RESEARCH REPORT

PERCEPTIONS OF MALAYSIANS TOWARDS UNIT TRUST INVESTMENTS:
A CASE STUDY IN KLANG VALLEY

RESEARCH CODE: PPPP(C)/2007

LEAD RESEARCHER:
WAN RASYIDAH BINTI WAN NAWANG (s378)

RESEARCHERS:
NOR HAZIAH BINTI HASHIM (s221)
AINULASHIKIN BINTI MARZUKI (s510)

UNIVERSITI SAINS ISLAM MALAYSIA
AUGUST 8, 2008
RESEARCH REPORT

PERCEPTIONS OF MALAYSIA NS TOWARDS UNIT TRUST INVESTMENTS: A CASE STUDY IN KLANG VALLEY

RESEARCH CODE: PPPP(C)/2007
RESEARCH REPORT

PERCEPTIONS OF MALAYSIANS TOWARDS UNIT TRUST INVESTMENTS: A CASE STUDY IN KLANG VALLEY

RESEARCH CODE: PPPP(C)/2007

LEAD RESEARCHER:
WAN RASYIDAH BINTI WAN NAWANG (s378)
(Faculty of Economics and Muamalat)
Tel: 06 – 798 8724
Email: wrasyidah@usim.edu.my

RESEARCHERS:
NOR HAZIAH BINTI HASHIM (s221)
(Faculty of Economics and Muamalat)
Tel: 06 – 798 8750
Email: haziah.h@usim.edu.my

AINULASHIKIN BINTI MARZUKI (s510)
(Faculty of Economics and Muamalat)
Tel: 06 – 798 8754
Email: ainulashikin@usim.edu.my

UNIVERSITI SAIS ISLAM MALAYSIA
Bandar Baru Nilai, 71800 Nilai,
Negeri Sembilan

AUGUST 8, 2008
ACKNOWLEDGEMENTS

In the Name of Allah, the Most Gracious and the Most Merciful.

Alhamdulillah, thank to Allah for bestowed upon us courage and patience in completing this research project.

We wish to express our sincere appreciation to those who gave generously of their time and support in order that this research could be completed.

We owe tremendous thanks to the Universiti Sains Islam Malaysia (USIM) for funding this research. Our utmost indebtedness goes to Y.Bhg. Prof. Dato’ Dr. Abdul Bin Shukor Haji Husin, the Vice Chancellor of USIM and to Y.Bhg. Prof. Dato’ Dr. Muhamad Bin Muda, the Deputy Vice Chancellor (Academic and International), for their continuous encouragements and support throughout this research project.

Our thanks also go to the staffs of the Centre of Research Management and Conference (PPPP), USIM for the cooperation given.

It would not have been possible to complete this study without the consultation and direction of our Dean and colleagues at the faculty. Appreciation is extended to Y. Bhg. Prof. Dr. Hajah Mustafa Bin Mohd Hanefah, Dean of the Faculty of Economics and Muamalat, for his thoughtful critiques and supports, and to our colleagues for their help on conceptualizing the study and suggestions, which enhanced the clarity of this research. We also thank our research assistance Puan Siti Aishah Binti Abd Aziz for her assistance in the statistical aspects of this research and for the data collection assistance. Not forgetting to all our enumerators for their helps in distributing and collecting the questionnaire survey.

And finally this endeavor could never have been undertaken and completed without the help and confidence of our family. We thank them for their support and encouragement.
ABSTRACT

