CHAPTER II
REVIEW OF LITERATURE

L.C. Gupta (1992)\(^1\) revealed the findings of his study that there is existence of wild speculations in the Indian stock market. The over speculative character of the Indian stock market is reflected in extremely high concentration of the market activity in a handful of shares to the neglect of the remaining shares and absolutely high trading velocities of the speculative counter. He opined that, short-term speculation, if excessive, could lead to “artificial price”. An artificial price is one which is not justified by prospective earnings, dividends, financial strength and assets or which is brought about by speculators through rumours, manipulations, etc. He concluded that such artificial prices are bound to crash sometime or others as history has repeated and proved.

Sunil Bamodar (1993)\(^2\) evaluated the ‘Derivatives’ especially the ‘futures’ as a tool for short-term risk control. He opined that derivatives have become an indispensable tool for finance managers whose prime objective is to manage or reduce the risk inherent in their portfolios. He disclosed that the over-riding feature of ‘financial future’ in risk management is that these

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\(^1\) Gupta, L.C., Stock Trading in India, Society for Capital Market Research and Development, Delhi, 1992
instruments tend to be most valuable when risk control is needed for a short-term, i.e., for a year or less. They tend to be cheapest and easily available for protecting against or benefiting from short term price. Their low execution costs also make them very suitable for frequent and short term trading to manage risk, more effectively.

Amanulla & Kamaiah (1995)³ conducted a study to examine the Indian stock market efficiency by using Ravalion co integration and error correction market integration approaches. The data used are the RBI monthly aggregate share indices relating five regional stock exchanges in India, viz Bombay, Calcutta, Madras, Delhi, Ahmedabad during 1980-1983. According to the authors, the co integration results exhibited a long-run equilibrium relation between the price indices of five regional stock exchanges. The study inform that there is no evidence favour of market efficiency of Bombay, Madras, and Calcutta stock exchanges while contrary evidence is found in case of Delhi and Ahmedabad.

Pattabhi Ram. V. (1995)⁴ emphasized the need for doing fundamental analysis and doing Equity Research (ER) before selecting shares for investment. He opined that the investor should look for value with a margin of

safety in relation to price. The margin of safety is the gap between price and value. He revealed that the Indian stock market is an inefficient market because of the absence of good communication network, rampant price rigging, and the absence of free and instantaneous flow of information, professional broking and so on. He concluded that in such inefficient market, equity research will produce better results as there will be frequent mismatch between price and value that provides opportunities to the long-term value oriented investor. He added that in the Indian stock market investment returns would improve only through quality equity research.

Avijith Banerjee (1998) reviewed Fundamental Analysis and Technical Analysis to Analyse the worthiness of the individual securities needed to be acquired for portfolio construction. The fundamental Analysis aims to compare the Intrinsic Value (I.V) with the prevailing market price (M.P) and to take decisions whether to buy, sell or hold the investments, the fundamentals of the economy, industry and company determine the value of a security. If the I.V. is greater than the M.P. the stock is under priced and should be purchased. He observed that the Fundamental Analysis could never forecast the M.P. of a stock at any particular point of time to buy or sell the stock. It aims to avoid the pitfalls of wrong timing in the investment decisions. He also stated that the

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modern portfolio literature suggests ‘beta’ value $p$ as the most acceptable measure of risk of scrip. The securities having low $P$ should be selected for constructing a portfolio in order to minimize the risks.

Bhanu Pant and Dr.T.R.Bishnoy (2001)$^6$ analyzed the behavior of the daily and weekly returns of five Indian stock market indices for random walk during April 1996 to June 2001. They found that Indian Stock Market Indices did not follow random walk.

Nath and Verma (2003)$^7$ examine the interdependence of the three major stock markets in South Asia Stock Market Indices namely India (NSE-Nifty) Taiwan (Taxiex) and Singapore (STI) by employing bivariate and multivariate co integration analysis to model the linkages among the stock markets, No co-integration was found for the entire period (daily data from January 1994 to November 2002). They concluded that there is no long run equilibrium.

Cantillo, Miguel.$^8$ “A Theory of Corporate capital, Structure and Investment” uses a general equilibrium framework to explore the origins and limitations of financial intermediaries. In the model, investors have a generic

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lending technology that they can improve at a cost. Those who upgrade become intermediaries to exploit their advantage.

However, conflicts with depositors will limit the bank’s presence, and they will only lend to moderately endowed firms while bondholders will finance cash-rich corporations. The article also analyzes the extent to which investors adopt the superior lending technique, the nature of bank competition, and how corporate and bank conditions affect interest rates and investment.

Castro, Rui and Others⁹, Investors protection, optimal incentives and economic Growth” assess the widely held view that investor protection faster economic growth, introduced, investor protection into a standard overlapping generation’s model of capital accumulation. Better investor protection implies better risk aversion; this results in a larger demand for capital. This is the demand effect.

A second effect (the supply effect) follows from general equilibrium restrictions. Better protection (i.e higher demand) increases the interest rate and lowers the income of entrepreneurs, decreasing current savings and next period’s supply of capital. The supply effect is stronger the tighter are the restrictions on capital flows. Our model thus predicts that the (positive) effect of investor protection on growth is stronger for countries with lower

restrictions. Cross-country data provide support for this prediction, as does detailed examination of the growth experiences of South Korea and India.

Kerins, Frank and others\textsuperscript{10} “Opportunity Cost of Capital for Venture Capital Investors and Entrepreneurs”, in use a database of recent high tech IPOs to estimate opportunity cost of capital for venture capital investors and entrepreneurs. Entrepreneurs face the risk-return tradeoff of the CAPM as the opportunity cost of holding a portfolio that necessarily is under diversified. For early stage firms, we estimate the effects of under diversification, industry, and financial maturity on opportunity cost. Assuming a one-year holding period, the entrepreneur’s opportunity cost generally is two to four times as high as that of a well-diversified investor. With a 4.0% risk-free rate and 6.0% market risk premium, for the sample average, estimate the cost management fees and carried interest of a typical venture capital fund. For an entrepreneur with 25% of total wealth invested in the venture, our corresponding estimate of cost of capital is 40.0%.

Mishra, Alok Kumar.\textsuperscript{11} “Stock market and foreign Exchange market in India” attempts to examine whether stock market and foreign exchange markets are related to each other or not. The study uses Granger’s Causality

\textsuperscript{10} Keris Frank and others, Opportunity cost of capital for venture capital investors and entrepreneurs, Journal of Financial and quantitative analysis, 39(2) 2004, pp.385-405
\textsuperscript{11} Mishra, Alok Kumar, Stock Market and Foreign exchange Market in India: Are They related> South Asia Economic Journal, 5(2) 7-12/2004, pp.209-32
test and Vector Auto Regression technique on monthly stock return, exchange rate, interest rate and demand for money for the period April 1992 to March 2002. The major findings of the study are (a) there exists a unidirectional causality between the exchange rate return demands for money; (b) there is no Granger’s causality between the exchange rate return and stock return. Through Vector Auto Regression modeling, the study confirms that though stock return, exchange rate return, the demand for money and interest rate are related to each other but any consistent relationship doesn’t exist between them. The forecast error variance decomposition further evidences that (a) the exchange rate return affects the demand for money, (b) the interest rate causes exchange rate return affects the demand for money, (b) the interest rate causes exchange rate return change (c) the exchange rate return affects the stock return, (d) the demand for money affects stock return, (e) the interest rate affects the stock return, and (f) the demand for money affects the interest rate. Our results have implications for investors, policy makers and researchers.

Munk, Claus and others\textsuperscript{12} Dynamic asset allocation under mean-reverting returns, stochastic interest rates, and inflation uncertainty are popular recommendations consistent with rational behavior.

\textsuperscript{12} Munk, Claus and others, Dynamic asset Allocation under mean-reverting returns, stochastic interest rates and inflation uncertainty are popular recommendations consistent with rational behaviour, International review of Economics and Finance, 13(2), 2004, pp.141-66
Munk, Claus and Sorensen, Carsten,\textsuperscript{13} “Optimal consumption and Investment strategies with stochastic interest rates”. We characterize the solution to the consumption and investment problem of a power utility investor in a continuous-time dynamically complete market with stochastic changes in the opportunity set. Under stochastic interest rates the investor optimally hedges against changes in the term structure of interest rates by investing in a coupon bond, or portfolio of bonds, with a payment schedule that equals the forward-expected (i.e. certainty equivalent) consumption pattern. Numerical experiments with two different specifications of the term structure dynamics (The Vesicle model and a three-factor non-Markovian Heath-Jarrow-Morton model) suggest that the hedge portfolio is more sensitive to the form of the term structure than to the dynamics of interest rates.

