

**School of Business**

**Galgotias University**

**MASTER THESIS RESEARCH PAPER REPORT**

**Topic**- Factor Affecting Investment Decision in

Mutual Funds in Nepal

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**Acknowledgements**

This study, titled "Factors Influencing Investment Decisions in Mutual Funds in Nepal," has been prepared as part of the requirements for the Master of Business Studies degree. The research aims to identify the factors affecting investment decisions in mutual funds among investors in Nepal. This accomplishment would not have been possible without the support and assistance of numerous individuals.

First and foremost, I would like to express my sincere gratitude to Bikash Shrestha, Assistant Professor, for his invaluable oversight, guidance, and motivational support throughout this study. I am deeply thankful for his continuous assistance and insightful suggestions that have shaped this research.

Furthermore, I extend my appreciation to all the respondents who participated in the surveys and provided essential information for this study. Special thanks are also due to Mr. Manoj Kunwar, Campus Chief; Mr. Rajesh Pandit, Assistant Campus Chief; and Mr. Pramod Raj Sharma, MBS Coordinator at People's Campus, as well as my seniors, colleagues, respected librarians, and other campus experts for their support, encouragement, and valuable insights that contributed to the successful completion of this project.

Lastly, I would like to express sincere thanks to my family, friends, and well-wishers for their tremendous support, best wishes, and insightful feedback throughout the project. Despite the diligent efforts made, the possibility of human error cannot be overlooked. Therefore, I take full responsibility for any shortcomings and potential mistakes that may have occurred in the report. I welcome readers' ideas and suggestions for further improving the report.

**Abstract**

Mutual funds have emerged as a popular investment choice among investors in recent years, reflecting the principle of diversification in investment strategies. This study focuses on the factors influencing investment decisions in mutual funds. It integrates Modern Portfolio Theory and Prospect Theory. The independent variables include financial status, risk tolerance, investment returns, past fund performance, and sources of investment income, with investment decisions in mutual funds as the dependent variable.

Primary data was gathered through a structured questionnaire survey distributed to 384 respondents, constituting the sample size for the study. The research employed a descriptive, correlational, and causal research design. Statistical tools such as mean, median, mode, standard deviation, variance, correlation, and regression analysis were applied in the study.

The results indicated a positive relationship between financial status, risk tolerance, investment returns, past fund performance, and sources of investment income with investment decisions in mutual funds. Furthermore, financial status, risk tolerance, past fund performance, and sources of investment income significantly influenced investment decisions in mutual funds.

Keywords: Mutual funds, financial status, risk tolerance, investment returns, past performance, sources of investment income, investment decisions.

**INTRODUCTION**

Background of the review A financial backer has different elective roads to put his reserve funds in. Consequently, reserve funds are beneficially put resources into resources relying upon their gamble and return attributes (Ramanujam and Selvaveerakumar, 2014). Individual put their excess cash in any of the speculation road relying upon their gamble taking limit. In this manner, person's monetary navigation relies upon their mentality and conduct. Segment profile likewise assumes an imperative part in speculation choice of the person. "No aggravation, no addition" is the overall confidence in the venture the executives. More gamble lead to additional benefits. Financial backers put resources into safe interest to lessen the gamble in speculation. However, in such case financial backers can anticipate just moderate benefit (Hemalatha, 2019).

Presently there are 29 shared assets in Nepal; out of which 25 are shut end common assets and 4 are open-end shared reserves. Shut end finances issue a specific number of offers for a specific timeframe. They can't increment or lessening the quantity of offers after the issue and such supports will develop over a predefined period. Its not set in stone by organic market. Open-end common assets can increment or decline the quantity of offers as indicated by the prerequisite and they don't have a development period. Shared reserves are nearly more secure speculation choice contrasted with interest in securities exchange as the Nepalese securities exchange is portrayed by low liquidity, high focus and unpredictability. The financial backers also are not all around informed and show group attitude, and exchange on commotion instead of on essentials. In this manner, common assets might end up being a productive speculation for fledglings who need to receive the rewards of the securities exchange without investing the expected energy. Nonetheless, the financial backers need to 4 comprehend that even common assets are not 100 percent safe however they unquestionably fence the unavoidable dangers in the protections market.

