



# Advertising and mutual fund asset flows

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434

Received February 2007  
Revised May 2007  
Accepted July 2007

## Abstract

**Purpose** – The paper aims to examine the effect of advertising on mutual fund cash flows in the Finnish fund market.

**Design/methodology/approach** – The paper's unique data set allows the observation of the effects of monetary advertising spending and the choice of advertising media.

**Findings** – The paper finds that neither past year's performance nor advertising alone is sufficient to produce increased cash flows. However, advertising together with past performance is found to significantly affect cash flows. The positive effect of advertising is limited to the use of non-perishable advertising media. Additionally, it is found that fund families spending proportionately more on advertising receive higher asset flows.

**Originality/value** – The data are unique in that they can identify fund families that advertise, and also how much they spent on advertising in a given year and the dollar amount spent on five different media types. Obviously, having also fund level data available would enable more thorough analysis.

**Keywords** Unit trusts, Advertising, Banks, Distribution channels and markets, Finland

**Paper type** Research paper

## 1. Introduction

The academic examination of open-end mutual funds has broadened extensively over the last four decades. Beginning with Jensen (1969), numerous studies focus on fund performance and a manager's ability to outperform the market. Since the work by Ferris and Chance (1987), researchers have also considered how fund characteristics impact fund expense ratios and consequently how expense ratios impact fund performance (see Carhart, 1997)[1]. A recent development in the literature examines the determinants of new asset flows to a fund. A variety of determinants have been explored, including prior fund performance (e.g. Sirri and Tufano, 1998; Jain and Wu, 2000; Del Guercio and Tkac, 2002), rating systems such as Morningstar stars (e.g. Nanda *et al.*, 2004; Del Guercio and Tkac, 2005), and the impact of advertising (Jain and Wu, 2000; Yankow *et al.*, 2006).

This paper follows in the pattern of the latter group. Specifically, we examine the impact of advertising on the flow of new assets to Finnish mutual fund families over

