Guaranteed investment funds make up a significant part of most developed countries’ financial systems. According to the Structured Products Association, over 180 billions USD were invested in the European fund market in 2005, 70 billions USD in the United States and almost 50 billions USD in the Asian market. By guaranteed funds we are referring to a class of structured products (synthetic financial instruments tailored to the specific needs of the investor) securing part of the invested capital and yielding additional benefits when the stock market presents a positive evolution. In the present research work, this type of fund’s demand is analyzed making use of the experimental methodology.

An example of research on structured products demand is Breuer et al. (2007) who analyze them into a hedonic framing. Regarding the Spanish funds market we can mention Marín and Rubio (2001), Ciriaco and Santamaría (2005) and Matallín (2006). For the specific case of mutual funds, the use of experimental methodology is still relatively limited. For instance, Annaert et al. (2005) carried out an experimental study on capital guaranteed funds. Kliger et al. (2003) also opted for this approach to uncover inconsistency with the Expected Utility Theory in mutual fund investor behavior. Johnson and Tellis (2005) also study the same phenomenon experimentally, but with reference to stocks. Choi et al. (2006) design an experiment to study the role of commissions in fund investment, and find that to a large extent they are overlooked, even when they are pointed out in the information provided.
This research involves structured guaranteed funds with different combinations of secured and additional benefits which are offered to the investors along 60 scenarios. These funds consist of a secured part which goes from 97% up to 103% of the invested sum and also an additional benefit linked to stock market revaluation. There is a 60% probability for the revaluation to be positive and a 40% probability for it to be negative. Participants also have the possibility of buying risk free assets which yield a 3% interest in the 30 first scenarios and a 6% interest during the 30 last scenarios.

The experiments were programmed in PHP and carried out in the Laboratory for Experimental Economics (LEE) at Universitat Jaume I (Spain) where 287 Business Administration students participated as investors. The experiment shows that generally the increase of the bond interest entails a decrease of the fund demand; this indicates the consistency of the results with risk aversion theory. We observe a logical behaviour concerning the relation between the bond and the risky fund, although less gradual than expected. On the other hand, we can also highlight the existence of some atypical behaviour in the sequential run of the periods. These behavioural patterns seem to be explained by the prospect theory sustaining that investors do not weigh positive and negative returns equally.

References: