CHAPTER 4
How Mutual Fund Investors’ Objective and Subjective Knowledge Impacts their Investment Behaviour

4.1 Introduction

The mutual funds (MFs) are increasingly gaining importance world over as an investment avenue. Net assets of MF industry are experiencing spectacular growth and have approximately tripled its size from $9.6 trillion in 1998 to $26 trillion in 2007 (2008 ICI Fact Book, US), corresponding to CAGR of 12.38 %. In India also, net assets of MF companies grew by 34.7 % between years 2000 to 2007 (2008 ICI Fact Book, US). This growth in the net asset has been coupled with competition amongst mutual fund companies (MFCs) as they have to vie with each other to attract the existing and prospective investors towards their schemes. As a result, MFCs have been spending heavily on marketing (development, launch, promotion, distribution and maintenance) of their new and existing schemes. The successful marketing of MF schemes requires a clear understanding of the investment behaviour of the MF investors. In spite of the above
conjecture the current state of knowledge regarding the investment
behaviour of MF investors has not satisfactorily evolved and is wanting.

Literature in consumer behaviour suggests that consumer
knowledge is an important construct in understanding consumer
behaviour such as information search (Brucks, 1985; Rao and Siben,
1992) and information processing (Alba and Hutchinson, 1987; Bettman
and Park, 1980; Johnson and Russo, 1984; Rao and Monroe, 1988).
Researchers have also distinguished objective knowledge (i.e. what is
actually stored in memory) from subjective knowledge (i.e. what
individual perceive they know). It has been suggested that the
mechanism through which these two knowledge constructs affect
information search and information processing may be different
(Bettman and Park, 1980; Park and Lessig, 1981). However, the above
conjecture have been empirically validated in the context of buying
decisions for the manufactured tangible products, in respect of the
intangible financial products (Gabbott and Hogg, 1994) the position is
not so as it leaves the literature on financial products buyer behaviour far
less developed (McKechnie, 1992).

This study investigates the differential impact of the types of
knowledge i.e. objective knowledge (OK) and subjective knowledge
The specific research issues examined through these hypotheses are: How the types of knowledge (OK and SK) of MF investors impact the width and depth of information search behaviour? How the types of knowledge (OK and SK) of MF investors impact the width and depth of information processing behaviour?

The proposed hypotheses are tested empirically using the data collected through a survey wherein a pretested structured questionnaire was administered to the 268 respondents. The rest of this chapter is organized in the following way. In Section 4.2, the existing literature related to the study is critically reviewed and summarized. The hypotheses are also proposed in this section. Section 4.3 discusses the methodology used in the study. This section also discusses the constructs used in the study. Section 4.4 shows the study results. Summary of the findings and their implications for regulators of MF industry and marketers of MF schemes are discussed in Section 4.5. Section 4.6 discusses the limitations of this research and possible scope of future research in this area. Section 4.7 concludes the study.
4.2 Literature review

One of the best examples of contemporary consumer behaviour models is probably the Engel- Blackwell- Minard model (Engel, Blackwell and Minard, 1995), which was originally developed in 1968 by Engel–Kollat–Blackwell and has since been subjected to numerous revisions. As per this model, the buying decision process consists of five stages: a) problem recognition, b) information search, c) evaluation of alternatives, d) purchase decision and e) post purchase behaviour. The presence and/or absence of knowledge of various sorts are likely to impact the buying behaviour (Howard, 1994; Huffman and Houston, 1993). This study specifically investigates the differential impact of the types of knowledge (OK and SK) on information search and information processing (i.e. evaluation of alternatives) stage of MF investment behaviour.

Review of the literature suggests that product knowledge can be classified into three categories; product experience, objective knowledge, and subjective knowledge (Brucks, 1985). Srinivasan and Ratchford, (1991) made distinction between the amount of experience (product experience), content of experience (OK) and subjective
knowledge (SK). Product experience measures the amount of purchasing and usage experience with the product (Monroe, 1976; Marks and Olson, 1981). Park, Mothersbaugh, and Feick (1994) suggest that experience is a distinct construct and is antecedent to both OK and SK (Schmidt and Spreng, 1996). Further, OK is distinct from SK (Brucks, 1985; Selnes and Gronhaug, 1986). Differences between OK and SK occur when consumer is not able to accurately perceive how much or how little they actually know, due to self deceit or pseudo expertise. A consumer’s SK is related to her self confidence regarding decision making (Brucks, 1985), whereas consumer’s OK is their ability to process product relevant information. Hence the mechanism through which OK and SK will affect information search and information processing behaviour of consumer during purchase is likely to be different (Bettman and Park, 1980; Park and Lessig, 1981).

