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Factors Influencing Saudi Investors' Perceptions and Preferences for Mutual Funds vs. Direct Investment in the Financial Market

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Abstract

This study explores the preferences of Saudi investors regarding mutual investment funds versus direct market investments, based on a sample of 881 individual investors. It examines demographic factors such as age, gender, occupation, education, investment size, and financial market experience to understand motivations for choosing or avoiding mutual funds. The study highlights the perceived benefits of professional management, risk diversification, and Sharia compliance, while also addressing concerns like high fees, lack of transparency, and unclear strategies.A quantitative methodology was used, employing a structured questionnaire to gather data. The questionnaire, designed with a Likert scale, measured investor attitudes and motivations. Descriptive statistics, cross-tabulation, and the Chi-square test (X^2) were utilized to analyze relationships between demographics and investment preferences, providing insights into the significant associations between investor characteristics and their investment decisions.Key findings indicate that older and less experienced investors favor mutual funds due to convenience and limited financial knowledge, while more experienced investors prefer direct investments for higher returns and control. The study suggests that addressing transparency and cost concerns, along with enhancing financial education, could improve the appeal of mutual funds in Saudi Arabia. As the Kingdom advances its Vision 2030 goals, promoting financial literacy and offering diversified investment options will be essential for balancing investor preferences and fostering a more inclusive financial market.

Keywords: *Mutual Investment Funds, Direct Investment, Investors Perception, Investment Preferences, Saudi Financial Market, Investment Preferences.*

JEL Classification: G11, G23, G32, G41, O16.

Introduction

investment avenues. They offer individuals who lack the knowledge necessary to manage their investments directly the opportunity to participate in financial markets through professional financial institutions. Investment funds provide several advantages that individual investors typically lack, including:

Specialized human resources in the form of experienced investment managers.

Well-researched investment policies from which the fund's objectives are derived, which will be explained further later.

Pooling of savings and capital from a large number of investors into a single investment vehicle, allowing for risk reduction through diversification.

Although investment funds initially emerged through investment companies, the range of institutions managing investment funds has expanded to include commercial banks, insurance companies, and others. There is little difference between funds managed by investment companies and those managed by banks, commercial institutions, and insurance companies.

An investment fund can be defined as a pooled investment vehicle that collects savings and capital from investors, which is managed by a specialized team that builds an investment portfolio of financial securities to be managed for the benefit of the investors in exchange for sharing profits at a predetermined rate. More specifically, investors contribute specific amounts of money in return for units priced by the fund's management, representing a share in the fund's assets. The investors' ownership in the fund is determined

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by the number of units they hold. In return, the fund's management invests these funds in pre-defined markets and financial instruments disclosed to the public, in exchange for an agreed-upon administrative fee outlined in the contract between the two parties. Investors in these funds aim to achieve returns based on the changes in the market value of the units they hold.

Investment funds originated in the early 19th century in Europe, particularly in the Netherlands, France, and the UK. They have since developed significantly, especially in the U.S., with regulations to govern their formation, management, and standards. As effective investment tools managed by professionals, investment funds have expanded globally, covering both developed and emerging markets. Initially created to pool small savings and direct them toward productive investments, investment funds also became an alternative to bank deposits, which lost appeal due to low returns and liquidity. Many small investors lack the knowledge or time to manage their investments effectively, making these funds an attractive option. They offer diversification, a key strategy for reducing investment risks, and access to financial markets for those with limited capital.

Investment funds have grown, particularly in emerging markets, where they help manage risk and guide capital into national development sectors. Scholars view these funds as vital for pooling savings, offering investment opportunities, and serving as expertise centers for managing risk in financial markets.

In Saudi Arabia, investment funds have gained increasing attention in economic and financial circles, particularly following developments in the financial market aimed at improving the regulatory framework and enhancing market depth, breadth, and efficiency. The rise of investment funds in the Kingdom represents a significant development, with increasing demand for these investment vehicles, especially among small investors. This is due to the ease of subscription and exit, as well as the benefits they offer to investors who are unable to manage their own investments, either because they lack the time to follow market developments or because they do not possess the necessary knowledge and experience.

Literature Review

Research on mutual fund investments can be broadly divided into two categories: studies focused on mutual funds themselves and those focused on investors. Studies on mutual funds have explored the impact of various attributes such as performance, advertisement expenditure, fund size, and stock market conditions on investment flows. These studies have found that mutual fund investment decisions are influenced by factors such as past performance, macroeconomic conditions, and market stability. Research focused on investors has examined the impact of socioeconomic characteristics, perception, and awareness on mutual fund investment behavior. Studies have shown that factors such as age, education level, and financial literacy significantly affect investor choices and risk perceptions.

Despite extensive development of the mutual funds industry in Saudi arabia, the effect of perception, awareness, and socioeconomic characteristics on actual investment behavior remains underexplored. However, extensive research has been conducted in different part in the world:

Pritam P. Kothari and Shivganga C. Mindargi (2013) explored the role of mutual funds, emphasizing their importance in directing individual savings into equity and debt investments. Their study revealed that a considerable portion of investors have not yet formed a definitive attitude towards mutual fund investments, primarily due to a lack of awareness. Rajesh Trivedi et al. (2017) investigated the relationship between investment decisions and factors such as liquidity, financial awareness, and demographic variables in mutual fund market. Their study, which gathered data from both mutual fund and non-mutual fund investors, found that funds with low risk and high liquidity play a significant role in shaping investor perceptions, thereby influencing their investment decisions. Rajan Bilas Bajracharya (2017) aimed to establish a correlation between demographic and socioeconomic variables and investor attitudes toward mutual funds. The research concluded that investor attitudes are significantly influenced by age, income, and education, with brokers and agents being the most preferred sources of investment advice. Noor Nahar Begum and Arabia Rahman (2016) focused on mutual fund market, assessing investor preferences and the factors influencing these preferences. Their study, based on a 5-point Likert scale survey, revealed that

