CHAPTER-2
REVIEW OF LITERATURE

This chapter attempts to review the work done by researchers related to different aspects of mutual funds at world level and especially at Indian level. This research work provides an insight into some important aspects related to mutual fund industry performance. Number of research studies had been conducted by various researchers on mutual funds. However, some of the relevant and important studies have been reviewed. This study examines all the important aspects related to mutual funds like regulations, policies, performance, stock selection and market timing ability of mutual fund managers, performance persistence, investors’ perception towards mutual funds and comparison of mutual funds with other investment alternative. This chapter is covering the literature related to above stated aspects of mutual funds.

Deepti Goyal and Richa Gupta (2014) in their theoretical research paper titled “Mutual Fund Industry in India: An Overview” briefs about the mutual fund industry growth and development. They discussed five basic aspects related to mutual fund industry in India. First aspect discussed was the conceptual framework of mutual fund industry, second aspect was related with growth and development of mutual fund industry, third aspect was related to trends and fourth was challenges related to the mutual fund industry and fifth aspect discussed was the way ahead for the mutual fund industry.

Anitha Kumari, G. Ramasamy & K. Sandhya (2013) conducted the study to ascertain the investors’ perception of online trading of shares in share market also identify the investor’s perception and to improve the quality of service according to the investor’s expectation. They found that share brokers can arrange for awareness program like free seminars regarding share market and other corresponding investment products, making presentations in online itself to help in acquiring effective new customers.

Vasantha, S., et. al. (2013) in their research paper titled “Evaluating the Performance of some selected open ended equity diversified Mutual funds in Indian mutual fund industry” made an attempt to evaluate the performance of selective open ended equity
diversified mutual fund in the equity market. In this study HDFC top 200 fund (g), Reliance top 200 (g), ICICI Prudential top 200 (g), Canara Robeco equity diversified and Birla Sunlife frontline equity (g) these selected schemes have been studied over the period of 60 months data which is from January 2008 to December 2012. The analysis has been on the basis of Sharpe Ratio, Jensen Ratio and Treynor’s Ratio. The Sharpe Ratio indicates that majority of the funds showed negative returns and no fund exhibit extraordinary performance.

Ghosh and Roy (2013) in their research paper “Can Mutual Fund Predict the Future? An Empirical Study” seeks to examine the NAV performance of the selected open-ended mutual fund schemes in India. The study also investigates whether the past return performance of the mutual funds may be used as reliable indicators to predict the future return. To accomplish these objectives, closing monthly NAV data on 56 open-ended income schemes are considered over a period from January 2001 to December 2009. Then, researcher computes the average NAV and found a good consistency in performance. With a view to examine the consistency in return performance of the selected mutual fund schemes, auto-regressive model is applied and observed that only 34 schemes out of 56 open-ended income schemes have consistently influenced the return performance.

Ghosh and Roy (2012) in their research paper “A Comparative Study of Mutual Fund Performance during recession in India” tries to evaluate and assess the performance of the open-ende schemes across all three sectors namely public, private and foreign sector. Main objective of the study is to assess the performance of the gilt schemes in India during the recession for the time period from Jan. 2008 to Feb. 2009. For conducting this study monthly Net Asset Values of schemes were gathered from the AMFI website. Mainly this study focused on various performance measures like for risk adjusted performance Sharpe ratio and Treynor’s ratio, for selectivity performance Jensen’s alpha and market timing of selected schemes was used during recession. From the analysis researcher concluded that selected gilt mutual fund schemes of both public as well as private sector did not performed well during selected time period during recession. It was against the expectations of the mutual
fund investors. None of the public as well as private sector performance was satisfying the mutual fund investors.

Giamouridis and Sakellariou (2012) in their research paper “Short Term Persistence in Greek Mutual Fund Performance” investigate the performance of Greek mutual funds as well as industry. For analyzing the market timing and stock selection ability among the Greek mutual fund managers extensive dataset have been taken. On the basis of the assumption that stock selection ability of mutual fund managers improves the market timing ability of fund managers. Before this study it was believed in Greek mutual fund industry that stock selection and market timing ability exist but according to findings of this study that performance did not exist.

Hei, Huij and Lansdorp (2012) in their research on the topic “Mutual Fund Performance Persistence, Market Efficiency, and Breadth” tried to evaluate the performance persistence for regions and styles. In this study by using comprehensive database of mutual funds study reveals strong evidence of performance persistence for some market and weak or no evidence for other markets. Performance persistence and market breadth have high degree of relationship. Breadth of market may be defined as the number of independent investment beta of portfolio manager need to invest. This study evidenced that there was high correlation between performance persistence and market breadth. Results of this study are inversely related to evidence that the active management is concentrated in less efficient markets. Results of this study evidenced that managerial skill dominates the market Added value of management provides more investment opportunities. It was found that performance persistence and market breadth highly influence each other. This study revealed that managerial skills was not very important and influencing factor in the developing economies and efficient markets and managerial skills became very important and influencing factor in inefficient markets.

