REVIEW OF LITERATURE

&

METHODOLOGY OF THE STUDY

Objective: The objective of this chapter is to review the literature on mutual funds. It also states the nature and scope of the study and methodology adopted to explain the various dimensions of review.

2.1 INTRODUCTION:

"A review on literature is a survey and observation of literature in a particular area of study. It is a concise overview of what has been studied, argued and established about a specific topic, and it is usually organized chronologically year wise in either ascending or descending order of years. A literature review surveys articles of various scholars in different journals, books and other sources on a particular issue, area of research, or theory, providing a description, summary, and critical evaluation of each work. A literature review can be a simple summary of the sources, and it is usually in systematic pattern and combines both summary and synthesis to give a new interpretation of old material combining with new with old interpretations" (web citation: htto://www.amfiindia.com)

Review of literature is an integral part of any study as it provides the basic framework and beauty to the work. It develops a deeper understanding of the area of study undertaken as research topic as it expands the knowledge horizons of the area under the study and offers critical insights into the intricacies of the inputs to be added to the area. Somekh and Lewin (2005), describe the review of literature as a systematic survey of research carried out in the research area over the past five or ten years. It is further explained as an in-depth exploration of systematic study on literature relevant to the area or the subject.

This review of literature has been undertaken to understand investors' criteria while selecting a particular type of mutual fund. A total of 57 research articles have been reviewed. The chapter is divided into two parts. Part – I is related to all articles on selection criteria, decision making, and customers' behavior. Part – II consists of articles related to mutual fund industry and performance of funds all which have significant impact on the investment pattern in the investors. The sub parts of the review are again subdivided into articles of Indian authors and foreign authors presented in a chronological order, referring recent dated publications to older dated publications.

PART – I

2.2. REVIEW OF ARTICLES ON SELECTION CRITERIA OF INVESTORS AND CONSUMER BEHAVIOR:

A significant shift has occurred in the personal investment environment, affecting investors' selection criteria. Understanding the affective basis of investing behavior of investors requires an in depth comprehension of the risk perceived by them. The study is undertaken to review the grasp the nuances of risk perception of investors.

2.2.1. REVIEW OF STUDIES BASED IN INDIA:

Ranganathan (2006) in the research article titled "A **study of Fund Selection Behavior of Individual Investors' towards Mutual Funds: With Reference To Mumbai City"** has examined related characteristics of the fund selection behavior of individual investors' towards mutual funds. The study was carried out during the period September 2004-October 2004 by administering a Questionnaire to 100 respondents. The study revealed that the individual investor's investment objective was to save for retirement purpose. The study found that the preferred avenues for investment were pension fund and Provident Fund. Many investors' were not in favor of investing in mutual funds for the future. The author suggests low awareness level regarding the mutual fund investments may be one of the reasons for the investors not to prefer mutual funds as a viable option for their portfolio investment. The author adds that the mutual fund industry players should understand the individual behavior before it introduces different types of funds to penetrate the market successfully and to improve their professional management skills as investors' are apprehensive to invest in mutual funds due to lack of professional management.

The study provides a framework for the present research work. However, the author of the existing work makes a suggestion regarding low awareness levels and the present study would empirically attempt to examine low awareness levels of the respondents regarding mutual funds.

Raju (2006) in the article titled **"Mutual fund Investments: Preferred or Induced**" elucidates the empirical anomalies related to retail investors by examining the factors that influence the retail investor with respect to the sample drawn from Visakhapatnam City (200 respondents). The paper focuses on understanding the behavioral aspects of an individual while investing in different mutual fund the role of SEBI in safeguarding the interest of investors'; the performance of mutual funds and the myths related to mutual fund investments. The research was undertaken by analyzing questionnaires of 200 respondents. The study period spread between April 2005 and August 2005. A hypothesis was tested were it was assumed that retail investor in India are investing in mutual fund without having complete knowledge of mutual funds and their features. The findings of the study indicate that the mutual fund investor does not have complete knowledge of the mutual fund and their features, they invest with the primary investment objective of fixed return with safety as a major factor considered before investment. The author further adds that the reasons for the growth of investments in mutual fund is due to the decrease in the rate of interest on bank deposits, the aggressive marketing strategy adopted by the mutual fund companies and the introduction of derivatives making the investment in mutual funds more promising for the investor. The study is useful in understanding the behavior of mutual fund investor and their knowledge levels in a period of financial boom.

However, the researcher of the present study would make an attempt to quantify the levels of awareness by developing a model index and relate the awareness levels and risk perception of individual investors within the framework of the period of recession with a desire to identify fluctuations in investors' perception and preferences.

Sinha (2006), in the article **"Investment Preference and Behavioral Pattern of Mutual Fund Investors" has studied the perception and preferences of the investor with specific reference to the Lucknow market".** The paper provides a theoretical insight into the origin of mutual fund in India, mutual fund schemes available, the concept of investment equity, factors affecting investment decisions, and the reasons as to why mutual funds are better investments options as compared to others. The research was empirically analyzed using priority Analysis (Ranking method). The findings of the study reveals that investor would prefer to invest in insurance schemes than mutual fund as an investment option; the investor are aware of the risks associated with mutual fund investments; the investors are satisfied of the product awareness and the public sector mutual funds especially SBI have a instant recall in minds of the consumer. The article highlights the priorities of mutual fund investor.

The present work would be based on same lines like the existing work but with a comprehensive coverage on types of instruments preferred, mutual fund plans and its relationship to demographic variables. The researcher would attempt to build a risk profile of the sample investors.

A Khorana and H Servaes in their paper titled " **The determinants of mutual fund starts**" published in Review Finance Studies published in the year **2005** discussed about a sample of 1163 mutual funds started over the period 1979-1992, we find that fund initiations are positively related to the level of assets invested in and the capital gains embedded in other funds with the same objective, the fund family's prior performance, the fraction of funds in the family in the low range of fees, and the decision by large families to open similar funds in the prior year. In addition, consistent with the presence of scale and scope economies in fund openings, we find that large families and families that have more experience in opening funds in the past are more likely to open new funds.

Jay B. Gould and David A. Goldstein (2005), in his paper "Plan Fiduciaries'Duties after the Mutual Fund Scandals" speaks about the mutual fund scandals of the previous year and a half have not only affected the mutual fund managers who flagrantly breached their obligations to their investors but have also imposed new and uncertain duties on plan fiduciaries who must now navigate an increasingly complex web of regulatory actions and pronouncements. Plan fiduciaries must be aware of the nature of the investment manager and mutual fund abuses, the harm such behavior can cause to plan participants and beneficiaries, the duty the Department of Labor has placed on them with respect to these matters, and the ever-widening investigations by the Securities and Exchange Commission, various state attorneys general, and the Department of Labor.

Singh and Chander (2004) in the article "**An Empirical Analysis of Perceptions of Investors towards Mutual Funds"** have conducted research by examining 400 investors in major cities of Punjab, Delhi and Mumbai by administering a Questionnaire having various parameters of perceptions of investors towards mutual fund. Factor analysis was used to find the significant factors affecting perception of investors. The research was done in two parts. The first is to find preferences and perception of mutual fund and second was to find reasons for investors withdrawing investments from mutual funds. The study established that middle class salaried investors and professionals preferred to have disclosure of net asset value on a day today basis and wanted to invest in mutual funds in order to get higher tax rebates. Further it is evidenced that small investors perceived mutual funds to be better investment alternative and public sector investments to be less risky. The study further revealed that the investor did not have confidence on the management of funds and regulators of the market and cid these as reasons for withdrawing from the mutual fund investment. Thus the study is successful in answering one of the important questions about the significant factors affecting mutual fund investments. The present research can gain some important inputs from the articles in terms of understanding the different dimensions of analyzing factors to understand mutual fund investor behavior. But the findings may not be relevant at all times especially when the financial sector is affected by economic slowdown.

Qamar (2003) in the article "Saving Behavior and Investment Preferences among Average Urban Households" has evaluated the investment preferences of 300 households in Delhi to gain an insight into the preferred mode of savings, factors influencing the selection of investment instrument and the extent of savings. The results of the study were achieved by testing for null hypothesis using Chi Square tests on the following grounds: 1) holding a bank account does not affect investors ability to save in other investments 2) educational qualifications does not influence the magnitude of savings 3) level of educational attainments, income profile and magnitude and savings does not influence decision to invest in term deposits. The study found that a preferred mode was savings in bank accounts, followed by post office savings schemes. The study proved that the influence of demographic variables such as level of literacy, educational attainments, occupational distribution and income profile was high in investment decision making. The author covers all the possible demographic variables required for the study.

The present study would make an effort to understand general savings pattern of sample investors, their preferred mode of saving and how do the investors perceive the safety involved in those instruments. The researcher feels that the analysis may reveal the risk tolerance level of investors.