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demographics such as gender, income, and savings substantially impact investor attitudes. Despite viewing mutual funds as safe, most investors expressed dissatisfaction with their investments, indicating a need for regulatory changes and increased awareness efforts. Deepak Chawla (2014) conducted a survey to understand the factors influencing individual investor behavior in mutual fund purchases. The study identified two main factors—credibility and miscellaneous fund features—and examined their relationship with various demographic variables. Recommendations were offered for mutual fund companies and future research based on these findings. B. B. S. Parihar et al. (2009) explored how demographic factors influence investor attitudes towards mutual funds. Their survey found that most investors had not developed a clear attitude towards mutual funds, primarily due to a lack of awareness. Raja Rehan et al. (2018) examined demographic factors influencing investor awareness and perception of mutual funds. The investigation indicated that age and education significantly impact awareness, while transparency and risk management shape investment perceptions. The study provides insights for mutual fund companies on improving investor engagement. Inderjit Kaur and K. P. Kaushik (2015) investigated the determinants of investment behavior towards mutual funds using the theory of planned behavior. Their survey revealed that awareness and socioeconomic factors such as age, gender, and income significantly affect investment decisions. The study recommends that mutual funds and regulators focus on increasing awareness among underrepresented groups to broaden the investor base. Pooja Chaturvedi Sharma (2019) evaluated investor perceptions of mutual funds, with an emphasis on factors influencing their buying behavior. A survey identified fund characteristics, credibility, and convenience as key factors. The findings are expected to benefit mutual fund companies, brokers, and potential investors by addressing investor needs and improving service quality. Sukhwinder Kaur, GS Batra, Bimal Anjum (2013) analyzed investor perceptions towards mutual funds through a survey using a five-point Likert scale. The findings indicated that mutual funds are perceived as flexible and efficient, with investors considering the stock market risky. The study advises investors to consider historical data and fund characteristics when making investment decisions. Y. Prabhavathi and N. T. Krishna Kishore (2013) focused on understanding the attitudes, awareness, and preferences of mutual fund investors. The survey results indicated that most investors prefer systematic investment plans and rely on banks and financial advisors for information. Investors prioritize professional fund management and returns, assessing funds primarily through net asset values and past performance. V. Rathnamani (2013) examined the growing importance of mutual funds, particularly their role in offering safer investment options with higher returns compared to other financial instruments. The study analyzed investment patterns and preferences, showing that mutual funds effectively mobilize small investors' funds while contributing to the capital markets. Gauri Prabhu and N. M. Vechalekar (2014) sought to identify the factors influencing investor perceptions of mutual funds. Their survey revealed that while mutual funds are seen as a safer alternative to direct stock investments, many investors are unaware of their benefits. The study suggests that mutual fund companies should focus on improving investor awareness to enhance their market presence. Walia and Kiran (2009) explored investors' perceptions of risk and return associated with mutual funds. The study focused on how investors view the risk involved in mutual funds, the returns compared to other financial instruments, and the practices surrounding transparency and disclosure. Additionally, the research addressed challenges faced by investors due to the unprofessional services provided by mutual funds. The findings indicated that most individual investors do not perceive mutual funds as highly risky investments. Instead, mutual funds are ranked favorably when compared to other financial avenues. The study also highlighted a significant interdependence between investors' income levels and their perception of returns from mutual funds. Saini et al. (2011) investigated various aspects of investor behavior, opinions, and perceptions, including the type of mutual fund scheme, the role of financial advisors, sources of information, and service deficiencies. The study found that investors prioritize liquidity, simplicity in offer documents, online trading, regular updates, and strict adherence to the regulations. Singh (2012) conducted an empirical study on individual investors and found that many respondents lack awareness of mutual funds' various functions, leading to confusion about investing in them. The study identified demographic factors such as gender, income, and education level as significantly influencing attitudes toward mutual funds, while age and occupation were not found to have a substantial impact. The study also revealed that return potential and liquidity are perceived as the most attractive benefits of mutual fund investments, followed by flexibility, transparency, and affordability. Priyanka Sharma and Payal Agrawal (2015) aimed to understand the impact of demographic factors on mutual fund investment decisions. The study found that investors' perceptions are influenced by their demographic profiles, with

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age, marital status, and occupation directly affecting investment choices. Additionally, the study highlighted that the female segment remains underutilized. Liquidity and transparency were identified as significant factors impacting investment decisions.

Kumar and Bansal (2014) focused on the lack of awareness among investors regarding mutual fund schemes, with many investors relying on traditional investment methods like banks and postal savings. The study found that most mutual fund investors tend to invest for short periods and often exit due to unmet expectations. Subramanya (2015) examined socio-economic factors like age, gender, education, and income, finding that age and saving habits are closely correlated with mutual fund investment perceptions. Mukesh (2015) studied investor perceptions of returns, tax benefits, and capital appreciation, emphasizing the need to raise awareness about mutual funds. Khitoliya (2014) found that investors aged 35-44 prefer mutual funds with moderate risk, while older investors are more risk-averse, favoring safer investment options. Several other researchers have explored investor perceptions of mutual funds. Subramanya and Renuka (2013) identified significant associations between demographic factors such as age, gender, education, income, and occupation and investor attitudes toward mutual funds. Lenard et al. (2003) found that investor attitudes toward risk and fund performance significantly influence decisions to switch funds within a fund family. Sharma et al. (2012) identified safety and liquidity as key factors influencing customer satisfaction with mutual fund companies. Shah and Baser (2012) found that occupation significantly affects investor preferences, while age does not. Asfaq Ahmed et al. (2011) examined investor perceptions of risk and return in investment opportunities, finding that higher education levels correlate with increased risk tolerance and better investment decision-making. Vyas (2012) evaluated investment forms and preferences, finding that investors favored gold, bank deposits, life insurance, and post office schemes over mutual funds. The study found a significant relationship between investors' occupation and their preferred mode of investment, with most investors being aware of mutual fund risks but preferring lump-sum investments and existing equity schemes.

Overall, the literature on mutual fund investment behavior highlights a complex interplay of demographic factors, investor perceptions, and market conditions. Studies consistently show that factors such as age, gender, income, and education significantly influence investor attitudes toward mutual funds. However, the impact of these factors varies across different contexts and regions, with some studies finding strong associations while others report negligible effects. Investor behavior is also shaped by perceptions of risk, return potential, and the availability of information. Many investors prioritize liquidity, transparency, and safety when choosing mutual funds, and these preferences are often influenced by their demographic profiles and levels of financial literacy. Despite the growing body of research, there remains a gap in understanding how these perceptions translate into actual investment behavior, particularly in the developing economies.

