Factors affecting people investing in Mutual Fund in Malaysia: An application of the Theory of Planned Behavior

Kuah Kean Lam

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ABSTRAK (MALAY)

Faktor-faktor yang mempengaruhi pelaburan dalam dana bersama di Malaysia: Applikasi dengan Teori Perlakuan Terancang.

Dana Bersama (Mutual Fund) di Malaysia mengalami perkembangan pesat dalam beberapa tahun yang lepas. Perkembangan pesat ini menandakan kesesuaian pelaburan secara berkumpul di Malaysia. Hari ini, dana bersama telah menjadi satu bahagian penting dalam bidang ekonomi Malaysia. Perkembangan sihat dalam bidang tersebut telah memberi manfaat kepada ekonomi negara dan para pelabur. Tujuan kajian ini adalah untuk menentukan faktor-faktor yang mempengaruhi orang ramai untuk melabur dalam dana bersama di Malaysia dengan menggunakan Teori Perlakuan Terancang (TPB) yang diubahsuai. Sebanyak 400 soal selidik telah diedarkan kepada orang dewasa di negeri Pulau Pinang dan 211 soal selidik yang boleh diguna telah dikutip balik. Berdasarkan analisis, didapati model yang diguna dapat menerangkan 47.4% varian dalam Keinginan (Intention). Sikap (Attitude), Perlakuan Lepas (Past Behavior) and Norma Subjektif (Subjective Norms) mempunyai hubungan positif yang ketara dengan keinginan untuk melabur dalam dana bersama. Analisis seterusnya mendapati kedua-dua kelakuan lepas dan keinginan mempunyai hubungan kesan positif yang ketara dengan pelaburan sebenar. Sungguhpun model ini dapat menerangkan varian agak tinggi dalam keinginan, tetapi didapati Tanggapan Kawalan Perlakuan (Perceived Behavioral Control) tidak mempunyai hubungan kesan positif yang ketara dengan keinginan dan pelaburan sebenar. Keputusan ini mencadangkan model teoretikal lain tanpa pembolehubah (variable) ini mungkin akan lebih sesuai untuk mengkaji sikap pelaburan dana bersama.

ABSTRACT

Mutual Funds in Malaysia have experienced phenomenal growth in the past few years. This growth reflects the suitability of collective investments in Malaysia. Mutual fund forms an important part of the Malaysian economy today. The healthy growth of the industry seems to benefit the country's economy and the investors. The aim of this study is to determine the factors affecting people investing in Mutual Fund in Malaysia using the modified decomposed Theory of Planned Behavior. Structured questionnaire was used in this study. Four hundred questionnaires were distributed to the adults in Penang state and two hundred eleven useable questionnaires have been collected back. Based on the analysis, it was found that the model has explained 47.4% of the variance in Behavioral Intention. Attitude towards behavior, Past Behavior and Subjective Norm have positive significant influence on investors' Intention to invest in mutual fund. Further analysis on the Actual Investment, it was found that the both Past Behavior and Intention have positive significant influence on investors' actual investment behavior. Even though the model has explained considerable high percentage of variances in Behavioral Intention, however, the findings that Perceived Behavioral Control is not a significant contributor to both Behavioral Intention and Actual Investment suggests that other theoretical model without this variable might be more suitable to study mutual fund investment behavior.

Chapter 1

INTRODUCTION

1.1 Introduction

This chapter introduces the research outline of the study. The chapter begins with an overview of the Mutual Fund industry in Malaysia, followed by brief discussion of the benefits and disadvantages of the Unit Trust Scheme, their growth and different types of Mutual Funds. Besides that, this chapter also includes the problem statement, research objectives and research questions. The key terms and significance of the study will also be highlighted.

1.2 Background

A Unit Trust Scheme (UTS) or Mutual Fund (MF) is a form of collective investment that allow investors with similar investment objectives to pool their savings, which are then invested in a portfolio of securities or other assets managed by investment professionals.

Investors in Unit Trust Scheme or Mutual Fund do not purchase the securities in the portfolio directly. Securities or stocks are purchased by the Unit Trust Management Company (UTMC) following the authorized investments guidelines by a group of professional fund managers. Ownership of the portfolio is divided into units of entitlement and each investor is known as a 'unit holder'. In this case, unit holders in Unit Trust Scheme (UTS) are not shareholders in the company but are rather beneficiaries under a trust set up by the company. Under the Unit Trust Scheme constitution or 'deed', there must be a trustee looking after the interest of the investors. The trustee is the legal owner of all the assets of UTS on behalf of the unit holders, and must act for the benefit of the unit holders. Unit holders in UTS have a beneficial interest in all the assets of those UTS, but are not entitle to direct UTMC on how to invest the portfolio of investments (Dealing in Unit Trust, FMUTM 2005).

