CHAPTER - II

REVIEW OF LITERATURE AND DESIGN OF THE STUDY
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2.1 REVIEW OF LITERATURE

2.2 RESEARCH DESIGN
CHAPTER II

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2.1 REVIEW OF LITERATURE

The pioneering work on the US mutual funds was done by Wharton School of Finance and Commerce (1962)\(^1\) for the period 1953 to 1958. The study examined the issues relating to investment policy, portfolio turnover rate, performance and impact of mutual funds trading activity on the stock markets. The study concluded that, on an average, the funds had not performed well than the composite markets from which they selected their securities. There was no persistent relationship between the annual portfolio turnover rates and the performance. Further, net purchases of the funds had significantly affected the price movement of individual stocks and to a lesser extent, the price movements of the markets.

Friend and Vickers (1965)\(^2\) evaluated the performance of mutual funds against the randomly constructed portfolios. The study concluded that mutual funds on the whole had not performed superior to random portfolios.

Most of the studies conducted during the time period of 1960’s to 1980’s are concerned with measuring mutual fund performance, with management’s ability to “time” the market or with management’s ability to select under priced securities. Studies in these categories include those by Treynor and Mazuy (1966), Jensen (1968), Kon and Jen (1979)\(^3\), Henriksson and Merrton (1981), Chang and Lewellen (1984)\(^4\), Henriksson

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(1984), and Jagannathan and Korajezyk (1986), to name a few. These studies have generally concluded that mutual fund managers cannot consistently time the market or select under-priced securities. This has led to the conclusion that long-term individual mutual fund performance can best be described as random. Very few studies have attempted to explain the flow of money into and out of mutual funds.

The emergence of Markowitz’s portfolio theory followed by the development of Capital Asset Pricing Model (CAPM) gave a new direction to the evaluation of portfolio performance. Following the CAPM, Treynor (1965) Sharpe (1966) and Jensen (1960) made remarkable contributions by developing models to evaluate the portfolio

7 The model is developed independently by,

performance. Fama's work \(^{11}\) in this direction is also a valuable contribution. The later works mostly followed the methodology of Treynor, Sharpe and Jenson.

Sharpe's (1964)\(^{12}\) study concluded that out of 34 funds selected, 19 had outperformed the benchmark in terms of total risk. Treynor (1966)\(^{13}\) evaluated the performance of mutual fund managers in terms of their ability in market timing. The evidence of 57 mutual funds showed that, none of the fund manager had outguessed the market. Jensen (1968) evaluated the ability of the fund managers in selecting the undervalued securities. He concluded that for a sample of 115 mutual funds, the fund managers were not able to forecast security prices well enough to recover research expenses and fees. Friend, Blume and Crockett (1970)\(^{14}\) compared the performance of 86 mutual funds with random portfolios. The study concluded that mutual funds did worse than the randomly selected portfolios in terms of total risk. Further, the funds with high turnover seemed to outperform the funds with low turnover and the fund size had no impact on the performance.

Risk-adjusted performance evaluation was also made by Carlson (1970)\(^{15}\) and SEC study (1971)\(^{16}\). The broad conclusions arrived by them were, that some of the funds had outperformed the benchmarks, but there was no consistency in performance.


John McDonald (1974) examined the relationship between the stated fund objectives and their risks and return attributes. The study concluded that, on an average the fund managers appeared to keep their portfolios within the stated risk. But there was considerable overlap between funds in different groups. Some funds in the lower risk group possessed higher risk than funds in the most risky group. Ang and Chua (1982) conducted a similar study. The study concluded that a majority of the fund managers did not “deliver the goods” although they stated different investment objectives. Further, all funds at one time or other provided superior performance relative to the benchmark, however only half the funds consistently achieved this degree of relative performance.

Norman E. Mains (1977) applied neutral risk adjusted performance measure and concluded that approximately 66 percent of the funds (out of 75) had larger net returns adjusted for systematic risk. Klemosky (1977) concluded that past risk adjusted performance was not a good guide to future performance.

James R.F. Guy (1978) evaluated the risk – adjusted performance of the UK Investment Trusts through the applications of Sharpe and Jensen measures. The study concluded that, no trust had exhibited superior performance, compared to the London Stock Exchange Index.


Lehmann and Modest (1987)\(^{22}\) study found that the Jensen measure and the Treynor – Black appraisal ratios of individual mutual funds were quite sensitive to the method used to construct the APT benchmarks. This study suggested the importance of knowing the appropriate model for risk and return.

Grinblatt and Titman (1989)\(^{23}\) and Richard A. Ippolito (1989)\(^{24}\) took a relook at the evaluation of mutual fund performance. The former’s study concluded that mutual funds do not offer abnormal returns for any category of funds. Contrary to this, the latter’s study concluded that mutual funds on an aggregate offer superior returns. But they are offset by expenses and load charges. This characterizes the efficient market hypothesis.

Hendricks and others (1993)\(^{25}\) found that mutual funds offered superior returns predominantly over a short period of roughly four quarters. The study suggests that a strategy of selecting the top performers in the last four quarters significantly outperform the average returns on mutual funds.

Swaminathan and Bhaskaran (1994)\(^{26}\) made an attempt to focus on the implications of individual investor behavior for the pricing of close-ended funds and small firms. Specifically, they developed a two security noisy rational expectations model of close-ended funds and compared their predictions to that of a model of investor


sentiment. Their empirical tests examined the time series implications of the two models. The results indicated that discounts forecast small firm returns. They also showed that the forecasting power of discounts was not related to that of any known fundamental forecasting variable. This evidence provides support for the investor sentiment explanation of the pricing of close-end funds and small firms and suggests that there may be sentiment related variation in small firm expected returns.

