CHAPTER-2

LITERATURE REVIEW

This chapter presents the review of previous research studies made in the area of mutual funds. Articles published in national/international journals, websites and books were used to compile the review of this study.

Surjit (2006) analyzed the relationship between investors and mutual funds. Investors have started to invest in mutual funds. In mutual funds investors can diversify their risk by investing in different schemes. The mutual funds are becoming popular among the people who are more risk-average than pure equity investors. Even in churning time carefully managed mutual funds can ensure optimum returns in the market and that makes the mutual fund a good choice among the retail investors. Due to the reduction in the bank interest rates and high degree of volatility in the Indian stock market, investors are looking for an alternative for their small time investors which will provide them a higher return and also safety to their investments.
2.1 INVESTOR’S PERCEPTION:

Kaul and Gupta (2006) analysed the investors’ preferences to select the mutual fund scheme. These are risk capacity and tolerance, liquidity needs, specific objectives, credibility of the sponsors, investment philosophy of the fund, performance of the scheme, dividends, entry and exit loads, expenses charged to the fund and services offered by the fund. Gallo et al. (2000) found evidence of fund manager skill in the performance of mutual funds. They examined fund asset allocation among various securities and found that fund manager on average show skill in selecting the best performing sectors, and that the allocation of fund assets among the securities explain most of the performance in sampling.

Capon et al. (1994) identified the difference between typical and affluent mutual fund investor. Typical consumers were, in general, unable to respond to the simplest question regarding the nature of their investment; fund investment and fund management style. By contrast, affluent investors were well informed on these matters. The selection criterion, confidentiality was very important to the affluent but not at all important to typical investors. Ahmed and Ahuja (2006) evaluated the cause and effect relationship between mutual fund investment decision and fund family, fund size, type of fund, type of portfolio and schemes, risk involved of the fund manager, past performance of the fund, liquidity
factors and current market conditions. They also generated decisional matrix for mutual fund investment on the basis of the relationship between the fund size and NAV returns. By that they exhibited the decisional optimization, decisional consideration, decisional reconsideration and decisional fallacy.

Panda and Nalini (2001) also evaluated the cause and effect relationship between mutual fund investment decision and mutual fund products. They also suggested that how a product design should be careful about the designing a brand of mutual fund. They should focus on core expectations, market performance, service behavior, persuasive communication and investor’s confidence. The buying intent of a mutual fund product by small investor can be due to multiple reasons depending upon customers risk return trade off. Agrawal (2000) “opined that mutual funds had made a remarkable progress during 1987-95. The cumulative investible funds of the mutual funds industry recorded a skyrocketing growth since 1987. During 1986-87 it was INR 4,564 and reached INR8,059 crores by December 31, 1995”. Ansari (1993) stressed that for becoming predominant financial service institution in the country there is a need of mutual funds to bring some innovative schemes suitable to the varied needs of the small investors.

Bansal (1991) identified mutual fund play an intermediary role
between the capital market and prospective investor. Mutual fund is popular investment option since 1985-86 because of safety, liquidity, and reasonable capital appreciation assured by the industry. The schemes with assured returns showed tremendous progress in last decade. Investment in mutual fund was secured because most of the funds floated by commercial banks gave an impression that the responsibility of funds lay with the respective banks.

Bansal (2003) surveyed of 2,819 investors and concluded that, the percentage of investors investing only in UTI schemes reduced. The loyalty factor of investors seemed to have become a myth as investors were looking for growth of their capital. They spread their holdings over two or more funds for diversify their risk in increasing competitive mutual fund environment.

Aggarwal and Schofield (2012) analyzed that Exchange traded funds (ETFs) are one of the financial products listed on exchanges. As reflected by the size of the market they have become successful in financial market. The original ETFs were simple and easy to understand, however some new products with complex features such as leveraged, inverse, and synthetic ETFs, have additional risk. Expense ratios Liquidity, and tracking error are important factors for investors investing in ETFs. The difference between traditional ETFs and leveraged ETFs is not only in
terms of returns but they are also constructed differently. Because of these new complex features ETF has grown tremendously during the last decade. Barnhart, Scott W. and Rosenstein, Stuart (2009) tested that ETF are suitable or not to become viable substitute of Close ended funds (CEF). They hypothesize that the introduction of an ETF will decline the premium, trading volume of CEF. Their event-studies show that upon the introduction of a similar ETF, CEF discounts widen significantly and relative volume declines significantly. Finally they concluded that substitution, in conjunction with market segmentation, is a likely explanation for widening discounts in international equity CEFs. Birdthistle A. William (2008) explained the development, structure and functioning of ETF. He concluded that price mechanism of ETF provide an opportunity to encourage liquidity in the market for ETF shares and ensures an alignment between the performance of a fund and its benchmark index. When the mutual fund faltered, prompting litigators and regulators started to draft complaints and regulations, many investors found a solution to the troubles in ETFs. With ETFs now headed quickly towards a potentially awkward adolescence in which they will be forced to take on important new responsibilities particularly sponsors were attempting to persuade the SEC to approve application for actively managed ETF. The novel internal dynamics of ETFs arm them with architectural protections from many of the inherent weaknesses of mutual
funds. Moreover, the emergence of an alternative market solution is preferable to the imposition of several new regulatory rules to try to correct the problems with mutual funds. The pressure of these novel and significant developments may expose weaknesses in their design and execution with profound financial consequences. The expansion of this new industry will almost surely not come without growing pains, and the experience of mutual fund advisers may provide useful lessons for the sponsors of exchange-traded funds.

