**FACTORS AFFECTING MUTUAL FUND INVESTORS BEHAVIOR**

**(A Case of KP Mutual Fund Investors)**

**BY**

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**Institute of Business Studies and Leadership**

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1. INTRODUCTION

## 1.1 BACKGROUND OF THE STUDY

Investments in the capital market are of numerous types, namely, stock, commercial papers, mutual fund, bond, certificates, contracts and warrants. The mutual funds are a type of financial institutions that helps in pooling the resources from investors and then diversify this investment in bonds, stock and other types of securities of the capital market. It can also be said that one of the biggest type of financial intermediaries is mutual funds all around the corporate world. The Mutual fund is a type of investment through which investors pool savings so as to optimize benefits with absolute returns. An investment of this type, is very beneficial for institutions and individuals as well (Rakesh, & Srinivas 2013).

Investment in the securities and market instruments is done through the mutual funds. They are basically designed for the small investors who can participate through a small amount of money, but the return is high when a professional manager is involved. The role of the fund manager is to invest the money provided by the investors in multiple types of securities available. Fund management is responsible for making the decisions related to investment. The diversified portfolios of the fund managers help in selecting a security type through which maximum returns can be made possible with a minimum type of risks. Another method of obtaining profit from the mutual funds is through the appreciation in the original price (Ramesh & Geetha, 2012).

Subscribers are given with the subscription of fund entitling them as a pro– rata profit, which is the actual earning from the fund. Other names of such type of documents are units, certificates, shares or any other specific names. There is an inherent advantage of mutual funds as the risk is reduced and the return is always favorable. It can also be called as a cost effective investment and also is a process of investment. From the point of view of investment, the performance of mutual fund has an important aspect (Anderson & Anderson 2005).

Considering capital market, it can be said that it plays a very important role in the economic development of the country because investment is promoted. The key instrument in the capital market is mutual funds. The history of strong impact on financial market is long. The development of mutual funds since at the time it first started was comparatively slow and its positive impacts were seen after long. These were introduced in Switzerland in the 18th century and then these were used in the USA as well in the 19th century. In Pakistan, the trend of mutual funds started off in 1962 when the National Investment Trust (NIT) was established. The open end equity funds were launched first by NIT Limited. In 1966, a series of closed-ended mutual funds were launched by the Investment Corporation of Pakistan (ICP). Many mutual funds companies came into being in early nineties 1994-95. The privatization of ICP started by the government of Pakistan in 2002. Two lots were split in twenty five close ended funds of ICP. In 1990s, the financial sector became liberalized and allowance was given to them to enter the market. 2000s, however, brought a groundbreaking change. Pakistan’s mutual funds industry spurred up for the domestic as well as international investors interest in the start of the century. In the current time, non –banking finance institutions (NBFIs) are the most dominant type of mutual funds. (Khalil, Hassan & Qamar 2003)

A research was conducted on the Mutual fund industry, in which it was mentioned that in 2006, the Mutual fund industry size was US $ 2.38 Billion. There are variety of mutual funds which are offered by Pakistan mutual funds industry so as to attract investors (MUFAP, 2006). 385.5 billion rupees is the total assets size of this industry in the year 2008. These figures provide an evidence that this industry is growing rapidly and it is not possible without the confidence and trust of the investors. Growth in this industry has further motivated researchers to research out and identify benefits to the investors as well as general public.

The researches on the investor behavior in Pakistan are very rare. This is the reason that there is a need to conduct research specifically in the KPK region of Pakistan. This study will use Multinomial logistic regression to analyses the investor behavior which is being affected by the different funds attributes. More over the study also uses the combination of different techniques which are being applied in descriptive studies and correlational studies like charts, bars and pies.

## 1.2 PROBLEM STATEMENT

Opportunist is another name for investors. When opportunity is identified by investors, they switch to that opportunity. Investor behavior is a phenomena. The mutual fund industries are the one that wants to identify the behavior of investors related to selection, opportunity identification and switching to a specific type of mutual funds. But regardless of this fact, the judgment on the investor behavior is still not understood. The survival of AMC will become difficult if the behavior of investors is unknown. There are numerous fund’s attributes which can affect the decision making of the investors. These attributes of fund which affect the mutual fund attitude and preference is very vital to the AMCs. So knowing the liking, attitudes and preference of investors towards the different funds attributes is a real challenge to the AMCs.

**1.3 RESEARCH QUESTION**

This research study would be conducted to answer following questions.

1. What is the invertor’s investing behavior in mutual funds in KPK?
2. What kind of perception KPK investors have towards investment in mutual funds?
3. What are the different attributes of mutual funds which motivate investors to invest in mutual funds and affect their decisions?

## 1.4 OBJECTIVE

This research study is conducted to achieve the following objectives.

