CHAPTER 2

REVIEW OF LITERATURE

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2.1 Introduction

As the mutual fund industry has developed rapidly over the past 20 years, there has been concomitantly evolved a rich plausible academic literature encompassing numerous topics such as mutual fund performance, persistence and market timing etc. One of the most frequently addressed topics in the current literature is that of mutual fund performance. While, earlier studies paid more focus to straight forward performance measures, benchmarking and structure of fund, the focus on performance dimension has shifted from performance-based studies to style-based studies, which also present information regarding fund characteristics, managerial skills and behavioural patterns over time. It is evident that the importance of these evolving factors is increasing day by day. MFs have attracted a lot of attention and kindled the interest of both academic and practitioner communities. Compared to the developed markets, very few studies on MFs are done in India. The existing ‘Behavioural Finance’ studies are very few and very little information is available about investor perceptions, preferences, attitudes and behaviour. The following are the important studies available related with mutual fund investments.

2.2 Studies related to Mutual Fund Investments

Anila Mathews (2010) “Mutual Fund Distribution in India: A study on the current trends and its impact on the Industry”, analysed the popularity of mutual funds as an investment avenue among people who have already invested in the same and the role played by the distributors in this regard. The study revealed the roles of distributors in the growth of mutual funds with respect to other investment avenues. The study revealed that mutual funds were ranked as the most preferred investment avenue among the investors in Tier-2 cities of Tamilnadu. The analysis of method of purchase of mutual fund schemes by the investors revealed that the role played by various distributors of mutual funds in marketing were the same.
James P.M. (2009) in his thesis “An evaluation of the asset management companies and their efficiency in portfolio management” made an attempt to examine the financial performance of Asset Management Companies (AMC) in India and to assess and to evaluate the scheme performance of them. The study was both analytical and descriptive in nature, which applied purposive sampling technique on a total of 581 schemes from 29 AMCs. It points out that category of schemes is more important in fund performance rather than sectors of AMCs in the Indian scene. It has been found that only less than 50% of the schemes of the AMCs manifest an average skill of market timing ability and reasonable degree of portfolio diversification.

Nilamadhav Samal (2009) did a study entitled “The Factors Affecting investors preference for mutual funds in India”, stressed the various factors that influenced the fund/scheme selection behaviour of Retail Investors who invest in mutual funds. The investors look for safety first in MF products, followed by good returns, tax Benefits, liquidity and capital appreciation. The survey further reveals that the scheme selection decision is made by respondents on their own, and the other sources influencing their selection decision are News papers and Magazines, Brokers and Agents, Television, Friends suggestions and direct mail. It also provides a comparative analysis between different types of mutual funds in India and between mutual funds and other investment products.

Alex Clarke, Grant Cullen, & Dominic Gasbarro (2007) made a study about “Liquidity Preference and Fund Performance of Mutual Fund Trades”, partitioned the funds as low-liquidity portfolios and high-liquidity portfolios, and found that redeeming funds that sell their most liquid stocks are more than twice as prevalent among funds with low-liquidity portfolios when compared to high-liquidity portfolios.

Sushant Nagpal (2007) in her thesis entitled “Psychology of Investments and Investor’s preferences”, made an analytical description of investors’ psychology, which cogently brings out the impact of financial sector reforms on
the growth and development of Indian financial markets. It embraces the investing habits and psyche of Indian investors. The study was undertaken primarily to analyse the preferences of individual investors across demographic and psychographic dimensions. The study reveals that investor’s preferences towards fixed deposits, Life insurance policies and PF does not depend up on age, however the preference about mutual fund scheme depend up on age. The preference of male and female investors regarding equity shares differ significantly. However, the preference about mutual fund scheme does not differ significantly across gender. The study also indicates that investment avenues and occupations are dependant of each other. It also depicts that aggressive investors have more informational influence than moderate and conservative groups.

Sandra West & Victoria Leonard (2006) in the project report entitled, “Understanding Investor Preferences for Mutual Fund Information” - made an attempt to study the information needs of mutual fund investors and the sources from which they obtain that information. It disclosed that investors consider a wide range of information before purchasing mutual funds shares and that the shareholders consult a variety of sources for mutual fund information before and after purchasing shares, the one being professional financial advisor.

Anand S & Murugaiah V (2004) in their work “Analysis of components of investment performance – an empirical study of mutual funds in India”, made an attempt to examine the components and sources of investment performance in order to attribute it to specific activities of Indian fund managers. It also attempts to identify a part of observed return, which is due to the ability to pick up the best securities at given level of risk. The study covers the period between April 1999 and March 2003, and evaluates the performance of mutual funds based on 113 selected schemes having exposure more than 90% of corpus to equity stocks of 25 fund houses. The empirical results reported here reveal the fact that the mutual funds were not able to compensate the investors for the additional risk that they have taken by investing in the mutual funds. The study concludes that
the influence of market factor was more severe during negative performance of the funds. While, the impact selectivity skills of fund managers was more than the other factors on the fund performance in times of generating positive return by the funds. It can also be observed from the study that selectivity, expected market risk and market return factors have shown closer correlation with the fund return.

