CHAPTER II -
REVIEW OF LITERATURE

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Chapter II

Review of Literature

2.1 Introduction:
The review of literature helps in understanding the earlier work of the researcher and the theoretical paradigm of their analysis. The contribution made by researcher in the form of books, research articles, reports shows the different issues and the solutions offered by them. The financial Management and planning attracted the attention of researchers to allocate the financial resources in a most efficient way in given constraint of tools and the options available at that time. The time series analysis also shows the journey of research and modifications in the approaches. The chapter aims to summarize the milestones in this endeavor.

2.2 Portfolio Structure
The selection of portfolio depends upon the objectives of the investor. The selection of portfolio under different objectives are dealt subsequently

1. Current income and asset mix: If the main objective is getting adequate amount of current income, sixty percent of the investment is made in debt instruments and remaining in equity. Proportion varies according to individual preference.

2. Growth of income and asset mix: Here the investor requires a certain percentage of growth as the income from the capital he has invested. The proportion of equity varies from 60 to 100% and that of debt from 0 to 40%. The debt may be included to minimize risk and to get tax exemption.

3. Capital appreciation and Asset Mix: It means that value of the investment made increases over the year. Investment in real estate can give faster capital appreciation but the problem is of liquidity. In the capital market, the value of the shares is much higher than the original issue price.

4. Safety of principle and asset mix: Usually, the risk averse investors are very particular about the stability of principal. Generally old people are more sensitive towards safety.

5. Risk and return analysis: The traditional approach of portfolio building has some basic assumptions. An investor wants higher returns at the lower risk. But the rule of the game is that more risk, more return. So while making a portfolio the investor must judge the risk taking capability and the returns desired.
6. **Diversification:** Once the asset mix is determined and risk – return relationship is analyzed the next step is to diversify the portfolio. The main advantage of diversification is that the unsystematic risk is minimized.

The portfolio theories or models propounded by various experts show the different dimensions of portfolio management. The selection of portfolio is influenced by the objectives of portfolio. The goals of portfolio may differ from person to person as well as from company to company.

Several types of techniques have been used to support the portfolio management process:

A. **Heuristic models:** The earliest Portfolio Management techniques optimized projects' profitability or financial returns using heuristic or mathematical models. However, this approach paid little attention to balance or aligning the portfolio to the organization's strategy.

B. **Scoring techniques:** Scoring techniques weight and score criteria to take into account investment requirements, profitability, risk and strategic alignment. The shortcoming with this approach can be an over emphasis on financial measures and an inability to optimize the mix of projects.

C. **Visual or mapping techniques:** Mapping techniques use graphical presentation to visualize a portfolio's balance. These are typically presented in the form of a two-dimensional graph that shows the trade-off's or balance between two factors such as risks vs. profitability, marketplace fit vs. product line coverage, financial return vs. probability of success, etc.

**Markowitz Theory (1956)**

The portfolio theory became popular with Nobel Prize winner Markowitz Theory which is known as Modern Portfolio Theory or MPT. According to the theory, it's possible to construct an "efficient frontier" of optimal portfolios offering the maximum possible expected return for a given level of risk. This theory was pioneered by Harry Markowitz in his paper "Portfolio Selection," published in 1952 by the *Journal of Finance*.

There are four basic steps involved in portfolio construction:

1. Security valuation
2. Asset allocation
3. Portfolio optimization
4. Performance measurement
Following are important aspects of MPT theory.

It helps to find out Efficient Frontier which is a line created from the risk-reward graph, comprised of optimal portfolios. The optimal portfolios plotted along the curve have the highest expected return possible for the given amount of risk. This further leads to find out Markowitz Efficient Set. It is a set of portfolios with returns that are maximized for a given level of risk based on mean-variance portfolio construction. The efficient "solution set" to a given set of mean-variance parameters (a given riskless asset and a given risky basket of assets) can be graphed into what is called the Markowitz efficient frontier. It explains the Two Kinds of Risk.

Modern portfolio theory states that the risk for individual stock returns has two components:

**Systematic Risk** - These are market risks that cannot be diversified away. Interest rates, recessions and wars are examples of systematic risks.

**Unsystematic Risk** - Also known as "specific risk", this risk is specific to individual stocks and can be diversified away as you increase the number of stocks in your portfolio. It represents the component of a stock's return that is not correlated with General market moves.

For a well-diversified portfolio, the risk - or average deviation from the mean - of each stock contributes little to portfolio risk. Instead, it is the difference - or covariance - between individual stock's levels of risk that determines overall portfolio risk. As a result, investors benefit from holding diversified portfolios instead of individual stocks.

The work of Markowitz was extended by the William Sharpe, John Linter and Jan Mossin through the development of the Capital Asset Pricing Model (CAPM).

**Portfolio Theories (1959)**: Modern Portfolio Theory (“MPT”) is also called “portfolio theory” or “portfolio management theory.” MPT is a sophisticated investment approach first developed by Professor Harry Markowitz of the University of Chicago, in 1952. Thirty-eight years later, in 1990, he shared a Nobel Prize with Merton Miller and William Sharpe for what has become the frame upon which institutions and savvy investors construct their investment portfolios.

Dr. Markowitz was among the first to quantify risk and demonstrate quantitatively why and how portfolio diversification can work to reduce risk, and increase returns for investors. While the technical underpinnings of MPT are complex, and drawn
from financial economics, probability and statistical theory, its conclusion is simple and easy to understand: a diversified portfolio, of uncorrelated asset classes, can provide the highest returns with the least amount of volatility. Many investors are under the delusion that their portfolios are diversified if they are in individual stocks, mutual funds, bonds, and international stocks. While these are all different investments, they are all still in the same asset class and generally move in concert with each other. When the bubble burst in the stock market, this was made painfully clear! Proper diversification according to MPT is in different asset classes that move independently from one another.

