



**THE FACTORS DETERMINING INVESTMENT DECISION
ON MUTUAL FUNDS
(The Case of Mutual Fund Investors in Padang)**

A Thesis Draft for the Bachelor's Degree

By

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**The Factors Determining Investment Decision on Mutual Fund
(The Case of Mutual Fund Investors in Padang)**

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ABSTRACT

Mutual Fund is an investment vehicle designed to target small investors. At the individual level, investors are unique and are a highly difference. Hence, their fund selection also widely differs. This necessitates the Asset Management Companies (AMCs) to understand the fund behavior of investor in choosing mutual fund. This research purpose to examine the determinant factor that affects investment decision in mutual fund. The determinant factors utilized in this research are: investment objective, past performance, degree of risk, liquidity, profile of fund manager, and fees and expenses. There are 150 respondents from AMCs in Padang comprehended in this research. The respondents which involved are taken by using purposive sampling. The data is analyzed by examining the questionnaires have been distributed, using SPSS program. The findings can be taken as AMCs' consideration which the most factor why investors invest in a particular mutual fund. The estimated impact of each relationship factors offer important financial and managerial implications to AMCs should take steps as transparent as possible in their mutual fund product.

Keywords Mutual fund, Determinant factors, Investment decision.

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CHAPTER I

INTRODUCTION

I.1. Background of the Research

Capital Market can be defined as the market that trades long term financial instrument, such as bonds, equities, mutual funds, and derivatives instrument. It provides an alternative as capital resources for the company and public investment for investors. Capital Market plays an important role in the economy of a country because it focuses on serving two functions all at once, that are to prepare capital resources for business development, expansion, and so on, and to extend the opportunity for people to invest their money according to their preference return and risk characteristic of each instrument (www.idx.co.id).

According to Mulyana (2004), in Capital Market, investors have various options to establish investment diversification which appropriate by the risk that they are willing and their expected return. No Capital Market, then the investors may only invest in the banking system (other than the alternative investment in real assets).

One way to attract investors in Capital Market is the development of mutual fund industry. Mutual funds originally derived from the word 'fund', which Gilles, Alexeeva, and Buston (2003) stated that fund is a pool of money contributed by a range of investor who may be individuals or companies or other organizations, which is managed and invested as a whole, on behalf of those investor. Mutual fund is still become new way of investment in Indonesia which present because investors fronted several difficulty to analyze and monitor the

market continuously that waste their time. Through mutual fund companies or Asset Management Companies (AMCs), an investor can trust his/her fund for being managed by professional fund managers who arrange wide diversification and to deliver benefits to the investors.

Mutual fund industry in Indonesia has established since September 7th 1995, when Bapepam asserted an effective statement for PT. BDNI Securities. After a decade, mutual fund industry in Indonesia continues to show progress on and on. In 1996, there are only 25 AMCs, but at the end of April 2007 the number has increase to reach 408 securities. Similarly, in term of Net Asset Value (NAV) also tended to increases that just Rp 2.8 trillion in 1996, and at the end of September 2006 has reached Rp 39.35 trillion. The total of NAV has taken the cake of highest point in February 2005 at Rp 113.7 trillion, unfortunately due to the large redemption, so at the end of 2005 left Rp 29.41 trillion. Nowday, the graph of total NAV mutual fund rises again and at quarter 2008 it attained almost Rp 94 trillion.

Increasing the number of mutual fund companies, create investors have more alternative options to invest in it. However, it causes confusion or difficulty for potential investors in selecting mutual fund because of limited information and knowledge about this investment vehicle. Many domestic investors are still in the stage of introduction of products. Even emerge some misunderstanding about mutual fund. Imprecision of investor to choose mutual fund will evoke several consequences, such as preference distinction of investment objectives, or even worse investors may bear some risks, like the decreasing of investors' wealth. Therefore, in order to minimize risk and provide optimal benefit, investors have to

CHAPTER V
CONCLUSION, LIMITATION, AND
SUGGESTION FOR FUTURE RESEARCH

5.1. Conclusion

Based on the analysis conducted and the result provided in this research, researcher concludes that:

1. It is important to Asset Management Companies (AMCs) to understand the financial behavior of mutual funds investors in connection with the preference of factors determining and selection in order to ultimate goal or maximize inflows to the firm.
2. Along to the hypotheses in this research, only two of dependent variables (investment objective and past performance) that affect the investment decision significantly. Meanwhile, the other of four variables (degree of risk, liquidity, profile of fund manager, and fess and expenses) do not affect the investment decision (dependent variable) of mutual fund investors.
3. In the respect of multiple regressions analysis that shows 53.1% of the variance (R-Square) in the investment decision has been explained by six independent variables.
4. Behavior finance does not offer investment miracles for investors, nevertheless it can help investors train themselves how to be watchful of their behavior and to avoid mistake that will decrease their personal wealth.

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