Global Business and Management Research: An International Journal
Vol. 16, No. 2s (2024)

Fear or Greed? Assessment on Investors' Investment Decisions in Equity funds

Maimunah Johari, Syahiru Shafiai *
Faculty of Business and Management, Universiti Teknologi MARA, Cawangan Melaka, Malaysia
Email: irufi@uitm.edu.my

Wan Marhaini Wan Ahmad
Faculty of Business and Economics, Universiti Malaya, Malaysia

** Corresponding Author*

Abstract

Purpose: This study explores investors' investment decision in equity funds by examining the relationship between the money flows of with the fund's performance which may become evident of investors' adherence to Buffett's contrarian philosophy of "Be fearful when others are greedy and greedy when others are fearful".

Design/methodology/approach: This study uses panel data analysis to investigate 74 Islamic and 150 conventional Malaysian domiciled equity funds from 2007 through 2019.

Findings: The findings revealed that investors of Islamic funds in Malaysia letting go of poor-performing funds while chasing more best-performing funds, which is inconsistent with Buffet's advice. Meanwhile, conventional funds investors are perceived to be more adherence to the advice.

Research limitations/implications: The data employed for this study only covers the pre covid era by purpose since the market during covid would render different scenario.

Practical implications: The findings of this study shall explain the money flows into and out from equity funds in Malaysia; hence enable to track the investment pattern among Malaysian in unit trust.

Originality/value: The study reveals decision making behaviours among unit trust investors where investors who invest in the Islamic funds was perceived to behave differently to those of conventional funds investors due to Shariah requirements imposed on Islamic funds.

Keywords: Equity funds, fund flow, fund performance, Islamic funds, Warrant Buffet

Introduction

Emotions like fear and greed often cloud rational judgment, leading individuals to make impulsive and irrational financial decisions. A famous successful investor named Sir Warren Buffet once said, "Be fearful when others are greedy and greedy when others are fearful". This means that in investment, it is crucial to exercise caution when everyone else is exited and overly optimistic, while to seize opportunities when others are panicking and pessimistic. This quote emphasizes the importance of contrarian thinking and the ability to go against the crowd in investing. Warren Buffett's long-term success can be attributed to his ability to remain rational and disciplined, not succumbing to market euphoria or panic.

Equity Funds Development in Malaysia

Malaysia has experienced substantial growth and development in its equity funds market over the past few decades, transforming it into a significant player in the global financial arena. Equity funds, also known as equity unit trust funds or equity mutual funds, have become an increasingly popular investment choice for both retail and institutional investors seeking exposure to the Malaysian stock market. According to data from the SC, in Quarter 1 (2023), the total net asset value (NAV) of equity funds in Malaysia reached MYR 110.09 billion, indicating the sector's significant growth and the rising popularity of equity funds among investors. Malaysian equity funds landscape offers a diverse range of investment options to cater to different risk appetites and financial objectives. Moreover, according to Brownlee (2022), the cost that we spend, and the value is what we receive, thus paying a high price can knock out the returns on any investments. The worth of a stock is proportional to the value of earnings it makes during the investment window. Thus, paying a high price for the best-performing funds in the bullish market would not render investors a profitable investment.

The nation's proactive regulatory environment, vibrant capital market, and economic stability have all contributed to the flourishing of equity funds in the country. On top of that, in terms of the regulatory support and investor protection, the Malaysian government and regulatory bodies, notably the Securities Commission Malaysia (SC), have played a pivotal role in nurturing the development of equity funds. The SC has implemented investor-friendly regulations, ensuring transparency, fair practices, and adequate investor protection. This has instilled confidence in both local and international investors, attracting a steady flow of capital into the market.

Meanwhile, as an Islamic finance hub, Malaysia has witnessed significant growth in Islamic equity funds. These funds adhere to Shariah principles, investing in companies that comply with Islamic ethical standards. The popularity of Islamic equity funds has contributed to the diversification of investment options and expanded the investor base. Though religion remains one of the motivating factors, researchers have discovered that Islamic funds could gain an advantage over conventional funds during a financial crisis, as Rubio et al. (2012) and Binmahfouz & Hassan (2012) posited that Islamic funds can outperform their conventional counterparts despite being limited to a smaller asset universe. Moreover, Mansor et al. (2019) found that the performance of Islamic funds is more stable during economic situations. The resistance of Islamic funds to the effects of the financial crisis can be attributed to their small investment portfolios, reduced debt levels, and strict adherence to screening standards, which have prevented them from investing in dangerous financial assets.

Investors Investment decision

The study on the association between fund flows with fund performance could capture investors' responses to the fund's performance in response to market volatility. Fund flows are the net cash flow from purchases (inflow) and redemptions (outflow) of a fund (outflow). The link between fund flow and performance captures investors' reactions to a fund's temporary outperformance or underperformance by sending more money into or out of the fund.