The return on investment for unit holders in UTS is usually a combination of a regular income payment (a ‘distribution’) and capital appreciation derived from the pool of investments held within those UTS. Each unit represents an entitlement to an equal amount of income and capital appreciation or depreciation that is normally reflected in the unit price of those UTS (Dealing in Unit Trust, FMUTM 2005).

1.2.1 Benefits of Unit Trust Scheme

For investor who is unable or unwilling to research and analyze investment markets by their own effort, Unit Trust Scheme is an ideal way of investing. To maintain a portfolio of directly held investments, an individual needs to keep up-to-date with market information and sentiment. This means keeping track of a wide range of information from many sources. For many individual investors, this is difficult, time consuming and expensive. Investing in UTS transfers most of the stress of investing to those best equipped to handle it – professional fund managers. Other significant benefits of investing in UTS are listed as below:

(i) Diversification

A larger pool of funds from many small investors allows the fund manager to purchase a wide range of investments.

(ii) Liquidity of funds

Most investors require that their investment be liquid. The investor can redeem their unit trust fund and receive their money in the specified time frame. In the case of Malaysia, the guideline is within 10 days.

(iii) Professional Management

Investment decisions are made by professional fund managers. The investment process adopted is structured and follows basic investment principles outlined in the prospectus and deed.

(iv) Investment Exposure

For small investor (with RM1000), it is sometimes difficult to invest in particular asset class or certain securities, for example real estate or corporate bonds. UTS make this possible with pool investments from many small investors.

(v) Investment Cost

When making direct investments, the smaller investors will pay higher transaction cost if compare to large institutional investors due to pre-negotiated fees on large purchase.

1.2.2 Disadvantages of Unit Trust Scheme

Some of the disadvantages of Unit Trust Scheme are list as follows:

(i) Risk

Any investment involves risk. Investment in UTS also has its risk of losing all of the money invested.

(ii) Loss of Control

Investors in UTS lose their right to direct how their savings are invested. If the fund manager invests the portfolio in accordance with the prospectus and deed, there is little that the unit holders can do if they disagree with the investment decisions made by the fund manager.

(iii) Fees and Charges

The services provided by the UTMC are not without cost. Hence there are fees and charges payable by investors in UTS.

(iv) Opportunity cost

As with any decision, an investor who invests in UTS may have produced better returns by investing directly in the markets. This excess represents the 'opportunity cost' of investing in UTS.

1.2.3 Types of Unit Trust Funds

Mutual funds are referred to as open-end funds for two main reasons:

(i) they are required to redeem (or buy back) outstanding shares at any time upon a shareholder's request, at a price based on the current value of the fund's net assets; and

(ii) virtually all mutual funds continuously offer new fund shares to the public.

A closed-end fund is an investment company that issues a fixed number of shares that trade on a stock exchange or in the over-the-counter market. Assets of a closed-end fund are professionally managed in accordance with the fund's investment objectives and policies, and may be invested in stocks, bonds, or a combination of both. Like other publicly traded securities, the market price of closed-end fund shares fluctuates and is determined by supply and demand in the marketplace.

Based on Lipper's fund investment objectives, Unit Trust Funds in Malaysia have been grouped into the following seven types (FMUTM Annual Report, 2006):

(a) Exchange Traded Funds-Bond General funds.

(b) Guaranteed/ Protected funds : Comprises Capital Guaranteed funds and Capital Protected funds.

(c) Money Market funds : Include all Money Market funds.

(d) Mixed Asset funds : Include Mixed Asset Asia, Mixed Asset Emerging Markets Asia, Mixed Asset Global, Mixed Asset Growth funds and Mixed Asset Income funds.

(e) Islamic funds : Bond Islamic/Syariah funds, Equity Islamic/Syariah funds and Mixed Asset Islamic/Syariah Balanced funds.

(f) Bond funds : Include all General Bond funds.

(g) Equity funds : Include Equity ASEAN fund, Equity Asia Pacific Ex-Japan funds, Equity, Equity Europe, Global funds, Equity Growth funds, Equity Income funds, Equity Index Tracking funds, Equity Info & Technology funds, Equity Sector Real Estate Asia funds, Equity Sector Real Estate Global funds and Equity Small Companies funds.

1.2.4 Growth of Mutual Fund in Malaysia

In Malaysia and throughout the world, Mutual Trust funds have experienced phenomenal growth in the past few years. This growth reflects the suitability of collective investments in Malaysia, as a means for the smaller investor to accumulate capital over the longer term.