The study by Lee, Sunghoon in (1995) makes three contributions to the literature on the evaluation of mutual fund performance. First, it evaluates various empirical models of the bond return generating process and suggests new benchmarks that are the most appropriate for evaluating the performance of managed bond portfolios. Second, it provides thorough empirical evidence concerning the performance of bond mutual funds and examines the sensitivity of performance inferences to benchmark choice. Third, it analyses the cross sectional and inter-temporal behavior of performance measures to determine the relationship between performance and various fund characteristics. The appropriateness of benchmarks is tested in both the specialized context mean-variance efficiency and in the more general context of goodness-of-fit comparison. The study finds little evidence that the managers of bond funds as a class provide superior performance after accounting for expenses relative to various benchmark returns. While the average Jensen alphas across benchmarks are predominantly negative in both the full sample period and in the first sub-period, bond mutual funds exhibit better performance with a considerable decrease in the number of funds with significantly negative Jensen alphas during the second sub-period spanning from 1984–1989.

Another study by Prather and Larry Joseph (1995) reexamines performance evaluation of managed portfolios. Past measures of portfolio evaluation such as the measures of Sharpe, Treynor and Jensen are subject either to the inability to rank performance based on statistical significance, or its depending on both a single factor


CAPM return generating process and the selected market portfolio. Recent studies show performance ranking is sensitive to the selection of the market proxy when the security market line is used to evaluate performance.

There are some studies in the past which made an attempt to rate the market timing and selection of portfolio skill of mutual fund managers. A number of studies including those by Fabbozzi and Francis (1979)\textsuperscript{29}, Alexander and Stover (1980)\textsuperscript{30} and Miller and Gressis (1980)\textsuperscript{31} have made an attempt to find out whether the portfolio managers might, however, achieve differential return performance by engaging in successful “micro” market timing activities as well as careful “micro” security selection effort.

Ravi Jagannathan and Robert A. Korajczyk (1986)\textsuperscript{32} made an attempt to assess the market timing performance of mutual funds. The authors employed only parametric techniques which only assume knowledge of the managed portfolios returns and hence did not require direct observation of the manager’s market forecasts or portfolio composition. The authors used the parametric tests proposed by Henriksson and Merton (1981)\textsuperscript{33} as their performance measurement technique. This method was chosen by them because it was a widely known and tested technique: their results were calculated for the 56 year period January 1926 – December 1981. In addition they found out results for four 14 year sub – periods.


Veit and Cheney (1982)\textsuperscript{34} investigated the ability of mutual funds managers to adjust the risk level of funds to leverage the ability to time the market. They tested the null hypothesis that alphas and betas were the same in bull and bear market using annual data for 74 funds over the 1944 – 1978 period. Results suggest funds in general do not change their risk level to time the market. They conclude that inability to forecast market returns, high transaction costs to change portfolio composition, or unwillingness to change the risk class of the fund are possible explanations for the lack of timing.

Judith Chevalier and Glenn Ellison (1999)\textsuperscript{35} took a new approach to the question of whether some mutual fund managers were better than others by looking at the relationship between performance and manager characteristics. The authors used a sample of 492 managers who had sole responsibility for the growth or income fund for at least some part of the 1988 – 1994 period. The results suggest that there is some systematic cross-sectional differences in fund manager performance that cannot easily be attributed to differences in managerial behavior. In particular they find that mutual fund managers who have attended more selective undergraduate institutions have higher performance than mutual fund managers who have attended less selective undergraduate institutions, after correcting for differences in risk characteristics, survivorship biases, differences in expense ratios, and differences in factor loadings in a four factor model. They also find that older managers have worse performance than younger managers.

A number of academics, professional and journalists have written articles explaining the basic concept of mutual funds, their characteristics and reviewed the trends in the growth of mutual funds. They also emphasized the importance of mutual funds in the development of the capital market in India. A few under this category are Sudeep Ghosh\textsuperscript{36}, Madan Gopal\textsuperscript{37},


\textsuperscript{37} Madan Gopal, “Mutual Funds in India: The Future is Bright”, The Banker, December 1990.


on mutual funds cover the conceptual and regulatory aspects of the Indian mutual funds with some informational data and guidelines to the investors in selection of mutual funds.

Gupta made a Household Investor Survey in April 1992. The main objective of the survey was to provide data on the investor preferences on mutual funds and other financial assets. The findings of the study are more appropriate to the policy markets and mutual funds to design the financial products for the future.

Seema Vaid's study covers conceptual and the regulatory framework, review of the growth of mutual funds, and primary information about mutual fund schemes. Kulashreshta offers certain guidelines to the investors in selecting the mutual fund schemes.

In 1987, when the public sector banks entered the mutual fund sector there were no regulations at all. Later guidelines were issued by RBI and the Government of India. A few articles highlighted the importance and issues for the regulation of mutual funds. Among them the notable are: Barua, Narayan Bhatt, Bhanu, and Bhatt. Finally in 1993, SEBI framed regulations for mutual funds and amended them in 1996.

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Computations of the Net Asset Value (NAV) and the pricing of mutual fund units are very important as there were no guidelines at all. A few articles published in the financial dailies highlighted the importance of uniform valuation of investments. Jayadev also critically analysed the desperate practices of mutual funds in the valuation of investments. In January 1966, SEBI committee report on valuation and pricing was released which suggested norms for the valuation and pricing. However, empirical works on relationship between NAV, repurchase price and market price, and reasons for close-end fund discounts are yet to be attempted in the Indian context.

A few articles touched upon certain aspects of portfolio management and other issues involved in the management of mutual funds. The notable among them were by Sen Gupta, Lal and Sharma and Saha and Murthy.

Some empirical works in this area can be termed as research, as they have some methodology and conclusions. Barua and others (1991), made a pioneering attempt to evaluate the performance of 'Master Share' scheme of UTI from the investor point of


view. They employed the Capital Asset pricing Model (CAPM), and computed the risk of the ‘Master Share’ scheme (for the period 1987 – 1991). The risk adjusted performance was measured by using Sharpe, Jenson and Treynor’s ratios. Here the benchmark selected was the ‘Economic Times Ordinary Share Price Index’. The study concluded that, ‘Master Share’ had performed better in systematic risk, but not in terms of total risk.