Kumar, Rakesh (2012) in his study on topic “Market Timing, Selectivity and Mutual fund Performance: An Empirical Investigation of Selective Equity Diversified Schemes in India” focused on the three important aspects of mutual funds i.e. performance, market timing and of course stock selection ability among 28 equity
diversified schemes. This research showed high as well as low performance for the selected schemes means mixed performance. High performers funds were less afflicted to market risks. It was found that schemes were exposed to low risk as compared to market. High degree of volatility was observed among the selected funds. Funds were well diversified and reduced the risk. More than half of the selected mutual fund schemes exhibit superior stock selection ability. Market timing ability was not traced out throughout the study.

Ferson and Haitaomo (2012) in their research paper on topic “Performance Measurement with Market volatility: Timing and Selectivity” examines the performance measurement of selected mutual funds. The investment performance of a portfolio manager who may engage in market timing behavior depends on market level and volatility timing as well as security selection. Researchers develop new holdings-based performance measures that properly adjust for risk, accommodate all three components and avoid strong assumptions about manager’s behavior. Allowing for market level and volatility timing, there is no significant evidence of investment ability for broad groups of mutual funds or for funds sorted by expense ratios, returns gap, active share, turnover or other parameters. The performance before cost is estimated to be precisely close to zero in most of the cases. However sorting by factor model R-square confirmed results of Amihud and Goyenko (2012), where the low R-square funds have better performance, and there was some evidence that performance may be related to volatility, timing behavior and level of market sentiments. Generalizing previous holdings-based measures to make the risk adjustment shows that investment performance has components related to factor level timing, volatility timing and selectivity. This study (evidence) from versions of the new model that focus on asset allocation was consistent with previous studies, finding weak negative market.

Mehta, Y. Kumar (2012), in his research topic “An Analytical Study of Index Mutual Funds in India” encompasses the appraisal of index mutual fund schemes and considers only those whose performance has been rated by credit rating agency. This study found that both HDFC index fund-SPP and HDFC index fund-SPP (PA) performed exceptionally well during the past three years, giving same maximum
return i.e. 4.09% as compared to average return of 2.63% of similar category funds. These funds also out performed with benchmark index BSE 30(1.22) and NIFTY (1.65) over the period of 3 years. Study also found that each fund has its own unique features regarding portfolio selection and their management. Under sector allocation ICICI Prudential index fund allocated 44.2% in miscellaneous, 13.99% in OGPR and 7.30% in power generation, transmission and equipment (PGTE). The top three sectors for investment are banking, computer software, education and OPGR, in which maximum (65.45%) was invested by ICICI- Prudential IF growth followed by UTI MASTER IF-growth (48.42%).

Mehta, Y.Kumar (2012) in his research topic “Emerging Scenario of Mutual Funds in India: An Analytical Study of Tax Funds” evaluates the selected equity schemes of public and private sector mutual funds. Corporate and institutions who form only 1.16% of the total number of investors accounts in the mutual fund industry, contribute a sizeable amount of Rs. 287,108 crore which is 56.55% of total net assets in mutual fund industry. It was found that mutual fund schemes did not prefer debt schemes. Study found that during 2005 to 2008 from the date of inception, Franklin India Tax shield-Growth outperformed and recorded highest returns (26.05%). During 2007 to 2012 (five years) SBI Magnum Tax gain Scheme 93-growth recorded highest returns (27.36%). The top schemes in order of returns were SBI Magnum Tax gain Scheme 93-growth recorded highest 27.32% returns, Sundaram BNP Paribas Tax saver (OEF)-growth has performed well in past 3 years, posting a maximum return of 6.29% vis-à-vis average return of 0.5% for similar category of funds, which is 12 times the average performance. It also outperformed with the benchmark index BSE 200(2.01%) for last three years.

Kumar, Dhirender (2012) in his article on “Competition in mutual fund industry is good for investors”, revealed that investors’ interest is best served by a dynamic environment in financial sector. This article is concerned about the undercurrents in the mutual fund industry and the impact it would have on individual investors who invests in mutual funds. Some AMCs would have been swallowed by the handful that are doing well. Diversity of products competing intensely with each other is of utmost importance to customers unlike banking, insurance or other financial services.
Diversity is actually an important characteristic of an individual’s fund investment portfolio. A small set of entrenched fund companies were not be able or willing to deliver this diversity and competition. As things are shaping up, a good number of companies will in any case be owned by large bank. Investors’ interest is best served by a dynamic set of asset managers who are competing fiercely for customers through fund performance, product design as well as service quality.

