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Investors' Perception towards Mutual Fund in Chitwan

Guna Raj Chhetri, Ph.D.
Associate Professor, Balkumari College, TU
email: grchhetri1@gmail.com
https://orcid.org/0009-0004-5195-2228

Suraj Kandel
Balkuumari College, TU
email: kandelsuraj222@gmail.com

ABSTRACT

This study looks at the opinions of investors in Chitwan, Nepal, about mutual funds as well as their general investing habits, risk tolerance, and decision-making variables. The study identifies drivers like yield, risk, liquidity, and security as crucial elements that impact investors' choices, based on a sample of 101 respondents from a range of socioeconomic backgrounds. It was shown that although most investors recognize the advantages of mutual funds, they still rely on brokers, suggesting that mutual fund accessibility and education might be improved. In addition, the respondents frequently mentioned issues like exorbitant prices, service delivery time, and branch distance, all of which could lower investor satisfaction and restrict the pool of potential investors. Mutual funds, particularly closed-ended ones, are drawing more comparatively younger and moderately earning investors, according to the report. Additionally, it was determined that digital sources, such as the internet, were the most efficient among all of the information sources. The Chitwan region may see a rise in mutual fund investors, according to this report, which is why businesses should focus on improving outreach and fixing service issues. These steps have the potential to boost investor confidence and have a big influence on the region's access to financial inclusion and wider economic scenarios.

Keywords: Mutual Funds, Investors' Perception, Net Assets Value, Closed End Funds, Risk & Returns

Introduction

A mutual fund is a type of financial instrument that combines the money of several investors with similar investing goals. It is a well-liked option for both individual and institutional investors due to its advantages, which include tax efficiency, expert management, cost-effectiveness, liquidity, and diversification (Chawla, 2014). When opposed to direct stock market investing, mutual funds are known for their capacity to offer diversification and comparatively lower risks (Kaur & Vohra, 2021). The mutual fund industry's growth and demand are greatly influenced by investors' perceptions of mutual funds (Sharma & Joshi, 2020). According to research, investor choices are significantly influenced by variables like risk, liquidity, and return on investment (Chaturvedi & Khare, 2022).

The financial market in Nepal has grown steadily, and mutual funds—known for their security and profitability—have become a good choice for investors (Bista, 2021). As of February 2024, there are 43 mutual fund schemes available in Nepal, including 7 open-end and 36 closed-end schemes. Retail investors' interest in mutual funds has grown in Chitwan, a fast rising metropolitan hub in Nepal (Dhakal & Shahi, 2021). This trend has been further fuelled by Chitwan's growing population of financially aware and educated people (Gurung & Tamang, 2022). Nonetheless, risk and return concerns still influence investing choices. To increase the number of people investing in mutual funds, more awareness campaigns are required (Basnet, 2021). Designing solutions that cater to local investors' choices and promote financial inclusion in Chitwan requires an understanding of their perspectives (Rai & Aryal, 2021).

The primary objectives of this study are to analyze the investment perceptions of Chitwan investors towards mutual funds, to examine the risk appetite of Chitwan investors and how it influences their mutual fund investment decisions, and to identify the satisfaction level of investors regarding mutual fund investments. The study involves a sample size of 101 respondents, which may not fully represent all mutual fund investors in Chitwan or other regions, limiting the generalizability of the findings. The research focuses exclusively on investors in Chitwan, and the results may not be applicable to investors from other parts of Nepal. The data collection relied heavily on survey questionnaires, which might not provide in-depth insights beyond the expressed opinions and perspectives of the participants.

The hypotheses for this study are as follows: H1: There is a significant relationship between investor perception and risk. H2: There is a significant relationship between investor perception and return. H3: There is a significant relationship between investor perception and diversification. H4: There is a significant relationship between investor perception and safety and security of funds. H5: There is a significant relationship between investor perception and easy payment.

