How Accurate are Financial Theories in Predicting the Marketing of Financial Services?  
A Content Analysis of Mutual Fund Advertising

Mutual funds are one of the most important financial service vehicles for investments. In Canada, gross sales of mutual funds were more than $132.68 billion in 2000. Consumers’ financial security and retirement dreams often depend on good investment decisions. To make the best decisions, theories from the discipline of finance suggest that consumers require certain types of information (i.e., risk-return tradeoff, principal-agent conflict, and transaction cost). A content analysis of the mutual fund advertisements in the 1999 and 2000 issues of Barron's and Money examines the proportion of mutual fund advertisements that provide these types of information.

Although advertising is an important part of marketing financial services, the provision of risk-return tradeoff, principle-agent conflict, and transaction cost information in mutual fund advertising has not been previously documented. Therefore, the nature of this study is purely exploratory and, hence, descriptive. This study should provide a general background to future studies of the advertising of financial services.

After duplicates were eliminated, 547 unique mutual fund ads were available for analysis. Of these ads, only 3.1% explicitly mentioned the risk-return tradeoff, 26.1% mentioned risk-adjusted return, 20.8% implied a risk-return tradeoff through the discussion of both risk and return. Thus, only half of the mutual fund ads coded in this study either directly or indirectly discussed the risk-return tradeoff. Further analysis documented the practices of the other half that did not implicitly or explicitly discuss the risk-return relationship. Interestingly, 28.3% of ads not discussing return do mention low risk. Also, of those not mentioning risk, 45.2% claim that the advertised mutual funds have a high return. Of mutual funds advertised as having high returns, 54.3% either do not mention risk or are not specific about risk.

Financial theory predicts that all mutual fund ads should also include credibility information to assuage consumers’ concerns about the principal-agent conflict and transaction cost information. Of the ads analyzed, 60% contained credibility information. Of the various types of credibility information, the most common (32.7%) was a rating from an independent source (e.g., Morning Star). Fewer than 40% of mutual fund ads included any transaction cost information. Typically, this information was provided to promote no load mutual funds (29.8%).

Few ads (11.2%) had all three types of information that financial theory maintains investors need for optimal decision making. Since readers of Barron's and Money are financially savvy in comparison with average consumers, these results are even more troublesome. Future research is needed to document the appeals or information provided in mutual fund advertising.