Krishna,Y.Rama (2012) in his research paper “Short term performance persistence of open ended equity funds: Indian evidence” explored the short term performance persistence in selected Indian equity mutual funds during the period April 2008 to March 2011. The researcher applied non-parametric measures like Brown and Goetzmann (1995) and Malkeil’s test (1995). The researcher measured the return variance analysis to assess the performance, sample funds followed by risk adjusted performance measures. Ranking of mutual fund schemes using Sharpe ratio and short term performance was measured by using non-parametric measures. Result showed that there was no consistence in the performance of mutual funds. The findings of the study suggest that past performance does not guarantee future returns. Practical implications of the study that it will help mutual fund managers to make change in their management styles and helps them to compare their performance with other funds and also with their respective benchmarks.

Minjeong Kang (2012) in his research paper titled “Do Hedge Fund Managers Possess Timing and Selectivity Skill? Evidence from Stock Holdings” analyzed the performance of hedge fund managers, using quarterly stock holdings from 1994 to 2010. Researcher used the holdings based measure of Ferson and Mou(2012) to decompose a manager overall performance into stock selection and 3 components of timing ability; return, volatility and liquidity. At the aggregate level researcher found little evidence that the average hedge fund manager delivers significantly positive Alpha. However the sign and significance of performances appears to depend on market condition, which can be partly explained by conditioning information and share restrictions. At the individual fund level, a small proportion of hedge fund managers exhibit significant and positive alpha. Also, hedge fund managers exhibit short term persistence in performance. The average hedge funds total alpha of 2% per
annum can economically meaningful as it manages to cover the standard fixed management fees of 1% to 2%.

Singh, B. Kumar, (March 20, 2012) in his research paper on “A study on investors’ attitude towards mutual funds as an investment option” discusses structure and operations of mutual funds, comparison of mutual funds with banks and the impact of various demographic factors on investors attitude towards mutual funds. Chi-square test has been used for analyzing the various factors responsible for investment in mutual funds, ranking was done on the basis of weighted scores and scoring was also done on the basis of scale. The study showed that most of the respondents were still confused about the mutual funds and did not form any attitude towards mutual funds for investment purpose. It has been observed that most of the respondents having lack of awareness about the various functions of mutual funds. Demographic factors like gender, income and level of education significantly influences the attitude of investors.

Vasudevan, R. and Dr. Peermahaideen (2012) conducted a study aimed to understand and analyze investor’s perception of risk and expectations, and unveil some extremely valuable information to support financial decision making of mutual funds. The detailed analysis revealed that the risk perceived in mutual fund investments was medium and the returns on fund investment were not so satisfactory.

Agapova (2011) has examined the cross-sectional differences among money market mutual funds (MMMFs) in the context of sponsoring fund families. Researcher found that flows to family non-MMMFs are negatively related to family MMMF flows and family non–MMMF cash flow volatility is positively related to family MMMF cash flow volatility.

Bhuvaneswari, C. (2011) carried out the study with the objective of finding out Investors’ perception towards Equity / Tax saving Mutual Funds. The researcher was interested in identifying the major factors that contribute towards investors’ perception in the area of Equity/Tax saving Mutual Funds. For analysis and interpretation, the following statistical tools namely Simple Percentage Analysis, Chi-
Square Test & Rank Correlation were used. Suggestions were given by the author so as to maximize the wealth of investors.

Saini Simran, Dr. Anjum and Saini Ramandeep (2011) found that the mutual fund companies should formulate the strategies in such a way that it helps in fulfilling the investors’ expectation. Constant innovation in the Mutual Fund types will help the AMC’s to maintain the investors’ confidence.

Zheng and Omes (2011) in their research paper “The pricing of China region ETFs: An empirical analysis” tries to analyze the effect of exchange rates, market performance and liquidity in pricing of exchange traded funds using a sample of 15 ETFs from China. Empirical results suggest that an appreciating exchange rate of the US dollar against the Chinese currency and better performance of the US stock market was related with a smaller discount of ETFs. The liquidity impact stays significant after controlling for aggregate and fund specific sectors. Also, larger the fund size and lower the discount.

Guercio and Jonathan (2010) in their research paper “Mutual Fund Performance and the Incentives to Generate Alpha” demonstrated that the retail mutual fund market is more accurately described as a segmented market catering to two distinct types of investors. One segment serves self directed investors focused on maximizing risk free adjusted performance while the other segment caters to investors who are uncomfortable in making investment decisions without the advice of their brokers. Investors’ dollars flow to direct sold funds with higher alpha. Direct sold funds respond to these flow based incentives by making a wide variety of operational decisions shown to increase alpha and there is little evidence that actively managed funds underperformed index funds. In contrasts, research shows that actively managed funds sold through brokers face a weaker incentive to generate alpha, and significantly underperform index funds. These findings underscore the need for mutual fund researchers to take mutual fund incentives into account when studying mutual fund performance. To rationalize the well known underperformance of the average actively managed mutual funds, exploit the fact that various retail funds in different market segment was complete for different types of investors. However,
given the discomfort that many investors reportedly face making financial decisions and bearing risk, it is unclear whether clients would be better off investing without their brokers.