Singh and Vanita (2002) in the paper **"Mutual Fund Investors' Perceptions and Preferences – A Survey"** have examined the investors' preferences and perception towards mutual fund investments by conducted a survey of 150 respondents in the city of Delhi. The study has investigated in the following research issues: 1) the basic objectives for investments and average time horizon; 2) investment experiences; 3) risk, return, safety and diversification; 4) preferences of financial assets and investment schemes of mutual funds. The findings of the study were that the investors' preferred to invest in public sector mutual funds with an investment objective of getting tax exemptions and stayed invested for a period of 3-5 years and the investors evaluated past performance. The study further concludes by stating that majority of the investors were dissatisfied with the performance of their mutual fund and belonged to the category who held growth schemes.

The study has empirically examined investors perception and preferences on some research issues elaborated above yet it did not delve into other dimensions like risk preference of mutual fund investors, relationship between risk and knowledge level of the mutual fund investors. The present study would attempt to study the missing dimension of the existing study.

Karmarkar (2001) in his paper titled “Investment **“Behavior of Household Sectors- A study of a rural block in West Bengal”**, has highlighted the relationship between demographic variables and investment behavior. The paper further adds that risk-return perception of individual is dependent upon income of individual. The study found that Life Insurance Corporation was the most preferred avenue to invest and people in general were risk averse and wanted to leave in safe assets. The author has explained the risk-return relationship in relation to the income of investor. The researcher of the present study is of the opinion that investor preferences and perception differs across geographical boundaries and hence, an attempt will be made to understand the investor behavior at Visakhaptnam city.

Panda and Tripathy (2001), have undertaken the study titled “**Customer Orientation in Designing Mutual Fund Products – An Analytical Approach to Indian Market Preferences”** with an objective of understanding investor’s preferences and priorities towards different types of mutual fund products and for identifying key features of a mutual fund for deciphering sustainable marketing variables in the design of a new mutual fund product. The study was conducted by analyzing the questionnaire collected from an effective sample size of 300 respondents. The paper was empirically tested by applying factor analysis and principal component analysis. The factors identified in the study which have an impact on the purchasing decision of the investor are the common expectations such as hassle free trading, brand name and lock in period. The performance preferences of the investors were safety, liquidity, and regular income and tax benefits. As the paper suggests that if the product designers understood the structure of ;the product and preference of the investor the industry would benefit from better product innovations and sustainability. The researcher has clearly identified the significant factor affecting mutual fund investments in the context of designing mutual fund product. However, the present study would attempt to identify significant factors affecting mutual fund investment decision in the context of understanding risk perception of individual investors. In this way, the present study would be different from existing literature.

Rajeswari and Ramamoorthy (2001) have conducted the study titled " **An Empirical Study on Factors Influencing the Mutual Fund/Scheme Selection by Retail Investors",** to understand the factors influencing the fund selection behavior of 350 mutual fund investors in order to provide some meaningful inferences for Asset Management Companies (AMC) to innovatively design the products. The analysis was done on the basis of product qualities, fund sponsor qualities and investor services using questions framed on a five point Likert scale. The evaluation was done by factor analysis and principal component analysis to arrive at the findings of the study which were as follows; the most important product quality was the performance of the fund followed by brand name of the scheme; sponsor related factor that a given more importance by the investor was the expertise of the sponsor in managing money and finally the investor service that was considered important was the disclosures on investment objectives, methods and periodicity of valuation in advertisements. The researcher has clearly identified the significant factor affecting mutual fund investments in the context of designing mutual fund product. However, the present study would not only makes an effort to identify significant factors affecting mutual fund investment decision but also would develop risk profile off mutual fund investors to understand risk perception.

Rajarajan (2000) has attempted to identify predictors of individual investors' expected rate of returns by investigating relationship of demographic variables; such as age, income, occupation, employment status and stage in life cycle with investment behavior of an individual in the paper titled, "**Predictors of Expected Rate of Return by Individual Investors".** The study was conducted by administering questionnaire to a sample size of 405 investors. The variable locus of control was inversely related to rate of return. The paper concluded that the rate of return was not strongly related to any socio economic variable except age. The author has empirically proved the significant relationship between expected rate of return on investments and demographic variables. In the present study researcher proposes to make an effort to understand other variables affecting investments like number of children, number of dependents and number of learning adults in a family, which also affects investment behavior of an individual.

SEBI-NCAER survey (2000) was carried out to estimate the number of households, the population of individual investors, their economic and demographic profile, portfolio size, and investment preference for equity as well as other savings instruments. Data was collected from three lakhs geographically dispersed rural and urban households. Findings of the survey are: the investors' choice of investment instruments matched the risk perceived by them. Bank deposit was the most preferred investment avenue across all income class; 43% of the non-investor households(estimated around 60 million households0 apparently lack awareness about stock markets; investments in mutual funds compared with low income groups, suggesting that mutual funds have not truly become investment vehicle for small investors'. Nevertheless, the study predicts that in the next two years (i.e.,2000 hence) the investment of households in mutual funds is likely to increase.

The present study of the researcher is an attempt to find whether the preference for mutual fund investments depends on demographic factors and any other significant factors related to mutual fund investment. The researcher would make an endeavor to identify the significant factors affecting mutual fund investments.

Rajarajan (1999) in the paper titled **" Stage in Life Cycle and Investment Pattern",** has carried out the study with an objective to find out whether there exists any relationship between stages in life cycle of individual investors and risk categories. The study was conducted by administering questionnaire to a sample of 405 investors in Chennai. For the purpose of the study family life cycle was represented in five distinct Correspondence Analysis. The paper has intelligibly presented the relationship between life cycle of an individual and risk categories but there are other demographic factors affecting risk perception which have not been considered. The present study by the researcher would make an attempt to fill in this gap.

Enrique Sotto Roque and Joaquín López Pascual in his paper "Mutual funds information on the Internet" says that Mutual funds are gaining more attention in the investment industry market, for one simple reason: they are better than other financial products. There are thousands of funds, with different investment targets, money, bonds, real estate, commodities, etc. This flood of options creates a lot of confusion and makes a fund selection difficult. Mutual funds companies and brokers require as many participants as possible to boost their business, and they spend a lot of money on publications to educate potential investors in the advantages of mutual funds.

Nalini prava Tripathy in his paper "**Mutual Fund in India: A Financial Service in Capital Market**", **1996** has described about small investors and capital market improvement. The Indian capital market has been increasing tremendously during last few years. With the reforms of economy, reforms of industrial policy, reforms of public sector and reforms of financial sector, the economy has been opened up and many developments have been taking place in the Indian money market and capital market. In order to help the small investors, mutual fund industry has come to occupy an important place. The main objective of this paper is to examine the importance and growth of mutual funds and evaluate the operations of mutual funds and suggest some measures to make it a successful scheme in India.

2.2.2. REVIEW OF INTERNATIONAL BASED RESEARCH ARTICLES:

Graciela L.Kaminsky, Richard K.Lyons and Sergio L. Schmukler in the paper titled "**Mutual Fund Investment in Emerging Markets: An Overview** "published in Review Finance Studies, in the year **2008** page number 315-340 volume 15, issue 2 discussed about International mutual funds are key contributors to the globalization of financial markets and one of the main sources of capital flows to emerging economies. Despite their importance in emerging markets, little is known about their investment allocation and strategies. This article provides an overview of mutual fund activity in emerging markets. It describes their size, asset allocation, and country allocation and then focuses on their behavior during crises in emerging markets in 1990s. It analyses data at both fund manager and fund investor levels. Due to large redemptions and injections, funds' flows are not stable. Withdrawals from emerging markets during recent crises were large, which is consistent with the evidence on financial contagion.

Jan Annaert and Geert Van Campenhout in their paper titled " **Time Variation in Mutual Fund style Exposures**" published in Volume 11 of Review of Finance in pg. 633-661 in the year **2007** discussed that despite the wide acceptance of return-based style analysis, the method has several limitations. One important drawback is the assumption that style exposures are time-invariant. We apply results on break tests developed in Bai and Perron (1998, 2003) to test for style breaks. We find strong evidence against the hypothesis of constant time exposures in daily return data for European equity funds. All funds exhibit at least one break, and 60% exhibit more than one break. We show that the main reason for style breaks is the mutual funds' reliance on conditional investment strategies based on public information and volatility estimates

Doron Avramov and Russ Wermers of University of Maryland have presented an article titled '**Investing in Mutual Funds When Returns Are Predictable'** in ' Journal of Financial Economics' during August **2006** (Vol-81). This paper forms investment strategies in US domestic equity mutual funds, incorporating predictability in (i) manager skills, (ii) fund risk loadings, and (iii) benchmark returns. Authors find predictability in manager skills to be the dominant source of investment profitability—long-only strategies that incorporate such predictability outperform their Fama-French and momentum benchmarks by 2 to 4%/year by timing industries over the business cycle, and by an additional 3 to 6%/year by choosing funds that outperform their industry benchmarks. Their findings indicate that active management adds significant value, and that industries are important in locating outperforming mutual funds.

Jose Miguel Gaspar of ESSEC Business School, **Maasimo Massa** of INSEAD and Pedro Matos of California Marshall School of Business have presented a paper titled ' **Favoritism in Mutual Fund Families – Evidence on Cross-Fund Subsidization'** in ' The Journal of Finance' during February **2006** (Vol-61). The authors investigate whether mutual fund families strategically transfer performance across member funds to favor those more likely to increase overall family profits. They find that "high family value" funds (i.e., high fees or high past performers) over perform at the expense of "low value" funds. Such a performance gap is above the one existing between similar funds not affiliated with the same family. Better allocations of underpriced initial public offering deals and opposite trades across member funds partly explain why high value funds over perform. Their findings highlight how the family organization prevalent in the mutual fund industry generates distortions in delegated asset management.

