funds or asset classes, potentially overlooking crucial aspects like diversification and risk management. Furthermore, social networks and peer discussions play a pivotal role in shaping investor sentiments and risk perceptions (Bali et al., 2011). Consequently, peer group influence can exacerbate market volatility and result in suboptimal investment outcomes if not balanced with disciplined investment strategies and expert advice. Based on these, the following hypothesis has been proposed:

H_3: Peer group affects the investment decision of mutual fund significantly.

Risk Perception and Investment Decision

Risk perception significantly influences mutual fund investment decisions, as it shapes investors' expectations and behavior regarding potential gains and losses. Research indicates that individual risk tolerance is often swayed by cognitive biases and emotional factors, which can lead to suboptimal investment choices (Nagy & Oben Berger, 1994). For instance, investors who perceive higher risks are likely to shy away from equity funds and prefer more conservative options like bond funds, even if their long-term financial goals might benefit from a more aggressive portfolio (Grable et al., 2004). Additionally, socio-economic factors and past investment experiences play a crucial role in risk perception, further affecting mutual fund selection and performance (Gill et al., 2018). Thus, understanding and managing risk perception is critical for financial advisors aiming to guide clients toward well-informed investment decisions. Based on the above facts, the following hypothesis has been developed:

H_4: Risk perception significantly influences the investment decision of mutual fund

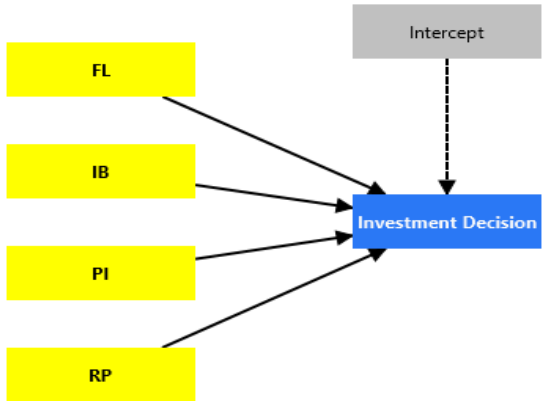
On the basis of the above literature review and subsequent hypotheses, a multiple regression model and its diametric presentation are specified as below:

$$ID = \beta 0 + \beta 2\ FL + \beta 3\ IB + \beta 5\ RP + \beta 6\ PI + ei$$

Where, FL = Financial literacy, IB= Investment behaviour, RP = Risk perception,

PI = Peer group influence, β_0 = The intercept (constant term) and e_i =error term

Figure 1
Proposed Research Model



Source: Arathy et al. (2015)

Research Methods

Research Design

To meet the objective of the study, a blend of descriptive and causal-comparative research designs was used. The descriptive research design aimed to outline the characteristics of various predictors of investment decisions, while the causal-comparative design focused on identifying the cause-and-effect relationships between these predictors and investment decisions in mutual funds.

Population and Sample

The population of the study included all the mutual fund individual investors inside the Kathmandu Valley. Out of those, a sample of 204 respondents was chosen through convenience sampling technique. A sample of 204 respondents chosen through convenience sampling can be appropriate on social science research (Babbie, 2016).

Data Collection

Primary data was collected through a structured questionnaire with a 5-point Likert scale. The questionnaire was disseminated via personal visit, email and social media platforms. Out of 243 distributed questionnaires, 219 were returned, resulting in a 90% response rate, which is generally considered satisfactory (Babbie, 2016). For data analysis, 214 responses were utilized after excluding 5 due to multiple non-responses.

Data Analysis

Descriptive statistics, including mean, standard deviation, and correlation coefficient, were employed to describe the characteristics and interrelationships of the study variables. Multiple regression analysis was used to assess the impact of various dimensions of investment decisions of mutual funds. Data analysis was conducted using Smart PLS 4.

Results

Demographic profile of the respondents

The respondents in this study have a wide range of demographic and socio-economic backgrounds. Out of 204 participants, 68.63 percent are male and 31.37

percent are female. The majority are aged 31-40 years (52.45 percent), followed by 25-30 years (29.41 percent), 16-20 years (0.98 percent), 21-24 years (8.82 percent), and above 40 years (8.33 percent). Regarding educational qualifications, 67.65 percent have a bachelor's degree, 19.60 percent have completed school level, and 12.75 percent have qualifications above a bachelor's degree. The monthly income figure shows that 26.46 percent earn up to 20,000, 48.04 percent earn between 20,000-50,000, 12.75 percent earn between 50,000-100,000, and 12.75 percent earn over 100,000. In terms of marital status, 80.88 percent are married, while 19.12 percent are unmarried. Occupationally, 50.98 percent are employed, 1.96 percent are unemployed, and 47.06 percent are self-employed.