Mehta, S.Kumar (2010) in his study “State Bank of India Vs. Unit Trust of India: A comparison of performance of mutual fund schemes” compares the performance of selected mutual fund schemes of Unit Trust of India vis-à-vis State Bank of India. For evaluation and comparison of UTI & SBI mutual fund schemes using risk adjusted measures of Sharpe, Treynor’s, Jensen and Fama. It was concluded that the performance of UTI and SBI mutual fund schemes has been better in 2007-08 as compared to 2006-07. SBI mutual fund schemes have performed better than the UTI schemes in both the years of the study. None of the SBI or UTI mutual fund schemes have been consistently the top performers in terms of returns in both the years of the study. However, consistency can be observed in terms of risk as UTI’s money market fund daily dividend and SBI’s Magnum income plus fund-saving plan found to be least risky among the selected schemes of SBI and UTI during both the years. On an average both SBI and UTI schemes have been defensive.

Chetna T. Parmar (2010) in her Ph.D. research study conducted on the topic “An Empirical Investigation on Performance of Mutual Fund Industry in India” tries to evaluate the performance of mutual fund industry in India. The research study conducted by selecting 10 equity diversified schemes showed the overview of the mutual fund industry in India. The study is based on systematic sampling for the time period of 2008 to 2010. This study showed that the selected schemes had performed very well in the last phase of 2009 and badly in the starting phase of 2008. This study indicates that the schemes are affected by the market volatility and the risk bearing capacity of the fund manager. The schemes under study were judged on the basis of beta, $R^2$ (R-square), P/E ratio, P/B ratio, NAV and returns. The study revealed that SBI Magnum Midcap had given highest performance in the year 2009.

Cuthbertson and Nitzsche (2010) in their research on the topic “Performance, Stock-Selection and Market Timing of German Equity Mutual Fund Industry” investigated the performance of German equity mutual fund Industry for the time period of 20
years (monthly data 1990-2009) using the false discovery rate (FDR) to examine both model selection and performance measurement using the Fama French. Three Factor (3F) Model (with no market timing) find at most 0.5% of funds having truly positive alpha performance and about 27% have truly negative-alpha performance. However use of the FDR in model selection implied inclusion of market timing variables and this resulted in a large increase in truly positive funds. They used a measure of “total performance” which includes the contribution of both security selection (alpha) and market timing; we obtain results similar to the 3F model. These results were largely invariant to different sample periods, alternative factor models to the performance of the funds investing in German and Non–German funds.

Ahmed and Samajpati (2010) in their research paper on the topic “Evaluation of Stock-Selection Skills and Market Timing Abilities of Mutual Fund Managers” evaluated the performance by selecting a sample of 60 schemes. Researchers examined stock selectivity with reference to growth and income schemes. Market timing ability was also assessed with same data and schemes type. They found that selectivity is higher by making use of daily returns daily NAVs of schemes. By making use of Jensen’s performance index, only 28% of schemes exhibit selectivity. Monthly data set provides evidence of absence of market timing skills. This study demonstrated that conditional Treynor and Mazuy and Henrikson and Merton models by using daily NAVs of the schemes about 45% of funds exhibit market timing ability.

Suppa-aim, Teerapan (2010) in his Ph.D. thesis titled “Mutual Fund Performance in Emerging Markets: The Case of Thailand” tries to analyze the role of liquidity in emerging mutual fund market in Thailand. This research paper focus to analyze the illiquid assets contained in mutual funds. The return based price model (Getmensky et al., 2004) measures illiquidity and revealed that the performance of mutual funds increases with the degree of illiquid assets contained in portfolio. It could be concluded that evidence of liquidity premium in mutual fund returns was consistent with the evidence in the stock markets. Basic objective of the study was
comprehensive evaluation of Thai mutual fund performance based on existing models using more comprehensive dataset.

Second objective of the study tries to find out relation that fund characteristic helps to explain fund performance. This study focus all important characteristics related to mutual fund performance. Time-series and cross-section techniques were used for analyzing the problem. Third objective of the study emphasize about the role of liquidity in mutual fund performance. To analyze third objective of the thesis an auxiliary performance measure was used to retain the liquidity premium. Also in each objective of the study tax-benefit of the mutual funds was calculated. In Thailand immense cash flows in the past few years was observed during the study period. Various types of schemes give favorable tax treatment for the mutual funds and improve long term investment restriction.