Figure 1.1 shows the growth trend of mutual fund and total NAV versus Bursa Malaysia Market capitalization.

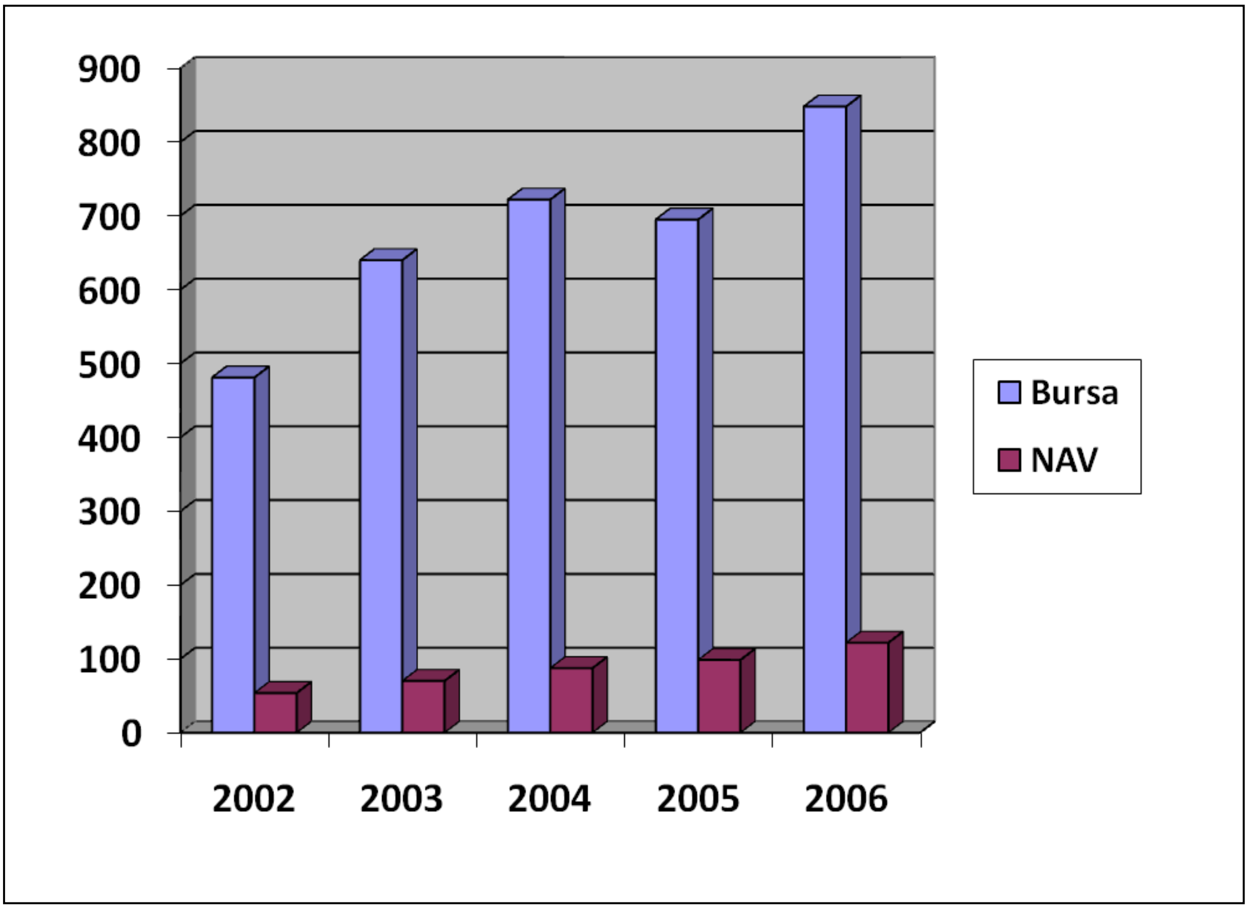

Figure 1.1. Total NAV vs Bursa Malaysia Market Capitalization as at 31st Dec 2006

Source: Securities Commission (2007)

Although the mutual fund industry in Malaysia started as far back as 1959 with the establishment of the Malayan Unit Trust Ltd, the development of the industry did not take-off until 1980s with the launching of the Amanah Saham Nasional (ASN). The major growth of the industry can only be seen in the 1990s when Malaysia, together with other Asian Tigers, saw a high and consistent growth in their economies.