**Arbitrage Pricing Theory (1976)**

A model which tries to explain a stock’s return based upon FUNDAMENTAL FACTORS. To Qualify as a Fundamental Factor, a variable must possess several characteristics

1. Important Economic Factor that enters the Valuation of ALL stocks or firms.
2. Must have a STABLE Impact on a Firm’s Value over time
3. Must be INDEPENDENT of other Fundamental Factors
4. Must have a VARIANCE

Fundamental Factors that Have been suggested include

1. REAL GDP Growth
2. Interest Rates
3. Inflation
4. Equity Risk Premiums

Assumptions of APT

1. Capital Markets are perfectly competitive
2. Investors prefer more wealth to less wealth with certainty
3. Asset Returns can be related to a set of fundamental factors

**Dr. John Lintner Professionally Managed Futures (1983)**

One of the most uncorrelated and independent investments versus stocks are futures. The value of professionally managed futures was thoroughly researched by Dr. John Lintner, of Harvard University, in a 1983 landmark study, “The Potential Role of Managed Futures Accounts in Portfolios of Stocks and Bonds.”

Lintner wrote that “the combined portfolios of stocks (or stocks and bonds) after including judicious investments... in leveraged managed futures accounts show
substantially less risk at every possible level of expected return than portfolios of stocks (or stocks and bonds) alone.” Lintner specifically showed how managed futures can decrease portfolio risk, while simultaneously enhancing overall portfolio performance.

**Donald E. Fischer and Ronald J. Jordan (1995)** provided a comprehensive introduction to the area of security analysis and portfolio management in their book which has seven parts. In first chapter It is noted that the measurement of return and risk were the main focus of the job of the security analyst and the portfolio manager. This unit explored the debt and equity instrument which are primary categories. Investment categories involve financial and real assets. Financial assets are piece of paper representing an indirect claim to real assets by someone else.

They cleared that speculation and investment are two distinct terms by the time horizon and by the risk return characteristics of the investment. In this text they emphasized on investments and investment analysis although there was speculative situations. They found the alternative investment vehicles and their more silent attributes. The functioning of major security market and how investor decides to buy or sell particular security type is examined in 2nd chapter. Part two has elaborated the framework of risk and return. And its measures. In Security analysis investors see two properties inherent in securities: the return expected from holding the security and the risk that the return that is achieved will be less than the return that was expected. The probability distribution theory, Beta, graph of SML is the statistical tools used to measure various types of risk.

The top down approach is referred in chapter 4&5. This is approach of E-I-C framework i.e. economy industry-company approach for estimating future dividend and stock price. The economic forecast is important for making investment decision concerning both the timing of an investment and the relative investment among the various industries in the economy so economic terms are also discussed. And critically evaluated with some economic forecasting techniques i.e anticipatory survey, indicators, economic models and opportunistic model building. They observed how economic analysis could best be meshed with the industry analysis. The concept of industry life cycle, end use analysis, regression and input output analysis were explained. How an analyst estimate return and risk for stocks and to translate information into expectations about holding period yields are demonstrated in next
three chapters. And showed the importance of information. The unit explained the traditional and scientific techniques of forecasting of earnings and expenses. To overcome the drawbacks of last techniques the modern portfolio analyse tools are used in no computer situations. They proved how the newer techniques are strengthened.

Active and passive are two strategies of bond management. A passive strategy involves a buy and hold philosophy which has taken a back seat where in the investors objectives are to achieve broad diversification, predictable returns and low management costs. Nowadays active strategy has taken a center stage. These are explained in the unit Bond Management.

There was also discussion on convertibles which also provides more income than the underlying common stocks. The chapter no.15 concentrated on mystical approach called technical analysis which shows the direction of general market and individual stocks as well as fundamentalism. The next topic discussed on the implications of random walk for both fundamental and technical analysis. They reviewed the two approaches and presented theory to stock price behavior. The fundamentalist considered financial and economic variables while chartist studied the historical price patterns as they believed history repeats itself, to predict future price movements. The random walk school had weak form of efficient market hypothesis. It demonstrated on successive price changes over a short period were independent and had empirical tests, i.e., run test, filter test, correlation analysis. The result supported to the random walk hypothesis.

The portfolio is the combination (packages) of securities may or may not have the aggregate characteristics of their individual parts. The efficiency of such combination evaluated in one of the unit and analyzed the range of possible portfolio that could be constituted from a given set of securities. This unit proceeded logically from the construction of feasible portfolios to bigger portfolio from large universe of securities, some portfolio dominate other that they provide either

1. The same return in lower risk
2. The same risk but higher return.

These criteria distinguish portfolios that are feasible from those that are more "efficient."

The idea of Sharpe in simplifying the portfolio analysis process was introduced in next unit.
In addition, modern selection techniques by the work of Markowitz and others are examined.

The next topic expanded on a capital market theory which is concerned with how asset pricing should occur if investors behaved as Markowitz suggested. The CAPM model uses the results of capital market theory to derive a linear relationship between the expected returns and systematic risk of individual securities and portfolio.

In a last chapter, the authors explained on various types of managed portfolios looking at broad categories as well as at differences among portfolios in each category, and examined its sources of information. The managed portfolios included open end and closed end investment companies or mutual funds, dual funds, money market funds bonds, index funds pension funds ERISA, rust agreements, common trusts and professional investment counsel. The Sharpe, Treyner Jensen approaches are the measures of performance evaluation of above instruments.

**Dr. G.P.Jakhotia and Mrs. M.G. Jjakhotiya (2001)** in their book ‘finance for one and All’ elaborated the techniques of investment management for individual investors. He discussed reasons for making investment and listed five important reasons for investment such as:

1. Regular income
2. Growth of Wealth
3. Contingency arrangement
4. Fighting inflation
5. Oldage or post retirement Provision

Then he discussed the factors deciding of optional portfolio investment, in which he listed 12 sensitive factors:

- Rate of Return
- Degree of Risk
- Degree of inflation
- Rate of growth
- Liquidity or Marketability
- Tax benefits and allied advantage
- Frequency of return
• Speculative interest
• Social beliefs and customs
• Degree of control
• Risk coverage
• Volume of fund required

Further they have given model for assessment of individuals portfolio mix he has suggested that individual investors should form a group and meet for assessing each ones portfolio. An arithmetic average of all assessment may be the most accurate assessment of an individual’s portfolio. The model has 5 steps below

1. For each investment marks/credit/value is given as 0 to 5 scale as follows – 0 – nil, 1 – poor, 2 – marginal, 3 – good, 4 – very good, 5 – excellent. The rate of return from real estate is good, so it has credit of 3 to this factor. There is no risk in acquiring and holding real estate. Here the factor of degree of risk gives value 5 to the real estate.