Consumer behavior from the marketing perspective has brought the surface of an exciting area for study and research. The way consumer behaves, acts and decides on certain matters have been the focal interest among the researchers. The reason is in order to produce products and services according to the customer needs and preferences. With regards to this study, the main objective is to examine the consumers’ perceptions on financial decision-making particularly on unit trust investments. Unit trust investment in Malaysia is start to booming after the success of ASN and ASB introduced by PNB as early as in 1980s. Since then, the growth of unit trust industry in Malaysia is very encouraging. The statistical figure of the industry has shown a positive and rapid growth over the year. The NAV recorded as of December 2007 grew by 39 percent to RM169.41 billion from RM 121.76 billion in 2006. Of this, RM152.55 billion represented conventional unit trust funds whilst RM 16.86 billion was Shariah based funds. The increase in the NAV could be attributed to the increase in the net sales of unit trust funds. The total NAV of unit trust funds as of end December 2007 represented 15.32 percent of the market capitalization of Bursa Malaysia as compared to 14.35 percent for 2006. Notwithstanding that the growth of the industry, the number of unit holders are still below par. Apart from that as reported by the SC, in December 2007, the Malaysian unit trust boasted 15.32 percent equity penetration rate. However, in comparison to the same period, United Kingdom's equity penetration rate was 41.62 percent (London Stock Exchange and Investment Management Association, UK). In addition as reported in Malaysian Business in 2002, out of 24 million of Malaysian populations only two to three million are the unit trust holders and they are the inactive investors. Apart from that, the statistical figure as at December 2007 showed that the total fund approved was 473 billion yet the total unit in circulation was only 208 billion units. This scenario shows that Malaysians' penetration rate in unit trust industry is still small in comparison with more developed countries like the UK for instance. The objective of this paper is to investigate the factors that contribute to the above said scenario. The main finding of the study concluded that Malaysians still have a limited knowledge on unit trust investments (both Islamic and conventional investments). Due to this limitation in knowledge, they would not bother to invest in unit trust investments. Another area that is being investigated is on the factors influencing unit trust holders in choosing the fund to invest. The result showed that past performance was the main attribute that they consider followed by marketing activities and
fund qualities. In addition, the study also found that those who opposed to unit trust investments claimed that despite having zero knowledge on unit trust investments, they are confused because of variety of fund choices, invested in other investment instruments and they were not approached by any unit trust’ agents. Thus, it is hope that this research could add knowledge and provide some implications to the investing publics to make a better investment choice, the fund managers to take necessary measures to further improve the marketing strategies of fund management and the regulators to enable them to foresee the future prospect of the industry and further develop the industry to become more efficient and effective investment channel.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Chapter/Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACKNOWLEDGEMENTS</td>
<td>i</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>ii</td>
</tr>
<tr>
<td>TABLE OF CONTENTS</td>
<td>iv</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>vi</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>vii</td>
</tr>
<tr>
<td><strong>CHAPTER ONE: INTRODUCTION</strong></td>
<td></td>
</tr>
<tr>
<td>1.0 Introduction</td>
<td>1</td>
</tr>
<tr>
<td>1.1 History of Unit Trust Industry in Malaysia</td>
<td>2</td>
</tr>
<tr>
<td>1.2 Islamic Unit Trust Industry in Malaysia</td>
<td>4</td>
</tr>
<tr>
<td>1.3 The Growth of Unit Trust Industry in Malaysia</td>
<td>6</td>
</tr>
<tr>
<td>1.4 Problem Identification</td>
<td>7</td>
</tr>
<tr>
<td>1.5 Research Objectives</td>
<td>8</td>
</tr>
<tr>
<td>1.6 Research Questions</td>
<td>8</td>
</tr>
<tr>
<td>1.7 Significance of Research</td>
<td>8</td>
</tr>
<tr>
<td>1.8 Limitation of Research</td>
<td>8</td>
</tr>
<tr>
<td>1.9 Organization of Research</td>
<td>9</td>
</tr>
<tr>
<td>1.10 Summary</td>
<td>9</td>
</tr>
<tr>
<td><strong>CHAPTER TWO: LITERATURE REVIEW</strong></td>
<td></td>
</tr>
<tr>
<td>2.1 Introduction</td>
<td>10</td>
</tr>
<tr>
<td>2.2 Socioeconomic and Demographic Characteristics and Savings and Investments Objectives</td>
<td>12</td>
</tr>
<tr>
<td>2.3 Ethical and Islamic Investments</td>
<td>14</td>
</tr>
<tr>
<td>2.4 Financial Literacy</td>
<td>15</td>
</tr>
<tr>
<td>2.5 Fund Selection Behavior</td>
<td>17</td>
</tr>
<tr>
<td>2.6 Marketing Strategies</td>
<td>19</td>
</tr>
<tr>
<td>2.7 Summary</td>
<td>21</td>
</tr>
<tr>
<td><strong>CHAPTER THREE: RESEARCH METHODOLOGY</strong></td>
<td></td>
</tr>
<tr>
<td>3.0 Introduction</td>
<td>22</td>
</tr>
<tr>
<td>3.1 Research Design</td>
<td>22</td>
</tr>
<tr>
<td>3.2 Instrument Design</td>
<td>22</td>
</tr>
<tr>
<td>3.3 Populations and Sample</td>
<td>24</td>
</tr>
<tr>
<td>3.4 Procedures</td>
<td>24</td>
</tr>
<tr>
<td>3.5 Data Collection Method</td>
<td>25</td>
</tr>
<tr>
<td>3.6 Data Analysis</td>
<td>25</td>
</tr>
<tr>
<td>3.7 Summary</td>
<td>25</td>
</tr>
<tr>
<td><strong>CHAPTER FOUR: FINDINGS</strong></td>
<td></td>
</tr>
<tr>
<td>4.0 Introduction</td>
<td>26</td>
</tr>
<tr>
<td>4.1 Section A: Demographic Profile</td>
<td>26</td>
</tr>
<tr>
<td>4.2 Section B: Knowledge and Perception on Unit Trust Investments</td>
<td>27</td>
</tr>
<tr>
<td>4.2.1 Level of Knowledge on Unit Trust Investments</td>
<td>27</td>
</tr>
<tr>
<td>4.2.2 Sources of Information on Unit Trust Investments</td>
<td>29</td>
</tr>
<tr>
<td>4.2.3</td>
<td>Familiarity on Unit Trust Investments</td>
</tr>
<tr>
<td>4.2.4</td>
<td>Knowledge on Islamic Unit Trust Investments</td>
</tr>
<tr>
<td>4.2.5</td>
<td>Perceptions Towards Unit Trust Investments</td>
</tr>
<tr>
<td>4.3</td>
<td>Section C: Investments and Fund Selection Behavior of Unit Trust Investors</td>
</tr>
<tr>
<td>4.3.1</td>
<td>Types of Unit Trust Investments</td>
</tr>
<tr>
<td>4.3.2</td>
<td>Unit Trust Investments Decision-Making</td>
</tr>
<tr>
<td>4.3.3</td>
<td>Sources of Unit Trust Investments’ Funding</td>
</tr>
<tr>
<td>4.3.4</td>
<td>Principal Amount of Unit Trust Investments</td>
</tr>
<tr>
<td>4.3.5</td>
<td>Preferred Segments of Unit Trust Investments</td>
</tr>
<tr>
<td>4.3.6</td>
<td>Reasons for Investing in Unit Trust Investments</td>
</tr>
<tr>
<td>4.3.7</td>
<td>Intentions to Recommend Unit Trust Investments to Others</td>
</tr>
<tr>
<td>4.3.8</td>
<td>Fund Issuer and Fund Name</td>
</tr>
<tr>
<td>4.3.9</td>
<td>Fund Selection Behavior Among Unit Trust Investors</td>
</tr>
<tr>
<td>4.4</td>
<td>Section D: Factors for Not Investing in Unit Trust Investments</td>
</tr>
<tr>
<td>4.4.1</td>
<td>Reasons for Not Investing in Unit Trust Investments</td>
</tr>
<tr>
<td>4.4.2</td>
<td>Plan to Invest in Unit Trust Investments in Future</td>
</tr>
<tr>
<td>4.4.3</td>
<td>Preferred Segments if Invest in Future</td>
</tr>
<tr>
<td>4.5</td>
<td>Bivariate Analysis: Chi-Square Distribution</td>
</tr>
<tr>
<td>4.6</td>
<td>Multivariate Technique: Factor Analysis</td>
</tr>
<tr>
<td>4.6.1</td>
<td>Reliability Analysis</td>
</tr>
<tr>
<td>4.6.2</td>
<td>Kaiser-Meyer-Olkin (KMO) and Bartlett’s Test</td>
</tr>
<tr>
<td>4.6.3</td>
<td>Total Variance Explained</td>
</tr>
<tr>
<td>4.6.4</td>
<td>Screen Plot</td>
</tr>
<tr>
<td>4.6.5</td>
<td>Rotated Component Matrix</td>
</tr>
<tr>
<td>4.6.6</td>
<td>Ranking the Factors Based on Composite Score Analysis</td>
</tr>
<tr>
<td>4.7</td>
<td>Summary</td>
</tr>
</tbody>
</table>

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction | 50 |
5.1 Summary of Findings | 50 |
5.2 Implication for Fund Companies and Policy Makers | 51 |
5.3 Summary | 52 |

BIBLIOGRAPHY | 54 |

APPENDICES

Appendix I: The Questionnaire (English Version)
Appendix II: The Questionnaire (Bahasa Version)
<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 1</td>
<td>Different Types of Investments Available</td>
<td>1</td>
</tr>
<tr>
<td>Table 2</td>
<td>Overall Status of Unit Trust Industry</td>
<td>6</td>
</tr>
<tr>
<td>Table 3</td>
<td>Demographics Profile of Respondents</td>
<td>26</td>
</tr>
<tr>
<td>Table 4</td>
<td>Respondents’ Level of Knowledge on Unit Trust</td>
<td>27</td>
</tr>
<tr>
<td>Table 5</td>
<td>Sources of Information on Unit Trust Investments</td>
<td>29</td>
</tr>
<tr>
<td>Table 6</td>
<td>Familiarity of Islamic and Conventional Unit Trust Issuers and Schemes</td>
<td>30</td>
</tr>
<tr>
<td>Table 7</td>
<td>Mean Score of Knowledge on Islamic Unit Trust Investments</td>
<td>31</td>
</tr>
<tr>
<td>Table 8</td>
<td>Mean Score of Perceptions on Unit Trust Investments</td>
<td>32</td>
</tr>
<tr>
<td>Table 9</td>
<td>Unit Trust Investments Decision-Making</td>
<td>34</td>
</tr>
<tr>
<td>Table 10</td>
<td>Sources of Unit Trust Investments’ Funding</td>
<td>35</td>
</tr>
<tr>
<td>Table 11</td>
<td>Principal Amount of Unit Trust Investments</td>
<td>36</td>
</tr>
<tr>
<td>Table 12</td>
<td>Preferred Segments of Unit Trust Investments</td>
<td>37</td>
</tr>
<tr>
<td>Table 13</td>
<td>Intention to Recommend Unit Trust Investments to Others</td>
<td>38</td>
</tr>
<tr>
<td>Table 14</td>
<td>Mean Score of Fund Selection Behavior Among Unit Trust Investors in Terms of Fund’s Quality</td>
<td>39</td>
</tr>
<tr>
<td>Table 15</td>
<td>Mean Score of Fund Selection Behavior Among Unit Trust Investors in Terms of Issuer’s Performance</td>
<td>40</td>
</tr>
<tr>
<td>Table 16</td>
<td>Mean Score of Fund Selection Behavior Among Unit Trust Investors in Terms of Investments Services</td>
<td>41</td>
</tr>
<tr>
<td>Table 17</td>
<td>Mean Score of Reasons of Not Investing in Unit Trust Investments</td>
<td>41</td>
</tr>
<tr>
<td>Table 18</td>
<td>Chi-Square Analysis on Level of Knowledge and Demographics Factors</td>
<td>44</td>
</tr>
<tr>
<td>Table 19</td>
<td>KMO and Bartlett’s Test</td>
<td>45</td>
</tr>
<tr>
<td>Table 20</td>
<td>Total Variance Explained</td>
<td>46</td>
</tr>
<tr>
<td>Table 21</td>
<td>Rotated Component Matrix</td>
<td>47</td>
</tr>
<tr>
<td>Table 22</td>
<td>Composite Score</td>
<td>48</td>
</tr>
<tr>
<td>Figure</td>
<td>Caption</td>
<td>Page</td>
</tr>
<tr>
<td>--------</td>
<td>-------------------------------------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>Figure 1</td>
<td>Kamakura, Ramaswani and Srivastava’s Hierarchy of Financial Needs</td>
<td>1</td>
</tr>
<tr>
<td>Figure 2</td>
<td>Engel, Blackwell and Miniard’s Decision-Making Model</td>
<td>13</td>
</tr>
<tr>
<td>Figure 3</td>
<td>Financial Literacy Education Policy Model</td>
<td>16</td>
</tr>
<tr>
<td>Figure 4</td>
<td>Percentage of Respondents’ Level of Knowledge on Unit Trust</td>
<td>28</td>
</tr>
<tr>
<td>Figure 5</td>
<td>Level of Knowledge on Unit Trust</td>
<td>28</td>
</tr>
<tr>
<td>Figure 6</td>
<td>Sources of Information on Unit Trust Investments</td>
<td>29</td>
</tr>
<tr>
<td>Figure 7</td>
<td>Types of Unit Trust Investments</td>
<td>33</td>
</tr>
<tr>
<td>Figure 8</td>
<td>Sources of Information on Unit Trust Investments Decision-Making</td>
<td>34</td>
</tr>
<tr>
<td>Figure 9</td>
<td>Sources of Unit Trust Investments’ Funding</td>
<td>35</td>
</tr>
<tr>
<td>Figure 10</td>
<td>Principal Amount of Unit Trust Investments</td>
<td>36</td>
</tr>
<tr>
<td>Figure 11</td>
<td>Preferred Segments of Unit Trust Investments</td>
<td>37</td>
</tr>
<tr>
<td>Figure 12</td>
<td>Reasons for Not Investing in Unit Trust Investments</td>
<td>38</td>
</tr>
<tr>
<td>Figure 13</td>
<td>Plan to Invest in Unit Trust Investments in Future</td>
<td>43</td>
</tr>
<tr>
<td>Figure 14</td>
<td>Preferred Segments if Invest in Future</td>
<td>43</td>
</tr>
<tr>
<td>Figure 15</td>
<td>Screen Plot</td>
<td>46</td>
</tr>
</tbody>
</table>
CHAPTER ONE:
INTRODUCTION
CHAPTER ONE
INTRODUCTION