According to Berk and Green (2003), the motivation for investigating the link between fund flow and effectiveness stems from three basic sources. First, fund flows to determine the assets managed by fund management businesses. Chevalier and Ellison (1997) found that the link between fund flows and performance motivates money managers to adjust the riskiness of their

funds. Investors want the fund company to use its best judgement to get the best risk-adjusted returns for the fund.

Fundamentally, the link between money flow and investment horizon is asymmetric, meaning that poor-performing funds are not penalised to the same extent as top-performing funds. The asymmetrical relation captures investors' unwillingness to withdraw from underperforming investments as much as they are to subscribe to top-performing funds. Thus, funds that have succeeded well have had increased capital inflows, whereas funds that have performed poorly have suffered decreased capital outflows (Ippolito, 1992; Chevalier & Ellison, 1997; Sirri & Tufano, 1998; Del et al., 2002; Lynch & Musto, 2003; Berk & Green, 2004; 2012; Wang et al., 2018; Khan & Noor, 2020; and Khan & Noor, 2021). This suggests that investors engage to products with the greatest historical performance and are unwilling to redeem from funds with poor performance. In addition, some research attributes the association to investors' disproportionate capital allocation. For instance, Chevalier & Ellison (1997) and Nanda et al. (2004) concluded that investors distribute capital in an irrational manner between the top performing and underperforming funds.

The remaining sections of this work are organised as follows: This study's literature review is discussed in Section 2. The third section of the report explains the data sample, variables, techniques, and models. Section 4 discusses the findings, while section 5 provides a conclusion.

Literature Review

The concept of an asymmetric relationship in the context of investing can be understood as a situation in which investors exhibit a certain imbalance in their behaviour and decision-making. This imbalance is characterized by two key aspects which could be directed to chasing outstanding returns: and unwilling to let go of bad performing funds. It implies that investors are actively seeking investments or funds that have shown exceptional or outstanding returns in the past. This behaviour is often driven by the desire to maximize profits and achieve high returns on their investments. Investors may be attracted to funds that have a track record of impressive performance, as they hope to benefit from similar gains in the future. On the other side of the equation, despite investors pursuit of outstanding returns, investors are reluctant or hesitant to sell or divest from funds that are underperforming or yielding poor results. This reluctance may be due to a variety of factors, such as emotional attachment to investments, fear of realizing losses, or the hope that these bad-performing funds will eventually turn around and recover.

Meanwhile, based on Warren Buffet’s advice, an asymmetric relationship explains that investors are greedy as they respond to a bullish market where fund prices increase (Rehman, Khilji, & Sharif, 2021). On the other hand, being reluctant to let go of the bad-performing funds indicates that investors are not withdrawing from their lost investments. Hence, an asymmetric relationship suggests investors are not following Warren Buffet’s advice.

What might underlie an asymmetric relationship? Bellando and Dieu (2011) put forward several explanations for the lopsided relationship. Ippolito (1992) emphasized the challenge investors face in identifying underperforming funds, leading them to stay invested for extended durations. We posit that this scenario may arise when the fund's performance fluctuates due to market condition changes. Furthermore, Lynch & Musto (2003) noted that investors exhibit hesitancy in divesting from underperforming investments because they perceive a higher

likelihood of portfolio manager and investment plan adjustments. This viewpoint holds particular accuracy given the non-permanent nature of market volatility. When the market rebounds, fund performance tends to improve. This recovery transpires as the market shifts upward following a downturn (Taskinsoy, 2019). Consequently, investors tend to maintain their positions in underperforming funds, with the expectation that adjustments to the financial strategy and guidance from financial advisors will enhance fund performance in the future.

An asymmetric relationship in investing can be attributed to various psychological and behavioural factors. Although there may not be direct academic studies addressing this specific scenario, these factors are well-documented in the field of behavioural finance, which investigates how psychological biases impact financial decisions.

One of the primary factors contributing to this asymmetry is loss aversion, a widely recognized behavioural bias identified by Kahneman and Tversky (1979) in their prospect theory. Loss aversion refers to the tendency of individuals to feel the impact of losses more strongly than the satisfaction of equivalent gains. This psychological bias can lead investors to hold onto poorly performing investments in the hope of eventual recovery, rather than realizing losses.

Another influential factor is overconfidence, as discussed by Odean (1998). Overconfidence bias can make investors believe they possess the ability to accurately predict market movements or anticipate a rebound in their chosen investments. This overconfidence can result in reluctance to sell even when confronted with evidence of underperformance.
The endowment effect, a phenomenon outlined by Thaler (1980), is another contributing factor. This effect occurs when individuals assign a higher value to assets they already own simply because of ownership. Consequently, investors can become emotionally attached to their holdings, leading to a reluctance to sell investments, even if they are performing poorly.
Confirmation bias, which involves the selective seeking and interpretation of information that aligns with one's pre-existing beliefs or decisions, is yet another significant factor. Nickerson (1998) has examined this bias, highlighting how investors may focus on information supporting their decision to retain underperforming investments while dismissing contrary evidence.