**LITERATURE REVIEW**

The theoretical framework of this study encompasses two key theories: Modern Portfolio Theory and Prospect Theory.

**Modern Portfolio Theory** (MPT), pioneered by Harry Markowitz in 1952, emphasizes the importance of diversification in investment decision-making. MPT aims to maximize the expected return of a portfolio for a given level of portfolio risk, or conversely, minimize risk for a targeted level of expected return by strategically allocating assets. Markowitz demonstrated that rather than focusing on the risk of individual assets, investors can benefit from investing in a diversified portfolio because the overall portfolio's volatility is lower than the sum of its individual components. The theory hinges on two central concepts: the goal of every investor is to maximize return for any level of risk, and risk can be mitigated by diversifying a portfolio across assets that are not perfectly correlated.

MPT operates on the assumption that investors are risk-averse, preferring portfolios with lower risk for a given level of return. Investors are willing to take on higher risks only if they anticipate greater rewards. The core principle underlying MPT is that assets should not be selected in isolation based solely on their individual merits; it's crucial to consider how each asset's price movement relates to the price movements of other assets in the portfolio. According to MPT, there are two types of risk associated with individual stock returns: systematic risk and unsystematic risk. Systematic risk refers to market risks that cannot be diversified away, whereas unsystematic risk pertains to risks specific to individual stocks that can be mitigated through portfolio diversification.

MPT asserts that, given a desired level of risk, an investor can enhance a portfolio's expected returns through diversification. This involves investing in less correlated assets and pairing assets that move in opposite directions to reduce risk for a targeted level of return. MPT typically requires the specification of expected returns for each asset, which can be challenging. While historical data can inform expected returns, past performance does not guarantee future results. An alternative approach involves constructing a market capitalization-weighted portfolio combined with a portfolio based on the investor's views on expected returns for those assets, factoring in the investor's confidence in these views**.**

**Prospect theory:**

Prospect Theory was developed by Kahneman and Tversky in 1979 to explain how individuals make decisions in situations involving risk and uncertainty. The theory posits that people evaluate potential outcomes based on perceived utility relative to a reference point, rather than focusing solely on absolute results. According to Prospect Theory, individuals are averse to losses, which leads them to exhibit risk-taking behavior in order to avoid losses.

This theory highlights a bias towards risk due to a tendency to weight probabilities asymmetrically (as seen in certainty/possibility effects) and a strong aversion to losses. The investment behavior of individual investors differs significantly from that of institutional investors. Individuals often prefer to invest more heavily in non-tradable assets such as real estate, hedge funds, or structured products.

The term "institutional investor" typically refers to entities such as mutual funds, pension funds, or charitable organizations that invest on behalf of others. According to Prospect Theory, investor behavior reflects a pursuit of acquiring, utilizing, assessing, and disposing of goods, resources, concepts, or experiences to satisfy their needs and desires. Environmental factors play a significant role in shaping investor behavior, and while these factors are uncontrollable by the markets, they greatly influence investor decision-making.

Investor actions suggest that they adjust their behaviors by buying and selling shares/assets under varying circumstances. People's preferences vary depending on whether the outcomes involve gains or losses, and decision options with outcomes above the reference point are perceived as gains, while those below the point are seen as losses. It is typical for decision-makers to avoid risk when choosing between options above the reference point and to take risks when choosing between options below it.