1.0 Introduction

Unit trust investment is becoming popular and being recognized as one of the investment tools in Malaysia. Unit trust as according to Choong (2005, p.2) in his book “Investors’ Guide to the Malaysia Unit Trust”, is an investment scheme that pools money from many investors who share similar financial objectives, investment strategy and risk tolerance. Permodalan Nasional Berhad (PNB) on the other hand, describes unit trust as a collective investment scheme that pools funds from individual and or institutional investors who share a common investment goal for long term capital growth and stable returns (2001, p.31).

In most developed countries, unit trust is better known as mutual fund, however, in Malaysia, it is called unit trust instead of mutual fund because the ownership of the fund is divided into units of entitlement. There are many categories of unit trust such as equity unit trust, property unit trust, Islamic unit trust, balanced and diversified unit trust and specialty unit trust. Each of these categories offers different and specified investment objectives for investors. Unit trust investors can expect to gain a number of benefits from unit trust investment, (be it conventional or Islamic unit trust funds). Those benefits are: (i) diversification, (ii) liquidity, (iii) professional management, (iv) affordability and (v) minimize risk. In terms of length of investment, potential return and risk, unit trust provides returns superior than cash savings and fixed deposit investment. Table 2 presents types of investments with the potential return for investors. Even though stock or equity and property investment promise higher return as compared to unit trust, but they are of high risk. Most of the unit trust investors are those with small amounts to invest, hence unit trust is a perfect fit.

<table>
<thead>
<tr>
<th>Type of Investment</th>
<th>Length of Investment</th>
<th>Potential Return</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Deposit</td>
<td>Short Term</td>
<td>6% - 8%</td>
<td>No</td>
</tr>
<tr>
<td>Unit Trust</td>
<td>Medium – Long Term</td>
<td>10% - 15%</td>
<td>Low – Medium</td>
</tr>
<tr>
<td>Stock/Equity</td>
<td>Medium – Long Term</td>
<td>Above 15%</td>
<td>Medium – High</td>
</tr>
<tr>
<td>Property</td>
<td>Long Term</td>
<td>15%</td>
<td>Medium – High</td>
</tr>
</tbody>
</table>

Source: “Investing in Unit Trust in Malaysia”, Sally Cheong 1994

Unit trust fund operates when the pooled fund being invested in a diversified portfolio of authorized investments, on a unit trust investor’s behalf by a professional investment
management company (Choong, 2005, p.2). The authorized investments are securities commission approved stocks, bonds, commercial papers, government securities, treasury bills including direct business ventures, unquoted securities, foreign securities and etc. Unit trust scheme is created out of a deed, which constitutes a contractual agreement governing the tripartite relationship between the:

1. Manager – often referred to as the management company, which is the promoter of the fund and is responsible for the day-to-day operations and its overall investment performance.

2. Unit Holders – investors of the fund. The ownership of a unit trust is expressed in the form of units. Depending on the amount invested, a proportionate share of the fund will be allocated to the investor. The returns, commonly known as income distribution are distributed annually or biannually depending on the performance of the funds.

3. Trustee – appointed to act as the custodian for all assets of the fund, and to ensure that the Manager adheres strictly to the provisions of the Deed.

1.1 History of Unit Trust Industry in Malaysia

The history of unit trust industry is traced back 172 years ago (Siti Zaleha, 1994, p.4). It began in Belgium in the 19th century when in 1822 King William I established the first unit trust fund called Societe General de Belgique, a close ended fund or fixed trust. From Belgium it spread to France where in 1852 French launched its first investment fund. Then London introduced the Foreign and Colonial Government Trust in 1868. In 1924, the United States of America established their first unit trust, the Massachusetts Investors trust. The unit trust industry started blooming when the Wall Street stock market collapsed in October 1929 where American investors turned their interest to unit trust.

In Malaysia, the history of unit trust fund can be traced back in 1959 with the establishment of Malayan Unit Trust Ltd., which later became known as Asia Unit Trust Berhad by a group of Australian investors. Then it was followed by MARA Unit Trust Berhad (Majlis Amanah Rakyat), which was established in 1967. In 1970s, several state governments began to introduce their various unit trust investment schemes, in reply to the Federal Government's plea to mobilize domestic household savings. However, until 1979 only five unit trust
management companies were established, with a total of 18 funds introduced over that period. The slow growth in the sales of units during this period was presumably due to lack of public interest in this new investment product.

The turning point for the industry where it began to develop significantly was when the Malaysian Government took an initiative step to launch a government-sponsored unit trust known as Amanah Saham National (ASN) managed by Permodalan Nasional Berhad (PNB). The initial motive to introduce this investment product was to call for participation of Bumiputras in the corporate sectors through share ownership in order to improve their socio-economic standing. Even with only 11 funds being launched during this period, the total units subscribed by the public escalated to an extraordinary level because of the tremendous response to this unit trust. The 1980s also was a period of growth for the industry in general with the emergence of more unit trust management companies, which were subsidiaries of financial institutions such as Kuala Lumpur Mutual Fund Berhad (now Public Mutual Berhad), Arab-Malaysian Unit Trust Berhad and Bank Bumiputra Malaysia Berhad Unit Trust Management Berhad (now CIMB Bank Berhad). Since then the growth was tremendous particularly during the period of 1991-1996.