Jonathan Reuter of Lundquist College of Business – University of Oregon has presented an article titled '**Are IPO Allocations for Sale? Evidence from Mutual Funds'** in 'The Journal of Finance' during October **2006** (Vol-61). Combining data on brokerage commissions that mutual fund families paid for trade execution between 1996 and 1999 with data on mutual fund holdings of initial public offerings (IPOs), the author document a robust, positive correlation between commissions paid to lead underwriters and reported holdings of the IPOs they underwrite. Moreover, he also finds that the correlation is limited to IPOs with nonnegative first-day returns and strongest for IPOs that occur shortly before mutual funds report their holdings, when the noise introduced by flipping is smallest. Overall, the evidence suggests that business relationships with lead underwriters increase investor access to underpriced IPOs.

Rita Martenson of University of Goteborg has written an article titled **'Success in Complex Decision Contexts: The Impact of Consumer Knowledge, Involvement and Risk Willingness on Return on Investments in Mutual Funds and Stocks'** in 'The International Review of Retail Distribution and Consumer Research' during **October 2005** (Vol-15). Consumer knowledge, involvement, and risk are central concepts in consumer behavior research. A review of prior research shows however that there is no universally agreed understanding of how these concepts should be defined, nor on how they are related in terms of antecedents, dimensions, and consequences. In this study the relationship between these key concepts were explored and their impact on consumers' return on investments in mutual funds was analyzed. Theory based alternative relationships were systematically tested in SEM analyses. The study sheds new light on the knowledge concept by showing that the knowledge construct should be modeled in terms of three dimensions (ability, opportunity, and familiarity) in complex decision contexts (mutual funds and stocks). The hypothesized importance of domain specific knowledge was confirmed and a mediation analysis showed the relations of involvement and risk willingness to knowledge and returns. Consumers' ability and opportunity to get access to stock market information is strongly related to their involvement, which in turn influence both familiarity and risk willingness. Risk willingness has a stronger effect on return than does familiarity.

Timothy R. Burch, Douglas R. Emery and Michael E. Fuerst of University of Miami have presented an article titled '**What Can "Nine-Eleven" Tell Us about Closed-end Fund Discounts and Investor Sentiment?'** in 'The Financial Review' during November **2003** (Vol-38). The Authors use the horrific events of September 11, 2001 ("nine-eleven") as a natural test of the hypothesis that closed-end mutual fund discounts from fund net asset values reflect small investor sentiment. Because nine-eleven was a sudden, unforeseen, and significantly negative and exogenous shock to the world, the capital markets, and investor sentiment, our test avoids many of the problems of extant studies. Discounts worsened dramatically following the event, and then recovered alongside the broader market. This finding is consistent with the hypothesis that discounts reflect the sentiment of small investors, who took their cues from the broader market's overall movement.

Mark S. Schwartz of University of Pennsylvania has written an article titled '**The "Ethics" of Ethical Investing'** in 'Journal of Business Ethics' during March **2003** (Vol-43). There appears to be an implicit assumption by those connected with the ethical investment movement (e.g., ethical investment firms, individual investors, social investment organizations, academia, and the media), that ethical investment is in fact ethical. This paper will attempt to challenge the notion that the ethical mutual fund industry, as currently taking place, is acting in an ethical manner. Ethical issues such as the transparency of the funds and advertising are discussed. Ethical mutual fund screens such as tobacco, alcohol, gambling, and the military are preliminarily examined to better determine whether they can actually be defined as "ethical" screens as opposed to merely social, political, or religious screens. A code of ethics for ethical investment is constructed by which ethical mutual fund firms can be audited for ethical compliance.

Eduardo Borensztein and R. Gaston Gelos have presented an article titled '**A Panic-Prone Pack? The Behavior of Emerging Market Mutual Funds'** in the journal 'IMF Staff Papers' during **2003** (Vol - 50). This article contributes to this literature by exploring a novel dataset that covers more than 400 dedicated emerging market equity funds on a monthly basis over the period January 1996-December 2000; it is the first study to document the behavior of mutual funds on a global scale. While the period is relatively short, it encompasses the Asian, Czech, Russian, and Brazilian crises. Assessing the behavior of international investors in a systematic way, however, poses big challenges. Most of the available financial information consists of data on prices. It is nearly hopeless to attempt to control for all "fundamental" news that leads to changes in asset prices, making it impossible to convincingly establish that a specific change in asset prices was due to herding behavior by certain groups of investors. Moreover, herding behavior by international investors may have adverse consequences for countries even in the absence of a large impact on prices. For these reasons, researchers have begun to examine investor behavior in emerging markets directly using data on investors' portfolios and transactions. Such data are scarce, however, and the evidence presented so far for emerging markets is limited. The most comprehensive dataset used so far is probably the daily data from State Street Bank and Trust examined by Froot, O'Connell, and Seasholes (2001). The authors find evidence for persistence and trend following in portfolio flows. In addition, their data indicate that inflows have forecasting power for future returns in emerging markets, but not mature markets. While their dataset is very detailed on transactions, it does not allow the researcher to differentiate between different classes of investors. Other studies have had a regional or country-specific focus.

Ronald. T. Wilcox of University of Chicago presented a paper titled **'Bargain Hunting or Star Gazing? Investors' Preferences for Stock Mutual Funds'** in ' The Journal of Business' during **2003** (Vol-76). The article examines Investors who wish to purchase shares in mutual funds balance many types of information, from a variety of sources, when making their fund selection. This research examines how investors choose a mutual fund within a given class of funds. Among the major findings are that investors pay a great deal of attention to past performance and vastly overweight loads relative to expense ratios when evaluating a fund's overall fee structure. Author also find that investors with a greater knowledge of basic finance are less likely, not more likely, to make reasonable fund choices.

Julia Sawicki of Nanyang Technological University and Frank Finn of University of Queensland have presented a paper titled '**Smart Money and Small Funds'** in ' Journal of Business Finance and Accounting' during June **2002** (Vol-29). This study extends the literature on the relationship between recent performance and the movement of managed funds' assets by investigating the effects of fund size and age. The results confirm a size effect, as well as an age effect. Tests distinguishing between the two favor a size rather than an age interpretation. The evidence that flows of small funds are more sensitive to recent performance than flows of large funds is consistent with Gruber's (1996) notion of sophisticated investors using information in past performance to identify superior funds. Zheng's (1998) evidence that the good performers tend to be small funds suggests that the smart money should be following small funds, as confirmed in this study. Support for the 'smart money size effect' is also provided here with evidence confirming that small funds tend to be superior performers.

Mark. M. Carhart of Goldman Sachs Asset Management, Jennifer. N. Carpenter of New York University and David. K. Must of University of Pennsylvania have presented an article titled **'Mutual Fund Survivorship'** in ' The Review of Financial Studies' during winter **2002** (Vol-15). This article provides a comprehensive study of survivorship issues using the mutual fund data of Carhart (1997). Authors demonstrate theoretically that when survival depends on multi period performance, the survivorship bias in average performance typically increases with the sample length. This is empirically relevant because evidence suggests a multiyear survival rule for U.S. mutual funds. In the data they find the annual bias increases from 0.07% for 1-year samples to 1% for samples longer than 15 years. Authors find that survivor conditioning weakens evidence of performance persistence. Finally, they explain how survivor conditioning affects the relation between performance and fund characteristics

Don T. Johnson, Ronald J. Bauerly, Doug Waggle of University of Columbia have written an article titled '**Are Mutual Fund Prospectuses Written in Plain English?**' in 'Managerial Finance' during the year **2002** (Vol-28). Notes US efforts to make documents easier to read and reviews previous research on readability. Presents a study of the readability of the investment objective sections of two mutual fund prospectuses, using a sample of college students, the Cloze Readability Procedure and the Flesch readability analysis. Finds the Cloze test scores well below the "moderately readable" level of the Flesch assessment "difficult". Analyses the relationships between students' understanding and their training, investment experience, financial information, gender etc.; and notes that they misjudged their ability to read the prospectuses accurately. Calls for pressure to make the mutual funds improve their literature and for universities to provide training impersonal finance.

Diane Del Guercio and Paula A. Tkac of university of Oregon have presented an article titled '**The Determinants of the Flow of Funds of Managed Portfolios: Mutual Funds vs. Pension Funds**' in ' The Journal of Financial and Quantitative Analysis' during December **2002** (Vol- 37). This study compares the relations between asset flow and performance in the retail mutual fund and fiduciary pension fund segments of the money management industry, and relates empirical differences to fundamental differences in the clientele they serve. A striking difference is the shape of the flow-performance relation. In contrast to mutual fund investors, pension clients punish poorly performing managers by withdrawing assets under management and do not flock disproportionately to recent winners. Authors interpret these and other empirical differences in the context of the manager evaluation procedures typical in each segment. They conclude that pension managers have little incentive to engage in the risk-shifting behavior previously identified among mutual fund managers.