For Malaysia, the growth in the mid-1990s was very much due to the boost given by the government in the area of tax relief and allowing withdrawal on Employee Provident Fund (EPF) to invest in the mutual fund. With these incentives the mutual fund industry increased in size from RM15.7 billion in 1992 to RM60 billion in 1996. The Asian crisis of 1997 had brought a sudden halt to this and we have seen even negative growth. However, the signs of recovery after that are becoming evident. Growth of the unit trust industry in Malaysia continued at a rapid pace in 2006. Total Net Asset Value (NAV) of the industry gained 23.6 per cent, the net asset value of the managed funds increased to RM121.8 billion. This amounts made-up of only 14.35 per cent of the total market capitalization of the Bursa Malaysia, which stood at RM848.7 billion. (FMUTM Annual Report, 2006)

Different from the developed countries, an important characteristic of the Malaysian mutual fund industry is the dominant role of the government. As of 2006, more than 58% of these funds are affiliated with the government, i.e. either owned by state governments or quasi-government agencies. Nevertheless, the number of private sector funds is increasing, in particular bank-owned funds. The NAV of the private unit trust funds (excluding federal and some state funds) in year 2006 stood at RM50.7 billion, an increase of RM 6.6 billion over previous year. (FMUTM Annual Report, 2006) The double digit growth was observed. The type of funds included Equity Funds, Bond Funds, Islamic Funds, Mixed Asset Funds, Money Market Funds, Guaranteed Funds and Exchange Traded Funds. All these funds are the “open-end” Mutual Funds.

Unit Trust industries are well established in developed financial markets like United States and European Union. The extent to which research, both at the theoretical and technical level, has been conducted in developed markets indicates the stage of maturity of mutual funds in these markets. In emerging markets, however, mutual funds are a recent phenomenon. Nevertheless, growth has been robust. Emerging Asian economies like China, Indonesia, the Philippines, India and Malaysia are expected to grow by double digits annually and projected to reach US$ 12 trillion by the year 2030 (*PR Newswire*, 2000). The phenomenon growth in the mutual fund industry in these emerging markets has resulted in an increase in the number of investment companies offering a wide range of different mutual funds (Ramasamy & Yueng, 2003). Faced with a wide range of mutual funds, how does one made choices and what are the factors affecting the intention of an investor investing in Mutual Funds?

1.3 Problem Statement

Growth, both in terms of size and number of funds categories, in the mutual fund industry among emerging markets has been impressive. Most researches, be it domestic or international, were on the mutual funds performance compared to the market (Don, Galagedera & Silvapulle, 2002), comparison of funds performance in different regions (Otten 2002), Islamic Funds performance (Abdullah, Hassan & Mohamad, 2007), aggregate funds performance (Taib & Isa, 2007), qualification, experience and investment style of fund manager, asset size and transaction cost (Ramasamy & Yeung, 2003), price linkage with index in emerging market (Low & Ghazali, 2007) and performance of funds during different economic cycles (Low, 2007). All the researches are conducted on the nature and characteristics of the mutual funds it selves and not for one of the most important components of the mutual funds, the "investors" or "mutual fund purchasers". Thus, in this research, we will study the individual investors' intention and factors affecting investment decision in the emerging market like Malaysia. This paper intends to fill this gap.

Mutual fund forms an important part of the Malaysian economy today. As of 31st December 2006, the total registered mutual trust agent was 31060 people (FMUTM annual report, 2006). Many peoples' livelihoods are depending on this industry, directly or indirectly. Besides the mutual trust agents, the mutual trust management companies, and regulatory bodies in Mutual Fund industry, investors play the utmost important role in the growth of the industry as they are the one who provides the required capital in the industries. Investors have numerous choices to invest their savings; there are many benefits and disadvantages to invest in the mutual trust funds. Investors have to weight the benefits and disadvantages, and to consider their investment objectives before deciding to invest in the Mutual Funds. In many developed countries, Mutual Funds investment has become the preferred vehicle for savings and retirement. The healthy growth of the industry seems to benefits the country's economy and the investors. For the continuous growth of the industries in Malaysia, it is utmost important to study the behaviors of the investors, their intention, and the other factors motivating investors investing in Mutual Fund.

Many theories have been developed and evolved through time for the research of behaviors and intentions in many domains. Among the few popular theories are Theory of Reasoned Action (TRA), Theory of Planned Behavior (TPB) and Technology Acceptance

Model (TAM). The theoretical models and their comparison will be discussed in detail in section 2.3.