The establishment of the Security Commission (SC) in 1993 further marks as a milestone for the industry. The roles and responsibilities of SC included being the sole authority responsible for centralizing regulations of the industry. With the establishment of this regulatory body coupled with the introduction of various innovative products and formation of many new management companies during this period, the industry matures at a very fast pace. The public further enjoys the benefits stem from this development and the involvement of the financial institutions’ unit trust management subsidiaries which made use the financial institutions’ branch networks for the marketing and distribution of the unit trust. This investment scheme has now been within reach of the laymen and this significantly increased their participation. As a result, the total asset value of funds under management grew more than threefold from RM15.72 billion at the end of 1992 to RM59.95 billion at the end of 1996.

This trend continues although the rapid progress of this industry was slightly slowed down by the 1997 Asian Financial Crisis. In 2006 for example, the unit trust industry experienced another year of strong growth, which saw the NAV of managed funds capitalizing 14.35
percent of Bursa Malaysia’s market at RM 121.76 billion at the end of 2006. Moreover, with
effect from 1 April 2005, further relaxations of the foreign exchange administration rules are
introduced by the Bank Negara Malaysia (BNM), which results in the liberalization of
overseas investment rules. Amongst the rules relevant to this industry are the threshold for
investing abroad funds attributed to residents by a unit trust company is increased to 30
percent from the current 10 percent of the NAV of all resident funds managed by the unit trust
company and the fund managers may now invest abroad any amount of funds belonging to
non-resident clients and resident clients that do not have any domestic credit facilities. Fund
managers are also free to invest up to 30 percent of funds of resident clients with domestic
credit facilities. Currently they may invest only 10 percent of resident funds, irrespective
whether the resident clients have any domestic credit facilities. This new development has
seen unit trust management companies introducing numerous offshore funds or realigning
investment strategies of domestic funds to invest offshore up to the permitted limit with an
intended overseas investment exposure. The positive impact of the relaxation of the rules and
the consequent result clearly shows that Malaysian public has become better educated in this
industry. With the knowledge and information they acquired they have become aggressive in
grasping any available opportunity offered by the unit trust management companies in order
to boost their household incomes.

1.2 Islamic Unit Trust Industry in Malaysia
The success of ASN and ASB has actually paved the way for the establishment of Islamic
unit trust. The Islamic unit trust funds are collective investment funds, which offer investors
the opportunity to invest in a diversified portfolio of Shariah-compliant securities that are
managed by professional managers in accordance with Shariah. Unlike the conventional unit
trust industry, the Malaysian Islamic unit trust industry’s history started only in 1993 with the
launching of Arab-Malaysian Tabung Ittikal managed by Arab-Malaysian Unit Trust Berhad.

The introduction of this alternative investment scheme arises from the needs for halal
(permissible) investment and also as a result of the considerable broadening of products
range. Although, the industry was only introduced in 1990s, the Malaysian Government has
been very responsive and supportive to this industry. For example, in 1996 the SC’s Shariah
Advisory Council (SAC) which comprises of muftis, Islamic scholars, academicians and
Islamic finance experts was set up to advise the SC on all matters related to the
comprehensive development of the Islamic capital market activities and function as a
reference centre for issues related to it. The development of the industry was further catalyzed with the launching of KLSE *Shariah* Index (now Kuala Lumpur *Shariah* Index – KLSI) in 1999 by the Malaysia Securities Exchange Berhad (now known as Bursa Malaysia Securities Berhad). The index includes all Main Board shares that are on the *Shariah* approved securities’ list. These authoritative bodies carry out an imperative function, as they exist to preserve the confidence of the public, mainly Muslims on *halal* status of the financial products offered and available in the marketplace. As a result, the Islamic unit trust funds have also seen rapid growth over the years. From only one fund in 1971 with total funds of about RM1,770.72 million and 80.377 million units, the number has grown to 95 funds as end of December 2006. As of end December 2006 the total funds grew to RM16.9 billion and 36.4 billion units in the market. The Islamic unit trust industry witnessed the increase in the NAV every year, although the increase is minor, but it is significant to mark the raise in demand for Islamic unit trust. As of end 2006, the NAV recorded was RM9.17 compared to RM8.49 in 2005.

The availability of Islamic unit trust undeniably caters the needs of Malaysian Muslims for an alternative investment, which is pure in the context of *Shariah* guidelines. The Islamic unit trust is also available to non-Muslims who wish to invest in portfolios, which do not run against their sense of social responsibility. This is factual since Islamic investment funds are subject to strict guidelines prescribed under the *Shariah* whereby Muslims must avoid investments in banks and institutions dealing in *riba* (interest) and *gharar* (uncertainty) based products, firms producing alcoholic beverages and food, pork based products, immoral, exploitative and *haram* (not permissible) food and beverage activities including tobacco. These strict guidelines run in line with a distinct moral code of conduct although the latter may not be as exhaustive as the former.

The fact that the majority of Malaysian population is comprised of Muslims and further that the socially responsible non-Muslims would also opt for Islamic unit trust which accommodates their needs would suggest that the Islamic unit trust is well received in Malaysia and units in distribution would be bigger compared to the conventional unit trust. However, this assertion is only imaginative and bare in nature compared to the realistic scenario of Malaysian pattern of investing in unit trust funds. The statistical data shown in Table 2 indicates that the conventional unit trust funds are most preferred by the Malaysians.
This trend is also apparent in other countries, which also have majority of Muslims in the countries’ population.

1.3 The growth of Unit Trust Industry in Malaysia

Unit trust industry in Malaysia has experienced considerable growth over the last decade in terms of number of funds offered and volume of capital managed by the unit trust management companies. The overall status of unit trust industry in Malaysia from 2004 up to 2007 is presented in Table 2.

Table 2: Overall Status of Unit Trust Industry

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of funds approved</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Conventional</td>
<td>495</td>
<td>392</td>
<td>340</td>
<td>291</td>
</tr>
<tr>
<td>• Shariah-based</td>
<td>367</td>
<td>297</td>
<td>257</td>
<td>220</td>
</tr>
<tr>
<td>Total approved fund size (billion units) *</td>
<td>473.94</td>
<td>339.88</td>
<td>267.3</td>
<td>218.05</td>
</tr>
<tr>
<td>Units in circulation (billion units)</td>
<td>208.34</td>
<td>154.07</td>
<td>139.39</td>
<td>118.63</td>
</tr>
<tr>
<td>Number of accounts (million) **</td>
<td>12.68</td>
<td>11.4</td>
<td>10.86</td>
<td>10.43</td>
</tr>
<tr>
<td>Total NAV (RM billion)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Conventional</td>
<td>169.41</td>
<td>121.76</td>
<td>98.49</td>
<td>87.39</td>
</tr>
<tr>
<td>• Shariah-based</td>
<td>152.55</td>
<td>112.59</td>
<td>90.00</td>
<td>80.63</td>
</tr>
<tr>
<td>% of NAV to KLSE market capitalization</td>
<td>16.86</td>
<td>9.17</td>
<td>8.49</td>
<td>6.76</td>
</tr>
</tbody>
</table>


* For funds approved, including those not yet launched
** Including accounts in Institutional Unit Trust Advisors (IUTA) operating a nominee system

The statistical figures of the unit trust industry keep on increasing year by year. Tremendous growth in the NAV of unit trust funds is owing to increasing demand for units, launch of new products and bullish market conditions (Securities Commission Annual Report 2007, p.6-46).