Sharad Shukla (1991)\(^{65}\) evaluated the performance of ‘Canshare’ and ‘Master Share’ by employing the Sharpe, Jenson and Treynor ratios for the period January 1988 to June 1991. He concluded that ‘Master Share’ had performed better than the ‘Canshare’.

Ajay Shah and Susan Thomas\(^{66}\) studied the performance evaluation of eleven mutual fund schemes, on the basis of market price data. The weekly returns were computed for these schemes since their commencement on April 1994. Jensen and Sharpe measures were used to evaluate the superior performance of the schemes. They concluded that except UGS 2000 of UTI, none of the schemes had earned superior returns than the market in general. The risk of these schemes was very high and funds might be inadequately diversified.

Jaideep and Sudip Majumdar (1994)\(^{67}\) evaluated the performance of five growth oriented schemes for the period February 1991 to August 1993. They have employed the CAPM and Jensen measure to evaluate the performance. They have also evaluated the boom period performance of the scheme during the first quarter of 1992 by employing Jensen (adjusted) model. They concluded that the selected mutual fund schemes had not offered superior returns during the study period than the market in general. However, they concluded that in the boom period the funds had performed well.


Kaura and Jeyadev (1995) evaluated the performance of five growth oriented schemes in the year 1993 -1994, by employing the Sharpe, Treynor and Jenson measures. According to them, 'Mastergain – 91', 'Can bonus' and 'Ind Sagar' had performed better than the market in terms of systematic but not in terms of total risk. However, the methodology would have been more appropriate had the study period were longer.

The Dalai Street Journal (1993) carried out an analysis and published performance ranking of 122 mutual fund schemes floated by different mutual fund organizations taking 26 schemes from growth category, 28 schemes from income category, 35 schemes from income and growth category and 33 schemes from the tax planning category. This study used the Relative Performance Index and Compounded Annual Growth Rate (CAGR) as measures to evaluate the performance of these schemes. Based on this methodology the schemes which were having high relative performance index and higher percentage of CAGR were rated as top performers and vice versa.

The Capital Market Research Bureau (1993) made a research presentation explaining how different mutual funds and their various schemes fared during 1992, the turbulent period. For comparing fund wise performances, only those schemes which closed on or before March 1992, had been considered. The schemes were classified into income, growth, income – cum – growth and tax planning schemes. Each category had a different investment objective and hence, a different level of risk. Hence a comparison had been made of performance of different schemes within each category, and how the mutual funds in that category performed on the whole. The analysis also evaluated the change based on BSE National Index during the period April 1993 – June 1993. Further an investment strategy has been suggested to the prospective investors based on the overall performance.

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The Express Investment Week (1994) surveyed and assessed the performance of 113 schemes of different mutual fund organizations, of which 34 schemes were from growth category, 23 were from income category, 24 were from income – cum – growth category and 32 schemes from tax planning category.

With regard to six months performance in the growth category BOI mutual funds scheme FBGS – 1991 fared well with +25 points. The worst performer in that category was UTI’s Master Share with -75 points.

In the income category, the best performer was Can Bank mutual fund’s Can Star (80L) with +2 points and the worst performer was LIC mutual funds’ Dhanaraksha ’89. With regard to income – cum – growth category, Can Bank mutual fund’s Can Stock was the best performer with +2 points and worst performer was LIC mutual fund’s Dhanasahayog with -49 points. In the tax planning category the best performer was PNB mutual funds equity growth fund’93 with 417 points and the worst performer was Ind Bank mutual fund’s India Tax Shield – A with -40 points.

The study by Shome (1994) was based on growth schemes which had completed at least one year before April 1993. The performance of the mutual funds industry during the period 1993 to March 1994 was examined in relation to the market using BSE sensitive Index. The study revealed that the average rate of return of the industry was 5.16 percent as against market return of 5.78 percent.

Kale and Uma (1995) of the National Insurance Academy, Pune, India, employing risk – return relationship technique conducted a study, on the performance of Indian mutual funds. The study revealed that the schemes on an average proved true to their objectives. According to the findings, the growth schemes yielded an average of 47 per cent CAGR, tax planning schemes gave an average of 30 per cent CAGR, followed by balanced schemes with 28 percent CAGR and income schemes with 18 percent CAGR.

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Value Research India Ltd (1996)\textsuperscript{73} conducted a survey converging the bearish phase of Indian stock markets from 30\textsuperscript{th} June 1994 to 31\textsuperscript{st} December 1995, when BSE sensex fell from 4086.70 to 3110.50 and the National Index fell from 1937.70 to 1480.80. The survey examined 83 mutual fund schemes. The findings of the survey revealed that Indian mutual funds are generally safe avenues for investment. While income and balanced schemes are absolutely risk free, even a large number of growth schemes are quite safe for investors. The findings suggested that there is a scope for improving portfolio structure and portfolio readjustment, keeping in view the scheme fundamentals and investment objectives.

They have ranked the schemes based on their returns. The rankings were applied to the specific peer group, like open-ended growth funds. But to make comparison possible within the broad investment objective, they have also used a measure of risk-adjusted return, called the Sharpe ratio. The findings revealed that the tax-saving funds and the equity funds did well.

The intelligent Investor (2001)\textsuperscript{74} a leading personal finance magazine conducted a survey of mutual fund performance in 2000 to help the investors to choose the funds that best suit their needs. The survey was based on the data source from Credence Analytics, a Mumbai based research outfit that monitors mutual fund performance. The cut-off date of the survey was December 31, 2000. The methodology and the performance parameters they used were: One year return, two years return and three years return calculated by taking the percentage change in Net Asset Values. The ranks have been assigned on the basis of risk adjusted returns.

The survey revealed that the performance of equity funds has to be seen in the light of stock market conditions, which are anything but favourable.