1.4 Research Objectives

We have seen that NAV of Mutual Funds invested in Malaysia on 2006 was at RM 121.8 billion. This has formed an important part of the Malaysian economy. This study is to investigate factors influencing Malaysian consumers' intentional behavior to invest in Mutual Funds using modified Decomposed Theory of Planned Behavior (DTPB). In line with this, four specific objectives have been developed. The four main objectives of this study are therefore to:

(1) determine significant contributing factors to Attitude, Subjective Norm and Perceived Behavioral Control,

(2) determine the most significant factors among Attitude, Subjective Norm and Perceived Behavioral Control that lead to Behavioral Intention to invest in Mutual Fund,

(3) identify the relationship of Intention and Actual Investment (Behavior).

(4) In line with the 3 objective above, an additional objective will be drawing the implications for the marketing of Mutual Fund products.

1.5 Research Question

This research attempts to answer the following research question:

(1) What are the factors that significantly affect Attitude, Subjective Norm and Perceived Behavioral Control?

(2) Attitude, Subjective Norm, Perceived Behavioral Control and Past Behavior – which of these factors significantly contribute to Intention to invest in Mutual Funds?

(3) Will Intention turn into actual Investment in Mutual Funds?

(4) What are the conclusions and implications of the study for the marketing of Mutual Fund products?

1.6 Definition of Key Terms

In order to share common understanding of the concepts and for better understanding of further discussion, the following key terms' definition were referred specifically.

1.6.1 Mutual Fund / Unit Trust Fund

Mutual Fund is a form of collective investment that allow investors with similar investment objectives to pool their savings, which are then invested in a portfolio of securities or other assets managed by investment professionals. Investors in Unit Trust Scheme or Mutual Fund do not purchase the securities in the portfolio directly. Ownership of the portfolio is divided into units of entitlement and each investor is known as a 'unit holder' (Dealing in Unit Trust, FMUTM, 2005)

1.6.2 Federation of Malaysian Unit Trust Managers (FMUTM)

Federation of Malaysian Unit Trust Managers - an organization with the vision to develop unit trust as the preferred vehicle for saving and retirement. The objectives of the organization are (Dealing in Unit Trust, FMUTM, 2005):

- To improve the regulatory, fiscal and legal environment of unit trust;
- To formulate sound and ethical business practices, to promote the interest of the unit trust industry and provide investor protection;
- To provide information, assistance and other services to its Member; and;
- To promote public awareness of the benefit and risk of investing in unit trust.

1.6.3 Net Asset Value (NAV)

The net value of the assets invested in the portfolio of the mutual fund. It's a way to assess the net worth of the mutual fund. The value is computed every day after the closing of the share market. The NAV will be used to determine the price of buying and redemption of units trust. (Dealing in Unit Trust, FMUTM, 2005)

1.6.4 Islamic Mutual Fund

Islamic investing can be defined as investment in financial services and other investment products, which adhere to the principles established by the Shari'ah. These principles require that (Dealing in Unit Trust, FMUTM, 2005):

(a) Investment must be made in ethical sectors. In other words, profits cannot be generated from prohibited activities such as alcohol production, gambling, pornography etc. In addition, investing in interest (riba)-based financial institutions are not allowed.

(b) All wealth creation should result from a partnership between an investor and the user of capital in which rewards and risks are shared. Returns in invested capital should be earned rather than be pre-determined.

1.6.5 Attitude

The extent to which one views a behavior as favorable or unfavorable, if a person perceives that there are positive outcomes resulting from an activity, then his or her attitude towards performing that behavior is likely to be positive (Ajzen, 1991). Attitude can be measure either through direct or belief-based measure. Belief-based measure of attitude is the weighted average of the strengths and outcomes evaluation of person's behavioral beliefs (Ajzen, 2002b).

1.6.6 Subjective Norms

An individual's perception of social normative pressures, or relevant others' beliefs, that he or she should or should not perform such behavior. It can be measured either through direct or belief-based measure. Belief –based measure of subjective norms is the weighted average of the normative expectations of others such as from family, friends or doctors and motivation to comply with their expectations (Ajzen, 1991 & 2002b).

1.6.7 Perceived Behavioral Control

An individual's perceived ease or difficulty of performing the particular behavior (Ajzen, 1985). It is assumed that perceived behavioral control is determined by the total set of accessible control beliefs. It can be measured either through direct or belief-based measure. Belief –based measure of subjective norms is the weighted average of the strength of control beliefs and facilitation power of these beliefs (Ajzen, 1991, 2002b).

1.6.8 Behavioral Intention

An indication of an individual's readiness to perform a given behavior. It is assumed to be immediate antecedent of behavior (Ajzen, 2002b). It is based on attitude toward the behavior, subjective norm, and perceived behavioral control, with each predictor weighted for its importance in relation to the behavior and population of interest (Ajzen, 1991).

