

Drivers Of Mutual Fund Investment Behavior: A Structured Survey From Kathmandu Valley

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Abstract

Purpose: The purpose of this study is to examine the factors influencing mutual fund investment behavior in Nepal, focusing on the roles of risk perception, return perception, investment criteria, mutual fund awareness, and financial literacy.

Design/methodology/approach: The study employs a structured quantitative research design using primary data collected from 395 respondents within the Kathmandu Valley. Statistical tools including correlation and multiple regression analysis were applied to identify the significance and strength of relationships among variables influencing investment behavior.

Findings: The results reveal that investment criteria and mutual fund awareness have a statistically significant positive impact on mutual fund investment behavior. Return perception showed a marginally significant positive effect, while financial literacy and risk perception did not exhibit any significant influence.

Conclusions: The study concludes that enhancing awareness and simplifying investment criteria can improve mutual fund participation in Nepal. The non-significant impact of financial literacy and risk perception points toward deeper behavioral and contextual factors affecting investor decisions.

Implications: These findings offer valuable insights for policymakers, fund managers, and financial educators aiming to promote inclusive investment behavior. Focused awareness campaigns and personalized investment tools may help bridge the gap between financial knowledge and actionable investment behavior.

Originality/Value: This study provides a country-specific behavioral analysis using primary data to assess mutual fund investment behavior in a developing market context. Unlike general or cross-country studies, it highlights localized determinants and offers actionable recommendations tailored to Nepal's financial ecosystem.

Keywords: Mutual Fund Behavior, Investment Criteria, Financial Literacy, Risk Perception

INTRODUCTION

Mutual funds have become a defining feature of contemporary financial markets, offering investors a gateway to diversified portfolios managed by professionals and tailored to a range of risk appetites and investment goals (Bogle, 2015). The origins of mutual funds can be traced to the 18th century in the Netherlands, with subsequent expansion to Switzerland, Scotland, and the United States in the 19th century, reflecting their adaptability and enduring relevance in global finance (Goetzmann & Rouwenhorst, 2005). Today, mutual funds serve as specialized institutional vehicles that aggregate the savings of numerous small investors, pooling these resources to create substantial investment funds that are allocated across various asset classes such as equities, bonds, and mortgages (Khorana, Servaes, & Tufano, 2005).

The primary objective of mutual funds is to maximize returns for investors while minimizing associated risks, particularly in the context of equity investments (Elton, Gruber, & Blake, 2003). By aggregating the savings of small investors, mutual funds create a substantial pool of capital that can be strategically allocated across a range of asset classes, enhancing both return potential and risk mitigation (Bajracharya, 2018). Despite their widespread availability, mutual funds remain underutilized in several emerging markets, with studies

indicating that less than 10% of Indian households, for example, have invested in mutual funds due to perceived high risks and a lack of understanding of fund operations (Sivaramakrishnan, Srivastava, & Rastogi, 2017).

The proliferation of mutual fund schemes has introduced both opportunities and challenges for investors. While the variety of available funds allows for tailored investment strategies, it also complicates the selection process, making it difficult for individuals to identify the most suitable options (Bajracharya, R., & Mathema, 2017). Mutual fund advertisements often highlight past performance, yet regulatory requirements necessitate disclaimers that past results do not guarantee future outcomes, further complicating investor decision-making. Research has shown that while transparency and information accessibility have improved, many investors still struggle to make profitable decisions based solely on publicly available data (Barber, Odean, & Zheng, 2005). The significance of mutual funds in emerging markets is often underestimated, as analyses typically focus on dedicated equity funds and overlook the substantial holdings of global funds in these regions (Bekaert et al., 2003). Investors in mutual funds become part-owners of the fund's assets, sharing in the profits generated through interest, dividends, or capital appreciation, but also bearing the risk of potential losses (Rea & Reid, 1998). The key advantage of mutual funds lies in their ability to reduce portfolio risk through diversification, a benefit managed by professional fund managers who charge fees for their expertise (Capon, Fitzsimons, & Prince, 1996).