A few articles also appeared in the financial dailies (The Economic Times, Financial Express, Business Standard) and the periodicals (Dalal Street, Business Today, Intelligent Investor, Business India etc.,) about the evaluation of mutual fund schemes by comparing the changes in NAV and market price between the changes in stock market indices. However, these analyses were purely for a short period and ignored the concept of risk.

Michael David Bordo (1985) evaluated the US economy returning to the classical gold standard – fixing the dollar price of gold and allowing the money supply to be governed by movements in the nation's monetary gold stock, to establish and maintain a steady and known growth rate of the fiduciary money supply, altering the official price of gold and the value of the monetary gold stock to stabilize some measure of the price level.

Gordon J. Alexander, Jonathan D. Jones and Peter J. Nigro (1997) analyzed the various characteristics and investment knowledge of investors in a telephonic survey of 2000 mutual fund investors. Results showed that the overall investors are knowledgeable about costs, risk and returns associated with mutual funds. The result suggested that there is no much room for improvement in investor education for a larger segment of investors. Edward S.O. Neal (2002) evaluated the performance of select mutual funds from 1999 –

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2001 and the implications of the dividend policy was correlated with the performance of the mutual funds.

Somasundaram (1998)\textsuperscript{79} classified investors into three categories namely high, medium and low level awareness investors. Nearly half of the sample investors (46.2 percent) were medium awareness investors. While age, education and location of residence of investors (Village, town, city) influenced the awareness level of investors, income, sex, type of working institution (Government or private), employment status of investors, employment of spouse of investors did not influence the awareness level. Around 38 percent of the investors got investment information from friends and relatives. Advertisements provided such information to 13.4 percent of the investors. While advertisements, friends and relatives provided information mainly to the young investors, investment consultants and share brokers were the main sources of information for the elderly investors.

SEBI – NCAER survey of Indian Investors (2000)\textsuperscript{80} found that around 70 percent of the investor households rely on newspapers and journals. Friends form the second important source followed by television. Only about 34 percent of investors households obtain information from prospectus of companies. The survey also stated that Broker related grievances were higher than the issuer related problems. The issuer related problems largely arose on account of physical securities.

Karthikeyan (2001)\textsuperscript{81} has noticed a significant difference among the four age groups, in the level of awareness for KVP, NSS, DSRE and the overall score confirmed that the level of awareness among the old age group investors was higher than the young age group investor. No difference was observed between male and female investors except for the scheme NSS in the semi urban area and KVP in the urban area. There was

\textsuperscript{79} V. K. Somasundaram, "A Study on Savings and Investment Pattern of Salaried Class in Coimbatore District", T 122, Bharathiyar University, Coimbatore, 1998.

\textsuperscript{80} SEBI – NCAER, Survey of Indian Investors, 2000.

no clear pattern to claim that higher education implies greater awareness among investors. However differential awareness was observed among education categories.

Bala Ramaswamy and Mathew C.H. Yeung (2003) evaluated the mutual funds in an emerging market like Malaysia. A questionnaire was administered to financial advisors on a few attributes of mutual funds like past performance of funds, qualification of fund manager, experience of fund manager, investment style of fund manager, size of funds, affiliation of mutual funds, number of funds managed and cost of transaction. The research article surveyed the relative importance of factors considered important in the selection of mutual funds in the emerging markets like Malaysia. John N. Sorros (2003) evaluated the risk and return of equity mutual funds operating in the Greek financial market over the period 1995 – 1999. The mutual funds were ranked on the basis of return, total risk, coefficient of variation, systematic risk and techniques of Sharpe and Treynor Ratios.

Brain J. Glenn (2004) examined the performance of open – ended and close – ended mutual funds, the difference between the two. Their impact upon the performance i.e. NAV and its volatility were also examined.

Athanasious G. Noulas, John A. Papanastasiou and John Lazaridis (2005) evaluated the performance of 23 equity funds during the year 1997 – 2000 in Greece. The performance evaluation was based on measuring risk and return using Treynor, Sharpe and Jensen techniques. The study proves that the investor needs to know the long

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term behavior of mutual funds in order to make the right decision. The study showed that equity funds neither have the same risk nor the same returns.

David Mareno, Rosa Rodriguez (2006)\textsuperscript{86} examined the performance of Spanish mutual fund during 1999 – 2003. The author has added a new dimension (stochastic discount factor) to evaluate the funds’ performance.

Michael R. Rosella and Domenick Puglises (2006)\textsuperscript{87} evaluated the product innovations in exchange – traded funds, their operation and growth, the use of broad – based indices for exchange traded funds, described newer ETFs that provide targeted exposure to narrow market segments and discussed underlying indices based on performance based characteristics and possible difficulties in making this criteria widely available to investors.

Muthappan (Sep 2006)\textsuperscript{88} in his article titled “Factors Influencing Mutual Fund Investment Decision Making”, studied the factors that influenced the mutual fund investment decision making among the investors. The various factors influencing the selection of a mutual fund such as track record of the mutual fund, efficient service, degree of transparency, high return, reputation of the mutual fund, easy acceptability, good infrastructure and low cost of service were analyzed by using Garret’s ranking technique.

There are certain negative factors and forces that discourage and forbid investments in mutual funds in India. It is observed that fear of fraud was the most discouraging factor and ranked as first followed by lack of investor education, lack of professionalism in management of funds, portfolio manipulation, reckless management of


funds, non-compliance of the objectives of the schemes and poor grievance handling mechanism.