Research study revealed that Thai fund managers do not possess stock selection and market timing ability. For sample period Thai fund managers were not able to provide value added to the investors. Results from style analysis reveal that a large portion of Thai fund managers invest heavily in small and growth stocks, although this style provides the worst performance of all fund styles. Only flexible fund managers adjust their portfolio using treasury bills and dividend yield. General funds revealed persistence in performance also there was a positive relationship between the past performance and current performance. Current performance and degree are of both Statistical and Economic importance for mutual funds.

Chetna T. Parmar (2010) in her Ph.D. research study conducted on the topic “An Empirical Investigation on Performance of Mutual Fund Industry in India” tries to evaluate the performance of mutual fund industry in India. The research study conducting by selecting 10 equity diversified schemes showed the overview of the mutual fund industry in India. The study was based on systematic sampling for the time period of 2008 to 2010. The study showed that the schemes have performed very well in the last phase of 2009 and badly in the starting phase of 2008. This study indicated that the schemes are affected by the market volatility and the risk bearing capacity of the fund manager. The schemes under study were judged on the basis of
beta, $R^2$ (R-square), P/E ratio, P/B ratio, NAV and returns. The study reveals that SBI Magnum Midcap had given highest performance in the year 2009 and had given lowest performance in the year 2009.

Dharamraj and Santosh. (2010) in their study on “A comparative study on the performance of stock market and mutual funds during bullish and bearish period” analyzed the performance of stock market, balanced and income mutual fund schemes during bullish and bearish period. The bullish period chosen for the study was from January 2007 to December 2007 and the bearish time period chosen for the study was from January 2008 to February 2009. The stock market performance was evaluated by means of rate of return given by NIFTY index. The performance of mutual funds was determined by using Compound Annual Growth Rate, Standard deviation and Sharpe ratio. They concluded that stock market perform better than mutual fund during the bull run period whereas mutual fund perform better than stock market during bear run period. On comparing balanced mutual fund schemes with income schemes, they found that income schemes perform better than balanced mutual fund schemes.

Kundu, Abhijit (2009) in his research paper on the topic “Stock Selection Performance of Mutual Fund Managers in India: An Empirical Study” made an attempt to evaluate the stock picking performance of the growth oriented equity fund managers in India over a period from April 2005 to March 2008 using Jensen (1968) and Fama (1972) models. The study found insignificant evidence for superior returns due to stock selectivity of the fund managers in India. It was also found that mutual fund schemes on an average failed to outperform the market even after taking a risk higher than the market. On the diversification front, majority of the schemes have performed moderately well. As a result, compensation for the inadequate diversification on an average has not impacted selectivity performance anyway. But, the impact of the expected risk premium for the schemes is reported to be very high.

Swinkles and Rzeniczek (2009) in their research paper on “Performance Evaluation of Polish Mutual Fund Managers” empirically assess the investment performance of mutual fund managers who operated in the polish market. This research paper used
monthly mutual fund returns over the period 2000-2007 to investigate the managers' selectivity and market timing skills. Analyses of three investment categories: equity, balanced and bond mutual fund schemes investigated several performance evaluation models and showed that the findings are robust with respect to the model choice. This study revealed that each of the three categories equity, balanced and bond funds shows positive market timing but insignificant selectivity skills of the mutual fund managers. Private investors in Poland were not worse off by investing in mutual funds compared to passive market indices.

Varghase and Murthy (2009) in their study on topic “Performance Evaluation of Equity Diversified Mutual Funds in India” evaluates the performance of selected equity diversified mutual fund schemes. The Indian mutual fund industry has started opening up many of the exciting investment opportunities to the investors. The schemes selected for the study are top 20 schemes in the equity segment for the year 2007. The data collected for the analysis involves the net asset values of these twenty mutual fund schemes for a period of 3 years and the value of NIFTY (benchmark index) for the same period. It was found that there was considerable amount of risk involved, while investing in equity diversified schemes as revealed from the beta values of various schemes. The study also revealed the fact that almost all the equity diversified schemes had shown a good risk adjusted performance during the period of study, as most of the schemes were having positive values of the three performance measures.

T.S. Somashekar (2008) in his research study on the topic “Performance and Regulation of Mutual Funds in India: An Economic Analysis” made an attempt to examine the performance and regulation for 3 year time period. Sortino ratio was used for performance ranking of selected mutual fund schemes. Regulations had been able to induce due diligence in portfolio selection. SEBI needs to examine the marketing cost aspect of expenses incurred by mutual fund industry in India. To examine the performance of actively managed equity funds using the variance and semi-variance approach of the risk. To examine the impact of regulation on performance by comparing funds under weaker regulation Unit Trust of India (UTI) and funds under stronger regulations (all other funds that come under SEBI regulations). Impact of
regulations on fund managers fees and overall expenses and determine if the cost reductions with size are forced by requirement or due to actual economies of scale. Also new trends in the mutual fund industry were discussed.