**Research gap:**

A research gap refers to the unanswered questions or unresolved issues in previous research published in journals, books, or reports. The impact of "Past Performance" on investment decisions in mutual funds has been studied by a few researchers. Therefore, this study aims to investigate how past performance influences investment decisions made by potential investors in mutual funds. While there have been several studies on the factors affecting investment decisions in mutual funds, only a limited number of studies have explored the determinants of investment decisions in mutual funds in Nepal. Consequently, this study aims to establish a foundation for further research in the field of mutual funds in the context of Nepal.

**Problem statement**

A research issue refers to a situation where there is a gap between the current state of affairs and the desired state (Sekaran and Bougie, 2013). It is a specific problem or question that a researcher identifies and seeks to address through their study. This initial step in research helps to define the purpose or rationale of the study. The research aims to answer the following questions:

1. How do financial status, risk behavior, investment returns, past fund performance, and sources of investment information relate to the investment decisions of individual investors in mutual funds?

2. What is the impact of financial status, risk behavior, investment returns, past fund performance, and sources of investment information on the investment decisions of individual investors in mutual funds?

**Objectives of the study**

The significant goal of the review is to decide the variables impacting venture choices in common finances in Nepal according to the viewpoint of individual financial backer.

1. To look at the relationship of monetary status, risk conduct, speculation income, past execution of assets and wellsprings of speculation data with venture choices of individual financial backers in common assets, and

2. To evaluate the effect of monetary status, risk conduct, venture income, past execution of assets and wellsprings of venture data on speculation choices of individual financial backers in common assets.

**Hypothesis of the study**

The hypothesis of this study aims to identify the factors influencing investment decisions of individual investors in mutual funds. The hypotheses are as follows:

H01: There is no significant relationship between financial status and investment decisions of individual investors in mutual funds.

H02: There is no significant relationship between risk behavior and investment decisions in mutual funds.

H03: There is no significant relationship between investment returns and investment decisions of individual investors in mutual funds.

H04: There is no significant relationship between past fund performance and investment decisions of individual investors in mutual funds.

H05: There is no significant relationship between sources of investment information and investment decisions of individual investors in mutual funds.

H06: There is no significant impact of financial status on investment decisions of individual investors in mutual funds.

H07: There is no significant impact of risk behavior on investment decisions of individual investors in mutual funds.

H08: There is no significant impact of investment returns on investment decisions of individual investors in mutual funds.

H09: There is no significant impact of past performance of mutual funds on investment decisions of individual investors in mutual funds.

H010: There is no significant impact of sources of investment information on investment decisions of individual investors in mutual funds.

**Rationale of the study:**

This study means to look at the elements affecting a singular financial backer's choices to put resources into shared assets of Nepal. There are number of explores that have been finished in regards to venture choice in shared assets or unit speculation trust all through the world yet restricted research has been finished in Nepal. This exploration makes a critical commitment for additional examination in the space of finding the elements impacting common asset venture according to the point of view of a singular financial backer. Further, this exploration will help academicians, professionals and scientists in their review and help them to zero in on the most common factors that impact the singular financial backers choice to put resources into shared assets to guarantee their productivity and security of interest from here on out.

The meanings of the review are as per the following:

1. The review will help venture banks to configuration, advance items to instruct financial backers about shared reserves and its advantages.

2. The review will assist with distinguishing key regions, variables and components for working on shared reserve industry in Nepal.

3. The review will be a valuable reference for specialists intending to make comparable investigations.

**Limitations of the study:**

The review has expected impediments. They are the requirements on generalizability,

applications to practice or utility of discoveries. Coming up next are the significant impediments of the review.

1. The review has been directed among predetermined number of common asset financial backers as it were.

2. Just five free factors viz. monetary status, risk taking way of behaving, speculation income, past execution and wellsprings of venture have been viewed as in this review.

3. The review has been done inside a restricted timeframe.

4. The information has been gathered through a self-directed survey. In this way, legitimacy of the review relies on precision of the information given by the respondents.

5. The review depends on accommodation examining. Hence, testing predisposition might happen coming about to summing up the discoveries of study to the gathering of shared store financial backers.