In developed markets, mutual funds have been extensively studied for their role in enhancing returns and minimizing unsystematic risks for small investors (Grinblatt & Titman, 1994). These funds not only provide access to a wide array of investment opportunities but also contribute to market efficiency and liquidity (Wermers, 2000). In contrast, the mutual fund industry in Nepal is relatively nascent, with the establishment of the NCM Mutual Fund in 1993 marking the country's entry into this investment domain. The initial fund size of Rs. 100 million was considered significant at the time, but the sector has since expanded, with merchant bankers now managing funds that are several times larger (Pant et al., 2022).

Currently, 26 mutual fund schemes are actively traded on the Nepal Stock Exchange (NEPSE), each regulated by the Securities Board of Nepal (SEBON) under the Mutual Fund Regulation Act of 2010 and its subsequent directives (SEBON, 2012). These funds undergo a rigorous process involving the publication of offer letters, collection of funds through initial public offerings (IPOs), and listing on NEPSE for secondary market trading (Nepal Rastra Bank, 2021). Despite these advancements, mutual funds in Nepal have yet to achieve the prominence enjoyed by stocks of commercial banks, insurance companies, and other financial institutions (Gurung, 2020).

The growth of Nepal's mutual fund sector faces several challenges, including limited corporate participation in bond issuance, liquidity constraints within the secondary market, regulatory frameworks that are not fully aligned with international standards, and inadequate investor awareness (Chaudhary et al., 2021). Addressing these issues is essential for fostering a robust and resilient mutual fund market capable of supporting broader economic development (Adhikari et al., 2024). The present study seeks to identify the key factors influencing investment decisions in mutual funds, with a particular focus on how individual characteristics—such as risk and return perception, investment criteria, mutual fund awareness, and financial literacy—shape investor behavior (Kaur & Kaushik, 2016).

The significance of this research extends to investors, financial professionals, and policymakers, offering insights that can inform more effective investment strategies, product development, and regulatory interventions. By highlighting the complex interplay between market performance, fund characteristics, cost structures, regulatory environments, and individual investor traits, the study contributes to the ongoing efforts to enhance financial literacy, market integrity, and investor protection (Mishra et al., 2023). Ultimately, a comprehensive understanding of the determinants of mutual fund investment behavior is essential for promoting the stability, efficiency, and inclusiveness of financial markets, particularly in emerging economies like Nepal.

LITERATURE REVIEW

Modern portfolio theory (MPT)

Markowitz (1952), a pioneering American economist, introduced the groundbreaking "portfolio choice" theory—now famously known as Modern Portfolio Theory (MPT)—which transformed how investors assess the trade-off between risk and return. His work, which earned him the Nobel Prize in Economic Sciences in 1990 alongside William Sharpe and Merton Miller, emphasized that investors can either maximize returns for a given level of risk or minimize risk for a desired level of return through smart asset diversification (Edwin & Martin, 1997). Unlike traditional approaches that evaluated assets in isolation, MPT shifted the focus to the performance of an entire portfolio. While widely adopted in financial practice, MPT has faced scrutiny over its assumptions in recent years. Complementing this framework, William (2011) highlighted the vital role of company profitability in attracting investors firms with growing profits tend to pay dividends and experience rising share prices. Key indicators such as net profit margin, return on assets, and return on equity remain central to evaluating a company's financial appeal.

Ghimire (2024) examined the combined impact of financial literacy and behavioural biases on investment decisions. The results showed that heuristic bias had a significant positive association with the creation of behavioural bias in decision-making. However, the framing effect, cognitive illusions and herd mentality have negative associations in the formation of behavioural biases. Further, investors often practice and follow heuristic biases rather than other irrational techniques for making investment decisions. Therefore, the financial literacy of individual investors has a significant impact on affecting stock market investment decisions.

Manandhar (2023) analyzed the factors that influence investment decisions in mutual funds. Modern Portfolio Theory and Prospect Theory have been used in this study. The primary data for the research has been collected through a structured questionnaire survey which was distributed among 384 samples which represents the sample size of the study. The study used descriptive, correlational and causal research design for the study. The findings revealed that financial status, risk taking behavior, investment revenue, past performance and sources of investment revenue had a positive relationship with investment decisions in mutual funds and financial status, risk taking behavior, past performance of fund and sources of investment revenue had a significant effect on investment decisions in mutual funds.