Alexandra Dawson, (2004),\textsuperscript{14} in his study, “Investigating Decision – Making Criteria of Private Equity Investors in Family Firms”, examines decision-making models used by private equity investors in their selection of family firms. Building on Literature on investment criteria at start-up stage, a series of hypotheses is put forward, based on decision-making, strategic management and buyout theories. The theoretical model is tested through an

\textsuperscript{13} Munk, Claus and Sorensen, Carsten, Optimal Consumption and investment strategies with stochastic interest rates, Journal of Banking and Finance, 28(8) 8/2004 pp.1987-2013

\textsuperscript{14} Alexandra Dawson, Investigating Decision making criteria of private equity investors in family firms, Bocconi University, working paper 2004, pp.1-12
experimental design for which date have been collected among 41 respondents based in Italy. Findings are analysed using hierarchical linear models in order to investigate which criteria are used, assess their relative importance and test whether decision-making models are individual-specific or influenced by the firm individuals work for.

Xuewu wang, (2004),\textsuperscript{15} in his paper, “Sentiment Strategies”, documents the profitability of the sentiment strategies. Using the aggregate closed-end fund discount as a proxy for investor sentiment, a simple sentiment strategy is constructed on the basis of the exposure of stock returns to the closed-end fund discount. The sentiment strategies buy stocks with highest exposure to closed-end fund discount and sell stocks with lowest exposure to closed-end fund discount in the past 36 months. It is shown that such a strategy can lead to an annualized profit of 11%. The source of the profitability is explored and it is found that neither market risk nor momentum anomaly can account for the profitability. However, the traditional four factor asset pricing model when augmented with an additional sentiment factor can account for the profit. This finding is interpreted as supportive evidence to the fact that the pricing of the investor sentiment risk may be a potentially useful explanation for profitability.

\textsuperscript{15} Xuewu Wang, Sentiment strategies, The ICFAI journal of Behavioural Finance, December 2004, pp.60-72
Liven Baele, Oivier De Jonghe and Rudi Vander Vennet, (2005)\textsuperscript{16} in their paper, “Does the Stock Market Value Bank Diversification?” investigate whether or not diversified banks have a comparative advantage in terms of long-term performance/risk profile compared to their specialized competitors. To that end, this study uses market-based measures of return potential and bank risk. We calculate the franchise value over time of European banks as a measure of their long-run performance potential. In addition, we measure risk as both the systematic and the idiosyncratic risk sensitivities derived from a bank stock return model. Finally, we analyze the return/risk trade-off implied in different diversification strategies using a panel data analysis over the period 1989-2004. Diversification affects banks’ franchise values positively. Diversification increases the systematic risk of bank while the effect on the idiosyncratic risk component is non-linear and predominantly downward-sloping. These findings have conflicting implications for different stakeholders, such as investors, bank shareholders, bank managers and bank supervisors.


\begin{footnotesize}
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\item \textsuperscript{16} Lieven Baele, Olivier De Jonghe and Rudi Vander Vennet, Does the stock market value bank diversification? Federal public planning service science policy, inter university attraction, 2005, pp.1-27
\item \textsuperscript{17} Arvind OI Hoffmann and Wander Jager, The effect of Different needs, Decision Making processes and network structures on investor Behaviour and stock market Dynamics: A simulation approach, The ICFAI journal of Behavioural Finance, June, 2004, pp.49-64
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examine striking investor and stock market behavior have been recurrent items in the world press for the recent past. Crashes and hypes like the internet bubble are often hard to explain using existing finance frameworks. Therefore, the authors provide a complementing multi-theoretical framework that is built on existing finance research to describe and explain investor’s behavior and stock market dynamics. This framework is built on three main components: Needs, decision-making theory, and (social) network effects. This framework will be used to build a future simulation model of investor behavior and to generate stock market dynamics. A brief outline of the design of these simulation experiments as well as examples of the first results were given.

Qiang Cheng and Terry D. Warfield, (2005), in their article, “Equity Incentives and Earnings Management”, examine the link between managers’ equity incentives. The hypothesize that managers with high equity incentives are likely to sell shares in the future and this motivates these managers to engage in earnings management to increase the value of shares to be sold. Using stock – based compensation and stock ownership data over the 1993 – 2000 time period, they document that managers with high equity incentives sell more shares in subsequent periods. As expected, they find that managers with high equity incentives are more likely to report earnings that meet or just beat

analysts’ forecasts. They also find that managers with consistently high equity incentives are less likely to report large positive earnings surprises. This finding is consistent with the wealth of these managers being more sensitive to future stock performance, which leads to increased reserving of current earnings to avoid future earnings disappointments. Collectively, their results indicate that equity incentives lead to incentives for earnings management.

Vibha Mahajan and Poonam Aggarwal, (2005), in their paper, “Foreign Investment – Need for a More Competitive and Open Policy”, state that the forces driving globalization are changing the way in which MNCs pursue their objectives of investing abroad. Traditional factors such as existence of a pro – FDI regime, natural resources, market growth. Prospects and market size, labor market conditions are important and also the surveys conducted by UNCTAD during the first quarter of 2004. FDI flows are expected to pick up particularly in Asia and Pacific and CEE. China and India in Asia and Poland in CEE is considered to be especially well positioned for an upswing. This paper is an attempt to find out ways how India can attract foreign investment.

19 Vibha Mahajan and Dr.Poonam Aggarwal, Foreign Investment –need for a more competitive and open policy, The management accountant ICWAI Journal Vol.40, No.6, June 2005, pp.475-480
Andreas Kemmerer and Tom Weiding, (2005),\textsuperscript{20} in their study, “Reporting Value to the Private Equity Fund Investor”, look at the actual reporting behavior and information flow of the private equity (mainly venture capital) fund manager to the fund investors, based on access to a fund investors’ database. Overall, the study revealed that the European private equity industry has improved their reporting qualitatively and quantitatively, especially in terms of shorter delivery times of reports. This change is mainly due to the introduction of the EVCA reporting guidelines and willingness by both, fund managers and investors, to report voluntary or contractually bind by contract to report in accordance to these standards. The study also pointed out that aspects of the relationship between the entrepreneur and fund manager are also often found at the next level, between fund managers and investors.

Masashi Toshino and Megumi Suto, (2005),\textsuperscript{21} in their paper, “Cognitive Biases of Japanese Institutional Investor’s Consistency with Behavioral Finance”, investigate the cognitive biases to which Japanese institutional investors are subjects. Investors showed optimism in forecasting market returns, and this tendency was much more significant for domestic markets and for longer forecasting time-horizons. This optimism is consistent with the

\textsuperscript{20} Andreas Kemmerer and Tom Weidig, Reporting value to the private equity fund investors, University of Frankfurt, Working Paper, 2005, pp.1-49

\textsuperscript{21} Masashi Toshino and Megumi Suto, Cognitive biases of Japanese institutional investor’s consistency with behavioural finance, The ICFAI journal of Behavioural Finance, March, 2005, pp.7-18
existence of availability heuristics. Herding behavior was also detected. In addition, Japanese institutional investors showed loss aversion, as suggested by Tversky and Chainman (1979). The median of the relative weight for loss versus gain was two or three, depending on the amount of possible loss, and this number is consistent with a coefficient of 2.25 for the value function estimated in Tversky and Kahneman (1992). The concepts of behavioral finance have universality in the sense that they are pertinent among institutional investors as well as students, and that they are found in an Asian country as well as the U.S.

Nagarajan. R, (2006),\textsuperscript{22} in his article, “Green Shoe Option in IPO”, opined that for stabilizing post-listing share price, a company making an Initial Public Offer (IPO) through the Book Building mechanism can hold the Green Shoe Option. This is an option that allows underwriter of an Initial public Offering to sell additional shares to the public. The challenge for the regulator would be to keep fraudulent issues away form the market. In order to avoid fraudulent issues investors too should do their homework before investing in IPO, because it is investor’s hard earned money and he should invest it carefully.

\textsuperscript{22} Nagarajan, R., Green shoe option in IPO, The Management Accountant ICWAI Journal Vol.40, No.5, May 2006, pp.398-401
Sadhan Kumar Chattopadhyay and Samir Ranjan Behera, (2006),\textsuperscript{23} in their paper, “Financial Integration for Indian Stock Market”, stated that the Indian stock market is considered to be one of the earliest in Asia, which is in operation since 1875. However, it remained largely outside the global integration process until 1991. The reform of the Indian stock market started with the establishment of Securities and Exchange board of India (SEBI), although it became more effective after the stock market cam in 1991. With the establishment of SEBI and technological advancement Indian stock market has now reached the global standard. The study finds that contrary to general belief, Indian stock market is not co-integrated with the developed market as yet. It is derived form the study that although some positive steps have been taken up, which are responsible for the substantial improvement of the Indian stock market, these are perhaps not sufficient enough to become a matured one.