Louis K. C.Chan Josef Lakonishok and Hsiu-Lang Chen Review of Financial Studies in the paper titled "**On Mutual Fund Investment styles**" published in Review of financial studies in volume 15, issue 5 pg.1407-1437 in the year **2002** discussed that most of the mutual funds adopt investment styles that cluster around a broad market benchmark. Few funds take extreme positions away from the index, but those who do are more likely to favor growth stocks and past winners. The bias toward glamour and the tendency of poorly performing value funds to shift styles may reflect agency and behavioral considerations. After adjusting for style, there is evidence that growth managers on average outperform value managers. Though a fund's factor loadings and its portfolio characteristics generally yield similar conclusions about its style, an approach using portfolio characteristics predicts fund returns better.

Thomas.A.Feuerborn – Auburn University presented a paper on '**New Mutual Funds: Misplaced Marketing through Consumer Misdirection'** in 'Journal of Consumer Marketing' dated August 20th **2001** (Vol-18). This paper examines the misplaced marketing techniques of investment companies. The study was done on over 1300 funds over a ten year period. Author suggests that the most valuable tool for a new mutual fund is strong performance record. The author further observes that new funds are launched directly to the public with preferential treatment at the expense of other funds within the family or by providing a period of 'incubation' for the fund. However the consumer is often misdirected as the funds generally revert to average returns after couple of years. Author believes more government intervention is required in the market place.

Gideon Saar of New York University has presented an article titled '**Price Impact Asymmetry of Block Trades: An Institutional Trading Explanation' in 'Review of Financial Studies'** during the year **2001** (Vol-14). This article develops a theoretical model to explain the permanent price impact asymmetry between buyer- and seller-initiated block trades (the permanent price impact of buys is larger than that of sells). The model shows how the trading strategy of institutional portfolio managers creates a difference between the information content of buys and sells. The main implication of the model is that the history of price performance influences the asymmetry: the longer the run-up in a stock's price, the less the asymmetry. The intensity of institutional trading and the frequency of information events affect the asymmetry differently depending on recent price performance.

William Fung of PI Asset Management and David Hsieh of Duke University have presented an article titled '**The Risk in Hedge Fund Strategies: Theory and Evidence**

from Trend Followers' in ' The Review of Financial Studies' during Summer **2001** (Vol-14). Paper discusses about Hedge funds strategies. They typically generate option-like returns. Linear-factor models using benchmark asset indices have difficulty explaining them. Following the suggestions in Glosten and Jagannathan (1994), this article shows how to model hedge fund returns by focusing on the popular "trend-following" strategy. The authors use look back straddles to model trend-following strategies, and show that they can explain trend-following funds' returns better than standard asset indices. Though standard straddles lead to similar empirical results, look back straddles are theoretically closer to the concept of trend following. Their model should be useful in the design of performance benchmarks for trend-following funds.

Julia Sawicki of University of Melbourne has presented a paper titled '**Investors' Response to the Performance of Professional Fund Managers:** Evidence from the Australian Wholesale Funds Market' in 'Australian Journal of Management in the year **2000** (Vol-25). This study contributes to the understanding of the role that past performance plays as a manager-choice criterion by exploring the relationship between recent performance and the movement of assets-under-management in the Australian wholesale managed funds industry. In addition to providing empirical measures of the influence of recent performance on funds flow, this study focuses on the institutional (as opposed to individual) investor. A majority of the research on professionally managed investment funds is conducted using data on mutual funds serving individual investors, leaving institutional investor's choice of outside portfolio manager relatively unexplored territory. Results of regression tests performed in this study corroborate results of studies using U.S. mutual funds' data in finding a positive relationship between funds flow and prior performance. The evidence of a statistically and economically significant relationship between funds flow and performance in the prior year is robust across performance measures, timing of flows, model specification and data subset used to measure the relationship. Tests comparing response coefficients do not find significant, systematic differences across measures, thus revealing no insight into which measures investors are using.

Noel Capon of Graduate School of Business – Columbia University, Gavan.J .Fitzsimons of Anderson School of Business – Los Angeles and Russ Alan Prince of Prince and Associates –Stratford have presented an article titled ' **An Individual Level Analysis of the Mutual Fund Investment Decision**' in ' Journal of Financial Services Research' during March **1996** (Vol-10). This study investigates the manner in which consumers make investment decisions for mutual funds. Investors report that they consider many nonperformance related variables. When investors are grouped by similarity of investment decision process, a single small group appears to be highly knowledgeable about its investments. However, most investors appear to be naive, having little knowledge of the investment strategies or financial details of their investments. Implications for mutual fund companies are discussed.

2.3 REVIEW OF ARTICLES ON PERFORMANCE OF MUTUAL FUNDS:

Literature on Mutual Fund performance evaluation is enormous. A few research studies that have influenced the preparation of this thesis substantially are discussed in this section. Sharpe, William F. (1966) suggested a measure for the evaluation of portfolio performance. Drawing on results obtained in the field of portfolio analysis, economist Jack L. Treynor has suggested a new predictor of mutual fund performance, one that differs from virtually all those used previously by incorporating the volatility of a fund's return in a simple yet meaningful manner. Michael C. Jensen (1967) derived a risk-adjusted measure of portfolio performance (Jensen's alpha) that estimates how much a manager's forecasting ability contributes to fund's returns. As indicated by Statman

(2000), the e SDAR of a fund portfolio is the excess return of the portfolio over the return of the benchmark index, where the portfolio is leveraged to have the benchmark index's standard deviation. S.Narayan Rao , et. al., evaluated performance of Indian mutual funds in a bear market through relative performance index, risk-return analysis, Treynor's ratio, Sharpe's ratio, Sharpe's measure , Jensen's measure, and Fama's measure. The study used 269 open-ended schemes (out of total schemes of 433) for computing relative performance index. Then after excluding funds whose returns are less than risk-free returns, 58 schemes are finally used for further analysis. The results of performance measures suggest that most of 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.

2.3.1. REVIEW OF NATIONAL STUDIES:

Deepak Agarwal of Indore Institute of Science & Technology in his paper titled "**Measuring Performance of Indian Mutual Funds**" published in the Journal Finance India, June **2011** mentioned that the development of the Indian Capital Market and deregulations of the economy in 1992 there have been structural changes in both primary and secondary markets. Mutual funds are key contributors to the globalization of financial markets and one of the main sources of capital flows to emerging economies. Despite their importance in emerging markets, little is known about their investment allocation and strategies. This article provides an overview of mutual fund activity in emerging markets. It describes about their size and asset allocation. This paper is a process to analyze the Indian Mutual Fund Industry pricing mechanism with empirical studies on its valuation. It also analyzes data at both the fund-manager and fund-investor levels. The study revealed that the performance is affected by the saving and investment habits of the people and the second side the confidence and loyalty of the fund Manager and rewards affects the performance of the MF industry in India.

Thomas (2007) in the paper titled " **A Study on Service Quality on Investment Attributes of Equity Oriented Mutual Funds"** has examined whether mutual funds live up to the expectation of retail investor. The paper also analyses the factors that determine the quality of mutual funds. The paper has taken into consideration the SERVQUAL scale consisting of five generic dimensions of Tangibility, reliability, responsiveness, assurance and empathy, developed by Zeithaml, Berry and Parasuraman. The study was conducted by administering the questionnaire to 380 respondents from the city of Chennai. The findings of the study revealed that the SERVQUAL model can be applied to mutual funds, since the quality of services offered affects the investors' satisfaction levels.

The researcher has applied a SERVQUAL model to examine whether the funds match up to the expectations of the individual investor. The present study does not apply a model but would take a cue in this direction by making an effort to investigate whether quality of service is considered as a significant factor by the mutual fund investor while making an investment while making an investment decision.

2.3.2. REVIEW OF INTERNATIONAL STUDIES:

Philpot, James and Jhonson of New York University has presented a paper titled '**Mutual Fund Performance and Fund Prospectus Clarity'** in 'Journal of Financial Services Marketing' during February **2007** (Vol-11). Authors conducted a cross-sectional examination of the writing clarity of mutual fund prospectuses from 20 major US mutual fund families. They focused on the language and principle risk sections, using fleshy and word counts to measure writing clarity. There is considerable variation in readability among funds and fund families.

Gordon J. Alexander, **Gjergji Cici and Scott Gibson** published a paper titled “**Trade Performance? An Analysis of Mutual Funds**” in the journal Review of Finance Studies in January **2007**, volume (1) in Pg 125-150 tried to relate the performance of mutual fund trades to their motivation. A fund manager who buys stocks when there are heavy investor outflows is likely to be motivated by the belief that the stocks are significantly undervalued. In contrast, when there are heavy inflows, the manager is likely to be motivated to work off excess liquidity by buying stocks. Our analysis reveals that managers making purely valuation-motivated purchases substantially beat the market but are unable to do so when compelled to invest excess cash from investor inflows. A similar, but weaker, pattern is found for stocks that are sold

Migiuel.A.Ferrira and Antonio of ISCTE Business School of Portugal have presented a paper titled ‘ **The Determinants of Mutual Fund Performance – A Cross Country Study’** in ‘The Journal of Financial Economist’ dated November **2006**. This paper studies the performance of mutual funds around the world using a sample of 10,568 open-end actively managed equity funds from 19 countries between 1999 and 2005. Performance is measured using four alternative benchmark models, including an international version of the Cahart four-factor model. Authors regress abnormal performance on fund attributes such as age, size, fees, management structure, and management tenure. They also investigate whether country characteristics such as economic development, financial development, familiarity, and investor protection have additional explanatory power. The results show that large funds tend to perform better, which suggests the presence of significant economies of scale. When investing abroad, young funds are more able to obtain better performance. Performance is higher in funds with higher fees and that are managed by an individual manager with more experience. Mutual fund performance is better in countries with stronger legal institutions. Domestic funds located in developed countries, in particular with liquid stock markets, perform better. When investing abroad, familiarity and proximity enhances the performance of the funds.

Agarwal, Georgiev and Georgi Pinato of University of California have presented an article titled **'Detecting Performance Persistence in Fund Managers'** in 'The Journal of Portfolio Management' during December **2006**.A new approach for relative evaluation of fund managers within a portfolio is based on the explicit positions of the funds and the positions of the overall portfolio. The approach decomposes each fund's return into beta and alpha components relative to the overall book. Tests of this book benchmark analysis on a portfolio of equity-based hedge funds during a 31-month period indicate its alphas are significantly more predictive than returns for short in-sample periods (six to nine months). This suggests that book benchmark alphas are a valuable quantitative tool for managing a portfolio of hedge funds with position-level transparency. While the analysis here is developed for a fund of hedge funds because of data considerations, the book benchmark concept is more general. It can be used in any circumstances involving manager selection as long as there is position-level transparency.

S. Mohanan of Universidad Catolica del Norte, Antofagasta, Chile presented a paper titled '**Mutual fund industry in India: development and growth'** in 'Global Business and Economic Review' during October **2006** (Vol-8). The Indian mutual fund industry is one of the fastest growing sectors in the Indian capital and financial markets. The mutual fund industry in India has seen dramatic improvements in quantity as well as quality of product and service offerings in recent years. Mutual funds assets under management grew by 96% between the end of 1997 and June 2003 and as a result it rose from 8% of GDP to 15%. The industry has grown in size and manages total assets of more than $30351 million. Of the various sectors, the private sector accounts for nearly 91% of the resources mobilized showing their overwhelming dominance in the market. Individuals constitute 98.04% of the total number of investors and contribute US $12062 million, which is 55.16% of the net assets under management

Athanasios.G.Noulas and John.A.Papanastasio – University of Macedonia have written a paper on '**Performance of Greek Equity Funds** during the period 1997-2000 in 'Managerial Finance' dated November, 2nd **2005** (Vol-31). The paper evaluates the performance of Greek equity funds. The evaluation is based on the concept of risk and return. The risk is measured through co-efficient of variation and the systematic risk. Further techniques used for evaluation are Treynor's method, Sharpe's method and Jensen's method. The study is based on a four-year period. The first three years are characterized by positive returns of the stock market, while the fourth year is the year of rapid fall of the stock market. The results show that, there are big differences among the equity mutual funds with respect to risk and return. In general, higher risk is associated with higher return. The beta of all mutual funds is lesser than one for the four-year period.

Ravi Shukla of School of Management – Syracuse University and Charles Trzcinka of Jacobs Management Center – State University of Mew York have presented a paper tilted '**Persistent performance in the mutual fund market**: Tests with funds and investment advisers' in ' Review of Quantitative Finance and Accounting' during February **2005** (Vol-4). Recent studies of mutual funds have concluded that there is some evidence of superior performance. Authors test for the existence of superior performance and its persistence with mutual funds and mutual fund investment advisers on a data set of monthly returns from 1979 to 1989 for 1,387 mutual funds grouped by 243 advisers. They find no evidence of superior performance or its persistence but however they do find significant evidence of persistence of inferior performance. Consistent with previous studies their findings depend on the benchmark chosen, with multiple benchmarks producing a larger degree of inferior performance.

Dr.Paniyotis.G.Artikis, Investment Director- Agricultural Bank of Greece has presented an article on '**Performance Evaluation of the Bond Mutual Funds Operating in Greece'** in 'Managerial Finance' dated November 10th **2004** (Vol-30). This paper evaluates the performance of thirty nine domestic bond mutual funds operating in the Greek financial market over the period 15/3/1999 to 31/12/1999. In doing so the mutual funds under consideration were ranked on the basis of their return, total risk, co-efficient of variation and systematic risk using the capital asset pricing model with two independent variables – General Index of Athens stock exchange and a Bond index (Artikis 2003). The ranking of the sample mutual funds is different between the average daily return and the total risk. On the basis of co-efficient of variation the sample mutual funds are classified in to nine categories. The performance of thirty-three mutual funds is affected and can be explained to a satisfactory level by the movements in the bond index. On the other hand the performance of twenty five mutual funds is affected and can be explained to a satisfactory level by the movements in the general index. The bond index appears to approximate the market portfolio closer than the general index. Twenty seven from the sample mutual funds shows values for alpha co-efficient different than zero value that is assumed by the capital asset pricing model.

Woodrow.T. Johnson of University of Oregon has written an article titled '**Predictable Investment Horizons and Wealth Transfers among Mutual Fund Shareholders'** in 'The Journal of Finance' during October **2004** (Vol-59). This study analyzes the distribution of investment horizons in a large, proprietary panel of all shareholders in one no-load mutual fund family. A proportional hazards model shows that there are observable shareholder characteristics that enable the fund to predict reliably on the day each account is opened whether the account will be short term or long term. Simulations show that the liquidity costs imposed on the fund by the expected short-term shareholders are significantly greater than those imposed by the expected long-term shareholders. Combining these results, the analysis argues that mutual funds do not provide equitable liquidity-risk insurance.

Nicholas. P.B.Bollen of Vanderbilt University and Jeffrey A. Busse of Emory University have presented a paper titled ‘ **Short Term Persistence in Mutual Fund Performance’** in ‘ The Review of Financial Studies’ during the year **2004** (Vol-18). The authors estimate parameters of standard stock selection and market timing models using daily mutual fund returns and quarterly measurement periods. They then rank funds quarterly by abnormal return and measure the performance of each decile the following quarter. The average abnormal return of the top decile in the post-ranking quarter is 39 basis points. The post-ranking abnormal return disappears when funds are evaluated over longer periods. These results suggest that superior performance is a short-lived phenomenon that is observable only when funds are evaluated several times a year.

Jongmoo Jay Choi of School of Business and Management – Temple University and Insup Lee of University of Delaware – Newark have written a paper titled ‘**Market segmentation and the valuation of closed-end country funds: An empirical analysis’** in‘ Review of Quantitative Finance and Accounting’ during October **2004** (Vol-7). This article examines the role of market segmentation on the valuation of the U.S. stock exchange-listed closed-end country funds and analyzes the determinants of net fund premium in a multivariate context. It is shown that fund returns are generally sensitive to both national and U.S. market factors, but only national factors are priced. Cross-section and time series estimation of net fund premium indicates the importance of market segmentation as a determinant of net fund premium. There is some evidence that exchange rate changes may exert an additional influence. However, market expectation variables such as economic growth of the country or relative capitalization rates are insignificant.

Jonathan.B.Berk and Richard.C.Green of University of Chicago have presented a paper titled '**Mutual Fund Flows and Performance in Rational Markets'** in 'Journal of Political Economy' in the year **2004** (Vol-112). Authors derive a parsimonious rational model of active portfolio management that reproduces much regularity widely regarded as anomalous. Fund flows rationally respond to past performance in the model even though performance is not persistent and investments with active managers do not outperform passive benchmarks on average. The lack of persistence in returns does not imply that differential ability across managers is nonexistent or unrewarded or that gathering information about performance is socially wasteful. The model can quantitatively reproduce many salient features in the data. The flow-performance relationship is consistent with high average levels of skills and considerable heterogeneity across managers.

Vikas Agarwal of Georgia State University and **Narayan.Y.Naik** of London Business School have presented a paper titled 'Risks **and Portfolio Decisions Involving Hedge Funds'** in 'The Review of Financial Studies' dated October 15th **2003.** This article characterizes the systematic risk exposures of hedge funds using buy-and-hold and option-based strategies. Results show that a large number of equity-oriented hedge fund strategies exhibit payoffs resembling a short position in a put option on the market index and therefore bear significant left-tail risk, risk that is ignored by the commonly used mean-variance framework. Using a mean-conditional value-at-risk framework, authors demonstrate the extent to which the mean-variance framework underestimates the tail risk. Finally, working with the systematic risk exposures of hedge funds, they show that their recent performance appears significantly better than their long-run performance.