Fischer and Jordan (1994) analyzed the relation between preferences of investor, behavior of investor and risk. According to them investor’s attitude depends on risk return measures on portfolios. Investors expect more return if they bear extra risk. The conservative investor want to take huge return guaranteed with small increases in risk. The more aggressive investor will accept smaller increases in return for large increases in risk. They can afford possibly significant losses. The conclusion of their study was that the psychology of the stock market is based on how investors form judgments about uncertain future events and how they react to these judgments.

D’silva et al. (2012) founded that the investors will prefer that mutual fund company the most which gives maximum attention towards investors needs and requirements. Thus being customer centric not only
satisfies the investors but it also increases their loyalty towards the Mutual Fund Company. A loyal and satisfied investor will not only continue to make more investments but will also influence its peer groups towards investment in same Mutual Fund. The study also indicates that predictor variables like educational background of investors significantly influence their pattern of investment in mutual fund. There exists a vast difference in purpose of investment of investors belonging to different academic backgrounds. Further it has also been found that investors with different academic qualifications also create a significant difference in ranking the certain parameters towards investment in mutual fund. This implies that investors with different educational level have vast difference in their perceptions towards ranking investment attributes of mutual fund. Finally the study also analyses that the purpose of an investor behind investing in Mutual Fund definitely influence in the selection of the mutual fund scheme for investment. Thus the need of the hour for all the domestic mutual fund companies is to expand their investor base which can be possible, only when the companies are determined to understand the value drivers and thus lure retail investors to invest in mutual funds.

Gangadhar (1992) identified that because of three important qualities of mutual fund viz. steady return, low risk and capital appreciation, it has became a prime vehicle for mobilization of
household’s savings. He also identified that open-end funds mostly preferred in India due to its size, economies of operations and for its liquidity. Investors opted for mutual funds with the expectation of higher return for a given risk, greater convenience and liquidity. Grubber (1996) attempted to study the reason of fast growth of mutual funds in spite of inferior performance of actively managed portfolios comparatively index fund. The study revealed that, they are bought and sold at net asset value, and thus management ability may not be priced. If management ability exists and it is not included in the price of open end funds, then performance should be predictable. If performance is predictable and at least some investors are aware of this, then cash flows into and out of funds should be predictable by the very same metrics that predict performance. Finally, if predictors exist and at least some investors act on these predictors in investing in mutual funds, the return on new cash flows should be better than the average return for all investors in these funds.

Gupta (2000) identified that the IMF has come a long way since its inception in 1964. The transformation in the previous decade was the outcome of policy initiatives taken by the Government of India to break the monolithic structure of the industry in 1987 by permitting public sector banks and insurance sectors to enter the market. Gupta (1992) critically examined the trading system and practices of Indian stock exchanges. He
specially focused on investors' problems and complaints. He also presented the famous Pherwani Committee's recommendations on market reforms and establishment of National Stock Exchange. Hamm (2010) investigated whether markets for individual stocks lose liquidity when uninformed investors are given options to avoid trading against informed investors. He found a positive association between a higher percentage of firm shares held by ETFs and illiquidity in the market for stocks, especially for those held by highly diversified. He also found that uninformed investors correctly perceive their informational disadvantage and the determinants of adverse selection costs, and act to minimize this disadvantage when presented with an alternative trading device. However, diversified ETFs suffer more from underlying stock illiquidity. This dynamic casts doubt on whether uninformed investors can effectively avoid adverse selection cost by trading ETFs.

