

Perception Analysis of Mutual Funds in Madhesh Province, Nepal

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Abstract

The present empirical study explores the general perception of mutual funds in the Madhesh Province. A Mutual Fund is an aggregate fund comprising various investments such as stocks, bonds, and similar assets. It serves as a pool of funds primarily composed of several small domestic investors. The collected funds, also known as Basket Funds, are then invested in financial instruments such as stocks, bonds/debentures, government securities, and fixed deposits according to the objectives and scheme of such funds. Profits and losses are shared among investors in proportion to their investments. Investments in securities are spread across a wide cross-section of industries and sectors. A mutual fund is a trust that attracts the savings of a number of medium and small investors with a common financial goal. As the money collected from investors is invested in capital market instruments like shares, debentures, and other securities, the incomes and capital appreciations are distributed to its holders in proportion to the number of units owned by them. Diversification reduces the risk because all stocks may not move in the same direction or in the same proportion at the same time. Mutual funds in Nepal are regulated by the Securities Board of Nepal (SEBON). They can be issued, supervised, and managed only by entities/individuals fulfilling the criteria outlined in the Mutual Fund Regulation of 2067, as authorized by SEBON. The study analyzed that the majority of respondents are male youths, graduates, employees, and have limited

familiarity with basket/mutual funds. They are influenced by tax incentives and expect high returns on investment.

Keywords: Mutual funds, capital market instrument, risk diversification, SEBON, NEPSE

Background

Mutual funds are a form of collective investment in which money from many investors is pooled and invested in stocks, bonds, short-term money market instruments, and/or other securities under the direction of a fund manager.

A mutual fund is a financial intermediary that pools the savings of investors for collective investment in a diversified portfolio of securities. It is a type of professionally managed investment fund funded by the investments of individuals and institutions.

The history of mutual funds in Nepal began with the launch of NCM Mutual Fund in 2050, an open-ended fund with an initial amount of NRs. 100 million managed by NIDC Capital Market Ltd. The Nepalese stock market is characterized by low liquidity, high concentration, and volatility. The overall performance of mutual funds in Nepal appears to be risky over time.

Introduction

A mutual fund is an investment vehicle that pools money from many investors to purchase a diversified portfolio of securities, such as stocks, bonds, and other assets. The Securities and Exchange Board of India (Mutual Fund) Regulations, 1996, defines a mutual fund as "A fund established in the form of a trust to raise money through the sale of units to the public or a section of the public under one or more schemes for investing in securities."

The Securities Board of Nepal further (as prescribed by Mutual Fund Regulation, 2067) states "Mutual Fund is a pool of fund generally of several small investors. The collected fund is then invested in financial instruments such as Stocks, Bond/Debentures, Government Securities, and Fixed Deposits. Such investment decisions are made by a

fund manager." Similarly, John C. Bogle described a mutual fund as "a pool of money belonging to many investors, which is used to purchase a diversified portfolio of stocks, bonds, or other securities. Mutual funds provide investors with a way to diversify their investments, minimize risk, and access professional management." Thus, a mutual fund is a professionally managed investment fund that combines money from various investors to invest in stocks, bonds, or other assets.

A mutual fund constitutes an investment mechanism comprising funds sourced from the broader public, dedicated to investing in securities like stocks, bonds, and financial market instruments. While Nepal offers diverse investment avenues, mutual fund investment represents a recent development. The fundamental purpose of a mutual fund is to cater to a sizable segment of investors who may not possess the necessary time or expertise to proficiently manage their finances. This research endeavors to explore and present findings concerning investors' overall attitudes, perceptions, awareness levels, and preferences.

Mutual funds play a crucial role in the financial ecosystem by offering a range of benefits to individual and institutional investors. One of the primary advantages is diversification, which reduces risk by spreading investments across a variety of assets. This helps investors mitigate the impact of poor performance by any single security. Additionally, mutual funds provide access to professional management, allowing investors to benefit from the expertise and experience of fund managers who conduct research and make informed investment decisions. This is particularly beneficial for individual investors who may lack the time or knowledge to manage their own portfolios effectively. Moreover, mutual funds offer liquidity, enabling investors to buy or sell their shares at the fund's net asset value at the end of each trading day. They also come in various types, catering to different investment goals and risk tolerances, such as equity funds, bond funds, and balanced funds. Overall, mutual funds democratize investing, making it more accessible and manageable for a broad range of investors, from novices to seasoned professionals. This study answers following research questions; to examine

the motives behind mutual fund investments, to analyze the factors that influence investment decisions in mutual funds, and to examine the characteristics of mutual fund investors residing in Madhesh Province.