Research Questions and Hypotheses Formulation

Experts in the Saudi financial market often criticize the market's structure, with most, if not all, pointing out that the majority of participants are individual investors who trade securities directly without understanding the basics of financial market operations, whether for investment or speculation. On the other hand, the financial market also suffers from the absence of market makers, which has driven the rise and growth of investment funds. These funds attract small investors and provide them with a professionally managed investment tool, allowing them to participate in the financial market and invest their money under the supervision of specialized management teams.

Given that market participants are divided between these two groups (individual investors and investment funds), the researcher chose to study the behavior and attitudes of individual investors toward investment funds. The problem of this study focuses on three main points:

The behavior and attitudes of Saudi investors toward investing in investment funds as an alternative to direct investment in the financial market.

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The motivations that drive certain individual investors to prefer investing in investment funds over direct investment in the Saudi financial market.

The motivations that drive certain individual investors to prefer direct investment in the Saudi financial market over investing in investment funds.

This study aims to analyze and interpret the behavior and attitudes of individual investors toward investment funds concerning their goals, management, and efficiency in managing participants' investments. The focus will particularly be on investment funds that manage portfolios of securities. Additionally, the study seeks to understand the reasons why certain individual investors refrain from investing their savings and capital in widely available investment funds offered by commercial banks in Saudi Arabia, as well as to explore the motivations of investors who prefer to invest in these funds. Based on these objectives, the study raises several key questions and hypotheses to investigate these behaviors and preferences.

Research Questions

What categories of investors are attracted by investment funds?

What are the attitudes of individual investors toward investment funds?

What are the attitudes of individual investors toward direct investment in the financial market?

What are the reasons that drive some individual investors to invest in investment funds?

What are the reasons that lead some individual investors to avoid investing in investment funds?

Research Hypotheses

Hypothesis 1: There is a statistically significant relationship between the demographic factors of the sample and investors' attitudes toward investment funds.

Sub-hypothesis a: There is a statistically significant relationship between age and respondents' views on investment funds, their management, and performance.

Sub-hypothesis b: There is a statistically significant relationship between gender and respondents' views on investment funds, their management, and performance.

Sub-hypothesis c: There is a statistically significant relationship between occupation and respondents' views on investment funds, their management, and performance.

Sub-hypothesis d: There is a statistically significant relationship between experience and respondents' views on investment funds, their management, and performance.

Hypothesis 2: There is a statistically significant relationship between the demographic factors of the sample and the motivations for investing in investment funds.

Sub-hypothesis a: There is a statistically significant relationship between age and the motivations for investing in investment funds.

Sub-hypothesis b: There is a statistically significant relationship between gender and the reasons for investing in investment funds.

Sub-hypothesis c: There is a statistically significant relationship between occupation and the reasons for investing in investment funds.

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Sub-hypothesis d: There is a statistically significant relationship between the level of education and the reasons for investing in investment funds.

Sub-hypothesis e: There is a statistically significant relationship between experience in financial markets and the reasons for investing in investment funds.

Sub-hypothesis f: There is a statistically significant relationship between the size of the investment and the reasons for investing in investment funds.

Hypothesis 3: There is a statistically significant relationship between the demographic factors of the sample and the reasons for avoiding investment in investment funds.

Sub-hypothesis a: There is a statistically significant relationship between age and the reasons for avoiding investment in investment funds.

Sub-hypothesis b: There is a statistically significant relationship between gender and the reasons for avoiding investment in investment funds.

Sub-hypothesis c: There is a statistically significant relationship between occupation and the reasons for avoiding investment in investment funds.

Sub-hypothesis d: There is a statistically significant relationship between experience and the reasons for avoiding investment in investment funds.

Materials and Methods

Study Population and Sampling

The population of this study consists of individual investors in the Saudi financial market. Due to the large size of the population and its wide geographic distribution across Saudi Arabia, it would be challenging to cover the entire population in a study of this scope. Therefore, the researcher relied on a random sample focused on the Eastern Province of Saudi Arabia. A total of 1,000 questionnaires were distributed, with an 88% response rate, resulting in 881 completed questionnaires that were valid for study and analysis.

Research Instruments

A number of tools have been used for Data processing and Analysis, these are:

Descriptive statistical tools were used to analyze the first part of the questionnaire, which deals with demographic data.

The second and third parts were designed using statements in a "Likert scale" format and analyzed using appropriate statistical tools. The study relied on the Likert mean for groups of items (such as reasons for refraining from investment in funds and motivations for investing in funds) to interpret the attitudes of Saudi investors.

Cross-tabulation and "Chi-Square Test (X^2) were employed to test the research hypotheses.

This approach ensured comprehensive analysis and provided insight into investor behavior and attitudes toward investment funds.

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Results and Discussion

Demography

This section shows that the study was conducted on a total sample of 881 investors, categorized by key demographic variables such as age, gender, occupation, education level, experience in the financial market, investment size, and the preferred financial market channel as shown in table (1). Below is a detailed description of the sample characteristics:

Table (1). Distribution of the Study Sample According to Investor Characteristics

Variable		Frequency	(%)	Cumulative Percentage
Age	< 25	71	%8.06	%8.06
	26-35	140	%15.89	%23.95
	36-45	40	%4.54	%28.49
	46-55	217	%24.63	%53.12
	>55	413	%46.88	%100.00
	Total	**881**	**%100.00**	
Gender	Male	688	%78.09	%78.09
	Female	193	%21.91	%100.00
	Total	**881**	**%100.00**	
Occupation	Public Sector	79	%8.97	%8.97
	Private Sector	104	%11.80	%20.77
	Freelance Work	315	%35.75	%56.53
	Retired	236	%26.79	%83.31
	Student	147	%16.69	%100.00
	Total	**881**	**%100.00**	
Education	None	36	%4.09	%4.09
	Primary Level	147	%16.69	%20.77
	Intermediate Level	77	%8.74	%29.51
	Secondary Level	357	%40.52	%70.03
	Higher Education	264	%29.97	%100.00
	Total	**881**	**%100.00**	
Experience in Investment (years)	< 1	69	%7.83	%7.83
	1-5	368	%41.77	%49.60
	6-10	357	%40.52	%90.12
	>10	87	%9.88	%100.00
	Total	**881**	**%100.00**	
Investment size (Saudi Riyal)	<50000	74	%8.40	%8.40
	50000 < 250000	252	%28.60	%37.00
	250000 < 500000	186	%21.11	%58.12
	500000 < 1000000	123	%13.96	%72.08
	1000000 < 2000000	137	%15.55	%87.63
	>2000000	109	%12.37	%100.00
	Total	**881**	**%100.00**	
Investment Chanel	Direct Investment	300	%34.05	%34.05
	Mutual Funds	581	%65.95	%100.00