4.2.1 Impact of MF investors types of knowledge on their information search behaviour

In this section the existing literature related to the impact of MF investors’ types of knowledge on the width and depth of information search is summarized. Based on the above first the study proposes hypothesis related to the impact of types of knowledge (i.e. OK and SK)
on the width of information search. Next, the study proposes hypothesis related to the impact of types of knowledge (i.e. OK and SK) on the depth of information search.

4.2.1.1 Width of information search

Width of information search can be measured on the basis of the number of information sources used by MF investors. OK and SK is likely to have somewhat distinct impact on the number of information sources used by consumers (Radecki and Jaccard, 1995; Raju, Lonial and Mangold, 1995). Consumers with high OK are likely to undertake the search more efficiently (Brucks 1985). They are likely to use less number of information sources due to their efficiency in source selection. However consumers with high SK, due to their self confidence (Park and Lessig, 1981) will search for information from the large number of sources. Hence it is hypothesized that

H1: Number of information sources used by MF investors is negatively related to OK and positively related to SK.
4.2.1.2 Depth of information search

The depth of information search can be measured in terms of the extent to which information is sought from each source and/or group of sources. The extent to which information is sought from different sources is likely to be decided by the nature of information an investor is looking for. The selection of search strategies (i.e. the extent to which information will be gathered from individual/group of sources) is likely to be distinctly impacted by SK and OK (Dodd et al., 2005; Mattila and Wirtz, 2002). Researchers suggest that the consumer’s use of impersonal source of information is more strongly linked with OK than to SK (Dodd et al., 2005; Mattila and Wirtz, 2002). However, researchers have found contradictory results with respect to the consumer use of personal source of information. Mattila and Wirtz (2002) suggests that consumer’s SK is strongly linked to the use of personal sources of information. However, Dodd et al. (2005) suggest that consumer’s SK is negatively linked to personal sources of information.

The above discussion conjectures that OK and SK are likely to distinctly impact the depth of information search by MF investors. OK facilitates financial information acquisition through effective deliberation (Wang, 2009). Hence OK is likely to positively impact
depth of information search. SK of MF investors’ also exhibits investors’ confident in making her financial decisions (Alba and Hutchinson, 2000), and hence is likely to positively impact the depth of information search. Further, investors’ depth of information search is likely to be more positively related to OK than to SK. This is due to the fact that with high OK, ability to engage in deliberation on financial issues increases. Therefore we posit the following hypothesis

H2: Depth of information search by MF investors is more positively related to OK than to SK.

4.2.2 Impact of MF investors types of knowledge on their information processing behaviour

In this section the existing literature related to the impact of MF investors’ types of knowledge on the width and depth of information processing is reviewed and summarized. Based on the above first, the study proposes hypothesis related to the impact of types of knowledge (i.e. OK and SK) on the width of information processing; next, the study proposes hypothesis related to the impact of types of knowledge (i.e. OK and SK) on the depth of information processing.
4.2.2.1 Width of information processing

Width of information processing includes identification of key attribute(s) for comparing the various brands of products to be purchased and may be measured in terms of the number of attributes used by MF investors to compare MF schemes. MF investors rely on various performance and non-performance attributes while making investment decision. For example, historical risk and returns, fund size, scheme entry and exit load, scheme investment portfolio, fund rating, clarity of accounting statement, fund management reputation, fund manager background, investment style, tax concession ,fund size, origin of managers, fund manager’s age and experience, pending legislation, fund advertisement expense etc, are a few commonly used attributes indicated in some of the earlier studies (Huhmann and Bhattacharya, 2005 ; Patel, Zeckhauser and Hendricks, 1992; Sikdar and Singh, 1996).

OK appears to affect information processing differently from SK (Moorman et al., 2004; Raju, Lonial and Mangold, 1995). Consumers with high level of OK are likely to seek information on large number of attributes (Brucks, 1985), indicating that OK facilitates the processing of attributes information. However, SK is likely to be significantly related
with the tendency of the consumer to rely on dealers opinion rather self processing of attributes information. Hence the study hypothesize that

H3: Number of attribute information used by MF investor is more positively related to OK than to SK.