Huang and Guedj (2009) developed an equilibrium model to investigate the efficiency of ETF with respect to open ended mutual fund (OEF). They found that while trading for OEF investors is costly, it is also beneficial to those investors because of zero sum game. OEF provide liquidity with insurance of investors, and hence is beneficial for risk adverse investors. However, these liquidity insurance investors do not internalize the price impact of their orders, this result too aggressive
trading which leads to a lower average return for the OEF. Moreover, they found that that long-term investors may optimally choose to invest in the ETFs and that there is a feasible role for ETFs in the mutual fund industry.

Higher liquidity investors needs benefit more from the liquidity insurance and hence prefer to invest via the OEF. Interestingly, the concentration of high-liquidity-need investors in the OEF does not lead to higher flow-induced trading costs since individual liquidity needs cancel out at the fund level. As a result, OEFs are not dominated by ETFs in equilibrium.

Jackson (2003) examined the relationship between individual investor flows and future stock returns at the market and cross-sectional levels. He revealed that behavioral models that assume small investors as aggregate irrational or uninformed may not be justified, given that the net flows of full-service investors positively predict future short-term cross-sectional and aggregate market returns. By using dataset of individual investor trades on Australian Stock Exchange he found that aggregate individual investor trades do indeed exhibit strong systematic patterns, including negative feedback trading and substantial persistence. In addition the weekly cross-sectional net trades of a large number of independent retail brokerage firms are contemporaneously correlated to a remarkable extent. Thus the aggregation assumption appears plausible.
Singh and Chander (2004), in their research article entitled, “An Empirical Analysis of Perceptions of Investors towards mutual funds”, made an attempt to analyze the perceptions of investors towards mutual funds that had crossed INR 1,20,000 crore mark by November 2002. The research article analyzed the reasons for withdrawal and/or not investing any more in mutual funds. They realized that the low performance of mutual fund is discouraging the investors to keep their funds parked in mutual funds. Jiang and Hongjun (2012) concluded that in the light of standard theories of financial innovation, levered ETFs are unusual in that although they are largely marketed to retail investors, they increase, rather than decrease, information sensitivity. How does this affect market liquidity? Controlling for the underlying index, the turnover in the levered ETF market is several times higher than that in the regular ETF market. However, this does not imply that the levered ETF market is more liquid, as they also found that levered ETFs have significantly higher bid-ask spreads and lower liquidity ratios. One interpretation is that levered ETFs appeal certain type of investors who are interested in short-term levered speculation or hedging. In aggregate, the total cost levered ETF investors incur is around 5% of the market capitalization, or around $1 billion, each year. Regular ETF investors appear trade differently: For levered (regular) ETFs, monthly fund flows are strongly negatively (positively) correlated with both current and past month returns. Finally, due to limits of
arbitrage, ETF prices converge to their fundamental values, but only gradually.

Banko et al. (2010) contributed to the literature on mutual-fund managers, and the literature on the structure of mutual funds, by showing that market concentration at the asset-manager level varies substantially across Morningstar styles, particularly for the fixed-income funds. The paper shows that increased market concentration is associated with greater expenses for the funds under management, within a given Morningstar style box, for both equity funds and for fixed-income funds.

Karthikeyan et al. (2012) examined the investors’ perception and expectations towards mutual fund products by banks. Data were collected from 108 valued investors of various banks in Tiruchirappalli, Tamil Nadu (India by using convenient sampling. By the use of statistical package for social science, the researchers have employed the following analysis, namely (a) factor analysis, (b) multiple regression and (c) correlation. To check the reliability of sample, the researchers have used Cronbach’s Alpha Reliability Test (0.718). Some of the major findings were derived that will be useful, relevant and significant to the present scenario for marketing of mutual fund products through banks in the Tiruchirappalli zone.
Kat (2000) reported on a new class of derivative products which is referred as 'equity-linked savings products' (ELSPs). There are two parts of ELSS schemes saving part and equity linked part. Saving part contains periodic payment while in case of equity linked part single payment at maturity is done. They discussed the structuring, hedging, pricing and marketing aspects of a variety of ELSPs. They appear as swaps or leveraged purchase of forward or leverage purchase of stocks as case may be. They paid particular attention to the case of The Netherlands where majority of exotic equity structures ends up in the hands of retail instead of institutional investors, either in the form of equity-linked notes or equity-linked savings products.

Khurana and Chaudhary (2009) stated that mutual fund is best investment avenue for the retail investors as it offers an opportunity to invest in a diversified, professionally managed portfolio at a relatively low cost. At the retail level, investors are unique and are a highly heterogeneous group. A large number of investment options are available to investors. Currently there are large numbers of schemes available and Asset Management Companies (AMCs) compete against one another by launching new products or repositioning old ones. Unless mutual fund schemes are tailored to the changing needs, and the AMCs understand the fund selection behaviour of the investors, survival of funds will be difficult
in future. With this significance an attempt is made to study the attitude of mutual fund investors.

