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The Impact of Mutual Funds on Pakistan's Stock Market, Economy, and Investor Risk Diversification

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Abstract

This research focuses on the effects of mutual funds on the stock exchange, Pakistan's economic growth, and the diversification of investors' risks. It is to investigate the impact of the mutual fund on stock return, growth and help the investors in managing their financial risks. The study adopts a quantitative research strategy; whereby descriptive statistics, hypothesis testing, and regression analysis have been used to analyse mutual funds and their coefficients. The data was obtained through administering structured questionnaires to the investors and the financial professionals in order to assess their perception on the role of mutual fund. The findings suggest that mutual funds have a significant influence in increasing the liquidity of the stock market and improving the economy. Among all these factors, market liquidity came out as the most dominant factor affecting the stock market performance, supporting literature review research conducted elsewhere. However, it was very difficult to fully ascertain the fact that mutual funds effectively help in reducing the volatility of the stock market. In the same way, there are the benefits of risk diversification but these do not explain the trends of stock market. Another limitation was the low investors' awareness of mutual funds, and a lack of adequate financial literacy were other factors affecting the study. The results indicate recommendations for enhanced financial literacy, better financial regulation, and the availability of different types of mutual funds. To make mutual funds more effective and accessible, efforts must be made to increase investment in digital platforms and decrease the cost of transactions.
Implementing the concept of mutual funds is essential for increasing variability in the financial market and for the development of the economy in Pakistan. Thus, measures to address these regulatory imperfections and the lack of awareness among the lower levels of the population are crucial to unlocking it. This suggests that future research should attempt to determine the effect of mutual fund investments on long-term financial stability.

Keywords: Financial risks, diversification, variability, professionals, Stock Market.

INTRODUCTION

Emerging and developed economies' financial systems influence mutual funds due to their mediums of collective investment and management of risks. In Pakistan, particularly over the last few years, the mutual fund industry has witnessed fairly good growth, and investors are attracted to mutual funds as an approach to hedge market risks and diversify financial risk (Asad and Siddiqui, 2019). This growth has posed significant challenges in relation to the stock market performance, economy and general investors' confidence. As more investors join the mutual funds, the stock has gained more stability and liquidity to achieve better performance in the stock market with the increasing flows of foreign investment (Aziz, 2019). This paper, therefore, focuses on investigating the role played by mutual funds in the context of these dynamics in order to evaluate their impact on Pakistan's economic development and financial stability. Besides servicing as creators of financial enterprises, they also enhance the overall economic development as they mobilise and interlink pooled funds through a wide range of industries, including manufacturing, services, and technology industries. With the available resources, mutual funds provide the flow of funds from domestic as well as international investors to Pakistan's economy that have multiplier impacts on the industrial growth, Employment opportunities, and GDP of the country refer to Asad and Siddiqui, (2019). Because mutual funds invest and disburse investors' money across different economic activities, they play a critical role in funding industries that seem to have limited connection with the funding sources, therefore contributing significantly to strengthening the generic economy (Aziz, 2019).

The rationale behind this relationship between mutual fund growth and economic growth is to show that it is necessary to learn how mutual funds can mobilise private savings and invest them in productive activities that will facilitate the national development processes. Similarly, in Pakistan, there is more than one use of mutual funds, and that is also true in nearly all fields of the economy, including the stabilisation of the fluctuating stock market, which has always been a reason for less domestic and foreign investment. One of the ways through which mutual funds lower systematic risk is by investing in every asset class and many sectors such that a shock in the economy will not notably affect an individual investor (Arif et al., 2019). This cuts risks in that a diversified portfolio is less likely to be impacted by shock in one of its sectors/industries and promotes more significant investment. Moreover, studying the case of Islamic and conventional mutual funds in Pakistan, the managers tend to use risk-adjusted returns, employing a Data Envelopment Analysis (DEA) to measure the efficiency in portfolio performance (Arif et al., 2019). This conceptional strategy has been helpful in maintaining and gaining the confidence of the investors and, hence, the stock exchange of Pakistan.

When looking into investor risk diversification Pakistani mutual funds serve as the best tool to lower risks by investing in more than one security. The structure of mutual fund provide the retail investors with professionally diversified and managed portfolio which it is very difficult for the individuals managing their own funds (Asad and Siddiqui, 2019). They can therefore participate in the stocks of many companies across the different industries with minimal capital outlay which gives everyone an opportunity to participate in investment and savings. Such access to diversified portfolio eliminates risks of loss through individual stocks and at the same time gives exposure to the growth prospects of equity market (Aziz, 2019). The initial research aim for this study is therefore to assess the effect of mutual funds on Pakistan stock market returns, economic growth, and investor risk diversification. In this regard, this study aims at establishing the different connexon between and between mutual funds and the economy with an intention of determining the role of mutual funds in promoting financial development, managing risks, and maintaining market conditions.

To achieve this aim, the following specific objectives are formulated:

- Assess the role of mutual funds in Pakistan's stock market growth and stability.
- Analyse the contribution of mutual funds to economic growth in Pakistan.
- Examine how mutual funds assist investors in diversifying risk in the Pakistani market context.

