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Understanding the Key Drivers of Systematic Investment Plan Investment Behavior

Sajeeb Kumar Shrestha*
Assoc. Prof. Faculty of Management, Tribhuvan University, Nepal
https://orcid.org/0000-0002-5227-771X
drsjaeeb@gmail.com

Jagadish Bhatta
BBA-FI, Shanker Dev Campus

Corresponding Author*
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Abstract
This study aims to examine the key determinants of Systematic Investment Plan (SIP) investment behavior in Nepal, specifically focusing on the relationship between various influencing factors and investment decisions. The study uses both descriptive and causal research designs to explore the connection between factors such as investment behavior, risk tolerance, awareness level, investment objective, and financial freedom with SIP investment. The research was conducted with a sample of 99 young investors from Kathmandu, Nepal, using a structured questionnaire and employing Correlation, and Regression Analysis techniques. The demographic profile of respondents highlights a predominantly young, low-income group engaged in SIP investments, with a significant portion being undergraduates and students. The findings reveal that financial freedom (FF) has the strongest positive correlation with SIP investment, followed by awareness level (AL) and investment objective (IO). In contrast, investment behavior (IB) and risk tolerance (RT) exhibit weaker correlations. Regression analysis further confirms that financial freedom is the most significant predictor of SIP investment behavior, with a notable positive effect. Other variables, such as awareness level and investment objective, while correlated with SIP, do not show statistically significant effects in the regression model. The study underscores the importance of financial freedom and awareness in influencing SIP investment behavior, providing insights into how these factors can be leveraged to promote greater participation in systematic investment plans.
Keywords: Behavior, Factors, Investment, Plan, Systematic

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Introduction

Investment can be defined as the allocation of resources, typically financial, with the aim of generating an increase in value or contributing to wealth creation over time, regardless of market fluctuations, in order to achieve long-term goals (Abdulkarim, 2023). Essentially, investing involves using money to support a project or endeavor that aims to produce positive returns, where earnings exceed the initial capital invested. It is the practice of directing resources, particularly money, into ventures that generate profit or help achieve other objectives (Barnard & Herbst, 2017). An investor is any individual, business, or fund that buys stocks or other assets with the intention of profiting from their potential future value increases (Hassan, Abdul-Rahman, Amin, & Hamid, 2023).

The Systematic Investment Plan (SIP) is a financial strategy that involves investing a small portion of capital on a regular basis, allowing for compounded growth over the long term. SIPs can be applied to any financial asset with long-term growth potential, although mutual funds are often considered the best option for low-capital investments with high returns. Through SIPs, investors can commit small amounts of money into mutual fund schemes, planning their investments for future financial security (Khan, 2012). This method encourages Dollar Cost Averaging (DCA) or Rupee Cost Averaging (RCA), helping investors maintain a disciplined approach. By investing in mutual fund units during low-price periods and fewer units when prices are high, this strategy seeks to mitigate the effects of market volatility over time (Sushko & Turner, 2018).

In recent years, financial literacy among Nepali citizens has gradually improved, enabling more informed financial decisions, which has significantly influenced investment in various sectors (Shrestha, 2024). Several Nepali investment banks offer SIP investments to the public through various mutual fund schemes, providing the benefits of compounding, no need for market timing, flexibility, and reduced financial strain, among others. SIPs have become an increasingly popular investment strategy among Nepalese youth, allowing them to invest as little as Rs 1000 in one of the seven active SIPs available in Nepal. These schemes include both debt and equity funds and offer flexibility in terms of investment frequency, from monthly to yearly. Through SIPs' inherent Rupee Cost Averaging, young investors can reduce the impact of market volatility, gradually build wealth, and benefit from long-term compounding growth potential (Nabil Investment Banking Limited, 2024).

The NIBLSF, a prominent SIP in Nepal, has demonstrated impressive performance with a Compound Annual Growth Rate (CAGR) of 17.3625%. This highlights the potential advantages of SIP investments for young people in Nepal looking to secure their financial futures. The SIP registration process involves selecting a suitable mutual fund scheme, opening a Demat account, deciding on the investment amount and frequency, making regular contributions, and monitoring performance. Nepal is seeing a growing trend among young people adopting SIPs as a structured approach to wealth creation and financial management, supported by easy registration procedures, digital payment options, and dividend reinvestment plans (Pathak, 2024).

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Systematic Investment Plans (SIPs) are increasingly gaining popularity among young people in Nepal as an alternative to traditional investment methods. However, there is a lack of comprehensive research that delves into the specific challenges, motivations, and outcomes related to youth participation in SIPs within the country (Dhakal, 2024). Most existing studies primarily focus on the benefits of SIPs without examining the unique factors that influence young people's investment behavior, participation, and the long-term effects of SIP investments on their financial well-being. This gap in knowledge prevents a thorough understanding of how Nepalese youth perceive, adopt, and utilize SIPs as tools for financial empowerment and wealth accumulation.