### 4.2.2.2 Depth of information processing

Knowledge also impacts the depth to which a consumer processes the available information (Olson, 1980). OK and SK of consumer is likely to have positive impact on the depth of information processing by them, however the depth to which OK and SK will impact will be different. OK of consumers is related to their ability to process attributes information and hence is likely to be more positively related with the depth of information processing (Park and Moon 2003) than SK. On the other hand, SK of consumer reflects the confidence in one’s decision making ability, which primarily stems from their prior experience with the product. Hence with high level of SK, consumers perceive themselves to be more capable of evaluating and interpreting new information (Mattila and Wirtz, 2002). Hence SK of consumer will also positively impact extent of information processing. Hence we posit the hypothesis that
H4: Depth of information processing by MF investors is more positively related to OK than to SK.

4.3 Methodology

4.3.1 Sample

The data was collected through a survey wherein a pretested structured questionnaire was administered to the 350 respondents. The survey respondents were conveniently selected from those who invested in one or more MF scheme(s) within one month period prior to the survey date and were based in the Jammu region of J&K (India). The condition that respondent must have invested in one or more MF scheme(s) within one month period prior to the survey date was applied so as to more clearly measure the respondent’s knowledge close to their purchase of MF schemes.

Since it was hard to reach the population, we used convenience sampling method (Mittal and Vyas, 2008) and identified respondents for the study by reaching to the place where they are reasonably expected to
gather. The local offices of the five Asset Management Companies located in Jammu region, Jammu & Kashmir (India) was identified for this purpose. A self administered survey questionnaire was used to collect data. During the survey the questionnaire was handed out to respondents who were asked to return the filled questionnaire to the author after completion.

4.3.2 Survey Design

This study was conducted in four stages. In the first stage (Section 4.2), relevant literature was reviewed to propose a series of hypotheses on the differential impact of types of knowledge on the investment behaviour of MF investors. In the second stage, structured questionnaire was developed and pretested for validity and reliability. The constructs used in the pretested questionnaire are described in Section 4.3.3. In the third stage, the data was collected through a survey wherein a pretested structured questionnaire was administered to the 350 respondents. The total usable responses were 268 (76.57% of the sample size) which forms the basis for the study. The final (fourth) stage involved following two steps. In step 1, the dimensionality and reliability of the constructs was tested. The exploratory factor analysis (EFA) was used to assess the dimensionality of the constructs (Hair et
al., 2005). Cronbach’s alpha was used to test the reliability of the constructs used in this study (Hair et al., 2005). In step 2, the proposed hypotheses were tested using multivariate ordinary least square (OLS) analysis for the test of equality (Gujarati, 2004).

4.3.3 Constructs used in the pretested questionnaire

This section describes the operationalization of various constructs used in the study.

4.3.3.1 Subjective knowledge (SK)

Subjective knowledge is defined as MF investor’s subjective assessment of perceived familiarity with the MF schemes (Brucks, 1985). The items used to operationalize SK construct are shown in table 4.2. The SK was measured by 3 items five point Likert scale; where 1 = strongly disagree and 5 = strongly agree. The score of the individual items were added to find the overall score. The three items measured the respondent’s perceived familiarity with mutual fund schemes in comparison to average men and women, friends and active investors of MF schemes (Brucks, 1985; Moreau, Lehmann and Markman, 2001).
4.3.3.2 Objective knowledge (OK)

Objective knowledge is defined as MF investor’s ability to analyze and arrive at correct inferences from the MF schemes related information. OK has been measured by the score obtained by respondents in multiple option type financial quizzes (Alba and Hutchinson, 1987). Ten multiple option type questions were asked to the respondents to measure their basic financial knowledge and analytical abilities. The questions used to measure objective knowledge were identified from the earlier studies (Chen and Ronald, 1998, Volpe, Kotel and Chen, 2002). The first five questions of the quiz tested MF investors’ ability to comprehend the financial information and ability to reach to a reasoned decision. The next five questions tested the knowledge of an investor regarding mutual funds and stocks. The sum of the correct answers of the quiz measured the OK of MF investors (Johnson and Russo, 1984). The questions used to measure OK are displayed in more detail in the Appendix A.