Krishnamurthi (1997) identified that for taking the benefits of investing in blue chip shares through firm allotment in primary market the mutual funds is best investment option for small and medium investors with limited resources., it will allow access to price sensitive information and spread risk along with the benefits of professional fund management. Lal and Sharma (1992) identified that, the household sector’s share in the Indian domestic savings increased from 73.6 percent in 1950-51 to 83.6 percent in 1988-89. The share of financial assets increased from 56 percent in 1970-71 to over 60 percent in 1989-90 bringing out a tremendous impact on all the constituents of the financial market. Verma (2007) investigated the concept of Investment Style Analysis of mutual funds. The author conducted a survey among various financial advisors and fund managers from various Asset Management Companies. She founded that majority of the mutual fund managers adopt the security specific investment style and prefer the Bottom-Up Approach Style while selecting stocks.

Capon et al. (1994) concluded that Probes affluent investor mutual fund investment decisions. They developed several different investor profiles from data on approximately 300 affluent investors. These investor
types differ in sources of information regarding mutual fund investments, particularly the use of financial advisers, and in the selection criteria employed for mutual fund purchases. In addition, they have distinguishable mutual fund behavior and demographic characteristics. He developed specific implications for financial services firms.

Nwogugu (2012) stated that while synthetic funds, synthetics ETF and Leveraged/Inverse ETFs have grown in popularity during the last ten years, there are many structural problems inherent in the legal/economic structure of these ETFs and funds. These problems have not been addressed either by appropriate regulation, enforcement or by the design of these investment vehicles. These problems raise actionable issues of “Suitability” and “fraud” under US securities laws, because the advertised terms of most Leveraged/Inverse ETFs and some Synthetic ETFs are misleading, and these ETFs have substantial tracking errors. According to him the existing literature on Geometric mean maximization as an investment approach is wrong because of the biases. These Biases have critical implications for portfolio management and risk management.

Jayakar (2002) founded that equities had a good chance of appreciation in future. But it doesn’t mean that investor should blackball the debt fund from his portfolio rather it is time to reshuffle the portfolio and strike a balance between equity and debt. At this point investors
should correctly judge their investment objective and risk appetite before investing. He suggested that if investor has no more time for research then he should invest in mutual funds rather than stocks. In mutual funds Diversified equity funds are typically safer than the others as they reduce the risk associated with a particular sector. With diversified fund investor should also look specialised funds to provide higher returns at a reduced risk. The researcher suggested the investors who need regular cash inflows should avail growth option with a systematic withdrawal plan (SWP). In this way cash flow comes at regular intervals by way of redemption of units, rather than by way of dividends. The SWP plan enables them to reduce the tax burden in efficient manner. Then can choose either monthly or quarterly or half-yearly withdrawals.

Saha and Ramamurthy (1993-94) identified that return, safety; capital appreciation and liquidity play an important role in the choice of schemes. In 1989-90 the preference of the households in shares and debentures was only 7 percent. Mutual funds which are an alternate way of direct purchase of stocks should be managed effectively by adopting investment analysis, valuation models, and portfolio management techniques. They suggested that, fund managers can adopt portfolio selection techniques to take decision rather than making investments on an intuition basis. Sahadevan and Thiripalraju (1997) stated that, “mutual
funds mobilize savings of the middle and lower income groups without much difficulty in the form of shares. The household savings constituted more than 75% of the GDS along with a shift in the preference from physical assets to financial assets and also identified that, savings pattern of households financial saving shifted from bank deposits and government securities to shares, debentures, and mutual funds.” Sahu (1992) identified for strengthen capital market mutual funds is a suitable investment vehicle, as the total assets were around INR30,000 crores while the total resources in equity was less than 15 percent of market capitalization.

Sahu and Panda (1993) identified that the savings of the Indian public in mutual funds was 5% to 6% of total financial savings, 11% to 12% of bank deposits and less than 15% of equity market capitalization. The study suggested that, mutual funds should develop suitable strategies keeping in view the savings potentials, growth prospects of investment outlets, national policies and priorities. Khare (2007) opined that investors could purchase stocks or bonds with much lower trading costs through mutual funds and enjoy the advantages of diversification and lower risk. The researcher identified that, with a higher savings rate of 23%, channeling savings into mutual funds sector has been growing rapidly as retail investors were gradually keeping out of the primary and secondary market. Mutual funds have to penetrate into rural areas with diversified
products, better corporate governance and through introduction of financial planners.