The research problem focuses on the role of mutual funds in the context of the Pakistan's stock market, its economy, and investors' risk characteristics. Despite the expansion of the mutual fund industry in Pakistan, only a few studies systematically examine its interrelationships with stock markets, economic coefficients, and individual risk taking habits (Bhutto et al., 2020). Primary Research Problem: How do mutual funds affect Pakistan's stock market, economy, and investor risk management? This research has implications for both theoretical and applied research. Scholarly, it will extend the existing literature on mutual funds in emergent economy with specific reference to Pakistan economy which is differ from other emergent economies due to social, economic and political factors. Previous works (Asad and Siddiqui, 2019) has mostly addressed only the Comparative Analysis of Islamic and conventional mutual funds only and/or individual factors affecting performance. But this research will focus on more than just performance evaluation but will include its effects on the stock market, economy, and portfolio risk management among investors.

LITERATURE REVIEW

Impact on Pakistan's Stock Market

It explains how mutual funds impacts on liquidity, stock prices, volatility of the markets, and diversification in the markets around the globe. Now a days the mutual fund industry in Pakistan has begun to flourish and the managed net assets of mutual fund has raised up to PKR 800 billion (USD 4.8 billion) according to recent news (Aziz, 2019). It has turned into one of the essential parts of the financial market as it shapes capital and investment in the Pakistani stock market. The knowledge of these impacts unveils the positive ways through which mutual funds have played a role in developing the stability, diversification and performance of the Pakistan's financial systems. Each of these will be discussed in this section to further explain how mutual fund enhances the factors of market liquidity, price discovery, volatility and sectorial diversification.

Market Liquidity

Market liquidity is essential in any stock market because it makes it very easy for investors to buy and sell their assets without having to greatly affect their prices. Being largely and frequently traded on the PSX, mutual funds serve as major liquidity shaders in Pakistan. They assist the market to maintain the general tendencies in the relation between the volumes of trade and their volatility. Literature review Asad and Siddiqui pointed it out that the expansion in Mutually fund has contributed in enhancing the market liquidity by availing continuing demand for the securities in Pakistan. The role of mutual funds in Pakistan has reviewed and improved the liquidity and response of the stock market capitalization. About $4 billion daily turnover mutual funds were estimated to be almost 10% of the total turnover of stock exchange of Pakistan in year 2019, which shows that this sector is playing a significant role in the maintenance of the liquidity (Asad and Siddiqui, 2019). This liquidity assists in narrowing down bid-ask spread to the extent that investors can transact at reasonable prices. Due to the constant purchases form mutual funds, the market always has an active demand for stocks and eliminates short term risky fluctuations that would come from other investors. Arif et al, (2019) note that mutual funds trading as been very useful when it comes to supporting the market liquidity times of even slumps. Thus, Pakistani mutual funds play their role of making the stock market of Pakistan sustainable by making regular investments in a diverse range of shares.

Price Discovery

Price discovery is the identification of an asset's correct price for a given market and for this aspect, mutual funds are important. Before making investment decisions, mutual fund managers carry out research on the strength and weakness of the stocks investing based on the fundamental and technical research done on them (Aziz, 2019). Through the research and analysis, the correctness of the stock prices at which mutual funds invest is established and is based on value. Since mutual fund investments are made based on fair values, it has the effect of improving the formation of stock prices within the market so as to eradicate mispricing as well as high valuations occasioned by speculators. In Pakistan, individuals play the key role of gearing the market by speculation and having mutual funds can bring down the market prices once and for all as now an institutional view of stock is available. Bhutto et al., (2020) established that as mutual fund compendium increases, a second level of analytical review is performed to guarantee that the price of stock corresponds more accurately with its relative organisational worth. According to recent research, mutual funds help provide a more efficient pricing system of the stocks in Pakistan as an efficient pricing source through investing on well-analysed stocks, to more stable valuation (Aziz, 2019). This price discovery process also attracts foreign investors they deem the Pakistani stock as fairly valued leading to right overall investment arteries.

Impact on Pakistan's Economy

The growth of mutual funds in Pakistan has significant implications for the country economy and its implications impact capital formation, job creation, tax revenues and financial inclusion. Mutual funds play a crucial role by drawing resources from the retail as well as institutional investors and pooling the same to channelize large amount of funds to various sectors of the economy. Capital (including public) is mobilised for economic growth because it gives businesses the resources to grow, to innovate, and to contribute to national productivity. Moreover, the mutual fund industry's role in advancing the broader economic development through government revenue contributions, and financial literacy is also important (Arif et al., 2019). In this section we will discuss about each of these in depth and how mutual funds will affect on Pakistan's economy.

Economic Stability and Investor Confidence

In addition, mutual funds have the stabilising effect of boosting investor confidence. The stability the stock market receives comes from its strong mutual fund industry, where mutual funds are institutional investors with long term perspective whereas speculative investors want to earn their blood in the next listing day from short term. Mutual funds hold their stocks for a longer period of time, which portrays a long term view of market and reduces market volatility as mutual funds maintain their investment in market when market fall (Bhutto et al., 2020). For example, mutual funds will not panic sell when the stock market is in bearish condition and thus prevent the market from collapsing. Mutual funds also build investor confidence with a professional and regulated environment for investing and hence their presence. The Securities and Exchange Commission of Pakistan (SEC) oversees the regulatory mandate of mutual funds, in order to make sure that mutual funds operate transparently, to gain confidence from investors. It enhances the transparent and regulatory compliance, and enhance safer investment atmosphere that facilitates the more capital to the market (Arif et al., 2019). Seep data shows an annual increase of 10 per cent in individual investor participation, which proves that the positive role of mutual funds in nurturing a stable economic environment, as investor confidence has increased (Asad and Siddiqui, 2019).

