CHAPTER II

CONCEPTS AND REVIEW OF LITERATURE
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CHAPTER – II

CONCEPTS AND REVIEW OF LITERATURE

This chapter deals with three important dimensions namely the concepts, theoretical framework and literature review to gain a proper understanding of investors’ perception towards mutual funds in Dharmapuri district.

2.1 CONCEPTS USED IN THE STUDY

The conceptual issues of the study are given in the following paragraphs.

**Asset Allocation**: An investment technique for diversifying portfolio among different types of assets such as stock, bonds, precious metals etc.

**Asset Management Company (AMC)**: A company formed and registered under the Companies Act, 1956 and approved as such by the Securities and Exchange Board of India to manage the funds of a mutual fund.

**Beta**: A measure of price volatility of a particular security in relation to the stock markets in general. A beta more than one indicates that the security price is more volatile and would rise and fall at a faster rate than the market index. Beta less than one indicate that the security price would rise and fall at lower rate than the index. This is a measure of systematic/ market risk.

**Capital Appreciation**: An increase in the value of assets, such as shares, debentures, bonds and other types of investments.

**Close - ended scheme**: A mutual fund scheme with limited capitalisation and fixed number of units either repurchased by the fund or traded in the stock exchange.
**Custodian**: An organization, which legally holds the investment instruments for safekeeping.

**Diversification**: An investment strategy to reduce risks by investing in securities like common stocks, debentures, or bonds of several companies.

**Efficient Market**: A market, which quickly absorbs all the available information. An efficient security market index is expected to absorb all the available information and give a new direction to the market movement upward or downward.

**Equity Schemes**: A scheme of a mutual fund that invests its funds primarily in equity stocks and shares of different companies.

**Expense Ratio**: The expense ratio for a fund is the annual expenses of a fund (at the end of the financial year), including the management fee, administrative costs divided by the number of units on that day.

**Fund Manager**: A professional investment Manager who manages the funds collected under a scheme in accordance with the stated objective using professional investment management approach.

**Index**: Index is a measure of stock price movement based on a particular base year. In India, there are several indices like Bombay Stock Exchange Index, National stock Exchange Index etc.

**Investment Performance Evaluation**: It refers to evaluating the schemes based on return and risk associated with the schemes.

**Motivating Factors**: Motivating factors refer to financial characteristics of mutual fund investment that induce investors to invest in mutual fund schemes.
**Mutual Fund:** It is a fund established in the form of a trust to raise money through the sale of units to the public under one or more schemes for investing in securities including money market instruments.

**Mutual Fund Investor:** A person holding investment in a scheme of a mutual fund.

**Net Asset Value:** The value of mutual fund scheme's assets applicable to one unit. This is calculated as to total assets minus prior charges and liabilities divided by the total number of units outstanding.

**Open – ended Scheme:** A mutual fund scheme that does not have fixed units and has unlimited capitalisation. Open - ended schemes are sold at a redemption price related to net asset value fixed by the mutual funds.

**Portfolio:** A portfolio comprises investments in a variety of securities and asset classes. This diversification reduces the overall risk. Portfolio risk depends on the nature of each investment in the portfolio and the overall impact (Favorable or Unfavourable) of the various risk factors on each security. A mutual fund scheme states the kind of portfolio it seeks to construct as well as the risks involved under each asset class.

**Repurchase Price:** Repurchase Price is the price at which a close – ended scheme repurchases its units and it may include a back-end load. This is also called bid price.

**Redemption Price:** Redemption Price is the price at which open – ended schemes repurchase their units and close – ended schemes redeem their units on maturity. Such prices are NAV related.

**Risk – free Return:** The return associated with a risk – less asset. Usually, the government – bonds or gilts are considered risk – less assets. The study takes into consideration the bank deposits as risk – less assets and the interest rate on fixed deposits as risk – free return.
Risk Tolerance: It refers to a person’s capacity to bear risk and attitude towards risk. Risk - Quiz method with alternatives is used in determining risk tolerance of mutual fund investors.

Sale Price: Sale price is the price you pay when you invest in a scheme. It is also called offer price. It may include a sales load.

Sales Load: Sales load is a charge collected by a scheme when it sells the unit. Also called, “Front – end” load. Schemes that do not charge a load are called “No Load” Schemes.

Securities and Exchange Board of India (SEBI): Established by an Act of government, SEBI is the sole regulatory authority of capital markets in India. Mutual funds as financial intermediaries are regulated by SEBI.

Socio - economic Profile: The socio - economic profile of mutual fund investors refers to biographical and attitudinal characteristics like age, income, saving pattern, preferences etc., which influence investment decision making.

Total Perceptual Score: The total perceptual score refers to the total scores of the respondents on all the perceptual factors.

2.2 THEORETICAL FRAMEWORK OF THE STUDY

The theoretical framework of the study is given in the following paragraphs:

1. Investment Performance

Globally, the mutual fund industry is assuming importance as a fast growing financial intermediary because of the benefit of diversification and professional management. Performance evaluation of mutual funds has been considered a test of efficiency. Past performance certainly sets a record of accomplishment for any fund’s future growth and a great track record is an aggressive marketing tool. Hence, the first objective of this study is to evaluate the investment performance of selected
mutual fund schemes. Investment performance theories such as the Single Index Model and Capital Asset Pricing Model were used in this study. Performance evaluation models such as Sharpe Ratio, Treynor Ratio, Jensen Differential Return Measure, Sharpe Differential Return Measure and Fama’s Components of Investment Measure were applied to evaluate the performance of selected mutual fund schemes.

2. Socio – economic Profile

Each individual investor is unique with his needs and preferences. The investment decision of an individual is greatly influenced by his socio – economic factors which are given below.

a. Age and Sex of the Individual Investors: Age and sex are important socio-economic factors in deciding the investment pattern by the investors. Age and sex also determine an investor’s asset allocation process and risk taking behaviours. The type of investment differs with regard to the age and sex of the investors. The perception may also differ according to the age and sex of the investors.

b. Educational Background of the Investors: The educational background of the investors helps him to improve his socio – economic status. The educational background helps one in understanding the investment concepts better. Thus, the educational background is pivotal in investment decision making.

c. Occupational Pattern of the Investors: The occupational pattern gives the assurance of income and regularity in the flow of income to the investors. To a certain extent the regular flow of income determines the investor’s investment discipline. The assurance of income motivates the investors to take risk and hence, occupation of an investor is an important socio – economic factor.

d. Monthly Income of the Respondents: The income level of the respondents is one of the personal variables, which determines the socio – economic background of the investors. The income level of the respondents, after allowing for the
expenses leaves surplus funds for investment to secure a safe future. The investment and the return from the investment improve the socio-economic background of an individual.

e. Investment Objectives of the Investors: The investment objectives of the investors can be broadly classified into regular income, income coupled with growth, growth in the form of capital appreciation and tax planning. The investment objective has a strong influence on investment decision making and the same is included while analysing the socio-economic profile of the investors.

f. Percentage of Savings Invested in Mutual Funds: The investor encounters a number of investment avenues where he has to choose according to his preference and risk tolerance while investing. The percentage of savings invested in mutual funds speaks of the popularity and acceptability of the same in an individual’s portfolio.

g. Source of Income for Investing in Mutual Funds: The investor invests either from his current income or from the past savings. The quantum of the past savings improves an individual’s socio-economic status. Hence, this variable is considered while describing the socio-economic profile.

h. Scheme Preferred by the Respondents: Mutual funds offer open-ended schemes and closed-ended schemes. The open-ended schemes offer instantaneous liquidity. Since 1998, more open-ended schemes are floated compared to closed-ended schemes due to the wide gap between the net asset value and market price in the case of closed-ended funds. The choice of the schemes reflects on the investment time horizon of the investors.

i. Number of Schemes in which the Investors have invested: There are about 467 open ended schemes and 90 closed-ended schemes offered by the mutual funds to suit individual’s risk tolerance. The number of schemes in which the investors have invested in mutual funds is an indicator of the acceptability of
mutual fund investments in an individual’s portfolio. The more the number of the schemes, the higher the acceptability and inclusion of the same in the personal portfolio.

j. Number of Financial Journal Referred: The information era has set in, where information is invaluable in investment decision making. The proliferation of information has contributed to the growth of the mutual fund industry. The objective here is to find out how well informed the mutual fund investors are, by taking into consideration the number of financial journals are available, the mutual fund companies are expected to present simplified, user – friendly, and in – depth information to the investors, as this would enhance the decision – making ability of the investors.

k. The long term Investment Goal of the Investors: Investors differ in their specific saving goals. Their commitments in the present and the future determine their choice of investment. An investor is prepared to invest his money over long periods, provided there is a purpose attached to it, which is linked to his social needs and therefore appeals to his sentiments and emotions. The purpose could be child’s education, career development, medical expenses, health care after retirement or need for steady income after retirement.

l. Investment Time Horizon of the Investors: Another major factor in portfolio construction of an individual investor is his investment time horizon, which is, how long he is prepared to stay with a particular investment. The mutual fund units are considered long – term capital assets if they are held for not less than 12 months. The investment horizon of the investor indicates whether an investor is a long – term investor or short term speculator. Thus, the socio – economic profile of an investor is determined with the above mentioned variables considered in the study.
3. Risk Tolerance

It is a universal truth that the investors are averse to risk and this is the essence of many portfolio theories. An individual cannot totally avoid risk but he can have a portfolio, which duly suits his risk - return preferences and risk tolerance. Individual's risk tolerance is unique and subject to changes influenced by demographic and social situations. Thus, the risk tolerance, personal profile, and demographic variable of an investor influence the decision making process in investing.

To determine the risk tolerance of the individual investors, Likert's Five Point Scale is considered. These statements explain the investors' risk perception and capacity to bear risk. The Risk Tolerance Score of each individual investor is calculated and this formed the basis for calculating the Mean Risk Tolerance Score. One way Anova technique [F-test], t-test, correlation and regression are used to find whether there is significant difference among the groups or between group I and group II in the average risk tolerance score.

4. Perceptual Factors

An attempt has been made in the study to identify the factors that influence an investor to invest in mutual funds. Apart from the socio-economic profile and risk tolerance, there must be some factors peculiar to these types of investments, which attract the investors. Identifying them will help the fund managers in policy formulation. Given below is an account of possible factors that influence an individual to invest in mutual funds.

a. Low Investment Outlay: Generally, it is accepted that the minimum investment in mutual funds is very low. A minimum of Rs.500 can be invested in mutual funds schemes like systematic investment plan.
b. Low Cost of Record Keeping: Mutual funds provide their services at an affordable cost. This is because the scale of brokerage and custodial fees works out to be lower when compared to direct investment in the market. The factors included here are less management fee and low cost of record keeping with mutual fund investments.

c. Stock Market Conditions: In India, the stock market is more institutionalised than retailed. The SEBI has taken steps to give impetus to the industrial development by allowing promoters to retain 75% of the holding, minimum subscription amount and introducing proportionate allotment. However, these steps discourage the small investors in entering the market directly but adapting to the mode of mutual funds. To reduce the issue expenses, promoters take up routes like private placement, book building and firm allotment. As the investors are not able to understand the intricacies of the stock market, they opt for mutual fund units. In the case of mutual fund investment, the investors are assured of allotment, no premium on the initial offering and relatively low capital outlay when compared to investment in stock market. In a highly volatile stock market, keeping track of the stock prices needs energy, time and resources.

d. Investment is Less Risky: The biggest benefit of investing in units of mutual fund is instantaneous portfolio diversification. The risk minimisation achieved through mutual funds is not found with other investments. As the mutual fund scheme contains a basket of securities, the risk is minimised. According to SEBI guidelines, the funds of mutual fund schemes are invested only in transferable securities. Thus, investment in mutual fund is considered less risky because of less risk of capital loss.

e. Better Return: The mutual fund units are for those who want stock market returns but not the stock market risk. Empirically, studies show that stock market returns in the long run provide a hedge against inflation. It is estimated that over the past 20 years, the Bombay Stock Exchange Index has given a compounded
annualised return of 18.3\%^2. All the benefits of mutual funds are passed on to the investors by way of dividend and capital appreciation. In addition, the income from mutual fund attracts tax benefits. Hence, the yield from mutual fund units is considerably better than other similar investments. As the inflation hovered around 9 to 10% per annum, for the past 10 years\(^3\) return from investment in mutual fund should serve as a hedge against inflation.

**f. Personal Factors:** Whatever be the advantage of investing in mutual funds, decision to invest in mutual funds depends on the availability of surplus funds. Apart from this, availability of an individual’s time and energy also determine his direct or indirect participation in stock market. Above all, an individual’s risk tolerance determines the investment alternatives in his portfolio and in his pattern of asset allocation. Therefore, the personal variables considered here are, the amount of surplus fund available, investors’ intentions to diversify current holding, time and energy needed to monitor the portfolio, individuals’ risk bearing capacity and risk tolerance.

**g. Reputation of the Asset Management Company:** Track record is necessary for any mutual fund to market its future products. Hence, from the point of view of the Asset Management Company, the variables included are variety of schemes offered, reputation of the sponsors, past performance of the schemes and company and the mutual fund company’s association with foreign counterparts.

**h. Fund Managers’ Ability:** Ultimately a fund manager is the one who manages and gives results. These fund managers should have knowledge, experience in security analysis and portfolio management. Research is a continuous process in mutual funds where fund managers identify the under-valued and high-yielding securities and make well-planned purchases and sales. Opinion sought on the

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statement to establish this factor include fund managers’ ability to strike better deals, professional expertise, accessibility to research and sensitive information, and the quality of the portfolio held by the fund managers.

i. **Liquidity:** Mutual fund units offer easy liquidity too. In the case of open-ended funds, the units can be sold back to the mutual funds at the net asset value and thus, quick access to liquid cash is assured. Most of the close-ended schemes offer repurchases facility where the units can be sold back to the mutual funds. The variables taken into consideration under this factor are liquidity, easy entry and exit from mutual fund schemes, loan facility against unit certificates and repurchase facility offered by the close-ended schemes.

j. **Flexibility:** Some mutual funds have permitted the investors to transfer their funds from one scheme to another, and this flexibility is a boon to investors. Under this switching over facility, income units can be exchanged for growth units and vice versa. One cannot find such flexibility in any other investment. Apart from this, the mutual fund offers systematic investment and withdrawal plan in accordance with the investors’ need. This flexibility will certainly give the investor the rupee-cost averaging advantage. The relevant variables considered to cover this factor are facility to transfer funds from one scheme to other schemes and systematic investment and withdrawal facility associated with flexibility.

k. **Transparent Operation:** The operation of mutual funds is considered transparent. Financial dailies publish the net asset values almost every day. Once in a month, Fund Fact Sheets are prepared and they are made available to the investors on demand. Unlike the past, currently, the portfolio of each scheme is disclosed often up to 100%. The available websites on the Internet also help in dissemination of information. To establish this factor, opinion on transparency in operation, periodical publication of net asset value, disclosure norms and dissemination of information were sought.
1. Income Tax Benefits: The income tax benefit is another component, which motivates an investor to invest in mutual fund schemes. The income tax benefits available to investors as per the Income Tax Act, 1961 are: a) the income received from mutual fund is exempted under sec. 10 (33), b) benefit of indexation and concession on capital gains tax and c) exemption under Sec (88) for investment in Equity Linked Tax Saving Schemes. It is generally accepted that most of the Indian households do not pay income tax either because their income is too low or because they fail to report to the tax authorities. Hence, tax benefit as a factor would affect only a small part of the population of investors with higher income.

m. Availability of Alternate Investment Avenues: Alternate investment avenues generally affect the decision to invest in mutual funds. On the one hand, shares are very risky but give better yield; on the other hand, there are short-term Treasury bills, which are less risky with poor returns. In the Indian context, the alternate investments worth considering are: a) Bank deposits where the return ranges from 8 to 9.75 percent currently for a period of 1 to 3 years b) Non-banking financial institutions which were giving around 18 to 24% returns have failed to build any confidence due to the presence of fraudulent practices, c) The interest rates on small savings and other schemes have been revised downward consistently by the subsequent budgets and d) The non-stock investment like gold, silver and real estate are some of the alternate investments enticing the Indian investors.

n. Wealth Tax Benefit: Investment in mutual fund units is exempted from wealth tax. This may be a motivating factor for high net-worth investors. This gives the wealthy investors with the dual benefits of tax-free income and exemption from wealth tax. The units of mutual funds are exempted from gift tax also.

o. Quality of Service Offered: In an intensive competitive market, winning investors is possible only for those who prove their mettle in the market. This may include consistent and reliable investment performance and quality post-sale services given to the investors. Mutual funds should have a wide distribution
network and their agents should be trained properly. Client-based services should improve to increase investors’ confidence. Their service standard is to take position in the global market and to attract global investors. Transparency in dealing with investors and response to investor queries and declaration of daily net asset values are some of the prerequisites that should be considered in any selection process while investing.

**p. Expected Growth of Mutual Fund Industry:** The mutual fund industry in India is steadily progressing towards growth. The increasing number of players in the mutual fund industry promises to make it one of the most exciting areas in the field of finance. Currently not even 20% of the savings of the Indian investors are tapped by the mutual funds. With the private participation, options available to the investors have increased and healthy competition has set in the industry. Above all, it is the patronage on the part of the investors, which will take the industry to gain prominence. If the mutual funds understand the investors’ needs and design their products, it may create a positive image in the minds of the investors. Ultimately it is the investors’ perception about the expected growth of the industry in the future that will make the industry more pronounced.

**q. Others’ Recommendations:** Very few investors can analyse the comparative worth of each investment security. A majority depend on the advice of others. It is always good to get advice from those who are directly involved in investment and financial planning. So, the following sources like advice from the agents, advice from friends, and advice from relatives are considered. Individuals tend to share their beliefs about reality, fairness, opinion, judgment and this is assumed true with experience associated with mutual fund investment too.

**r. Personal Experience with Stock Market:** One always learns through experience. Every investor wants a higher return. It is generally believed that shares give better returns when compared to other investments. When an investor directly participates in the stock market, his experience would be pleasant when he gets good returns, and unpleasant when he loses. When he gets good returns, he
develops a positive attitude and when it is the other way, he shuns investing directly in the stock market. This would be one of the influencing factors for choosing mutual fund investment as it involves indirect investment and minimization of risk.

Thus, with the help of theoretical framework these perceptual factors are identified as factors that influence an investor to invest in mutual funds. These factors are expressed in statements graded on Likert’s Five Point Scale ranging from ‘strongly agree’ to ‘strongly disagree’. Factor analysis is used to summarise the large data set with minimum loss of information.

2.3 REVIEW OF LITERATURE

The review of literature gives a broad outlook of the various research studies made in the past and the details of such studies throw light on the future studies to be made. It also strengthens the theoretical base of the research study. Existing literature, both Indian and foreign are important, since it will throw light on the perception of the investors. Hence, it is proposed to highlight the literature (both Indian and foreign) available on investors’ perception. It helps in defining the scope of the research and in choosing the area of research study. The deficiencies of the existing studies should help in conducting new studies and updating the relevant literature. The essence of the studies covers the following areas.

1. The performance of the mutual fund schemes,
2. The socio-economic profile of the mutual funds investors,
3. The risk tolerance of the mutual funds investors and
4. The perceptual factors behind the investment decision.

The literature on mutual funds has also contributed to the development of various portfolio performance measures. The review of literature helps to identify the research gap in the study on investors’ perception and which has given rise to the present study. The review has been confined to research articles, textbooks and research studies.
Foreign Literature

Wharton School of Finance & Commerce made the pioneering work on US Mutual Fund\(^1\) (1962) from 1953 to 1958. The emphasis was on issues related to investment policy, portfolio turnover rate, performance and impact of mutual fund trading activity on the stock markets.

Friend and Vickers \(^2\) (1965) while examining portfolio selection and investment performance, critically examined the performance of mutual funds against the randomly constructed portfolios. The study concluded that mutual funds on the whole have not performed superior to random portfolios.

Treynor and Mazuy\(^3\) (1966) developed a methodology for testing mutual funds' historical success in anticipating major turns in the stock market and found no evidence that the funds had successfully out guessed the market.

Sharpe\(^4\) (1966) developed a composite measure for performance evaluation and reported superior performance evaluation and reported superior performance for 11 funds out of 34 during the period 1944 – 1963.

Jensen's\(^5\) (1968) classic study developed an absolute measure of performance based upon the Capital Assets Pricing Model and reported that mutual funds did not appear to achieve abnormal performance when transaction costs were taken into account.

According to Andrew Adam\(^6\) (1969) the socio-economic variables that guide an investor in choosing a suitable investment are his present and likely future commitments, present and future earnings, financial objectives, existing investments, the amount to be invested, the income available for investments, the individual's current and likely future tax exposition, the level of risk acceptable and familiarity with investment matters and personal preferences. He concluded that the investor's concept of risk depends very much upon his personal circumstances.
Friend, Blume and Crockett\textsuperscript{7} (1970) published the results of a study of mutual fund performance from 1960 to 1968 in a book. The study concludes that there is a negative correlation between fund performance and management expense measures. Also it found that results for the period from 1960 to 1968 as a whole provides some form evidence of a slight positive relation between performance and turnover.

Arrow\textsuperscript{8} (1971) in his “essays in theory of risk bearing,” concluded that relative risk aversion increases with wealth since wealth increases with age. Arrow argued and suggested that the older individuals would invest smaller fractions of their wealth in risky assets.

Ronald C Lease\textsuperscript{9} (1974) while emphasising on individual investor in terms of attitudes and attributes relevant to investment decisions, provided an unique body of data on the motives, styles and make up of the active individual participants in American Securities Market.

Kent Baker and John A. Haslem,\textsuperscript{10} (1974) when developing a client specified valuation model, isolated the factors that cause the investors to vary in their perception of the desirability of specific investment and tested whether these factors are systematically related to their socio-economic and behavioural characteristics.

Bodie and Samuelson,\textsuperscript{11} (1974) in their work on portfolio choice in life cycle model concluded that younger individuals have less risk aversion because of the flexibility they have about their labour – leisure decision as they can decide when to work and rest. They suggested that they can establish their own labour – leisure pattern and this flexibility gives them the capacity for compensating losses from holding risky assets as they have more number of productive years.

Lewellen and Lease\textsuperscript{12} (1975) analysed the individual investor’s risk aversion and investment portfolio composition and identified that age and risk taking propensities were inversely related with major shifts taking place at the age of 55 and beyond.
Arthur E. Goodings,\textsuperscript{13} (1975) in an endeavour in quantifying the perception of risk and return by the individuals, summarised the stock evaluation process of three groups of investors of their perception and socio-economic profile on financial investments. Important differences and similarities were observed among group perception. The three groups of respondents were investment professors, portfolio managers and non-professional investors.

James RF Guy,\textsuperscript{14} (1978) on analysing the performance of British Investment Trust Industry, evaluated the risk-adjusted performance of UK Investment Trust through the application of Sharpe and Jensen measures. The study concluded that no trust had exhibited superior performance, compared to the London Stock Exchange Index.

Peasnell, Skerratt and Taylor\textsuperscript{15} (1979) had remarked the Jensen investigation into mutual fund performance using the insights of Arbitrage Theory and this exercise appeared to provide independent conformation of Jensen's findings that professionally managed funds are systematically unable to outperform the market.

Milne,\textsuperscript{16} (1983) on identifying the decision determinants of portfolio policies in the case of individual investors, portrayed the association between risk-return preference of investor and his life cycle. In short, he suggested that an individual's risk tolerance is unique and subject to changes influenced by the investors' wealth position, health, family situation, age and temperament.

Lehrman and Modest,\textsuperscript{17} (1987) while comparing the mutual funds' performance with benchmarks, found that the Jensen measure and the Treynor appraisal ratios of individual mutual funds were quite sensitive to the methods used to construct Arbitrage Price Theory Benchmarks. This study suggested the importance of knowing the appropriate model for risk and return.
Richard A. Ippolito,\textsuperscript{18} (1988) while testing the Efficient Market Theory, concluded that mutual funds offer superior returns. However, expenses and load charges offset them. This characterises the Efficient Market Hypothesis.

Chiu,\textsuperscript{19} (1989) on describing the behaviour of mutual fund investors and fund managers, examined the relationship between mutual fund’s past performance and its growth, as well as the effects of a fund manager’s past performance on his optimal portfolio risk level.

Edward F. Mrkvicka,\textsuperscript{20} (1991) while describing the motives of a rational investor, concluded that the motivational variables associated with an investment are liquidity, stability, strength, hedge against inflation, mobility and less time and expenditure needed to manage the investment. He concluded that mutual fund investment gives liquidity, stability, strength, mobility and low management cost, which characterise an ideal investment.

Henricks and others,\textsuperscript{21} (1993) while emphasising on performance persistence of mutual funds, found that mutual funds offer superior returns predominantly over a short period of investment roughly four quarters. The study suggested that a strategy of selecting the top performers in the last four quarters significantly enhance the average returns on mutual funds.

Philpot James David \textsuperscript{22} (1994) described the performance related characteristics of mutual fund investments and examined the individual mutual fund attributes and fund performance. With the help of multivariate model he examined the effect of more than one hypothesised variable at once, by using longitudinal data set, and examined the attribute/performance relation with four categories of mutual fund objectives over three and five year time horizons.

Chang – Soo Kim,\textsuperscript{23} (1994) in his work on investor tax trading opportunities and discount on closed – end mutual funds, developed a model that explains discounts
using Merton's Option Pricing Theorem in the case of close-ended fund. The impact of tax advantage also was included in the study.

Kritzman,²⁴ (1994) on evolving time diversification theory, concluded that the investment horizon of an individual also affects his risk tolerance. Time diversification theory implies that given independent returns from year to year, the distribution of annual returns converges towards the expected return as the investment horizons increases.