Based on the statistics above, in relation to collective investment scheme the total number of unit trust funds increased from 291 to 495 as at end December 2004 and end December 2007 respectively. Out of 495 funds, 128 funds belong to Shariah based funds. The amount of total approved fund size also increased to 473.94 billion units in 2007 compared to 339.88 billion units as of end December 2006. In addition, as of December 2006, the total number of NAV grew 39 percent year on year from RM121.76 billion in 2006 to RM169.41 billion in 2007. Of this, RM152.55 billion represented conventional unit trust funds whilst RM16.86 billion was Shariah based funds. The increase in the NAV could be attributed to the increase in the net sales of unit trust funds. The total NAV of unit trust funds as of end December 2007
represented 15.32 percent of the market capitalization of Bursa Malaysia as compared to 14.35 percent for 2006.

1.4 Problem Identification

Financial planning is very crucial to every individual and it influenced behavior of consumers especially when it involved decisions to invest. Some might decide to save in fixed deposit accounts, while some tend to have cash on hand. A substantial number of consumers invested their saving in securities and hope for higher returns on these investments. The growing popularity of mass investments such as unit trust had shown the trend among Malaysian consumers over the last few years. Realizing the huge potential of this industry, initiatives to promote and to invigorate unit trust investment have been carried out by the government and the unit trust companies. Various programs have been organized and implemented to educate and to create awareness among the publics on this kind of investments.

The local unit trust industry is a multi-billion Ringgit industry because of its vastly untapped potential. In a period of just 15 years since 1992, the amount managed by private unit trust companies grew from a mere RM400 million to RM71.005 billion. (Lipper, 28 January 2008). In addition as reported by the SC, in December 2007, the Malaysian unit trust boasted 15.32 percent equity penetration rate. However, in comparison to the same period, United Kingdom's equity penetration rate was 41.62 percent (London Stock Exchange and Investment Management Association, UK). In addition as reported in Malaysian Business¹ in 2002, out of 24 million of Malaysian populations only two to three million are the unit trust holders and they are the inactive investors. Apart from that, the statistical figure as at December 2007, the total fund approved was 473 billion yet the total unit in circulation was only 208 billion units. This scenario shows that Malaysians penetration rate in unit trust industry is still small in comparison with more developed countries like the UK for instance.

Despites the benefits promised by unit trust investments to their investors, the unit trust industry is still experiencing a low penetration rate among Malaysian investors. Though the industry is growing but it grows at a very slow pace. What went wrong? Is it because of marketing failure or simply because Malaysian investors are ignorant? The fund issuers or

companies, the Government and the regulated bodies such as the SC and Federation of Management Unit trust Managers (FMUTM) need to reevaluate their current marketing and investment strategies to attract more investors to invest in the funds.

Currently there is limited number of studies focus on the acceptance and perceptions of Malaysian consumers towards unit trust investments (both conventional and Islamic unit trust investments). Thus, this research aims to understand the perceptions of Malaysia regarding unit trust investment and to identify factors influencing them to invest and not to invest as well as to determine the selection behavior among investors when choosing which fund to invest.

Based on the argument above, this research aims to investigate these aspects.

1.5 Research Objectives
The main objective of this research is to explore the perceptions of Malaysians regarding unit trust investments. More specifically this study underlying other objectives as follows:
1. To investigate the relationship between demographic profiles and level of knowledge of the respondents.
2. To determine the reasons for investing and not investing in unit trust investments.
3. To identify the fund attributes that influence selection behavior of unit trust investors.

1.6 Research Questions
The aforementioned objectives were specified to address the following research questions:
1. Is there any significant relationship between demographic profiles and level of knowledge?
2. What are the reasons for investing and not investing in unit trust investments?
3. What are the funds attributes that influence selection behavior of unit trust investors?

1.7 Significance of the Research
Unit trust industry has shown a positive growth since its introduction in Malaysian market. A number of studies have been carried out on the performance evaluation of unit trust but limited number focuses on the acceptance and perception of customers towards unit trust investments.
This study may provide better understanding and knowledge to the Malaysian investors on the unit trust investment. Thus, they could also increase their knowledge in terms of alternative investment vehicles besides ASB\textsuperscript{2} and other saving accounts. The results of this research may present some insights on the marketing effectiveness on unit trust providers. Appropriate marketing strategies could be developed to improve the level of awareness and acceptance of unit trust among Malaysian investors.

1.8 Limitations of the Research

This study has some limitations:

1. The sample size of this study is limited to 267 Malaysian investors and out of the total respondents only 76 of them invest in unit trust investments. In addition the choice of location is only concentrated to Klang Valley. Thus, the sample size and location may not adequately represent the Malaysian market.

2. The data collection method used in this study was a questionnaire. There are few problems associate with this kind of method that may result in imprecise outcomes. For example the results may not convey the actual feelings of the respondents.

1.9 Organization of the Research

This research is organized into five chapters. Chapter one is on the introductory of the research. Chapter two reviews the previous literatures related to the research area. Chapter three explains on the methodology employed in this study, which includes data collection and data analysis. Chapter four presents the findings of the study. Finally, chapter five summarizes the findings and discusses the conclusion and recommendation of the study.

2.0 Summary

Perhaps this study can be considered as an exploratory research in examining the perceptions of Malaysians investors towards unit trust investments. Undoubtedly the growth of unit trust industry is overwhelming, however the involvement of Malaysians in this area is still at an infant stage. It is hoped that the findings from this study can benefit the relevant parties involved in unit trust industry.

\textsuperscript{2} ASB and Amanah Saham Wawasan 2020 (ASW2020) were excluded because they are non-floating.
CHAPTER TWO:
LITERATURE REVIEW
2.0 Introduction

According to Abraham Maslow, humans have a number of needs that are instinctoid, that is, innate. He postulated that needs are arranged in a hierarchy in terms of their potency, which better known as hierarchy of needs. Maslow’s hierarchy of needs suggest humans must satisfy each need in turn, starting with the lower and most basic needs which deal with the most obvious needs for survival. After the basic needs are satisfied, only then the higher level needs may be satisfied.

In the context of financial services, Kamakura et. al (1991) developed the similar concept to the Maslow’s known as the hierarchy of financial needs. This hierarchy also suggests that the basic objectives such as liquidity and cash reserved should be satisfied before allocating funds to higher order products.

Figure 1: Kamakura, Ramaswami and Srivastava (1991)’s Hierarchy of Financial Needs

Source: Adapted from Kamakura et al. (1991)

Source: Google image

Based on this model, Kamakura et. al. (1991) states that financial services consumption and service acquisition appears to occur in a hierarchical order from higher-liquidity, lower-risk
products to those requiring greater resources and with lower liquidity. Thus, according to this model, the ability to become involved with any of the basic foundation is necessary before the more complex product involving longer-term commitment, resources and risk are looked into. This hierarchical movement between financial services is referred to as financial maturity, which hypnotizes that individuals move from lower-order to higher-order financial products and ownership of higher-order products presupposes ownership of lower-order products (Harisson, 1994). Kamakura et. al. classify unit trust investment as the third level in the hierarchy of financial needs.

In the context of financial behavior, in order to satisfy consumers, organizations, particularly financial institutions, should at the initial stage understand consumer behavior, why they behave in certain way and how they make decision. Theories related to human behavior come primarily from psychology, sociology and anthropology and these theories help marketers and consumer behaviors writers to understand relevant behavior related to financial services decision-making.

A number of marketing writers and consumer behavior authors, for instance Kotler (1998) and Engel, Blackwell and Miniard (1990), claim that understanding and adapting to customer behavior and motivation is an absolute necessity for competitive survival. This demands organizations to see wider aspects of consumer psychology and behavior, including what motivates consumers, their attitudes and perceptions on the organization, the products and services as well as an understanding of their decision process (Harrison, 2000, p.41).

The absolute behavior expected from consumers after they make decision is purchase activities. This absolute behavior (purchase) is an important moment for most organizations. It can signify whether a marketing strategy has been wise, insightful and effective or whether it was poorly planned or missed the mark. Thus, marketers are particularly interested in the consumers’ decision-making process. Perusal of the marketing literature suggests that the first step in the customers’ decision-making process is the awareness of the existence of the product (Schifmann and Kanuk, 1994).

