

Investors Attitudes and Investment in Unit Trusts: A Case Study of Sri Lanka

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A "Unit Trust" is a pooled investment plan where the capital contributions of investors are combined into a legally formed trust fund. The money is then invested by professional fund managers, acting on behalf of the investors, in a portfolio of marketable securities. A "Trustee" is appointed to safeguard the rights and interests of the investors. The investors receive "Units" (shares) in proportion to the amount of money they have contributed to the fund. The income derived by the fund by way of dividends, interests and capital gains are divided among the unit holders in proportion to their investments. This collective investment scheme is preferred by risk averse investors those who seek long-term investment opportunities.

The objective of this research is to investigate the reasons behind the low level of investor participation in investing in unit trusts. It is vital to explore why unit trusts is not the most sought after Investment Avenue of domestic retail investors despite the fact that it provides attractive returns. Such knowledge is important to encourage more domestic investors towards the unit trusts to create broad based share owning democracy in Sri Lanka. Unit trusts operating in Sri Lanka have been offered higher returns over a period of 17 years in comparison to stock market investments; however, the domestic investor participation has been extremely low.

This study makes use of survey research methodology through the self-administered questionnaire to collect data to test the hypotheses. The questionnaire was further designed to gather important demographic and psychographic information from the respondents, which will facilitate further understanding of the investors' behaviour towards investment in unit trusts in the future. The survey was administered among 2000 randomly selected individuals covering three administrative districts in Sri Lanka and covering the average income range of between LKR 30,000 to 50,000 per month.

Based on the responses received from the survey, it was found that awareness and knowledge, residual savings and willingness to take risk are compelling factors. Trust in the industry related institutions, service quality of industry related institutions and the relative investment return are found as positive industry conditions. Political instability, competing investment avenues, lack of retail investor knowledge base on the availability of unit trust investment products in the market place, opportunities for participation are limited to major cities, lack of knowledge among investors about the liquidity aspects of the unit trusts, lower rate of market penetration due to non-existence of information efficiency and inflation were intervening variables to the unit trusts industry. These findings are important for devising and implementing aggressive marketing campaign to unit trust companies to popularize the investment in unit trusts among prospective market participants.

Key Words: *investments, unit trust, risk, savings, share owning democracy*