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Mutual Fund Investment Decision by Malaysian Investor

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Abstract

Mutual Fund is a communal investment, giving a chance to investors who have the same investment objectives to invest together in things like assets and other business ventures. The diversification investment such as debentures, shares and other securities make mutual fund offers investors an opportunity to invest in a fund manage by securities specialist at low cost. Our study examines the factors influence Malaysian investor to invest in mutual fund. Questionnaire is distributed to the respondents and data were analyzed using Statistical Package of Social Science (SPSS). From 200 respondents, the result shows past performance and diversification is significant with investment decision making by Malaysian Investor. This study is done to create awareness on the investment opportunities available for the country, as well as provide information on how various factors influence the investment decisions of investors in Malaysia.

Keywords: Mutual Fund, Investment, Diversification

Introduction

Investment decision process is a salient step that investors are keen on while pondering on the available niche that can bring plentiful profits. According to Ricciardi and Simon (2000) the decision-making process is influenced by different factors including behavioral and psychological factors. As an investor, to reap much profit, he or she is required to make a good investment planning. A good investment plan goes hand in hand with good decision-making. Therefore, good investment plans are a reflection of well-informed decision making. Muhammad and Abdulah (2009) provide different people have different tactics while making investment decisions. Similarly, each investor has his or her own unique way of approaching investment decisions issues. Investors' decisions ought to be made in reference to the available resources. The failure to factor in the availability of resources may lead achievement of little financial goals. Notably, smart investors' investment decision depends heavily on the financial goals, resources availability, and time frame. Less concerned investors, particularly individual investors, make irrational goals that may thwart their efforts towards the achievement of his or her business goals. Investors ought to make wise good choices on the right

stocks to invest. They should consider companies that have a variety of stocks to supply them with the goods for resale. Companies such as the Bursa Malaysia have a variety of stock that an investor can reconsider before making decisions based on the available resources. In the past decades, investors had narrowed investment avenues, which limited their investment plans. However, things have changed drastically, the current state of investment opportunities provide a wider view in which investors can make their personal investment decision that favours their investment channels.

Investing in Mutual Fund has several benefits. Mutual fund offers a chance for diversifying investments such that investors with enough capital can invest it in various areas. Furthermore, fund offers investors exposure into a variety of investment opportunities, which would not otherwise be available to individual investors. All said and done, many investors with the ability to join the Mutual Fund do so mainly because of the capability of the capital appreciating, besides the security of guaranteed income resulting from dividends and interests amongst other investment opportunities. In the few years gone by, the Mutual Fund has registered significant growth, thereby being a great contributor to the growth of Malaysian economy. The growth of the investment industry in Malaysia over the last decade has been attributed to the unit trust industry. The net asset value of the unit industry grew at a rate of 18% annually to hit RM226.9 billion in 2010, from RM 43.4billion in 2000. Within the same period, the penetration rate of the unit trust industry rose from 10% in 2000 to 18% in 2010. The success of this industry has made it a favourite investment for many investors interested in long-term investments. The massive investment in the industry has made it the largest source of income for customers. Though trends have shown that the largest population of Malaysia is of middle income, the Security Council has projected that the growth of the investment industry has the potential of exceeding the growth of assets in the last ten years, and has the ability to rise from 18% in 2010 to 34% in the next two years. Consequently, the net asset value is anticipated to hit RM828 billion in the next two years. Furthermore, mutual funds can purport to do its best to improve on its areas of weaknesses that regards the problems faced by the investors in the field. It is evident that the growth of the mutual fund industry can be channeled into achieving better economic growth by proper controllability.

Problem Statement

Investors' expectations play a key role on the financial sector as they determine the pricing of assets, the amount of securities traded as well as other several aspects which are vital in the sector. Perception influences the expectations of the investors. The common belief out there is that Mutual Fund is a product tailored for retail and this targeting small investors and low income earners in Malaysia who feel threatened by the securities market, but have the desire in reaping from the securities industry. The downside of this target market for Mutual Fund is the fact that the investors at that level are mixed, thus pushing the fund to tailor-make products with an aim of trying to meet the needs of all the customers. However, instead of meeting the needs, the variety in the products ends up increasing confusion among the customers at the selection stage. As a result of the confusion, the small investors face a lot of challenges including but not limited to scarce resources and lack of information on investment opportunities. Nonetheless, all is not lost as there is a unique type of agency-investor pool which is an investment opportunity that is tailored in such a way that small investors can invest safely under the guidance of investment experts. However, investing in Mutual

Fund is not just a random decision for the investors. Before they make the decision, they carefully consider their investment objectives and goals which they want to achieve. Previous studies on factors influence investor behavior towards mutual fund selection suggest a mixed outcome; some positives and others that are negative. There is a necessity for new studies on this aspect as it greatly impacts the way investors make choices. Investing in Mutual Fund appears to be a good investment opportunity for not only the investors but also the economy of the country. It is therefore of great significance to study and understand the investment behaviour and goals of investors as well as the factors that inspire them to capitalize in the fund in Malaysia. The main objective of the study is to analyze which factors could influence the Malaysian investor to invest in Mutual fund.