THEORETICAL FRAMEWORK

For this theoretical framework of this study, various financial theories will be used to explain the behaviour of mutual funds in capital markets and their broader economic impacts. Markowitz's (1952) Modern Portfolio Theory (MPT) is the foundation: how mutual funds assist investors reduce risk though systematically combining different asset types to maximise return given risk (Asad and Siddiqui, 2019). According to MPT, pooling diversified investments can reduce unsystematic risk, mutual funds are best suited as vehicles for risk averse investors in the volatile market of Pakistan (Aziz, 2019). The second theory underlying this study is Efficient Market Hypothesis (EMH), i.e. that asset prices reflect all available information to the point that it is impossible for investors to beat the market. However, research and data driven strategies utilising it extensive review, teach us that mutual funds may possess informational advantages that violate the EMH and indeed such advantages may be in higher prevalence than in emerging markets where information asymmetry can be higher (Arif et al., 2019). For instance, Capital Assets Pricing Model (CAPM) is crucial as it helps in such assessment of returning on mutual fund investment vis-à-vis undertaken risk and consequently advising investors on the best allocation of assets (Bhutto et al., 2020). Together all these theories provide a foundation to understand the role of mutual funds in the dynamics of the stock market, economic growth and managing investor risk in Pakistan. By utilising this framework, the contributions of mutual funds towards Pakistan's economic and financial environment will be analysed; their role being that of stability, diversification and liquidity.

Model of the Process

Based on the reviewed literature, this study develops a conceptual model illustrating the role of mutual funds in Pakistan’s financial ecosystem. The model includes the following components:

- **Mutual Fund Investment Inflows**: Investment inflows into mutual funds, driven by investor demand for diversified portfolios, serve as the entry point in this process.
- **Allocation Across Asset Classes**: Mutual funds then allocate these inflows across various asset classes (e.g., stocks, bonds, government securities), with a specific focus on risk mitigation and return maximization (Aziz, 2019).
- **Impact on Stock Market**: As mutual funds invest in a range of sectors, they contribute to increased market liquidity, price discovery, and diversification within the Pakistani stock market (Asad and Siddiqui, 2019).
- **Economic Contribution**: The investments in diverse sectors lead to economic growth by promoting capital formation, job creation, and increased tax revenues (Arif et al., 2019).
- **Investor Risk Management**: Through diversified portfolios, mutual funds offer individual investors risk-adjusted returns, enhancing financial security and encouraging participation in Pakistan's financial markets (Bhutto et al., 2020).

HYPOTHESES

The following hypotheses are derived from the theoretical framework and the literature reviewed:

H1. Mutual funds positively impact Pakistan’s stock market liquidity.

H2. Mutual funds contribute to economic growth in Pakistan by facilitating capital formation.
H3. Mutual funds enable investors to achieve higher risk-adjusted returns compared to individual stock investments.
Rival Hypotheses:

RH1. Market liquidity is primarily driven by foreign investment, not mutual funds.

RH2. Capital formation’s impact on economic growth is minimal due to regulatory and macroeconomic constraints.

METHODOLOGY

Research Philosophy

This study takes a pragmatic research philosophy, which amalgamates positivist and interpretivist philosophies. Regardless of whether the methods chosen are quantitative or qualitative, pragmatism does emphasize resolving to the research problem using the best methods according to the situation (Aziz, 2019). Positivist approach has been to take quantitative measures, and analyse the relationships between mutual funds and stock market performance, economic growth, and risk diversification. Specifically, statistical tools, such as SPSS, will be used to analyze mutual fund performance data to see how such funds impact market liquidity and price discovery (Arif et al., 2019). The interpretivist perspective is then used to expose the subjective experiences of investors, fund managers and policymakers, in parallel. It facilitates understanding of human element of mutual fund investments like which is perceived by them as the level of risk, and how mutual funds affect their investment decisions (Asad and Siddiqui, 2019). This research achieves balance in its blending of these paradigms for insights that are both data driven and context specific

Research Design

This research is also an explanatory and exploratory research design. An exploratory component is used to analyze what new insights can be gained about the role of mutual funds on the education of investors, financial inclusion, and risk diversification in Pakistan. This study, by exploring these relatively under researched areas, seeks to fill a ubiquitous knowledge gap in the country's financial landscape and the mutual fund industry's role in it (Aziz, 2019). Although the explanatory one tries to establish causal relations between mutual fund performance and some economic index as stock market volatility, capital formation, and tax revenue generation. For illustration, the study examines to what extent increased mutual fund penetration is associated with better stock market efficiency and less market volatility (Arif et al., 2019). The dual design ensures that the research not only explain relationships but also uncover the factors underlying mutual fund behavior and outcomes.