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	Total	881	%100.00	

The study analyzed 881 investors in Saudi Arabia, classified by age, gender, occupation, education, financial market experience, investment size, and preferred investment channels. The majority of respondents were over 55 (46.88%), followed by those aged 46-55 (24.63%), and 26-35 (15.89%). The youngest group, under 25, comprised 8.06%, and those aged 36-45 made up 4.54%. Males dominated the sample at 78.09%, with females representing 21.91%. In terms of occupation, business owners were the largest group (35.75%), followed by retirees (26.79%), students (16.69%), private sector employees (11.80%), and public sector employees (8.97%). The educational background of the sample revealed that the majority had a high school education (40.52%), with 29.97% holding university degrees. Primary and intermediate education levels made up 16.69% and 8.74% respectively, while 4.09% had no formal education. The sample's experience in the financial market varied widely. A significant portion had 1-5 years of investment experience (41.77%), followed by 6-10 years (40.52%), more than 10 years (9.88%), and less than 1 year (7.83%).

The data showed that the largest group of investors had investments between 50,000 and less than 250,000 SAR, representing 28.60% (n = 252) of the sample. Those with investments between 250,000 and less than 500,000 SAR made up 21.11% (n = 186), while 15.55% (n = 137) had investments between 1,000,000 and less than 2,000,000 SAR. Smaller investment sizes, less than 50,000 SAR, represented 8.40% (n = 74), and those with investments greater than 2,000,000 SAR accounted for 12.37% (n = 109).

Finally, the data showed that most investors preferred investment funds as their main channel of interaction with the financial market, representing 65.95% (n = 581). On the other hand, 34.05% (n = 300) engaged in direct dealings within the market.

These demographic insights provide an essential context for understanding investor behavior and preferences in this study. These variables will be crucial in analyzing investor behavior and preferences within the context of this research.

Analysis Of Investors Self-Assessed Skills

Table(2) presents an analysis of Saudi investors' self-assessed skills in reading financial statements, as well as their use of fundamental and technical analysis tools. A Likert scale was employed, ranging from 1 (strongly disagree) to 5 (strongly agree). The following analysis is based on the frequency distribution and the Likert averages for each statement.

Table (2). Statistics on Investors' Ability to Handle Financial Statements, Fundamental and Technical Analysis of Financial Markets (Likert Average).

	Strongly disagree	disagree	Neutral	Agree	Strongly Agree		
Factors	**1**	**2**	**3**	**4**	**5**	**Total**	**Likert average**
F9	335	79	33	389	45	881	2.69
F10	440	266	16	140	19	881	1.90
F11	485	174	21	122	79	881	2.02

Skill in Reading Companies' Financial Statements (F9): A large proportion of investors either strongly disagreed (38.03%) or agreed (44.17%) with the statement that they are skilled in reading companies' financial statements. This polarized response suggests a wide disparity in the confidence levels of investors regarding their ability to interpret financial statements. The Likert average of 2.69 indicates that, on average, investors lean towards disagreement, implying that a significant portion of the sample may lack confidence or proficiency in this area.

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Skill in Using Fundamental Analysis Tools for Companies (F10): The majority of respondents either strongly disagreed (49.94%) or disagreed (30.20%) with the statement about being skilled in using fundamental analysis tools. Only 18.05% agreed or strongly agreed, indicating that most investors feel unskilled in this area. The Likert average of 1.90 further supports this observation, showing a general trend toward disagreement. This may highlight a potential gap in investor education regarding fundamental analysis, which could affect their decision-making in the financial market.

Skill in Using Technical Analysis Tools for Stocks and Indices (F11): Over half of the respondents (55.06%) strongly disagreed with the statement that they are skilled in using technical analysis tools for stocks and indices. This was followed by 19.75% who disagreed. However, a small but notable percentage (22.82%) either agreed or strongly agreed, suggesting that a subset of investors does feel proficient in technical analysis. The Likert average of 2.02 indicates a general tendency toward disagreement, pointing to an overall lack of confidence in this skill among the majority of respondents.

The above results reveals that Saudi investors in the sample generally exhibit low confidence in their skills related to financial analysis tools. The Likert averages for all three statements are below 3, showing a leaning toward disagreement. The highest average is for reading financial statements (2.69), while skills in fundamental (1.90) and technical analysis (2.02) rank lower. These findings suggest a potential need for financial literacy programs or investor education in Saudi Arabia to enhance proficiency in fundamental and technical analysis, which are critical for making informed investment decisions.

This analysis provides insight into the skill gaps that exist among investors in the Saudi financial market, particularly in using advanced tools for analyzing companies and stock performance. Addressing these gaps could lead to more informed investment strategies and better outcomes for individual investors.

Analysis of Factors Influencing Investors to Choose Investment Funds

Table (3). Factors Influencing Investors To Choose Investment Funds (Likert Average)

Factors	Strongly disagree	disagree	Neutral	Agree	Strongly Agree	Total	Likert average
	1	2	3	4	5		
F12	261	0	0	0	320	581	3.20
F13	24	99	0	41	417	581	4.25
F14	24	130	0	41	386	581	4.09
F15	25	118	41	347	50	581	3.48
F16	25	182	41	312	21	581	3.21
F17	144	212	115	63	47	581	2.41
F18	202	206	51	31	91	581	2.32
F19	30	40	0	331	180	581	4.02
F20	0	10	0	32	539	581	4.89
Likert average on the theme of reasons for choosing investment in Investment funds							**3.54**

The following section presents an analysis of the factors influencing Saudi investors to choose investment funds over direct investments in the financial market. The data, collected using a Likert scale from 1 (strongly disagree) to 5 (strongly agree) presented in table (3), was analyzed to compute frequencies and Likert averages for each statement. The results are summarized below:

Inability to Dedicate Time to Managing My Investments (F12): A significant proportion of investors strongly agreed (55.08%) that a lack of time to manage their investments influences their choice of

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investment funds. The Likert average of 3.20 suggests a moderate inclination toward this factor, indicating that time constraints are a relevant consideration for a large portion of investors.