Flotakis Philippas N (2004), made a study on “Open-end Mutual Fund Investors trading behaviour in Greece”. It stated that Mutual fund investors do not chase past returns and past superior performance. Rather they are perverse fund pickers who employ a current- performance momentum to pick funds. Also money is inefficiently invested in mutual funds.

Robert Weigand A, Susan Beldon , & Thomas Zwirlein J (2004) made a study on “Stock Selection based on mutual fund Holdings”, stressed that the heavily weighted stocks in Mutual funds performs not better than, (sometimes underperform) the most lightly weighted stocks. The stock selection ability of professional managers is not better than that of individual investors.

Enrique Ballester, & David Pla- Santamaria (2004) highlighted that based on portfolio ranking, expected utility maximization is an important factor/choice for an individual investor having preference for profitability and safety.

Leelamma (2004) in her thesis “Performance Appraisal of SBI mutual funds with special reference to Kerala state” analysed the extent to which the mutual funds serve as an effective investment mode to the investors and to assess the various investment alternatives available to the investors regarding mutual funds. The study was based on the data collected from 101 SBI mutual fund investors across the state to know how far the SBI mutual fund schemes are able to win confidence of the investors. The study opined that the overall success of SBI mutual funds depends on the degree of knowledge disseminated, awareness passed to the investors and training imparted to operational staff and field workers in mutual funds.
Ronald Wilcox T (2003) studied on “Investors’ Preferences for Stock Mutual Funds”. The study opined that while making fund selection from a variety of information sources, investors pay a great deal of attention to past performance of funds and its overall fee structure.

Renu Jatana, & Kerosi Bosire Josephat (2003) in their work “Mutual Funds - Their schemes and Price Management”, investigated the contribution of mutual funds to the economy and further examined the shifts in investor preferences. The study suggests that if there should be promotion in the industry, small investors (retail investors) participation in mutual funds and capital market is very necessary.


Nicholas Bollen P. B. (2002) made a study on “Mutual Fund Attributes and Investor Behaviour”, which analysed the dynamics of investor cash flows in socially responsible mutual funds (SR funds). The study disclosed that cash flows in the socially responsible funds are more sensitive to positive returns, than cash flows in to conventional funds.

Joseph M. A. (2002) in his thesis entitled “Mobilization of savings through mutual funds- with special reference to Kerala”, assessed the attitude of investors, their awareness and adoption level towards mutual funds. The study stated that largely urban people subscribe mutual fund schemes and the investment by the rural people is very negligible. Professionals and businessmen are the main contributors to mutual funds. Mutual fund schemes are popular among the investors having saving habits that too for meeting contingencies.
Rajeswari T R (2002) in her thesis “Performance evaluation of selected Mutual Funds and investor behaviour- A diagnostic and prognostic approach”, attempted to evaluate the performance of 115 schemes during the eight years from 1991-1992 to 1998-1999, and the investor behaviour related aspects. It was found that during the eight years sample period, none of the schemes were outperformed the stock market index. The analysis of investor behaviour revealed that fund manager’s image and portfolio management, reputation of Sponsor, disclosure norms and fringe benefits play an influencing role in selection of funds by investors. Investor option is for open-end funds, and the preference keep shifting between growth schemes and income schemes according to prevailing market conditions indicating investor alertness.

Kavitha Ranganathan (2001) conducted a study “Fund selection behaviour of individual Investors towards mutual funds”- with reference to Mumbai city. The study has made an attempt to examine the related aspects of the fund selection behaviour of individual investors towards Mutual funds, in the city of Mumbai. Factor Analysis was used to determine whether there was any common constructs that represented investor concerns. To identify investors’ underlying Fund/Scheme selection criteria, factor analysis was done using Principal Component Analysis. MLR technique was employed to seek a relationship between the Factor scores and types of investors, to indicate statistically important factors that influence the Fund selection behaviour of different types of investors.

Rajeswari T R, & Rama Moorthy V E (2001) did “An Empirical Study on Factors Influencing the Mutual Fund/Scheme Selection by Retail Investors”. It reveals that MF is a retail product designed to target small investors, salaried people and others who are intimidated by the mysteries of stock market but, nevertheless, like to reap the benefits of stock market investing. The survey reveals that the most preferred investment vehicle is Bank Deposits, with MFs ranking fourth in the order among 8 choices. Growth schemes are ranked first,
followed by Income Schemes and Balanced Schemes. Based on the duration of operation of schemes, the first preference is for open-ended schemes (84.57%) and only 15.43% of the respondents favour close-ended schemes. The investors look for safety first in MF products, followed by good returns, Tax Benefits, liquidity and capital appreciation. The survey further reveals that the scheme selection decision is made by respondents on their own, and the other sources influencing their selection decision are News papers and Magazines, Brokers and Agents, Television, Friends suggestions and Direct Mail in that order. The survey was conducted among 350 Mutual Fund Investors in 10 Urban and Semi-urban centres to study the factors influencing the fund/scheme selection behaviour of Retail Investors.