The absence of targeted research on the evolving role of SIP investments among young people in Nepal limits the development of tailored strategies, educational initiatives, and policy reforms aimed at increasing youth participation in SIPs. To foster informed investment practices, promote financial literacy, and prepare the next generation of Nepalese citizens to make wise financial decisions for their future success, it is crucial to understand the obstacles, preferences, and outcomes related to SIP investments among the youth. This study seeks to fill this gap by exploring the factors that influence young people's engagement with SIPs in Nepalese society and examining how such participation may contribute to their long-term wealth creation and financial security.

Objectives of Study

1. To measure the relation between the factors affecting the SIP Investment and SIP Investment in Kathmandu, Nepal.
2. To examine the impact of influencing factors of SIP Investment in Kathmandu, Nepal.

Research Methods

This study employs both descriptive and causal research designs. The descriptive design is used to define and measure the relationship between various variables, while the causal design examines how independent variables influence stock market participation (Mahat, Neupane, & Shrestha, 2024). The descriptive design assesses the connection between factors such as stock market awareness, financial constraints, attitudinal behavior, processes, and stock market institutions with the investment decisions of undergraduates. In contrast, the causal design explores the impact of these factors on stock market investment. The research was conducted with investors in the Kathmandu Valley, focusing on youth involved in investment activities (Shrestha, Mahat, Neupane, & Karki, 2024). A sample of 99 young investors was selected. The findings are based on this sample, with the participants representing the broader population. Primary data sources were used, and the survey was designed to capture the views of respondents regarding investment in Systematic Investment Plans (SIP). Data was gathered through a structured questionnaire using a 5-point scale and analyzed using Descriptive, Correlation, and Regression Analysis techniques (Shrestha, Karki, Mahat, & Neupane, 2024).

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Results

Demographic Information

The demographic information from the survey reveals key insights about the respondents' engagement with SIP investments. All 99 participants had heard of SIPs, and all reported having some form of investment, with 57.6% of them investing in SIPs. Among the SIP investors, 31.6% opted for limited-term SIPs, while 68.4% chose unlimited-term schemes. The majority of participants were young, with 63.6% in the 21-25 age group, and most were male (64.6%). All respondents were from Kathmandu, and the educational background varied, with 60.6% being undergraduates. Regarding marital status, 77.8% were unmarried. In terms of occupation, the largest group was students (53.5%), followed by full-time employees (28.3%). The income distribution indicated that most respondents (63.6%) had a monthly income of less than 20,000, yet they were still actively engaged in market investments. These demographic factors underscore the diverse yet predominantly young, low-income, and education-focused group involved in SIP investments.

Table 1: Correlation

	SIPIMean	IBMean	RTMean	ALMean	IOMean	FFMean
SIPIMean	1					
IBMean	.296**	1				
RTMean	.386**	.501**	1			
ALMean	.474**	.371**	.680**	1		
IOMean	.437**	.366**	.733**	.710**	1	
FFMean	.592**	.453**	.628**	.675**	.539**	1

The correlation table outlines the relationships between the dependent variable, Systematic Investment Plan (SIPIMean), and the independent variables: Investment Behavior (IBMean), Risk Tolerance (RTMean), Awareness Level (ALMean), Investment Objective (IOMean), and Financial Freedom (FFMean). The correlation coefficient values range from -1 to 1, where values closer to 1 or -1 indicate a strong positive or negative correlation, respectively, while values near 0 suggest a weak or no correlation.

In this analysis, SIPIMean shows positive correlations with all independent variables. The strongest correlation is with Financial Freedom (FFMean) at 0.592, indicating a strong, positive relationship; as Financial Freedom increases, so does the Systematic Investment Plan score. This aligns with the regression results, where Financial Freedom was found to be the most significant predictor. Awareness Level (ALMean) also has a notable positive correlation of 0.474, suggesting that individuals with higher awareness levels are more inclined to invest in systematic plans. Investment Objective (IOMean) follows with a correlation of 0.437, indicating a moderate relationship.

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Risk Tolerance (RTMean) and Investment Behavior (IBMean) exhibit lower correlations of 0.386 and 0.296 with the Systematic Investment Plan, respectively. Although these correlations are positive, they are weaker compared to the other variables, implying that while there is some relationship, it is not as pronounced. The inter-correlations between the independent variables are also noteworthy. For instance, RTMean correlates strongly with IOMean (0.733) and ALMean (0.680), suggesting interconnectedness in individuals' investment perspectives and objectives. Similarly, FFMean shows substantial positive correlations with RTMean (0.628) and ALMean (0.675), reflecting that financial freedom is related to other investment-related traits.