Lack of Sufficient Knowledge About Financial Market Movements (F13): The majority of investors strongly agreed (71.77%) that their lack of knowledge about financial market movements drives their preference for investment funds. The high Likert average of 4.25 indicates that insufficient market knowledge is a key factor influencing this decision.

Lack of Knowledge in Using Necessary Analysis Tools for Making Investment Decisions (F14): A substantial number of investors (66.43%) indicated that their lack of proficiency in using analysis tools for making investment decisions plays a significant role in their choice to invest in funds. The Likert average of 4.09 reflects that this factor is strongly considered by many investors.

Investment Funds Are Beneficial for Small Investors (F15): A majority of investors agree that investment funds are beneficial for small investors, with a Likert average of 3.48. This suggests that the perceived accessibility of funds for smaller investors contributes to their popularity.

Investment Funds Yield Attractive Returns Compared to Direct Investments (F16): Over half of the respondents agreed that investment funds provide more attractive returns compared to direct stock investments. The Likert average of 3.21 shows a moderate tendency toward this belief, although some investors remain skeptical.

Investment Funds Are the Best Means for Investing in the Saudi Environment (F17): The data indicates that investors are generally uncertain or skeptical about whether investment funds are the best option in the Saudi market, with a relatively low Likert average of 2.41. This suggests that while funds are considered beneficial, they may not be universally viewed as the optimal choice in the local context.

Investment Funds as a Safeguard Against Direct Stock Investment Risks (F18): The low Likert average of 2.32 indicates that investors do not strongly perceive investment funds as a safeguard against the risks associated with direct stock investment. This reflects a general lack of confidence in this particular benefit of investment funds.

Investment Funds Offer the Advantage of Diversifying Investments Across a Varied Portfolio (F19): The high Likert average of 4.02 demonstrates that many investors view investment funds as an effective way to diversify their portfolios, which is one of the key attractions of these funds. This factor is seen as a significant advantage.

Investment Funds Provide Specialized and Professional Management for Handling Investments (F20): The overwhelmingly positive response, with a Likert average of 4.89, indicates that professional and specialized management is a crucial factor driving investors toward choosing investment funds. This aspect is viewed as a highly valuable benefit by almost all respondents.

As a general observation, the overall Likert average of 3.54 for the theme of factors influencing investment in funds suggests that investors generally have positive views of investment funds, with certain factors, such as professional management and portfolio diversification, standing out as strong motivators. Conversely, factors like investment funds being the best option for the Saudi environment or acting as a safeguard against risk received lower levels of agreement.

This analysis highlights the importance of knowledge and time constraints, as well as the appeal of professional management and diversification, in shaping investor preferences for funds over direct investments.

The following section analyzes the relationship between various demographic characteristics of Saudi investors and the factors that influence their choice to invest in investment funds, based on Chi-square (X^2) tests. The following factors were tested: age, gender, occupation, education, years of investment experience,

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and investment size. The results include the Chi-square statistic, degrees of freedom, significance level (p-value), Phi coefficient (which measures the strength of association), and the significance of the Phi coefficient.

Table (4). Testing the Relationship Between the Characteristics of the Sample (Investors Who Prefer Investment Funds) and Their Reasons for Choosing This This Preference

Chi-Square Test (X^2)

Factors	Results	Age	Gender	Occupation	Education	Experience in Investment (years)	Investment size (Saudi Riyal)
F12	Chi-square (X^2)	199.603	.554	389.957	150.578	51.220	189.479
	Degree of freedom	4	1	4	4	3	4
	Significance	.000	.457	.000	.000	.000	.000
	Phi	.586	-.031	.819	.509	.297	.571
	Significance	.000	.457	.000	.000	.000	.000
F13	Chi-square (X^2)	436.486	28.266	272.065	271.694	193.876	339.226
	Degree of freedom	12	3	12	12	9	12
	Significance	.000	.000	.000	.000	.000	.000
	Phi	.867	.221	.684	.684	.578	.764
	Significance	.000	.000	.000	.000	.000	.000
F14	Chi-square (X^2)	527.052	33.457	391.558	352.964	167.853	313.130
	Degree of freedom	12	3	12	12	9	12
	Significance	.000	.000	.000	.000	.000	.000
	Phi	.952	.240	821.	.779	537.	734.
	Significance	.000	.000	.000	.000	.000	.000
F15	Chi-square (X^2)	176.058	134.089	488.932	351.753	168.795	409.402
	Degree of freedom	16	4	16	16	12	16
	Significance	.000	.000	.000	.000	.000	.000
	Phi	.550	.480	.917	.778	.539	.839
	Significance	.000	.000	.000	.000	.000	.000
F16	Chi-square (X^2)	303.123	114.882	486.264	230.591	189.136	451.911
	Degree of freedom	16	4	16	16	12	16
	Significance	.000	.000	.000	.000	.000	.000
	Phi	.722	.445	.915	.630	.571	.882
	Significance	.000	.000	.000	.000	.000	.000
F17	Chi-square (X^2)	341.820	31.642	489.648	562.668	518.627	410.889
	Degree of freedom	16	4	16	16	12	16
	Significance	.000	.000	.000	.000	.000	.000
	Phi	.767	.233	.918	.984	.945	.841
	Significance	.000	.000	.000	.000	.000	.000
F18	Chi-square (X^2)	446.074	21.547	508.687	558.791	380.796	239.203
	Degree of freedom	16	4	16	16	12	16
	Significance	.000	.000	.000	.000	.000	.000
	Phi	.876	.193	.936	.981	.810	.642
	Significance	.000	.000	.000	.000	.000	.000

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F19	Chi-square (X^2)	344.877	60.353	149.771	326.485	290.771	512.428
	Degree of freedom	12	3	12	12	9	12
	Significance	.000	.000	.000	.000	.000	.000
	Phi	.770	.322	.508	.750	.707	.939
	Significance	.000	.000	.000	.000	.000	.000
F20	Chi-square (X^2)	619.617	4.844	173.642	99.229	31.475	71.413
	Degree of freedom	8	2	8	8	6	8
	Significance	.000	.089	.000	.000	.000	.000
	Phi	1.033	.91	.547	.413	.233	.351
	Significance	.000	.089	.000	.000	.000	.000

Inability to Dedicate Time to Managing My Investments (F12): Age, occupation, education, years of experience, and investment size are significantly associated with the inability to dedicate time to managing investments. The Phi values indicate that occupation (Phi = .819) has the strongest association with this factor, suggesting that professional demands and responsibilities may be key reasons for preferring investment funds. The lack of significance for gender suggests that both male and female investors equally cite time constraints as a reason for choosing funds.