Significance for the Study

By carrying out this study, it can contribute greatly to creation of awareness on the investment opportunities available for the country, as well as provide information on how various factors influence the investment decisions of investors in Malaysia. The study will also assist Mutual Fund in Malaysia to better understand the factors that would attract more investors to invest with them, besides assisting the fund in developing strategies for enhancing performance and customer satisfaction strategies. The findings of this study will give Mutual Fund an edge above other investment opportunities since the findings will equip the fund with a clear platform to improve their services and products.

Literature Review

Decision making to invest in mutual fund is the dependent variable in this research. It is the element that influences investors to capitalize in the fund. The returns are high due to the effective decisions made by the fund managers. This in turn attracts high investments as many investors are drawn to the fund by its objectives. The performance of the fund is the total amount of returns which refers to the total amount of asset value of the fund, its sharing of bonuses and money returns over a specific period of time. Low(2007) observes that the poor performance of the Mutual Fund between 1996 and 2000 was due to the managers' inability to manage time well as well as incompetence on the part of the managers' in handling operational issues. Consequently, the fund did not perform as expected thus losing some investors who felt that the fund did not meet their investment goals anymore.

Past performance of Mutual Fund

The performance of Mutual Fund is grounded on its past performance. Previous performance can also help the fund in mitigating future economic instabilities, as well as establishing how the bank is doing in comparison to selected benchmarks. Though reviewing past performance does not secure a stable future in investment, it is a valuable way to keep the fund in check in line with its defined goals and objective. In addition, past performance provides investors with a chance to review the fund's progress and assess whether it is the right forum for investment. Singh and Jha (2009) led an examination on awareness and agreeableness of mutual fund and found that investor basically favor return potential, liquidity and safety and they were not mindful about the investment plan. Singh and Vanita (2002) from their study found that tax exemption and investment continuously for a 3-5 year

is a factors investment in mutual fund. A study conducted by Taib (2007) into the performance of Mutual Fund between 1991 and 2001 showed that fund faltered in its performance at the securities market. However, the study revealed that the period in question was a hard one for financial institutions due to the prevailing economic situation in Malaysia at the time. The interest rates increased over the period and hit an all-time high in 1997, thus making it hard for investors to invest for fear of making losses. The study noted that all financial investment institutions trailed in their performance at the time, thus seeming to absolve Mutual Fund managers of any operational failures. However, the study noted that there is no substantial relationship between the fund's past and present performance.

Hypothesis 1: The past performance of Mutual Fund has a significant relationship on decision making concerning investments.

Diversification

Diversification is one strategy that is used by investors in order to reduce financial management risk. It refers to the practice of an investor investing in different industries with different securities and assets. The advantage of this practice is the fact that the investor spreads out investment risks across various investments such that if one sector is hit by a crisis, the investor will still gain income from other unaffected investments. However, in practicing diversification, investors ought to be careful to avoid the risk of overlapping stocks whereby though the assets are different. Thus, it is important for investors to clearly understand the investment options available after which they evaluate the risks and successes of each and then make an informed decision. Ramesh (2015) examined the investor goal towards risk and rate of return partakes in association of their portfolio developments and the procedures of portfolio administration. Proposed that active organizations must intensive comprehension of brain research of the speculators uncovered that appropriate enhancement of portfolio would ensure the financial specialists to get a higher return, higher pay and high liquidity with minimum risk. Treynor (1965) conducted a study into the risks associated with diversification of investments and found out several risks exist. These risks result from the volatile nature of the securities market which make investing in securities a risky adventure that at times scares away investors. In addition, another risk is the fluctuation of the funds assets.

Hypothesis 2: Diversification has a significant relationship with the decision making process on investment in Mutual Fund.

Gender of the Mutual Fund Manager

The issue of gender in management of the fund is critical to the success of its operations. Studies conducted into the influence of gender in the management of Mutual Fund have corroborated the fact that gender plays a key role in management positions. Research has established that women are not necessarily the best managers for the fund because they are afraid of taking risks and are as well afraid of competition (Beckmann and Menkhoff, 2008). Powell and Ansic (1997) stated that between men and women with the same experiences and education, women lack self-confidence in making investment decisions. Hillert and Ruenzi (2014) utilizing an example of US security found that gender does not give an impact on risk balance. Beckmann and Menkhoff (2008) study the reactions of 649 store supervisors in the US, Germany, Italy, and Thailand and found female is likely to be a risk averse

and less arrogant than men. However, in relation to the gender-related studies by Schubert, Brown, Gysler and Brachinger (1999) says that the research findings are not reliable due to the fact that the factors that influence investment behaviours were it is considered fully, and that the gender-studies tend to focus more on gender stereotypes as opposed to actual and available data. Schubert et al., (1999) further argues that rather that work with actual data as collected from the fields, the research made use of data whose financial risk was raised. Consequently, Schubert concluded that there was no difference between genders in terms of undertaking risky investment decisions.

Hypothesis 3: The gender of the Mutual Fund managers has a significant relationship with decision making on investments mutual fund.