Lastly, regret aversion, as explored by Bell (1982), is a factor that plays a role. Investors may fear the regret of selling an investment that subsequently performs well more than the regret of holding onto an investment that continues to perform poorly. This fear can lead to inaction, with investors choosing to maintain their current positions. Together, these psychological biases contribute to the asymmetric relationship observed in investing behaviour.

Moreover, Warren Buffett critiques the idea of timing the market, considering it an ineffective investment strategy where investors who frequently enter and exit investments are unlikely to find success (Baker, 2022). Additionally, Buffett has expressed the view that "forecasts may reveal much about a forecaster, but they offer no insights into the future" (Powell, 2018). This counsel underscores the idea that even seasoned investment experts cannot predict the future with certainty. Consequently, the optimal approach is to continue investing regardless of prevailing market conditions. Buffett recommends that "our preferred holding period is forever; if you aren't willing to hold a stock for ten years, you shouldn't even consider holding it for 10 minutes."

Meanwhile, in the context of screened investment funds, such as Socially Responsible Investment (SRI) funds and Islamic finance, spiritual values can exert an influence on investors'

decisions. Consequently, investors may be more inclined to hold onto underperforming funds for extended periods, as research has shown that they exhibit lower sensitivity towards such funds. For instance, in the case of SRI funds, Benson & Humphrey (2008) identified that investors tend to retain their investments despite poor performance due to challenges in finding alternative funds that align with their non-financial objectives.
Similarly, in the context of Islamic funds, the connection between fund flow and performance is less responsive to underperformance, driven by adherence to religious obligations. This phenomenon is supported by the findings of Marzuki & Worthington (2015) and Rao et al. (2015), who observed an asymmetrical relationship between fund flow and performance in Malaysian and Pakistani contexts, wherein poorly performing funds experienced fewer redemption requests. According to Atta & Marzuki (2019), investors in Islamic funds demonstrate rational decision-making when allocating their investments, as they tend to channel more capital into well-performing funds. Nevertheless, their research does not delve into the specific market conditions that may affect a fund's performance. Furthermore, Yas et al. (2022) found that the correlation between fund flows and the performance of Islamic funds appears to be more pronounced compared to traditional investments. In this context, both the top-performing and bottom-performing funds experienced more significant inflows and outflows of capital than their counterparts in traditional funds.

Additionally, apart from fund performance, non-performance-related factors play a significant role in defining investment susceptibility, as highlighted by studies by Marzuki & Worthington (2015), Benson & Humphrey (2008), Chevalier & Ellison (1997), Ferreira et al. (2012), Huang et al. (2007), and Sirri & Tufano (1998). For example, it is expected that larger funds will attract more substantial capital inflows (Gruber, 1996). This expectation arises from the fact that organizations with substantial resources tend to invest more in marketing efforts, making them more likely to garner media attention. However, Sirri and Tufano (1998) proposed that larger funds attract fewer cash flows. When considering the age of a fund, older funds are anticipated to receive fewer inflows compared to their younger counterparts. Fund age can serve as a proxy for investor familiarity with the fund, as suggested by Marzuki and Worthington (2015). Consequently, older investments may possess an established reputation, which can be either positive or negative, based on past performance. Some research, such as that conducted by Barber et al. (2005) and Sirri & Tufano (1998), indicates that younger funds incurring higher marketing expenses tend to attract more capital inflow. Meanwhile, in Islamic funds, the most critical determinant of fund flow responsiveness is typically the administrative cost of capital, as noted by Othman et al. (2022). Conversely, in conventional funds, fund size plays a pivotal role in determining the sensitivity of fund flows.

Prior research has explored the relationship between fund flow and fund performance; however, the dearth of conclusive findings complicates the application of Warren Buffett's advice regarding the "opportunity motive". Most existing studies primarily focus on risk-averse individuals who adopt a consistent investment approach. To address this research gap, our study seeks to examine how investors responded to the performance of Islamic equity funds (IEs) relative to conventional equity funds (CEs) in Malaysia, drawing insights from Warren Buffett's concept of the "opportunity motive."

Hypothesis Development

To examine the distinctions in the fund flow-performance relationship between Islamic equity funds (IEs) and conventional equity funds (CEs), Bollen (2007) introduced three fundamental assumptions.

The first assumption posits that investor preferences are defined by a utility function related to the moments of a portfolio's return distribution. This underpins the conventional finance paradigm, wherein utility is primarily derived from expected return and variance. If investors of Islamic funds perceive IEs as just another type of investment product, controlling for factors like fund size and fund age, the fund flow-performance relationship of IEs should align with that of conventional counterparts.

The second assumption suggests that prior beliefs about the expected return of IEs are more dispersed compared to beliefs about CEs, incorporating these beliefs into the utility function. For instance, in a study comparing younger and older funds, Chevalier & Ellison (1997) found that the fund flow-performance sensitivity of younger funds is more persistent. This implies that beliefs about funds with shorter track records are more dispersed than those about older funds. Given the relative novelty of IEs in some regions compared to conventional counterparts, it's reasonable to assume investors are uncertain about IE performance. Therefore, investors are likely to scrutinize information about IEs more closely than CEs, resulting in more dispersed prior beliefs about IEs. Consequently, the second assumption suggests that investors treat IEs as like other investment funds but with an additional layer of prior belief. Consequently, the fund flow-performance relationship of IEs will be more sensitive and robust than that of CEs.