Another challenge to the decision-making approach emerged from the effects of environmental stimuli on purchase behavior and focus on cognitive model behavior. Consumer behavior is often examined through two major psychological disciplines, which are
cognitive psychology and social psychology (Yusserie et. al., 2003). Cognitive psychology refers to knowledge related to mental behaviors, which include attention, perception, comprehension and the decision-making process. While social psychology refers to the manner in which personality traits, attitudes, intentions and behaviors of the consumer influence and is influenced by social groups. One such model is based on AIDA framework. AIDA model (Awareness, Interest, Desire and Action) is the information-processing model, which assumes that buyers pass through a cognitive, affective and behavioral stage when there is a high degree of involvement in a product category, which is perceived to have a high degree of differentiation of products within it. According to Harrison (2000, p.62), another model introduced by Guirdham (1987) bases the AIDA model but adds the variables of knowledge and ‘know-how’ at several points in the decision process. This ‘know-how’ variable is a critical factor for a first time buyer of complex financial services such as unit trust. This model suggest that awareness exist in two stages, first in relation to the general product category and second in the decision regarding which particular brand to offer (Harrison, 2006).

Perhaps the next stage after awareness is perception. It should be noted that the expectations of investors play a vital role in financial market. According to Ranganathan (2006), investors’ expectations influence the price of securities, the volume traded and various other financial operations in actual practice. Expectations are influenced by perceptions, and generally perceptions are related to actions. Perception is the process of acquiring, interpreting, selecting, and organizing sensory information. The word perception comes from the Latin capere, which means “to take”, the prefix per meaning “completely”. Individual actions are influenced by his or her perception of the situation (Kotler and Armstrong, 2006, p.143). In addition, consumers make decisions based on what they perceive rather than on the basis of objective reality. Perception may lead to either favorable or unfavorable behavior. Hence, the decision-making process is dependent upon the customers’ knowledge and understanding on how financial products can benefit or fulfill certain needs of their lives.

2.1 Socioeconomic and Demographic Characteristics and Savings and Investment Objectives

Making wise financial investments is one of the most important and challenging decisions faced by consumers. Most people save and invest with the objective to prepare for rainy days. Two of the most important reasons to save are to finance expenditures after retirement
(retirement or life cycle motive) and to protect consumption against unexpected shocks (precautionary motive) (Cagetti, 2003). Furthermore people save to allocate available life resources to lifetime consumption (Han et. al., 2007).

In fact there are many factors affected the decision-making behavior of individuals. For instance according to Engel, Blackwell and Miniard’s (1990) decision-making process is influenced by three factors namely (i) environmental influences, (ii) individual differences and (iii) psychological processes (Figure 2).

**Figure 2: Engel, Blackwell and Miniard’s Decision-Making Model**

- **Environmental Influences**
  - Culture, social class, personal influence, family and situation

- **Individual Differences**
  - Individual resources, motivation and involvement, knowledge, attitude, personality and lifestyles

- **Psychological Processes**
  - Information processing, learning, attitude and behavior change

Though Engel et. al. model was developed based on the experiences and theories of marketing, the framework can be adopted to explain how individual making financial decision such as retirement and investments (Joo and Grable, 2000). As for unit trust investments,
various factors may influence individuals whether to invest in unit trust investments and vice versa.

Prior studies indicate that there is significant relationship between demographic factors such as age, income, gender, education and marital status and financial decision-making such as Hogarth (1991), Catrambone (1998), Zhong (1994), Zhong and Xiao (1995) and Grable et. al. (1998).

In addition, Stanley et. al. (1985) conducted a research into the users of 31 retail banks in a Midwestern US state indicates that there is a greater chance of success in promoting certain products to a particular age group, and that product usage tends to support the assumption that user age is a primary factor in bank product selection.

The decision either to save and to invest or not to save and not to invest is also closely related with economic status of the individuals. According to Han et. al. (2007), neoclassical economic theories commonly view savings as primarily related to income level. Individuals with higher income tend to save and accumulate more wealth. Another factor influence savings behavior is economic conditions. If economic conditions are expected to be pessimistic, saving will increase (Han et. al., 2007).

In addition, psychological constructs such as expectations, perceptions and motivations are important to include in an attempt to model complex human behavior and these factors influence the savings behavior (Hogarth and Anguelov, 2003). Hogarth and Anguelov further add that the household’s decision of whether or not to save is influenced by socioeconomic, demographic characteristics, psychological, institutional variables and access to resources. They also agree with Fang and Chang (1995) that expectations about future increase in income influenced savings behavior. In addition, they include that the importance of saving as a driving force behind family stability, community development and economic progress.

2.2 Ethical and Islamic Investments

Ethical investment or socially responsible investment (SRI) has received considerable attention over the past decade. SRI is an investment process that integrates social, environmental and ethical consideration into investment decision-making (Renneboog et. al., 2008). Ethical investment has ancient origins in Jewish, Christian and Islamic traditions.
Due to rapid growth of ethical and Islamic investment, studies were conducted reflecting to
the increasing awareness of investors to this type of investment. Hofmann et. al. (2007) for
example find that majority of SRI investors are looking at financial returns. In fact Bauer et.
al. (2005) conclude that there is no statistical difference between ethical and mutual fund
returns. Thus, the difference is perhaps in terms of investment objectives.

Islamic unit trust funds are alternative platforms of investments, which operate in accordance
with shariah principles. Islamic funds provide the same benefits as conventional funds in
terms of long-term profitable growth and stable return. However, Islamic funds are governed
by the sources of Islamic jurisprudence mainly Al-Quran, al-Sunnah, Iftima’ and Qiyas. Thus
it allows Muslim investors to fulfill both religious obligations as well as investment needs.
According to Wilson (1997) Muslim consumers invest in order to preserve financial interest
and stability, to safeguard their family and to contribute to economy development community
as a whole.

Naziruddin and M. Shabri (2001) examine the savings behavior in Islamic framework among
Muslims students at the International Islamic University Malaysia. The main objective is to
investigate whether there is a significant relationship between religiosity and economic
activities (savings behavior). They find that religiosity was a driving force behind the saving
behavior. The higher the level of religiosity as implied by Religiosity Index (developed by
Naziruddin and M. Shabri), the higher the tendency to save among respondents.

2.2 Financial Literacy

Financial services products have become increasingly complex, consumers’ inability to
understand them has become increasingly apparent and the consequences of this inability
more dire (Willis, 2008). Due to these reasons, the need for financial knowledge or financial
literacy is more indispensable. Few studies supported the influence of financial literacy with
wise financial decision-making but few others find no relationship between the two.

Baverly and Burkhalter (2005) define financial literacy as skills and knowledge related to the
money management. According to the U. S. Financial Literacy and Education Commission,
financial literacy concerns with the ability to make informed judgments and to take effective
actions regarding the current and future use and management of money. Thus, financial
literacy denotes one's understanding and knowledge of financial concepts and is crucial to effective consumer financial decision-making (Fox et. al. 2005).

Willis (2008) suggests the financial literacy education policy model as illustrated in Figure 3.

Based on this model, financial education aimed at consumers may be conducted and promoted by many sources including social groups, institutions and the Government. The adequate financial education may contribute to financial literate individuals that later on lead to good and wise financial decision and behavior.

Research done by Harisson (1997) highlights the importance of knowledge in financial services purchases and the role of involvement in financial decision. Harrison conducts a study on mapping customer segment for personal financial services. She finds that consumers can be categorized into four segments: (i) financially confused, (ii) apathetic minimalists, (iii) cautious investors, and (iv) capital accumulators. Each of these segments is characterized by particular attitudes towards financial services, perception of financial service, financial services behavior and degree of future orientation. Harrison adds that those with extremely low levels of perceived knowledge seem to have very low level of interest in financial services and do not seem to attach a great amount of value to financial services. On the other hand, customers with high degree of perceived knowledge of financial services would seem to have a high level of financial sophistication. These customers know which products are best suited to their needs. She concludes that, the individual perceived knowledge, confidence and interest in financial services could possibly form determinants of financial services behavior and potential profitability.