Research Instrument

This research uses questionnaires as the primary method of data collection. The questionnaire is designed in Liker scale with both the dependent and independent variables following each other in that order. The questionnaires were distributed by online and also physically to ensure that they are convenient for our target respondents who are mainly investors or potential investors in Mutual Fund. Questionnaire was distributed to 250 respondents unfortunately only 200 were responded. The first part requires the respondent to fill in their demographic details. In the second and third sections of the questionnaire, the respondents will be expected to answer an item related to past performance of Mutual Fund, diversification, as well as the issue of the gender of the fund's manager. In analysing the collected data, this research use statistical Package of Social Science (SPSS).

Results and Description

Descriptive Analysis

There are 87 of male and 113 female out of 200 respondents. The largest group of respondent goes to the age group between 21-30 years old, which is 49% to the total. The age group with the least respondent goes to the age group between 51years old or above (5%). Age group of below 21 years old consists of only 17% and age group 31-40 years old and 41-50 years old are 23% and 6%. Most of the respondents are married (44%). The second highest group is (27%) which is single. There are 25% of respondents from group In relationship. The least marital status of respondents is divorced and widowed, which is only 3% and 1 %.

For the monthly income of respondent, (49%) are from group RM2001 to 3000. There are 14% from group below Rm1000. Besides, 11% of respondents are in group RM1001 to 2000 , 17% of respondents are in group RM3001-4000 and the least of the respondents (6%) and (3%) are from the group of RM 4001 to 5000 and group of above RM 5001. The most education level of the respondents is (49%) are graduated from the tertiary level. There are only 42% respondents are graduated from Secondary level. The least education level of respondents are no formal education, which is only 1%. The other group which have 2% rom Primary school and 7% from master and doctorate degree.

Reliability Analysis

Variables	Number of items	Cronbach' Alpha
Pass Performance	5	0.962
Diversification	7	0.972
Mutual fund manager gender	6	0.967

Table above conclude Cronbach's Alpha value for each variable. It shows that all the value is more than 0.7. Therefore, all the instruments used in this study is reliable.

Multiple Linear Regression Analysis

Multiple regression is used to find a relationship between the mutual fund investment decision and the factors involve.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.993 ^a	.986	.986	.12721

a. Predictors: (Constant), Past Performance, Diversification, Mutual Fund Manager Gender

b. Dependent Variable: investment decision making.

The value of R square is 98.6% (RSquare= 0.986). This mean that the 98.6% of the investment decision making is explained by the 3 variables (i.e pass performance, diversification, mutual fund manager gender).

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	167.691	3	55.897	3453.983	.000 ^b
	Residual	2.363	146	.016		
	Total	170.053	149			

a. Predictors: (Constant), Past Performance, Diversification, Mutual Fund Manager Gender

b. Dependent Variable: mutual fund performance and investment decision making.

Table above demonstrate the result of ANOVA test from SPSS. From table 2, it indicates that the significant level is 0.000($p < 0.05$), means the combination of all variables is accepted to be tested. Therefore, the model is considered useful for this study.

Coefficients^a

Model	Unstandardized Coefficients		Standardized	t	Sig.
	B	Std. Error	Coefficients		
1 (Constant)	-.018	.041		-.453	.651
PP	.619	.056	.165	11.019	.000
D	.290	.054	.202	5.383	.000
MF	.099	.054	.451	1.816	.071

a. Dependent Variable: MFPIDM

Table 3 above provide a result of coefficients, from the table there are two independent variables (Pass performance and Diversification) are having a significant relationship with the decision to invest in mutual fund where the significant level, p value is lower than 0.05. Pass performance make the strongest unique contribution to explain mutual and performance and investment decision making with a highest of Beta value (0.619) while diversification have a beta value of 0.290 respectively. As for the mutual fund manager gender is above 0.05 conclude that gender for mutual fund is not significant to influence the investor to invest in mutual fund. This result can be supported by Ramasawmy, Thapermall, Dowlut and Raman (2013) stated due to lower level financial knowledge would resulted both gender is not significant to help investor making decision in investment.

Conclusion and Recommendation

There is a significant impact between pass performance and mutual fund and investment decision making. It is supported by Taib (2007) found the performance of the unit trust fund in Malaysia was an important factor for mutual fund performance and investment decision making. Diversification factor also has a significant impact on mutual fund investment decision making. A study by Treynor (1965) revealed that there is more than one in a diversified fund risk. These comprise the risks that arise due to the volatility of the stock market and the risk caused by fluctuations in the funds' holdings of specific securities. Whereas, the author is failed to find any significant relationship between mutual fund performance and gender it may conclude. Everyone have different view on need frothier self. Not all of them are prefer female or male manager, some more may more trust to manager on their decision making and good performance on mutual fund. So possibly respondents emphasize manager gender more than on decision making and good performance on mutual fund. It is suggested that future research should be a larger sample size. Larger sample sizes can provide higher data accuracy and more reliable. Researchers can get more accurate information by expanding research. Furthermore, mutual funds can purport to do its best to improve on its areas of weaknesses that regards the problems faced by the investors in the field. It is evident that the growth of the mutual fund industry can be channelled into achieving better economic growth by proper controllability.

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