4.3.3.3 Width of information search

This study measures the width of information search by counting the number of sources which respondents used (from the given possible
twelve sources) while gathering information before the purchase of the recent MF schemes. The possible twelve source included in the study are interpersonal informal source (e.g. family, friends and peer group), interpersonal formal source (e.g. MF sales agent, brokers, banks) (Alexander et al., 1997; Urbany, Dickson and Wilkie, 1989), non electronic source (e.g. newspaper, magazines, store display), and electronic source (e.g. television, financial portal, mail) (Capon et al, 1996; Jain and Shuang Wu, 2000).

4.3.3.4 Depth of information search

Depth of information search connotes the effort that an investor makes in searching and seeking pre-purchase information. It was measured by 12 items on five point Likert scale; where 1= did not use and 5= used a lot. Each item represented some particular source of information which investors can possibly use as a source of information before/ at the time of purchase of the scheme(s). The scores of the individual items were added to find the overall score.
**4.3.3.5 Width of information processing**

This study measures the width of information processing by counting the attributes (from the given possible 12 attributes) which respondent have used for comparing MF schemes before/at the time of purchase of the scheme. The possible twelve attributes included in the study are fund historical performance, fund size, scheme entry and exit load, scheme investment portfolio, favorable rating of fund scheme, clarity of accounting statement, reputation of fund manager, fund manager background, investment style, scheme tax benefit, pending legislation and fund advertisement expense, a few commonly used attributes indicated in some of the earlier studies (Huhmann and Bhattacharya, 2005; Patel, Zeckhauser and Hendricks, 1992; Sikdar and Singh, 1996).

**4.3.3.6 Depth of information processing**

The depth of information processing construct was used to measure the level of effort done by the respondents to evaluate and compare the MF schemes before reaching to decision. It was measured by 12 items on five point Likert scale; where 1= did not use and 5= used a lot. Each item represented some particular attribute of the MF schemes
which investors can possibly use to compare the various schemes before/at the time of purchase of the scheme(s). The scores of the individual items were added to find the overall score.

4.4 Results

The demographic profiles of the sample MF investors are same as shown in table 3.1. In this section the results of the study are discussed. This section is organized as follows. First, the dimensionality and reliability of the constructs used in this study is discussed. Next, the test results of the hypotheses of the study are discussed.

4.4.1 Test of dimensionality and reliability of the constructs

The test results of dimensionality and reliability of research constructs are shown in Table 4.1. The dimensionality is assessed using exploratory factor analysis (EFA), a method based on the pattern of correlations between the questionnaire item scores. If all items share moderate to strong correlations, this produces a single 'factor' and suggests that the scale measures a single dimension. Several groups of such items produce several factors, suggesting that several dimensions
are being measured through a single construct. Principal component analysis with varimax rotation was conducted to identify the number of dimensions (factors).

To determine the appropriateness of factor analysis, the Kaiser-Meyer-Olkin (KMO) and the Bartlett’s test of Sphericity are examined. The KMO measure of sampling adequacy for all the constructs is above minimum acceptable value of 0.60, which means data is adequate for EFA (Tabachnick and Fidel, 1989). The Bartlett’s test of Sphericity is also found to be significant (p < .001). A significant Bartlett’s test of Sphericity indicates that each factor identified by EFA has only one dimension and each attributes load only on one factor.

Principal components analysis of subjective knowledge construct reveals the unidimensional nature of the construct as all the items are loaded into one single factor.

Next “depth of information search” construct was examined for the factorability of the twelve items “depth of information search” scale by using correlation method. A result reveals that two items did not correlate at least 0.3 with at least one other item; hence these items were not included in the study. The items which did not correlate with any
other items were “To what extent you have used MF sales agent to gather information before the purchase of recent MF scheme” and “To what extent you have used banks to gather information before the purchase of recent MF scheme”. Principal component analysis was used to identify the underlying factors of the “depth of information search” scale. The two factor solution which explained 49.27% of the variance was preferred because of its previous theoretical support. Two items with high loading on the third factor were eliminated. The items were “To what extent you have used mail to gather information before the purchase of recent MF scheme” and “To what extent you have used financial portals to gather information before the purchase of recent MF scheme”. A principal component factor analysis of remaining 8 items, using varimax rotations was conducted, with two factors explaining 55.23% of variance. A careful analysis of items under construct ‘extent of information search’ indicates that the items under factor 1 and 2, respectively, measure the extent of formal information search and the extent of informal information search by MF investors.