Guirdham (1987) states that consumers would not consider buying unit trust unless they understood them a lot better. This study indicates the importance of knowledge in financial decision-making process of financial services products.
Kozup et. al. (2008) investigate the effects of prior knowledge on product evaluations. Their results show that subjects with higher knowledge about the product class had stronger attitudes towards the specific mutual fund information shown, investment intentions, expectations of future performance and level of perceived risk associated with investing in their particular fund. In addition, more knowledgeable consumers seem to have more favorable attitudes, in general, toward both the product and information about the product.

Howlett et. al. (2008) find that financial knowledge influences financial decision-making. Their study resembles that those with less basic knowledge have little influence to participate to a employer-sponsored retirement plan (401(k) plan). In addition, basic information on the plan also contributes to the positive involvement to that plan. In contrast, those with some basic financial knowledge express higher likelihood of contributing to that plan and had less-favorable attitudes towards a risky investment. This finding emphasizes the importance of having sound financial knowledge in making financial decision.

On the contrary, Wilcox (2003) finds that investors with a great knowledge of basic finance are less likely, not more likely, to make reasonable fund choices. In addition, Willies (2008) also support Wilcox that he finds no reliable empirical evidence that financial literacy programs are effective. Due to ineffective financial education programs, he suggests that financial literacy education that already in place should be replaced by policies that more conducive to good consumer financial outcomes.

2.3 Fund Selection Behavior

Selecting a mutual fund is a challenging process. Correctly deciding upon the right funds to invest in, or the right companies to invest with, determines how closely one can achieve their financial goals. Previous studies portrayed many aspects of investors’ behavior related to fund selection behavior. Studies have shown that investors make investment decision heavily based on past performance (Kane et al., 1990; Patel et al., 1992; Roper and Brobeck, 2006; Sirri and Tufano, 1998; Wilcox, 2001; Gharhori et. al, 2007) management fees (Sirri and Tufano, 1998; Drachter et. al., 2007) and advertising and marketing efforts of the fund issuers (Sirri and Tufano, 1998).

According to Roper and Brobeck (2006) virtually all financial experts consider fund’s risks, including the volatility of its past returns and its expenses to be among the most important
factors for investors to consider when selecting a fund. However, a study conducted by Roper and Brobeck found that investors gave higher priority to the reputation of the fund company or fund manager and to the fund past's performance.

Schlegelmilch (1997) surveys 172 investment professionals to classify their investment selection criteria. The study finds that return on investment emerges as the dominant investment selection criteria, followed by risk, ethics, liquidity and environment. Besides that, Sirri and Tufano (1998) find that apart from previous fund performance, search costs, company size, and the firm's level of marketing effort seem to have a strong influence on investors' mutual fund selection process.

However other evidence suggests that consumers use factors other than return and risk. As quoted in Capon et. al. (1994), based on the 1990 Consumer Reports Survey of mutual fund investors found that, although past performance and level of risk (safety) were rated the two most important factors in aggregate, several additional factors were also relevant: ie amount of sales charge, management fees, fund manager reputation, fund family (eg. Fidelity, Vanguard), clarity of the fund's accounting statement, recommendation from a financial magazine or newsletter, availability of telephone switching, funds already owned in that family and friends' recommendation.

In addition, Gharghori et. al. (2007) agree that investors are chasing funds that have performed well in the past and that cash flows to fund are persistent. Wilcox (2003) also agrees that investors pay a great deal to past performance of the funds instead of management fees. On the contrary, Drachter et. al. (2007) add that investors not only interested in past performance but in the fund management process as well.

In addition, in selecting fund religious and ethical consideration also play a role. For instance according to Webley et. al. (2001) ethical investors based their decision on ideology and identity and they do not put much concern either to financial return or the impact of ethical investment. In addition, ethical investors are not only ethical but also committed, once they made their choice to invest ethically, there is a very strong tendency for them to stick with that decision. According to Bollen (2007), investors may have a multi-attribute utility function that is not only based on the standard risk-reward optimization but also incorporates a set of personal and societal values.
Ethical investing has ancient origins in Jewish, Christian, and Islamic traditions. Judaism has a wealth of teachings on how to use money ethically, and in medieval Christian times, there were ethical restrictions on loans and investments, which were based on the Old Testament. The Catholic Church imposed a universal prohibition on usury in 1139, which had not been relaxed until the 19th century. In England, a law called The Act Against Usury which prohibited excessive interests on loans was in effect from 1571 to 1624 (Glaeser and Scheinkman, 1998) and (Lewison, 1999).

In the 17th century, the Quakers refused to profit from the weapons and slaves trade when they settled in North America. The founder of Methodism, John Wesley (1703–1791), stated in his sermon ‘The Use of Money’ that people should not engage in sinful trade or profit from exploiting others. In the 1920s, the Methodist Church in the UK avoided investing in ‘sinful’ companies, such as companies involved in the production of alcohol, tobacco, and weapons and in gambling. The first modern mutual fund employing screens based on religious traditions, the Pioneer Fund, was founded in 1928. Ethical investing has also origins in the Islamic tradition. Based on the teachings of the Quran and its interpretations, Islamic investors avoid investing in companies involved in pork production, pornography, gambling, and in interest-based financial institutions.

Apart from that, fridge benefits (free insurance and tax benefit) offered by certain funds, image and branding also another criteria that influence the fund investors in selecting which fund to invest. For example Bergstresser and Poterba (2002) suggest that taxation can play a role in the way investors choose their mutual funds. Rajeswari and Rama Moorothy (xxxx) find that investors are basically influenced by the intrinsic qualities of the product followed by efficient fund management and general image of the fund in selection of fund schemes. Frieder and Subrahmanyan (2004) find that individual investors prefer to invest in stocks with easily recognized products.

2.4 Marketing Strategies

Indeed the nature of financial services products is very complicated and difficult to be grasped mentally by consumers. Therefore, for many financial consumers, financial services products are seen as uninteresting and unexciting purchases (Enew, 2002, p5-2). Furthermore, they find difficulties in differentiating financial services products, say for example, savings account offered by CIMB and one from RHB and between an insurance policy from
Prudential BSN Takaful and Etiqa Takaful. To make it worst, the blend of Islamic and conventional financial services products in the market offered by financial institutions, both Islamic and conventional. With so much variety and so many different types of financial services products, financial consumers may regard financial services products as distress purchases (things that they do not want to purchase but they have to buy). Yet, no matter how dull the financial services products are, consumers are forced and felt obligated to purchase them (for instance hire purchase loan comes together with insurance and buy an insurance policy). Due to these reasons, most financial consumers (particularly personal consumers) are very passive consumers and they have limited knowledge on financial products and services. This is where marketing plays essential roles in informing, educating and creating awareness among consumers on financial services products to minimize confusion and reduce bewilderment. Therefore, financial services products should be designed in a way to facilitate consumers’ understanding. Apart from that, marketing activities should also concentrate in educating consumers on financial services products.

Given the difficulties that consumers may experience when making a decision about financial services products, financial institutions should, at the initial stage, educate consumers by conducting proactive campaign and aggressive promotional activities (Saiful Azhar Rosly, 2005, p.533). One way of conducting campaign and promotional activities is by joining exhibitions, expos, seminars and conferences to provide consumers with necessary information and advice. Distributing flyers and pamphlets may also help facilitate consumers on information gathering. Besides, financial institutions should also have knowledge on how to lure consumers by sending out the right message in advertisements. In addition, with heavy competition, financial institutions should be aware with the current market trends and must keep informing consumers about their latest services or products to ensure the consumers use them. With the advent of technology, it should be no hitch for financial institutions to disseminate knowledge to potential consumers.