Kanaga Anbu Selvam and Priya (Nov 2006)\(^9\), stated that household sector savings in the form of financial assets increased from 28.1 percent in 1970 – 1971 to 52.5 percent in 1996 – 1997 and further to 55.0 percent in 1998 – 1999. Thereafter it gradually decreased from 48 percent in 2000 – 2001 to 9.44 percent in 2002 – 2003. However, the share of savings in financial assets to the gross household sector savings in 2003-2004 stood at 46.8 percent. The amount of household savings in financial assets increased from Rs. 2,48,774 crores in 2000 – 2001 to Rs. 3,86,509 crores in 2003-2004 and further to Rs. 4, 26,744 crores in 2004-2005. At the same time, the rate of growth of savings in financial assets also increased from 5.3 percent in 2000 – 2001 to 19.8 percent in 2003-2004. But in 2004 – 2005, the rate of growth of household savings stood at 10.4 percent which indicates a sharp decline in household savings in financial assets. And they concluded that, at present, around 85 percent of our national savings is from household sector. In order to achieve 8 percent growth rate, the household savings rate should be increased further to 32 percent of the gross domestic product. This could be done with the help of the financial system that is crucial to ensure the efficient allocation of available funds. The development of banking sector could accelerate the growth of capital market, which will be a primary and dominant source of finance for industrial development and overall growth of the Nation.

Gopakumar (Nov 2006)\(^9\) observed that, the banking system in India has played a crucial role in the growth and development of the economy. The Indian banking system has been stable without any major crises. It is relatively transparent in its operations and follows the international best practices of disclosure. Global competitiveness of producers in India also requires interest rates which conform to the global pattern.

Deposits of scheduled commercial banks grew at a lower rate of 15.4 percent during 2004-2005 as compared with 16.4 percent in the previous year on account of


slowdown in demand deposits and saving deposits. The higher growth of term deposits was mainly on account of NRI deposits and certificates of deposits (CDs). Across bank groups, the rate of expansion of deposits was highest in respect of new private sector banks (new generation banks) (21.1 percent), followed by public sector banks (15.6 percent), old private sector banks (10.8 percent) and foreign bank (7.9 percent). The share of new private sector banks in total deposits has gradually increased over the years.

Sanjay Kant Khare (Jan 2007)\(^9\) concluded in his article that, if the experience of the developed countries is indication, the mutual fund units will be the financial instruments of the future for the retail investors in our country. With the growing institutionalization, the retail investors are gradually being out of the primary and secondary market, making them turn towards the mutual funds for their investment. Industry has already established itself by accounting for more than 16 percent of the financial savings of household sector.

In general the services rendered by mutual funds to their investors are prompt and efficient. In particular the unit trust of India which manages over Rs. 50,000 crores under various schemes has an excellent reputation for its services.

Srikala Bhashyam (Aug 2007)\(^9\) wrote, like mutual funds, realty funds too mobilize funds from retail and institutional investors and invest the same in residential, commercial projects. Like equity funds, these funds too carry an element of risk and hence returns are not guaranteed. The big difference between equity fund and realty fund is that the average investment size is much higher in the case of latter. However, realty funds have their share of unattractiveness. Most funds have a lock – in period and also carry entry costs. More importantly, there is no benchmark on the returns earned by these funds. On the other hand, the big advantage with real estate funds is that they allow investors to take exposure to commercial building and even help in geographical

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diversification. From investor’s point of view, realty fund could well become an integral part of their portfolio.

Arbind Gupta (Dec 2007) stated that, real estate is emerging as the hottest asset class for Indians. Innovative options are being offered to enable retail and high net worth investors to participate in this sector. The latest in the offering is from ING investment management India. The management house has launched ING global real estate Fund, which will be India’s first open-ended fund and the first to offer Indian investors access to global property markets. “Even retail investors are gradually coming in. This clearly shows that there is need for such scheme that can act as a risk mitigator in a volatile market scenario” It aims to offer investor returns that are better than fixed income products, but with lower volatility than an equity fund. ING is the world’s largest real estate investment manager, managing assets worth $145 billion. Australia, Hongkong, Singapore and other Asia Pacific Countries account for 44 percent of its portfolio, followed by 37 percent in America and Brazil and 19 percent in the UK and other EU countries. Experts are of the opinion that Indian investors so far have a limited exposure to the property market. But, now, since real estate is emerging as a new asset class, with the domestic market slowly graduating to the global level, there is huge opportunity for funds as well as investors. “The Indian real estate market is at its nascent stage and as it now gradually grows, investors are also seeing it as a new avenue for investment. This also provides asset management companies with a very big market.

Victor Fang, Chien – Ting Lin, Warren Poon (2007) examined the exposures of the Australian gold mining firms in the period 1995 – 2000 which was a highly volatile period in terms of gold price due to bulk sale of collective central banks. The factors that had an influence on gold beta were investigated.

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Mathew T. Jones and Maurice Obstfeld (2007)\(^{95}\) revised and evaluated pre World War II current account data for 13 countries by treating gold flows on a continuous basis. The historical data of savings and investment were taken over a time period of 1850 – 1945.

Pallavi Mualy and Bakul Chugan (2008)\(^{96}\) wrote that the domestic mutual fund industry is still at a nascent stage vis-à-vis the developed countries. However, the industry's growth in the past few years indicates its future potential. In the past seven years, the assets under management (AUM) of mutual funds have jumped by around six times to cross more than Rs. 5 lakh crores by the end of the last calendar year. The growth is attributed to the rising interest of Indian households in the stock market. Not surprisingly, the number of asset management companies is also increasing by the day. The industry has, however only scratched the market surface, so far. Equity investments account for less than 7 percent of all financial savings of households in India. In a market like the US the corresponding figure is above 50 percent. The industry's growth will be stupendous if it is able to capture even a quarter of India's household savings.

Personal disposable income in India is also growing in high double digits and the market regulator has now opened up a new growth avenue for the industry – real estate mutual funds (called REIT's) and short-selling of equities. The industry has also gained after RBI raised the overseas investment limit for the mutual fund industry to $ 5 billion. In 2008, pension funds expect to get a nod from the government to invest in equities via the mutual fund route. And given the large number of mega IPOs this year, ample IPO proceeds are expected to be parked by corporate in short–term debt mutual fund.