Table 1

Demographic Profile of the Respondents N=204

Variables	Frequency	Percent (%)
Gender		
Male	138	68.63
Female	66	31.37
Age		
16-20 year	2	0.98
21-24	16	8.82
25-30	62	29.41
31-40	106	52.45
Above 40	18	8.33
Academic Qualification		
School Level	40	19.6
Bachelor	138	67.65
Above Bachelor	26	12.75
Income per Month		
Up to Rs.20000	54	26.46
Rs.20000-50000	98	48.04
Rs.50000-100000	26	12.75
Above Rs.100000	26	12.75
Marital Status		
Married	164	80.88
Unmarried	40	19.12
Occupation		
Employed	104	50.98
Unemployed	4	1.96
Self employed	96	47.06

Source: Field survey, 2024

Reliability Measures

To establish the internal reliability of the variables, Cronbach's alpha reliability test was conducted. It determines whether the items within each dimension are internally consistent or not. The reliability of the scales in this study was evaluated using Cronbach's Alpha, with all scales showing high reliability. Financial Literacy (FL) had an alpha of 0.888, Investment Behaviour (IB) recorded 0.844, Risk Perception (RP) had 0.879, Peer Group Influence (PI) scored 0.804, and Investment Decision (ID) showed 0.898. Each scale comprised 5 items except investment decision (ID) (7 Items) and all Cronbach's Alpha values surpassed the acceptable threshold of 0.70 (Nunnally, 1978), confirming the reliability of the scales used.

Table 2

Reliability Analysis

Variables	Cronbach's Alpha	No. of items	Remarks
Financial Literacy (FL)	0.888	5	Reliable
Investment Behaviour (IB)	0.844	5	Reliable
Risk Perception (RP)	0.879	5	Reliable
Peer Group Influence (PI)	0.804	5	Reliable
Investment Decision (ID)	0.898	7	Reliable

Source: Field survey, 2024

Descriptive Statistics and Pearson Correlation

Table 3 presents the descriptive analysis and correlation coefficients of the variables used in the study. The descriptive statistics for the variables FL, IB, RP, ID, and PI reveal varying mean scores and standard deviations. PI has the highest mean (M = 4.006) and the lowest standard deviation (SD = 0.583), suggesting that PI scores are generally higher and more consistent among participants. In contrast, RP has the lowest mean score (M = 3.443) and a relatively high standard deviation (SD = 0.953), indicating greater variability in RP scores. Overall, the mean scores for the other variables range from 3.471 to 3.645, with standard deviations ranging from 0.888 to 0.935, demonstrating a moderate level of variability in responses.

The correlations indicate that FL is significantly and positively associated with IB (0.689), RP (0.440), and ID (0.656), showing that higher financial literacy

correlates with better investment behavior, improved risk perception, and more effective investment decisions. Similarly, IB shows strong positive correlations with RP (0.687) and ID (0.782), suggesting that better investment behavior is closely linked to a greater understanding of risks and better investment decisions. The positive correlation between RP and ID (0.651) underscores the importance of risk awareness in making sound investment choices. In contrast, PI does not exhibit significant correlations with the other variables (with coefficients near zero), indicating that peer influence does not have a strong direct relationship with financial literacy, investment behavior, risk perception, and investment decisions.

Table 3

Descriptive Analysis and Correlation Coefficients

	Mean	St. Dev.	FL	IB	RP	ID	PI
FL	3.645	0.891	1				
IB	3.633	0.888	0.689**				
RP	3.443	0.953	0.440**	0.687**			
ID	3.471	0.935	0.656**	0.782**	0.651**	1	
PI	4.006	0.583	0.023	0.040	0.111	0.076	1

** Correlation is significant at the 0.01 level (2 tailed)

Source: Field survey, 2024

Where: FL- *Financial Literacy, IB- Investor Behaviour, RP- Risk Perception, PI- Peer Influence and ID- Investment Decision*

Model Fit

The R-square value of 0.666 and an adjusted R-square of 0.652 suggest that approximately 65.2% of the variance in the Investment Decision can be explained by the independent variables included in the model. The overall regression model is significant (F-14.702, p - 0.000). The Durbin-Watson statistic is 1.903, which is close to 2, indicating that there is no significant autocorrelation in the residuals. (Durbin and Watson,1951). The Variance Inflation Factor (VIF) values for all variables are below 4, suggesting that multicollinearity is not a concern (Kutner, Nachtsheim, & Neter, 2004).