Mohana Rao P (1998) in his work “Working of Mutual Fund Organisations in India”, studied about the perceptions of investors on Mutual Funds on various aspects like resource mobilization activities of mutual funds in India under different schemes offered to public at large to suit their requirements. It reveals that the top most popular mutual fund is UTI followed by SBI mutual funds. Majority of the respondents agreed that mutual funds are desirable and necessary for growth of Indian capital and money market.

David Harless W & Steven Peterson P (1998) made a conclusion to their study “Investor Behaviour and the Persistence of Poorly Performing Mutual Funds” that while choosing funds investors are sensitive to returns ignoring differences in systematic risk and expenses.

Madhusudhan Jambodekar V (1996) assessed the awareness of MFs among investors, to identify the information sources influencing the buying decision and the factors influencing the choice of a particular fund. The study reveals among other things that Income Schemes and Open-ended Schemes are more preferred than Growth Schemes and Close-ended Schemes during the then prevalent market conditions. Investors look for safety of Principal, Liquidity and Capital appreciation in the order of importance; Newspapers and Magazines are
the first source of information through which investors get to know about MFs/Schemes and investor service is a major differentiating factor in the selection of Mutual Fund Schemes.

Nalini J (1996) in her thesis entitled “Impact of Mutual Fund schemes in the deposit mobilization of Commercial banks in Kerala” aimed at analyzing the factors that influenced investors in adopting mutual fund schemes as well as their perception compared with other investment schemes. The study adopted multistage random sampling for primary data mining. It reveals that the impact of mutual funds on bank deposits is not significant. Also, Mutual funds are considered as a better investment option than bank deposits due to its high yields (in the form of capital appreciation and high dividend/interest)

Walt Woerheide (1982) made an empirical study on “Investor Response to Suggested Criteria for the selection of Mutual Funds”. The study examined the selection criteria an investor should use in an efficient market based on three factors- load charges, management expense ratios, portfolio turnover and brokerage ratios. The results indicated that all these factors appear to influence the net sales ratios.

Narayan Rao S, & Ravindran M (n.d) made an analysis on “Performance Evaluation of Indian Mutual Funds”. In this study the performance evaluation of Indian mutual funds in a bear market is carried out through relative performance index, risk-return analysis, Treynor’s ratio, Sharp’s ratio, Sharp’s measure, Jensen’s measure, and Fama’s measure. A sample of 269 open-ended schemes (out of total schemes of 433) is taken 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 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.

Sharad Panwar, & Madhumathi R (n.d) did an analysis on the “Characteristics and performance evaluation of selected mutual funds in India”. The study used sample of public sector sponsored and private-sector sponsored mutual funds of varied net assets to investigate the differences in characteristics of assets held, portfolio diversification, and variable effects of diversification on investment performance for the period May, 2002 to May, 2005. The study found that public-sector sponsored funds do not differ significantly from private-sector sponsored funds in terms of mean returns (%). However, there is a significant difference between public-sector sponsored mutual funds and private sector sponsored mutual funds in terms of average standard deviation, average variance and average coefficient of variation (COV). The study also found that there is a statistical difference between sponsorship classes in terms of e SDAR (excess standard deviation adjusted returns) as a performance measure. When residual variance (RV) is used as the measure of mutual fund portfolio diversification characteristic, there is a statistical difference between public-sector sponsored mutual funds and private sector sponsored mutual funds for the study period. The model built on testing the impact of diversification on fund performance and found a statistical difference among sponsorship classes when residual variance is used as a measure of portfolio diversification and excess standard deviation adjusted returns as a performance measure.

2.3 Conclusion

The studies related to Mutual Fund investments in India were mostly confined to the investigation on performance analysis, general investment behaviour of stock market investors, and their psychology. Very few have discussed on mutual fund investors’ buying behaviour and their attitude in an Indian context on a qualitative database. From the above review it can be inferred that mutual fund as an investment vehicle is capturing the attention of various
segments of the society like academicians, industrialists, financial intermediaries and regulators for varied reasons, and deserves an in depth study regarding the behaviour of its investors in an Indian perspective. The study on investors’ behaviour in mutual fund in relation to underlying behavioural principles, psychographics, risk tolerance and other investor related aspects has to be studied further. The current state of knowledge about investor behaviour is not adequate to understand the buying decision process of mutual fund investors. The fundamental normative model of investment behaviour considers only the risk and return as the crucial variables affecting the investor’s buying behaviour. Thus, it is, in this context the researcher has made a humble attempt to fill this lacuna.
Works Cited


James, P. M. (2009).*An evaluation of the asset management companies and their efficiency in portfolio management*. M G University, Kottayam, Kerala.


