2.0 INTRODUCTION

A literature review is an examination of the research that has been conducted in a particular field of study. It plays a critical role in the research cycle of discovering, creating, sharing and publishing knowledge. A review of the literature will establish a theoretical framework for research problem; identify the knowledge gap to be addressed by the current research problem, position the present research within the existing research, locate the work of other key researchers in the present field, define and refine the present research problem, justify and rationalize the research question and conceptual framework and evaluate and discuss the literature and convince the reader of its relevance to present research work.

A large number of studies on the growth of mutual funds have been carried out during the past, in the developed and developing countries. Brief reviews of the following research works reveal the awareness, attitude, perception and preference of investors towards the mutual funds and the schemes of mutual funds.

2.1 LITERATURE RELATING TO INVESTORS’ AWARENESS

Sivanesan S (1997) revealed that his analysis has brought out various results arising from different tools of analysis. All relevant factors have been considered to bring out the relationship awareness. The investor’s awareness increases with the duration of investment, when investors invest for a considerable long period they tend to acquire more awareness.

Ayyappan S (2009) made an attempt to analyze investor’s satisfaction and their awareness. On the basis of the results of the study, the he has made some definite
suggestions like taking good decision while investment, carefully selecting proper avenues, to compare the performance of return and investors could easily receive updated information for the further development of investment. It hopes that, the awareness of investors will be raised to a considerable extent if all the suggestions are implemented.

**Kaboor A (2010)** examined the individual investor’s Financial Literacy of the investment options. The results of the study have brought out the investors attributes that determine investor financial literacy. The expanding and examining investor financial literacy would enable a researcher to understand the spread of financial literacy among investors of different cities. Inter regional disparities in financial literacy could be discerned and methods could be suggested to attain equal distribution of financial literacy among investors. Further grievance redressal mechanism operating at different levels may be studied for it efficiency.

**Ranjani Komal Srinivasan, Anjali Vivek Chopra (2011)** concluded that the respondents showed significant awareness in matters concerning investment and personal financial planning. Contrary to popular perception, the sample population showed awareness about financial planning and willingness to take investment decisions relating to personal finance. However, in the area of retirement planning, majority of the respondents felt that they had not adequately planned for their retirement.

**Lakshmana Rao (2011)** stated in his study on ‘Analysis of investors’ perceptions towards mutual fund schemes (with reference to awareness and adoption of personal and family considerations)’ that Investors between 31 to 40 years of age have highest awareness and adoption of different mutual fund schemes. It is also concluded that there is an association between respondents’ residential status and awareness of balanced fund and debt fund schemes.
Kousalya P R and Gurusamy P (2012) observed in their study on ‘Women Investors’ Perception towards Investments’ that there is no significant relationship between age of the women investors and level of awareness on investment. They have also concluded that the educational level of women investors does not influence the level of awareness.

Binod Kumar Singh (2012) in his study observed that most of respondents are still confused about the mutual funds and have not formed any attitude towards the mutual fund for investment purpose. It has been observed that most of the respondents having lack of awareness about the various function of mutual funds. Moreover, as far as the demographic factors are concerned, gender, income and level of education have significantly influence the investors’ attitude towards mutual funds. On the other hand the other two demographic factors like age and occupation have not been found influencing the attitude of investors’ towards mutual funds.

Meenakshi Chaturvedi, Shruti Khare (2012) proclaimed that the age of investor cannot be taken to influence their level of awareness and it is very clear from the results that the gender of the investor has no effect or influence on his or level of awareness about any investment channel.

Jothi Baskara Mohan, Ramji P.R. (2013) conducted a study on ‘Women Investors Recital At Rajapalayam City - A Study’. The results of the study shows that 92 per cent of respondents are aware of Investment and remaining 8 per cent are unaware of Investment avenues.

2.2 LITERATURE RELATING TO INVESTORS’ ATTITUDE

Lenard et. al. (2003) empirically investigated investor’s attitudes toward mutual funds. The results indicate that the decision to switch funds within a fund family is affected by investor’s attitude towards risk, current asset allocation,
investment losses, investment mix, capital base of the fund age, initial fund performance, investment mix, fund and portfolio diversification. The study reported that these factors are crucial to be considered before switching funds regardless of whether they invest in non-employer plans or in both employer and non-employer plans.