Next “depth of information processing” construct was examined for the factorability of the twelve items “depth of information processing” scale by using correlation method. Result reveals that all the items correlate at least 0.3 with at least one other item. A principal
component factor analysis of 12 items, using varimax rotations was conducted, with two factors explaining 58.51% of variance. A careful analysis of items under construct ‘extent of information processing’ indicates that the items under factor 1 and 2, respectively, measure the extent of non performance attributes processing and the extent of performance attributes processing by MF investors.

For all the above three constructs (i.e. subjective knowledge, depth of information search, and depth of information processing), the reported eigen value is greater than 1 and the factor loadings exceed the acceptable threshold level of 0.4 (Hair et al., 2005).

After identifying the dimensionality, the reliability of the constructs was measured using the Cronbach’s Alpha (α). Table 4.1 shows that the reliability of all the constructs as measured by the Cronbach’s α is above the recommended minimum acceptable value of 0.7 (Hair et al. 2005). Based on the above results it is concluded that all the measures are adequate to measure the constructs of the study.
Table 4.1

Dimensionality and reliability of latent research constructs (N=268)

<table>
<thead>
<tr>
<th>Construct Items</th>
<th>Loadings</th>
<th>Eigen Value</th>
<th>KMO</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Factor 1</td>
<td>Factor 2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subjective Knowledge</td>
<td>2.261</td>
<td>0.715</td>
<td>0.836</td>
<td></td>
</tr>
<tr>
<td>Compared to average men and women, I am very familiar with wide variety of MF schemes.</td>
<td>0.892</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compared to my friends, I am very familiar with wide variety of MF schemes.</td>
<td>0.846</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compared to people who invest a lot in MF schemes, I am very familiar with wide variety of MF schemes.</td>
<td>0.866</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depth of information search</td>
<td>1.866</td>
<td>0.718</td>
<td>0.752</td>
<td></td>
</tr>
<tr>
<td>Brokers</td>
<td>0.689</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stores display</td>
<td>0.587</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Newspapers</td>
<td>0.818</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Magazines</td>
<td>0.676</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family</td>
<td>0.721</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Friends</td>
<td>0.796</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Peer groups 0.742
Television 0.731

**Depth of information processing**
- Fund historical performance 0.873
- Fund size 0.835
- Scheme entry and exit load 0.444
- Scheme investment portfolio 0.631
- Favorable rating of MF scheme 0.554
- Clarity of accounting statement 0.711
- Reputation of fund manager 0.768
- Fund manager background 0.838
- Investment style 0.742
- Scheme tax benefit 0.623
- Pending legislation 0.812
- Fund advertisement expense 0.699

4.4.2 Test results of the hypotheses of the study

The primary goal of the study was to investigate the differential impact of OK and SK on the investment behaviour of MF investors, specifically information search behaviour and information processing
behaviour. Data were analyzed using multivariate ordinary least square (OLS) analysis. The extent of multicollinearity between OK and SK was assessed using tolerance value and variance inflation factor (VIF). Tolerance value and VIF is found to be .918 and 1.090 respectively which suggests acceptable degree of collinearity among OK and SK (Hair et al., 2005). Table 4.2 presents the relevant standardized regression coefficients for OK and SK and the results of the test of equality of these two coefficients (Gujarati, 2004).

### Table 4.2

**Standardized regression coefficients for the relationship between types of knowledge and facets of investment behaviour and T-tests statistics for the equality of two regression coefficients (N=268)**

<table>
<thead>
<tr>
<th>Hypotheses No.</th>
<th>Dependent variable: Facets of investment behaviour</th>
<th>Independent variable:</th>
<th>Adjusted R²</th>
<th>Overall F-statistics</th>
<th>T-test statistics #</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 Width of information search</td>
<td>No. of information source</td>
<td>OK 0.187</td>
<td>SK 0.132*</td>
<td>9.39**</td>
<td>.337</td>
</tr>
<tr>
<td>Depth of information</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
search

<table>
<thead>
<tr>
<th></th>
<th>Depth of information search</th>
<th>0.223*</th>
<th>0.082</th>
<th>9.55**</th>
<th>1.20</th>
</tr>
</thead>
<tbody>
<tr>
<td>H2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Width of information processing**

<table>
<thead>
<tr>
<th></th>
<th>No. of attribute information</th>
<th>0.169</th>
<th>0.274**</th>
<th>19.82*</th>
<th>1.43</th>
</tr>
</thead>
<tbody>
<tr>
<td>H3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