Considering Malaysia is a multi cultural society, Saiful Azhar (2005, p.533) further added that a market segmentation study is also necessary to ensure that accurate information is made available to consumers irrespective of their racial and religious background. Undeniably all consumers are different and unique but it is possible to group them based on the attitudes, behavior, wants and needs that quite similar. The process of identifying and grouping them
into similar group is called market segmentation. Market segmentation has the following benefits (Harrison, 2000, p.67):

- Enables cost to be reduced via a closer matching of company resources with market requirements,
- Customer satisfaction can be enhanced by meeting consumer requirements more accurately,
- Enables company to focus its efforts on a narrower target, thus, gaining a specialist knowledge of the needs and requirements of that groups of customers,
- New consumer requirements can be anticipated by projecting known segment characteristics onto new/potential customers,
- Customer retention can be improved via increased customer satisfaction and anticipation of customer needs through segment migration.

Huhmann and Bhattacharyya (2005) suggest that mutual fund advertising activates consumer decision-making heuristics. All mutual funds advertisement should present specific investment information. Mutual fund advertisements do not provide the information needed by consumers to optimize their investment decisions. Mutual fund advertisements do not explicitly or implicitly discuss the risk-return trade-off or risk-adjusted returns, no proof of credibility to assuage consumer’s principal-agent conflict concerns and no information on transaction costs.

Mutual funds with higher advertisement exposure get more investment flow (Sirri and Tufano 1998) and attract more investment money Jain and Wu (2000). Inconsistent with Zheng (1999) did not find any evidence that mutual funds receiving more investment money subsequently beat the market.

2.5 Summary

Previous studies find that there is a significant relationship between demographic profiles and the decision to invest. In addition, financial knowledge also influences the behavior to invest. It is found that the higher the knowledge one possesses the higher the possibility one might engage in financial decision. In terms of fund selection behavior, findings of past studies suggest that criteria such as past performance, management fees, fund qualities, fund’s return and marketing activities influence investors in selecting which fund to invest.
CHAPTER THREE:
RESEARCH METHODOLOGY
CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction
This chapter explains on the methodology employed in conducting this study. The discussion in this chapter includes research design, instrument design, sampling and sample size, data collection and statistical analysis.

3.1 Research Design
The research adopted a survey-based approach. The questionnaire designed in a specific manner based on the goals and objectives of the study. Potential respondents were given a self-administered questionnaire and the approximate time to complete the questionnaire was 15 to 20 minutes. The questionnaire was translated in both Bahasa Malaysia and English.

The research began by determining the objectives of the study after an extensive review on the relevant literature. The process was followed by designing questionnaire, collecting and analyzing the data and finally preparing the research report.

3.2 Instrument Design
A survey questionnaire was administered during mid 2007. For the purpose of this study, the information needed is on the socio-demographic status of the respondents, their knowledge, awareness and perception of unit trust, their factors for investing and not investing in unit trust investments. The questionnaire was reengineered based on the study done by Kavita Rangnathan (2006). Revisions were made accordingly to improve the validity and reliability of the instrument. The questionnaire was divided into four sections, Section A, Section B, Section C and Section D.

Section A
Section A covered on socio-demographic profile of the respondents. Demographic information solicited on the survey included age, gender, marital status, race, academic qualification and personal income.
Section B

Section B captured the information on respondents’ knowledge, awareness and perception on unit trust investments. The questions asked in this section are related to both Islamic and conventional unit trust schemes. The questions include the open-ended questions.

Respondents were required to identify their level of knowledge pertaining to unit trust investment whether they have zero knowledge, knowledgeable or very knowledgeable. They were also required to identify the sources of information on unit trust investment. Respondents were allowed to choose more than one answer for this question. In order to further access the respondents’ knowledge on unit trust investments, they were asked to name the issuers and the funds that they are familiar for both conventional and Islamic unit trust.

Next questions were on knowledge of Islamic unit trust investments and on perceptions related to unit trust investments. Respondents were given 23 questions and were asked to identify how far they agree or disagree with the statements based on the 5-scale of Likert scale which “1 is strongly disagree” to “5 is strongly agree”.

Section C

Section C was to be filled by respondents who invest in unit trust investments. Respondents were asked on type or types of their unit trust investments, who influence their unit trust investments, sources of unit trust investments, amount of principal investment, preferred types of investments, main reasons for investing in unit trust investments and whether or not to recommend unit trust investments to others. Since this section were meant for unit trust investors, respondents were also required to name their issuer and their unit trust funds.

In addition, respondents were given 17 questions related to fund selection behavior. The questions asked were to gauge the factors influence investors to invest in unit trust investments. The variables included in this section are funds’ performance, issuers’ reputation and performance, funds’ benefits, funds’ brand name and marketing activities. Respondents were needed to identify their level of conformity on the statements. The questions were designed using Likert scale ranging from “1 which denotes strongly disagree” to “5 which implies strongly agree”.

Section D

Section D was meant only for non-investors. This section was to capture the factors leading to the respondents' rationale for not investing in unit trust investments. Respondents were asked to identify their level of agreement to the statements pertaining to their reasons for not investing in unit trust investments. There were 18 questions on reasons for not investing. Respondents were provided with five (5) options after each question. Answers to these questions were arranged in a Likert-scale format ranging from “1 is strongly disagree” to “5 is strongly agree”.

In addition, respondents were requested to state whether they intend to invest in unit trust investments in future and if they agree to invest, which will they prefer to choose between product, issuer or portfolio. They were also asked to name the fund issuer that they will choose to invest.

3.3 Populations And Sample

The respondents for the survey were selected based on convenience sampling around Klang Valley. These respondents were given self-administered questionnaires by the enumerators in mid 2007. The sample of this study consists of 267 investors, representing two groups of Malaysians residing in Klang Valley. The choice of location is made based on convenience and competitiveness of banking environment.

3.4 Procedures

500 sets of questionnaires were distributed around Klang Valley. Most of the time, respondents were asked to return the completed questionnaires promptly. However, in some cases respondents were allowed to return their questionnaires by post for which they were given a self-addressed enveloped. Out of 500 questionnaires being distributed to the respondents, at the end of the data collection period, a total of 267 completed questionnaires had been answered leaving 233 questionnaires unanswered. The completed questionnaires represent 53 percent response rate.

Based on the administered questionnaires distributed and collected, the respondents can be divided into two groups:

1. 76 respondents who are unit trust investors
2. 191 respondents who are the non-investors (invest in other instruments such as stocks)
3.5 Data Collection Method
Initially, a pilot test was conducted to test the reliability of the questionnaire. The purpose of the pilot study was primarily that of lending credibility to the information-seeking portion of the research instrument. The primary goal of the pilot study was to develop reliability statistics for the investment information-seeking questions. The surveys were distributed to a small convenience sample of 150 participants in Klang Valley. Out of this, a total of 67 completed questionnaires were returned. Based on the response received from respondents, the questionnaires were simplified and the number of questions was reduced.

3.6 Data Analysis
Analysis of data for this study involved both descriptive and inferential statistics. The descriptive statistics was to summarize the respondents’ profiles and all the variables in the questionnaire in terms of frequency and means while inferences were made based on sample t-test and chi-square at 5 percent significant level as well as factor analysis.

3.7 Summary
This research is considered as a quantitative study. The data is gathered from self-administered questionnaire, which consist of four sections. Research assistant and trained enumerators were employed to distribute the questionnaires in Klang Valley. Descriptive and inferential analysis was performed to generate the findings.
BIBLIOGRAPHY


http://images.google.com.my/images


Yusserie Zainuddin, Noresma Jahaya and T. Ramayah. (2003). “Perception of Islamic banking: Does it differs among users and non-users”, Received from Assoc. Prof. Dr. T. Ramayah via e-mail.