John R.Graham and Alokkumar, (2006),\textsuperscript{24} in their study entitled, “Do Dividend Clienteles Exist? Evidence of Dividend Prreferences of Retail Investors”, studied the stockholding and trading behavior of more than 60,000 households and found evidence consistent with dividend clientele. Retail investor stockholdings indicate a preference for dividend yield that increases

\textsuperscript{23} Sadhan Kumar Chattopadhyay and Samir Ranjan Behera, Financial Integration for Indian Stock Market, Department of Economic Analysis and policy of the RBI, Working paper, 2006, pp.1-29

with age and decreases with income, consistent with age and tax clienteles respectively. Trading patterns reinforce this evidence.

Michael Kastner, (2006),\(^{25}\) in his article, “Investors’ Misreaction to Unexpected Earnings: Evidence of Simultaneous Overreaction and Under Reaction”, investigates the current and past earnings surprises and subsequent market reactions for listed US companies over the period 1983-1999. The results suggest that investors simultaneously exhibit short-term under reaction to earnings announcements’ and long-term overreaction to ‘past highly unexpected earnings’. A potential explanation for the reported overreaction phenomenon is the representativeness bias. The author shows that overreaction and the later reversal is stronger for events which exhibit a long series of similar past earnings surprises.

Ming Dong, Chris Robinson and Chris Veld, (2006),\(^{26}\) in their paper, “Why Individual Investors Want Dividends”, investigated the question of why individual investors want dividends by submitting a questionnaire to a Dutch investor pane. The respondents indicate that they want dividends, partly because the transaction costs of cashing in dividends are lower than the transaction costs involved in selling shares. Their answers provide strong


confirmation for the signaling theories of Bhattacharya (1979) and Miller and Rock (1985). They are inconsistent with the uncertainty resolution theory of Gordon (1961, 1962) and the agency theories of Jensen (1986) and Easterbrook (1984). The behavioral finance theory of Shefrin and Statman (1984) is not confirmed for cash dividends but is confirmed for stock dividends. Finally, the results indicate that individual investors do not tend to consume a large part of their dividends. This raises some doubt as to the effectiveness of the reeducation elimination of dividend taxes in order to stimulate the economy.

Maria May Seitanidi, (2007),\textsuperscript{27} in his paper, “Intangible Economy: How can Investors Deliver Change in Businesses? Lessons Form Nonprofit-Business Partnerships”, explained the intangible economy (trust, human resources, information, and reputation) that co-exists draws attention to new expectations that request the continuous, active and within the public sphere involvement of investors in order to protect their assets by prioritizing intangible resources. Design/methodology/approach – In this paper the case of non-profit-business partnerships is employed in order to demonstrate how change can be achieved. Findings – The paper finds that investors in intangible outcomes who aim to achieve change in corporations share the same

\textsuperscript{27} Maria May Seitanidi, Intangible economy: how can investors deliver change in business? Lessons from non profit business partnerships, Management decision Journal, Emerald Group publishing limited, vol.45, No.5, 2007, pp.853-865
limitations within the financial and non-financial field. Originality/value – The paper highlights investment in the intangible economy as a mechanism of co-determining the priority of responsibilities in the context of corporate social responsibility. The role of investors is crucial in facilitating the shift form the tangible to the intangible economy.

Larry D.Wall (2007)\textsuperscript{28}, in his article, “On Investing in the Equity of Small Firms”, provides a brief discussion of the role of different investors in small business firms. It evaluates the contribution made in papers by Robinson and Cottrell on informal investors in Alberta, Canada, and by Pintado, Perez de Leam, and Van Auken on venture capital investment in Spain.

Gerben de Zwart, Brian Frieser and Dick Van Dijk, (2007),\textsuperscript{29} in their article, “A Recommitment Strategy for Long Term Private Equity Fund Investor”, develop a reinvestment strategy for private equity which aims to keep its portfolio weight equal to a desired strategic allocation, while taking into account the liquid nature of private equity. Historical simulations (1980-2005) show that our dynamic strategy is capable of maintaining a stable investment level that is close to the target. This does not only hold for unrestricted portfolios, but also for investments limited to buy-out or venture

\textsuperscript{28} Larry D.Wall, On investing in the equity of small firms, Journal of small business management, 2007, 45 (1) pp.89-93
\textsuperscript{29} Gerben de Zwart, Brian Frieser and Dick Van Dijk, A recommitment strategy for long term private equity fund investor, ERIM report series research in Management, ERS 2007=097, F & A 2007, pp.1=46
capital, a specific region, or management experience. This finding is of great importance for investors, because private equity funds have a finite life time and uncertain cash flows.

Michael J.Robinson and Thomas J.Cottrell, (2007), in their article, “Investment Patterns of Informal Investors in the Alberta Private Equity Market”, identify three main types of informal investors in private equity markets, relationship investors, opportunity-based investors, and angel investors. Evidence found that prefer to invest smaller amounts close to home and in the context of existing relationships. With respect to angle investors, stratification in their desired investment amount which is consistent with a model where their investments evolve through a life cycle of investing. Evidence found that change to capital market regulations that allow for lower investment amounts by this type of investor increase the amount of capital available for early stage firm.

Brimberg. J, P Hansen, G Laporte, N Mladenovic and D Urosevic, (2008), in their article, “The Maximum Return-on-Investment Plant Location Problem with Market Share’, examine the plant location problem under the objective of maximizing return-on-investment. However, in place of the

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standard assumption that all demands must be satisfied, we impose a minimum acceptable level on market share. The model presented takes the form of a linear fractional mixed integer program. Based on properties of the model, a local search procedure is developed to solve the problem heuristically. Variable neighborhood search and tabu search heuristics are also developed and tested. Thus, a useful extension of the simple plant location problem is examined, and heuristics are developed for the first time to solve realistic instances of this problem.

Viswambharan A.M, (2008),\(^{32}\) in his article entitled, “Indian Primary Market – Opportunities and Challenges”, has examined the recent trends in primary market, the current IPO system – book building process, opportunities for investors, problems faced by the investors and has suggested that investors should rely on long term investment than speculation. Investor education shall be strengthened. Commercial banks may take —up investment consultancy for their clients to improve investor participation.

Kameswari. P, (2008),\(^{33}\) in his article, “Foreign Direct Investment and Its Role in Developing Indian Economy”, state that investment is an important factor in influencing the economic development of a country. Factor in


influencing the economic development of a country. Developing countries like India have investment requirements for greater than their domestic savings can meet. Their investment deficits can be bridged by foreign capital flows in the form of Foreign Direct Investment and Portfolio Investment. But the huge flows of foreign capital may introduce some problems like inflation. In the interest of future economic growth development a developing economy has to institute some safeguards in its national interest while welcoming the foreign investment. This article studies how India is faring in its efforts to attract foreign direct investment and in channelizing the flows for the growth of economic development.

Som Sankar Sen and Santanu Kumar Ghosh, (2008), in their paper “Stock Market Liquidity of BSE and NSE: A Comparative Study (1995 – 2005)” compares between BSE and NSE in terms of Stock Market Liquidity during the study period of January 1995 to December 2005. The study reports that mean liquidity of NSE is higher than that of the BSE during this period. It also reveals that in most of the months BSE remains more vulnerable than NSE during this span of time in terms of liquidity. A monthly pattern of liquidity could be observed in case of NSE but no such monthly pattern is there in case of BSE. Finally, a positive correlation between these two exchanges has been

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reported indicating no significant movement of volume form one exchange to another.

Nissim Ben David, (2008),\textsuperscript{35} in his paper, “An Indicator for Internalization of Analyst’s Recommendations by Investors”, proposes an index for evaluating the internalization of an analyst’s recommendations by investors at various points of time that follow the recommendation day. The model is applied to the Israeli stock market for the years 2004 and 2005. The results indicate that investors in the Israeli stock market internalize a recommendation 14 days after its publication. Internalization continues 30 days after the publication day. The importance of this paper is that is the first time an index for evaluating investor’s reaction to analyst’s recommendations in various stock markets has been proposed. Such information is valuable, since it can improve investment strategies that follow the publication of an analyst’s recommendation. An investor would prefer buying a recommended stock when he expects a large return and would sell it when the recommendation’s effect is exhausted.

Mohanty. B.K., (2008) in his article, “Market capitalization : A suitable Growth Approach for Share Holders’ value creation”, opined that before economic reforms were initiated in 1991, companies in the Indian corporate sector had to function amidst the license regime, quotas and restrictions, high taxes and host of other rules and regulations. Companies are now allowed to borrow form and invest abroad quite liberally. All this has done wonders for corporate India. Over the past 15 years of reforms, corporate profits have gone form Rs.6440 crore in financial year 1991 to Rs. 1,67,801 crore in financial year 2006.