Literature Review

Theoretical Review

The theoretical framework for this study is built upon several key theories. Behavioral Finance Theory highlights psychological and emotional factors, such as overconfidence, risk aversion, herding behavior, mental accounting, and anchoring, which significantly affect mutual fund investments (Kahneman & Tversky, 1979; Shefrin, 2002). Investors in Chitwan often follow peer recommendations or past fund performance, neglecting rational decision-making, influenced by emotions and cognitive biases (Barberis & Thaler, 2003). Modern Portfolio Theory (MPT), introduced by Markowitz (1952), emphasizes diversification to optimize returns while minimizing risks, aligning with mutual funds' role in reducing unsystematic risks and improving portfolio efficiency in Nepal's volatile financial markets (Elton & Gruber, 1997). The Theory of Planned Behavior (Ajzen, 1991) explains how attitudes, subjective norms, and perceived behavioral control influence investment decisions, highlighting the impact of cultural norms, family expectations, and the accessibility of mutual funds in Chitwan (Ajzen, 2002). The Risk-Return Tradeoff Theory underlines the relationship between risk tolerance and expected returns, with risk-tolerant investors preferring equity-oriented funds and risk-averse ones favoring fixed-income funds, a key factor in Nepal's mutual fund selection (Bodie, Kane, & Marcus, 2009). The Efficient Market Hypothesis (Fama, 1970) asserts that mutual fund prices reflect all available information, enhancing investor confidence in professional fund management despite inefficiencies in emerging markets like Nepal, where fund managers play a critical role in informed investment strategies (Fama & French, 1993). Prospect Theory (Kahneman & Tversky, 1979) further explains how loss aversion drives investors in Chitwan to perceive mutual funds as a safer alternative to direct equity investments, with performance framing significantly impacting perceptions (Tversky & Kahneman, 1992). Agency Theory emphasizes trust and transparency between mutual fund managers and investors, reducing information asymmetry and aligning interests (Jensen & Meckling, 1976). Lastly, Liquidity Preference Theory (Keynes, 1936) highlights mutual funds' appeal for providing flexibility and accessibility, aligning with the preferences of Chitwan investors seeking short-term liquidity and long-term stability. Together, these theories provide a comprehensive framework to analyze investors' perceptions of mutual funds in Chitwan.

Empirical Review

Ghimire and Pradhan (2021) examined factors influencing mutual fund investment decisions in Chitwan, Nepal, identifying trust in fund managers, fund performance history, and personal recommendations as key determinants. The study highlighted a heavy reliance on informal advice networks over formal financial advisory services, which exposed investors to misinformation and led to misunderstandings about mutual fund fee structures, resulting in mistrust. Similarly, Karki and Shrestha (2022) investigated mutual fund investment behavior in rural Nepal, emphasizing the role of cultural and social factors. They found that rural investors often relied on informal networks, creating a 'herd mentality' that discouraged independent decision-making and led to suboptimal outcomes. The study suggested enhancing financial literacy in rural areas, with a focus on educating investors about market trends and the importance of independent research. Shrestha and Gautam (2020) further analyzed demographic influences on mutual fund investment decisions in Nepal, revealing that education level, age, and income significantly impacted preferences. Younger, well-educated investors showed a greater understanding of risk-return tradeoffs and diversification, while older, less-educated individuals tended to favor fixed-income funds, underscoring the need for targeted financial awareness programs to bridge knowledge gaps.

Paudel et al. (2019) evaluated the risk perception of mutual fund investors in Kathmandu, noting that financially literate investors with access to professional advice perceived mutual funds as less risky, while less-informed investors often faced dissatisfaction due to a lack of transparent information and misaligned expectations. They recommended improving communication transparency and simplifying fund documentation to enhance confidence. Pokhrel and Bhandari (2021) explored the role of mutual funds in promoting financial inclusion in rural Nepal, highlighting barriers such as limited access to financial institutions, low awareness, and mistrust in fund managers, and proposed localized financial literacy initiatives to address these issues. Thapa and Acharya (2020) examined behavioral biases such as anchoring, overconfidence, and loss aversion, which significantly affected investor behavior, with many relying on previous fund performance while ignoring current market conditions. They recommended integrating behavioral finance insights into financial literacy programs to mitigate these biases and promote informed decision-making.

Research Methods

This study adopts a quantitative descriptive research design to examine investor perceptions of mutual funds in Chitwan, with a sample of 101 investors selected through convenience sampling. Data collection involved a structured questionnaire with three sections: demographic details, independent variables (Risk, Return, Diversification, Safety & Security, Easy Payment), and the dependent variable (investor perception). Responses were rated on a 5-point Likert scale, and the survey was distributed via Google Forms and social media platforms. Data analysis included descriptive statistics to assess satisfaction levels and regression analysis for hypothesis testing, providing a deeper understanding of investor perceptions.

Results

The results section of a research paper presents the study's findings in text, tables, and figures, focusing on key observations and statistical significance.

Table 1: Demographic and Personal Information.