The third assumption posits that investors do not perceive Islamic funds in the same manner as conventional funds. Islamic fund investors are less influenced by changes in fund returns when determining their additive utility. Consequently, they are less inclined to switch or redeem funds based on fluctuations in fund performance compared to conventional fund investors. In this context, the sensitivity of fund flows to fund performance is expected to be weaker for IEs.

In summary, these three assumptions imply that if investors view IEs as akin to other investment products, the fund flow-performance relationship of IEs should be equivalent to that of CEs. However, when an additional assumption of prior belief is introduced, the fund flow-performance relationship of IEs becomes more sensitive and robust compared to CEs. Conversely, if Islamic fund investors perceive that changes in fund returns have less impact on additive utility, the sensitivity of fund flows to fund performance will be lower for IEs. Therefore, the hypothesis can be articulated as follows:

H: The fund flow-performance relationship of IEs differs from that of CEs.

Data Selection

This study restricts the samples to open-ended Islamic equity funds (IEs), which have 100% asset allocation in equity or mixed-asset allocation with some percentage of equity, such as the balanced funds available in the Datastream database. The purpose of restricting equity funds was because the funds are categorised as aggressive fund, which is more volatile than non-equity. The monthly data for the fund's dividend yield and cumulative estimated assets were collected to approximate the fund size. Since both active and inactive and dissolved investments were included in the samples, longevity bias was not present. The selected funds must have a minimum of 24 months of data; thus, excluding funds with insufficient and too many missing data. Our final selections left us with 74 Malaysian funds and 150 Conventional funds over the year 2007 until 2019.

Methodology

This study employs panel data analysis as the estimation technique, encompassing various methods for estimating static panel data. These methods include the Ordinary Least Squares (OLS) approach, the Fixed-Effect Model (FEM), and the Random Effect Model (REM). The selection of the most suitable model is determined through specific tests. The Breusch and Pagan Lagrangian Multiplier test is used to choose between OLS and REM, while the Hausman test is employed to distinguish between REM and FEM effects. Following the approach outlined by Ferreira et al. (2012) and Sirri and Tufano (1998), the calculation of the total fund flow for fund *i* at time t is performed as follows:

$$Flow_{i,a,t} = \frac{TNA_{i,a,t} - TNA_{i,a,t-1}(1 + TR_{i,a,t})}{TNA_{i,at-1}}$$

where,

$TNA_{i,t}$ = net asset value in local currency of fund *i* at *t*,

$TNA_{i,t-1}$ = net asset value in local currency of fund *i* at *t-1*

$TR_{i,t}$ = return of fund *i* in week *t*.

Asymmetric relationship

The study constructs the fund flow model by considering both the current and past performance of the fund, utilizing total return performance metrics alongside control variables, namely, fund size and fund age. Notably, this analysis excludes certain variables such as the expense ratio, transaction costs, as well as front and end loads, in alignment with the approach taken by Rao et al. (2016), due to insufficient data availability for comprehensive analysis.

This equation is represented as:

$$FF_{it} = \beta + \beta_1 TR_{it} + \beta_2 LN(size) + \beta_3 LN(age)_{it} + \varepsilon_{it} \quad (1)$$

Where,

FF_{it} = Fund flow at t (time)

FP_{it} = Fund performance (total return)

$LN(size)_{it}$ = natural logs (total net asset) i at t

$LN(age)_{it}$ = natural logs (age of fund) i at t

ε_{it} = Error term

Equation (1) serves as the fund flow-performance relationship base model. To test the fund flow-performance connection between best to poor performing funds, performance is categorised as bottom and top-performing funds. In the manner of Marzuki & Worthington (2015), funds' performance is divided into positive and negative performance. Thus, we

specified the fund's positive returns as top-performing funds while negative returns as bottom performing funds.

Meanwhile, for dummy variables, to avoid the dummy trap only the bottom and top performances are considered in the regression as show in Equation (2) below.

$$FF_{it} = \beta + \beta_1 TR_{it} * Dbot_{it} + \beta_2 TR_{it} * Dtop_{it} + \beta_3 LN(size)_{it} + \beta_4 LN(age)_{it} + \varepsilon_{it} \quad (2)$$

where,

$Dbot_{it}$= Dummy variable of 1 equal to fund bottom performance or 0 otherwise
$Dtop_{it}$= Dummy variable of 1 equal top performance or 0 otherwise

Equation (2) estimates the regression in the current performance. Besides, in the manner of Benson and Humphrey (2008), lag-1, lag-2, lag-3 and lag-13 are assigned to re-estimate the regression in the past performances. In addition, we also combine all setting in one regression to check for any differences with the single settings.