Niraula (2022) identified the investors' perception towards mutual fund in Nepal. Primary data for the study was collected from mutual fund investors of Kathmandu Valley through structured questionnaire. Pearson correlation and regression analysis were conducted to identify the relationship between independent variable (fund scheme, risk and return and investor's level of knowledge) and dependent variable (Investors' Perception in mutual fund). Under regression analysis, the regression model that investor's level of knowledge variable has positive significant impact on Investors' Perception in mutual fund whereas fund scheme has no impact on Investors' Perception in mutual fund.

Gidde and Gaikwad (2022) stated that mutual fund is an investment option which includes bonds, stock or securities used by the professional money managers. Investment is done for earning the regular and risk free returns from investment. In our country number of investment options are available, they are ranging from insurance policies to stocks. The study aims at finding the awareness of individuals towards mutual fund and preferences toward it. In our study it is found that the more number of respondents are aware about mutual fund. Investors purchase funds from brokers and asset management companies in large numbers. The majority of respondents are satisfied with mutual fund investment.

Saleem et al., (2021) provided empirical evidence on the behavior of the investor toward mutual funds by considering its relationship with risk perception (RP), return perception (Return P), investment criteria (IC), mutual fund awareness (MFA), and financial literacy (FL). Data were collected using a questionnaire from 500 mutual fund investors, from which 460 questionnaires were used for the analysis. In addition, the snowball sampling technique was used to collect data from different cities in Pakistan. The result showed that RP, Return P, and MFA are insignificant and negatively affect the behavior of mutual fund investors. Investment criteria have a negative and significant effect on the behavior of mutual fund investors. Financial literacy has a positive and insignificant effect on the behavior of mutual fund investors. The results provide better information and guidance to investors and policymakers on the factors that affect the behavior of mutual fund investors.

Shrestha and Shrestha (2020) analysed the investment pattern of Nepalese mutual fund Investors based on various parameters. This study also attempts to identify the critical factors influencing investment in mutual fund schemes of Nepal. The results indicate that the investors are moderately averse to mutual fund schemes. The results further show that the investors chose mutual fund schemes, being relied on key performance indicators of Mutual funds and their perception towards several aspects of mutual fund schemes. Moreover, fund managers' qualities and corporate governance factors are considered important though the results are not statistically significant (Shrestha & Shrestha, 2020).

Ihussein and Abdelgadir (2020) investigated the behavioral factors that influence individual investment decision making at a developing country stock market; the Sudanese Stock Exchange Market. The study utilizes a cross-sectional survey design along with analytical techniques to gather data and explore the relationships between various study variables. The study's findings highlighted the significant influence of behavioral biases on individual investment decision-making processes, irrespective of the stock market's developmental stage. Notably, the research underscores the prominence of heuristic and market-related factors in shaping individual decision-making within the Khartoum Stock Exchange. Conversely, factors like availability bias, changes in stock prices, regret aversion, and other investors' decisions and choices are found to have an insignificant impact.

Wagle (2020) investigated the investors' eagerness towards mutual funds in Nepal. The stratified sampling method was used, based on four strata (Businessperson, university lecturer, and University student, institutional and local investor) of the respondents' socio-demographic, adequate knowledge, and factors determination areas. Moreover, the correlation among all variables was positively significant. This paper is valuable to the government bodies, academicians, concern companies, and investors, which help them to know more about mutual funds. This study concludes differently from previous studies that individuals prefer to invest in the capital market rather than a bank deposit, which is probably the new appearance in Nepal.

Annamalah et al., (2019) analysed the factors that influence an investor's investment decision in purchasing a unit trust. The empirical study uses a quantitative research approach whereby survey data have been sampled from 202 participants using a convenient sampling technique. This research is cross-sectional and uses primary data for analysis. Data analysis has been carried out using multiple regression analysis. The empirical research finds that financial status, risk taking behaviour, and sources of information significantly influence the investors' investment behaviours in unit trusts. However, there was not enough evidence to support the claims that investment return and revenue have a statistical relationship to the investors' investment behaviours regarding unit trusts.

Research Hypotheses

The following hypothesis is proposed by the study, which is based on an extensive review:

H₀₁: There is significant impact of risk perception on Mutual investment behavior.

H₀₂: There is significant impact of return perception on Mutual investment behavior.

H₀₃: There is significant impact of investment criteria on Mutual investment behavior.