Edward.S.O'Neal – Babcock Graduate School of Management, Wake Forest University presented a paper on 'Utility Sector Mutual Funds – **Sources of Performance and Dividend policy Implications'** in 'Managerial Finance' dated November 12th **2002** (vol-28). This paper examines the sources of performance for a sample of mutual funds that invest primarily in utility companies. In this study the traditional market model is augmented with additional indices that more completely span the potential market for mutual fund investments. The alpha in a regression of returns to the fund versus returns to the spanning indices serves as a measure of abnormal performance. The betas in such a regression can be interpreted as the weightings that the fund managers put in to the sectors of the market represented by the indexes. These weightings provide insights in to the type of securities utility fund managers are holding. The findings are extremely consistent with the prior studies in this area. Utility mutual fund managers on an average do not display the ability to beat a properly specified set of market indices.

Diane Del Guercio and Paula A. Tkac of university of Oregon have presented an article titled '**The Determinants of the Flow of Funds of Managed Portfolios: Mutual Funds vs. Pension Funds**' in ' The Journal of Financial and Quantitative Analysis' during December **2002** (Vol- 37). This study compares the relations between asset flow and performance in the retail mutual fund and fiduciary pension fund segments of the money management industry, and relates empirical differences to fundamental differences in the clientele they serve. A striking difference is the shape of the flow-performance relation. In contrast to mutual fund investors, pension clients punish poorly performing managers by withdrawing assets under management and do not flock disproportionately to recent winners. Authors interpret these and other empirical differences in the context of the manager evaluation procedures typical in each segment. They conclude that pension managers have little incentive to engage in the risk-shifting behavior previously identified among mutual fund managers.

Ajay Khorana of George Institute of Technology – Atlanta has presented a paper titled '**Performance Changes Following Top Management Turnover**: Evidence from Open-End Mutual Funds**'** in 'The Journal of Financial and Quantitative Analysis' during September **2001** (Vol-36). Author examines the impact of mutual fund manager replacement on subsequent fund performance. Using a sample of 393 domestic equity and bond fund managers that were replaced over the 1979-1991 period, for the under performers, the author documents significant improvements in post-replacement performance relative to the past performance of the fund. On the other hand, the replacement of over performing managers results in deterioration in post-replacement performance. He finds evidence supporting the presence of strategic risk shifting in the fund portfolios prior to replacement. Furthermore, consistent with the notion of window dressing, the author documents that the level of portfolio turnover activity decreases significantly in the post-replacement period. Lastly, the replacement of poor performers is preceded by significant decreases in net new inflows in the fund.

Aigbe Akhigbe of University of Akron and Jeff Madura Florida Atlantic University have presented a paper titled '**Motivation and Performance of Seasoned Offerings by Closed-End Funds'** in 'The Financial Review' during August **2001** (Vol-36). The authors examine the motivation and performance of closed-end funds that engage in seasoned public or rights offerings. They find that closed-end funds are more motivated to engage in seasoned offerings when their shares exhibit a relatively high premium (compared to their corresponding NAV) and have a high degree of liquidity. They also find a significant negative valuation effect on average in response to seasoned offerings by closed-end funds. Cross-sectional analysis reveals that the valuation effect at the time of the seasoned offering is more unfavorable for funds that have relatively high expense ratios and are relatively large. Furthermore, they find that the closed-end funds experience significant negative valuation effects over the three-year period subsequent to the seasoned offering, implying poor post-offering performance

John. G. Gallo of University of Nevada, Larry. **J. Lockwood** of Texas Christian University and Ronald. C. Rutherford of The University of Texas have presented a paper titled '**Asset Allocation and the Performance of Real Estate Mutual Funds'** in ' Real Estate Economics' during March **2000** (Vol-28). Authors examine the performance of real estate mutual funds during January 1991–December 1997. As a group, the sampled funds outperformed the *Wilshire Real Estate Securities Index* on a risk-adjusted basis by more than 5 percentage points annually. They attempt to explain these surprising findings by examining the fund's asset allocations across stocks, bonds and real estate property types using Sharpe's effective mix test. They find that all of the superior performance is attributable to fund managers' decisions to overweight outperforming property types (apartments and health care) relative to the *Wilshire Real Estate Securities Index* weights. Performance of the funds matches a multiple-property-type benchmark that takes account of the fund's exposure to each property type. Therefore, real estate funds demonstrated superior allocation across property types, but neither superior nor inferior selection within property type, during 1991–1997. Findings emphasize the importance of asset allocation for real estate mutual-fund performance.

This paper outlines increased interest from investors in corporate social policies over the last ten years and previous research comparing the investment performance of "socially responsible" (SR) portfolios with others. Measures performance for a US sample of SR and conventional mutual funds using a variety of methods (including Jensen's Alpha, the

Sharpe Ratio and the Treynor ratio), analysing the funds by investment strategy, size, systematic risk and the use of inclusion screens. Presents the results, which do not give a clear advantage to either group, but show that funds with inclusion screens consistently outperform those without. Calls for further research on the relationship between corporate social performance and portfolio performance and comparisons between SR and conventional funds.

Eugene F. Fama of University of Chicago – Booth School of Business and Kenneth R. French of Dartmouth College of Tuck School of Business; National Bureau of Economic Research (NBER) published an article titled "**Luck versus Skill in the Cross Section of Mutual Fund Returns**" in Review Finance Studies in **1999** discusses that the aggregate portfolio of U.S. equity mutual funds is close to the market portfolio, but the high costs of active management show up intact as lower returns to investors. Bootstrap simulations suggest that few funds produce benchmark adjusted expected returns sufficient to cover their costs. If we add back the costs in expense ratios, there is evidence of inferior and superior performance (non-zero true alpha) in the extreme tails of the cross section of mutual fund alpha estimates

1.1.2 Books

1. Christine Benz has written a book titled "Morning star Guide to Mutual Funds: Five-Star strategies for Success" which was published in the year **2011** by John Wiley & Sons, Inc, Hoboken, New Jersey. Key features help cut through the fog with a solid volume of constructive information. As the recent era underscores, past performance is of little help as per the author.

Eric Tyson has written a book titled "Mutual funds for dummies" was published in the year 2010 by PHI publishers. This book covers evaluating the investors' situation, direct Vs. indirect investing why investors can have problems with Mutual funds. It says that mutual funds are sold, not bought. Also discusses about big investors Vs. Small investors. It also speaks about what really determines long-term investment results.

2. JohnA.Haslem has written a book titled "**Mutual funds: Portfolio structures, analysis and management"** was published in the year **2009**. An authoritative must read this book to make more informed decisions about Mutual funds providing a balance of theory and application, this authoritative book will enable the investor to evaluate the various performance and risk attributes of Mutual fund investors.

Ray Russell has written a book titled **" An introduction to Mutual Funds worldwide" in the year 2007 .** The author says that mutual funds offer a solution via a form of collective investment. The objective of the author is to explain what mutual funds are, how they have developed and how they are used, regulated and administered across the globe.

3. Mark Mobius has written a book titled '**Mutual Funds: An Introduction to Core Concepts'**, which was published in the year **2007** by John Wiley & Sons. Each book in the series cuts through the jargon and mystique of the financial markets to give the reader a clear picture of how and why these markets function as they do. Key features include: clear definitions of financial terms worked examples of transactions and contracts summaries and overviews valuation techniques quick Quiz questions to reinforce the learning experience strip cartoons to explain complex trades entertaining cartoons from Alex to lighten the load war stories and anecdotes from Mark Mobius based on his remarkable experiences other resources section to guide the reader to other useful books, websites and reference material.

4. Christine Benz has written a book titled '**Diversify Your Mutual Fund Portfolio'**, published in the year **2005** by John Wiley & Sons**.** Diversify Your Mutual Fund Portfolio allows readers to take the next step in their mutual fund journey. With discussions of topics such as gauging risk and return together, how to choose index and international funds, and the importance of knowing your mutual fund manager, this practical guide will help readers sharpen their mutual fund investing skills.

5. Gary L. Gastineau has written a book titled ‘Someone Will Make Money on Your Funds **–** Why Not You?’ published in the year **2005** by John Wiley & Sons. This book is a treasure trove of practical research and pithy thoughts based on Gastineau's decades of experience; a valuable guide for the thoughtful investor. This book is a must-read for fund investors. Gastineau carefully discusses many important factors such as taxes, capital gains overhang, trading costs, turnover, benchmark selection, active management, expense ratio, and aggressive trading by market timers. These factors significantly affect fund performance but may be ignored by investors. Gastineau goes on to build a strong case for choosing ETFs over mutual funds, especially for long-term investors. I strongly recommend this book for investors. Gastineau's message is very powerful. He not only challenges some conventional wisdom on investing, but also truly emphasizes how to add value to a portfolio. What is unique is his ability to move quickly from the big picture to implementation strategies offering investment solutions to both investment advisors and individual investors. Portfolio adjustments discussed can potentially have significant impact on a long-term investor's standard of living.

6. Seth C. Anderson and Parvez Ahmed have written a book titled ‘**Mutual Funds: Fifty Years of Research Findings’,** which was published in the year **2005** by Springer. Mutual funds are the dominant form of investment companies in the United States today, with approximately $7 trillion in assets under management. Over the past half century an important body of academic research has addressed various issues about the nature of these companies. These works focus on a wide range of topics, including fund performance, investment style, and expense issues, among others. Mutual Funds: Fifty

Years of Research Findings is designed for the academic researcher interested in the various issues surrounding mutual funds and for the practitioner interested in funds for investment purposes. The authors briefly trace the historical evolution of funds, present important aspects of the Investment Company Act of 1940, and then summarize a substantial portion of the academic literature, which has been written over the past five decades.