Morgan Robert Mathew²⁵ (1995) evaluated the performance of mutual funds in an imperfect securities market and the research findings suggested that mutual funds were unable to do significantly better than a large unmanaged portfolio. The impact of commission cost was examined while taking a decision to invest in mutual fund or investing in a small number of common stocks. The Single Index Model and Markowitz Model were used while arriving at a conclusion.

Stephen J.Brown and William N. Goetzmann²⁶ (1995) explored on the performance persistence in the mutual funds using absolute and relative benchmarks. The sample which is free of survivorship bias indicated that relative risk adjusted performance of the mutual fund persisted. A probability analysis showed that the poor performance increases the probability of disappearance.

Zebra Stephen Paul,²⁷ (1996) while examining the operational efficiency of mutual funds, concluded on the nature of the relationship between the funds operating expenses and fund size. A negative relationship was shown to exist between operating expense percentages of mutual funds and mutual fund size.

Sankar Sundararajan,²⁸ (1996) while making a comprehensive review of equity based mutual funds, concentrated on the effect of three important factors such as sales charges, operating expenses ratio and size of the fund on the performance of equity based mutual funds. In addition, this study concluded that operating expenses is
inversely related to mutual fund size and medium size funds perform better than larger and smaller funds.

Maikiel,\textsuperscript{29} (1996) when analysing the risk tolerance of individuals, suggested that the investment choice must be keyed to two considerations namely a person’s capacity to bear risk and a person’s attitude towards risk.

Peter Oertmann and Heinz Zimmermann\textsuperscript{30} (1996) concluded that the relation between average fund returns and the traditional measures of risk, such as volatility and beta, is positive and thereby predict, the relationship postulated by the CAPM to be surprisingly strong.

Malhotra. D.K. & Robert. W. McLeod\textsuperscript{31} (1997) conducted an empirical analysis of mutual fund expenses among the different decision variables. Variables namely fund size, age, turnover ratio and cash ratio were found to be influencing the volatility of investment returns. For bond funds, fund sales charges, weighted average maturity and size were proved to be having important influence on performance.

Robert A..Olsen\textsuperscript{32} (1998) offered a more complete picture of the origin, content and rationale behind the emerging area of study, ‘Behavioural Finance’. In this process, utility and rationality were discussed and it was concluded that the concept ‘Behavioural finance’ explained the puzzle of stock price volatility.

Bodie and Marcus\textsuperscript{33} (1999) suggested that when assessing one’s risk tolerance, one must not only consider how much risk one can afford to take but also how one can stand in his temperamental tolerance for risk.

Another noteworthy study\textsuperscript{34} (2000) examined the factors affecting individuals’ financial risk tolerance. Significance of demographic, socio-economic and attitudinal factors in differentiating risk tolerance were considered. Comparison of risk tolerance attitude between males and females formed part of the study.
Indian Literature

Barua and others\(^3\) (1981) made a pioneering attempt in evaluating the performance of Master Share Scheme of Unit Trust of India from the investor’s point of view. CAPM model was used to arrive at a conclusion and considered that ‘Master Share’ was a bonanza to the small investors with high return.

Shard Shukla\(^3\) (1993) evaluated and compared the performance of Canshare and Mastershare by employing the Sharpe, Jensen and Treynor ratios for the period from January 1988 to June 1991. He concluded that Mastershare had performed better in terms of risk and return than Canshare.

L.C. Gupta\(^3\) (1993) while analyzing the socio-economic profile of Indian investors, has identified a trend of popularity of mutual fund investment among investors and he concluded that the mutual fund investment has been associated with the middle class households of India.

Shanmugam.R and Muthuswamy\(^3\) (1994) in an attempt to describe the investment process of Indian investors, concluded that the public investment in India is drawn from middle income group. Investors were divided into three groups namely tax savers, traditionalists and risk takers. An attempt has been made to highlight the differences in investors’ preferences over various investment parameters. Apart from giving importance to regional industry in personal portfolio, occupation of investor was found to be having impact on investment decisions.

Gupta\(^3\) (1994) conducted a household investor survey. The survey provided data on the investors’ preference for mutual funds and other financial assets. The outcomes suggested the likely demand and expected supply of financial products for the future.

Jaideep and Sudip Majumdar\(^3\) (1994) evaluated the performance of five growth oriented schemes for the period from February 1991 to August 1993. CAPM model was used to evaluate the superior performance of the growth schemes.
Ajay Shah and Susan Thomas, 41 (1994) while evaluating the performance of professional portfolios, evaluated the performance of 11 mutual fund schemes based on market price data. The weekly returns were computed for these schemes since their commencement to April 1994. Jensen and Sharpe measures were used to evaluate the superior performance of the schemes.

Seema Vaid, 42 (1994) while concentrating on the operation of mutual funds in India, highlighted the conceptual and regulatory framework, review of the growth of mutual fund industry and primary information on mutual fund schemes.

Social Audit Committee 43 (1994) conducted a study on the operational efficiency of Unit Trust of India and evaluated the performance of UTI from various angles such as return, investor services and satisfaction of employees and agents of UTI.

Ajay Shah and Susan Thomas 44 (1994) studied the performance evaluation of 11 mutual fund schemes and concluded that except one scheme, other schemes earned inferior returns than the market in general.

Kaura and Jayadev 45 (1995) evaluated the performance of five growth-oriented schemes in the year 1993-94 by employing Sharpe, Treynor and Jensen Measures for their superior performance. In addition, the possibility of including the mutual fund investment in the personal portfolio of the investors was probed.

Nalini Prava Tripathy and Promod K. Sahu 46 (1995) evaluated the performance of a major growth oriented schemes for a period of one year from October 1994 to September 1995. They concluded that mutual fund investment offers tremendous potential for Indian investors.

Madhumathi.R, 47 (1997) on analyzing the risk perception of the investors, identified three classes of investors namely risk seekers, risk bearers and risk avoiders on the basis of their risk perception. She concluded that the risk perception of the investors influences the investment decision and investors are risk bearers in general.
Rao K.V and Venkateswarlu,\textsuperscript{48} (1997) in their case study of UTI, made an attempt to evaluate the performance of Unit Trust of India. Different dimensions such as UTI as a saving mobiliser, rate of return on investment, expenditure ratios and cost benefit analysis were taken into consideration.

Obaidullah.M\textsuperscript{49} (1998) compared the performance of two schemes namely, Mastershare and Canshare against National Stock Exchange (Index) and Bombay Stock Exchange (Sensex). He concluded that Mastershare was too risky when compared to the indices. These schemes did not outperform the latter when returns were compared on a total risk adjusted basis.

Jayadev M\textsuperscript{50} (1998) evaluated the performance of mutual fund schemes in terms of risk and return. This study proved to be an empirical evidence of Efficient Market Hypothesis in Indian context. This study covered relatively a large number of schemes.

Rajarajan.V,\textsuperscript{51} (1999) while analysing the association between the life cycle and investment allocation pattern among investors, examined the relationship between the stages in life cycle of individual investors, their investment size and their investments in risky assets. He concluded that systematic relationships existed among them and investors in general were found to be risk averse.

Indian Market Research Bureau\textsuperscript{52} (1999) concluded that units of UTI were the preferred destination for retail investors. On analysing 14 motivational factors behind investing, it was found that the investors perceived UTI as a reputed industry.

One of the studies\textsuperscript{53} (1999) considered the market timing abilities of fund managers. The empirical results by using Treynor and Mauzy formulation indicated that the Indian fund managers in general did not exhibit superior market timing ability during the study period. However, in terms of Henricksson and Merton formulation, the results were more encouraging for more than 24 funds in the sample.
Sethu,\textsuperscript{54} (1999) while discussing mutual fund puzzles, evaluated the performance of 18 open-ended funds. Despite poor performance, he concluded that the popularity of the mutual funds might be due to investor-related behaviour and institutional factors in the capital market rather than the risk-return trade off.

Amit Singh Sisodiya\textsuperscript{55} (1999) analysed the investment performance of Kothari Pioneer Prima Plus, an equity scheme with reference to schemes of similar objectives. He concluded that superior stock selection strategy of the fund manager gave a new life to the scheme and also that the stock picking ability is a contributing factor in efficient performance of a fund manager.

Anjan Chakarabarthi and Harsh Rungta\textsuperscript{56} (2000) when discussing problems of credibility, risk and brand loyalty associated with mutual funds, concluded that there has been no one to one correspondence between performance by returns and performance by risk adjusted returns on evaluating the performance of private sector equity funds. This study emphasised the importance of brand effect in determining the competitive position of the companies.

Amitabh Guptha\textsuperscript{57} (2000) empirically reported the market timing abilities of the fund managers and the results did not lend support to the hypothesis that Indian fund managers are able to time the market correctly. Further, he concluded that there was no evidence to support the hypothesis that market timing is more an attribute of managers of growth schemes.

Pradip Kar\textsuperscript{58} (2000) and others have estimated that only 9% of the Indian households invest in shares, around 12% invest in mutual funds and concluded on certain investment attributes. They concluded that unless the needs of the investors are critically examined and identified, their savings cannot be transformed into productive capital.

Apex Institute\textsuperscript{59} (2000) analysed the portfolios of investors. Mutual fund was part of their portfolios for 78.97% of the investors and it was ranked third in the order,
first being savings bank account and the second, bank fixed deposit. The motivational factor emphasised here was the safety of the capital.

A consulting firm Praxis of Delhi,\(^6^0\) (2000) on analysing the pattern of response to the public issues of different companies, concluded that of the four metros Mumbai ranked first with 66.53% response to equity and hybrid issues in 1999 – 2000. Chennai accounted only for 2.07% and it is an indication that Chennai investors are risk averse.

Gupta\(^6^1\) (2001) conducted an all India survey of household investors for the Society for Capital Market Research and Development during April – June 2001. The respondents were mostly middle class household heads. About one fourth of the sample houses were in the lowest income class (income upto Rs.10000 per month), about one third of them were at the end (income above Rs. 20000 per month) and remaining 42 percent are in the middle group (Rs. 10001 – Rs. 20000 per month). The occupational distribution showed that 60 percent of the respondents were salaried persons, 25 percent were self employed and 15 percent were retired persons. The total number of respondents was 542 distributed in 40 cities spread over 22 states and Union Territories. The survey revealed that majority of middle class investors did not understand the concept of index fund and have no clear idea about long term returns from index funds. The study also reveals that the confidence in the market mechanism received a set back due to repeated market scams.