Marcela Meirelles Aurelio, (2008), in his article, “Going Global : The Changing pattern of U.S Investment Abroad”, states that over the past decade, U.S holdings of foreign financial assets – stocks and bonds - have grown remarkably. At the same time, foreign physical assets, such as foreign direct investment in production plants, have also become for more common. Overall, the slrare of U.S investments allocated to foreign assets swelled from 40 percent of GDP in 1990 to 89 percent in 2005. This article investigates the recent behavior of U.S. foreign investment and the factors driving the change in its fastest growing category – namely, international equity investment. Home

bias in U.S equity investment has indeed during the last decade. However the propensity to invest abroad has varied significantly across assets from different foreign economies. Specifically, U.S. investors tend to prefer investing in other industrial countries rather than in emerging markets. This pattern has likely been developed because the assets of industrial countries provide a better hedge during downturns in the U.S Business cycle.

Kenneth A. Froot and Tarun Ramadorai, (2008), in their article, “Institutional Portfolio Flows and International Investments”, using a new technique, and weekly data for 25 countries from 1994 to 1998, analyzes the relationship between institutional cross-border portfolio flow, and domestic and foreign equity returns. In emerging markets, institutional flows forecast statistically indistinguishable movements in country closed – end fund NAV returns and price returns. In contrast, closed – end fund flows forecast price returns, but not NAV returns. Furthermore, institutional flows display trend – following (trend-reversing) behavior in response to symmetric (asymmetric) movements in NAV and price returns. The results suggest that institutional cross border flows are linked to fundamentals, while closed-end fund flows are a source of price pressure in the short run.

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Shollapur. M.R and A B Kuchanur, (2008), in their article, “Identifying Perceptions and Perceptual Gaps: A study on Individual Investors in Selected Investment Avenues”, found that investors hold different perceptions on liquidity, profitability, collateral quality, statutory protection, etc., for various investment avenues. In addition, they fix their won priorities for these perceptions. The formation of perceptions triggers the investment process in its own way, often leading to unrealistic apprehensions especially among individual investors. This study attempts to measure the degree of investors’ agreeableness with the selected perceptions as well as to trace the gaps between their perceptions and the underlying realities. Failure to deal with these gaps tends to lead the investment clientele to a wrong direction. Hence, there is a need tp help investors develop a realistic perspective of the investment avenues and their attributes.

Eva Hofmann, Erik Hoelzl and Erich Kirchler, (2008), in their article, “A comparison of Models Describing the Impact of Moral Decision Making on Investment Decision”, stated as moral decision making in financial markets incorporates moral considerations into investment decisions, some rational decision theorists argue that moral considerations would introduce inefficiency

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to investment decisions. The investment decisions are influenced by both financial and moral considerations. Several models can be applied to explain moral behavior. The study tested the suitability of (a) multiple attribute utility theory (MAUT), (b) theory of planned behavior, and (c) issue-contingent model of ethical decision making in organizations. Results indicate that moral considerations influence investment decisions, controlling for profit. Differences between the three models are discussed.

Kavitha Ranganathan (2009), in her paper, “A Study of Fund Selection Behavior of Individual Investors Towards Mutual Funds, With reference to Mumbai city”, consumer behavior from the marketing world and financial economics has brought together to the surface and exciting are for study and research. As this is a serious subject analysts seem to treat financial markets as an aggregate of statistical observations, technical and fundamental analysis. A rich view of research waits this sophisticated understanding of how financial markets are also affected by the “financial behavior” of investors. Hence, this study is an attempt to examine the related aspects of the fund selection behavior of individual investors towards mutual funds, in the city of Mumbai and it showed the way for further research in this field.

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Subha.M.V., (2009) in her article entitled, “Indian Capital Markets-A Road Ahead”, addressed the current issues in the Indian capital market, lack of individual participation and the ways of restoring investor confidence. The article concluded that the responsibility of creating an environment of trust and confidence lies with the regulators, stock exchanges and companies. Each of them should act in a responsible way and provide a healthy atmosphere for the functioning for an efficient capital market.

Meenu Verma, (2008), in his article, “Wealth Management and Behavioral Finance; The Effect of Demographics and Personality on Investment Choice Among Indian Investors” stated that with the growth of the Indian economy and the rise in the wealth of the people, there is a growing demand for wealth management functions. Wealth management involve understanding the clients financial and investment requirements and accordingly providing financial planning and portfolio management services. Behavioral finance is a nascent but growing discipline, which studies investor’s psychology while making financial decisions. This paper aims to investigate the effect of demographic profile and personality type of the investor on

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investment choice. Such understanding could prove to be a boon for the burgeoning wealth management industry in India.

Gengadhar. V. and G Naresh Reddy, (2008)\textsuperscript{44}, paper, The Impact of Foreign Institutional Investment on Stock Market Liquidity and Volatility in India” is aimed at examining the investment trends and patterns of FIIs and their impact on stock market liquidity and volatility. Liquidity with reference to capital market refers to easy conversion of capital market securities into cash. Whereas the stock market volatility implies the fluctuations in the stock market return over a time period. Volatility is the inconsistency or variability in the returns of aggregate market portfolio.

Sudershan Kunthuru and D. Mohd Akbar Alikhan, (2009),\textsuperscript{45} in their article, “Financing Pattern of Foreign and Domestic Owned Pharmaceutical Companies in India”, stated that foreign direct investment has often seen as major source of long term capital which provides bundle of other benefits to the host county company. In this paper,. This paper made and attempt to examine the financing pattern of foreign and domestic owned pharmaceutical companies in India. It has been hypothesized that there is no significant


difference between the financing patterns has been analyzed based on traditional methodology such as common size statement, trend analysis and ratio analysis. The results and analysis indicate that domestic companies are highly levered than foreign owned companies in the pharmaceutical industry.

William A. Birdthistle and M. Todd Henderson, (2009), in their article, “One Hat Too Many? Investment Desegregation in Private Equity”, stated that the nature of private-equity investing has changed significantly as two dynamics have evolved in recent years: portfolio companies have begun to experience serious financial distress, and general partners have started to diversify and desegregate their investment strategies. Both developments have led private-equity shops – once exclusively interested in acquiring equity positions through leveraged buyouts – to invest in other trenches of the investment spectrum, most particularly public debt. By investing now in both private equity and public debt of the same issuer, general partners are generating a host of new conflicts of interest between themselves and their limited partners, between multiple general partners in the same consortia, and between private investors and public shareholders.

Diptendu Simlai, (2009),\textsuperscript{47} in his paper, “An Inquiry Into the Origin and Growth of the Capital Market in India”, stated that India’s modern capital market did not emerge in a day. This market, since its inception in the 18\textsuperscript{th} century with the establishment of the Bank of Hindustan (1770) in Calcutta, laid the foundation of the modern capital market in India according to A. K. Sru, a noted stock market economic Affairs, Now-Dec/1960). The objective of this paper is to trace the evolution of this market right from the late 18\textsuperscript{th} century up to out times. For purposes of our study the entire time span has been divided into four periods. The first covers the 18\textsuperscript{th} and 19\textsuperscript{th} centuries. The second extends from the early 20\textsuperscript{th} century up to 1947, the year of Independence. For the enormous impact of the economic reforms upon the capital market, the post-Independence era has been divided into two periods: one ending with 1990 and the other starting with 1991.

Yadagiri. M and P.Rajender, (2009),\textsuperscript{48} in their article, “Analysis of Investment Portfolio of Scheduled Commercial Banks”, opined that the reforms have unleashed tremendous changes in the banking sector. The government of India issued guidelines to the banks by permitting and


encouraging them to diversify their activities and contributing to the equity of companies by offering financial services.

Shivkumar Deene, Madari D.M and Gangashetty, (2009),\footnote{Shivkumar Deene, Madari D.M. and Gangashetty, Capital Market Reforms: some issues, Working paper 2009, pp.1-12} in their paper, “Capital market Reforms: Some Issues”, stated that capital market is vital for the development and strength of economy. A strong and vibrant capital market assists corporate world initiatives, fiancé and exploration of new processes and instrument s facilitates management of financial risk. Retail investor is the backbone of the capital market. But with the expansion of the capital market, scams and anomalies, also multiplies. It ultimately leads to the dilution of the faith of the small investor, mutual funds, pension funds, Foreign Institutional Investor and insurance companies in the capital. Realizing that the government made different as capital marker reforms. This includes educating capital market participants regarding their rights and duties for proper functioning of capital market.

Alok Kumar, (2009),\footnote{Alok Kumar, Who Gambles In the Stock Market? University of Notre Daine, Mendoza College of Business, IN 46556 , 2009, pp.1-53} “Who Gambles In the Stock Market?” examines whether socio-economic and psychological factors, which are known to influence lottery purchases, lead to excess investment in lottery-type stocks. The results indicate that, unlike institutional investors, individual investors
prefer stocks with lottery-type features. The demand for lottery – type stocks increases during bad economic times and demand shifts influence the returns and idiosyncratic volatility of those stocks. The evidence of the study indicates that people’s attitudes towards gambling are reflected in their stock investment choices and stock returns.