1.7 Significance of the study

Mutual fund has become one of the important investment vehicles for the world’s economy. The launching of the Amanah Saham Nasional (ASN) in 1980 in Malaysia is part of the government efforts to increase the stakes holding of native Malays’ in Malaysian economy. The Unit Trust industry is an important component of the Malaysian economy. The industry serves to mobilize the saving of the average, small investors by funneling these savings into areas where capital is required. Investors want good returns on their savings, Mutual Fund provides an ideal way for them to gain exposure to investment that in the long run can produce returns superior to those from traditional savings accounts and fixed deposits. Study on the factors influencing the intention to invest and investment decisions will help the industry formulate marketing strategies to further stimulate growth of this industry and eventually help in the healthy growth of the country's economy.

1.8 Organization of Remaining Chapter

This research is presented in five chapters including this introduction chapter. The next chapter (Chapter Two) is the review of literature that outlined previous studies, from the review of literature; gaps are identified and new research framework is formulated for study in Malaysia context. Chapter Three will illustrate the research design, methodology used for data collections, and data analysis techniques to be used to analyzed and test the variables. Chapter Four will present the analyses done for the study and also the findings of the study. Chapter Five will discuss the interpretation and recapitulation of the study, implications of the findings, limitations of the study and suggestion for future research. It then concludes the whole research.

Chapter 2

LITERATURE REVIEW

2.1 Introduction

For better understanding of the present study, a comprehensive search of previous literature has been undertaken. As such, this chapter was organized in the manner to give an overview of literature, identify gaps, formulated theoretical framework and the hypotheses development.

2.2 Literature Overview

Mutual funds offer investors the advantages of portfolio diversification and professional management at low cost. These advantages are particularly important in the case of equity funds where both diversification and professional management have the potential to add value. For bond and money market mutual funds, the main advantage is transactional efficiency through professional management. There are many literature about the mutual funds in the developed countries. Literature are limited in the emerging market but are gaining popularity recently due to the tremendous growth in this industry. We will examine some literature in the emerging market, especially Malaysia as well as the international market.

2.2.1 Emerging Market research

Investors made investment in the mutual funds with various investment objectives. Selecting mutual funds that will offer high returns with acceptable risk is a complex task. Literature shows that there are multiple factors that determine the performance of a mutual fund. Study by Ramasamy and Yeung (2003) on mutual fund purchaser in emerging country, Malaysia, shows that among the factors dominating the selection of mutual funds are consistent past performance, size of funds and cost of transactions. Qualification and investment style of fund manager seems to be relatively less important. This means that in emerging market, the final performance of the funds is what matters.

A study by Taib and Isa (2007) on Unit Trust Funds performance of Malaysian market from period 1991-2001 showed that unit trusts have not performed well over the share market index on the period of study. In most of the instances, unit trust trail behind the performance of the market portfolio except during the crisis period when the unit trust market adjusted returns yields positive results. Of the various types of unit trust under investigation, they found the bond funds showed very superior performance over and above the market and equity unit trusts. The high interest rate kept throughout majority of the period particularly during the crisis period in year 1997 has tremendously benefited the bond funds. The study also found no meaningful inter-temporal correlation between current performance and past performance.

Low (2007) had studied on the Malaysia's unit trust performance during the up and down market conditions has shown that the Malaysia mutual fund performance from 1996 to 2000 reported that the manager's poor timing ability contributes significantly to the fund's negative overall performance. Such results suggest no economic benefit accrues to the average fund manager involving in market timing activities.

The other study by Low and Ghazali (2007) examines the price linkages between unit trust funds and the stock market index during the period of 1996-2000. He finds in the short run, the prices of unit trust funds are related to the stock market index, but finds the non-existence of long run relationship between the unit trust funds and the stock market index. This could possibly due to fund managers that are obliged to adhere to their investment policies with the aim of maintaining a long term allocation strategy.

One recent study by Lau (2007) on the investment style of fund managers of emerging market, Malaysia, indicates that most of the funds do not outperform the passive style benchmarks. Fund managers invest in large-cap stocks with cash enhances the performance of funds. Besides having a relatively high degree of style, funds that hold large-cap stocks together with a relatively high portion of liquid asset class tend to have higher alpha, translating into higher information ratio. It could be implied that liquid asset class enables fund managers to invest in stocks that improve their values in economic cycles. It is obvious that most of the funds concentrated on large-cap stocks, followed by medium-capital and government bonds.