Wu, Chang, Wu (2008) in their research paper “A Framework of Assessable Mutual Fund Performance” made an attempt to find out how investors evaluated mutual funds performance on basis of both quantitative as well as qualitative criteria. This paper made use of Delphi method and Analytical Hierarchy Process to evaluate the performance of mutual funds. This study revealed that one of very important factor for evaluating mutual fund performance is “Mutual Fund Style” and “market investment environment”. Results indicated that investor’s main focus was to analyze performance of mutual funds. Investors while making investment decision should be more concentrated on gathering information.

N. Lakshmi (2007) in their Ph.D. thesis entitled “Performance of the Indian Mutual Fund Industry: A Study With Special Reference to Growth Schemes” made an attempt to analyze the Mutual fund industry performance using primary data by using questionnaire and schedule from 20 brokers and 360 investors. This study revealed that limited investors’ were satisfied with the performance of mutual fund industry. By using Compound Growth Rate, Compound Annual Growth Rate, Rank correlation, Pearson’s correlation coefficient, Autocorrelation, Coefficient of Determination, Chi-square test, Z-test and ANOVA (Analysis of Variance) mutual fund performance of various companies were observed. Except LIC MF Equity all other schemes exhibited positive returns due to presence of stock selection ability of the fund manager. SBI Magnum Multiplier Plus scheme evidenced maximum variance.

Deb and Chakrabrati (2007) in their research work on the topic “Market Timing and Stock Selection Ability of Mutual Fund Managers in India” attempts to analyze market timing and stock selection ability of mutual fund managers in India using conditional and unconditional models. With a sample of 96 schemes, a lack of market timing ability and presence of stock selection ability were observed among the Indian fund managers in conditional as well as unconditional models. Regression was carried
out for selected schemes various categories of funds, which showed absence of market timing abilities and presence of stock selection abilities. The main objective was to explore the market timing and stock selection ability during Jan.2000 to June 2005 by using traditional and conditional models with monthly and weekly data. In both TM and HM models, they found very little evidence of market timing, particularly using monthly data frequency. Among 768 possible cases in the unconditional models there were only 4 cases of significant positive market timing at 10% level of significance and only one case at 5% level of significance. This study revealed that Stock selection ability was found in abundance. Out of 768 cases in unconditional models 128 cases had positive stock selection ability at 5% level of significance. These results exhibited that mutual funds are mainly focused towards stock selection than market timing.

Black et al. (2006) in their research study on the topic “Investor’s Choice of Financial Service Distribution Channels” examined investor’s choice of financial service distribution channels by using primary data among 300 respondent investors. The study connotes that motivational and emotional response, customer confidence and lifestyle factors influence the customer choices. Also organizational factors such as company image and reputation seem to be significant.

Desigan et al (2006) in their research study on topic “Women Investors’ Perception towards Investment” by using primary data. This study indicated that women investors’ were not decision maker in regard of investment in mutual funds. There are various reasons for this behavior like market fluctuations, lack of knowledge about investment protection and investment procedures, various types of risk associated with investment and redressed of grievances regarding investment related problems.

Van De Vante (2006) found that there was difference in risk tolerance of individual like women, older individuals, large family households, people not owning residential property, low wealth individuals and individuals with low knowledge of finance and risk regarding investment. Also some other factors like marital status, occupation and level of education showed inconsistent results.
Tripathy, N. Parva (2006) in his research paper on the topic “To Evaluate the Market Timing and Stock Selection Ability of Mutual Fund Managers” empirically analyzed the market timing abilities of Indian fund manager in form of two models i.e. one by Treynor and Mazuy and the other by Henrikson and Merton. The results indicated here do not lend support to the hypothesis that Indian fund managers were able to time the market correctly. There was only one scheme where market timing ability of the fund managers was to some extent, exhibited. These results are also similar with earlier research, which have been conducted in the developed capital markets. The present study evaluates the market timing abilities of Indian mutual fund managers of 31 tax planning schemes in India over the period December 1995 to January 2004 by using Jensen and Mazuy model and Henrikson and Merton model. The study indicates that the fund managers have not been successful in ranking returns in excess of market rather they are timing the market in wrong direction.

Tripathy, N. Prava (2006) in research study on “Market Timing abilities and mutual fund performance-An Empirical investigation into Equity Linked Saving Schemes” evaluates the market timing abilities of Indian fund managers of thirty-one tax planning schemes over the period December 1995 to January 2014 by using Jensen and Mazauy model and Henrikson and Merton model. The study indicated that the fund managers have not been successful in providing returns in excess of the market rather they were timing the market in the wrong direction.