H₀₄: There is significant impact of mutual fund awareness on Mutual investment behavior.

H₀₅: There is significant impact of financial literacy on Mutual investment behavior.

Research Framework

In relation to this, there is a call to conduct research to understand whether the independent variables risk perception, return perception, investment criteria, mutual fund awareness, financial literacy and mutual investment behavior.

Independent Variables

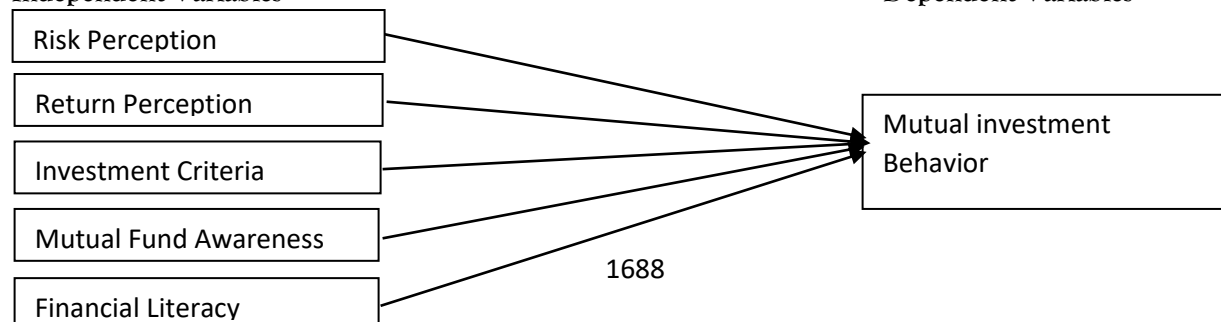


Figure 1: *Conceptual framework*

Note. Adopted from (Dhudde, 2013; Saleem et al., 2021)

METHODOLOGY

This study adopted quantitative research methodology to investigate the behavioral determinants of mutual fund investment decision. This study utilized descriptive and causal research design to explore the influence of five theoretically grounded constructs risk perception, return perception, investment criteria, mutual fund awareness, and financial literacy on investor behavior. Data were collected through a structured, self-administered questionnaire.

A purposive sampling technique was employed to target active mutual fund investors within the Kathmandu Valley, resulting in 395 valid responses. Instrument reliability was confirmed through a pre-test and Cronbach's alpha analysis, with all constructs exceeding the recommended threshold of 0.70. The data were analyzed using SPSS version 26, employing descriptive statistics, Pearson correlation to explore initial associations, and multiple linear regression to test the hypothesized relationships. This methodologically sound approach not only enhances the robustness and internal consistency of the findings but also ensures that the study offers analytically credible and generalizable insights into the dynamics of mutual fund investment behavior in a developing market setting.

Model Specification

Following deepening model has been used for this study.

$$MFI = \beta_0 + \beta_1 R + \beta_2 RP + \beta_3 IC + \beta_4 MFA + \beta_5 FL + \epsilon$$

Where, β_0 = Intercept $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$, are the beta coefficient (sensitivity) of variables and R= Risk Perception, RP= Return Perception, IC= Investment Criteria, MFA= Mutual Fund Awareness, FL=Financial Literacy, MFI= Mutual Fund Investment Behavior, ϵ = Error Term

RESULT AND DISCUSSION

Table 1 presents the demographic distribution of the 395 participants surveyed in this study. In terms of gender, the sample comprised 53.16% male and 46.84% female respondents, reflecting a relatively balanced representation of both genders. Regarding educational attainment, a substantial proportion of participants held higher academic qualifications, with 35.95% possessing a bachelor's degree and 32.15% holding a master's degree or higher. Additionally, 19.75% had completed education up to the Plus 2 level, while 12.15% had educational attainment below that level.

