CHAPTER V
CONCLUSION

5.1 Conclusion

The purpose of this paper is to better understand the rationale under the behavior of investors in equity funds and examine the outcome of their behaviors, as well as to investigate whether following the flow of money could generate abnormal return or existence of the Smart Money effect.

From publicly available information on Thai equity funds between June 2000 and August 2004, this study finds that investors do not select funds to invest in based on past fund performance. The criteria that investors prefer are large funds, funds with low management fees, and funds with smooth returns. Performance or reputation of the fund management company does not have an effect on investor decisions either. One interesting finding is that commercial banks do have influence in attracting funds into their fund management affiliates thanks to their customer deposit base.

Fund performance after the flows do not show consistant evidence that funds with superior net flows would perform better than other funds. The Smart Money effect does not happen in the Thai market or that money is not smart. Following the flow of money could not generate abnormal return to investors. Gross flows or load fees also do not effect fund performance.

Attempting to timing the market through mutual funds would generate lower returns than idle investors as the investment horizon in mutual funds should be longer than direct market speculation.

Finally, market sentiment in the Thai stock market is not driven by equity fund investors as local equity funds represent a very small portion of the equity market.

5.2 Suggestion for further study

One great limitation about mutual fund studies in Thailand is the availability of data. With only four years of public information, regressions at yearly intervals are not possible. The study period might also be biased by the exceptional year of 2003 when the stock market rose by over 130%. In a few years time, when more data points are available, a revisit at these hypotheses could reveal some new information or could confirm some of the current conclusions.

Fund flows could be examined down to the level of inflows and level of outflows separately apart from just net flows. The causes of inflows and the causes of outflows may be driven by different reasons which cannot be detected when examining the net flows level.

Observation of aggregate flows and timing should be extended with more empirical studies and theoretical based methods that could better explain the market timing activities.