**Chapter plan:**

The review has been partitioned into five sections specifically presentation, writing survey, research strategy, investigation and conversation and synopsis and end.

The main section is presentation which incorporates presentation of the concentrate as an outline of the area of study. Alongside brief foundation of the review, the review comprises of issue articulation, objective of the review, speculations of the review, reasoning of the review, restrictions of the review and part plan of the review.

The subsequent part incorporates hypothetical audit and exact survey of the review that are applicable to the issue being investigated. It presents the rundown of significant discoveries of past investigations that is pertinent to the ongoing review.

The third section incorporates research structure, meaning of the factors, research plan, populace and test, inspecting plan, nature and wellsprings of information and strategies for examination of the current review.

The fourth part manages investigation and conversation. This part examines the information accumulated from the review and endeavors to recognize the connection between the reliant and free factor of the review and presents the examination as tables and figures.

The fifth part sums up the examination discoveries and suitable suggestions are sent as the finish of the review.

**RESEARCH METHODOLOGY**

The examination techniques segment depicts methodology that are utilized to recognize and investigate data with respect to a particular exploration issue. A bunch of methods is utilized to recognize, select, process and dissect data about a point to assess the review's general dependability and legitimacy. This segment of the exploration paper intends to legitimize the techniques utilized for the review in light of the examination goals of the review. This segment of the exploration paper answers how the information was gathered and the way things were examined. It comprises of six distinct areas. The main segment incorporates portrayal of exploration plan. The subsequent segment is about the populace and test of the review and the third area is about the nature and wellsprings of information assortment. The fourth area is about meaning of factors, the fifth segment is about techniques for examination and the 6th segment is about the impediments of the review. This segment makes sense of the information assortment strategy and system utilized by analyst for examining the given information.

## Research design

The research design used in this study is a quantitative research design aimed at examining the factors influencing investment decisions in mutual funds. The study employed an exploratory, descriptive, causal, and analytical research design to achieve its objectives.

The primary purpose of the descriptive research design was to characterize respondents based on their demographic, educational, and economic characteristics. Descriptive research was used to describe, identify, and validate findings, focusing on profiling respondents, understanding their investment decisions, perceptions towards mutual funds, and factors influencing their investment decisions.

A correlational research design was chosen to assess the relationship between dependent and independent variables in the study. This involved measuring two variables and assessing their correlation, whether they had a positive or negative relationship.

Furthermore, a causal research design was employed to establish cause-and-effect relationships between the variables. It aimed to determine how changes in independent variables influence the dependent variable.

An analytical research design was used to examine various factors influencing investors' investment decisions in mutual funds. It analyzed how financial status, risk-taking behavior, investment income, and past performance of mutual funds impacted potential investors' investment decisions. The study also employed a survey research design to collect relevant data through structured questionnaires based on existing literature.

**Nature and sources of data and the instrument of data collection**

The study is focused on quantitative research methodology, employing a survey approach using both primary and secondary sources of data. A structured questionnaire was utilized to conduct a survey among the participants. Additionally, pilot testing was conducted to refine the questionnaire for increased reliability and validity.

**Primary data and secondary data**

Primary data was collected through an online survey using a structured questionnaire. The questionnaire was designed to gather personal information from respondents including age group, gender, education level, occupation, income range, and their perceptions towards mutual funds. Research questions related to the factors under study were also included in the survey. The survey consisted of various types of questions including short-answer questions, single-choice questions, multiple-choice questions, and Likert scale questions. The questionnaire content was derived from previous research findings identified during the literature review.

Secondary data sources such as journals, articles, magazines, websites, and books were utilized to explore the factors influencing investment decisions in mutual funds

**RESULTS AND DISCUSSIONS**

## The study aims to measure various factors influencing investment decisions in mutual funds. This section involves analyzing the collected data, interpreting the results, and presenting the findings of the study. It involves examining the survey data using various statistical tools and techniques and presenting the study's findings based on descriptive and inferential analysis.