Table 1: *Demographic Information of the Participants*

Demographic variables	Classification	Frequency	Percent
Gender	Female	185	46.84%
	Male	210	53.16%
	Total	395	100%
Education	Below Plus 2	48	12.15%
	Plus 2	78	19.75%
	Bachelor's Degree	142	35.95%
	Master's Degree or Above	127	32.15%
	Total	395	100%
Occupation	Employed (full-time/part-time)	187	47.34%
	Self-employed	130	32.91%
	Retired	24	6.08%
	Student	54	13.67%

	Total	395	100%
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Note: Authors own computation

This indicates that the sample was largely composed of individuals with moderate to high educational backgrounds, which may contribute to a more informed investment behavior. Occupation-wise, 47.34% of the respondents were employed either full-time or part-time, followed by 32.91% who were self-employed. Students accounted for 13.67%, and 6.08% of the participants were retired. The diversity in occupational status and educational background adds robustness to the dataset, allowing for a comprehensive analysis of investment behavior across different socio-economic segments within the Kathmandu Valley.

Correlation Analysis

The correlation analysis was conducted to examine the linear relationships between mutual fund investment behavior and a set of independent variables: risk perception, return perception, investment criteria, mutual fund awareness, and financial literacy.

Table 2: Correlation Analysis

Variables	R	RP	IC	MFA	FL	MFI
R	1					
RP	0.004	1				
IC	0.023	.408**	1			
MFA	-0.018	.444**	.545**	1		
FL	0.001	.911**	.418**	.544**	1	
MFI	-0.077	.288**	.324**	.320**	.279**	1

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

Note: Authors own computation

Where R= Risk Perception, RP= Return Perception, IC= Investment Criteria, MFA= Mutual Fund Awareness, FL=Financial Literacy, MFI= Mutual Fund Investment Behavior

Likewise, the results demonstrate statistically significant positive associations between mutual fund investment behavior and return perception, investment criteria, mutual fund awareness, and financial literacy. These findings suggest that investors who perceive higher returns, have well-defined investment criteria, possess greater awareness about mutual funds, and exhibit higher levels of financial literacy are more likely to participate actively and confidently in mutual fund investments. In contrast, risk perception showed a weak and statistically insignificant relationship with investment behavior, indicating that perceived risk may not play a dominant role in influencing investment decisions in mutual funds within the studied context.

Regression analysis

The table 3 regression model demonstrates a substantial level of explanatory power, with an R value of 0.596 indicating a moderately strong positive correlation between the independent variables—financial literacy, return perception, risk perception, investment criteria, and mutual fund awareness—and mutual fund investment behavior.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square
1	.596a	0.437	0.4322

a. Predictors: (Constant), FL, RP , R, IC, MFA

Note: Authors own computation

Where R= Risk Perception, RP= Return Perception, IC= Investment Criteria, MFA= Mutual Fund Awareness, FL=Financial Literacy, MFB= Mutual Fund Investment Behavior

The R Square value of 0.437 suggests that approximately 43.7% of the variance in investment behavior is explained by the combined influence of these predictors, which is notably high in the context of behavioral

finance research. The adjusted R Square value of 0.432 further confirms the robustness of the model by accounting for the number of predictors, minimizing the potential for overfitting.

The ANOVA results presented in Table 4 assess the overall significance of the regression model used to predict mutual fund investment behavior based on the five independent variables: financial literacy, return perception, risk perception, investment criteria, and mutual fund awareness.

Table 4: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.631	5	3.126	10.78	<.001b
	Residual	83.811	289	0.29		
	Total	99.442	294			
a. Dependent Variable: MFI						
b. Predictors: (Constant), FL, RP , R, IC, MFA						

Note: Authors own computation

Where R= Risk Perception, RP= Return Perception, IC= Investment Criteria, MFA= Mutual Fund Awareness, FL=Financial Literacy, MFB= Mutual Fund Investment Behavior

The model yielded an F-statistic of 10.78 with a significance level of $p < 0.001$, indicating that the regression model is statistically significant and the set of predictors reliably explains a substantial portion of the variance in investment behavior. The regression sum of squares (15.631) compared to the residual sum of squares (83.811) further highlights the explanatory contribution of the model.

Table 5 presents the regression coefficients assessing the individual impact of each predictor—risk perception, return perception, investment criteria, mutual fund awareness, and financial literacy—on mutual fund investment behavior. The model's constant term is statistically significant ($B = 2.052$, $p < 0.001$), indicating a meaningful baseline level of investment behavior when all predictors are held constant. Among the independent variables, investment criteria ($B = 0.215$, $p = 0.010$) and mutual fund awareness ($B = 0.186$, $p = 0.020$) show significant positive effects on investment behavior, suggesting that well-defined decision-making frameworks and greater familiarity with mutual funds are key drivers of investor engagement.