1. To study and examine the KPK invertor’s investing behavior in mutual funds.
2. To know the KPK invertors perceptions and preferences towards investment in mutual funds.
3. To find out the effects of different attributes (factors) of mutual funds on investor behavior, which motivate investors to invest in mutual funds

## 1.5 RESEARCH HYPOTHESES

Based on research objective the following hypotheses are developed

H1: Most of the investors prefer to invest in mutual fund as the faster investment in all investment avenues.

H0: Most of the investors do not prefer to invest in mutual fund as the faster investment in all investment avenues

H2: Most of the investors invest with the view to have tax benefit on short term biases rely upon information provided by agents to invest in Mutual funds

H0: Most of the investors do not invest with the view to have tax benefit on short term biases rely upon information provided by agents to invest in Mutual funds.

H3: Most of the investors switch to another scheme for more return most often.

H0: Most of the investors do not switch to another scheme for more return most often.

H4: Most of the investors opt for investmentin open-ended funds.

H0: Most of the investors do not opt for investmentin open-ended funds.

H5: Most of the investors invest in mutual fund due to positive NAV factor.

H0: Most of the investors do not invest in mutual fund due to positive NAV factor.

H6: Most of the investors invest due to fund reputation and brand name.

H0: Most of the investors do not invest due to fund reputation and brand name.

H7: Most of the investor invests as it is easily investing opportunity.

H0: Most of the investor invests as it is easily investing opportunity

H8: Most of the investor invests due to disclosure of NAV.

H0: Most of the investor do not invests due to disclosure of NAV

H9: Most of the investor comes to know through broker and agents

H0: Most of the investor does not come to know through broker and agents.

H10: Most of the investor invests in mutual fund due to the protection of their return and principle by MUFAP.

H0: Most of the investor do not invests in mutual fund due to the protection of their return and principle by MUFAP

## 1.6 SIGNIFICANCE OF THE STUDY

1. As this study is conducted in KP context so it will add quality literature from local perspective in the area of Mutual Fund investor’s behavior.
2. This study uses more advanced tools for the analysis in Pakistani context, which are found rare in mutual fund investors behavior studies in Pakistan.
3. This study will help the AMC to understand the investor’s behavior and also will provide the idea to use the observed information for future forecasting and marketing planning study will highlight the most important attributes and different factors which will affect the investor’s behavior in mutual fund.
4. This study will help me academically to get my MS degree and will also help other researchers and academicians.

2. LITERATURE REVIEW

# 2.1 Investors behavior and perception in Mutual Fund

According to L.R Tallaru (1997) argued that the main objective of the mutual fund investors for section of fund is preference, economies climates and constraints. The author added that selection of fund from a large numbers of available funds is a very complicated process and most of investors are lack aware about these available funds. N capon (1994) argued in a study that return and risk are main factor which is influence on investment decision. Author also added that other factor like management fees, amount of sales charges clarity of accounts statement are most important factors which is effected the investment decision. Wilcox (2002) analysis showed that most numbers of investors are references to those funds which have past performance is strong, the author also find out that past performances of the fund is not guarantee for the future return, there are also other more factor which is related to the future return. Walia and kiran (2009) conducted a study on investors risk perception towards mutual fund services. The author find out that mostly investors are wants innovative products and wants to maximize the quality of exist services. Sargaoglu and detzler (2002) there are different categories like schemes and types of mutual fund that confused the investors and made a challenge for investors to select a right fund for investment. In other hand there is no proffer channel and experts to make this information useful that convince them to make investment decision, the author also added that there are a large number of newspaper, magazine, websites and financial software are available as screening tools, but other hand a lot of investors are not able to judge these sources properly and make decision about investment and also the investors do not consider these tools a sold and proper sources for investment. So the most of investors are hire broker to make investment decision. ipolito and bogle (1992) find through the result that investor’s make the decision on the basis of past performance of fund. The authors explained that other factors also effected on investment decision but the important and key factor which is mostly effect on investment is past performance of the fund. Lu zheng (2005) argued through the study that investors of the mutual fund invest the money in mutual fund on the basis of short term of past performance of fund. The author added that mostly investors are used specific information about fund and then they take the decision about investment in mutual fund. V. janmbodekar (1996) argued that mostly investors of the mutual fund invest in income fund as compare to growth fund. The author added through the finding of study that capital appreciation, safety of principle and liquidity are the main factor which is influence on investment buying decisions. The author also find out through the study that magazine and newspaper are main sources to get information about mutual fund. The author also added that services are also the major and key factor for investors to invest in mutual fund. Rajeswari and Ramamoorthy (2001) argued through experimental study that most important factor which is influence on investment decisions, is brand name of the scheme and second most important factor is professional manager.

# 2.2 Mutual Fund Selection Behavior

Cook and Hebner (1993) argued that investors invest in mutual fund on the basis of risk adjusted rate of return, the author also conducted through the study numerous like slandered deviation of fund alpha the level of diversification are also effect on investors investing behavior. The study also finds out that investor’s select the mutual fund on the basis of fund ranking.