	Particulars	No. of Respondents	Percentage
Age	18-25 Year	39	38.6%
	26-35 year	41	40.6%
	36-45 Year	7	6.9%
	46-55 year	13	12.9%
	56 and over	1	1.0%
Gender	Male	56	55.4%
	Female	45	44.6%
Occupation	Businessman	16	15.8%
	Government Employee	20	19.8%
	Private Employee	29	28.7%
	Student	36	35.6%
Education	Bachelor's Degree and Below	59	58.4%
	Master's Degree and Above	35	34.7%
	Other	7	6.9%
Monthly Income	between Rs.50,000- Rs.100,000	34	33.7%
	Less than Rs. 50,000	50	49.5%
	More than Rs.100,000	17	16.8%
Annual Savings	between Rs.50,000- Rs.100,000	24	23.8%
	Less than Rs. 50,000	39	38.6%
	More than 1,00,000	38	37.6%
Source of Information	Agent	4	4.0%
	Internet	63	62.4%
	Newspaper & magazine	10	9.9%
	Relatives and friend	15	14.9%
	Television	9	8.9%
Type of Fund	Close ended (3to 15 years Maturity Period)	76	75.2%
	Open ended (No Maturity)	25	24.8%

The table summarizes participant demographics and preferences. Most are aged 26-35 (40.6%) or 18-25 (38.6%), with a slight male majority (55.4%). Students form the largest occupational group (35.6%), followed by private (28.7%) and government employees (19.8%). Over half have a Bachelor's degree or less (58.4%), while 34.7% hold Master's or higher qualifications, reflecting a well-educated group. Nearly half earn below Rs. 50,000 monthly, with smaller groups earning Rs. 50,000-100,000 (33.7%) or over Rs. 100,000 (16.8%). Savings vary, with 38.6% saving under Rs. 50,000 yearly and 37.6% saving over Rs. 100,000. Most use the internet (62.4%)

for mutual fund information and prefer closed-ended funds (75.2%).

Table 2: Descriptive Statistics

	Descriptive Statistics	N	Mean	Std. Deviation
Risk	I believe mutual funds are a low-risk investment.	101	3.32	1.009
	Mutual funds offer better risk management compared to individual stocks.	101	3.32	.979
	I am concerned about market fluctuations affecting my mutual fund investments.	101	3.40	1.001
Return	Mutual funds provide attractive returns over the long term.	101	3.42	.993
	I am satisfied with the returns from my mutual fund investments.	101	3.33	.826
Safety & Security	I trust the security measures provided by mutual fund companies.	101	3.56	.853
	Mutual funds provide a secure platform for managing my investments.	101	3.41	.961
Diversification	Mutual funds offer enough diversification to reduce risk	101	3.48	.890
	I am satisfied with the variety of asset classes available in mutual funds	101	3.21	.952
Easy Payment	I find it easy to make payments or buy and sell mutual funds.	101	3.31	.880
	The payment and transaction processes in mutual funds are smooth and hassle-free.	101	3.50	.832

The table highlights perceptions of mutual funds with average scores (mean) and response variability (SD). Market fluctuations are the main risk concern (mean 3.40, SD 1.001), while beliefs about low-risk and better risk management score similarly (mean 3.32, SD ~1). Long-term returns score well (mean 3.42), but satisfaction with current returns is slightly lower (mean 3.33). Trust in safety measures is high (mean 3.56), with slightly lower confidence in platform security (mean 3.41). Payment ease (mean 3.50) and diversification (mean 3.48) also score positively.

Table 3: Investors' Perception

	Answer	No. of Respondents	Percentage
Will you Invest in future?	No	13	12.9%
	Yes	88	87.1%
Is Mutual Fund good for Investment?	No	9	8.9%
	Yes	92	91.1%
Suggest to others?	No	11	10.9%
	Yes	90	89.1%

Source: Survey Report

This table examines respondents' willingness to continue investing in mutual funds, view them as beneficial, and recommend them to others. Around 87% of respondents expressed interest in future investments, reflecting overall positive sentiment. Over 91% consider mutual funds suitable investment vehicles, while 89% would suggest them to friends or family. This illustrates high confidence and satisfaction among investors regarding mutual fund investments.

Table 4: Correlation

Variables	Investor's Perception	Risk	Return	Diversification	Safety & Security	Easy Payment
Investor's Perception	1					
Risk	-0.081	1				
Return	-0.335**	0.520**	1			
Diversification	-0.190	0.250*	0.301**	1		
Safety & Security	-0.234*	0.397**	0.506**	0.213*	1	
Easy Payment	-0.335**	0.430**	0.366**	0.486**	0.284**	1

The table shows Pearson correlation coefficients between Investor's Perception, Risk, Return, Diversification, Safety & Security, and Easy Payment. The correlation between Risk and Return is .520 ($p < .01$), indicating a strong positive relationship, meaning higher risk is linked to higher return expectations. Risk also correlates moderately with Diversification (.250, $p < .05$), Safety & Security (.397, $p < .01$), and Easy Payment (.430, $p < .01$), suggesting these factors are tied to perceived risk. Return positively correlates with Diversification (.301, $p < .01$) and Safety & Security (.506, $p < .01$), supporting higher returns. Easy Payment correlates with Return (.366, $p < .01$), indicating smoother transactions align with better return perceptions. Diversification links positively with Safety & Security (.213, $p < .05$) and Easy Payment (.486, $p < .01$), suggesting diverse portfolios are seen as safer and easier to manage. Finally, Safety & Security moderately correlates with Easy Payment (.284, $p < .01$), indicating better security enhances transaction ease.