Findings

Table 1: Descriptive Results Note:

Variable	Mean	Std. Dev.	Min	Max
FF (%)				
IEs	0.7780	7.740987	-67.2160	76.9781
CEs	0.1478	3.853175	-37.8313	37.2141
TR (%)				
IEs	0.1745	3.853175	-37.8313	37.2141
CEs	0.1559	3.606868	-53.30189	52.64228
Size (RM million)				
IEs	361.4441	842.0379	0	5,975.99
CEs	234.6362	708.8595	0.107	10,427.14
Age (month)				
IEs	128.3346	110.9551	0	615
CEs	151.0164	108.79	1	636

FF = the fund flow
TR = Fund Total return
$Size$ = Fund size

Age = fund age

Table 1 provides the descriptive statistics, the average fund flow for IEs is positively skewed, standing at 0.77% with a standard deviation of 7.74%. Conversely, CEs also exhibit a positive mean fund flow of 0.64%, albeit with a higher standard deviation of 13.23%. This indicates that, on average, Malaysian funds witnessed capital inflow, but the inflow into IEs exceeded that into CEs by a margin of 0.13%.

Regarding fund performance over a 13-year period, the mean total return for IEs stands at 0.17%, while CEs exhibit a slightly lower mean total return of 0.15%. The highest total return achieved by IEs was 37.21%, which falls short of the maximum total return attained by CEs, which reached 52.64%. Additionally, in terms of fund size, the largest IE reached RM5,975.99 million (equivalent to USD 1,396.48 million), while the maximum size for CEs amounted to RM10,427.14 million (equal to USD 2,436.48 million). Furthermore, the oldest fund in the sample has been in existence for 51 years in the case of IEs and 53 years for CEs.

The estimates consistently produced Variance Inflation Factor (VIF) results below 10, indicating the absence of significant issues related to excessive similarity among the variables. Results from the Breusch-Pagan Lagrangian Multiplier (LM) test, conducted across all regression analyses, suggest that the Random Effect Model (REM) can be effectively employed alongside the Ordinary Least Squares (OLS) estimator to provide a comprehensive estimation of Islamic equity funds (IEs). Moreover, the Hausman test illustrates that the Fixed-Effect Model (FEM) estimator outperforms the REM estimator. Robust standard errors have been introduced to address concerns pertaining to heteroscedasticity and autocorrelation.

According to table 2, the results indicate that for IEs, there is a notably positive relationship between fund flow and performance, particularly during the first three months following the performance assessment, with statistical significance at the 1% level. In contrast, for conventional equity funds CEs the relationship between fund flow and performance is significant and negative in the current month but becomes significantly positive when considering the one-month performance lag, both at the 1% level. As for the control variables, the coefficients reveal a positive association between fund flow and fund size for both IEs and CEs. Conversely, there is a negative correlation between fund flow and fund age for both types of funds.

The results show that investors in IEs care less about how well the IE is doing right now and how well it has done in the past year. These results support the idea that investors in Islamic funds get more value from the non-financial aspects, which is like what Benson and Humphrey (2008) found with SRI funds. But the results also show that investors in IEs care more about how the investments have done in the past month than in the past year. This fits with the belief that investors use the past performance of a fund to decide which one to invest in (Sirri & Tufano, 1998).

Table 3 presents findings regarding how fund flow responds to the best and worst fund performances. In terms of current performance, the results show a positive link between fund flow and the lowest-performing IEs at the 5% significance level, while it's negatively associated with both the lowest and highest performances of conventional equity funds CEs at the 1% significance level.

Regarding past performances, specifically in column (7), it's observed that fund flow exhibits a significantly negative relationship with the worst-performing IEs when considering a lag of three months, at the 5% significance level. Conversely, in the case of the best performances, the fund flow displays a significantly positive connection at the 1% significance level.

As for CEs, in column (4), the coefficients for a one-month performance lag are significantly positive at the 1% level for both the lowest and highest performances. However, when examining a three-month performance lag, the coefficients indicate a significantly negative relationship with the worst performance at the 1% significance level and a significantly positive relationship with the best performance at the 10% significance level. The findings related to the control variables mirror those in Table 3.

The results reveal that Malaysian investors in IEs pay attention to both current and past performances, but they seem less concerned about performance from one year ago.
Shifting our focus to how fund flow sensitivity relates to the worst and best performances, the findings from current performance suggest that Malaysian IEs investors are more responsive to poor performance but less responsive to excellent performance. This indicates that when funds perform poorly, there's an increase in cash outflow, whereas when they perform well, cash inflow decreases. These results are not aligned with the idea of an asymmetric relationship; instead, they suggest that investors are not align with Buffet’s advice.

On the other hand, when considering past performances, Malaysian IEs investors appear sensitive to both poor and excellent fund performance, indicating a symmetric relationship. In this scenario, cash outflows increase with poor-performing funds and cash inflows rise with top-performing ones. However, when examining performance from three months ago, investors did not react much to poor performance but are more responsive to top performance. Moreover, for performance from one year ago, investors in IEs don't seem to react significantly to either poor or top performance.