Vidya Viswanathan\(^6^2\) (2001) analysed the impact of UTI decision to stop repurchases of unit of Unit Scheme – 64 (US – 64). The major holdings of the schemes are debt investments (Government of India Securities – 20.73%) and equity stocks of Reliance, Infosys, and Tisco. These stocks were purchased during the period of controller of capital issues regime and bought at cheaper prices. The net asset value was based on administered pricing. Repurchase of units were done from the fund mobilised rather than from the reserves. The authors concluded that UTI should have gone for the driven NAV during Jan 2000 when their repurchase price was equal to NAV. UTI have missed that opportunity.
G. Ramachandran (2001) analysed how investors' interest were affected by government decision. The government's decision to slash the interest rate on public provident fund (PPF) savings and the suspension of repurchase of outstanding units of US-64 had been discussed. These decisions will squeeze the savings of the investors and investment in productive investments. The authors urged the government to have a holistic view of financial markets, economic cycles and the expectation of savers and investors. The expectation of investors was to sell the unit or repurchase option should be available.

Bijan Roy and Saikat Sovan Deb (2004) studied the performance of the Indian fund managers using both unconditional and conditional methodologies. This study has further examined the issue of persistence in fund performance, and in particular the value of the information content of fund performance history for the purpose of predicting future fund performance. They concluded that the historical economic information is the basis of future fund performance.

M. Venkateshwarlu (2004) suggested that open-ended schemes and growth oriented schemes may be encouraged by mutual funds and also suggested that risk taking behaviour coupled with reliability of fund floating institution be encouraged for the better future of mutual funds in India.

Subhash Chandar and Jaspal Singh (2004) revealed that investors have mixed response towards mutual funds. On an overall basis, Alliance Mutual fund and Prudential ICICI Mutual Fund have posted better performance for the period of study in that order as compared to other funds. Pioneer ITI, however, has shown average performance. Templeton India Mutual Fund has shown poor performance.

Nalini Prava Tripathy (2004) examined the investment performance of Indian mutual funds in terms of six performance measures. The empirical results reported here do not lend support to the hypothesis taken in the study. There is only one scheme in conformity with the linear relationship of risk and return. All other schemes do not demonstrate this relationship. On the whole, 13 schemes have an alone average beta which indicates that mutual fund returns are highly volatile. About
10 schemes have outperformed both in terms of Treynor measure and Sharpe measure. However, four schemes exhibited superior performance in terms of systematic risk but did not do so in respect of total risk. According to Jensen measure, 13 schemes have positive alpha values indicating superior performance of the schemes. Stock selection is one of the most important characteristics of a fund manager. Selectivity techniques bring out stock selection abilities and the reward thereof. The analysis made by the application of Fama’s measure indicates that the returns out of diversification are very less. Nine out of 31 schemes have higher returns due to selectivity. All other schemes show lack of net selectivity and diversification. So, it was found that proper balance between selectivity and diversification is not maintained. This is due to fund managers’ acumen of selectivity and poor investment planning of the fund.

T. Ramasamy and V. Balasubramanian (2005) concluded that the UTI MF is a strong force poised to serve the investors living in every nook and corner of the country. It is the largest mutual fund house in India. In terms of head count, the UTI MF has around 85% of the total investors of the industry. The UTI MF operates forty two domestic schemes and four offshore funds. It has a variety of funds to suit the different needs of people hailing from all walks of life. The management is sharply focused on its main business and properly positioned to mobilise the savings of the community so as to enable it to maintain the leadership position in the industry.

Ramesh Kumar (2005) suggested that the success of mutual funds depend on professional competence of fund managers’ track record, greater transparency, prudent accounting norms, computation of Net Assets Value (NAV), transaction cost, management fee, asset classification and valuation as well as audit programme. To conclude the whole system merits in-depth examination and follow up action involving a time bound plugging of loopholes and implementation of remedial measures so as to ensure viable results.

Resia Beegam (2006) concluded that the long standing existence has created a solid platform for mutual fund industry in India. The impressive and indelible growth of private sector mutual funds in India depicts that there has been a
phenomenal increase on the awareness of mutual fund benefits among the investors. It is time for mutual funds to take full pace ride in tapping the potential offered by Indian household savings, along with major institutional investors. Relatively liberal markets like USA, Australia, France and Japan etc., are posting exponential growth. India’s share in the global mutual fund industry is negligible.

Sanjay J. Bhayani and Vishal G Patidar\(^1\) (2006) evaluated the performance of balanced fund schemes in terms of average return. A majority of the sample mutual funds schemes have recorded a superior performance as compared to the benchmarks index. In the case of equity diversified schemes, the performance of schemes have shown better returns and most of the schemes have out performed the benchmark. The results of gilt fund schemes indicated that all the schemes earned a slightly higher return in comparison to the market return. Income fund schemes have shown poor performance compared to the market return. The performance of tax planning fund schemes has generated superior return as compared to the market return. The performance of schemes was better in case of returns and has earned returns on lower risk as compared to the market.

Prashant Shah\(^2\) (2006) concluded that mutual funds are the win – win option available to the investors who are not willing to take any exposure directly to the security markets as well as it helps the investors to build their wealth over a period of time. But the thing which must be remembered by the investors is, “Investment in mutual fund is subject to market risk”.

To sum up the review of literature, it is clear that the research studies both Indian and foreign, are in relation to the personal factors of the investors, socio – economic features of the investors, factors affecting risk bearing capacity of investors, factors influencing investment decision making and the methods used to evaluate the mutual fund schemes. Based on the review of literature the objectives of the proposed study have been defined.