The Islamic Mutual Fund is gaining popularity in the emerging market like Malaysia and China. In the study by Abdullah, Hassan and Mohamad (2007) on the performance of Islamic mutual fund over three different economic periods namely pre, during and post economic crisis in year 1997 compared to the conventional mutual funds has shown that

Islamic funds performed better than the conventional funds during bearish economic trends while, conventional funds showed better performance than Islamic funds during bullish economic conditions. In addition to that finding, both conventional and Islamic funds were unable to achieve at least 50 per cent market diversification levels, though conventional funds are found to have a marginally better diversification level than the Islamic funds. The results also suggest that fund managers are unable to correctly identify good bargain stocks and to forecast the price movements of the general market.

In the past decades, there were wide variety of studies in consumer behaviors indicated a considerably consistent successful findings using the application of TPB model (Ajzen & Madden, 1986). The model was wide used in the emerging market to study the consumer behaviors. Study by Mohamed (2004) on consuming herbal supplement in Malaysia has indicated the suitability of the model. In his study, Attitude was found to be the strongest predictor of behavioral intention.

Study by Chai (2006) on consumer behavioral intention to choose functional foods in Malaysia was also based on TPB model. The results showed that intention was strongly predicted by subjective norms followed by perceived susceptibility to illness, health value, attitude towards behavior and finally perceived behavioral control. Interesting finding in this study was perceived importance of taste did not have significant impact on intention.

The other study by Muniandy (2006) using the integrated Decomposed Theory of Planned Behavior on internet stock trading showed that attitude, subjective norm, perceived behavioral control, descriptive norm and perceived usefulness have a direct significant positive relationship towards behavioral intention. In his study, the model was also compared to other intention based model like TAM, TPB and DTPB and found that IDTPB has better explanatory power.

2.2.2 International Research.

In the research on the global growth of mutual funds by Fernando, Klapper, Sulla and Vittas (2003) indicate that the growth of mutual funds was likely to be determined by a number of factors. First and foremost is the level of income and wealth of the residents of a country. Conceptually, investing in mutual funds, like purchasing life insurance and saving for retirement, should be seen as a luxury good with a positive income elasticity of demand. In practice, however, the relationship between per capita income (used as an indicator of economic development and wealth) and holdings of mutual fund assets (expressed as a percentage of national income) is not always positive.

In the same research on the global growth of mutual funds also indicated that the availability or not of substitutes as well as complements also greatly affects the growth of mutual fund assets. For example, houses are distant substitutes of mutual fund shares in household wealth but most other instruments are either close substitutes or close complements, in some cases both at the same time. Bank deposits, both the traditional form of checking accounts and savings deposits and the more modern money market deposit accounts, are close substitutes of money market mutual funds. The interest rate spread between bank deposits and money market funds would be expected to play an important part in determining the demand for money market mutual funds (Fernando et al., 2003).

The study by Otten (2002) to analyze the development and performance of the European mutual fund industry and compared it with the industry in the United States, found that Europe was lagging the American mutual fund industry when it comes to total asset size, average fund size, and market importance. Furthermore, it appears that a few large domestic fund groups dominate the mutual fund markets in the individual European countries. The study also showed that the performance of US equity funds was relatively poor compared to the European funds, and the outperformance of small cap mutual funds.

In one of the extensive research by Fortin (2005) on international mutual fund management, he examined the international mutual fund returns for each category and overall returns for the 25-year period (1976-2000). The result of the study showed that there is no relationship between total return and expense ratio, but there is a significant positive relationship between total return and turnover, and a significant positive relationship between total return and fund size.

Study by Huhmann and Bhattacharyya (2005) on Mutual Fund advertisement in Canada and United States has found that Mutual fund advertisements are not providing the information necessary for optimal investment decisions. In another word, mutual fund advertisements do not contain all the requisite information on the risk-return trade-off, principal-agent conflict, and transaction costs that consumers need to optimize their investment decisions. Mutual funds used techniques known to increase the likelihood that their advertisements are noticed, but they also use techniques known to decrease the readership of their advertisements. Also, they rarely included convenience information.

Philpot and Peterson (2006) study on the Real Estate Mutual Fund (REMF) found that team-managed funds have lower risk-adjusted returns than solo-managed funds. Managers with longer tenure on job tend to pursue higher market risk levels, and there was no relation between manager characteristics and management fees.

Researchers have begun to recognize the importance of understanding consumers' or investors' intention and behavior and consequently, there has been an increase in the number of studies in this area. Many theories have been developed and evolved through time and situational change. Each has its strengths and weaknesses. Among the few popular theories are Theory of Reasoned Action (TRA), Theory of Planned Behavior (TPB), Decomposed-TPB and Technology Acceptance Model (TAM). There are many more theories in the literature, however this research will concentrate only on the theories as listed above as they are related and well within the scope of study.