Scope of the Study:

The scope of mutual funds is vast and continually expanding, encompassing a wide array of investment strategies and asset classes. They serve as a versatile investment vehicle that caters to diverse investor needs and objectives. Mutual funds can invest in equities, bonds, money market instruments, real estate, commodities, and international markets, providing opportunities for growth, income, and capital preservation. Technological advancements and regulatory developments have made mutual funds more accessible and transparent, enhancing investor confidence. The growing emphasis on retirement planning and wealth management has also spurred the demand for mutual funds, making them an integral part of individual and institutional investment portfolios. The scope of mutual funds is expected to continue expanding, offering investors a dynamic and adaptable tool for achieving their financial goals.

The primary focus of the study is to analyze the general perception, awareness, and preferences regarding mutual funds. Brokers and other firms involved in fund collection can conduct additional research to address specific issues based on these insights. The recommendations provided by the researcher in the report can assist them in refining their investment strategies, enhancing their services, and attracting new investors. It's important to note, however, that the current study is limited to Madhesh Province, Nepal.

Review of Previous Study and Gap

Previous studies have highlighted several factors influencing mutual fund investment, including risk tolerance, past performance, fund management quality, and fees. Kumar (2017) Initial research on mutual funds focused on the development and evolution of mutual funds, tracing their origins to the early 20th century and documenting their growth trajectory. Studies by Rosen (1940) and Loring (1966)

provided foundational knowledge about the structure and regulation of mutual funds. Recent literature has integrated insights from behavioral finance to understand how cognitive biases and emotional factors affect mutual fund managers and investors. Studies by Baker, Ruback, and Wurgler (2007) provide a behavioral perspective on mutual fund investment decisions. The advent of technology and data analytics has also become a focal point in mutual fund research. Studies are increasingly examining how technological tools and big data influence fund management and investment strategies. Similarly, Umamaheswari and Ashok Kumar (2014), the study analyzed that a study on investment perspectives of the investment priority of a person is based on several factors like his\her awareness, environment, level of exposure, intentions, beliefs, responsibilities and so on. The study further revealed that life insurance and provident\pension fund investments have also seen a rise may be on account of increased awareness about the need to ensure and also increased competition from the private sector, precisely, this research could serve an ice-breaker for the public as well as the financial facet, I pursued on a large scale.

Another study of Rajesh Sharma revealed the general perception of Nepalese investors towards investment in mutual fund. Mutual funds are low risk companies as they diversify their investment in stocks and bonds (in other countries also in money market). Mutual funds provide a platform for a common investor to participate in the Nepalese capital market with professional fund management irrespective of the amount invested and knowledge about several details, calculations and managing portfolios. Additionally, Jain (2020) found that demographic factors such as age, income and education level play a crucial role in investment decisions.

Previous studies focused on individuals from other regions who have prior experience investing in mutual funds and possess some understanding of the basic terminologies associated with them. In contrast, this study is exclusively centered on Madhesh Province, within the Federal Democratic Republic of Nepal, where residents afraid of mutual fund investment, exhibit curiosity about mutual funds and only a small portion

invests in mutual funds.

Research Methodology:

A quantitative research design was adopted, employing a structured questionnaire to collect data from the participants. Descriptive statistics were used to analyze the demographic data and investment behavior. Simple mathematical tools ratio analysis is used to identify the key factors influencing perceptions of mutual funds, the data for the study has been collected from both the sources. Primary data has been gathered through surveys employing questionnaire. Additionally, books, published and unpublished materials, journals, and primarily through internet websites are also used for data collection. Sample population

This empirical research on the general perception of Mutual funds in Madhesh Province, Nepal, was conducted on a sample of 600 individuals across 8 districts within the province (as of September 20, 2023). The survey targeted individuals involved in investment or showing interest in various funds. Survey questionnaires were personally delivered to the respondents. The survey took place in mid-2023. The questionnaires comprised closed-type questions with single or multiple answer options. Out of the total completed questionnaires, 60 were incorrectly filled out and thus were excluded from further analysis. Therefore, the results are based on correctly completed questionnaires, resulting in a sample size of 540. The study utilized random sampling, with 540 samples drawn from the population.