Cupon et al (1996) reveals through the study that investors investing behavior with modern finance theory the author try to find out the investors investing perception about mutual fund, the author conduct a result that risk and return are mostly effect on investors decision, the study also find out that with the passage of time the mutual fund purchases ratio are increases and through the study also find that advertisement, issue of performance reports to the inventories, commission based financial advisor and magazine are the main factors to motivate the investors for investing in mutual fund. The study also finds out that amount of sales charges skill and proficiency of the fund manager, transparency of the fun accounting statement. Recommendation from a financial magazine is main factor which is playing a main and key role in decision making.

Alexander et al (1998) conducted a study to know the sources of information of the mutual fund investors and also try to know the investors knowledge about mutual fund, for the purposes of this the author randomly selected 2000 investors to collect the data, and authors analyses through this data that that fund prospectus which company provide to the investors, magazine, newspaper are the main sources that investors come for the investment

# 2.3 BEHAVIORAL FINANCE

It was decided to begin this work by offering an overview on what are the central themes studied from behavioral finance. After a first definition of the material and a description of the main behavioral abnormalities affecting the actions of individuals when they are to make investment choices will drop more in specifically by analyzing the main cognitive errors, emotional and preference to which they are subjects. The chapter will then continue treating those that are the main heuristics exploited by individuals for try to simplify the process of choosing, they will then be described the representative heuristic, Anchor and availability.

As the classical financial theory does not take into consideration the behavioral *biases* and heuristics mentioned above the behavioral finance scholars have formulated new theories taking into account the *bias.* The work will therefore continue analyzing the main behavioral theories, from the most important one or the Prospect Theory*,* and then continue treating the prospect theory cumulative and motivational theory. The chapter will conclude by highlighting how these behavioral mistakes go in practice to affect in the construction of investors' portfolios (Arathy B et al 2015).

# 2.4 Mood effects on investment

Until now it has been described the impact that emotional reactions have on investment decisions. However, even the investor mood to time of the decision may have an effect since it can influence its way to process information. Unlike emotional reactions that have an emotional response to external stimuli (such as, for example, the name of a company or its recent performance), the mood is an emotional experience that originates from the decision-maker and influence the way it is perceived the surrounding reality. Several investigations in the field of psychology of decision and social psychology have It demonstrated that the mood has a strong impact on the behavior and can It is used as information to figure out which course of action is best to follow (Lerner and Keltner 2000; Schwarz and Clore 2003;Peters 2006).

**2.5 Theoretical Framework**

Attitude towards instruments

Performance of Record

Fund reputation and Brand Name

Investors

Investing behavior

Scheme portfolio of Investment

Reputation of fund manager

Withdraw facilities

Favorable rating by agency

Innovativeness of scheme

Product with tax benefit

Entry and exit load

Minimum initial investment

Disclosure of derivation from the

Original pattern

**3. RESEARCH METHODOLOGY**

Primary data will be used in the research study. Through structured questionnaire primary data would be collected from investors participating in Pakistan Stock Market. The collected data will be process and analyzed through different statistical tools. Hypotheses developed will be tested using SPSS software.

## 3.1 POPULATION

Research Population is also alternatively called sample frame of the research. The Population of this research includes all investors of KPK who invest in mutual fund.

**3.2 SAMPLING**

In this research probability sampling technique Stratified random sampling is used as investors are segregated in different types of investors, total 250 sample sizes of investors are selected and included in the data analysis of this research study.

**3.3 DATA COLLECTION TECHNIQUE**

In this research both primary and secondary data has used. Primary data has been gathered through the questionnaire which has designed in order to check the investing behavior of investors in mutual funds. Secondary data is also used in this research, secondary data has been collected from different related studies, journals, library, internet sources and newspapers etc. But main focus has been given to primary sources because through it the investing behavior of investors has been judged.

## 3.4 TOOLS FOR DATA ANALYSIS

The IBM Statistical Package of Social Science 23 is used in order to describe the statistical tools just like Tables, Bars, Charts, and multinomial Legit Regression is used to conduct the analysis of this research study.

There are two most important and main types of research design which are using throughout in social sciences researches. One is Descriptive research design and other is exploratory research design. In simple words Descriptive research is that type of research in which the researcher simply describes the problem which is concerned for him or for his organization. While on the other hand exploratory research is that type of research in which the researcher explore the boundaries of the problem and also expand the knowledge about that problem. In simple words the researcher gets a lot of information and data about the problem in the exploratory research.

According (John A.H, 2007) research design is a blue print for achieving the objectives of any type of research and to give the answer of any type of the research question. It includes exploratory, descriptive and explanatory research design. This thesis study is mainly design to check the investors investing behaviors of Mutual Funds in Khyber Pakhtunkhawa.

# 3.5 Research Type

It is a research as the data about the investors behavior will be quantitative analyzed through different tables’ bars analyses of variance and Multi Nominal Logistic Regression. So this research study is descriptive and correlational in nature, because in this research the investing behaviors of investors in different mutual fund are described in detail.

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