2. There are 8 factors considered for investing in particular investment according to their importance for investing in real estate, the important factor is rate of return and this factor ranks first getting weightage of ‘8’ the least important factor will get weightage of ‘1’.

3. Value allocated to factor X weighted to factor = weighted value.

4. The total of all the weighted values of all the factors under each investment. This total is called ‘Total weighted value’. Total weighted X amount invested in each item of investment = product.

5. The effect of secondary weightage used is removed i.e. amount invested in investment. Super product / Total investment.

6. The effect of primary weightages removed to calculate performance factor as Secondary weightage / Total of primary weightages.

G. Cotter Cunningham (2004) in his book ‘Your Financial Action Plan explained into twelve simple steps for achieving money success. The consumer’s personal financial issues comprehensively and objectively covered into the book. It has twelve chapters’. The basic financial issues such as creating a will, building a savings nest egg and making and sticking to a monthly budget is explained in a first chapter. The survey in this book showed that people who pays their bills as they come in where
more satisfied and less stressed than those who didn’t. With this the second chapter focused on how to gain control over the expenditure. This chapter helps to be solvent and have good credit records. In the next chapter number three he looked on sure five ways to keep one out of the debtors doldrums by sticking to a budget. This chapter shaded light on creating a comfortable budget and recognizing shopping pitfalls which will help to reduce stress.
The forth chapter covered on retirement planning. It explained four golden rules or things to do as a priority. It includes

1. Shuck off debts
2. Pay down mortgage completely before retirement
3. Do not count on social security
4. Do not forget to consider long term care insurance

This will help us for heading down the rocky road. The importance of reading Bank account regularly and keeping safe of important documents is mentioned in the next chapter. The fifth chapter ‘Willing it’ looked at the deadly business of funerals. Insurance is there to protect against the unlikely and the unthinkable. How regularly we shop around for the best insurance quotes and coverage is mentioned into the chapter VII. The buying or leasing a car is another important financial decision. The next chapter guided on buying and leasing the car. The rule of thumb for applying for a credit card and for checking credit report is stated in chapter nine. The borrowing responsibility, tax deduction and home ownership are things discussed in the subsequent chapters. The author says financial knowledge means financial power. The 12 steps programs for financial literacy discussed in this book are –

1. Keep emergency funds
2. Pay bills on time
3. Follow monthly budget
4. Save for retirement
5. Read bank account statements
6. Get a will
7. Shop around the insurance quotes
8. Shop around best credit card interest rates
9. Check credit report annually repair as needed
10. Never carry on balance on credit cards
11. Shop around the better rate of mortgage
12. Adjust w-4 form of pension plan annually.

These books provided the knowledge for making planning for better financial future. In the appendix it lists 22 models letters needed in the case of making correspondence with financial institutes. The practical utility of the book increased due to last part of this book. As Cunningham is an authority on personal finance with more than a decade of experience shared his rich experience an tips for the investors. This book serves as a guide to every investor in managing his financial goal. The lesson of the books although based on American investors it helps for all the investors of the world. In a country like India its utility remains beyond doubts.

Valery Polkovnichenko(2005) (8) in his study ‘Household Portfolio Diversification: A Case for Rank-Dependent Preferences’ has supported for rank dependent preferences. The rank-dependent expected utility model also known as anticipated utility. This model comprises generalized expected utility model of choice under uncertainty. This model explained the behaviour of people that people both purchase lottery tickets which indicates risk taking preferences and insurance are implying risk aversion. For the survey of consumer expenditure data was used. He figure out two widespread pattern inconsistent with expected utility. One is majority of household had investment in well diversified funds. They had poor portfolios of stock. Second are households who had more savings but their investment in equity was very low. He argued that portfolio choice models with rank-dependent preferences are used parameters as possible and with fully rational assumptions which are constant and quantitative with the observed diversification. He suggested there is need to integrate the models of rank-dependent preferences in portfolio theory and asset pricing.

Angha Pathak (2005) (9) in her doctoral work, “Comparative Study of Consumption, Savings, and investment pattern of Salary earners in Kolhapur” studied the determinants of consumption savings and investment. She studied single headed and multiheaded salary earners families with variables like saving habits, investment is various options. The researcher observed positive correlation between income and investment in shares. The study revealed the differences in saving and investment across the different levels of income. The consumption pattern also observed positive relation with different levels of income. The sector of the respondent determining the regularity of income was affecting saving level and
propensity. She suggested to increase the female participation in employment to increase consumption saving and investment.

Gnana Desigan C, S. Kalaiselvi and L. Anusuya (2006)\textsuperscript{(10)} studied women investors’ perception towards investment. An empirical study focuses on investment pattern of women investors. Research concluded with finding that age of the women investors and level of awareness about investment is not associated and no significant association between educational level and level of awareness about investment. Significant association was found between occupation and level of awareness, monthly income and level of awareness and absence of association between marital status and level of awareness.

Efe Aksuyek Zurich, (2008)\textsuperscript{(11)} in his study of Information Theory And Portfolio Management tries to understand the link of information theory to the theory of optimal investments in a stock market. For that reason he considers two scenarios. First he investigates an optimal portfolio construction problem in a stock market with known distributions of stocks returns. Then he examines a universal approach for portfolio construction in a stock market without knowledge about distributions of stocks returns. He observed that the connection between information theory and portfolio management lies on the data compression and universal codes. Besides the properties of long-optimal portfolio are very challenging and powerful. Unfortunately it is not perfectly constructible because in reality we do not have knowledge about the true distributions of stock returns. Therefore the universal portfolio makes more sense in terms of practical usage.

P Chandra’s(2008)\textsuperscript{(12)} “Investment analysis and portfolio management” Book helps to lay investor to be a sophisticated professional. The book discusses the techniques and principles useful in systematic and rational investment Management. It has valuable insights and practises alon with the spread sheets. The book constitutes with seven parts. Introduction in part first have 3 chapters which provide overview in field on investments, Features of investment alternatives, how the security market is functioning. Investors pursue the approaches as Fundamental approach, psychological approach, academic approach eclectic approach. The contrary thoughts, patience,
composure, flexibility and decesiveness are important qualities. An investment is a sacrifice of current money or other resources for future benefits. Investment is different from speculation as well as gambling. The deposits and insurance are classified as non-marketable financial assets as the points discussed in this chapter. Rate of return, Risk, Marketability Tax shelter, Convenience are the criterias relevant for evaluation investment alternative. It describes the process of Portfolio management. It has 7 steps

1. Specification of investment objectives and constraints - Investor has to decide the objectives and it importance and identify constraints
2. Choice of Assets Mix - Investor decides the proportion of investments in various investment options
3. Formulation of Portfolio strategy - Active and passive are the two strategies. An active strategy strives to earn risk adjusted returns by resorting market timings, security selection and sector rotation. A passive strategy involves holding diversified portfolio with predetermined risk.
4. Selection of Securities - In an active portfolio strategy, investors go by fundamental and technical analysis of scrips and company. The credit rating, YTM, terms to maturity, tax shelters and liquidity is the factors considered in selection of securities.
5. Portfolio Execution - This is practical stage for selling or buying the securities which shows investment results.
6. Portfolio Revision - the rebalancing of securities is important. An Investor rotates securities
7. Portfolio Evaluation - It means to assess whether the portfolio return is commensurate with its risk exposure. Such review provides useful feedback to improve the quality of portfolio management process

The investment alternatives are explained in chapter two. The chapter three describes on security market. Part II covers basic concepts and methods useful in investments. Chapter four introduces the concepts of risk and return. Risk and return are two sides of coin. He explains total return i.e. current return and capital return as well as total risk i.e.unique risk and market risk. There are three well known risk premiums equity risk premium, bond horizon premium and bond default premium. The more accurate rule of thumb is rule of 69 than the rule of 72 i.e..35 + (69 is divided by interest rate) is stated. The chapter five explains the method for analysing the time value of money
Chapter six discusses the tool of financial statement analysis which is helpful for investment decision in present as well as future. Economic value and Accounting value are distinct separately.

Part III has four chapters which explain the Modern Portfolio Theory. Chapter seven gives the introduction and basic tenets of portfolio theory. Here we come to know to measure the risk and return. How to apply the Morkowitz theory (1950) to obtain the inputs required. Markowitz is the first person who tried to quantify the risk, to reduce risk he gives the tool of diversification of portfolio and how to construct best possible risky portfolio with the help of diversification. Markowitz model is based on information. His theory needs securities, expected returns, variance co-variance \( n(n-1)/2 \) in numbers e.g for 100 securities theory needs 100 expected returns, 100 variance and 4950 covariance which is not possible for large number of securities in the portfolio. Markowitz also suggested index for generating co-variance. With this clue W. Sharpe has developed a model of single index which expresses the return on each security as a function of the return on a broad market index. This model is helpful simplification. It represents a major practical advance in portfolio analysis.

Chapter eight dwells on the equilibrium relationships between risk and return. This chapter discusses on CAPM (Capital asset pricing Model) and explains the basics of APT (Arbitrage pricing theory) Multifactor model as an alternative to the CAPM. It describes the stock market as a complex adaptive system.

An efficient market hypothesis is explained in chapter nine. The chapter ten describes the essence of behavioural finance.

Part IV to VII has chapters TEN chapters from XI to XX explains on fixed income securities, equity shares, derivatives and other investment options.

Part VIII focuses on Portfolio Management consists chapter 21 to chapter 24. It presents a Framework for portfolio management, Basic guidelines for investment decisions, Strategies and various issues in international investing.

**Clifford Paul (2008)** made survey for 1655 people from Tricchi to study on saving pattern. His descriptive type of study examined socio-economic characteristics of people. For that Age, education, Marital status, no. of children income saving pattern purpose of saving knowledge, attitude, beliefs opinions took into account. A simple random sampling method is used to collect quantitative data. The sample size was calculated by using the sample calculator 10 at 5% level of confidence. The above
socio economic characteristics contribute significantly to the saving pattern was the hypothesis of this study. The primary data was collected through questionnaire and secondary data from various reports. The econometric analysis tools used for analysis i.e. z-test, chi-square, auto regression, least square etc.

The findings of study were people saved their income for future, education; building house, medical expenses and money saved depended on income level. People are unaware that insurance is a saving avenue. They felt that insurance product is only for tax and risk. There were no rational expectations of the people for return on their investments. The researcher examined the determinants of savings. He concluded the spread of saving avenues reason have an impact and changes in the external environment have an impact on private savings. A Public savings seemed to crowd out private saving. The returns and reason of saving have a significant impact on saving pattern.

**A Study of Psychographic Segmentation of Investors in Satara City (2009)** was conducted by Priyanka Zanvar. The study focused on psychographic segmentation and investment pattern of people resides in Satara city on the basis of selected demographic parameters viz Age, Income, Sex, Education and Occupation. Available investment avenues in Indian economy viz Insurance, P.P.F., Mutual Fund, Shares, Real estate, Gold, Bank Deposits, etc have been taken for study. VALS model was used to determine Psychographic dimensions of investors. VALS is values and lifestyles. It is a way of viewing people on the basis of their attitudes, needs, wants, beliefs, and demographics. She concluded that majority of respondents prefer long term duration for investment. They do investment for 5 and more than 5 years. Sample investors expect 10% to 15% return on their investment. The majority of sample investors in socio economic class A1 rely on Financial Advisors and Consultants for advice.