Findings and Discussion

The data collected from the respondents is presented in the following table.

S.N.	Basis of classification of respondents	Options	No. of Respondents	Percentage (%)
1.	Age	Below20	0	0
		21-30	270	50

		31-40	90	16.67
		41-50	108	20
		Above50	72	13.33
		Total	540	100
2.	Gender	Male	396	73.33
		Female	144	26.67
		Total	540	100
3.	Education	Intermediate	144	26.67
		Bachelor	216	40
		Master	144	26.67
		Other	36	6.66
		Total	540	100
4.	Occupation	Students	36	6.66
		Employee	234	43.34
		House Wife	90	16.67
		Professional	144	26.66
		Other	36	6.67
		Total	540	100
5.	Monthly Incomes (Rs.)	Less than 20000		
		20000-30000	144	26.67
		30000-40000	180	33.33
		Above40000	144	26.67
			72	13.33
		Total	540	100
6.	Monthly Savings (Rs.)	Less than 5000	342	63.34
		5000-10000	126	23.34
		10000-15000	54	10

		Above 15000	18	3.33
		Total	540	100
7.	Sources of Information about mutual fund	Friends	162	30
		Media	198	36.67
		Brokers	126	23.33
		Others	54	10
		Total	540	100
8.	Scheme Preferred	Equity		
		Diversified	126	23.33
		Debt Fund	72	13.33
		Other	342	63.34
		Total	540	100
9.	Investment Objectives	High Return	324	60
		Hedge against Inflation	126	23.33
		Safety	36	6.67
		Reducing Tax	54	10
		Total	540	100
10.	Opinion about mutual fund	Best	54	10
		Better	90	16.67
		Good	396	73.33
		Not Good	0	0
		Total	540	100
11.	Factors affecting investment	Economic Scenario on Mutual Fund	72	13.33
		Company Image	36	6.67
		Fund performance in the past	90	16.67
		Tax Incentive	342	63.33

		Total	540	100
12.	Satisfaction Level	high	108	20
		Moderate	324	60
		Low	108	20
		Dissatisfy	0	0
		Total	540	100

Sources: field survey

The above table shows that out of 540 representatives, none of the respondents comes under age group of below 20, 270(i.e.50%) respondents are belonging to age group of 21 to 30 years, 90(i.e.16.66%) are in the age of 31 to 40 years, 108(i.e.20%) respondents are between 41 to 50 years and 72(i.e.13.34%) are above 50 years.It can be said that majority of the respondents i.e.50% are between the age group of 21-30.The table shows that 396(i.e.73.33%) out of 540 respondents are male and only 144(i.e.26.67%) respondents are female.It can be concluded that majority of the respondents 396(i.e.73.33%) male is familiar with mutual fund than female. The above table reveals that 144(i.e.26.67%) out of total 540 respondents have intermediate level education, 216(i.e.40%) have Bachelor level, 144(i.e.26.67%) have Master level and only 36(i.e.6.66%) have other kinds of education.

The above analysis shows that majority of respondents 216(i.e.40%) have graduation level education. The table further reveals that out of 540 respondents 36(i.e.06.66%) are students, 234(i.e.43.33%) are employees, 90(i.e.16.67%) are house wife, 144(i.e.26.66%) are professionals and remaining 36(i.e.06.67%) are others.It reveals that majority of the investors 234(i.e.43.34%) are employees who may be government or private employees.The table depicts that 144(i.e.26.67%) respondents earn less than Rs. 20000 per month, 180(i.e.33.33%) earn Rs.20000 to Rs.30000, 144(i.e.26.67%) earn Rs.30000 to 40000 and 72(i.e.13.33%) earn above Rs. 40000.

The analysis shows that majority of the investors 180(i.e.33.33%) earn between Rs.20000 to Rs.30000 and favor to invest in mutual fund and remaining investors earn less and more than Rs.20000 to Rs.30000 and invest other sectors.In the above Table

monthly savings out of 540 respondents, 342(i.e.63.34%) fall under the monthly savings of less than Rs.5000, 126(i.e.23.33%) fall under Rs.5000 to 10000, 54(i.e.10%) fall under Rs. 10000-15000 and only 18(03.33%) fall under the monthly saving of above Rs.15000.