These findings are not aligned with the motivating assumption underlying Islamic funds and again challenge the idea of an asymmetric relationship, suggesting instead that investors in Malaysian IEs tend to divest from poorly performing funds while pursuing better-performing ones, which is not in line with Buffet’s advice.

Table 2: Comparison of Fund Flow-performance relationship between IEs and CEs

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Variables	**IE**	**CE**	**IE**	**CE**	**IE**	**CE**	**IE**	**CE**	**IE**	**CE**	**IE**	**CE**
$TR_{i,t}$	0.0590	-0.461***			-	-	-	-	-	-	0.0397	-0.456***
	(0.0302)	(0.0297)									(0.0299)	(0.0279)
$TR_{i,t-1}$	-	-	0.581***	0.257***	-	-	-	-	-	-	0.565***	0.327***
			(0.0701)	(0.0372)							(0.0742)	(0.0357)
$TR_{i,t-2}$	-	-	-	-	0.262***	0.0222	-	-	-	-	0.215***	0.0030
					(0.0457)	(0.0381)					(0.0442)	(0.0214)
$TR_{i,t-3}$	-	-	-	-	-	-	0.116***	-0.0128	-	-	0.0531*	-0.0126
							(0.0311)	(0.0156)			(0.0265)	(0.0126)
$TR_{i,t-13}$	-	-	-	-	-	-	-	-	-0.0287	0.0062	-0.0064	-0.0568***
									(0.0186)	(0.0158)	(0.0202)	(0.0150)
$LN(size)_{i,t}$	0.0081	1.893**	0.0093*	1.979**	0.0080	1.697**	0.0073	1.870***	0.0078	2.255***	0.0091*	2.160***
	(0.0046)	(0.636)	(0.0045)	(0.637)	(0.0043)	(0.529)	(0.0043)	(0.496)	(0.0043)	(0.511)	(0.0041)	(0.513)
$LN(age)_{i,t}$	-0.0265***	-2.349*	-0.0266***	-2.358*	-0.0226**	-1.474	-0.0157	-1.455	0.0004	-1.022	0.0032	-1.014
	(0.0076)	(1.060)	(0.0075)	(1.068)	(0.0081)	(0.850)	(0.0084)	(0.769)	(0.0108)	(0.768)	(0.0102)	(0.764)

Note: This table presents the results of the Static panel estimation using STATA. Values in parentheses are a standard error. The ***, **, * signs indicate statistical significance at the 1%, 5% and 10% levels, respectively. IE is the Islamic equity funds, CEs is conventional equity funds, $FF_{i,t}$ is the fund flow at time t, $TR_{i,t}$ is the fund performance measured in total return, $Dbot_{i,t}$ is the dummy variable: 1 for bottom performer, 0 otherwise, $Dtop_{i,t}$ is the dummy variable: 1 for top performer, 0 otherwise, $LN(size)_{i,t}$ is the natural log of the total net asset of fund i at time t, $LN(age)_{i,t}$ is the log of fund age i at time t.

Table 3: Fund Flow-Performance Relationship in Bottom and Top Performance

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)

Variables	IE	CE	IE	CE	IE	CE	IE	CE	IE	CE	IE	CE
$\boldsymbol{BTRi,\_t}$	0.332** (0.102)	-0.418*** (0.0356)	-	-	-	-	-	-	-	-	0.0640 (0.0984)	-0.502*** (0.0336)
$\boldsymbol{TTRi,\_t}$	-0.0972 (0.0741)	-0.525*** (0.0520)	-	-	-	-	-	-	-	-	0.00718 (0.0678)	-0.402*** (0.0431)
$\boldsymbol{BTRi,\_t-1}$	-	-	0.115 (0.175)	0.262*** (0.0498)	-	-	-	-	-	-	-0.0643 (0.203)	0.245*** (0.0419)
$\boldsymbol{TTRi,\_t-1}$	-	-	0.527*** (0.143)	0.244*** (0.0462)	-	-	-	-	-	-	0.588*** (0.166)	0.445*** (0.0487)
$\boldsymbol{BTRi,\_t-2}$	-	-	-	-	-0.0223 (0.0729)	-0.0415 (0.0443)	-	-	-	-	-0.0713 (0.0663)	-0.0417 (0.0393)
$\boldsymbol{TTRi,\_t-2}$	-	-	-	-	0.273*** (0.0594)	0.0995 (0.104)	-	-	-	-	0.250*** (0.0618)	0.0809** (0.0262)
$\boldsymbol{BTRi,\_t-3}$	-	-	-	-	-	-	-0.219** (0.0741)	-0.0806*** (0.0230)	-	-	-0.178** (0.0605)	-0.0465* (0.0215)
$\boldsymbol{TTRi,\_t-3}$	-	-	-	-	-	-	0.226*** (0.0559)	0.0671* (0.0301)	-	-	0.146** (0.0456)	0.0562* (0.0264)
$\boldsymbol{BTR_{i,\_t-13}}$	-	-	-	-	-	-	-	-	0.0040 (0.0570)	-0.0310 (0.0213)	-0.0334 (0.0642)	-0.106*** (0.0212)
$\boldsymbol{TTR_{i,\_t-13}}$	-	-	-	-	-	-	-	-	-0.0314 (0.0333)	0.0506 (0.0291)	0.00950 (0.0344)	0.0154 (0.0285)