Henry L. Petersen and Harrie Vreden Burg, (2009), in their article, “Morals or Economics? Institutional Investor Preferences for Corporate Social Responsibility”, present the results of a study that analysed whether social responsibility had any bearing on the decision making of institutional investors. Being that institutional investors prefer socially aligned organizations, this study explored to what extent the corporate actions and /or social/environmental investments influenced their decisions. Our results suggest that there are specific variables that affect the perceived value of the organization, leading to decisions to not only invest, but whether to hold or sell the shares, and therefore having a consequential impact on the capital market’s valuation.

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Minh Quang Dao, (2009),\textsuperscript{52} in his paper, “The impact of Investment Climate Indicators on Gross Capital Formation in Developing Countries”, examines the impact of investment climate indicators on gross capital formation in developing countries. Based on data from the World Bank Investment Climate Surveys for a sample of thirty-six developing countries, we find that corruption constraint as measured by the share of senior managers that ranked “corruption” as a major or very severe constraint in the investment structure.

Ai Jun Hou, (2009),\textsuperscript{53} in his study “EMU Equity Markets Return Variance and Spill Over Effects From Short Term Interest Rates,” examines the spillover effects from the movement of short term interest rates to equity markets within the Euro area. The empirical study is carried out by estimating a markov switching GJR-M model with a Bayesian based Markov Chain Monte Carlo (MCMC) methodology. The result indicates that stock markets in the Euro area display a significant two regimes with distinct characteristics. The study indicates that there is a significant impact of fluctuation in the short term interest rate on the conditional variance and condition returns in the EMU.

\textsuperscript{52} Minh Quang Dao, The Impact of investment climate indicators on gross capital formation in developing countries, Eastern Illinois University, USA, working paper, 2009, pp.1-10

\textsuperscript{53} Ai Jun Hou, EMU equity markets return variance and spill over effects from short term interest rates, Department of Economics, Lund University, Sweden working paper, 2009, pp.1-35
countries. Such impact is asymmetrical, and it appears to be stronger in the bear market and when the interest rate changes upward.

Batni Raghavendra Rao, (2009),\(^{54}\) in his paper, “Exchange Traded Funds the Cardinal Investment Option in Turbulent Times”, found that the global meltdown, international reputed firms going bankrupt, fudging of accounting numbers and dubious corporate governance have made equity investing more challenging then ever before. The investors are constantly on a look and therefore construction of equity portfolio is imperative. The premise that diversification reduces the risk is beyond doubt. Diversification entails scouting of investment avenues in terms of risk and return. It calls for developing a portfolio of assets or securities in such a way to minimize the risk. The individual investors hardly can match up to the institutional investors in terms of the expertise and also majority of them are not market savvy. In this context, Exchange traded funds (ETFs) come in handy to help out the individual investors in the stock market. ETFs are the safe bets and provide scrupulous diversification. In fact in the developed markets ETFs are the most sought after means of investing in the equities. In india ETFs are yet to catch up the attention of the investors.

Mamunur Rashid1 and Md. Ainun Nishat, (2009)\textsuperscript{55}, in their article, ‘Satisfaction of Retail Investors on the Structural Efficiency of the Market. Evidence from a Developing Country Context”, stated that satisfied investors are a necessary element of the stock market. They help to finance rapid expansion in developing countries. This study explores the components of market structure that contribute to the satisfaction level of retail investors. Around 300 retail investors from 25 randomly selected brokerage houses registered with the Dhaka Stock Exchange, Bangladesh were surveyed using a structured questionnaire. Analyses reveal that most investors were young and inexperienced but educated, with shortages of skills and income. The study suggests the importance of effective regulation, disclosure requirements to ensure a supply of quality information, investor education and technology driven trading in brokerage houses for overall investor satisfaction.

Doborach Tan and Julia Henker, (2011),\textsuperscript{56} in their article, “Idiosyncratic Volatility and Retail Investor Preferences in the Australian Marker”, explore the negative relation between idiosyncratic volatility and future stock returns observed by previous researchers. Based on the observation described in prospect theory, retail investors prefer stocks with a high level of idiosyncratic

\textsuperscript{56} Deborah Tan and Julia Henker, Idiosyncratic volatility and retail investor preference in the Australian Market, The Australian school of Business, University of New South Wales, working paper 2011, pp.1-55
volatility and are subsequently willing to overpay for those stocks. The negative idiosyncratic-volatility return relation is present in the Australian market, and that this relation is affected by the magnitude of retail trading. The relation is particularly strong when returns and realized volatility are measured at a daily frequency.

Mart Grinblatt and Matti Keloharju, (2011)\textsuperscript{57}, in their study entitled, “The Investment Behavior and Performance of Various Investor Types: Study of Finland’s Unique Set”, analysed the extent to which past returns determine the propensity to buy and sell. The study revealed that foreign investors tend to be momentum investors, buying past winning stocks and selling past losers. Domestic investors, particularly households contradicted the same. This difference in Investor behavior was consistent in regular intervals. The portfolios of foreign investors outperformed the portfolios of households, even after controlling the behavior difference.

Rajarajan. V, (2011)\textsuperscript{58}, conducted a study entitled, “Investors Life Styles and Investment Characteristics”, with the objective of analyzing the investors life styles and to analyse the investment size, pattern, preference of individual investors on the basis of their life styles. Data was collected form 405 investors

in Madras using questionnaire method. The investors were classified into 3 groups’ viz., active investors, individualists and passive investors. Cluster Analysis, Correspondence Analysis and Kruskal Wallis Test were used to study the association between lifestyle groups and the various investment related characteristics. The study revealed that the level of expenses, earnings and investment were associated with the size of the household. active investor group was dominated by officers, individual group by clerical cadre and passive investors group by professionals. The expected rate of return from investments varied between investment styles. The study clearly indicated that market performance of the share, company’s operating level, capital performance and the expectation of the investors were found to influence the risk perception of the investors.

Bandgar P.K, (2011), in his study entitled, “A Study of Middleclass Investor’s Preferences for Financial Instruments in Greater Bombay”, studied the existing pattern of financial instruments in India and the performance of middle class investors, their behaviour and problems. Questionnaire was administered to collect data. Average, Skewness, Chi-square test and Fisher Irving Test were used to analyse the data. The study revealed that only 16% of the investors were facing difficulties in buying and selling securities. Middle –

class investors were highly educated but they were lacking skill and knowledge to invest. Female investors preferred to invest in risky securities as compared to male investors. The study also revealed that there was a moderate and continuing shift from bank deposits to shares and debentures, and a massive shift towards traditional financial instruments namely, life insurance policies and government securities.

Panda. K, Tapan N,P and Tripathi, (2011), in their study entitled, “Recent Trends in Marketing of Public Issues: An Empirical Study of Investors perception’, attempted to identify the investors awareness and attitude towards public issues. One hundred and twenty five investors covering the salaried and business class, form the city of Bhuvaneshwar were selected at random. The data was collected by administering a questionnaire and was analysed using simple percentage and weighted average analysis. The study revealed that majority of the investors relied on newspapers as the source of information. Financial journals and business magazines were ranked next to newspapers. A large number of investors were of the opinion that they were not in a position to get the required information from the company in time. A sizable number of investors were found to face problems while selling securities. ‘Safety and Regular Return’ stood first and second with regard to the factors associated

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with investment activities. Equity shares were preferred for their higher rate of return by the investors.

Maruthu Pandian P, Bejamin Christopher, (2010)\textsuperscript{61}, conducted a study entitled, “A study on Equity Investor Awareness” in order to study the stock market literacy of the investors about the company, stock exchanges as well as capital market regulatory bodies. The primary data using multiple regression, path analysis and chi-square test along with ANOVA clearly revives difference in the awareness among the investors. The research work found that the awareness index is high among young male investor, post –graduates and meticulous business men.

Stout, (2010)\textsuperscript{62} in his study entitled, “The Investor Game”, has indicated that investors have adaptive and not rational expectations. Adaptive expectations result in both trust and mistrust in securities market based on past actions.

Chattopadhyay P, (2010),\textsuperscript{63} in his article, “Retail Investors, in IPO Subscription”, stated that in the Liberalization regime of india, there has been a renewed emphasis on the equity cult and a growing stress of what is termed market capitalization the number of retail investors has already become

\textsuperscript{61} Maruthupandian, P., Benjamin Christopher, S, A Study on equity investor awareness, Doctoral Dissertation at Bharathiar University, 2010
\textsuperscript{62} Stout, Lynn, A, The Investor game, UCLA school of law, Research paper No.02-18, 2010
substantial and is still growing. This underlines the need for safety and security of the money invested along with the promise of augmented yield. These have required the government and the regulatory bodies to provide necessary systems and methods for safeguarding the interests of the small, retail investors. The securities and Exchange Board of India has recently mooted a proposal to the effect that in the cases of retail investors seeking to subscribe to the share offers by the public limited companies, cash transactions should take place only after the allotment has been made. The proposed intention of SEBI is to be lauded; there are other parts which are not as commendable. The proposal does not appear fool-proof on one side, and may be easily subject to abuse, on the other. Least of all, the proposal may not restore parity between the institutional and retail investors, which is the major objective of the new approach. The steps taken by the regulatory authorities are not enough and the centrifugal forces triggered internally, that would lead to undesirable repercussion.