**B.Raju and K.M Rao(2011)** studied risk adjustment performance evaluation of selected Indian Mutual funds. The mutual fund industry made its beginning with UTI in 1964 however, from 1993 onward the industry was opened for private sector. This offered an important as well as safe avenue for investment, the portfolio of risk averse investor received popularity. However the returns from this mode of investment remained a point of discussion. The mutual fund performance in a systematic way is studied by these two researchers for 20 mutual fund schemes. These mutual fund schemes were relative to banking sector, FMCG sector index funds and infrastructure
sector funds. They studied for the period of 2008-2010. They used monthly NAV data during Jan 2008 to Dec 2010. They compared the returns of different mutual fund schemes with benchmark of stock market index. The performance of selected mutual fund schemes has been evaluated by using six performance measures.

A. Rate of Return
B. Sharpe measure
C. Treyners Measure
D. Jensen differential return measure
E.  Sharpe differential return measure
F. Farna’s component of investment performance.

Banking sector and FMCG sector funds were better performed than index funds.

Out of 20 schemes 11 schemes given higher return than market further the risk in term of S.D. of returns for the 4 sectors shows that FMCG schemes were less riskier than the market. In terms of risk in FMCG schemes viz. ICICI Prudential FMCG growth, Franklin FMCG Fund growth, UTI India lifestyle fund growth, SBI Magnum sector umbrella –FMCG and Kotak lifestyle fund growth has less variation in returns as compared to the other three sectors and the market.

On the whole, out of 20 selected schemes all five FMCG schemes are less risky than the other during the study period 2008-10

The researcher found FMCG schemes were more defensive. He calculated Treyners index, Sharpe’s index along with Jensis Alpha at selected mutual fund. He concluded that many selected schemes failed to outperformed the market with low average Beta. Disproportionate unsystematic risk, mismatch of the risk and return relationship in some schemes failure of infrastructure and index schemes are the other significant observations in the study.

The researcher pointed out the risks in mutual fund as the common trust on mutual fund is not justified while selecting the mutual fund in the portfolio.

It is necessary to consider the performance of mutual fund and make proper changes in their portfolio.

Ms. Vrushali Bhushan Shah (2011) in her Ph.D work, “A Study of investment pattern of investors in Satara on the bases of socio Economics classes”, conducted survey of 1400 investors. The objective of this study was to find out whether there exists a definite investment pattern of investors pertaining to specific socio-economic
class and to locate influencing factors for investment. The T-test, U-Test, factor analysis, Regression Analysis, cluster Analysis were the statistical tools used for analysis. The study highlighted on investment objectives, sources of information and their reliability as viewed by sample investors of different Socio-economic Classes of Urban as well as Rural area. The factors preferred for selection of investment revealed with their current portfolio. She argued that these results would aid industry to frame such investment instruments which would suit the needs of investors. Further the sources of information and their reliability would serve as guiding force towards marketing such instruments. Similarly the Government would be able to gauge perception of investors from different economic strata about their own investment instruments and investor inclination towards other financial instruments. She argued that the common investors stand to benefit if they get an opportunity to review their current portfolio in light of their own objectives and also for getting knowledge about array of investment avenues and sources of information available. The results generated from study would serve as guiding factors to investors for selecting different instruments in future.

F. Relliy & K. Brown (2012) tried to make investment background hence focused on investment setting, asset allocation decision, selecting investments in a global market under the first section. There was discussion on the reasons of individuals save and invest their income. According to them An investment is the current commitment of their savings for a specific period of time in order to derive future payments that will compensate the investor for 1. The time the funds are committed 2. The expected rate of inflation and 3. The uncertainty of the future payments. The ways to quantify the historical & expected rate of return and risk is explained which helps to analyse alternative investment opportunities. The historical returns are often used by investors when he is attempting to estimate the expected rates of return and risk for an asset class. The holding period, the historical average rate of return for an individual investment, the average rate of return for a portfolio of investment were the measures used. The study presented the traditional measure of risk for a historical time series of returns by using variance and standard deviation. The expected rate of return for an investment which dealt with uncertainty. The mean is used for that. The uncertainty (risk) of expected return which helps to financial stability of investment. They
considered the financial assets as bonds and stock and other assets art and antiques. The Variance and S.D. used to find the uncertainty and alternative measures of risk and C.V. for relative measures of risk. They noticed that the estimation of required rate of return was complicated because the rates on individual investments changed over the time. There was wide range of rate of return available on alternative investment.

The overall required rate of return on alternative investments was determined by three variables

1. The economy’s RRFR influenced by investment opportunities in the economy
2. Variable that influenced the NRFR which include short run Ease or tightness in the capital market and the expected rate of inflation.
3. The risk premium on the investment. The risk premium can be related to fundamental factors including business risk, financial risk, liquidity risk exchange rate risk, country risk or it can be a function of assets systematic market risk (beta).

The second chapter explained on developments in investment theory, efficient capital markets, an introduction to portfolio management and APM and multifactor models of return and risk. In short risk drives return therefore the practice of investing funds and managing portfolios should focus primarily on managing risk rather than managing return. The author examined the practical implication of risk management in the context of asset allocation. An asset allocation is the process of deciding how to distribute an investors’ wealth among different countries and asset classes. (Asset classes is comprised of securities of similar characteristic)

The asset allocation decision is not an isolated choice rather it is a component of a structured four steps portfolio management process to develop an investment policy statement.

A carefully constructed policy statement determined the types of assets included in a portfolio. It looked upon that the risky investor seeks capital appreciation, income or even capital preservation over the long time periods should stipulate a sizeable allocation to the equity portion in their portfolio. It has noted that a strategy’s risk depends on the investors goal and time horizon. The investor needed to prudently manage risk within the context of their investment goal and preference, income, spending and investment behaviour will change over a person’s life time.
They reviewed the importance of developing in an investment policy statement before implementing an investment plan. By forcing investors to examine their need, risk tolerance and familiarity with the capital market. A policy statement helped investors correctly identify appropriate objectives and constraints. In addition, the policy statement provides a standard by which to evaluate the performance of the portfolio manager. The importance of asset allocation decision in determining long-run portfolio investment return and risks. Because the asset allocation decision follows setting the objectives and constraints. The success of the investment program depended on the construction of the statement of policy.