Lack of Sufficient Knowledge About Financial Market Movements (F13): Significant Relationships: All demographic factors were significant (p = .000), with Phi values indicating strong relationships across age (Phi = .867), occupation (Phi = .684), education (Phi = .684), investment experience (Phi = .578), and investment size (Phi = .764). The lack of sufficient knowledge about market movements is strongly influenced by demographic characteristics, with age (Phi = .867) being the most significant factor. This suggests that older investors are more likely to cite this as a reason for preferring investment funds. The consistently strong associations across all factors emphasize the importance of knowledge gaps in investors' decision-making.

Lack of Knowledge in Using Necessary Analysis Tools for Investment Decisions (F14): Significant Relationships: All factors showed significant associations (p = .000), with occupation (Phi = .821) and age (Phi = .952) showing the strongest relationships. Lack of knowledge in using analysis tools is most strongly associated with age and occupation. Older and professionally occupied investors are more likely to prefer funds due to this lack of knowledge, highlighting the potential need for education or advisory services targeted at these groups.

Investment Funds Are Beneficial for Small Investors (F15): Significant Relationships: All factors were significant (p = .000), with the strongest associations for occupation (Phi = .917) and investment size (Phi = .839). Small investors, particularly those in certain occupations and with smaller investment portfolios, see investment funds as beneficial. The high Phi values suggest that these groups are especially likely to prefer funds due to perceived advantages in accessibility and management.

Investment Funds Yield Attractive Returns Compared to Direct Investments (F16): Significant Relationships: All demographic factors were significant (p = .000), with strong associations for occupation (Phi = .915) and investment size (Phi = .882). The perception that investment funds yield better returns is strongly related to occupation and investment size, indicating that those in professional roles and those with larger investments are more likely to see funds as a safer or more profitable alternative to direct market investment.

Investment Funds Are Considered the Best Means for Investing in the Saudi Environment (F17): Significant Relationships: All factors were significant (p = .000), with very strong associations for education (Phi = .984) and investment experience (Phi = .945). Investors with higher education and more experience view investment funds as the best option in the Saudi market. This reflects that informed investors with greater market understanding are more inclined to prefer funds as a suitable vehicle for local investment conditions.

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Investing in Investment Funds Represents a Safeguard Against Stock Investment Risks (F18): Significant Relationships: All factors were significant (p = .000), with the strongest association for occupation (Phi = .936). Investors who perceive funds as a safeguard against stock market risks are largely influenced by their professional roles, suggesting that those with busy or risky careers may see funds as a way to mitigate market volatility.

Investment Funds Offer the Advantage of Diversifying Investments Across a Varied Portfolio (F19): Significant Relationships: All demographic factors were significant (p = .000), with the strongest relationships for investment size (Phi = .939) and investment experience (Phi = .707). Larger investors and those with more experience tend to appreciate the diversification offered by funds. This is a key reason for their preference for investment funds, as they may seek risk management and broader exposure.

Investment Funds Provide Specialized and Professional Management for Handling Investments (F20): Significant Relationships: All factors except gender (p = .089) were significant (p = .000), with strong associations for age (Phi = 1.033) and occupation (Phi = .547). Age plays the most critical role in the perception that funds provide professional management. Older investors are more likely to prefer funds due to the specialized management services they offer, reducing the burden of managing investments independently.

The analysis shows that various demographic factors significantly influence investors' reasons for choosing investment funds over direct investments. Occupation and investment size consistently play a critical role, particularly in the perceived benefits of professional management and diversification. Age and education are also strong determinants of preferences, especially regarding knowledge gaps and risk management. These findings suggest that investment funds appeal to a diverse group of investors, especially those seeking professional management, diversification, and protection from market risks. This analysis highlights the importance of understanding the demographic profile of investors when assessing their motivations for choosing investment funds.

Analysis of Factors Influencing Investors to Choose Direct Investment in the Financial Market

The table (5) presents the opinions of Saudi investors who prefer direct investment in the financial market over investment in investment funds. These opinions are measured using a Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The analysis below is based on the frequencies for each statement and the computed Likert averages, providing insights into the reasons behind this investment preference.

Table (5). Factors Influencing Investors to Choose Direct Investment - Likert Scale

Factors	**Strongly disagree**	**disagree**	**Neutral**	**Agree**	**Strongly Agree**	**Total**	**Likert average**
	1	**2**	**3**	**4**	**5**		
F21	13	26	21	60	180	300	4.23
F22	7	4	13	65	211	300	4.56
F23	8	11	8	58	215	300	4.54
F24	34	40	27	64	135	300	3.75
F25	99	6	48	15	132	300	3.25
F26	15	38	16	124	107	300	3.90
F27	0	25	33	97	145	300	4.21
F28	19	38	45	51	147	300	3.90
Likert average on the theme of reasons for choosing direct investment in the financial market							**4.04**

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The Expected Returns from Investment Funds Are Lower Than Returns from Direct Stock Investment (F21): The high Likert average of 4.23 indicates that most investors believe that direct stock investment yields better returns compared to investment funds. The majority (60%) strongly agree with this statement, suggesting that expected returns play a critical role in influencing their preference for direct market investment.

Investment Funds Are Exposed to the Same Risks as Individual Investment Portfolios (F22): With a Likert average of 4.56, this factor ranks as one of the strongest reasons for preferring direct investment. The vast majority (70.33%) strongly agree that investment funds carry the same risks as individual portfolios, which diminishes the perceived advantage of choosing funds over direct investments.