Charles Lee, M.C and Balakrishna Radhakrishna, (2010),\textsuperscript{64} in an article entitled, “Inferring Investor Behaviours, Evidence from TORQ Data”, made an attempt to examine the several techniques commonly used to infer investor behaviour from transaction data. They adopted Lee-Ready (1991) algorithm

for distinguishing trade decision. The results show that frequency, size and direction of observed trades provide a reasonable basis for evaluating the incoming flow of market orders.

Alexander L Jungquist and Matthew Richardson, (2010), in his study “The Investment Behavior of Private Equity Fund Managers”, using a unique dataset of private equity funds over the last two decades, analyze the investment behavior of private equity fund managers. Based on recent theoretical advances, link the timing of funds investment and exit decisions, and the subsequent returns they earn on their portfolio companies, to changes in the demand for private equity in a setting where the supply of capital is ‘sticky’ in the short run. Existing funds accelerate their investment flows and earn higher returns when investment opportunities improve and the demand for capital increases. Increases in supply lead to tougher competition for deal flow, and private equity fund managers respond by cutting their investment spending. These findings provide complementary evidence to recent papers documenting the determinants of fund-level performance in private equity.

Stephanie Desrosiers, Jean-Francois L Her and Jean-Francois Plante (2011),\textsuperscript{66} in their article, “Style Management in Equity Country Allocation”, found that strategies that entailed country selection based on relative strength (momentum) posted significant market risk adjusted returns over the past 30 year, but relative-value strategies based on book value of equity to market value of equity did not. Because these two fixed-style strategies are negatively correlate, using them for style diversification and for style timing (rotation) is potentially rewarding in the study described here, style diversification enhanced return and lowered risk but style timing provided consistent risk adjusted performance that was superior to the performance of fixed-style strategies or style diversification.

Meir Statman, Steven Thorley and Keith Vorkink, (2011),\textsuperscript{67} in their paper, “Investor Overconfidence and Trading Volume”, examined the proposition that investors are overconfident about their valuation and trading skills can explain high observed trading volume. With biased self-attribution, the level of investor overconfidence and thus trading volume varies with past returns. The paper test the trading volume predictions of formal overconfidence model and find that share turnover is positively related to lag returns for many

\textsuperscript{66} Stephanie Desrosiers, Jean Francois L, Her and Jean Francois Plante, Style Management in Equity country Allocation, Financial Analysts, Journal, CFA Institute, Vol.60, No.6, 2011, pp.40-54

months. The relationship holds for both market-wide and individual security turnover, which we interpret as evidence of investor overconfidence and the disposition effect, respectively. Security volume is more responsive to market return shocks than to security return shocks, and both relationship are more pronounced in small cap stocks and in earlier periods where individual investors hold a greater proportion of shares.

Narendra Jadhav, (2010), in his article, “Development of Securities Market- The Indian Experience”, stated that the Indian Securities markets have witnessed far-reaching reforms in the post-liberalization era in terms of market design, technological developments, settlement practices and introduction of new instruments. The markets have achieved tremendous stability and as a result, have attracted huge investments by foreign investors. There still is tremendous scope for improvement in both the equity market and the government securities market. However, it is the corporate debt market, which needs to be given particular emphasis given its importance for providing long-term finance for development.

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68 Narendra Jadhav, Development of Securities Market – The Indian Experience, Association for Financial Professionals (AFP), Annual conference session, 30,2011, pp.1-34
Sakthivel. N, (2010), in his paper, “EVA-MVA: Shareholders’ Value Measure,” opined that maximizing shareholders value is becoming the new corporate standard in India. The corporate, who gave the lowest preference to the shareholders’ inquisitiveness, are now bestowing the utmost inclination to it. Shareholders’ value measured in terms for the returns they receive on their investment. The returns can either be in the form of dividends or in the form of capital appreciation or both. For measuring the corporate financial performance, there are accounting profitability measures and shareholders’ value based measures. Accounting profitability measures include ROI, ROE, EPS, EVA and MVA. EVA in Indian environment and relationship between EVA (Economic Value Added) and MVA (Market Value Added).

Sant Swarup. K, (2003) in his study entitled, “Role of Mutual Funds in Developing Investor Confidence in Indian Capital Markets”, identified safety and tax savings as the important factors affecting investment in various avenues by the investor and developed strategies for enhancing common investor confidence such as good return, transparency, investor education, guidance etc.

\[69\] Sakthivel, N, EVA-MVA, Shareholders value measure, the Management Accountant ICWAI, Journal Vol.45, No.1, January 2010, pp.10-14 & 18
\[70\] Santi Swarup, K.,Role of mutual funds in developing investor confidence in Indian capital markets, Sajosp, Vol.2, No.2, June 2003, pp.58-60
Mohameed Saluhuddin and Md. Rabiul Islam, (2010), in their article, “Factors Affecting Investment in Developing Countries: A panel Data Study”, investigate the gross investment behavior in a panel of 97 developing countries spanning a period between 1973 and 200. Fixed Effect Model is employed to analyze data. Variance Inflation Factor (VIF) test is conducted to ensure that the data are free from multicollinearity. Also, Granger Causality test is conducted to see if reverse causality exists. 2-step 1st Difference Generalized method of Moments (GMM) dynamic panel estimator has been employed to offset unobserved heterogeneity and endogeneity of regressors. The result suggests that investment decisions still seem to be significantly affected by traditional determinants such as growth, domestic savings, trade openness etc. The variable aid appeared to potentially affect investment which calls for developing country’s measures to ensure proper utilization of it.

Julan Du, (2010), in his paper, “Heterogeneity in Investor Confidence and Asset Market Under- and Overreaction”, develops a behavioral finance model that may explain under reaction and overreaction in asset markets from the perspective of heterogeneous investors with different confidence levels. The model explains the occurrence of under reaction by the sequential entry of

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71 Mohammad Salahuddin and Md. Rabiul Islam, Factors affecting investment in developing countries, A panel data study, South East University Bangladesh, working paper, 2010, pp. 21-37
investors with different confidence levels in interpreting earnings shocks. It is shown that in repeated trading episodes with repeated earnings shocks, the average investor confidence level would be higher as a result of the biased self-attribution and confirmatory bias, causing overreaction more likely to occur. Also, the higher average confidence level of investors gauged by the later timing of winding up their asset holding position also makes overreaction more likely to occur.

Dechow, Hutton and Sloan, (2011),\(^\text{73}\) in their study entitled, “Mastering Finance”, found that analysts’ growth forecasts are routinely over optimistic around new equity offerings, but the most over optimistic are those analysts employed by the lead underwriters of the offerings.

Malcolm Baker and Jeffrey Wurgler, (2011),\(^\text{74}\) in their paper, “A Catering Theory of Dividends”, develop a theory in which the decision to pay dividends is driven by investor demand. Managers cater to investors by paying dividends when investors put a stock price premium on payers and not paying when investors prefer nonpayer. To test this prediction, constructed four time series measures of the investor demand for dividend payers. By each measure, nonpayer’s initiate dividends when demand for payers is high. By

\(^{73}\) Deschow, Patricia, Hutton, Amy and Sloan, Richard part 5, Mastering Finance, Business standard's 12 part series on corporate finance, Financial Markets and investment management, New Delhi, 2011

some measures, payers omit dividends when demand is low. Further analysis confirms that the results are better explained by the catering theory than other theories of dividends.

Jaspal Singh and Subhash Chandler, (2011), in their article, “Investors’ Preference for Investment in Mutual Funds: An Empirical Evidence”, stated that since interest rates on investments like PPF, NSE, bank deposits, etc., are falling, the question to be answered is: What investment alternative should a small investor adopt? One of the alternatives is to invest in capital markets through mutual funds. This helps the investor avoid the risks involved in direct investment. Considering the state of mind of the general investor, this article figures out: (i) the preference attached to different investment avenues by the investors; (ii) the preference of mutual funds schemes over others for investment; (iii) the source form which the inventor gets information about mutual funds; and (iv) the experience with regard to returns form mutual funds. The results show that the investors consider gold to be the most preferred form of investment, followed by NSC and post Office schemes. Hence, the basic psyche of an Indian investor, who still prefers to keep his savings in the from of yellow metal, is indicated. Investors belonging to the salaried category, and in the age group of 20-35, years showed inclination towards close-ended

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growth (equity-oriented) schemes over the other scheme types. A majority of the investors based their investment decision on the advice of brokers, professionals and financial advisors. The findings also reveal the varied experiences of respondents regarding the returns received from investments made in mutual funds.