He reviewed historical data to show the importance of asset allocation decision and discuss the need for investor education. This chapter concluded by examining asset allocation strategy across national borders to show the effects of regulations for US based investor is not necessarily appropriate for a non-US based investor.

This book explained on the topic of transition between modern portfolio theory and CAPM along with industry-specific characteristic lines. The theory and practice of using multifactor models of risk and expected return is discussed. The connection between the arbitrage price theory and empirical implementation of the APT continues to be stressed both conceptually. He used Morningstar style of classification of data for presenting examples. This topic emphasized on cash flow and relative valuation approaches and macroeconomic variables of market and macroanalysis of industry. There is focus on relative merits of passive vs active management techniques for equity portfolio management along with tax efficiency and equity portfolio investment strategies and equity style analysis.

In addition, the role of various government sponsored entities is explained because major credit liquidity problem was encouraged by the US bond market. They examined the specific factors that determine the required rate of return. 1. The real risk-free return which is based on the real rate of growth. 2. The nominal risk-free rate which is influenced by capital market conditions and expected real rate of return of inflation. 3. A risk premium which is a function of fundamental factors such as business or the systematic risk of the asset relative to the market portfolio i.e. Beta. He discussed the risk return combination available on alternative investment at a point in time (SML) & three factors can cause changes in this relationships (e.g.) a change in the interest risk of an individual investment i.e. its (fundamental and market risk)
The authors focused on the evaluation of portfolio performance and the requirements of portfolio manager in chapter no. 25. **Utpal Bhattacharya, Andreas Hackethal, Simon Kaesler, Benjamin Loos, Steffen Meyer (2012)**他们记录了无偏投资建议的有利影响。

Ms. Sachi Prakash (2012)在她的文章《零售银行业务策略：对金融素养和信贷咨询的批判性思考》中解释了对金融教育的需求和信贷咨询。

在印度，尽管银行拥有金融教育并可以行动和加强金融稳定性和信贷咨询中心，但在一定程度上介绍的银行的发展由于IT是被提出的一个。文章讨论了金融教育的重要性，RBI和银行的倡议及其评估。金融素养是指能够理解：

- 金融原则，以做出有效金融决策
- 影响个人财务福祉的金融产品

金融素养应该超越仅仅获取金融信息和建议。这是一个允许个人了解、监控并有效使用金融资源以提高其福祉和经济地位的能力。
The rising competition, problem of financial exclusion, shortage of banking facilities, increasing consumerism (especially of the urban middle class), rising complexity of financial products are the reasons mentioned which rise the need for financial education. It is supported with the instance of subprime crises which gives lessons to all and emphasizes the importance of customer education.

The financial education is essential not just for people who do not make the decision and invest but for understanding of product, process, pricing, and protection.

The recent rapid developments have given access to financial services to people but many of them have limited knowledge or experience in them. Another major trend that has been seen is that consumers think they are more financially literate than really is the case.

e.g. 1. Increasing use of credit card and misutilization of credit  2. Considered floating rate housing loan as a cheaper to fixed rate housing loan.

Monika Hansal and S.K. Singla (2012) studied on performance Evaluation of Private Banks in India. They attempted to measure the efficiency of the banks of the 18 private sector banks in India in five years from 2007 to 2011. A one of the important objectives of their study is to evaluate the performance of private sector banks with the help of CAMEL model, with this objective and the hypothesis was performance of the bank is uniform in all parameters of camel model in a particular year. For the study secondary data has been explored. A CAMEL stands for capital adequacy, asset quality, management, Earnings and liquidity. On the basis of single parameters of camel model the composite score for each bank has been calculated. Hypothesis is tested with the help of Friedman Rank Test. The study examined the areas of banking business of old private sector banks that may have been influenced by the new generation private sector banks. The impact of new private sector banks based on parameters such a growth, credit quality, operational efficiency, and profitability etc has been analysed. The study concludes that the performance of the bank is not uniform in all the parameters of CAMEL model.

Portfolio studies in US market examined in CFA institute book (2012) Corporate finance and portfolio management observed that the mature financial market of USA offered good returns to the investors. The CFA study conducted by Robert for 1990 to 2002 shows that the United states 401(k) plans are employers
sponsor individual retirement plan. This allows individuals to save and to get tax benefits. The study observes that individual shares like Enron has resulted into sixteen times benefit during the decade but the financial distress of Enron resulted in bankruptcy of Enron. These shares become worthless. The share price came down by 90% which shows high risk in investing particular share. The same story is true about Indian market also. Rakesh Zunzunwala, Warren Buffet of share market also lost one thousand crores in midcap shares (2013). This call for risk reduction technique known as Portfolio diversification. Portfolio diversification helps investors to avoid disasters investments outcomes. It also reduce overall volatility of returns. The return in the individual security and its standard deviation is higher compared to portfolio investment. The volatility is effectively reduced through reduction S.D.in returns. The S.D.of equally weighted portfolio to S.D. Of randomly selected security is known as diversification ratio. This helps in measuring returns from diversified portfolio two simple portfolios. The Author has given a caution that if serious downturn takes place in the market the diversified portfolio also cannot save from downside side protection. During 2007-09 the average return for the E.W.P. including dividends was -48.5% (Pg no 287) The diversification benefits were small as all the indices declined in unison. The lesson is clear that portfolio diversification generally reduce their risk but does not necessarily provide the same level of protection during severe market turmoil.

Steps in portfolio selection

The actual portfolio needs to be prepared on the bases of following steps

1. The planning step – It is based on clients needs which includes his objectives and constraints. On the bases of this investment policy statement is prepared. It becomes benchmark.

2. The next step is execution step were asset allocation is done. Further security analysis is conducted by using top down or bottom up approach under top down analysis micro Economic conditions are considered while in bottom up approach company specific analysis is conducted (pg 297) The last step is feedback step were portfolio monitoring and rebalancing is done and finally performance of the portfolio is measured and reporting is done.

3. Pooled investments helps in reducing the risk. This consists of mutual funds. In mutual funds there are money market funds bond market funds Stock mutual...
funds and balanced funds. In addition to mutual funds exchange traded funds are also available they combine features of closed and open end mutual funds.