2.3 Models Explanation (TRA, TAM, TPB and DTPB)

The objective of the study is to determine the factors affecting the purchasing behavior of the investors in the Mutual Trust funds. Four alternative models – the Theory of Reasoned Action (TRA), Technology Acceptance Model (TAM), Theory of Planned Behavior (TPB) and the Decomposed Theory of Planned Behavior (DTPB), primarily adapted from Taylor and Todd (1995) – are here examined and compared.

2.3.1 Theory of Reasoned Action (TRA)

The Theory of Reasoned Action was developed by Fishbein and Ajzen in 1975. TRA suggests that a person's behavioral intention depends on the person's attitude about the behavior and subjective norms. If a person intends to do a behavior then it is likely that the person will do it. Furthermore a person's intentions are themselves guided by two things: the person's attitude towards the behavior and the subjective norm. Behavioral intention measures a person's relative strength of intention to perform a behavior. Attitude consists of beliefs about the consequences of performing the behavior multiplied by his or her valuation of these consequences. Subjective norm is seen as a combination of perceived expectations from relevant individuals or groups along with intentions to comply with these expectations. In other words, "the person's perception that most people who are important to him or her think he should or should not perform the behavior in question" (Azjen & Fishbein, 1980).

The TRA is popular in applied to explain use or adoption behavior. Research by Buttle and Bok (1996) on hotel marketing strategy reveals the two predictor constructs contained in the theory, attitude-towards-the act and subjective norm, jointly explain about 65 per cent of the variance in the criterion variable intention to stay in the hotel on the next business trip. Other example of research is consumption of alcohol free beer (Thomson & Thomson, 1996). In his research, it was found that the main determinant of behavior was Attitude followed by the subjective norm. Control factors failed to improve the basic model. The basic framework of TRA is shown in Figure 2.1.

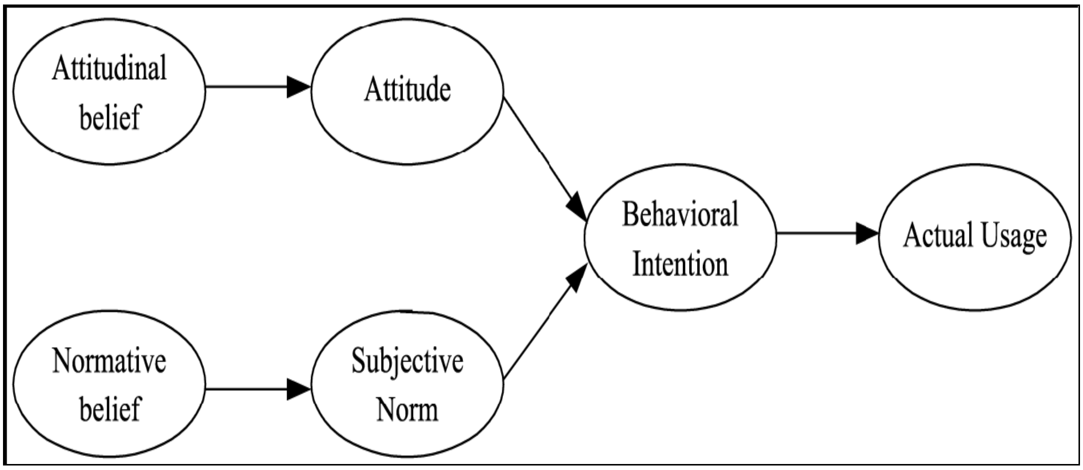

Figure 2.1. Theory of Reasoned Action

One shortcoming of the theory of reasoned action is the consideration of behaviors over which people do not have complete control. Therein lies the notion of *perceived behavioral control*, or "the perceived ease or difficulty of performing the behavior" (Ajzen, 1991). As Hagger et al. (2001) note, this concept "reflects the person's assessment of the capacities (e.g., skills and abilities) and the limiting or facilitating factors (e.g., barriers and access to facilities) regarding behavioral engagement". Theory would predict that perceived behavioral control influences both intentions (Ajzen, 1991) and actual behavior (Ajzen & Madden, 1986).

Another limitation of the theory is that the theory stems from the assumption that behavior is under volitional control. It means that this theory could only be applied if the person can decide at will to perform or not to perform a certain behavior (Ajzen, 1991).

The limitations of TRA lead to the development of Theory of Planned Behavior (TPB). TPB is an extension of TRA to include the dealings of behaviors when people do not