**Depth of information processing**

<table>
<thead>
<tr>
<th></th>
<th>Depth of information processing</th>
<th>0.194</th>
<th>0.298**</th>
<th>25.21*</th>
<th>1.47</th>
</tr>
</thead>
<tbody>
<tr>
<td>H4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes:
1. **  p<.01
2. *   p<.05
3. The degree of freedom for the overall F-test was 267
4. # For details regarding testing the equality of two regression coefficient see Gujarati, Damodar N., Basic Econometrics, Tata McGraw Hill, New Delhi, 2006, pp 264-266

Hypothesis1: Number of information sources used by MF investors is negatively related to OK and positively related to SK.

The regression coefficient for OK as well as SK is found to be statistically significant (b OK = .187, p<.01) and (b SK = .132, p<.05). However, the difference between the two regression coefficient is not
significant ($t = 0.337, p>.05$). Further, the regression coefficient for OK is positive. Hence, the hypothesis is rejected.

**Hypothesis 2:** Depth of information search by MF investors is more positively related to OK than to SK.

The regression coefficient for OK is statistically significant ($b_{OK} = .223, p<.01$). However, the regression coefficient for SK is not statistically significant ($b_{SK} = .082, p>.05$). Further the difference between the two regression coefficients is also not statistically significant ($t = 1.20, p>.05$). Hence, the hypothesis that depth of information search by MF investors is more positively related to OK than to SK is accepted. However, the difference was not found to be significant.

**Hypothesis 3:** Number of attribute information used by MF investor is more positively related to OK than to SK.

The regression coefficient for OK as well as SK is found to be statistically significant ($b_{OK} = .169, p<.01$) and ($b_{SK} = .274, p<.01$). However, the difference between the two regression coefficients is not
found to be statistically significant ($t = 1.43$, $p>.05$). Hence, the hypothesis 3 is rejected.

**Hypothesis 4: Depth of information processing by MF investors is more positively related to OK than to SK.**

The regression coefficient for OK as well as SK is found to be statistically significant ($b_{OK} = .194$, $p<.01$) and ($b_{SK} = .298$, $p<.01$). However, the difference between the two regression coefficients is not found to be statistically significant ($t = 1.47$, $p>.05$). Hence the hypothesis 4 is rejected.

**4.5 Summary of the findings and its managerial implications**

The findings of this study suggests that (a) OK has more positive impact on MF investor information search behaviour in comparison to SK, however the impact is not significantly different from that of SK; (b) SK has more positive impact on MF investor information processing behaviour in comparison to OK, however, the impact is not significantly different from that of OK. This above findings reject the earlier notion
like number of information sources used by consumer (i.e. width of information search) is negatively related to OK. Contrary to this, the finding of the study suggests significant positive impact of OK on number of information sources used by MF investor. This may be due to the fact that OK facilitates financial information acquisition through extensive and effective use of sources. The findings of the study also reject the notion that the width and depth of information processing by consumer during evaluation of the product/brand is more positively related to OK than to SK. Contrary to this the study advances the proposition that the width and depth of information processing by MF investor is more positively related to SK than to OK, however, the difference is not significant. This may be due to the fact that increase in the level of SK leads to greater reliance on one’s evaluation skill and hence is likely to positively impact the information processing by MF investor. Similarly, increase in the level of OK increases one’s evaluation skill and hence is likely to positively impact the information processing by MF investors. However, increase in the level of OK is also likely to increase the search efficiency and investor will restrict their information processing to those attributes information that they find useful for discriminating among alternative MF schemes. Hence, information processing behaviour of MF investor is more positively related to SK than to OK.
Overall, contrary to the popular belief that OK and SK differently impact information search and information processing behaviour, the findings of this study suggest no significant difference in the impact of OK and SK on information search and information processing behaviour of MF investors. This may be due to the fact that poor investment decision related to intangible financial goods is likely to have more negative influence on the financial well being of consumer in comparison to tangible goods and services. Hence, the findings of the study in the context of tangible goods or services may not be directly applied in the context of intangible financial goods. This is due to the fact that intangible financial goods such as MFs have different characteristic from tangible goods and services (Hill, 1999, Strassl, 1986) in terms of motives, process and outcome. First, the motives for investing in MF schemes are primarily to increase the current and future monetary returns, which is different from that of the other intangible goods and services which are primarily purchased for some consumption/functional purpose or to fulfil fantasies and satisfy emotion and vanity. Second, there is a high level of uncertainty associated with investment outcome (Murray and Schlacter, 1990) due to information overload as well as information asymmetry (Chordia, 1996, Iyengar, Jiang and Huberman, 2003). Third, MF is a high credence product where
the investment performance can be only evaluated in the future period, which further adds to the uncertainty (Brady and Bourdeau, 2005). Hence, in spite of the fact that MF investors may suffer from self deception (i.e. pseudo expertise) due to over optimism, and may report high knowledge (i.e. high SK), its impact on their actual investment behaviour is not significantly different from their high OK. However, the increase in the level of knowledge (OK as well as SK) positively impact the width and depth of information search and processing, motivating MF investors to actively engage in investment decision process.