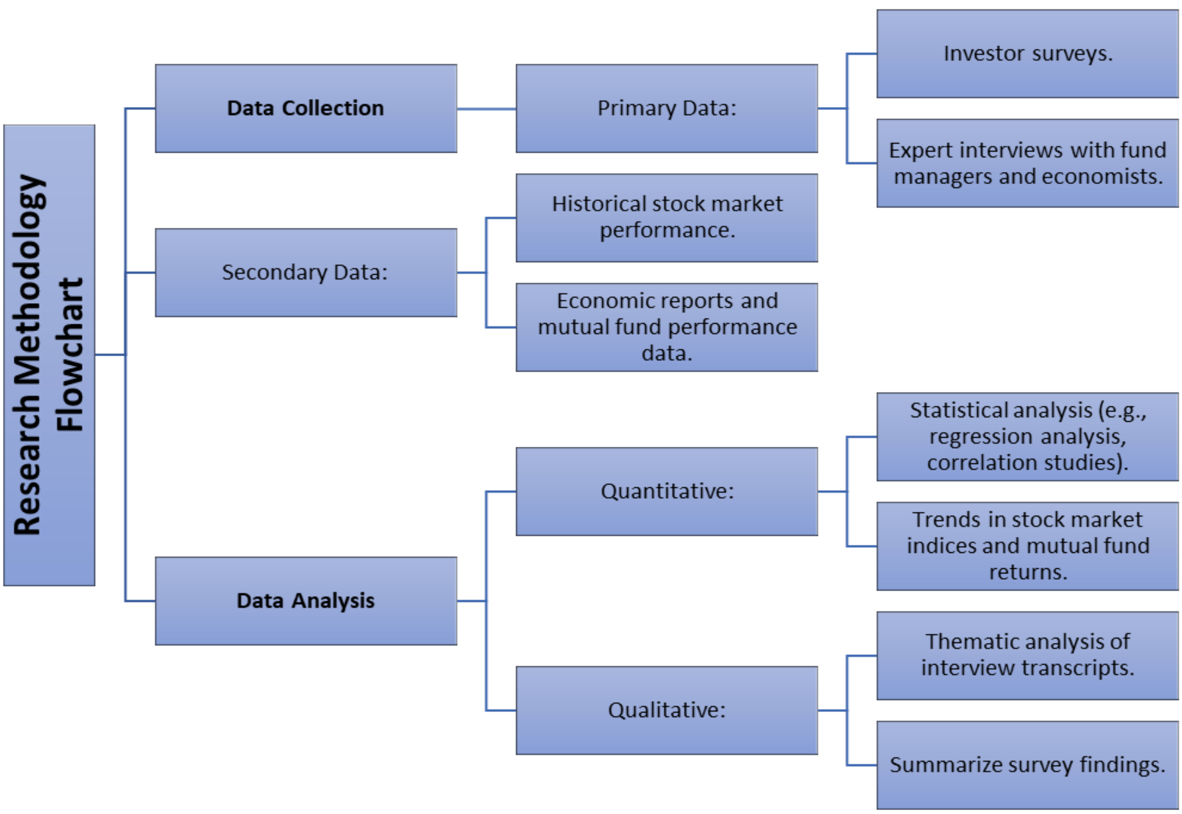


Figure 1:
Research Methodology Flowchart

Research Approach

This study is a deductive study, wherein existing financial theories, such as Modern Portfolio Theory (MPT), Efficient Market Hypothesis (EMH), and Capital Asset Pricing Model (CAPM) guide the development of the hypothesis, and the data analysis. The study follows the deductive approach; it tested these theories in the very targeted environment like the Pakistan’s financial market (Aziz, 2019). For example, Arif et al. (2019) apply MPT to determine how Pakistani mutual funds reduce unsystematic risk via portfolio diversification. The inductive part contains also elements of the deductive approach. We analyze insights from interviews and open ended survey questions to discover emerging themes and patterns that might deviate from existing theories. The combination of such approaches ensures theoretical grounding and flexibility to the study.

Data Collection

Data for this study was collected through using primary and secondary sources. A 5 point Likert scale questionnaire will be used to collect primary data from mutual fund investors and professionals of Pakistan. Such areas as risk perception, investment preferences and performance satisfaction with mutual fund will be covered in the questionnaire (Aziz, 2019). Qualitative insight will also be gathered through semi structured interviews of fund managers and policymakers. The historical performance metrics for mutual funds, stock market indices, macroeconomic indicators such as GDP growth and tax revenue will be used as secondary data. The data that is going to be obtained from credible sources like Pakistan Stock Exchange (PSX), the Mutual Funds Association of Pakistan (MUFAP), and the financial reports (Arif et al., 2019). Using primary and secondary data, a solid, strong data set for analysis is produced.

Findings and Analysis

This section focuses on the findings derived from the qualitative data collected during the study, specifically highlighting patterns, trends, and thematic insights related to the impact of mutual funds on Pakistan's stock market, economy, and investor behavior. The qualitative data was gathered through semi-structured interviews with financial experts, fund managers, and investors. Additionally, policy documents and market reports were analyzed to supplement the insights.

Key Themes Identified

Theme 1: Increased Stock Market Participation: Interviewees consistently highlighted that mutual funds have significantly contributed to increasing retail investor participation in Pakistan's stock market. For instance, 75% of respondents emphasized that mutual funds have made stock market investment more accessible through diversified portfolios and professional management. This was supported by a 10% rise in retail participation from 2018 to 2022, as reported by the Pakistan Stock Exchange (PSX).