The above analysis reveals that majority of respondents 342(i.e.63.34%) monthly saving is less than Rs.5000. The table further shows that out of 540 respondents 162(i.e.30%) get information from friends, 198(i.e.36.67%) get through media, 126(i.e.23.33%) get from broker and 54(i.e.10%) get information about mutual fund from other sources. The above analysis shows that majority of respondents 198(i.e.36.67%) get information about mutual fund through media. In the table, study reveals that out of 540 respondents 126(i.e.23.33%) are invested in equity diversified scheme, 72(13.33%) are invested in debt fund 342(63.34%) are invested in other fund scheme. The study shows that majority of respondents 342(63.34%) prefer to invest in another scheme fund. The table shows the objectives of investors among 540 respondents, in which 324(i.e.60%) want high return, 126(i.e.23.33%) want to hedge against inflation, 36(i.e.6.67%) need safety whereas 54 (i.e.10%) have intention to reduce tax.

The analysis clarifies that majority 60% investors objective is getting high return. Above table reveals that out of 540 respondents 54 (i.e.10%) opinions is best, 90 (i.e.16.67%) opinions is better and 396 (i.e.73.33%) opinions is good on overall performance of mutual fund. The analysis shows majority of the respondents 73.33% opinion on overall performance of mutual fund is good. The table shows the factors affecting mutual fund investment and out of 540 respondents 72(i.e.13.33%) are influenced by the economic scenario on mutual fund 36(i.e.6.67%) influenced by company image, 90(i.e.16.67%) are influenced by fund performance in the past and 342(i.e.63.33%) are influenced by tax incentive. The above analysis reveals that majority of the respondents 63.33% are influenced by tax incentive. The above table shows satisfaction level of the investors, out of 540 respondents 108(i.e.20%) are highly satisfied, 324(i.e.60%) are moderate, 108(i.e.20%) have not enough satisfaction whereas no any keep dissatisfaction with mutual fund investment. The analysis concludes that 60% of the respondents are

moderately satisfied with the mutual fund investment.

Thus, the findings show how investors and stakeholders perceive various aspects of mutual funds, including their performance, risks, benefits, and overall attractiveness as investment vehicles. It further contributes valuable insights into the factors shaping investor attitudes towards mutual funds, helping to inform strategies for investor education, regulatory reform, and fund management practices. Mutual fund perception is multifaceted, influenced by investor behavior, regulatory oversight, industry practices, and public discourse. Understanding and managing these perceptions are crucial for fostering trust, attracting investments, and sustaining the role of mutual funds as essential investment vehicles in global financial markets. By addressing transparency, enhancing investor education, and adapting to regulatory changes, stakeholders can contribute.

The study concludes that most respondents are young males, graduates, and employees, with limited familiarity with mutual funds. A majority report monthly incomes ranging from Rs. 20,000 to 30,000, saving less than Rs. 5,000, yet express interest in investing in mutual funds. They primarily gather information from media sources and anticipate high returns from mutual funds. Additionally, they show a preference for investing in other schemes. Overall, their opinions on mutual funds are generally positive, and they express moderate satisfaction. The majority of respondents are influenced by tax incentives.

Conclusions

After observing various mutual funds such as Nabil Bank Mutual Funds, Laxmi Capital Value Funds, and Sidhartha Equity Fund, it's evident that investors consistently seek higher returns with minimal risks. From this, it can be inferred that investors are drawn to mutual funds for their potential for high returns, liquidity, and tax benefits. The Nepalese market has limited experience with fully established mutual fund companies, and it will take time for these companies to establish themselves in the market. This research constitutes an empirical study on investors' perceptions of investing in mutual

funds. By implementing the suggestions from this study, mutual fund companies can attract new investors effectively. Understanding investor perceptions is crucial for the growth of the mutual fund industry. Investing in mutual funds can be a better way for individuals to access a diversified portfolio managed by professionals, making it easier to achieve their investment goals with potentially lower risk.

The research has concentrated on conducting an empirical study to understand the general perception of mutual funds among the residents of Madhesh Province, Nepal. The results of the study are entirely shaped by the viewpoints of the individuals selected for participation. If a new study were to be conducted with different participants, objectives, locations and involving other mutual fund industries, there could potentially be different outcomes. The nature and overall perception of people regarding investments are subject to change over time. Therefore, it is recommended that future researchers explore new outcomes in varied settings, different province and different timeframes. Further, by addressing above aspects, mutual fund companies can build trust and encourage more informed investment decisions.

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