The above findings of the study have following policy implications for the MF industry regulators especially Security Exchange Board of India (SEBI). First, SEBI regulation requires MF industry to follow differential reporting requirement so that it caters to the information need of low knowledgeable as well as high knowledgeable investors during their choice of MF schemes. This study provides empirical support for the need of differential reporting requirement as required by the SEBI. SEBI (Mutual Funds) Regulations, 1996, section 29 (1) discuss the disclosure requirement, which are adequate (i.e. takes care of the information need of high knowledgeable MF investors and low knowledgeable MF investors) in order to enable
the investors to make informed investment decisions. Second, the study suggests that difference in actual knowledge (OK) and perceived knowledge (SK) will not significantly impact the way investor acquire and process available information. Hence difference in knowledge types (i.e. OK and SK) of MF investor need not to be incorporated into the SEBI’s guidelines regarding the reporting requirements from MF industry. Third, the knowledge (OK as well as SK) of MF investors is found to positively impact the width and depth of information processing by MF investors. This may be due to the fact that level of knowledge is likely to increase investors’ involvement with the investment process. Hence, in order to increase the MF investors’ involvement with investment decision, SEBI need to promote financial education program in the country.

The findings of this study have also relevance to the marketers of MF schemes. Specifically, this study provides empirical evidence that investor’s knowledge significantly impact information search and processing behaviour. Hence, it is likely that low knowledgeable MF investors will follow different information search and processing style than high knowledgeable MF investors. MF marketers can effectively use knowledge based segmentation of MF investors to get an insight into the difference in the information search and processing style of low,
moderate and high knowledgeable MF investors. This will help them in identifying the types of information source and information attribute that might be most effective for MF investors with various level of knowledge.

4.6 Limitations and Direction of Future Research

The findings of the study are constrained by the following limitations. *First* limitation arises from the use of convenient sampling method for the collection of data, which was primarily due to nonavailability of data on MF investors. Due consideration was given to check the validity and internal consistency of the data; likewise, care has to be taken while generalizing upon the results. The *second* limitation of the study is that it was directed only at the residents of Jammu region, J&K (India). Hence, generalization of the results is contingent upon securing further the empirical evidence in other states/ countries. *Third*, the information processing behaviour has been discussed with reference to the attributes information used by MF investors for comparing MF schemes (width) and the extent to which each type/groups of attributes information are used (depth). However, more insights into the impact of OK and SK on information processing behaviour of MF investors can be achieved through experimental study. Future study should help
developing an understanding of the sequence in which attributes information are used, the number of stages in which the decision is taken and the number of MFs considered at various stages of information processing. *Fourth*, the study is confined to individual investors of MFs and institutional investors are excluded from the study. Including other categories of investors’ might lead to different behavioural outcome. *Fifth*, the results of the study imply that MF companies can segment investors on the basis of their level of knowledge and develop different marketing strategies to attract various categories of investors. However, there should be a way out to assess whether an investor is high knowledgeable or low knowledgeable and this gives rise to a further scope of research in this field. A further study may be conducted to do the profiling of investors, based on their level of knowledge which will be certainly useful in doing a proper segmentation of MF investors.

4.7 Conclusion

The findings of this study do not support the popular belief that OK and SK distinctly impact information search and processing behaviour. Based on the empirical study conducted on MF investors the study suggests that MF investors’ knowledge (OK as well SK) significantly positively impact width and depth of information search
and processing however, there is no significant difference in the way they impact the above behaviour. The implications of the study on regulators and marketers of MF industry are also outlined.