Ms. Tejasvi Rajaram Shinde (2012) in her M.Phil dissertation titled, “A Study of Relationship between financial literacy and individual investment inclination in Satara” conducted survey of businessman, serviceman and professionals. The study is for the concept of financial literacy, scale for determining financial literacy, different investment avenues available, and regarding demographic details of investors, their current investment and investment inclination, sources of information, importance of parameters for investment and awareness regarding investment avenues. She concluded that the overall the financial literacy among respondents is good. The respondents have their investment in bank deposits, gold/silver, real estate, insurance and PPF/PF. She also observed that low investment in avenues like bonds, precious stones, pigmy, pathasanths, etc. The researcher pointed out that respondents prefer parameters like Investment Performance, Track Record, Management Reputation and Responsiveness to Enquires. While seeking the advise on investment they prefer financial advisors like CA, Portfolio Manager and Bankers. The portfolio pattern of the respondents was not based on risk and return analysis. She observed that the Independent Sample ‘t’ test was not significant and it indicates that there was similarity in the investment preferences of respondents with different occupations. The respondents were more inclined to invest in gold/silver and real estate even though the rates were increasing. The Hypothesis testing proved that there was no significant relationship between demographic factors and financial literacy, investment inclination and financial literacy.

National Council For Applied Economic Research (2011) conducted investors survey in India sponsored by Securities Exchange Board of India on How Households Save and Invest: Evidence from NCAER Household Survey. The broad findings of the survey shows that National Level the percentage of investors is nearly 20 in urban areas while it is much lower (6 per cent) in rural India. The estimated number of investor households in India was 24.5 million who constitute about 11 per cent of total households. It observed the strong preference of investors was towards mutual funds (43 per cent) and secondary markets (22 per cent). In urban areas, 41 per cent of investors invested in mutual funds and 21 per cent secondary markets, whereas, 46 per cent rural population chooses mutual funds and 22 per cent secondary markets. There was a significant magnitude of small savers among all
households. Eleven to 25 per cent of all households save in post office savings schemes. The survey observed that the investors are not participating in share marker. It pointed out that more than 16 per cent of the highly educated non-participants, as well as 16 per cent of the middle and upper income groups feel that non-participation was due to the perceived non-safety of returns.

Consumer Financial Literacy Survey (2012) was conducted by Harris Interactive Inc. Public Relations Research of USA. The 2012 Financial Literacy survey was conducted by telephone within the United States by Harris Interactive on behalf of the NFCC (National Foundation for Credit Counseling) and the NBPCA (the Network Branded Prepaid Card Association) between March 16 and March 19, 2012 among 1,007 adults ages 18+. Results were weighted for age, sex, geographic region, and race where necessary to align them with their actual proportions in the population.

Charul Shah (2013) in his article on ‘Plan on track but idle cash must be invested described the cash flow statement in square diagram and asset allocation in Pie diagram. It explains how one can achieve just not essential goal but discretionary goals as well. An Asset allocation before plan, after plan and existing plan are the three plans of IT professional that has high income, small family, but little knowledge of financial planning explained. The cash flow statement shows the total income and expenditures as household expenses, insurance premium and investible funds. The investible funds have allocated in equity 1 %, gold 5 % cash 31 % and debt 63 % respectively. The monthly salary was Rs. 43573 and Rs. 26970 as expenses, Rs. 16602 was surplus.

1. Rs. 2 lakhs in one year for wedding
2. Rs 5 lakhs in four years for down payment for house worth Rs 25 lakhs,
3. Rs 2 crores for retirement corpus besides Child’s education and marriage are the goals.

The less important goals include buying car and a holiday abroad.

The recommended plan constitutes equity 50 %, gold 5 % cash 5 % and debt 40 % respectively. After financial planners advise his plan has the SIP Rs. 5000 p.m. + cash Rs. 6000 is equal to 1.2 lakhs which adds Rs 7000 this would take care of his first goal. The SIP of Rs. 9000 pm in equity mutual fund for the house down payment and insurance costs Rs. 1000 pm for policy of Rs. 1 crore and Rs. 6376 p.m. And Rs. 3873 would help build a corpus for education and marriage in 23 years. His plan is drastically improved, the income has risen and expenditure has gone down. The
adviser suggested to have balanced fund. Debt fund as well as equity fund. His plan reworked to ensure the use of surplus cash. His new plan helped to raise income and surplus cash considerably. The first preference is given for health and adequate family insurance. The equity and debt funds are expected to give returns of 12% and 10% respectively. Inflation is assumed at 8% p.a. The investment with disciplined approach, the defined short and long term goals and the diversity in portfolio and its follow up, experts advise etc gives a benefit to the investor this is underlined in study.

Santosh Danolkar (2013)\(^\text{25}\) in his cover story article how to survive this crisis as given important suggestions to protect the portfolio during volatile situations. He suggested to build a stable foundations. This will help to bear the downside without serious adverse effect. A contingency reserve will help in this respect. He also suggested to have sufficient insurance cover of accident, hospitalization or any medical emergency. He suggested to review the position so that based on return portfolio can be changed for this again financial goal setting is necessary. The suggestions given by sanket Dhanodkar are simple but practically significant.

Babar Zaidle (2013)\(^\text{26}\) discussed NPS Funds Performance in his article NPS has been started since 2009 has given poor returns in the last 5 years. The NPS scheme of Kotak Pension Fund has given negative returns for equities, corporate bonds and government bonds. The experience of other schemes like ICICI Pru pension fund, UTI retirement solution, Reliance pension fund, SBI pension fund. The story is the same the short term returns were negative 2.2% - 3.9%. But even long term returns were also not impressive. Although the returns were positive they were in the range of 5 to 6% the SIP returns were also below the rate of EPF (8.67%). The SIP returns were 2.94% for equities, 6% for government bonds and 8% for corporate bonds. The total experience of NPS Funds raises the basic sustainability of pension funds and how this scheme will protect the interest of investors in the long run.
Chaitanya (2013) studied gold loan Market future prospects in India in this research paper the trend in gold loan market structure of layers in gold market. Trends in gold prices, growth of NBFC was expected in the portfolio of Indian investors gold always occupies important role. This resulted into heavy import of gold. As the bank have started giving finance for purchasing gold, The gold loan market has grown tremendously. The researcher observe that the region wise concentration of gold market is observed for southern area. It has been observed that the organized players are exploring the potential and trying to expand their networks into North, East, and West regions. Lenders provide loans by securing gold assets as collateral, compared with the rest of the world. In India, the gold loan market is a big business until a decade back, most of the lending was in the unorganized sector through pawnbrokers and moneylenders. However, this scenario changed with the entrance of organized sector players such as banks and non-banking finance companies NBFC’s which now command more than 25% of the market. Of late, banks have improved their gold loan product features and services coupled with comparatively lower interest rates and charges, banks stand to gain market share at the expense of NBFC’s in the near future.