\(^{96}\) Pallavi Mulay and Bakul Chugan, “Rising Star- The bull run in the banking and financial services sector will continue in 2008 and beyond” The Economic Times (portfolio), January 7, 2008, P 2.
Mohan Nayak (July 2008)\textsuperscript{97} in his article titled “Service Standards of LIC Mutual Funds: A Study”, stated that the investments in mutual fund are not a one-time activity. It is a continuous activity; the same investor if satisfied will come to the company again and again and become the loyal customer.

Gnana Desigan and Prabhu (August 2008)\textsuperscript{98} in their article titled “Investors Protection: Role of consumer Forum”, have stated that the Government has enacted Consumer Protection Act in 1986 for providing a simple, speedy and inexpensive redressal mechanism to address the grievances of the consumers which has been not only preventive in nature but also compensatory in nature. The Consumer Disputes Redressal Forum is an important and consumer friendly redressal agency. Every investor can easily get access to the consumer forum for their investment related grievances.

Mayank. V. Bhatt and Chetan C. Patel (Sep 2008)\textsuperscript{99} in their article stated that it is well known that now-a-days, mutual funds are the most popular and safe parameter for an investor to invest. Keeping the present and future aspects regarding the mutual funds in India, it is easily concluded that this market will give enough to an investor for a long period. The Sharpe Index Model is easily understood and helps investors to decide which mutual fund schemes are performing well and which mutual fund schemes are not.

Mukhopadhyay and Veena Vishwanathan (Jan – Dec 2009)\textsuperscript{100} in their study stated that the last few years had been momentous for the Indian Stock Market with the index


reaching their all time historic heights followed by sharp declines. As the small investors have low risk bearing capacity and lack the requisite expertise to directly invest in the capital market, the mutual funds were supposed to be an avenue whereby the surplus of the household sector could be diverted to the capital market. Furthermore, it was expected that mutual funds could with their professional management outperform the stock market while diversifying away the risk. It is observed from the analysis that during the sharp downturn in the markets from 10\textsuperscript{th} May 2006 to 14\textsuperscript{th} June 2006 these same schemes not only gave negative returns but also underperformed the index. While the Nifty went down by $-29.9$ percent during this period, the funds from UTI, Prudential and Reliance mutual fund went down by $-30.6$ percent, $-30.97$ percent and $-34.3$ percent respectively.

Renu Jatana and Disha Rathore (Feb 2009)\textsuperscript{101} studied that the performance was concerned with a initial GETFs were not that much succeed comparatively our regular mutual funds, reason behind this is the new concept of GETF among the general investor. But as the Dollar is depreciating and Rupee getting appreciated investors are paying interest to the newer concept of GETFs as dollar factor giving tremendous jumps to their AUM as well as to their volume because dollar is negatively co-related to the gold and if US fed also continue to cut rates, gold and GETF can give good return to investors. In March 2007 the AUM of Benchmark Gold BeES was Rs.96.2 crores and in the month of Sep 2007 it was Rs.127.17 crores, nearly 33 percent jump. The total value of the AUM of GETF is Rs. 475 crores as per AMFI’s data.

Kavita Chavali and Shefali Jain (Feb 2009)\textsuperscript{102} analyses in their study showed the following results:

- 85 percent of the respondents are aware of mutual funds and invest in the various instruments available in the market.


• The main motive for 50 percent of the salaried class respondents is tax minimization on the capital appreciation, 20 percent of the respondents preferred returns and 15 percent of the respondents preferred to save for post-retirement requirements.

• 40 percent of the respondents preferred bank deposit as a mode of tax saving investment as long-term bank deposits are tax saving instruments. It is also one of the reasons why banks are successful in marketing mutual funds as the investors have a lot of faith in banks. 32 percent of the respondents preferred government securities.

• 12 percent of the respondents have invested in mutual funds but do not know much about how it works. They have knowledge just required for investment purposes.

• 64 percent of the salaried class people have not invested in the equity-linked saving schemes not knowing much about its benefits.

• 53 percent of the investors are willing to invest more in these schemes if they get complete knowledge and guidance from the companies. So efforts should be taken by companies to create awareness about these funds.

• 45 percent of the investors select a fund based on the Net Asset Value of the fund, 40 percent of the investors on the basis of returns projected by companies and 35 percent of them on the basis of brand name and reputation of the AMC and their track record while investing in mutual funds. 10 percent of the respondents look only for the charges applicable like the entry and the exit loads. As long as the fund is performing well and giving good returns, they are not much worried about it.

• 27 percent of the total respondents want to continue with the scheme because of the lock-in period and entry loads.

Basavanthappa and Rajanalkar Laxman (Feb 2009)\(^{103}\) in their article gave suggestions on the basis of the findings of their study, and they are 1) There is a need to change the perceptions of the customers towards pure term insurance policies. In order to encourage people to buy whole life policies, a special bonus or a small reduction in

premium may be offered. 2) In order to encourage and motivate people to take a life insurance policy, the corporation may come forward with novel and innovative schemes at lower premium. 3) Life insurance awareness campaign may be organized and conducted in rural and semi urban areas in order to educate people about the various life insurance products available in the market.

Ammannaya (Feb 2009)\textsuperscript{104} in his study stated that banks can surely show better, stronger and sounder and enduring performance through adoption and implementation of internationally accepted best banking practices, standards, codes and other global bench marks. Indian banks must continue to perform well and continue to give excellent financial results while simultaneously contributing substantially by way of value to stake holders. At the same time, they have to discharge the social obligations cast upon them and fulfil the expectations of society. All these can be simultaneously achieved only by means of strict adherence to global best practices, global standards and codes and global bench marks and other performance and soundness indicators explained earlier.

Satish (Feb 2009)\textsuperscript{105} in his study has given that, the insurance companies, operating in India have genetic demographic and vast populace advantages. To encash on the same, it calls for the rightful methods and most time – demanding action by interacting to the front runners, bright operating heads and thereby, ensuring marketing growth. Hence, it is necessary to initiate immediate steps to provide the desired HR, IT and other required support for marketing and then one can acknowledge the wonder immediately. The entire global market would be watching the Indian insurance companies for an unimaginable fast growth through marketing.


Hitesh S. Viramgami (Mar 2009)\textsuperscript{106} in his study concluded among various sectors operating in mutual fund industry, private sector mutual funds have become the most prominent players in the industry. Public sector blue – chip companies like Indian Oil, ONGC, SAIL and GAIL may soon be able to invest a part of their surplus funds, estimated at around Rs. 2,50,000 crores in mutual funds in SEBI regulated mutual funds. It is obvious that mutual funds have opened salutary avenues for development of capital market and mobilizing savings. For their orderly growth, it should be remembered that investors’ interest should be protected and they should not be prejudiced after investments made by them. The investment, services of higher order and equity should be guaranteed besides regular, timely payment of interest and principal according to the promises made.

Sunnykutty Thomas and Rejesh (April 2009)\textsuperscript{107} in their study 500 rural investors have been selected as sample. Proportionate stratified random sampling is adopted for selecting sampling respondents. While selecting sampling respondents, proportionate weightage has been given to the socio – economic factors of rural investors.

Prabakaran and Jayabal (June 2009)\textsuperscript{108} have taken the following as the main objectives of the study to quantify the risk tolerance of the mutual fund investors, to identify the socio – economic variables and correlate the same with risk tolerance, and to describe the overall picture on the risk tolerance of the mutual fund investors. Empirically it has been proved that the mutual fund investors are from low and moderate risk tolerant groups and the socio – economic variables do alter the risk tolerance of individual investors. The mutual fund organizations must consider these socio – economic variables of the investors that have an important influence on investment decision making.


Vineet Kohli (Aug 2009)\textsuperscript{109} in his article has concluded that it was shown that investors neglect the low profitability aspect of new issues and over emphasize their growth performance. It is seen in this paper that equity markets in India have mainly financed lower profitability firms on the expectation that their earnings will grow in future. However, this expectation has not been realized subsequently as both profitability and growth of issuing firms have fallen in the post – issue period. This suggests that stock markets in India have suffered from excessive optimism and poor evaluation.

Nigamannanda Biswas (Nov 2009)\textsuperscript{110} in his study has concluded that the face of banking is changing rapidly. Competition is going to be tougher with banking liberalization. Banking sector of India needs to manage all the aforesaid challenges very effectively and efficiently with a view to ensure the economic growth of the country. Banking sector is still to render services to large section of the society particularly in the rural areas. Opportunities are immense for the Indian bankers to expand their business. But confidence must be built among the customers by overcoming those challenges. Honest and sincere efforts from the bankers need to be put to challenge those problems.

Bhavani and Sandhya (Dec 2009)\textsuperscript{111} in their study analyzed the customers’ views as per the questionnaire which is summarized here: SBI is a very good bank when compared to other nationalized banks. Replenishment of money in ATMs is very time consuming. Limits of withdrawals amount up to Rs.40,000 is not satisfactory. Better if the limits of withdrawals are increased. To provide for help desk at every branch. Long queues in the banking hours deter the customers from availing the services. Services should be rendered faster. Most of the times SBI's ATMs are out of order. Low funds in ATMs is an issue notable. Problems to deposit cash more than Rs. 25,000 in other branches are dis-satisfactory.


Kavita Chavali (Dec 2009)\textsuperscript{112} in her study stated that Gold ETFs provide investors a means of participating in the gold bullion market without the necessity of taking physical delivery of gold, and to buy and sell through the trading of a security on stock exchange. GETF have been the talk of the town as an investment avenue as they have shown good positive returns unlike other traditional mutual funds with negative return because of their low NAV values. Even when the market is going down and with the declining NAV of various traditional mutual funds, GETF maintained their return. All GETF’s are doing well but particularly the UTI GETF, Quantum GETF and Reliance GETF are specifically doing well with an average return of 60 – 70 percent. The greatest challenge for GETF in India is the lack of awareness among Indian consumers which acts as a major deterrent in its popularity. India still has a long way to go but this can be seen as one of the attractive investment avenues for the Indian investor and has its place in the portfolio of an Indian investor.

Kasilingam and Jayabal (Dec 2009)\textsuperscript{113} have found that the awareness level has a direct and significant correlation with the amount of saving. The low awareness level of a particular scheme not only affects investment in that particular scheme but also the total small saving mobilization thereby affecting the total investment of an individual. Except NSC and PPF, the awareness level of people in other schemes is around 50 percent only, which is very minimal. Even with this low percentage of awareness level, the Gross Domestic Savings of India is 32 percent of GDP. Total savings of the nation can be raised further by increasing the level of awareness. To increase the awareness level, media source can be used which is the most preferred source of information by the investors.


2.2 RESEARCH DESIGN

Research design is the framework of research conducted by the researcher. A well-defined and designed research is the essential feature of a successful investigation. This is a fact-finding exploration exercise. The main purpose of research is to describe, interpret and explain the phenomena with a suitable methodology.

Selection of proper research method is a very crucial problem. If the methodology adopted for completing a piece of research is inappropriate and insufficient then, the results are bound to be vague, implausible and unscientific.

The methodology part of the research design describes just what must be done, what data will be needed, what gathering device will be employed and how the data will be analyzed and how the conclusion is reached.

Research design outlines the methodology followed and the tools of analysis employed for analyzing and interpreting the key variables.

Statement of the problem

In the urban India, ability to invest is comparatively higher because of the higher households' income compared to rural India. The dominant income groups in the urban India are middle income people. They may depend on fixed income or business income or both. People need some sort of security and return from their investment. They trade off between risk and return. Their investment behavior depends on so many factors which are socio, economic, personal and psychological oriented. If the behavior is properly shaped through the financial institutions in India, the economy will definitely reach prosperity. Hence the present study focus on “The Investment Pattern of Investors of Tamilnadu with Special reference to Mutual Funds”.