Table 4

Regression Coefficient

	Unstandardized coefficients	Standardized coefficients	SE	T value	P value	VIF
IB	0.484	0.460	0.106	4.584	0.000	3.235
RP	0.223	0.228	0.080	2.794	0.006	2.021
PI	0.043	0.027	0.095	0.455	0.650	1.034
FL	0.249	0.238	0.085	2.938	0.004	3.027
Intercept	-0.140	0.000	0.446	0.314	0.754	
R^2 =0.666 Adj.R^2 =0.652 F-value =14.702, F(sig) = 0.000 Durbin Watson Test= 1.903						

Outcome variable: Investment Decision

Where: FL- *Financial Literacy, IB- Investor Behaviour, RP- Risk Perception, PI- Peer Influence and ID- Investment Decision*

Test of Hypotheses

The hypothesis testing results reveal that Financial Literacy (FL), Investor Behavior (IB), and Risk Perception (RP) have a significant impact on Investment Decision (ID). FL emerged as a significant predictor of ID ($\beta = 0.238$, $t = 2.938$, $p = 0.004$), indicating that higher financial literacy correlates with better investment decisions. Likewise, IB was a strong predictor ($\beta = 0.460$, $t = 4.584$, $p = 0.001$), showing that better investor behavior leads to improved investment decisions. RP also significantly affected ID ($\beta = 0.228$, $t = 2.794$, $p = 0.006$), suggesting that a greater understanding of risks is associated with better investment decisions. Hence, H1, H2 and H4 are supported. However, Peer Influence (PI) was not a significant predictor ($\beta = 0.027$, $t = 0.455$, $p = 0.650$), indicating that peer influence does not significantly affect investment decisions resulting in rejection of H3. Table 5 given below provides the summary of hypothesis testing followed by figure 2 presenting the final research model.

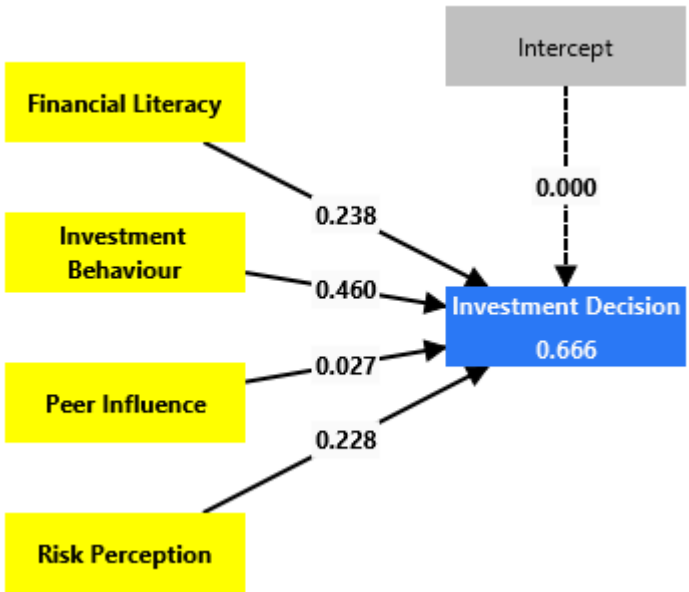
Table 5

Summary of Hypotheses Testing

Hypotheses	Statement	P Statistics	Remarks
H_1	Financial literacy significantly influences investment decisions of mutual fund.	0.004	Supported
H_2	Investment behavior has a significant influence on the investment decision of mutual fund.	0.000	Supported
H_3	Peer group affects the investment decision of mutual fund significantly.	0.650	Rejected
H_4	Risk perception significantly influences the investment decision of mutual fund	0.006	Supported

Figure 2

Final Research Model



Discussion

The determinants of investment decisions of mutual funds in Nepal reveals several critical insights that reflect both universal principles and unique local gradations. In Nepal, investors often make decisions driven by different factors, such

as risk perception, peer group influence as well as investment behavioural factors. These tendencies can lead to irrational investment choices, significantly affecting market outcomes. Financial literacy serves as a crucial role in this context, enhancing investors' ability to make informed and rational decisions. The findings of the study underscore the significant influence of financial literacy, risk perception, investment behaviour and peer group influence on investment decisions within the Nepalese mutual fund.