Mittal, Preeti (2005) in her Ph.D. research title “To Evaluate the Performance of Mutual Funds in India” emphasized that there was positive performance across a majority of sampled funds. The study mainly focuses on the various parameters such as risk, returns, Sharpe ratio, Jensen’s Alpha etc. for calculating mutual fund schemes performance with respect to market index. The funds had been able to outperform the market also in terms of selectivity.


40
schemes over the 1995-1999 time period. Performance measures are analyzed across models (Christopherson Fersen) using a non-parametric test, initially put forward by Freidman (1920) to verify empirically whether performance measures differ across risk models. The empirical results in the recent finance literature revealed that conditional performance measures generally improve perceptions of fund managers. It showed that using daily data in an unconditional framework increases the proportion of abnormal performance relative to timing. Selectivity results using a GARCH model with daily data were in line with those on the conditional performance measurement literature based on monthly data (Fersen and Schadt, 1996). These conditional measures make mutual fund managers appear significantly better then the unconditional risk model or the conditional risk model. The information variables used in bi-variate GARCH models showed more explanatory power than the ones of Ferson and Schadt. The timing ability seems to be multidimensional as about 10% of the fund managers time the momentum factor besides the market factor.

Crosnon and Gneezy (2004) conducted the study on topic “Investors’ Perception towards Mutual Funds” and established the fact that middle class salaried investors and professionals preferred to have disclosure of net asset value on day to day basis and also wanted to invest in Mutual Funds in order to get higher tax rebates (under section 80c). Further it was evidenced that small investors perceived Mutual Funds as better investment alternative. The study further revealed that the investor did not have confidence on the management of funds and regulators of the market.

Blake, David (2003) in his research on the topic “Performance Persistence in Mutual Funds: An Independent Assessment of the Studies Prepared by Charles River” analyzed empirical analysis of performance persistence of United Kingdom. The importance of persistence depends on both the time horizon and the sector in which the fund has invested. Performance was strongly significant only in the short term for funds in the equity, bond, income and small sectors. Further, the investment strategy which follows from this study can be summarized as: invest in high risk fund and hope for the best, since if you hold the investment for long enough it generally works out.
Servaes, e.t. al., (2003) in research paper titled “The World of Mutual Funds” revealed growth and performance of mutual fund industry throughout the World. In this research main focus was on development of the mutual funds with comparison to other investment alternatives available for household. This study was conducted by taking a sample of 55 countries and total mutual fund assets of $11.7 trillion till 2001. Mutual fund industry comprises 8.8% of GDP and 4.3% of the primary securities all over the World. There were partial cross-country variations in development of the mutual fund industry around the World. In this research various Statistical tools used were correlation, uni-variate and multivariate regression. Luxemburg was benefitted magnificently due to bank secrecy laws. Growth of Ireland mutual fund industry is due to favorable tax treatment of mutual fund companies. All other countries mutual fund industry growth is combination of various factors such as legal and regulatory framework, demand and supply. Especially, strong regulatory and legal framework had positive impact on growth and development of the mutual fund industry. Some of these regulations had significant impact on growth and development like process of approving fund, mandatory fee of funds, performance disclosures of schemes and conflict handling of management company and fund shareholders. All the above stated factors like regulations and regulatory frame work maximize the developments in the industry but also’ wealth and education level among investors’ had positive impact on the industry growth and development.

Stolin, David and Kaswani, Aneel (2003) in their research paper on the topic “Determinants of Mutual Fund Performance Persistence: A cross sector Analysis” exhibited performance persistence in the U.K. mutual fund industry across public and private sectors. From the previous studies U.K. mutual fund industry emphasized primarily U.K. equities funds. This study revealed significant differences of persistence in UK across all sectors. This study also seeks to explain why persistence level differ across sectors by drawing on recent theoretical work that has highlighted that sector competitiveness may influence levels of persistence. Limited evidence was observed for sector level competitiveness explaining the cross sectional behavior of persistence. The study concluded differences in the securities between sectors indicate differences in the level of persistence.
Dimson and Minio-Koz-erski (2001) in their research article on the topic “The Close-ended Fund Discount and Performance Persistence” study the extent of discount on closed-ended funds explained by the quality of a fund management. Using a sample of British Fund Sharpe’s model (1992) return based style analysis to measure manager quality after adjusting the factor exposure. This study exhibited no evidence of performance persistence among selected closed-ended mutual funds. Also there is no indication that fund discounts managerial performance of the fund managers. This research article tries to reveal that traditional theories of the close-ended fund discount managerial performance in a fund. This study exhibited that discount reflect investors’ perception of managerial ability of mutual fund. These facts that disclosed did not found to be positively correlated with respective NAV returns. Also there were number of studies conducted for analyzing the managerial performance and few of them were used for reference here. This research paper removes the weakness of using the Net Asset Value (NAV) as the measure of managerial performance for selected mutual funds. This study analyzes the performance after making adjustment for the risk. Lastly this study can be concluded that the value enhanced by use of Sharpe ratio for active management was identified measure of managerial performance.