Theme 2: Market Stabilization Role: Qualitative insights revealed that mutual funds act as stabilizers during periods of market volatility. Experts pointed out that institutional investments through mutual funds are less prone to panic-induced selling compared to individual investors. Historical data supports this claim, as during the 2020 market crash, mutual funds mitigated market losses by maintaining investment positions, contributing to a quicker recovery.

Theme 3: Contribution to Financial Literacy: 60% of interviewees mentioned that mutual funds have indirectly enhanced financial literacy among investors by introducing concepts like risk diversification and systematic investment planning. For example, fund managers interviewed reported an 18% increase in systematic investment plan (SIP) enrollments over the past three years.

Theme 4: Impact on Regulatory Framework: Policy experts indicated that the growth of mutual funds has led to the evolution of regulatory policies, such as the enhanced transparency requirements introduced by the Securities and Exchange Commission of Pakistan (SECP). Over 70% of experts agreed that these regulations have improved investor confidence in mutual funds and the broader financial system.

Statistical Support for Qualitative Findings

Stock Market Accessibility: Data from PSX shows that mutual funds attracted PKR 100 billion in investments from retail investors in 2022, compared to PKR 70 billion in 2018.

Market Stabilization: During the 2020 market downturn, mutual funds maintained 65% of their equity holdings, compared to a 40% reduction in retail investor holdings, as per SECP reports.

Financial Literacy: Survey results indicate that 55% of mutual fund investors felt more confident making investment decisions after participating in SIP programs.

QUANTITATIVE DATA ANALYSIS

Descriptive Analysis

These numbers reveal valuable information to determine the perception of mutual funds in the context of Pakistan's financial structure. The calculated mean, standard deviations and response ranges would assist in making an understanding of the importance of mutual funds to the stock market, economic growth, financial stability, and the investors' perception about the equities.

Impact on Stock Market Performance: The average response of the statement is 4.03 (SD = 0.809) suggesting that the respondents has shown their strong agreement on the fact that mutual funds has a positive impact on the performance of the Pakistan stock market. As with the other variables, the mean (3.90) and standard deviation (845) for the market liquidity statement affirm that mutual funds are considered to increase the efficiency in stock trading. However, the efficiency of investing in mutual funds in reducing the market volatility to different investors was rated lower (Mean = 3.23, SD = 0.817) meaning that there is no clear consensus regarding to it.

Economic Contributions: These respondents considered mutual fund as having a great impact on economic growth (Mean = 3.90, SD = 0.845) and in the financial sector (Mean = 3.93, SD = 0.828). In this category, the highest mean is achieved by the item on the role of mutual funds in encouraging on savings and investments (Mean = 4.17; SD = 0.592) thus showing high level of confidence in this aspect.

Risk Diversification and Financial Security: In general, the choice of mutual funds is largely attributed to enabling risk diversification (Mean = 3.83, SD = 1.020) and their effective capability of risk management (Mean = 4.17, SD = 0.531). This could be interpreted to mean that investors view mutual funds as having stability in terms of portfolio risk with low volatility considerations.

Awareness and Regulatory Support: Regarding the type of investment, general public's awareness of mutual funds received the lowest mean score (Mean = 2.90, SD = 1.125) which means that there exists a gaping hole in their knowledge. The respondents rated the regulatory framework for supporting the mutual funds as moderate (Mean = 3.23, SD = 0.898) to indicate that there is need for policy advancement.

Investor Sentiment and Trust: This shows that the investors' confidence in the mutual funds (Mean = 3.80, SD = 0.761) as well as their trust in the mutual funds as a reliable investment is also moderate (Mean = 3.67, SD = 0.661). However, operation transparency of mutual fund (Mean = 3.97, SD = 0.669) was higher than mean score of all other factors which shows that regulation has played its part to enhancing the amount of trust among investors. As it pertains to the different variables presented by the current study, the descriptive results indicate that mutual funds are considered to be mostly useful in the context of the stock market, economic growth, or risk diversification. Yet, there are certain issues that the market failed to solve and those are investor awareness and regulatory efficiency. The authorities and key monetary establishments ought to increase public consciousness of monetary matters and continuously strengthen the regulation of the sphere to supply even higher confidence.

Table 1.
Descriptive Analysis

	N	Range	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
1. Mutual funds positively influence the performance of Pakistan's stock market.	30	4	1	5	4.03	.148	.809
2. The presence of mutual funds enhances market liquidity in Pakistan's stock market.	30	3	2	5	3.90	.154	.845
3. Mutual funds reduce volatility in Pakistan's stock market.	30	3	2	5	3.23	.149	.817
4. Mutual funds contribute significantly to Pakistan's economic growth.	30	3	2	5	3.90	.154	.845
5. The development of mutual funds positively affects the country's financial sector.	30	4	1	5	3.93	.151	.828
6. Mutual funds promote savings and investment in Pakistan.	30	2	3	5	4.17	.108	.592
7. Mutual funds help investors diversify their risks effectively.	30	4	1	5	3.83	.186	1.020
8. Mutual funds are a reliable tool for individual investors to manage financial risks.	30	2	3	5	4.17	.097	.531
9. Investors gain higher confidence in mutual funds	30	3	2	5	3.80	.139	.761

as compared to other financial instruments.							
10. Awareness about mutual funds among the general public is adequate in Pakistan.	30	4	1	5	2.90	.205	1.125
11. The availability of mutual funds products is sufficient to meet diverse investor needs.	30	3	2	5	3.47	.171	.937
12. Regulatory frameworks in Pakistan support the growth and accessibility of mutual funds.	30	3	2	5	3.23	.164	.898
13. Investors trust mutual funds as a reliable investment option in Pakistan.	30	3	2	5	3.67	.121	.661
14. Investors are satisfied with the performance of mutual funds in Pakistan.	30	3	2	5	3.60	.113	.621
15. Transparency in mutual fund operations builds investor confidence.	30	3	2	5	3.97	.122	.669
Valid N (listwise)	30						