The Disclosure Periods for the Fund's Assets Are Spaced Out and Not Conducted on a Daily Basis (F23): The lack of daily asset disclosure is a significant concern for investors, with a Likert average of 4.54. Most investors strongly agree (71.67%) that this lack of transparency contributes to their preference for direct investment, where they may have more immediate access to financial information.

The Procedures for Subscription and Redemption Are Not in Favor of the Investor (F24): While the Likert average of 3.75 suggests that subscription and redemption procedures are somewhat concerning for investors, there is a broader distribution of opinions. Some investors agree that the procedures are unfavorable, but the neutral responses indicate that not all investors find this to be a decisive factor.

Investment Funds, Including Those Compliant with Sharia, Do Not Adhere to Sharia Regulations in Forming Portfolios (F25): This factor is more polarizing, with a Likert average of 3.25. While 44% of respondents strongly agree that Sharia-compliant funds may not fully adhere to religious regulations, a considerable portion of investors either disagrees or remains neutral on the issue. This indicates mixed perceptions of Sharia compliance among investors.

The Management Fees for Investment Funds Are High (F26): High management fees are a moderately important factor, with a Likert average of 3.90. A combined 77% of investors agree that fees are a concern, making this an influential but not overwhelming reason for choosing direct investment over funds.

The Investment Strategies of Investment Funds Are Unclear (F27): The lack of clarity in investment strategies is another significant reason for preferring direct investments, with a Likert average of 4.21. Nearly half (48.33%) of investors strongly agree that the strategies of funds are unclear, leading to skepticism about their effectiveness.

The Absence of Regulatory Oversight on the Activities of Investment Funds (F28): With a Likert average of 3.90, the perceived lack of regulatory oversight is a concern for nearly half of the investors. However, the distribution of responses suggests that opinions are divided, with a significant portion of respondents either neutral or disagreeing with the statement.

In general the overall Likert average of 4.04 across all factors indicates a strong inclination toward direct investment over investment funds among these investors. The key factors influencing this preference are:

Perception of higher returns from direct stock investments (Likert average = 4.23).

The belief that investment funds are exposed to the same risks as individual portfolios (Likert average = 4.56).

Concerns over the lack of daily disclosure of fund assets (Likert average = 4.54).

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Other important factors include unclear investment strategies and high management fees. While some investors also highlight Sharia compliance and regulatory oversight concerns, these issues appear to be less uniformly influential.

The analysis reveals that Saudi investors who prefer direct investment in the financial market over investment funds do so primarily due to concerns about returns, risks, and transparency in fund management. These findings underscore the need for investment funds to address these concerns, particularly by improving communication on investment strategies, providing more frequent disclosures, and offering competitive returns to attract this segment of the market.

Table (6). Testing the Relationship Between the Characteristics of the Sample (Investors Who Prefer Direct Investment In The Financial Market) Over Investment Funds and Their Reasons For This Preference - Chi-Square Test (X2)

Factors	Results	Age	Gender	Occupation	Education	Experience in Investment (years)	Investment size (Saudi Riyal)
F21	Chi-square	61.270	19.519	234.366	44.362	101.762	53.063
	Degree of freedom	16	4	16	8	12	20
	Significance	.000	.001	.000	.000	.000	.000
	Phi	.452	.255	.884	.385	.582	.421
	Significance	.000	.001	.000	.000	.000	.000
F22	Chi-square	43.525	7.541	74.392	25.305	24.753	41.126
	Degree of freedom	16	4	16	8	12	20
	Significance	.000	.110	.000	.001	.016	.004
	Phi	.381	.159	.498	.290	.287	.370
	Significance	.000	.110	.000	.001	.016	.004
F23	Chi-square	63.026	18.381	170.776	61.216	79.478	118.961
	Degree of freedom	16	4	16	8	12	20
	Significance	.000	.001	.000	.000	.000	.000
	Phi	.458	.248	.754	.452	.515	.630
	Significance	.000	.001	.000	.000	.000	.000
F24	Chi-square	180.260	7.948	188.672	41.250	177.438	132.103
	Degree of freedom	16	4	16	8	12	20
	Significance	.000	.093	.000	.000	.000	.000
	Phi	.775	.163	.793	.371	.769	.664
	Significance	.000	.093	.000	.000	.000	.000
F25	Chi-square	454.846	26.522	410.411	222.253	203.860	180.978
	Degree of freedom	16	4	16	8	12	20
	Significance	.000	.000	.000	.000	.000	.000
	Phi	1.231	.297	1.170	.861	.824	.777
	Significance	.000	.000	.000	.000	.000	.000
F26	Chi-square	153.690	24.709	199.852	25.710	133.392	78.230
	Degree of freedom	16	4	16	8	12	20
	Significance	.000	.000	.000	.001	.000	.000
	Phi	.716	.187	.816	.293	.667	.511
	Significance	.000	.000	.000	.001	.000	.000
F27	Chi-square	243.116	10.438	135.334	37.375	69.613	94.313
	Degree of freedom	12	3	12	6	9	15

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	Significance	.000	.015	.000	.000	.000	.000
	Phi	.900	.187	.672	.353	.482	.561
	Significance	.000	.015	.000	.000	.000	.000
F28	Chi-square	203.994	21.032	107.504	84.704	34.208	63.877
	Degree of freedom	16	4	16	8	12	20
	Significance	.000	.000	.000	.000	.001	.000
	Phi	.825	.265	.599	.531	.338	.461
	Significance	.000	.000	.000	.000	.001	.000

This section provides an analysis of the relationship between various demographic characteristics and the factors that influence Saudi investors to choose direct investment in the financial market over investment in funds as presented in table(6). The relationships were tested using the Chi-square test (X^2), and the results include degrees of freedom, significance levels (p-values), and Phi coefficients, which measure the strength of the association.

The Expected Returns from Investment Funds Are Lower Than Returns from Direct Stock Investment (F21): The belief that expected returns from investment funds are lower than direct stock investment is significantly related to all demographic characteristics, with occupation showing the strongest association (Phi = .884). This suggests that investors' professions play a critical role in shaping their perceptions about returns, likely due to the financial knowledge or exposure they have through their work.

Investment Funds Are Exposed to the Same Risks as Individual Investment Portfolios (F22): Most demographic factors are significantly associated with the perception that investment funds carry the same risks as individual portfolios. Occupation and investment size have stronger associations, indicating that professional investors or those with larger portfolios are more likely to believe that the risk levels are comparable. Gender was not significantly associated with this factor.