Gnana Desigan, C. et.al, (2011),\(^{76}\) in their study entitled, “Women Investors Perception Towards Investment – An Empirical Study”, identified the investment pattern, preference, influencing factors and problems of women investors in Erode town. The findings of the study reveal that, women investors prefer to invest in bank deposits and jeweler, they are influenced by safety and liquidity and the problems faced by them are cumbersome procedures and formalities, commission and brokerage.

Shobana. V.K and Jayalakshmi J, (2011),\(^{77}\) in their study entitled, “Investor Awareness and Preferences”, studied the investors’ preferences, the level of investor awareness of 100 respondents in Salem District. The study reveals that real estate, bank deposits and jeweler were the preferred investments. Investors above 50 years of age, post graduates and professionals had high level of awareness. Age and education do not have any significant


influence over investor awareness but occupational status leads to difference in the awareness level of people.

Dan Palmon and Fred Sudit, (2011),\textsuperscript{78} in their article, “Shareholders’ Defensive Security Shares”, explore the possibilities and merits of offering shareholders and equity instrument (new class of common shares) designed to protect their investments form managerial opportunism. To this end, we propose a special class of shares, the Shareholders’ Defensive Security Shares (SDSS), which would oblige Boards of Directors to declare a pre-specified extra dividend whenever executive pay exceeds a contractually pre-determined threshold. SDSS could be extended into a larger class of Defensive Security Instruments (DSI) that includes regular bonds, convertible bonds, and preferred stocks. We argue that this defensive equity, the Shareholders’ Defensive Security, or SDSS, could be beneficial to managers as well as shareholders. What’s more, the use of SDSS is completely voluntary and requires no additional regulation.

Iran Peacock and Stuart Cooper, (2011),\textsuperscript{79} in their article, “Private Equity: Implications for Financial Efficiency and Stability”, describe the current state of the UK private equity market. It also considers the extent to

\textsuperscript{78} Dan Palmon and Fred Sudit, Shareholders defensive security shares, International Journal of Disclosure and Governance Vol.43, Palgrave, Macmillan Ltd., 2011, pp.195-203

which private equity promotes efficiency by facilitating the ‘shake-up’ of businesses, and whether the success of investment house in attracting substantially increased funds for investment poses any threats to financial stability. Private equity comprises equity investment in all types of unquoted companies, whether provided by individuals, funds or institutions. The article also concentrates on larger transactions (particularly management buy-outs and buy-ins of over 10 million), and excludes start-up and early-stage venture capital finance, which in effect forms a distinct market with different characteristics.

Security Exchange Board of India (SEBI)\(^8\) along with National Council of Applied Economic Research (NCAER) (2011), conducted a comprehensive survey of the Indian investor households entitled, “Survey of Indian Investors”, in order to study the impact of the growth of the securities market on the households and to analyse the quality of its growth, 25,000 investors were drawn form places all over India and the data were collected by administering questionnaire and through personal interviews. The survey was carried out with the major objective of drawing a profile of the households and investors and to describe the demographics, economic, financial and equity ownership characteristics. The study revealed that majority of the equity investors had

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\(^8\) Securities and Exchange Board of India, National Council of Applied Economic Research, Survey of Indian investors, Chartered Secretary, Vol.XXX, No.9, 2011, pp.1201-1207
long term motive of investment. Investors revealed that they had a number of broker related problems than the issuer related problems.

David R. Gallagher, (2011),\textsuperscript{81} in his study, “Investment manager characteristics, top management changes and fund performance”, examine the performance of Australian investment management organizations with direct reference to their specific characteristics and strategies employed. Using a unique information source, performance is evaluated for actively managed institutional blanched funds, Australian share funds and Australian bond funds. The study examines the performance of top management and the impact on returns when turnover arises. The research document that a significant number of active Australian equity managers earned superior risk-adjusted returns in the period; however active managers perform in line with market indices for balanced funds and Australian bond funds.

Hall, (2011),\textsuperscript{82} has conducted research entitled, “Do Brokers Buy, Hold and Sell Recommendations of Value to Individual Investors? He found that investors, who invested in the Johannesburg Securities Exchange (JSE) based on their brokers’ advice, were able to get risk adjusted returns superior or the market.

\textsuperscript{81} David R.Gallagher, Investment manager characteristics, strategy, top management changes and fund performance, Research paper school of banking and finance, The university of new South wales, Sydney, NS.W., 2052, Australiam, 2011, pp.1-52

\textsuperscript{82} Hall, John H., Do brokers buy, hold and sell recommendations of value to individual investors, kUniversity of Pretoria, working paper series, 2011.
Fieldstein and Yitzhaki, (2011),\textsuperscript{83} in their study entitled, “Are High Income Individuals Better Stock Market Investors?” have presented evidence to suggest that the corporate stock owned by high-income investors appreciate substantially faster than stock owned by investors with lower incomes. They have indicated that high-income individuals have larger portfolios and can therefore denote more time or resources to their investments, thus resulting in higher returns.

Mahabaleswara Bhatta. H.S., (2009)\textsuperscript{84} in his paper, “Behavioral Finance-A Discussion his Individual Investor Biases”, made an attempt to throw light on the investors biases that influence decision making process. Empirical studies have time and again proved that the irrational behaviors have caused stock market bubbles and crashes. The knowledge so developed through the studies would provide a framework of behavioral principles within which the investors react. The article suggests for a time bound program to educate and counsel the individual investors about the wisdom required in stock trading and be aware of unethical and tactical practices of broker’s shady dealings of the companies and the insider trading.

\textsuperscript{83} Feldstein, Martin, S., Yitzhaki shlomo, Are high income individuals better stock market investors, 2.0948, 2011

\textsuperscript{84} Mahabaleswara Bhatta H.S., Behavioural Finance – A discussion his individual investor biases, The Management Accountant ICWAI Journal Vol.44, No.2, February 2009, pp.138-141
Raja. M and J Clement sudhakar (2010), in their article, “An Empirical Test of Indian Stock Market Efficiency in Respect of Bonus Announcement”, opined that as capital market is said to be efficient with respect to an information item if the prices of securities fully impound the return implications of that item. The efficiency with which the capital formation is carried out depends on the efficiency of the capital markets and financial institutions. A capital market is said to be efficient with respect to corporate event announcement, (stock spilit, buyback, right issue, bonus announcement, merger & acquisition, dividend etc) contained information and its disseminations. How quickly and correctly the security prices reflect these event contained information show the efficiency of stock markets. Present study is an attempt to test the efficiency of Indian stock market with respect to bonus issue announce by IT companies.

Roopam Kothari and Narendra Sharma’s, (2010), “Testing the Beta Stability of Banking Sector Over Various Phases in Indian Stock Market”, aims at creating a banking stock portfolio which serves as a representative of all the banking stocks traded on Bombay Stock Exchange and testing the beta instability of the banking sector stock portfolio over various phases in the

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86 Roopan Kothari and Narendra Sharma, Testing the Beta Stability of Banking sector over various phases in Indian stock market, The Management Accountant, ICWAI journal vol.45, No.7, July 2010, pp.591-595
Indian stock market. It also evaluate the monthly stock price returns of the banking portfolio vis-à-vis the market portfolio from the period ranging from July 1994 to December 2008. The journey of Sensex during the span of past fourteen years in the post liberalization period has been divided into three phases based upon technical analysis. An attempt is made to evaluate the under/over performance of the banking stock portfolio returns under various phases.

Som Sankar Sen., Bidyut Kumar Ghosh and Dr. Santanu Kumar Ghosh’s, (2007)87 “Stock Market Liquidity and Exchange Rate-A Case Study on BSE & NSE” explore significant impact of exchange rate on stock market market liquidity. Taking monthly data on both BSE and NSE the paper reveals the positive relationship between exchange rate and stock market liquidity in concurrent, lagged and lead forms. Using R2 Statistic it shows a considerable variation in liquidity is explained by exchange rate in both the major stock exchanges in India.


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Performance on Socially Responsible Investment Behavior”, address the growing industry of retail socially responsible investment (SRI) profiled mutual fund. The study examined the impact of a number of pro-social, financial performance, and sociodemographic variables on SRI behavior in order to explain why investors choose to invest different proportions of their investment portfolio in SRI profiled funds. Some 528 private investors including women were investigated; the results showed that women and better educated investors were more likely to invest a greater proportion of their investment perceptions and pro-social attitudes are connected to consumer investment in SRI.