**Bollen (2006)** studied the dynamics of investor fund flows in a sample of socially screened equity mutual funds and compared the relation between annual fund flows & lagged performance in SR funds to the same relation in a matched sample of conventional funds. The result revealed that the extra-financial SR attribute serves to dampen the rate at which SR investors trade mutual funds. The study noted that the differences between SR funds and their conventional counterparts are robust over time and persist as funds age. The study found that the preferences of SR investors may be represented by conditional multi-attribute utility function (especially when SR funds deliver positive returns). The study remarked that mutual fund companies can expect SR investors to be more loyal than investors in ordinary funds.

**Walia and Kiran (2009)** studied investor’s risk and return perception towards mutual funds. The study examined investor's perception towards risk involved in mutual funds, return from mutual funds in comparison to other financial avenues, transparency and disclosure practices. The study investigated problems of investors encountered with due to unprofessional services of mutual funds. The study found that majority of individual investors doesn’t consider mutual funds as highly risky investment. In fact on a ranking scale it is considered to be on higher side when compared with other financial avenues. The study also reported that significant relationship of interdependence exists between income level of investors and their perception for investment returns from mutual funds investment.
Saini et., al. (2011) analyzed investor’s behavior, investors’ opinion and perception relating to various issues like type of mutual fund scheme, its objective, role of financial advisors / brokers, sources of information, deficiencies in the provision of services, investors’ opinion relating to factors that attract them to invest in mutual and challenges before the Indian mutual fund industry etc. The study found that investors seek for liquidity, simplicity in offer documents, online trading, regular updates through SMS and stringent follow up of provisions laid by AMFI.

Singh (2012) conducted an empirical study of Indian investors and observed that most of the respondents do not have much awareness about the various function of mutual funds and they are bit confused regarding investment in mutual funds. The study found that some demographic factors like gender, income and level of education have their significant impact over the attitude towards mutual funds. On the contrary age and occupation have not been found influencing the investor’s attitude. The study noticed that return potential and liquidity have been perceived to be most lucrative benefits of investment in mutual funds and the same are followed by flexibility, transparency and affordability.

2.3 LITERATURE RELATING TO INVESTORS’ PERCEPTION

Kahneman and Amos Tversky (1979) originally described “Prospect Theory” and found that individuals were much more distressed by prospective losses than they were happy by equivalent gains. Some economists have concluded that investors typically consider the loss of $1 twice as painful as the pleasure received from a $ gain. Many investors do not have data analysis and interpretation skills. This is because, data from the market supports the merits of index investing, passive investors are more likely to base their investment choices on information received from objective or scientific sources. Investor fund selection behaviour influences marketing decisions of fund management and has captured the attention of researchers.
Woerheide (1982) conducted a study on “investor response to suggested criteria for mutual funds” in which he tested the effect of different factors. It was proved that factors like size of fund, effectiveness of marketing programme and past return of funds have great impact. Among these the effectiveness of marketing programme has strong impact.

De Bondt and Thaler (1985) while investigating the possible psychological basis for investor behaviour, argue that mean reversion in stock prices is an evidence of investor over reaction where investors overemphasise recent firm performance in forming future expectations.

Ippolito (1992) reported that fund selection by investors is based on past performance of the funds and money flows into winning funds more rapidly than they flow out of losing funds.

Goetzman (1993) studied the ability of investors to select funds and found evidence to support selection ability among active fund investors.

Noel Capon (1994) in a study “Affluent investors and mutual fund purchases” stated that there are many evidences that supports that in spite of risk and return other factors also effect on mutual fund selection, for example a consumer survey 1990 on mutual fund it was founded that past performance and level of risk are two aggregate important factors but other factors also effect like management fee, amount of sales charges, reputation of fund family, funds already owned in family, recommendation from magazine and newsletter and clarity of accounting statements. Investor showed different behavioral trait and they prefer different factors while selecting fund because of different demographic background.
Sikidar and Singh (1996) carried out a survey with an objective to understand the behavioral aspects of the investors of the North Eastern Region towards equity and MFs investment portfolio. The survey revealed that the salaried and self-employed formed the major investors in MF primarily due to tax concessions.

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

Malhotra and Robert (1997) reported that the preoccupation of MF investors with using performance evaluation as selection criteria is misguided because of volatility of returns, which may be due to superior management or just good luck is difficult to determine.

Goetzmann and Peles (1997) suggested that investors may chase past favorable performance because they overweight the latest performance information or fail to sell losers because they bias upward the latest performance information when a fund they have purchased underperforms.

Raja Rajan (1997, 1998) highlighted segmentation of investors on the basis of their characteristics, investment size, and the relationship between stage in life cycle of the investors and their investment pattern.
Malhotra and McLeod (1997) argue that investors ignore aspects of fund management other than performance. They also argue that this behavior is suboptimal in that net performance after consideration of fees and taxes is a more appropriate measure. We find that fund expenses and tax costs do significantly reduce returns. We find that tax costs are of greater magnitude than the costs of managing the fund.