7. Lee Louis Gremillin has written a book titled "**Mutual funds industry handbook a comprehensive guide for investment professionals** published in the year **2005** by John Wiley& Sons, Inc., Hoboken, New Jersy.

8. John A. Haslem has written a book titled '**Mutual Funds: Risk and Performance Analysis for Decision Making**'**,** which was published in the year **2003** by Blackwell Publishing. This authoritative book enables readers to evaluate the various performance and risk attributes of mutual funds, while also serving as a comprehensive reference for students, academics, and general investors alike. Providing a balance of theory and application, the chapters combine clear summaries of existing research with practical guidelines for mutual fund analysis. The chapters cover a broad range of topics, including understanding the advantages and disadvantages of mutual funds and long and short-term investing, evaluating stock/bond allocations within fund portfolios, assessing fund diversification risk, measuring fund returns and risk, and making fund buy/sell decisions. Throughout the text, step-by-step decision checklists guide readers in the analysis and selection of various mutual funds. Treating all the major theoretical issues in mutual fund analysis and portfolio management, this book is both a thorough resource and a practical guide

9. Charles P. Jones has written a book titled '**Mutual Funds: Your Money, Your Choice**', which was published in the year **2002** by Financial Times **Prentice Hall**.

Charles P. Jones reviews everything investors need to watch out for in order to achieve their objectives -- including costs, tax issues, sector volatility, and other key issues. He also introduces and explains important new alternatives to mutual funds, such as folio investing, comparing their advantages, risks, and potential yields.

10. Edwin J. Elton and Martin Jay Gruber have written a book titled '**Investments**' published in the year **1999** by MIT Press. This collection of articles in investment and portfolio management spans the thirty-five-year collaborative effort of two key figures in finance. Each of the nine sections begins with an overview that introduces the main contributions of the pieces and traces the development of the field. Each volume contains a foreword by Nobel laureate Harry Markowitz. Volume I presents the authors' groundbreaking work on estimating the inputs to portfolio optimization, including the analysis of alternative structures such as single and multi-index models in forecasting correlations; portfolio maximization under alternative specifications for return structures the impact of CAPM and APT in the investment process and taxes and portfolio composition. Volume II covers the authors' work on analysts' expectations performance evaluation of managed portfolios, including commodity, stock, and bond portfolios survivorship bias and performance persistence; debt markets; and immunization and efficiency

11. Ronald K. Rutherford has written a book titled '**The Complete Guide to Managing a Portfolio of Mutual Funds',** published in the year **1998** by McGraw Hill Professional. Written by a veteran financial planner, this guide uniquely covers the statistical and non-statistical issues involved in selecting and managing a balanced portfolio of mutual funds. It explains investment policy development techniques, explores all asset classes of mutual funds, and covers the critical issues of style analysis, data interpretation and style management.

12. W. Scott Simon has written a book titled '**Index Mutual Fund: Profiting From an Investment Revolution'** published in the year **1998** by Namborn. This book describes the many benefits of index mutual funds. It also provides a framework for understanding why indexing should be the investment strategy for any investor today. The book includes an explanation of why Morningstar, Value Line, stockbrokers, investment gurus, the financial media and others so often fail investors. In addition, it explores the role of index funds in the context of asset allocation and portfolio diversification

13. Kurt Brouwer and Stephen Janachowski have written a book titled 'Mutual Fund Mystery: Wealth Building Secrets', published in the year **1997** by Random House Inc. With over 6,000 different mutual funds to choose from, how can you find funds and a fund strategy that's right for you? Kurt Brouwer and Stephen Janachowski are founders of Brouwer and Janachowski, Inc., which manage $400 million in mutual fund investments for corporations, charities, and private investors. Their insights into mutual funds and the markets are regularly featured in the national print and broadcast media. Mutual Fund Mastery is a complete guide to choosing and managing the right mutual fund portfolio and contains many unique features: clear explanations of the eight basic fund types, ways to choose among them, and the best funds for today in each category; simple, step-by-step portfolio-building plans for differing investment objectives (retirement, school, home) and risk tolerances (conservative to speculative); "toolbox" section with essential money-saving, profit-building techniques, such as an in-depth discussion of how to use Morningstar mutual fund ratings, tips on maximizing your 401 (k)/IRA income, the Retirement Income Calculator, and much more; real-life investor profiles that illustrate winning strategies and dangerous pitfalls; detailed profiles of today's top ten mutual fund families, including Fidelity, with a guide to choosing and using them; and exclusive interviews with insights from today's most savvy mutual fund managers

14. Albert J. Fredman and Russ Wiles have written a book titled ‘Building Your Mutual Fund Portfolio: A Passport to Low Risk High Return Investing’, published in the year **1996** by Dearborn Financial Pub. This guide provides readers with a clear, easy-to-follow way of investing in mutual funds, specifically how to put together a tailor-made portfolio of funds based on an individual's age, circumstances, risk tolerance, and other factors. A special chapter, "**101 Tips for a Profitable Journey**", summarizes the book's key routes to success.

15. Dian Vujovich, A and Michael Vujovich have written a book titled ‘**Straight Talk About Mutual Funds’** published in the year **1992** by McGraw-Hill. Considers mutual fund investing and attempts to provide answers to the type of questions the reader may have, in clear terms. It aims to provide a source of to-the-point explanations and insider's advice, helping the reader to fully understand the investment products they purchase.

CONCLUSION:

The review tries to examine the various dimensions of investors' magnitude by considering some aspects like selection criteria of investors in relation to mutual fund investments considering demographic variables, and the impact of risk perception and also on expected rate of return, which is judgmental in determining the risk bearing capacity of the investors. The risk perception is thus mostly influenced by the income level of the investor and the expected rate of return. The review also suggests that the risk perception is influenced by the behavioral aspect like the type of personality of an investor. The articles dealing with these dimensions have concluded that most of the risk averse investors belong to the external locus of control irrespective of their lifecycle stage.

Some studies have factorized customer preferences. Impact of demographic variables is considered as an important factor in many international studies. Various international studies have also focused on information, knowledge and perception of investors. They have identified many dimensions like cognitive dissonance, which influences the investor to adopt a change in behavior, impact of competition among institutional investors leading to a shift in behavior of individual investors, and the exhibition of herd mentality by investors during the crisis and before the crisis period.

The review thus identifies a cross section of variables that influence investors' inherent perceptual dimensions, which influences them in making a good choice of investment. The research in the Indian segment is concentrated either on understanding the impact of demographic variables or the role of locus of control (internal and external) or the life cycle concept affecting investor perception. Studies which examine the perceptual dimension of the investor with a multi dimensional focus of demographic variables, impact of knowledge and information on risk and awareness levels or confidence level of the investors have not been identified by the researchers. This gap has guided the researcher of the present study to undertake the present topic.

SCOPE & SIGNIFICANCE:

With the growing risk appetite rising income, and increasing awareness in India, Mutual Funds is becoming an instrument which is attractive than the other investment options like Fixed Deposits and Postal Savings which are well known for their safety, but give lower returns. The concept of perception can be best understood by social psychology where behavioral patterns can be developed and empirically tested (Rajeswari & Ramamoorthy, 2001). To find out the information regarding the investors at the micro level that is not at all available in the public domain. To analyse the investment behavior of the investor in terms of their personal characteristics is an important area of research which remains outside the purview of an academic researcher. Indian Mutual Fund Industry is one among the top 15 nations in terms of Assets Under Management (AUM), which has crossed USD 100 billion by the year 2011. As a globally significant player the Indian Mutual Fund Industry is attracting a bigger chunk of household investments and is expected to witness five to six times growth in the next seven to eight years. It is expected that the industry's AUM may grow to USD 500-600 billion by 2015 as more global players are planning and ready to set up asset management business in India.

Statement of the Problem: In India, though the Mutual Fund industry has been in existence since 1964, there was no major study on investor behavioral aspect of Indian Mutual Fund investors. Only 3.9% of Indians dare venture into the stock market. Therefore, Mutual Funds are just what the Indian investor needs.

NEED FOR THE STUDY:

The impressive growth of mutual funds in India has attracted the attention of Indian researchers during the past ten years. A number of research studies have been conducted to examine the growth, performance, competition and regulation of mutual funds, at international and national level. Studies were also carried out on evaluation of mutual funds, growth patterns, etc. however, there are a very few studies on specific analysis of the selection criteria of investors. The present study sets itself an ambitious task of filling this gap. There is no doubt that competition would intensify in Indian mutual fund industry in the coming years. Hence, it is appropriate to focus attention to know which criterion is maintained in selecting a particular scheme. In this direction data is collected from individual mutual fund investors residing in the city of Visakhapatnam.

The need for studying the performance of mutual funds is to help the retail investors to make valued judgment in selecting funds. Information regarding investors at micro level is not available or published. Therefore, this has to be collected only with such survey done in research studies. This paved the way for importance of this research topic. Therefore the question is raised to understand the pattern of investments of the investors of the city of Visakhapatnam as it is a major urban area.