Note: This table presents the results of the Static panel estimation using STATA. Values in parentheses are a standard error. The ***, **, * signs indicate statistical significance at the 1%, 5% and 10% levels, respectively. IE is the Islamic equity funds, CEs is conventional equity funds, $FF_{i,\_t}$ is the fund flow at time *t*, $TR_{i,\_t}$ is the fund performance measured in total return, $Dbot_{i,\_t}$ is the dummy variable: 1 for bottom performer, 0 otherwise, $Dtop_{i,\_t}$ is the dummy variable: 1 for top performer, 0 otherwise. Excluding from the table, *LN(size)* and *LN(age)* for brevity.

Conclusion

In essence, Malaysia's equity funds market has seen remarkable development, driven by supportive regulations, a vibrant capital market, and growing investor confidence. The diverse range of funds, along with the emphasis on sustainable investing, has contributed to the nation's appeal as an attractive investment destination. As the country continues to foster financial innovation and investor protection, the growth trajectory of equity funds in Malaysia remains promising for both domestic and international investors.

Screened investment portfolios, a characteristic of Islamic funds, introduce biases due to asset exclusions that limit diversification and expand the management costs. This, in turn, exposes the funds to higher risks, potentially resulting in lower returns and diminished overall utility maximization, as described by Johnson & Neave (1996), a phenomenon referred to as allocative inefficiency. Consequently, one of the contributing factors to the comparatively lower returns on Islamic investments is the filtering criterion.

Investors in Islamic funds face the dual challenge of meeting religious obligations and pursuing investments that align with their spiritual values. This raises questions about whether their allocation of funds to specific investments reflects sound financial decision-making. The findings will shed light on whether these investors align with the investment principles advocated by Warren Buffett.

In contrast to investors of CEs, those investing in IEs in Malaysia exhibit greater sensitivity to underperforming funds in current performance. However, their response to poor-performing funds in past performance is either minimal or non-existent. Additionally, Malaysian IE investors are more reactive to the best-performing funds compared to CE investors which is inconsistent with Warrant Buffets' piece of advice.

In short, we perceived that investors in IEs were reluctant to listen to Buffets' advice. Biases due to asset exclusions that limit diversification as well as expanding the management costs rendering to irrational decision making among IEs investors. Hence, it answers to the question of fear or greed between the investors or IEs and CEs.

References

Ainulashikin Marzuki, & Worthington, A. C. (2015). Comparative Performance - Related Fund Flow for Malaysian Islamic and Conventional Equity Funds. International Journal of Islamic and Middle Eastern Finance and Management, 8(3), 380–394.

Anas Ahmad Bani Atta & Ainulashikin Marzuki (2019). The Determinants of Islamic Mutual Fund Flows: Evidence from Malaysia. International Journal of Advanced Research in Economics and fFnance. 1(1), 10-21

Baker, B. (2022, May 2) Warren Buffett's top tips for investors in 2022: What the legendary investor said to Berkshire shareholders. Bankrate.com. https://www.bankrate.com/investing/warren-buffett-top-tips-and-lessons-berkshire-hathaway-annual-meeting-2022/

Bell, D.E (1982) Regret in Decision Making under Uncertainty. Operations Research, 30(5), 961-981

Barber, B. M., Odean, T., & Zheng, L. (2005). Out of Sight, Out of Mind: The Effects of Expenses on Mutual Fund Flows. Journal of Business, 78(6), 2095–2120.

Benson, K. L., & Humphrey, J. E. (2008). Socially Responsible Investment Funds: Investor Reaction to Current and Past Returns. Journal of Banking & Finance, 32, 1850–1859. https://doi.org/10.1016/j.jbankfin.2007.12.013

Berk, J. B., & Green, R. C. (2004). Mutual Fund Flows and Performance in Rational Markets. Journal of Political Economy, 112(6), 1269–1295.

Brownlee. A.P. (2022, May 19) Warren Buffet: Be fearful when others are greedy. Investopedia.com. https://www.investopedia.com/articles/investing/012116/warren-buffett-be-fearful-when-others-are-greedy.asp

Chevalier, J., & Ellison, G. (1997). Risk Taking by Mutual Funds as a Response to Incentives Risk. Journal of Political Economy, 105(6), 1167–1200.

Del, D., Tkac, P. A., Guercio, D. Del, & Tkac, P. A. (2002). The Determinants of the Flow of Funds of Managed Portfolios: Mutual Funds vs. Pension Funds. The Journal of Financial and Quantitative Analysis, 37(4), 523–557.