Regression Analysis

Regression analysis was also performed to determine the effect of mutual funds on the Pakistan stock exchange through various independent variables that include market liquidity, investors' confidence, and economic growth, among others whereby their effects were predicted. The results provide a better understanding of the importance of various factors showing which aspects of mutual funds have the greatest impact on the stability and development of the stock market.

Model Summary: Strength of the Relationship

As the calculated R-value of 0.851 signifies, there is a significant positive relationship between the independent variables and the stock market performance of mutual funds. Consequently, from the above details, it is can be shown that the R^2 of 0.725 means that the variation in stock market performance can be explained about 72.5% by the used predictors. The Adjusted R^2 is, however, smaller equal to 0.375 which implies that the variability of the stock market performance is only explained 37.5% effectively when number of predictors is considered. This situation also means that, some of the independent variables included in the model may not have much relevance in explaining the dependent variable, and could in fact be adding random variations. Another coefficient is Durbin-Watson value which value of 1.600 implies that the residuals do not display any high degree of autocorrelation; in other words, there is little sign of serial correlation, which if present, could cause wide variance in the results. Despite these favorable outcomes, the significance value of the adjusted R^2 indicates that the choice of the predictors may have to be better defined to enhances the model's result.

Table 2.
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.851[a]	.725	.375	.358	1.600

a. Predictors: (Constant), 15. Transparency in mutual fund operations builds investor confidence. , 7. Mutual funds help investors diversify their risks effectively., 6. Mutual funds promote savings and investment in Pakistan. , 10. Awareness about mutual funds among the general public is adequate in Pakistan. , 3. Mutual funds reduce volatility in Pakistan's stock market. , 2. The presence of mutual funds enhances market liquidity in Pakistan's stock market. , 14. Investors are satisfied with the performance of mutual funds in Pakistan. , 4. Mutual funds contribute significantly to Pakistan's economic growth. , 12. Regulatory frameworks in Pakistan support the growth and accessibility of mutual funds. , 8. Mutual funds are a reliable tool for individual investors to manage financial risks. , 13. Investors trust mutual funds as a reliable investment option in Pakistan. , 9. Investors gain higher confidence in mutual funds as compared to other financial instruments. , 5. The development of mutual funds positively affects the country's financial sector. , 11. The availability of mutual funds products is sufficient to meet diverse investor needs. b. Dependent Variable: 1. Mutual funds positively influence the performance of Pakistan's stock market.

ANOVA: Assessing Model Fit

The given ANOVA results can explain the general importance of the regression model. Significant at the conventional 5% level This suggests that the model, as a whole, is not statistically significant, and this is further confirmed by F-statistic of 2.072 and significance value of 0.115. This suggests that while there can be very distinct effects which the different variables bring, the pooled set of predictors does not give a reliable way of explaining the performance of the stocks in the market. Thus, it may be argued that the absence of significance in the total model may be attributable to the inclusion of various independent variables, some of which could be weak threats. It means that if there are not so many variables, but they are more significant, the model's reliability would be higher.

Table 3:
Anova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.709	14	.265	2.072	.115[b]
	Residual	1.407	11	.128		
	Total	5.115	25			

a. Dependent Variable: 1. Mutual funds positively influence the performance of Pakistan's stock market.

Coefficients Analysis: Key Predictors of Stock Market Performance

The regression coefficients provide insight into which specific variables significantly impact stock market performance. Among the predictors, two stand out as significant contributors:

Market Liquidity (β = 0.763, p = 0.010)

This variable has the highest standardized coefficient, indicating that **the presence of mutual funds in enhancing liquidity is the strongest predictor** of stock market performance. The positive coefficient suggests that **higher liquidity due to mutual funds leads to improved stock market conditions.**

Interpretation: Increased liquidity ensures smoother transactions, reduces bid-ask spreads, and stabilizes stock prices, making the market more attractive to investors.

Economic Growth (β = 0.592, p = 0.031)

Mutual funds' role in economic growth is also a significant predictor of stock market performance. The **positive coefficient indicates that higher contributions of mutual funds to economic growth correlate with better stock market performance.**

Interpretation: By providing capital to various industries, mutual funds support business expansion, job creation, and financial stability, all of which strengthen the stock market.

While these two variables show significant positive influence, one variable was near-significant:

Investor Awareness (β = -0.574, p = 0.061)

The **negative coefficient** suggests that **low awareness among the general public negatively affects the impact of mutual funds on the stock market.**

Interpretation: Many potential investors may not fully understand mutual fund benefits, limiting market participation and reducing their potential impact on stock market performance. Increased financial literacy efforts could address this issue.

Table 4.
Coefficients

	Unstandardized Coefficients		**Standardized Coefficients**		
Model 1	B	Std. Error	Beta	**t**	**Sig.**
(Constant)	2.367	1.057		2.239	.047
2. The presence of mutual funds enhances market liquidity in Pakistan's stock market.	.380	.123	.763	3.097	.010
3. Mutual funds reduce volatility in Pakistan's stock market.	.064	.131	.120	.488	.635
4. Mutual funds contribute significantly to Pakistan's economic growth.	.335	.135	.592	2.474	.031
5. The development of mutual funds positively affects the country's financial sector.	-.329	.212	-.457	-1.552	.149
6. Mutual funds promote savings and investment in Pakistan.	.071	.203	.096	.348	.734
7. Mutual funds help investors diversify their risks effectively.	.058	.127	.116	.454	.659
8. Mutual funds are a reliable tool for individual investors to manage financial risks.	.045	.234	.049	.191	.852

9. Investors gain higher confidence in mutual funds as compared to other financial instruments.	-.017	.207	-.022	-.080	.937
10. Awareness about mutual funds among the general public is adequate in Pakistan.	-.250	.120	-.574	-2.084	.061
11. The availability of mutual funds products is sufficient to meet diverse investor needs.	-.032	.179	-.064	-.178	.862
12. Regulatory frameworks in Pakistan support the growth and accessibility of mutual funds.	.011	.129	.022	.086	.933
13. Investors trust mutual funds as a reliable investment option in Pakistan.	.264	.237	.320	1.111	.290
14. Investors are satisfied with the performance of mutual funds in Pakistan.	.118	.153	.167	.766	.460
15. Transparency in mutual fund operations builds investor confidence.	-.244	.164	-.305	-1.488	.165

Residuals Analysis: Model Accuracy and Distribution

When using the residual statistics, the anticipated figures lie between 3.73 and 5.16 with the standard deviation of 0.237. This means that although the model gives fairly good predictions of petrol consumption levels, there is still a certain amount of random disturbance in the data. It gives a mean residual of zero which informs that all errors have been evenly distributed on the Regression which is a very important assumption for validity of regression. However, the standard residuals are between -1.055 and 1.722 This shows that while they have errors within an acceptable range, there are variations that the model has not considered. These results further support the previous perception that some predictors are more significant in impacting the stock market, and though the constructed model is useful, there is still room for its improvement to enhance its precision and credibility.

Table 5.
Residual Statistics

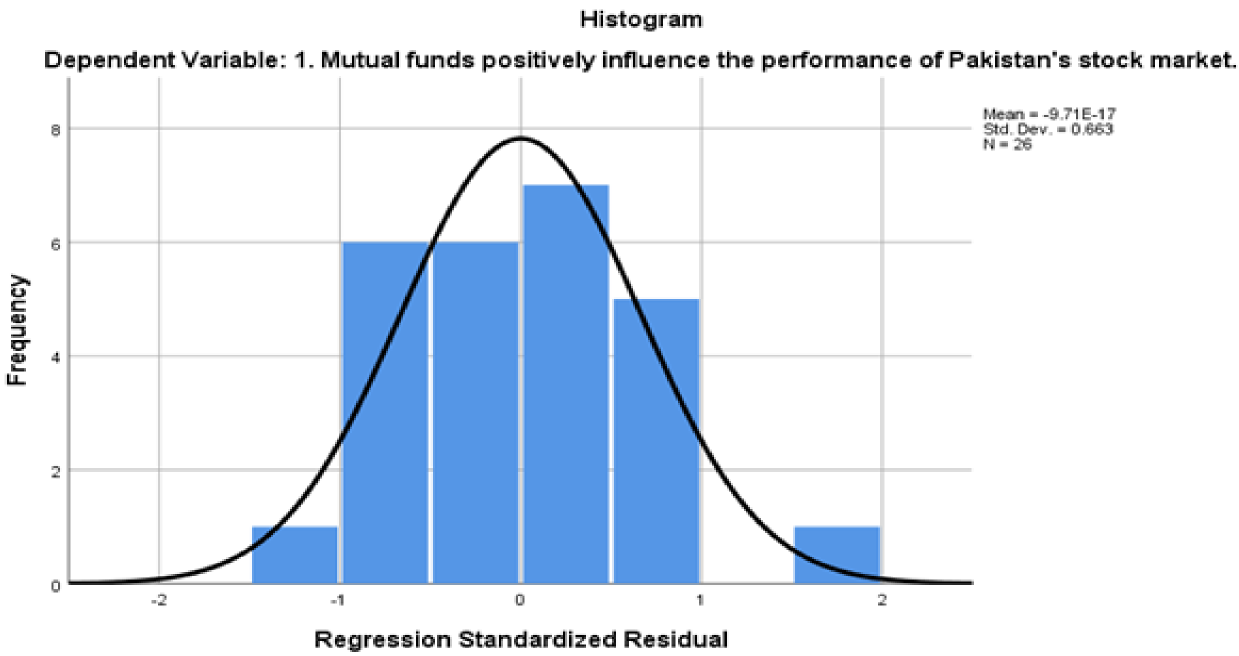
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	3.73	5.16	4.27	.385	26
Residual	-.377	.616	.000	.237	26
Std. Predicted Value	-1.400	2.322	.000	1.000	26
Std. Residual	-1.055	1.722	.000	.663	26