Costanza Consoland, Ameeta Jaiswal-Dale, Elisa Poggiani and Alessandro Vercelli, (2008), in their article, “Global Standards and Ethical Stock Indexes. The Case of the Dow Jones Sustainability Stock Index”, examine whether these incentives have been so far detectable with particular reference to the Dow Jones sustainability Stock index (DJSSI) that focuses on the European corporations with the highest CSR scores among those included in the Dow Jones Stock 600 index. The aim of the article is twofold. First, we analyse the performance of the DJSSI over the period 2001-2006 compared to

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that of the Surrogate Complementary Index (SCI), a new benchmark that includes only the components of the DJ stock 600 that do not belong to the ethical index to evaluate more correctly the size of possible divergent performances. Second, we perform an event study on the same data set to analyse whether the stock market evaluation react to the inclusion (deletion) in the DJSSI. In both cases, the results suggest that the evaluation of the CSR performance of the firm is a significant criterion for asset allocation activities.

Hong Kong Exchanges and Clearing Ltd (HKEx)\(^90\) conducted the “Derivatives Retail Investor Survey (DRIS)”, for the first time in 2001-2002 to study retail participation in the Hong Kong derivatives market and the investment behaviour attitude and opinions of derivative investors in Hong Kong. DRIS was conducted in two stages through a mail questionnaire survey and personal interviews. The survey revealed that investors were predominantly males in their 40’s, mostly highly educated and of a high working class. HIS futures and options were the preferred ones. The median number of years of experience in trading was 4 years and the median trading frequency was 1-2 times a week. The median deal size was HK $60,000. Males were found to trade more frequently than females. Higher income group had a higher usual deal size. Profit was the motive behind trading derivatives.

\(^90\) Hong Kong Exchanges and clearing Ltd. (KHEX) (2001-02) Derivatives Retail Investor Survey,
Overall, the mail survey respondents’ perceptions of Hex derivatives market were positive.

Ansari (1993)\textsuperscript{91} stressed the need for mutual funds to bring in innovative schemes suitable to the varied needs of the small savers in order to become predominant financial service institution in the country.

Gupta and Sehgal (1998)\textsuperscript{92} evaluated performance of 80 mutual fund schemes over four years (1992-96). The study tested the proposition relating to fund diversification, consistency of performance, parameter of performance and risk-return relationship. The study noticed the existence of inadequate portfolio diversification and consistency in performance among the sample schemes.

Sapar, Narayan R. and Madava, R. (2003)\textsuperscript{93} conducted a research on the performance evaluation of Indian mutual funds in a bear market. The period of study was September 1998 to April 2002 (bear period). They started with a sample of 269 open ended schemes (out of total schemes of 433) for computing relative performance index. Then after excluding the funds whose returns are less than risk-free returns, 58 schemes were used for further analysis. Mean monthly (logarithmic) return and risk of the sample mutual fund schemes

\textsuperscript{91} Ansari, Mutual Fund’s in India emerging, 1993, vol.42(12) pp.88-93
\textsuperscript{92} Gupta and Sehgal, Investment performance of mutual funds, The Indian Experience, 1998, 22-24
\textsuperscript{93} Sapar, Narayan, R and Madava R., Performance evaluation of India Mutual Funds, SSRN Research Library 2003
during the period were 0.59% and 7.10%, respectively, compared to similar
statistics of 0.14% and 8.57% for market portfolio. The results of performance
measures suggest that most of the mutual fund schemes in the sample of 58
were able to satisfy investor's expectations by giving excess returns over
expected returns based on both premium for systematic risk and total risk.

Ippolito (1992)\textsuperscript{94} documents the reaction of investors to performance in
mutual fund industry. His findings have shown that poor relative performance
results in investors shifting their assets into other funds.

Narasimhan M S and Vijayalakshmi S (2001)\textsuperscript{95} analyzed the top holding
of 76 mutual fund schemes from January 1998 to March 1999. The study
showed that, 62 stocks were held in portfolio of several schemes, of which only
26 companies provided positive gains. The top holdings represented more than
90 percent of the total corpus in the case of 11 funds. The top holdings showed
higher risk levels compared to the return. The correlation between portfolio
stocks and diversification benefits was significant at one percent level for 30
pairs and at five percent level for 53 pairs.

\textsuperscript{94}Ippolito, R, Consumer Reaction to poor quality evidence from mutual funds Journal of law and economics,
1992, 35, 45-70
\textsuperscript{95}Narasimhan, M.S., and Vijayalakshmi, S., Performance analysis of mutual funds in India, Finance India, 2001,
vol.XVCl,
Desigan et al (2006)\textsuperscript{96} conducted a study on women investors’ perception towards investment and found that women investors’ basically are indecisive in investing in mutual funds due to various reasons like lack of knowledge about the investment protection and their various investment procedures, market fluctuations, various risks associated with investment, assessment of investment and redress of grievances regarding their various investment related problems. Savings is a habit specially embodied into women. Even in the past, when women mainly depended on their spouses’ income, they used to save to meet emergencies as well as for future activities. In those days, women did not have any awareness about various investment outlets. But as time passed, the scenario has totally changed.

Ramamurthy and Reddy (2005)\textsuperscript{97} conducted a study to analyze recent trends in the mutual fund industry and draw a conclusion that the main benefits for small investors’ due to efficient management, diversification of investment, easy administration, nice return potential, liquidity, transparency, flexibility, affordability, wide range of choices and a proper regulation governed by SEBI. The study also analyzed about recent trends in mutual fund industry like various exit and entry policies of mutual fund companies, various schemes

\textsuperscript{96}Desigan et.al., Women investor’s perception towards investment An empirical study, Indian Journal of Marketing, 2006
related to real estate, commodity, bullion and precious metals, entering of banking sector in mutual fund, buying and selling of mutual funds through online.

Anand and Murugaiah (2004) had studied various strategic issues related to the marketing of financial services. They found that recently this type of industry requires new strategies to survive and for operation. For in existence they have to adopt new marketing strategies and tactics that enable them to capture maximum opportunities with the lowest risks in order to enable them to survive and meet the competition from various market players globally.

Akhilesh Mishra (2008) has done a study on the topic “Mutual Fund as a Better Investment Plan” and states that many of the people have the fear of Mutual Funds. “They think their money will not be secure in Mutual funds,” says Mishra. He also says that the investors need the knowledge of Mutual Funds and its related terms. Many of the people have not invested in Mutual funds due to lack of awareness, although they have money to invest. Mishra also points out that “Brand” plays an important role for the investment. Only

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99AkhileshMishra,Mutual funds is the better investment plan, 2008
people who invest directly know well about the Mutual fund and its operations, he adds.

Haslem (1988)\(^{100}\) the past performance is the most important aspect for the mutual fund because it is the basis to estimate how well the fund would perform in future.

Jaydev (1996)\(^{101}\) evaluated performance of two schemes during the period June 1992 to March 1994 in terms of return/benchmark comparison diversification, was unsatisfactory. The performance did not show any signs of selectivity and timing skills of the fund managers.

Sahadevan and Raju (1996)\(^{102}\) focused on data of Expenses and other related aspects, which are generally covered in annual reports of the mutual funds without going into the details of financial performance evaluation of the funds.

RajuVenkatapathi\(^{103}\) in his book offers detailed description about various kinds of mutual fund products matching to the investors expectations and objectives. A comparative picture has been drawn to explain the pros and cons of each instrument so that the investor is able to choose the right one. The book

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\(^{100}\)Johnm, A, The investors guide to mutual fund’s, Prentice Hall Engle wood cluffs, US.A., 1988

\(^{101}\)Jaydev, M., Mutual Fund Performance, An Analysis of Monthly Return, Finance India 10(1) 73-84

\(^{102}\)Sahadevan and ThinipalRaju, Mutual Fund data, Interpretation and analysis, Prentice Hall, India, New Delhi, 1996

\(^{103}\)RajuVenkatapathi, Mutual funds in India Investors Perceptions, Quality Publishing Company, New Delhi, 2000.
also attempts to provide information to assist the investor to assess their risk-return profile and accordingly choose the right product. The author in this book has put enormous efforts to understand and analyze motivations of the mutual fund investors.

Gupta Amitabh\textsuperscript{104} in his book evaluates in detail, the performance of mutual funds during the five-year period from April 1, 1994 to March 31, 1999. The study also investigates the market timing abilities of Indian mutual fund managers. It also examines the structural changes arising in the Indian mutual fund industry during the period 1987 to September 30, 2001. The book also examines the regulatory framework of mutual funds, the growth of mutual fund industry in India and it also attempts to test the market timing abilities of fund managers.

Bansal Lalit K.\textsuperscript{105} has portrayed a vivid picture of the concept of mutual funds, the constitution of mutual funds and the regulation of mutual funds. The author has also made an attempt to explain the accounting and disclosure practices followed by the mutual fund schemes. The different mutual fund schemes existing in India have been discussed in a separate chapter and he concludes the book by presenting the challenges of the mutual fund industry.

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