Fadillah Mansor, Naseem Al Rahahleh, & M. Ishaq Bhatti (2019), New Evidence on Fund - Performance in Extreme Events. International Journal of Managerial Finance, 15(4), 511- 532

Ferreira, M. A., Keswani, A., Miguel, A. F., & Ramos, S. B. (2012). The flow-performance Relationship Around the World. Journal of Banking and Finance, 36(6), 1759–1780. https://doi.org/10.1016/j.jbankfin.2012.01.019

Gruber, M. J. (1996). Another Puzzle: The Growth in Actively Managed Mutual Funds. Journal of Finance, 51(3), 783–810.

Hayat, R., & Kraeussl, R. (2011). Risk and Return Characteristics of Islamic Equity Funds. Emerging Markets Review, 12(2), 189–203.

Huang, J., Kelsey, D. W., & Hong, Y. (2007). Participation Costs and the Sensitivity of Fund Flows to Past Performance. The Journal of Finance, LXII(3).

Ippolito, R. (1992). Consumer Reaction to Measure of Bad Quality: Evidence from Mutual Fund Industry. Journal of Law and Economics, 35(1), 45–70.

Jin, X., Shen, Y., Yu, B., & Qian, M. (2022). Flow-driven risk shifting of high-performing. funds. Accounting & Finance, 62(1), 71-100.

Jaizah Othman, Mehmet Asutay & Norhidayah Jamilan (2018), Comparing the Determinants of Fund Flows in Domestically Managed Malaysian Islamic and Conventional Equity Funds. Journal of Islamic Accounting and Business Research. Vol. 9 No. 3, 2018 10.1108/JIABR-07-2016-0084

Kahneman, D. (1979). Prospect theory: An analysis of decisions under

risk. Econometrica, 47, 278.
Lynch, A. W., & David K.Musto. (2003). How Investors Interpret Past Fund Returns. Journal of Finance, IV11(5).
Nanda, V., Wang, Z. J., & Zheng, L. (2004). Family Values and the Star Phenomenon: Strategies of Mutual Fund Families. The Review of Financial Studies, 17(3), 667–698. https://doi.org/10.1093/rpd/hhg054
Nickerson, R.S. (1998). Confirmation Bias: A Ubiquitous Phenomenon in Many Guises, 2(2), 175-220
Nik Muhammad, N. M., & Mokhtar, M. (2008). Islamic Equity Mutual Fund Performance in Malaysia: Risk and Return Analysis. Proceedings of the Malaysian Finance Association (MFA) Conference 2008.
Odean, T. (1998). Volume, Volatility, Price, and Profit When All Traders are Above. Average. *Journal of Finance*, 53, 1887-1934.
Powell, R. (2018, May 4) Warren Buffet's advice for investors in 25 quotes. Evidenceinvestors.com. https://www.evidenceinvestor.com/warren-buffetts-advice-investors-25-quotes/#:
Rehman, S., Khilji, J. A., & Sharif, S. (2021). Risk vs Upside uncertainty: application of quantile regression in investment analysis. Macroeconomics and Finance in Emerging Market Economies, 1-21
Saleh Nawaz Khan & Amna Noor (2020). The Flow - Performance Relationship: Evidence from Pakistani Mutual Funds. Journal of Accounting and Finance in Emerging Economies. 6(1), 145-154
Saleh Nawaz Khan & Amna Noor (2021) Fund Governance and Flow Performance relationship. Macroeconomics and Finance in Emerging Market Economies.
Securities Commission (2023). Quarterly Report 1st Quarter 2023 [Review of Quarterly Report]. In Securities Commission Malaysia. Securities Commission Malaysia. https://www.sc.com.my/api/documentms/
Sirri, E. R., & Tufano, P. (1998). Costly Search and Mutual Funds Flow. The Journal of Finance, 53(5), 1589–1622.
Taskinsoy, J. (2019). We Need No Dime from the IMF: Is This a Temporary Illusion or Can the Turkish Economy Recover from the Current Recession without the IMF Loans? Available at SSRN 3417431.
Thaler, R. (1980). Towards a Positive Theory of Consumer Choice. Journal of Economic Behaviour and Organisation, 1(1), 39-60.
Wang, Y., Watson, J., & Wickramanayake, J (2018). The Global Financial Crisis and the Mutual Fund Flow-Performance Relationship. The World Economy, 41(11), 3172-3193
Murat Yaş, Ahmet Faruk Aysan & Mohamed Eskandar Shah Mohd Rasid (2022), Are Religious Investors Financially Smart? Evidence from Equity Funds. Journal of Asset Management. 23(1):1-13. DOI:10.1057/s41260-021-00240- 2
Zia-ur-Rehman Rao, Muhammad Zubair Tauni, & Amjad Iqbal. (2015). Comparison between Islamic and General Equity Funds of Pakistan: Difference in Their Performances and Fund Flow Volatility. Emerging Economic Studies, 1(2), 211–226. https://doi.org/10.1177/2394901515599273