Santhi and Gurunathan (2012) evaluated the performance of 32 growth-oriented open ended Equity Linked Savings Schemes (ELSS) of tax-saving mutual funds in India from 2006-07 to 2010-11. With the help of benchmark S&P CNX NIFTY performance has been analyzed by comparing the monthly returns of the funds with that of Indian stock market. For this purpose, they estimated risk return profile for tax saving mutual funds that have been varied from five year period to one year period. They evaluated risk-adjusted performance with the help of sharpe, treynor and alpha. From these measures they founded that there are certain schemes which underperform than the benchmark index that show a strong negative risk–return relation and there are certain schemes that outperform than the benchmark index with positive risk-return relation.

The Net Asset Value (NAV) of tax saving schemes from 2006-07 to 2011-12 has been considered. There was volatility in the performance of all the funds during the entire period of study. Highest volatility is measured during 2008-09. All the schemes follow the same pattern in returns and move along with the stock market index S&P CNX NIFTY. As expected, all the funds showed negative returns during 2008-09 and it was higher than that of the stock market index. The average return of most of
the schemes is higher and the average risk is lower than the benchmark S&P CNX NIFTY. Investors’ interest and keen updating of the market will help them to attain their expected return from the equity linked savings schemes of tax saving mutual funds.

Sathis (2004) opined that investors from seven major cities in India had a preference for mutual funds over banking and insurance products. Investors expected moderate return and accepted moderate risk. 60 percent of investors preferred growth schemes. The image of AMC acted as a major factor in the choice of schemes. Investors had the same level of confidence towards shares and mutual funds. Shashikant (1993) critically examined the rationale and relevance of mutual fund operations in Indian Money Markets. She pointed out that money market mutual funds with low-risk and low return offered conservative investors a reliable investment avenue for short-term investment. Sondhi and Jain (2005), in their article, “Financial Management of Private and Public Equity Mutual Funds in India: An Analysis of Profitability”, assessed the performance of equity mutual funds in terms of profitability for a nine-year period, 1993-2002. The overall results of this study indicated that the private sector mutual fund provided better returns than the public sector funds.

Treynor and Mazuy (1966) evaluated the performance of 57 funds managers in terms of their market timing abilities and found that, fund
managers had not successfully outguessed the market. The results suggested that, investors were completely dependent on fluctuations in the market. Improvement in the rates of return was due to the fund managers’ ability to identify under-priced industries and companies. The study used Treynor’s (1965) methodology including characteristic line and portfolio possibility line for reviewing the performance of mutual funds.

Vaid (1994) study revealed that the industry showed a continuous growth in savings mobilization and the number of unit holders during the period 1987 to 1992. 58.40% of resources mobilized by the industry were through income schemes. UTI accounted for 83.90% of industry mobilization. Pure growth schemes displayed a sound investment pattern with 81.80% of portfolios in equity scrips and had identified that semi-urban and rural areas were not adequately tapped by the mutual funds in spite of satisfactory returns. Offshore funds showed best performance during 1985-86.

Venkateshwarlu (2004) had analysed investors from the twin cities of Hyderabad and Secunderabad. Investors preferred to invest in open-end schemes with growth objectives. Chi-squared value revealed that, the size of income class is independent of preference pattern, and dependent on the choice of fund floating institution. Reasonable returns and long-term strategy adopted by the scheme were the criteria of scheme selection.
Investors perceived that too many restrictions led to the average performance of mutual funds in India.

Venugopalan (1992) opined that India (15 million) ranks third in the World next to U.S.A. (50 million) and Japan (25 million) in terms of number of shareholders ensuring the spread of equity cult. However, many investors face hardships in the share market due to lack of professional advice, inability to minimize risk, limited resources and information.

2.2 MUTUAL FUND PURCHASES:

A significant body of research suggests that past risk-adjusted mutual fund performance helps predict future risk-adjusted performance (Gruber 1996). Consistent with these findings, there is some empirical evidence that mutual fund investors make purchase decisions on the basis of past performance ((Kane et al. (1990), Patel et al. (1992)). However, other evidence suggests that consumers use factors other than return and risk. For example, a 1990 Consumer Reports Survey of mutual fund investors found that, although past performance and level of risk (safety) were rated the two most important factors in aggregate, several additional factors were also relevant: i.e. amount of sales charge, management fees, fund manager reputation, fund family (e.g. Fidelity, Vanguard), clarity of the fund's accounting statement, recommendation from a financial
The survey by Alexander et al. show that the typical mutual fund investor surveyed is older, wealthier, and better educated than the average American. The results of the survey suggest, however, that investor knowledge of the expenses and risks associated with mutual funds can be improved. Although the average fund shareholder has invested in funds for several years, most fund shareholders do not appear to appreciate the relationship between fund expenses and performance. In addition, a substantial number of fund investors still believe they cannot lose money in a bond fund. The survey results also suggest that more can be done to make mutual fund prospectuses more useful to investors. This suggests that the SEC’s recent initiatives in this area are appropriate and timely, especially since more than 40% of those surveyed stated that they never used the prospectus. Moreover, the survey investors considered the prospectus only the fifth best source of information about the funds they purchased.

Rao and Mohana (1998) opined that, UTI followed by LIC Mutual Fund dominated the market with 54 and 15 schemes respectively. He interviewed 120 investors and concluded that, 96% respondent invested in UTI because of better service and return. 50% of shareholding and 25% of
unit-holding investors were from metro cities. For choosing a mutual fund investors give preference to income–cum-growth option and capital appreciation. He identified that the close-end schemes were very popular among investors and investors in general expected private sector funds to improve the quality of services, investors’ confidence besides reducing fraud and mismanagement.

Singh and Chander (2003) identified that growth of mutual fund affected the choice of scheme. Investors expected repurchase facility, prompt service and adequate information about mutual funds. Return, portfolio selection and NAV were important parameters for mutual fund appraisal. The ANOVA results indicated that, occupational status; age had insignificant influence on the choice of scheme. Salaried and retired categories had priority for past record and safety in their mutual fund investment decisions.

2.3 PERFORMANCE OF MUTUAL FUNDS IN INDIA:

Gupta and Gupta (2004) evaluated investment performance of 80 mutual funds schemes of the Indian market. They have examined performance in terms of fund diversification and consistency. It indicated that there has been lack of adequate portfolio diversification. But, it supported the consistency of performance. Gupta and Sehgal (1998)
evaluated performance of 80 mutual fund schemes over four years (1992-96). These schemes managed by 5 mutual funds, 15 in private sector and 10 in public sector. The study tested the performance in terms of diversification, consistency, and risk-return relationship. The paper revealed that portfolio diversification of mutual fund industry has performed better than market and there was consistency of performance. Boyson et al. (2009) examined the performance of “hedged mutual funds” – mutual funds mimicking hedge funds strategies relative to hedge funds and traditional mutual funds. They found that hedge funds have better incentives as they usually charge performance-based incentive fees, while hedged mutual funds usually do not. They hypothesized that Hedged Mutual Funds should outperform Traditional Mutual Funds due to major differences in strategy. HMFs use strategies such as “long-short equity” that are not commonly used by traditional mutual funds. Findings of Skill Hypothesis indicated that retail investors can benefit from the skills of hedge fund managers, within the regulatory environment of mutual funds. Finally, they provided evidence that it is not the poorly performing HF managers that choose to offer HMFs. Anecdotal evidence seems to suggest that this phenomenon is driven by the desire of hedge fund managers to have a diversified clientele base as well as to raise more assets. Blitz and Huij (2011) examined the performance of passively managed exchange-traded funds (ETFs) specially in global emerging markets equities. Global
emerging markets comprise countries such as South Korea, China, India, Brazil, South Africa and Russia, which have become increasingly important to investors due to their fast growing economies. They found that the tracking errors level of these funds are substantially higher than previously reported levels for developed markets ETFs because of the larger cross sectional dispersion in stock returns. They also found funds that use statistical replication techniques to track their benchmark indexes are prone to high tracking errors during periods of high cross-sectional dispersion in stock returns. At the same time, they found no convincing evidence that these funds earn higher returns than ETFs that rely on full-replication techniques.

Singh and Chander (2004) concluded that most of the growth oriented mutual funds performed poorly as compared to the benchmark. They have also examined the growth of mutual funds in India interms of resource mobilization, promotion of various types of schemes and NAV based risk and return. The cumulative resources of mutual funds underwent a four-fold rise and found a threefold increase in the number of schemes during the period 1990-91 to 1997-98. Sodhi and Jain (2005) evaluated 26 equity mutual funds drawn from 22 Asset management companies belonging to private and public sector. They concluded that the equity mutual funds have overall inferior performance in comparison of
risk free return. They compared the rate of return generated by equity mutual funds and 364 days T-bills for the period of 1993 – 2002.

Elango’s (2004) found that private funds had a high positive association between the current and past performance compared to public sector. The private sector schemes exceeded public sector in terms of NAV, innovative products, incentives and in deployment of funds. Public sector funds showed low volatility as against greater variance for private sector indicating low consistency. Govt. Service’s t test indicated the existence of a high significant difference between the mean NAV of private sector funds and public sector with a high statistical significance of (-) 5.95. Rompotis (2009) concluded in his study that the active ETFs outperform with respect to market return but underperform both the corresponding passive ETFs and the market indexes. Tracking error of active ETFs is higher than that of the passively managed ETFs. He expanded the debate about "active v/s passive" management using data from active and passive ETFs listed in the U.S. market. With respect to risk-adjusted returns, both active and passive ETFs provide investors with no positive excess returns, an expectable finding for the passive ETFs but not for the active ETFs which are aimed at beating the market. Further He found that active ETFs basically receive lower ratings than the passive ETFs and market indexes active ETFs. Furthermore, regression results in
testing market timing skills of ETF managers that indicate that the
managers of active ETFs do not possess such skills.

Kaura and Jayadev (1995) in their paper entitled, “Performance of
Growth Oriented Mutual Funds: An Evaluation”, have empirically
examined the performance of five growth oriented mutual funds during the
accounting period 1993 to 1994. This paper used the methodology which
was derived by Jensen, Treynor, Sharpe and Fama. The paper concluded
that growth oriented mutual funds possibly outperformed the market with
respect to systematic risk and exceptionally demonstrate the superior
performance in terms of total risk.

Karceski and James (2003) examined performance difference
between retail and institutional funds and they found that investors in
institutional funds do not chase returns the same way that retail customers
do. Not only do these funds have higher expenses than other institutional
funds, but also their average return is significantly lower than the average
return on types of institutional funds as well as retail funds. One
explanation for the lack of a significant relationship between fund inflows
and past performance and the consistently poor performance of these small
institutional funds is the lack of monitoring by investors in these funds.
Investors in small institutional funds behave as if they are captured. This
capture is reflected in higher fund expenses, lower overall returns and the
significantly lower sensitivity of fund inflows or outflows to overall performance. They also examined cash flows into and out of retail and institutional open-end equity mutual funds. This suggests that some institutional investors focus on different performance criteria than retail investors.

Tripathy (1996) identified that the Indian capital market expanded tremendously as a result of economic reforms, industrial policy reform, public sector reform and financial sector reform. Household saving accounted 80 percent of country’s savings and only about one-third of such savings were available for the corporate sector. The study suggested that, is very essential to create in the mind of the investors that mutual funds are market instruments and associated with market risk hence mutual fund could not offer guaranteed income. Mutual fund organizations are needed to upgrade their skills and technology. Tripathy (2011) evaluated the market timing abilities of Indian fund managers of thirty-one tax planning schemes in India for the period of 1999-2004 by using Jensen & Mazuy Model and Henriksson & Merton model. The study indicates that the fund managers have not been successful in testing market timings of mutual fund schemes so they relying on only on stock selection skills. Narasimhan and Vijayalakshmi (2001) evaluated the performance of the Mutual Funds in terms of returns/benchmark comparison, diversification, selectivity and
manager’s timing ability. The study found that there was a general shift in the investment strategy of holding a diversified portfolio and in optimizing the risk-returns of investments to invest in predictive winners of the period.

Bodla and Garg (2007) evaluated the performance of 24 growth schemes of mutual funds. They reveal that most of the schemes have outperformed the market during the study period in terms of return. However, the difference in market return and funds return is found insignificant. There exists a moderate positive correlation between risk and return of the sample schemes. A large majority of the schemes have succeeded in earning a risk premium irrespective of the performance measurement model concerned. Most of the schemes have performed better than the market on the basis of risk adjusted return also. Ramasamy and Yeung (2003) focused on Malaysia where the mutual industry is growing in terms of size and choice. The results of their survey point are the factors which are considered by financial advisor for selection of mutual funds in emerging markets. These factors are consistent past performance, size of funds and costs of transaction. Fund managers and investment style are not considered to be relatively important. With the impending liberalization of the financial markets in the developing world, their findings would assist those international funds that are considering
expanding their operations into these emerging markets.

Aravazhi (2000) analyzed the investment pattern of mutual fund industry particularly of UTI. He evaluated the performance of 34 close-ended growths and income schemes of UTI, LICMF, and Canbank MF from June 1988 to July 1998. The analysis was based on responses of investors and fund managers. The survey identified that 34 selected mutual fund schemes performed very poorly in generating the expected level of return. As many as 21 schemes report an average rate of return of less than 10% in a whatever way it is measured there are instances of 3 to 4 schemes with a rate of return reporting something less than 2% per annum. Among the two categories of schemes namely Growth and Income, the growth expectations of investors have been poorly met by all the growth schemes with one or two exceptions. 16 schemes reported greater risk than market risk so investment in mutual fund considered risky investment. He also observed that value of beta was far lower in most of the schemes.

Friend et al. (1965) analyzed issues relating to investment policy, performance of mutual funds, portfolio turnover rate, and its impact on the stock markets. They founded that mutual funds have a significant impact on price movement in the stock market. They concluded that there is no significant relationship between portfolio turnover ratio and fund performance. Chander (2000), in his doctoral dissertation entitled,
“Performance Appraisal of Mutual Funds in India”, studied the investment performance of selected mutual funds in terms of risk and returns across the fund characteristics. Besides, the study examined the portfolio management practices of mutual fund managers with respect to portfolio construction, portfolio management, portfolio evaluation, and disclosure practices and investors services. The researcher concluded that in terms of average returns, majority of the sample mutual fund schemes have recorded superior performance compared to benchmark portfolio.

Rao and Almadhi (2010), Mutual funds are one of the most important financial service vehicles for investments. Over the past 46 years, the Indian mutual fund industry had witnessed impressive growth in Assets Under Management (AUM), investor base and product offerings. The industry registered Compounded Annual Growth Rates (CAGR) of 26% since its beginning and 32% over the last six years.

Currently, 37 Asset Management Companies (AMCs) comprise the industry and collectively they manage assets Rs 7945 billion (approximately US Dollars 172 billion). As at the end of December 2009, the total number of mutual fund schemes available for investment was 819. The mutual fund industry in India presents an interesting scenario of 48 million investors, a large variety of product offerings and coexistence of private, public and foreign AMCs. In India, the Asset Management
Companies market their investment products largely through AMFI Certified Agents, Service Centers and company’s web portals. There is little promotion in print media and in the recent times AMCs have begun outdoor advertising through large size Bill Boards/Hoardings. Investors require certain types of information for making conscientious and informed decisions for their financial security. Not many studies have been conducted about the extent to which the information provided in the advertisements/web portals facilitates informed decision making.

2.4 ROLE OF THE MASS MEDIA IN INVESTOR RELATIONS:

Jordan and Kass (2002) revealed that when it comes to the dissemination of financial information, companies consider private meetings/disclosure to be considerably more important than public meetings/disclosure. The financial journalists were in regular communication with analysts, fund managers and other players in the investment community. That private interchange between journalists and other third parties and investors could not be ignored.

Goetzman and Peles (1997) expressed the sense considering that in most investor surveys, the opinion of the chief executive and senior management of a company are their considered the most important or
second most important factor in making investment decisions.

Ruddock (2001) concluded that the media would have a limited impact on the investing audience. Most fund managers interviewed denied that the news media played much part in their day-to-day investment decision-making on specific trades.

Barber and Odean (2002) revealed that large-scale shifts in prices and markets occur because multiple buyers and sellers must be acting simultaneously in response to shared information. There is a significant statistical correlation between publication of price-sensitive information and price-movements. Sant and Zaman (1996) pointed out that the media played a significant part for retail investors and also at the margins of the mutual funds market. Private investors are highly dependent on editorial comments and share-tipping in financial news columns because they have little time or specialist knowledge to make considered decisions. News media was either the only source of information for a particular investor or there were few alternative source of information on a particular stock. The retail investors reacted much more to media information than professional investors.

Schleifer (2000) explained that the media contributes to ‘saliency’, “anchoring” and “cognitive dissonance. Media pieces, not only continue
to trigger investor thinking but are also a means of confirming one’s own thinking—whether or not that thinking is right. Bruce and Bhattacharyya, (2005) looked at the information available in the marketing of a particular financial product—mutual funds. They examined that information provided by mutual fund advertisement aimed at customers confirms or not to theories regarding the information required for investment decisions. Their findings indicated that mutual fund advertisements are not providing the information necessary for optimal investment decisions. Mutual funds use techniques known to increase the likelihood that their advertisements are noticed, but they also use techniques known to decrease the readership of their advertisements. Also, they rarely included convenience information.

2.5 RESEARCH GAP:

The literature review reveals that the studies in mutual fund industry have been confined to: General study like advantage, disadvantage, concept, factors affecting investor’s attitude on mutual fund, Mutual fund purchase decision, Performance of mutual fund.

The review of earlier studies mainly carried out in western context while few studies have been undertaken in cities like Mumbai, Delhi etc. The existing studies are very few and very little information is available
about perceptions, preferences, attitudes and behavior of retail investors. All efforts in this direction are fragmented. The present study is an attempt to a detail studies on the perceptions of retail investors towards mutual fund like ETF, ELSS in cities of Rajasthan.