## Analysis of the study

The study relies on primary data collected through a survey using a structured questionnaire distributed to a sample of 384 respondents to derive empirical findings on their investment decisions in mutual funds.

Respondents were asked to provide responses in various formats, including Yes or No, multiple-choice, and Likert scale responses. A five-point Likert scale was used, where one represents strongly agree and five represents strongly disagree with the statement. The responses obtained from respondents were organized, categorized, and analyzed to facilitate the descriptive analysis of the study. The data were analyzed using correlation and regression analysis techniques, utilizing statistical software IBM SPSS Statistics 20.

**Discussion:**

The study aimed to identify the factors influencing investment decisions in mutual funds. The independent variables identified as influencing investment decisions in mutual funds were financial status, risk-taking behavior, investment income, past performance, and sources of investment information.

The results of the analysis indicate a positive and statistically significant relationship between financial status and investment decisions in mutual funds, suggesting that investors base their mutual fund investments on their financial capability. This finding is consistent with Hameed et al. (2018), who also noted a significant impact of financial status on mutual fund investment decisions. Similarly, Kaur and Kauhisk (2016) revealed a significant correlation between mutual fund investment decisions and respondents' financial status.

The study found that risk-taking behavior has the strongest relationship influencing investors' decisions to invest in mutual funds. The results align with previous research, indicating that investors' risk-taking behavior positively and significantly affects their investment decisions in mutual funds. Velmurugan and Anand (2015) demonstrated that investors' risk tolerance significantly impacts mutual fund investment. Sarbabidya and Saha (2018) identified risk tolerance as a key factor influencing investment decisions, highlighting the need for measures to address negative perceptions among investors in Bangladesh.

**Summary**

The purpose of this study is to identify various factors influencing investment decisions in mutual funds. The study aims to examine the relationship between dependent and independent variables and also seeks to determine the impact of independent variables on dependent factors. The dependent variable in this study is investment decisions in mutual funds, and the independent variables are financial status, risk-taking behavior, investment income, past performance, and sources of investment information. The study utilizes various statistical tools and techniques such as descriptive analysis, correlational analysis, and regression analysis to determine investment decisions in mutual funds. The study is based on primary data collected through a systematic and structured survey, and the data were analyzed using mean, median, mode, standard deviation, variance, correlation, and regression.

## Conclusion:

The study employed a descriptive, correlational, and causal analysis design to assess the relationship and examine the impact of independent variables on the dependent variable, which was investment decisions in mutual funds. The independent variables included financial status, risk-taking behavior, investment income, past performance, and sources of investment information. Data were collected through a survey using a systematic and structured questionnaire, employing snowball sampling technique, with a sample size of 384 respondents. The data collected from the sample were evaluated and analyzed using descriptive statistics such as mean, median, mode, standard deviation, variance, correlation, and regression analysis

The data revealed that most investors preferred investing in mutual funds, stocks, and debentures, followed by bank savings accounts, fixed deposits, life insurance, gold/silver/metals, real estate, and others. A majority (72.10%) of the respondents held stocks for the long term and actively traded in the market, and a significant proportion (90.40%) recommended mutual funds to other investors. Statistical analysis of the data demonstrated a positive and significant relationship between investment decisions in mutual funds and various factors influencing investment choices.

**Implications:**

The study examines key factors influencing investors' decisions to invest in mutual funds, aiming to provide valuable insights with significant implications for the investment banking sector. It underscores the importance of transparency and timely dissemination of information by investment banks regarding mutual funds. Investment banks should ensure accessibility of data to the general public and provide clear explanations to enhance understanding. Fund managers should simplify mutual fund policies to encourage investment by individuals with limited knowledge. The study's findings will assist fund managers and investment banks in refining policies, offering financial literacy programs to potential investors, and delivering timely performance reports on mutual funds. Ultimately, this research will identify critical areas for enhancing the mutual fund sector in Nepal.