OBJECTIVES OF THE STUDY:

The study has the following objectives:

1 To study the growth and development of mutual fund industry in India during the last ten years i.e. 2001-2011.

2 To study the performance of selected Mutual funds covering new products under study.

3 To study the retail investors’ socio economic background, investment pattern and attitude towards different types of savings in mutual funds in Visakhapatnam city.

4 To study the confidence of retail investors in mutual funds in Visakhapatnam city.

5 To examine the risk perception of mutual fund investors.

6 To suggest some policy measures to AMCs for further promotion of mutual fund business and strengthen the confidence of the investors.

Part –II

RESEARCH METHODOLOGY OF THE STUDY

INTRODUCTION:

The term 'methodology' means the science or study of methods. The research done on social sciences is called social research and these are methodological in approach. Methodology deals with the characteristics of methods, the principles on which methods operate and the standards governing the selection and application. Methodology helps to show how research questions are constructed from prior orientations and knowledge. The chapter explains various methodological issues related to the study. The need to conduct the study is justified by various methods in this study. The methods chosen in the study are quantitative as there is a need for empirical work to be done in investors' choice and preferences towards mutual fund investments. Application of appropriate methods and adoption of scientific frame of mind is a sine-qua-non of a systematic inquiry. Therefore, accurate information is necessary for drawing valid inferences. The present study is based on both primary and secondary data.

The study mainly deals with the financial behavior of individual investors towards mutual funds investment in the city of Visakhapatnam.

METHODOLOGY OF THE STUDY:

Under qualitative research, motivation research is about how people think. Empirical research is to find out certain variables affect other variables. The study is based on these two methods with the help of questionnaire.

This is the methodology adopted in the study. The aspects discussed are population, sampling, sample size, method of data collection, opinion scale construction, pre- testing as a procedure of standardization, pattern of analysis, etc.

POPULATION OF THE STUDY:

Huysamen (1994, p.38) defines a population as encompassing "the total collection of all members, cases or elements about which the researcher wishes to draw conclusions." The population for this research includes mutual fund investors in the city of Visakhapatnam, Andhra Pradesh.

Secondary Data Collection: Secondary data is the data which can be from different sources like books, journals, review of literature, etc., Figures and tables are taken from independent organizations, Government regulatory authorities. The data is collected from various Companies' Fact Sheets, Rating Agencies, Research analysts, etc.

Primary Data: The primary data is collected through a survey method by using questionnaire as a tool. The Primary Data relating to the investors' choice, reason for preference, satisfaction of a particular fund, the reasons for it, their risk perception and also the level of awareness of them. A non-probability design of sampling is used which does not involve elements of randomization and not each potential respondent has an equal chance of participating in the research. Some of the advantages of utilizing a non-probability sample lie in the fact that it is cost-effective and less time consuming (Bull, 2005). The required data is collected with the help of questionnaire, which is pre-tested in pilot study. The questionnaire is designed with close end questions, three point scale and five points "Likert Scale", with the responses ranging from strongly agree to disagree.

Population for the study is the educated mutual fund investors in Visakhapatnam city.

Pilot Study: The art of questionnaire design thinking ahead of research problems, establishing theoretical linkages and understanding the amenability of the questionnaire for data analysis (De Vaus 2003:94). The pre-tested questionnaire is administered on a combination of simple random and judgment sample of 20 educated mutual fund investors. The questionnaire is structured into three different parts. The contents are on behavior, magnitude, preference s, awareness and satisfaction levels. Data was collected using personal contact in various banks, corporate and other organizations and walk-in-investors at CAMS, Visakhapatnam. To reduce the complexity of data responses, questionnaires were distributed among those investors only who had prior experience of mutual fund investment.

SAMPLE SIZE:

According to Sekaran (2003, p.266), sampling is the "process of selecting a sufficient number of elements from the population, so that a study of the sample and an understanding of its properties or characteristics would make it possible for us to generalize such properties or characteristics to the population elements." The techniques of sampling can be divided into two types (Saunders et al, 2003). They are probably sampling and non probability technique sample is chosen at random and any case may be included into the sample (ibid).

JUDGEMENT OF SAMPLE SIZE:

The number of respondents is from Visakhapatnam city. The city doubled its population from 1990–2000 owing to a large migrant population from surrounding areas and other parts of the country coming to the city to work in its heavy industries. Visakhapatnam is listed as one of the 100 Fastest Growing Cities of the World

The population of Visakhapatnam at the time of framing the questionnaire was 12, 96,608 (as on 1.10.2008). Literacy rate at that time was 69%. Therefore, the number of literates was 8, 94,659 urban population as on that date was 59.9%. Number of liberates in urban area of Visakhapatnam comes approximately to 5, 36,437. During that period, as per the survey done by amfiindia.com 1.6% of the entire population of India was mutual fund investors. In Visakhapatnam, if calculated it comes to 8,583. 5% of these investors are 429. For convenience sake, approximate figure is taken as 500.

SAMPLING TECHNIQUES:

In analyzing the investors' criteria and in finding out the relations among different groups and their particular preference is done with the help of weighted means, Chi-square values, t/f tests, etc.,

Percentage Method: to show the trend of the variable

Chi-Square: to test the independence of the attributes.

Rank Correlation: To find the attributes relationship between two variables.

Similarly in finding out the awareness levels of the investors regarding services and in finding out their satisfaction levels various tests like weighted mean, standard deviation, KMO tests for sample adequacy are used. Similarly in finding out variations in ranks according to the performance various statistical tools like Sharpe, Standard Deviation, etc., are used.

CORRELATION ANALYSIS:

Correlations are useful because they can indicate a predictive relationship that can be used in practice. Correlation does not explain the causality factor. This is to understand the relationship between demographic profile and savings magnitude, preferences of funds, risk perception and awareness of mutual fund investors. This analysis will help in terms of strengthening the assumptions made by the study.

FACTOR ANALYSIS:

"Factor analysis is a statistical method used to describe variability among observed variables in terms of fewer unobserved variables called factors. The observed variables are modeled as linear combinations of the factors, plus "error" terms. The information gained about the interdependencies can be used later to reduce the set of variables in a dataset. Factor analysis originated in psychometrics, and is used in behavioral sciences, social sciences, marketing, product management, operations research, and other applied sciences that deal with large quantities of data”.

The Sharpe Measure

Sharpe measure is a ratio of returns generated by the fund over and above risk free rate of return and the total risk associated with it. According to Sharpe, it is the total risk of the fund that the investors are concerned about. So, the model evaluates funds on the basis of reward per unit of total risk. It can be measured as

Sharpe Index **(Si) = (Ri - Rf)/Sd**

Analysis pattern:

The way the data is analysed depends on what the researcher wants to know (De Vaus, 202:203). The data analysis therefore is based on the questions raised in the chapter on research design (Goode and Hatt, 1952:343). The entire analysis was done by using SPSS package.

HYPOTHESIS TESTING:

A hypothesis constitutes the formulation of deduction, which when verified becomes a part of the future theoretical construction (Good and Hatt, 1952:56). It is a tentative suggestion (Payne and Payne, 2004:112) and an assumption about relation between variables (Ahuja, 2006:70). It is reasoned but provisional supposition about the relationship between two or more social phenomena stated in terms that can be empirically tested and which forms the focus for research particularly in quantitative studies)Paynee and Paynee, 2004:112).

LIMITATIONS:

The study has its own limitations of which some are listed below:

1 The data like tables and figures are taken from the website of RBI and some of its handbooks on statistics of securities market may vary to some extent to the primary data collected because the period in which the data is collected is not the same to these published reports.

2 The company's websites may have some biased information which may not be 100% true.

3 Majority of the respondents chosen may belong to same one or two age and income groups.

4 The study is confined to existing investors of mutual funds only.

5 The results of the study are based upon the information given by the respondents.

6 The sample size may not adequately represent the national market.

CHAPTER SCHEME:

This research work is organized into six chapters as detailed below:

Chapter I consists of two parts. The first part of the chapter deals with the Savings scenario-world wide and in India. The second part of the chapter covers the resources mobilized by Mutual funds.

Chapter II consists of two parts. First part is on the comprehensive review of literature comprising of studies in foreign countries as well as in India and is on need, scope, objectives and limitations of the study. The second part gives the structure of research methodology covering the data source, sampling technique, tools and techniques of analysis.

Chapter III focuses on the Mutual fund Industry The first part of first chapter studies about the Mutual fund industry, growth of the industry, types and various schemes of

Mutual funds, resources mobilized by public and private mutual funds, etc.. It also discusses about the returns, NAV calculation, comparison of top funds, comparison of various schemes, etc.,

Chapter IV highlights the performance of Mutual funds and about the regulations of Mutual funds. Also in terms of risk, return, consistency in performance and dependence on market performance.

Chapter V studies the perception of investors, relating to Mutual fund investment, choice of fund, factors influencing the choice of mutual fund and scheme with analysis of investors' opinion.

Chapter VI analyses the satisfaction and awareness levels of the mutual fund investors.

Chapter VII comprehensively summarizes the entire study and presents findings, conclusion and suggestions.

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