Syama Sunder (1998) conducted a survey to get an insight into the MF operations of private institutions with special reference to Kothari Pioneer. The survey revealed that the awareness about MF concept was poor during that time in small cities. Agents play a vital role in spreading the MF culture; open-end schemes were much preferred then; age and income are the two important determinants in the selection of fund / scheme; brand image and return are their prime considerations.

Ang, Chen, and Lin (1998) explored equity mutual fund management reaction to poor performance using data beginning in 1994. They observed that management had good reason to be concerned about poor performance, as management compensation is based upon the amount of money under management and performance of the fund. Their analysis explores possible management reactions to poor performance. Management could trade more often, reduce costs, take more risks, or adopt a more aggressive marketing strategy. They found that the management of lower performing funds did more trading and had greater expense ratios than the management of funds that had good performance. We examine these issues and contribute to the understanding of mutual fund performance by studying a later time period with a larger sample and by including fixed-income as well as equity funds. We also contribute by considering the role of economies of scale both at the level of the individual fund and the level of the fund family.

Sirri and Tufano (1998) attributed the asymmetry between the investor reaction to past winners and losers to marketing as fund families tend to advertise top
past performers. Their explanation would suggest that convexity will be more pronounced among investors that are swayed by advertising. Since being susceptible to behavioral biases and to the influence of advertising are features commonly associated with naïve investors, these arguments suggest that flow-performance convexity is inversely related to investor sophistication.

**Anjan Chakrabarti and Harsh Rungta (2000)** stressed the importance of brand effect in determining the competitive position of the AMCs. Their study reveals that brand image factor, though cannot be easily captured by computable performance measures, influences the investor’s perception and hence his fund/scheme selection.

**Droms and Walker (2001),** studying 151 mutual funds over a 20-year period found no long-term persistence in returns, expenses, or turnover rates. They examine a longer time period than this study, but a smaller sample of investment companies. Their findings could support various explanations. Changes in returns, expenses, and turnover rate could be due to changes in fund management or management philosophy. The findings are also consistent the possibility that the quality of oversight from the independent trustees varies over time.

**Rajeswari and Ramamoorthy (2001)** have conducted a study to understand the factors influencing the fund selection behaviour of 350 MF 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.

**Rajeshwari T.R and Rama Moorthy V.E (2002)** studied the financial behaviour and factors influencing fund/scheme selection of retail investors by conducting Factor Analysis using Principal Component Analysis, to identify the
investor’s underlying fund/scheme selection criteria, so as to group them into specific market segment for designing of the appropriate marketing strategy.

Singh and Vanita (2002) have examined the investors’ preferences and perception towards MF investments by conducted a survey of 150 respondents in the city of Delhi. The findings of the study were that the investors’ preferred to invest in public sector MFs 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 MFs and belonged to the category who held growth schemes.

King (2002) has highlighted the emergence of products like exchange traded funds, hedge funds, managed accounts etc. which offer competition to MFs.

Wilcox (2002) conducted research on investor’s preferences for stock mutual funds in which they conducted a conjoint study on 50 investors. Analysis showed that investors weighted past performance more than fee structure. The wealthier and the knowledgeable investors are more biased towards load while selecting the mutual funds. But the authors are of the point of view that past performance is not only the guarantee of future return. There are other factors that affects on decision making, but investors make cognitive errors while selecting funds.

Sankaran (2004) proposes the future direction for investors will be to invest in pension funds, as government is envisaging a policy to cover all kinds of investors. He further opined that MF industry will continue to grow in spite of competition and will be propelled in the right direction because of the investor friendly financial markets.
Singh (2004) has established that middle class salaried investors and professionals perfected to have disclosure of net asset value on a day today basis and wanted to invest in MFs in order to get higher tax rebates. Further, it is evidenced that small investors perceived MFs to be better investment alternative and public sector investments to be less risky.


Gupta and Gupta (2004) in the paper "Performance Evaluation of Select Indian Mutual Fund Schemes: An Empirical Study", have studied the performance of 57 growth schemes using the Net Asset Values for the period April 1999 to March 2003. The paper used performance evaluation measures of Sharpe, Jensen, Treynor and Fama to arrive at the finding that some funds performed better than the market because only few managers had the stock selection skills and as a result the funds were exposed to large diversifiable risk.