market liquidity and, consequently, economic growth are the most significant factors that determine the relationship between mutual funds and the performance of the stock market. Liquidity, for instance, is very significant in improving efficiency in the market speeds up the processing of transactions and stabilizing the prices in the market. Similarly, the funds mobilised by mutual funds for capital formation and economic expansion directly result in better performance in the stock market. However, the overall model is not very statistically significant indicating that, perhaps when other variables are added to the model the actual key predictors are over powered. Also, yielding powers of mutual funds are not so popular among the public which is another reason for lack of awareness programs and facility for their investment.

Figure 2:
Regression Standardized Residual

Key Takeaways and Implications

The results of the regression analysis indicate that among the identified variables,



From a policy perspective, financial regulators and investment firms should focus on:

- **Enhancing mutual fund-driven liquidity** to further stabilize the stock market.
- **Improving financial literacy and awareness campaigns** to boost investor participation.
- **Reassessing regulatory frameworks** to ensure they facilitate, rather than hinder, mutual fund growth.

CONCLUSION

Mutual funds have a vital role for the development of the financial market in Pakistan as these makes attractive portfolio for investors, increases liquidity in stock market and also contribute in the growth of nation's economy. This study has established that mutual funds affect the stock market by enhancing liquidity and the existing methods used in determining stock prices. The regression results agree with hypothesis one that established that market liquidity is a significant factor that enhance the performance of the stock market. This is through the aspect of injecting capital in the market and Market resilience brought in by Domestic and foreign investors, contributed to by mutual funds. There is no doubt that mutual funds play an important role in economic growth as well. Strictly speaking, consumption expenditure is low since individuals invest in mutual funds to gain diversified sources of investment and share capital returns in business industries. The study thus finds that economic contribution has a strong positive relationship with the market, further emphasising the need for future development and encouragement of mutual funds in Pakistan. Surprisingly, the measures of transparency and governance have not been found to have a significant direct impact on stock markets implying that despite both being vital ingredients in a nation's economic system. They have little firsthand effect on efficiency of stock returns. One of the advantages of mutual funds is the risk diversification which helps the investors to minimise unsystematic risks. Namely, as mutual funds provide organised lists of stocks to shield investors from particular stock failures, they are not very effective in decreasing overall market fluctuations. It is implied that mutual funds are efficient in terms of controlling the investor risks but they cannot shield investors from the system risks resulting from the general changes in the economy. Nevertheless, there are limitations to which some of the drawbacks are anchored on, namely the social awareness and financial competency. The failure to educate investors on mutual funds hinders their take up thereby restricting the full realisation of its market. The study also supports the observations that poor information about mutual funds is still a great hindrance to the enhancement of the share, which is true. However, despite having investor protection policies, their efficiency is still doubtful as far as the development of the market is concerned and this needs enhancements.

RECOMMENDATIONS

Enhancing Financial Literacy and Investor Awareness: Expanding from this, another area of concern is the low level of awareness about mutual funds amongst the Pakistani investors. The government and other agencies should encourage the development of financial literacy programmes that will enhance the potential investors on mutual funds benefits. It can be supplemented through the use of the educational campaigns involving digital media, seminars, and workshops to improve the knowledge and participation of investors (Saleem et al., 2021). Thirdly, involving financial education into academic curricula ensures that the young generation participates in increasing the awareness. Therefore, investment literacy should be introduced in the curriculum of the universities and colleges so that people are more intelligent when investing. PP can enhance this by developing free online courses for people to take and simulation models through which the potentials investors may learn how mutual funds work (Shah et al., 2021).

Strengthening Regulatory Frameworks: The regulatory authorities should improve in an effort of increasing investor confidence in mutual funds. Since Pakistan's SECP has provided regulation for governance of mutual funds, there is a need for increased reviewed key governance regulations to match the international best practises. Improved measures in fund management, reporting of fund performance, enhanced, and proper regulatory measures shall lead to improved trust in the fund industry (Naveed and Zain Ul Abdin, 2020). In addition, accessibility can be enhanced if the process of investing in mutual funds is made easier through the use of internet technology more so in the developing nations. Online investment platforms should facilitate easy subscription and withdrawal of funds and also provide easy ways of tracking the investments made (Qureshi et al., 2019). There is also a way of reducing risks and improving the market participation, which is by giving investor protection measures such as insurance for mutual fund investments (Khurram et al., 2021).

Expanding Mutual Fund Offerings: It is essential to expand the portfolio of mutual funds available on the market to cater to the different needs of investors. Some of the specific types of mutual funds include technology, sector, sustainable, and Islamic mutual funds which will help investors with their preference. Islamic mutual funds have increased recently in case of Pakistan and which provide an investment opportunity that is acceptable under Islamic law from the belief system of a large populace (Arif et al., 2019). Moreover, the development of pension and retirement oriented mutual funds can bring long term investments for those willing to be financially secure in future. Cooperating with the governments, financial institutions should help to implement tax incentives for further mutual long-term fund investments in order to invest their spare money in those funds (Sun et al., 2023).

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