The study revealed that the factors financial literacy, risk perception, and investment behaviour significantly influence investor decisions, but peer group influence has no effect in investment decision of mutual funds. Financial literacy empowers investors with the knowledge to comprehend the intricacies of mutual funds, assess their potential returns, and make informed decisions, thereby avoiding common pitfalls and scams. Risk perception shapes how investors view the uncertainties associated with investments; those with a higher risk tolerance might opt for high-risk, high-reward funds, while conservative investors might prefer safer options. Investment behavior, influenced by experiences, emotions, and cognitive biases, dictates how investors respond to market fluctuations, whether they follow long-term strategies or react impulsively to short-term changes. Together, these factors form the foundation of investor decision-making, guiding the selection and management of mutual fund investments. Peer group influence may not significantly affect investor decisions regarding mutual funds due to several factors. Investing in mutual funds requires understanding complex financial instruments, risks, and market trends, necessitating a higher level of financial literacy and expertise that is not uniformly present within a peer group. Additionally, investors often rely on professional financial advisors or conduct thorough personal research, given the high stakes involved in financial investments. Each investor also has unique financial goals, risk tolerance, and investment horizons, making personalized advice from professionals more relevant than peer recommendations.

This is the similar result with the empirical studies of Chen et al. (2004) and Barber et al. (2005), who found that financial literacy, risk perception, and investment behaviour significantly influence investor decisions in mutual fund. Similarly, Van et al. (2011) found that higher financial literacy is associated with better investment decisions and increased participation in financial markets. Additionally, Weber et al. (2002) demonstrated that individuals’ risk perception significantly impacts their

investment choices, with more risk-averse individuals tending to opt for safer investment options. Similarly, Barber and Odean (2001) highlighted how overconfidence, a facet of investment behavior, influences trading frequency and risk-taking. Similarly, the aspects of this study is based on the neo-classical theory of investment.

On the Contrary, the influence of peer groups on mutual fund investment decisions appears negligible according to some studies. Bikhchandani and Sharma (2000) argued that while investment behavior is prevalent in financial markets, but the investment in mutual funds is largely driven by personal financial goals and risk assessments rather than peer influence. Thus, financial literacy, risk perception, and investment behavior are consistently found to be significant, the role of peer influence in mutual fund investments remains contested and warrants for further investigation.

Conclusion

The main objective of this study was to explore the factors that influence investment decisions in mutual fund schemes in Nepal. Four constructs were identified as likely to affect these decisions: Financial Literacy (FL), Investor Behavior (IB), Risk Perception (RP), and Peer Influence (PI). The findings reveal that FL, IB, and RP significantly impact Investment Decision (ID), while PI is not a significant predictor. It is evident that financial literacy plays a crucial role, as informed investors are better equipped to understand the complexities of mutual fund investments and make informed decisions. Risk perception also significantly influences investment choices, with investors' subjective assessment of risk guiding their selection of mutual funds. Additionally, investment behavior, including individual preferences and psychological factors, shapes how investors approach mutual fund investments. Contrary to expectations, the influence of peer groups on investment decisions is negligible, indicating that Nepali investors rely more on their understanding and perception rather than social influences. These insights highlight the importance of enhancing financial literacy and addressing individual risk perceptions to better support investors in making sound investment decisions in mutual funds.

This study provides a nuanced understanding of the factors influencing investment decisions in Nepal, laying the groundwork for future research in the Nepalese financial market. It offers a model that can be refined and expanded upon, inviting further investigation into additional factors and the dynamics of financial

decision-making in developing markets. Moreover, the finding that peer Influence does not significantly impact Investment Decision, contrary to many other studies, suggests the need for further research into potential cultural or contextual differences in Nepal.

Implications of the Study

The implications drawn from the study on determinants of mutual fund investment decisions in Nepal underscore several critical points for stakeholders. Financial institutions can enhance product design and marketing strategies by tailoring offerings to different levels of financial literacy among investors. They should also prioritize educational initiatives to improve financial literacy and offer personalized advisory services aligned with investors' risk perceptions and investment behaviors. Policymakers are encouraged to develop a robust regulatory framework that ensures transparency and protects investors, particularly those with limited financial knowledge. Promoting financial literacy through educational programs and integrating it into national curricula can empower investors to make informed decisions. For individual investors, understanding their risk tolerance and seeking reliable information from trustworthy sources can contribute significantly to making prudent investment choices in mutual funds. Overall, these insights suggest avenues for enhancing investor confidence and fostering a more resilient mutual fund market in Nepal.

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