Table 5: Model Summery

Model Summary [b]			
R	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
.453[a]	.205	.163	.23265

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.678	.154		10.915	<.001
Risk	.082	.038	.244	2.146	.034
Return	-.106	.041	-.307	-2.598	.011
Diversification	.003	.035	.010	.094	.926
Safety & Security	-.031	.036	-.091	-.843	.402
Easy Payment	-.115	.042	-.307	-2.707	.008

b. Dependent Variable: Investors Perception

The regression model shows a moderate positive correlation ($R = 0.453$) between Investor Perception and the independent variables (Easy Payment, Safety & Security, Diversification, Risk, Return). R-squared value of 0.205 indicates that 20.5% of the variance in Investor Perception is explained by these variables, with an adjusted R-squared of 0.163. The ANOVA results ($F = 4.901$, $p < .001$) demonstrate that the model is a good fit, and the independent variables significantly affect Investor Perception. Regression analysis reveals that "Risk" positively influences perception ($B = 0.082$, $p = 0.034$), while "Return" ($B = -0.106$, $p = 0.011$) and "Easy Payment" ($B = -0.115$, $p = 0.008$) negatively affect perceptions. "Diversification" and "Safety & Security" have no significant impact. These results support Hypotheses H1, H2, and H5, while H3 and H4 are rejected, emphasizing that risk awareness enhances perception, while concerns over returns and transaction ease reduce it.

Table 6: Overall Satisfaction

	Particulars	N	Percentage
Problem Faced	Delay in selling unit	25	24.8%
	Fees and commission	21	20.8%
	Low income	22	21.8%
	Non availability of branch	8	7.9%
	Poor service of broker	6	5.9%
	Poor service of mutual fund company	6	5.9%
	Unable to aware market	13	12.9%
Duration	1 year to 3 years	26	25.7%
	3 years to 5 years	18	17.8%
	More than 5 years	38	37.6%
	Up to 1 year to 2 year	19	18.8%
Satisfaction Level	Dissatisfied	4	4.0%
	Neutral	32	31.7%
	Satisfied	46	45.5%
	Very dissatisfied	3	3.0%
	Very satisfied	16	15.8%

Source: Survey Report

Most mutual fund investors are generally satisfied, with around 45.5% feeling positive and 15.8% very happy with their investments. However, some investors (31.7%) feel neutral, and a small group (4%) are dissatisfied. The main issues they face include delays in selling their fund units, high fees and commissions, and lower-than-expected returns. Other concerns include limited branch access and poor service from brokers or fund companies. So, while satisfaction is fairly high, these problems can affect how investors feel about their mutual fund experience.

Conclusion and Implications

This study on mutual fund investors in Chitwan, Nepal, demonstrates that young, educated individuals are predominantly attracted to mutual funds, particularly closed-ended ones, with a preference for long-term investments. The internet has emerged as the primary source of information, surpassing traditional methods. While investors appreciate the diversification and security offered by mutual funds, several challenges remain, including modest satisfaction with returns, high fees, transaction delays, and procedural complexities. Although risk awareness positively influences investor perceptions, these challenges significantly hinder overall satisfaction. Despite these limitations, the findings indicate substantial growth potential, with 91% of investors regarding mutual funds as a good investment option and 89% expressing willingness to recommend them to others. To achieve greater market penetration and improve investor satisfaction, several strategic actions are essential. Policymakers should prioritize the development of investor-friendly regulations and the reduction of administrative barriers to facilitate a more seamless investment experience. Financial institutions and fund managers are encouraged to design innovative and accessible mutual fund products tailored to diverse demographic groups, particularly rural and less-educated populations. Enhancing transparency in fund operations, reducing associated fees, and ensuring timely and effective communication are critical measures to build trust and confidence among investors.

Moreover, the study emphasizes the importance of financial literacy initiatives led by educators and financial advocates. These efforts should focus on increasing awareness, particularly in rural areas where reliance on informal advice networks often results in suboptimal decision-making. By equipping investors with the necessary knowledge of risk, return, and market dynamics, the mutual fund industry can empower individuals to make informed investment choices. This will not only attract a broader and more informed investor base but also foster long-term growth and sustainability in Nepal's mutual fund ecosystem. These findings provide valuable insights for policymakers, fund managers, and educators to address existing gaps and capitalize on the untapped potential within Nepal's financial market.

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