Jagadeesa and Wermes (2000) in their research paper having title “The value of Active Mutual Fund Management: An Examination of the Stockholdings and Trades of Fund Managers” manifest the active management value for analyzing stockholdings. Researchers analyze the portfolios maximum used by US mutual funds. Time period taken into consideration for this study was 1 January, 1975 to 1 January, 1995 and sample includes all the funds existing during that period. It was found that portfolios provide higher returns than the actual price of the stocks of that particular portfolio. So, it could be concluded that for value stock, growth stocks, small stocks and large stocks maximum returns. The study revealed that growth schemes evidenced for better stock selectivity among fund managers as compared to selected income oriented funds. This study also manifests that good previous performance may reveal better stock selectivity among fund managers. The most
important factor was the value of active mutual fund management that can be ascertained by examining the performance of the holdings and trader of mutual funds.

Sunder, Shyama (1998) in his research paper tries to analyze Mutual Fund operations of private institutions. For that objective researcher carried out a survey for creating awareness about the operations of Kothari Pioneer. Agents played a vital role in spreading the awareness about various mutual fund companies and schemes. This study indicated the importance of original investment as it was considered to be the most important benchmark for individual investor.

Maria Do Can Ribeiro Cortez (1998) in his Ph.D. thesis on the topic “On the Persistence of Mutual Fund Performance in Small Markets” made an attempt to analyze the Portuguese mutual fund market. This research evaluated the persistence of mutual funds performance in small markets (the Portuguese equity fund market) with limited sample size. The methodology based on contingency table of winners and losers Yates Continuity Correlation, Fisher’s exact P-value, Bootstrap and Brown and Goetzmann (1995) were used. For the observed sample period some fund managers did outperform the market and found little evidence supportive of performance persistence. The evidence was not inconsistent with market efficiency; there was a weak evidence of performance persistence in Portuguese mutual funds. On the other hand, despite the fact that there was a weak evidence of performance persistence, this study concluded that some individual fund managers appear to have “hot hands”.

Gangadhar et al. (1996) in their study on “Impact of Capital Market Reforms on Capital Issues in India” found that the trend in capital of private sector companies witnessed a decline in the first year of financial sector reforms in India but there was a subsequent increase in subsequent years. They found that in post liberalization period, several companies and mutual funds were allowed to set up in the private sector, which mobilized resources from the capital market by issuing variety of securities.

Pasricha (1995) in his work on “Mutual Funds in India: Performance and Prospectus” studied the growth oriented schemes started by public as well as private players. This study concluded that the return from sixteen growth oriented schemes has been less than 10 percent, the return from five of these being even negative. Only seven
schemes had been able to deliver a return higher than 18 percent. Not only this, the rate of return on the majority of schemes has been lower than the compound growth rate of BSE National Index during the period which elapsed since the launch of these schemes. Only seven of these schemes performed better than BSE National Index. These schemes belonged to UTI, LIC, Indian Bank, SBI and private sectors.

Darryll Hendricks, Jayendu Patel and Richard Zeckhauses (1993) in their research study on the topic “Hot Hands in Mutual Funds: Short Run Persistence of Relative Performance” made an attempt to find the performance of growth oriented mutual funds persistence continuously in the given time period of 1 year exhibiting strong evidence. Portfolio of recent poor performers did significantly worse than standard benchmarks, those of recent top performers did better though not significantly. So, the difference in the risk adjusted performance between the top and bottom portfolios is 6 % to 8% per year. These results were not attributable to know anomalies or survivorship bias. Investigations with a dataset and with some post 1988 data confirm the finding of persistence. The hot hands phenomenon did not appear to be driven by already known anomalies, since superior performance was also achieved relative to an eight portfolio benchmark that accounts for effects of firm size, dividend yields and reversion in returns. The benefit from hot hands strategies was verified in an independent sample.

**Research Gap Identified from Review of Literature**

Review of literature indicates that substantial work has been done on performance, stock selection, market timing and regulations of mutual funds at national and international level. Various studies have been made in India to know the investors’ perception towards mutual funds and comparing mutual funds with other investment options. All the important issues like performance, market timing and stock selection ability of mutual fund managers and performance persistence are significant for mutual fund companies, managers, governing bodies and investors. During last two decades Indian economy goes through different phases of business cycle like boom, recession and recovery. Investors were confused about the performance of mutual funds during different phases of business cycle and number of schemes of public,
private and foreign sector mutual fund companies. None of the studies have been conducted for public, private and foreign sector during different phases of business cycle in India. Present study will be an attempt to analyze performance, stock selection, market timing and performance persistence of mutual fund among public, private and foreign sector during different phases of business cycle. Results will actually reveal the performance of mutual funds with respect to about above said factors.