

# 2006 lakkyara

Kyara, which means "precious" in ancient Japanese, is an aromatic resin regarded as the highest quality of all agarwood. "lakkyara [la-ká-la]" aims to deliver the same quality as Kyara together with NRI's endeavour for continuous excellence and innovation to provide the most advanced and up-to-date information to our readers worldwide.

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**Investment trust sales through  
"fund supermarkets"**

Fund supermarkets enable customers to choose from a wide range of investment trusts. One issue that remains in implementing the supermarket model is providing services to assist decision-making by bridging the gap between the Internet and the customer.

Internet-based fund supermarkets, which provide individual investors with a broad range of investment fund choices, are common in Europe and the United States. They offer customers the chance to make their own investment decisions rather than having to choose from a handful of funds pre-selected by the sales company.

In Japan, Nikko Cordial recently launched its "Investment Trust Super Center," modeled after foreign fund supermarkets and offering investment trusts exclusively. While this model is still new to Japan, we think more sales companies are likely to establish their own supermarkets going forward.

financial advisors (see Exhibit).

Exhibit. Fund supermarkets around the world

Company	Country	Model	Funds offered (approx.)	Management firms
Charles Schwab	US	B2C	6,300	340
Fidelity	US	B2C	4,500	350
Funds Direct	UK	B2C	1,500	80
Co Funds	UK	B2B	800	50
Direkt Anlage Bank	Germany	B2C	3,500	140
Mutual Fund Exchange	Sweden	B2B	4,000	130

Source: NRI, based on company websites

## Fund supermarkets in the US and Europe

Fund supermarkets are essentially online discount brokers offering a wide selection of investment trusts from various management firms and groups. They typically offer no-load funds, which charge no sales commissions whatsoever, and low-load funds, which can be purchased for lower-than-usual fees, and allow customers to switch between funds at no cost.

The pioneer in the field was Charles Schwab's OneSource service, launched in 1992. Schwab currently offers about 6,300 funds, of which some 2,000 are no-load. As there were about 8,000 funds in the US at the end of 2005,<sup>1)</sup> this means that US investors could buy almost any domestic fund through Schwab. Fidelity Investments' FundsNetwork service also offers nearly 4,500 funds, including many outside funds in addition to Fidelity's own offerings. This "open architecture" model of fund sales, which allows one-stop shopping for products from numerous management firms, has been adopted in a number of European countries as well. Europe also has B2B fund supermarkets that market products exclusively to fund resellers and

## Online investor assistance tools

While investors welcome more choices, they may find it difficult to select from among thousands of funds. Supermarket websites therefore provide a variety of helpful tools. These differ at each firm, but typical features are summarized in the box below.

### Screening tool

Allows users to filter funds by name, management firm, rating, and load and to display detailed information on matching funds.

### Select list

Provides a list of recommended funds chosen by the sales company based on its own criteria. Selections are drawn mainly from no-load funds, and the list is updated periodically.

### Portfolio solutions

By responding to two or three simple questions, visitors can receive an asset allocation recommendation<sup>2)</sup> tailored to their circumstances. The results may be in the form of suggested ratios of various fund categories or a list of suitable funds.

In the US there has been a growing tendency for investors to hold a portfolio of funds instead of a single fund. Some observers are skeptical as to how much tools like these can help retail investors to make fund selection decisions. Nonetheless, the fact remains that a wide range of tools are offered, making them useful to investors buying a single fund as well as those seeking to build a fund portfolio.

But now some sales firms are considering offering the ability to "talk with a professional" to bridge the gap between investors and the Internet, enabling them to provide less independent investors with the same Internet tools that are able to take advantage of large product lineups. Sales initiatives by Japanese fund supermarkets are likely to be closely watched in the coming years.

### Tie-ups with advisors

In addition to enhancing their web-based tools, some supermarkets are working together with financial advisors.

For example, they may include a button for "individuals seeking further advice." Pressing the button takes customers to a separate page listing contact details for affiliated financial advisors. Investors then make an appointment to meet with an advisor, receive personalized advice,<sup>3)</sup> and eventually purchase funds from the supermarket. Initiatives like this are designed to attract investors requiring professional advice as well as those with the knowledge and experience to make their own investment decisions using tools available on the web.

### Japanese fund supermarkets

Foreign fund supermarkets practice of selling funds through financial advisors relies heavily on independent advisors. The Internet is thought to be the most effective channel for providing customers with a wide range of choices in Japan, where the practice of selling products with advice has yet to become established. It has long been thought that this sales method would be effective only for a handful of investors capable of making their own decisions. Meanwhile, it was assumed that other, less independent investors seeking a more interactive experience would use a face-to-face channel, choosing from a list of products selected by the sales firm based on explanations provided by a representative.



#### Note

- 1) Source: ICI's 2006 *Investment Company Fact Book*
- 2) Asset allocation plans are designed to achieve an optimal balance of risk and return tailored to the investor's risk tolerance.
- 3) Fees are usually paid to the advisor in such cases.

#### Author's Profile

Kazumi Tabata

Researcher  
Financial Technology and Market Research Department  
E-mail : kyara@nri.co.jp

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Inquiries to : Financial Technology and Market Research Department  
Nomura Research Institute, Ltd.  
Marunouchi Kitaguchi Bldg.  
1-6-5 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan  
E-mail : kyara@nri.co.jp

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