Scope of the study

Present study will be undertaken among various kinds of investors like government employees, private employees, professionals, business people and agriculturalists with respect to pattern of investment in general and in mutual funds in particular. The information gathered from investors constitute the primary data.
It also covers all details of mutual funds in India sponsored by banks, institutions and private sectors. Information on funds mobilization redemption, net inflow/outflow of mutual funds schemes over a period of eleven years 1997 – 1998 to 2007 – 2008 at national level are gathered from internet through association of mutual funds in India website (www.amfiindia.com) and this constitute the secondary data.

Primary data covers investors’ demographic profile, investment pattern of investors, level of satisfaction and confidence on returns from investment avenues, and awareness of mutual fund investment.

Objectives

Following are the specific objectives of the study

1. To study and analyse the evolution and growth of funds mobilization, redemption and net inflow/outflow of mutual funds schemes in India.
2. To study and analyse the evolution and growth of sector wise mutual funds in India
3. To analyse the investment pattern of investors of Tamilnadu
4. To identify the awareness and perception of investors in mutual fund investment
5. To evaluate the problems and prospects of mutual funds and to give suggestions.

Methodology

Present study on “Investment Pattern of Investors with Special reference to Mutual Funds” includes both primary data and secondary data. Opinion survey from investors constitute primary data. Details of funds mobilization, redemption and net inflow / outflow of mutual funds schemes at national level are analysed, which constitute secondary data.

Primary data is collected with the help of interview schedules prepared for investors (ANNEXURE). Secondary data is collected through internet.
**Period of study**

In order to study the investment pattern of investors with special reference to mutual funds, secondary data is collected for a period of eleven years i.e. from 1997-1998 to 2007 – 2008. The secondary data include funds mobilisation, redemption and net inflow / outflow of mutual fund schemes in India. It also include mutual fund sponsored by UTI, public and private sectors and various financial institutions at national level. Primary data on investors' opinion collected during the year 2008.

**Geographical coverage**

The area selected for collecting the primary data for the research include the four cities of Tamilnadu with corporation status: Tirunelveli, Madurai, Tiruchirapalli, Coimbatore and Chennai.

**Sampling Design**

Tamilnadu consists of eight corporations, of which five corporations namely Chennai, Tiruchirapalli, Madurai, Coimbatore and Tirunelveli are selected, based on investment made by the investors. From each corporation four wards are selected by simple random sampling. From each ward, a sample of 440 are selected at the rate of 22 respondents. As 40 interview schedules were found to be incomplete, they were rejected. Thus the total sample size is 400. The multistage sampling method is adopted with the selection of the corporations and wards followed by convenience sampling technique adopted in collecting data from sample respondents.

**Tools of Analysis**

For analysis and interpretation of information gathered in the form of primary and secondary data, several parametric and non-parametric tools are applied.

1. **Factors analysis**

Factor analysis is used to get an insight into the factors considered at the time of investment, proposed investment in future, and factors motivating the investment in mutual funds.
2. To analyse the impact of investment decision factors on the overall investment decision behaviours, simple log liner multiple regression is used.

3. In order to find out whether there is any significant difference among the groups of sample investors regarding their perception in decision making and their proposed future investment avenues, one way analysis of variance (ANOVA) has been used.

4. Compound growth rate with regard to funds mobilization, redemption and net inflow / outflow of mutual funds, have been tested on the basis of the semi-log or exponential function.

5. To measure the magnitude of variability in the funds mobilization, redemption and net inflow/outflow of mutual funds, co-efficient of variation (C.V.) is used.

6. Percentage analysis is used to analyse the characteristics of the sample respondents and increase or decrease in pattern of mutual funds.

Operational Definition

1. Investors : Individual Persons who make investment in different investment avenues.

2. Funds Mobilization : Amount mobilized by mutual fund companies by the way of sale of its units to investors.

3. Redemption : Amount invested by mutual fund investors taking back their money after its maturity or before the maturity period.

4. Net inflow : Net amount mobilized after deducting redemption amount from funds mobilised.

5. Net out flow : Excess of redemption amount over funds mobilised.
6. Sponsor

The sponsor is the company which setup the mutual fund. Sponsor means any body corporate who is acting alone or in combination with another body corporate establishes a mutual fund after initiating and completing the formalities therefore. According to SEBI (Mutual funds) Regulations, 1993 the sponsor for the mutual fund could be a company registered under the companies Act, 1956 but under SEBI (Securities Exchange Board of India) (Mutual funds) Regulations, 1996 the sponsor should be a finance company. The company can be a public limited or private limited. One or more public and private limited companies can join to sponsor a mutual fund.

7. Trustees

Mutual fund trusts are created by the sponsors under the Indian Trust Act, 1882 duly registered under the provisions of Indian Registration Act, 1908 executed by the sponsor in favour of the trustees named in such an instrument. The management of the mutual fund is subject to the control and superintendence of the Board of Trustees of the fund. The trustees of the mutual fund are eminent persons who have wide experience in investment matters, finance, administration etc.

8. Asset Management company

Asset management company (AMC) means a company formed and registered under the companies Act, 1956 and approved by the SEBI. The mutual fund will be operated only by separately established Asset Management Companies. The AMC manages the funds of the various schemes. The AMC plays a key role in running the mutual fund and it operates under the supervision and guidance of the trustees.

9. Assets under Management (AUM)

AUM is a term used by financial services in the mutual fund business to gauge how much money they are managing. Mutual fund companies use AUM as a measure of success and comparison against their competitors. In lieu of total revenue they use total assets under management.
Limitations of the Study

1. Due to time and cost constraints of the researcher, the primary study area is restricted only to the five corporations of Tamilnadu namely Tirunelveli, Madurai, Tirchipallai, Coimbatore and Chennai.

2. For the purpose of this study only individual investors have been considered and not the institutional investors.

3. While studying the investment pattern of investors, mutual fund investment is taken as one of the investment avenues.

4. Specific study of mutual fund with specific schemes by the investors are not considered.

5. The data given on different websites related to mutual fund even on websites of RBI and SEBI do not match at times, perhaps due to difference in timing of updation.