The Disclosure Periods for the Fund's Assets Are Spaced Out and Not Conducted on a Daily Basis (F23): The lack of daily disclosure of fund assets is a major concern for investors across all demographic groups, particularly for those in certain occupations and with larger investment portfolios. This suggests that transparency is a critical issue for these investors when choosing direct investment.

The Procedures for Subscription and Redemption Are Not in Favor of the Investor (F24): Investors with more experience, those in specific occupations, and those managing larger portfolios are more likely to see subscription and redemption procedures as unfavorable. Gender did not show a significant relationship, indicating that both men and women may feel similarly about these procedures.

Investment Funds, Including Those Compliant with Sharia, Do Not Adhere to Sharia Regulations in Forming Portfolios (F25): The perception that investment funds, including those compliant with Sharia, do not fully adhere to Sharia regulations is strongly influenced by age and occupation. This indicates that older investors and those in certain professions may have stronger concerns about the ethical compliance of these funds.

The Management Fees for Investment Funds Are High (F26): The concern over high management fees is strongly associated with occupation and investment experience, indicating that more experienced investors and those in certain professions are more sensitive to fees, potentially because of their awareness of the cost implications over time.

The Investment Strategies of Investment Funds Are Unclear (F27): Unclear investment strategies are a concern for investors across all demographic groups, but particularly for those with certain occupations and educational backgrounds. This suggests that better communication of strategies could help attract more informed investors to investment funds.

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The Absence of Regulatory Oversight by Financial Authorities on the Activities of Investment Funds (F28): The perception that there is insufficient regulatory oversight is more prominent among investors in certain occupations and educational backgrounds. These groups may be more concerned with governance and transparency, which could influence their preference for direct investment.

The above analysis shows that demographic factors, particularly occupation, age, and investment experience, play a significant role in shaping investor preferences for direct investment in the financial market over investment funds. Occupation consistently shows the strongest associations, indicating that professional experience and knowledge have a profound influence on investment decisions. Age and investment size also show significant relationships, particularly with perceptions of risk, transparency, and compliance.

The Chi-square analysis reveals that investors' choices between direct investment and investment funds are heavily influenced by their demographic characteristics. Factors such as expected returns, risk, fees, and transparency are key motivators, particularly for those with more experience, larger portfolios, or professional knowledge. Addressing concerns related to transparency, fees, and compliance may help investment funds attract a wider range of investors, including those who currently prefer direct investment.

Interpretation and Hypothesis Testing

The analysis thoroughly addresses the research questions and tests the study hypotheses by examining how various factors influence Saudi investors' preferences between direct stock investment and investment funds. The findings align with the research objectives, providing insights into investors' attitudes and motivations for these investment choices.

Answers to the Research Questions

This section presents the answers to the research questions, as they were posed at the outset of the study, in the same order.

For the first research question, The study reveals that investment funds attract a diverse range of investors, including those with smaller portfolios, limited time to manage investments, and less knowledge of financial markets. Investors who value professional management, diversification, and the option for Sharia compliance are also more inclined toward funds.

For the second research question, the findings show that while investors generally appreciate the structure and management of funds, some are skeptical about returns and perceive funds as having similar risks to direct investment. Factors like lack of knowledge, convenience, and access to diversified portfolios strongly influence positive attitudes toward funds.

The answer to the third research question is that many investors prefer direct investment due to the perception of higher returns, transparency, and control over assets. However, the analysis also identifies concerns about the complexity of financial markets and limited knowledge in technical analysis as barriers for some investors.

The findings also provided the answer to the fourth research question that is: Key motivators for investing in funds include professional management, risk diversification, and time constraints. Many investors are drawn to funds for these features, especially if they lack the expertise or time to manage investments directly.

Finally The findings also provided the answer to the fourth research question showing that Investors who avoid funds cite factors such as high management fees, unclear investment strategies, and limited regulatory oversight. Others prefer direct investment because they believe it offers better returns and more transparency.

Testing the Research Hypotheses

Hypothesis 1: There is a statistically significant relationship between the demographic factors of the sample and investors' attitudes toward investment funds. Main hypothesis is accepted, and sub –hypotheses: a (Age), b (Gender), c (Occupation), and d (Experience) – All are accepted with significant p-values and high Phi coefficients indicating strong associations. Therefore Attitudes toward investment funds vary significantly across demographic groups, with age and occupation showing particularly strong influences on investors' views about funds.

Hypothesis 2: There is a statistically significant relationship between the demographic factors of the sample and the motivations for investing in investment funds. Main hypothesis is accepted, and sub-hypotheses: a (Age), b (Gender), c (Occupation), d (Education), e (Experience), and f (Investment size) – All are accepted. These results confirms that motivations for choosing investment funds are strongly associated with demographic variables, especially age and investment size, which reflect different needs for professional management and diversification.

Hypothesis 3: There is a statistically significant relationship between the demographic factors of the sample and the reasons for avoiding investment in investment funds. Main hypothesis is accepted, whereas sub-hypotheses: a (Age), b (Gender), c (Occupation), and d (Experience) proved to significant and accepted except sub-hypotheses for Gender (b) are rejected due to non-significant results, while others are accepted with significant associations.

Conclusion: The main reasons for avoiding investment funds are influenced by factors such as age and occupation, where professional investors, for example, cite high fees and limited transparency as deterrents.

Conclusion

The study sheds light on the complex factors influencing Saudi investors' preferences for direct investment over investment funds. Demographic factors, particularly age, occupation, and investment experience, play crucial roles in shaping investors' attitudes and motivations. Investors inclined toward investment funds tend to value professional management, risk diversification, and convenience, especially those lacking the time or knowledge to invest directly. On the other hand, those who prefer direct investment do so due to perceived higher returns, transparency, and control over investments.

The findings reveal that investment funds could increase their appeal by addressing concerns around transparency, fees, and clarity of investment strategies. Educating investors on fundamental and technical analysis could also increase confidence in mutual fund performance, attracting a broader demographic. As Saudi Arabia progresses under Vision 2030, promoting investor awareness and offering tailored investment solutions may help balance the preferences for direct investment and mutual funds, ultimately contributing to a more diversified and robust financial market.

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