Table 5: Impact of the variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.052	.331		6.189	0.000
	R	-.085	.058	-.079	-1.454	0.150
	RP	.192	.118	.219	1.630	0.100
	IC	.215	.079	.180	2.714	0.010
	MFA	.186	.079	.171	2.368	0.020
	FL	-.086	.139	-.088	-0.620	0.540

a. Dependent Variable: MFI

Note: Authors own computation

Where R= Risk Perception, RP= Return Perception, IC= Investment Criteria, MFA= Mutual Fund Awareness, FL=Financial Literacy, MFB= Mutual Fund Investment Behavior

Although return perception ($B = 0.192$) demonstrates a positive influence, it is only marginally significant ($p = 0.100$), indicating a potential but not definitive role in shaping investment decisions. On the other hand, risk perception ($B = -0.085$, $p = 0.150$) and financial literacy ($B = -0.086$, $p = 0.540$) do not have statistically significant effects in this model. Interestingly, the negative but insignificant coefficient for financial literacy

suggests that a higher level of literacy does not necessarily translate to increased investment activity, possibly due to over-cautiousness or risk aversion in more informed investors. These findings underscore the nuanced nature of investment behavior, where practical decision criteria and product-specific awareness exert greater influence than abstract financial knowledge alone, offering meaningful implications for financial education and policy interventions targeting mutual fund participation.

DISCUSSION

The study found that investment criteria and mutual fund awareness significantly influence investment behavior, aligning with prior research emphasizing informed decision-making. Annamalah et al. (2019) and Kaur and Kaushik (2016) similarly reported that structured investment approaches and product awareness positively shape investor behavior. Gidde and Gaikwad (2022) also found that higher awareness increases mutual fund participation, while Shrestha and Shrestha (2020) noted that investors rely on performance indicators and perceived benefits. The marginally significant role of return perception echoes findings by Saleem et al. (2021), who identified a negative but noteworthy relationship, and Wagle (2020), who suggested that perceived returns influence attentiveness toward mutual funds. These consistent results underscore the importance of investor-centric education and transparent fund information.

In contrast, this study found no significant impact of financial literacy and risk perception, diverging from Ghimire (2024), who identified financial literacy as a key factor in rational investment behavior, and Manandhar (2023), who found risk-taking behavior to be a strong predictor of mutual fund investment. Similarly, Elhussein and Abdelgadir (2020) emphasized the effect of heuristic and behavioral biases on decision-making, suggesting risk perception plays a notable role, especially in emerging markets. Saleem et al. (2021) also reported contrasting effects of financial literacy and investment criteria across demographic contexts. These discrepancies highlight that investment behavior is shaped not only by financial knowledge but also by market conditions, cultural factors, and behavioral tendencies. Thus, targeted investor education and contextual policy support remain crucial for mutual fund market development in Nepal.

CONCLUSION

This study examined the key determinants influencing mutual fund investment behavior in Nepal, focusing on variables such as risk perception, return perception, investment criteria, mutual fund awareness, and financial literacy. The analysis revealed that investment criteria and mutual fund awareness are the most significant predictors of investor behavior, while return perception showed a marginal influence. These findings suggest that when investors have clear, structured decision-making frameworks and are well-informed about mutual fund products, they are more likely to engage actively in the market. The results underscore the practical value of simplifying fund information, enhancing transparency, and aligning mutual fund offerings with investor expectations.

Interestingly, financial literacy and risk perception did not show a statistically significant impact on investment behavior. This challenges traditional assumptions and points toward the complexity of investor psychology, where awareness and confidence may play a more decisive role than general knowledge or perceived risk alone. The findings highlight the need for more personalized and behaviorally attuned financial interventions, especially in emerging markets. Strengthening investor trust, improving fund accessibility, and designing user-centric investment platforms could further catalyze mutual fund growth and deepen market participation in similar contexts.

This study is limited to mutual fund investors within the Kathmandu Valley, which may not fully represent the investment behavior of individuals across Nepal. The use of a cross-sectional survey design restricts the ability to capture changes in behavior over time. Additionally, reliance on self-reported data may introduce bias due to personal interpretation or social desirability.

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