Manjesh (2005) in article titled "Money Market Mutual Funds (MMMFs): A Macro Perspective" has elucidated the origin, features and advantages of MMMFs as to being a very viable option for investment for the retail investor as Money Markets offer superior returns in comparison with bank deposits, are highly liquid at relatively lower risk for short term funds. The paper focuses on the advantages of MMMF investment for a retail investor and discusses the problems in penetration of MMMFs for the retail investor in India as it is obstructed by perceived conflict of interest by the regulators (RBI and SEBI) in the matter of control of MMMFs, lack of Mutual Funds points of contact across the country, the reliance of Mutual Fund industry on corporate investment and structural constraints.
Panda and Tripathy (2005) found the evidence of prevalence of such a psychological state among MF investors in India. For instance, UTI, which is synonymous to mutual funds in India, had a glorious past and perceived as a safe, high yield investment vehicle with the added tax benefit. Many UTI account holders have justified their beliefs by staying invested in UTI schemes even after the 1999 bail out and the July 2001 episode of repurchase freeze on US 64 for 6 months. “People are more likely to believe that something they own is better than something they do not own”. Further, they found evidence of this effect also among Indian MF investors due to the continued existence of many poor performing funds with investors staying invested with them.

Ramamurthy and Reddy (2005) conducted a study to analyze recent trends in the MF industry and draw a conclusion that the main benefits for small investors’ due to efficient management, diversification of investment, easy administration, nice return potential, liquidity, transparency, flexibility, affordability, wide range of choices and a proper regulation governed by SEBI.

Desigan et al. (2006) conducted a study on women investor’s perception towards investment and found that women investor’s basically are indecisive in investing in MFs due to various reasons like lack of knowledge about the investment protection and their various investment procedures, market fluctuations, various risks associated with investment, assessment of investment and redressal of grievances regarding their various investment related problems.

James and Karceski (2006) observed that investors in institutional funds are less reactive to raw performance but more reactive to risk-adjusted performance than are investors in retail funds.
Badla and Garg (2007) observed that most of the schemes outperformed the market and the risk undertaken in the schemes is more than the market risk.

Noronha (2007) has evaluated the performance of 11 equity schemes of three asset management companies with the help of Sharpe and Treynor measure for a period April 2002- March 2005. The study found that equity, tax plan and index funds offer diversification and are able to earn better returns as compared to sector specific funds. The study is a commendable work on performance of MFs highlighting the better earning capacity of equity, tax plans and index funds.

Donnor and Oxenstierna (2007) in their thesis conducted on “the factors that investor value while choosing mutual fund” on Swedish market. It is founded that company related factors i.e. reputation and availability is more valued by inexperienced investors because they lack necessary knowledge about complex financial products. But experienced investors value fund specific attributes and demands good presence of company in market in order to recognize it.

Agarwal et al. (2009) have examined the performance of these funds relative to hedge funds and traditional MFs and found that despite using similar trading strategies, hedged MFs underperform hedge funds.

Gil-Bazo et al. (2009) have examined the market for equity MFs and found that Funds with worse before-fee performance charge higher fees and that better fund governance may bring fees more in line with performance.

Singh and Jha (2009) conducted a study on awareness & acceptability of MFs and found that consumers basically prefer MFs due to return potential, liquidity and safety and they were not totally aware about the systematic investment plan. The invertors’ will also consider various factors before investing in MFs.
Chen et al. (2011) have tested MFs that engage in tax planning and how do they respond to changes in the capital gains tax rates was investigated. It was found that there was consistency with tax planning by managers of both open-end and closed-end MFs and MF managers may not tax plan like individuals because fund managers have incentives to consider the tax liability of both current and potential investors.

Agapova (2011) has examined the cross-sectional differences among money market mutual funds (MMMFs) in the context of sponsoring fund families and found that flows to family non-MMMFs are negatively related to family MMMF flows, and family non-MMMF cash flow volatility is positively related to family MMMF cash flow volatility. The study has further suggested that fund family investors also use family MMMFs as cash centers by utilizing free asset transfers within the family.

Badrinath & Gubellini (2011) have evaluated the return performance of long-short, market neutral and bear MFs using multi-factor models and a conditional CAPM and revealed that Market-neutral funds provide a down market hedge, but bear funds do not generate the returns that investors hope for.

Cao et al. (2011) have investigated two types of funds that make more extensive use of derivatives, global funds and specialized domestic equity fund and found that risk and return characteristics of these two groups of funds are significantly different from funds employing derivatives sparingly or not at all and that Fund managers time their use of derivatives in response to past returns.
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35