The researcher explained the development of gold loan market in which NBFC companies are playing important role.

The gold market which had shown impressive growth of 70-80% during F.Y. 2011-12. The increase in gold prices resulted in investment demand at global level the gold prices compared to other assets have increased at higher rate and it can act as an investment to hedge against inflation. During 2008-12

The total gold loans increased by 65%, but the NBFC gold loans increased by 98%. The researcher concluded that NBFC entered as significant player in growing gold market. Further, she attributed changing consumers perception towards gold loan as a significant cause. The researcher concluded that the demand for gold will grow in the long run and it needs innovative methods to cater the increasing customer base.

Investor Guide Staff (2013) on ‘Real Estate as a Stable and Reliable Investment’ says that yet the real estate market isn’t an abstract concept only available to a special anoint group of angelic investors who happen to have been in the right place at the right time. For investment right time and right place is important. Virtually any way of making money in the modern world works just about the same
way. It focuses on the Real estate investment because of incredibly reliable way of making money and it gives more stability in the returns it generates on investments that make it a different sort of animal in the investing game.

Sure, buying a piece of undeveloped land in the hinterland of the territory you live in probably isn’t going to be as profitable as throwing all your life savings into Microsoft would have been 20 years ago.

It has pointed out worrying about share prices, buying high, selling low, bulls, bears, and all that other jargon that goes along with investing in the stock market are headache.

With real estate gives the benefit of capitalizing on an endlessly restless country that is always shape-shifting and reconfiguring itself in new places and reinventing its existence in new ways.

**Harris Interactive Inc. Public Relations Research (2014)** Conducted survey of consumer financial literacy survey in 2013. The methodology followed of this survey was based on telephonic answers with systematic and biased sampling technique.

Survey methodology The 2013 financial literacy survey was conducted online within the United States by Haris Interactive on behalf of the NFCC (National Foundation for Credit Counseling) and the NBPCA (The Network Branded Prepaid Card Association) via its quick query omnibus between March 4 and March 6, 2013 among 2037 adults ages 18+. Figures of age, sex, race/ethnicity, education, region and household income were weighted where necessary to bring them into line with their actual proportions in the population. Propensity score weighting was used to adjust for respondent’s propensity to be online. Prior to this year this survey was conducted by telephone.

The survey observed just over two in five U.S. adults (43%) report that they have a budget and keep close track of their expenditures. More than half (56%) admit they do not have a budget, including more than 1 in 5 (22%) who say they don’t have a good idea of how much they spend on housing, food, and entertainment. Though the likelihood of having a budget has not changed over the past 5 years, the proportion of adults who do not pay all of their bills on time has increased from 28% in 2011 to 33% in 2012 - that is, fully one-third of U.S. adults, or more than 77 million Americans, do not pay all of their bills on time. If they were facing financial problems related to debt, U.S. adults continue to say they would first turn to their friends and
family for help (27%). Two in five adults (40%) say they are now saving less than last year, and nearly the same proportion (39%) do not have any non-retirement savings. Though there had been an increase in the proportion of adults who have savings between 2008 (63%) and 2010 (67%), that proportion had begun (and now continues) to decline since 2010 (67% 2010, 64% 2011, 59% 2012). In case of spending half (or more) of adults were spending less – more than one in four U.S. adults (28%) say they are now spending more than last year. The findings of survey shows the impact of 2008 recession in the US economy as well as the financial behavior of the citizens in the developed economy.

Vijay Singhal discussed portfolio Risk and return where he has given various formules and methods of risk return measurements.

2.3 Gap identification

The research in portfolio studies both at national and international level dealt with subject in various dimensions. The studies conducted at micro level as well as macro level for the developed countries are extensive in nature. The advancement in technology, the growth of the corporate sector and general increase in income and savings provided new avenues for investment. This process was further accelerated by new institutional set up such as specialised brokers and regulatory mechanism. Portfolio managers make decisions about investment mix and policy, matching investments to objectives, asset allocation for individuals and institutions, and balancing risk against performance Researcher has mainly focused on risky investment avenues like shares and mutual fund for devising questions to judge the financial literacy of respondents.

Review of literature reveals insufficiency of research in the field of behavioural finance. Two approaches are found in the review of portfolio management of investors and behavioural finance these are micro and macro. The research at international level are conducted at micro level. These kinds of studies have been rarely carried out by scholars in India. The studies related to demographic variables are also found at international level but with different perspective like gender importance in investment industry and the like. Similarly few studies were found on focusing particular investment avenues and their relational aspects. The results of studies in Indian scenario have given contradictory results. It may be because of
diversity in nature of population and many researchers have selected purposive and or convenient sampling.

Despite these extensive studies the research in holistic nature to cover the trends in income, expenditure, borrowings along with the demographic factors such as age, family size, dependency ratio the portfolio analysis at micro level is not conducted. The portfolio decision involves both income, expenditure, savings and investment options on ne hand and the knowledge about these dimensions to the investors on the other. Hence it was needed to test the relation between knowledge of financial opportunities and its application to take benefit. Our present study is small attempt to cover this gap by applying Knowledge gap Index and Knowledge Application Index of the investors.

Further the portfolio analysis product-wise and its measurement in terms of nominal and real returns was the area neglected by the researchers. Here we make an attempt to fill this gap also
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