The correlation analysis highlights Financial Freedom as the most influential variable in relation to the Systematic Investment Plan, followed by Awareness Level and Investment Objective. Investment Behavior and Risk Tolerance, while related, have a less significant impact in comparison. This insight emphasizes the need for focusing on enhancing financial awareness and autonomy to drive systematic investment behavior.

Table 2: Regression Results

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.616[a]	.380	.347	.44292	2.072

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.182	5	2.236	11.400	.000[b]
	Residual	18.245	93	.196		
	Total	29.426	98			

Regression analysis

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t-value	Sig.
	(Constant)	1.773	.401		4.424	.000
	IB Mean	.042	.103	.040	.411	.682
	RT Mean	-.138	.120	-.160	-1.152	.252
	AL Mean	.042	.082	.070	.516	.607
	IO Mean	.180	.112	.214	1.615	.110
	FF Mean	.470	.109	.512	4.297	.000

The Model Summary indicates that the correlation coefficient (R) is 0.616, suggesting a moderate positive relationship between the independent variables and the dependent variable, the Systematic Investment Plan. The R Square value of 0.380 means that about 38% of the variance in the dependent variable can be explained by the independent variables in the model.

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The Adjusted R Square value of 0.347 takes into account the number of predictors and provides a slightly adjusted measure of fit. The Standard Error of the Estimate is 0.44292, indicating the average distance that the observed values fall from the regression line. The Durbin-Watson statistic of 2.072 suggests that there is no significant autocorrelation in the residuals.

The unstandardized coefficient (B) for Investment Behavior is 0.042, indicating that a one-unit increase in Investment Behavior leads to a minimal 0.042 unit increase in the Systematic Investment Plan score, assuming all other variables are constant. However, the p-value for this variable is 0.682, which is much greater than the conventional threshold of 0.05, indicating that this effect is not statistically significant. The standardized coefficient (Beta) is 0.040, signifying a weak relative contribution to the model. Overall, Investment Behavior does not have a meaningful impact on the dependent variable.

The unstandardized coefficient (B) for Risk Tolerance is -0.138, implying that a one-unit increase in Risk Tolerance is associated with a 0.138 unit decrease in the Systematic Investment Plan score, holding all other factors constant. This suggests an inverse relationship; however, the p-value of 0.252 indicates that this relationship is not statistically significant. The standardized coefficient (Beta) is -0.160, pointing to a moderate but statistically insignificant negative influence. Therefore, Risk Tolerance does not play a significant role in determining the Systematic Investment Plan.

The unstandardized coefficient (B) for Awareness Level is 0.042, showing that an increase in awareness leads to a slight 0.042 unit increase in the dependent variable. This small positive effect is supported by a standardized coefficient (Beta) of 0.070, indicating minimal influence. With a p-value of 0.607, this effect is not statistically significant, suggesting that Awareness Level does not significantly impact the Systematic Investment Plan.

The unstandardized coefficient (B) for Investment Objective is 0.180, implying a moderate positive effect, with each unit increase leading to a 0.180 unit increase in the Systematic Investment Plan score. The standardized coefficient (Beta) is 0.214, which indicates that this variable has a moderate relative influence on the dependent variable. However, the p-value of 0.110 means that this effect is not statistically significant. Therefore, while Investment Objective has some positive association with the Systematic Investment Plan, it is not strong enough to be considered significant in this model.

Financial Freedom has an unstandardized coefficient (B) of 0.470, which shows a substantial positive effect. For each unit increase in Financial Freedom, the Systematic Investment Plan score increases by 0.470 units, making it the most impactful variable among those analyzed. The standardized coefficient (Beta) is 0.512, the highest among the predictors, confirming that Financial Freedom has the strongest relative influence. The t-value of 4.297 and a p-value of 0.000 indicate that this effect is highly significant statistically, confirming that Financial Freedom is a crucial predictor of investment behavior in a Systematic Investment Plan.

Conclusion

This study identifies key determinants of Systematic Investment Plan (SIP) behavior in Kathmandu, Nepal, highlighting financial freedom as the most significant predictor.

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Individuals with greater financial independence are more likely to invest in SIPs. Awareness level and investment objectives also show positive associations with SIP participation, though their impact is statistically insignificant. Risk tolerance and investment behavior had weaker correlations with SIP investment. Overall, enhancing financial freedom and literacy emerges as crucial for encouraging SIP investment, especially among young, low-income individuals. Future research could explore additional factors influencing investment behavior in broader contexts across Nepal.

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