REVIEW OF LITERATURE
CHAPTER II

REVIEW OF LITERATURE

In order to obtain the conceptual knowledge and technical know-how in the subject matter, the relevant literature consisting of textbooks, research studies and research articles were reviewed.

A large number of studies have been made in the past both in India and abroad on the growth and financial performance of mutual funds. The conceptual base has been systematically presented and universalised by William Sharpe and others.

Jensen (1968) analysed the performance on two dimensions. First on the ability of the portfolio manager or security analyst to increase returns on the portfolio through successful prediction of future security price. Secondly on the ability of the portfolio manager to minimize (through efficient diversification) the amount of insurable risk borne by the holders of the portfolio. The author analysed only the predictive ability of the managers to earn excess return over the expected return. The analyses was done on 115 open ended mutual funds in the period 1945 – 1964. It is only a absolute measure. The evidence indicated that these 115 mutual funds managers were on average not able to predict security prices well enough to outperform a buy-the-market-and-hold policy. The study was limited to open ended schemes.

Barua and others (1991) made a pioneering attempt to evaluate the performance of “Master Share” scheme of UTI from the investor point of view. They employed the Capital Asset Pricing Model (CAPM), and computed the risk of the Master Share scheme
The risk adjusted performance was measured by using Sharpe, Jensen and Treynor ratios. Here the benchmark selected was the “Economic Times Ordinary Share Price Index”. The study concluded that “Master Share” has performed better in systematic risk, but not in terms of total risk.

A study was conducted on Mutual Funds in India by Obaidullah and Ganesh (1991). The objective of the study was to evaluate two growth-oriented funds namely Master Shares and Can Shares. The risk adjusted performance of both the schemes was calculated using the measure of Sharpe, Treynor, Jenson and Fama. The period of study was restricted to one year, i.e. NAV calculations as of 1st June 1991 and the BSE Sensex was used as a benchmark index. Both the funds yielded abnormal returns. Master Shares earned abnormal returns on the basis of total risk (δ) and Can share on the basis of market risk(β). The analysis had been done using the framework of the Capital Asset Pricing Model (CAPM). However there was no evidence on the validity of CAPM in the Indian environment. The returns may vary between short-term and long-term.

In April 1991, LC Gupta attempted a household survey of investors. The main objective of the survey was to obtain data on the investor preferences on mutual funds and other financial assets. The findings of the study have relevance to the policy makers and mutual funds to design the financial products for the future.

Sahu and Jena (1992) presented a research paper on mutual funds and investors perception. The authors made an attempt to bring out a scenario of mutual funds in India covering different schemes in operation by public sector banks and other financial institutions. The authors projected the prospects of mutual funds and their investment pattern. The authors concluded that the prospects for mutual funds are bright.
Bhosale and Adhikary (1994) carried out a study entitled, “Risk Return Analysis of Mutual Fund Growth Schemes”, with the objective of evaluating the relative performance of various “growth schemes” using the Capital Asset Pricing Model. The study covered the period from February 1992 to May 1994. The schemes evaluated under this study include MMPs 90, Ind Moti, Mastershare, Festival Bonanza Plan B, Double Square Plus, Festival Bonanza Plan A, Ind Sagar, Ind Ratna, Canbonus, Cangrowth and Canshare. The study, among other findings, revealed that Mastershare, Festival Bonanza Plan B, MMP’90, Double Square Plus, Indmoti, Festival Bonanza Plan A have outperformed the index. The three Can schemes namely Canbonus, Cangrowth and Canshare yielded returns much below the market return. The study showed that there exists no correlation between risk and return associated with the selected schemes.

Shah and Thomas (1994) studied the performance of 11 mutual fund schemes on the basis of market price data. The weekly returns were computed for these schemes since their launch till April 1994. Jensen and Sharpe measures were used to evaluate the superior performance of the schemes. The researcher concluded that except UGS 2000 of UTI, none of the schemes earned better returns than the market in general. The risk in these schemes was very high and the funds are inadequately diversified.

Sarkar, Jayadeep and Majumdar, Sudipa (1994) evaluated the performance of some fund managers in India in terms of their ability to strike a balance between risk and return. Their study covered the period from February 1991 to August 1993, with particular emphasis on the sensational fluctuations in the Indian stock market during the first quarter of 1992. The study was carried out by using weekly price data on funds for the reference period. The results indicated that the fund managers covered under study have not been successful in reaping returns in excess of the market or in ensuring an
efficient diversification of portfolio. Significant divergences in performance were found during the period of the upsurge in stock prices. However, the results of Jaydeep and Sudipa (1994) study could not be generated for future performance of mutual funds as the period under their study had been of sensational fluctuations, particularly the first quarter of 1992. The study was also limited in its scope, in that it evaluated the performance of only five close-ended growth oriented schemes in India.

The Delhi-based Value Research India Pvt. Ltd°, conducted a survey covering the bearish phase of Indian stock markets from 30 June, 1994 to 31 December 1995. The survey examined 83 mutual fund schemes, 53 growth schemes, 15 income schemes and 15 income-cum-growth schemes. The study showed negative returns for 15 schemes, 13 of which were growth schemes. None of the income or income-cum-growth schemes provided returns above 20 percent. From the point of risk-adjusted monthly returns, the survey showed that of the 53 growth schemes, 28 (52.8%) could beat the index even in a bearish phase. On the whole, the Indian Mutual Funds were found to be generally safe avenues for investment. The survey, however, suggested that there was a scope for improving portfolio structure and portfolio readjustment, keeping in view the scheme fundamentals and investment objectives.

Baur, Sundaram and Smith° (1995) provided a brief history of mutual funds in America. They have outlined the pricing fundamentals of open and close-ended funds, and described the transaction costs of buying and selling units. The US experience with mutual funds demonstrates how these institutions can change a country’s capital markets and individual investing patterns. The study disclosed that the continuous redemption privilege of open-ended funds has important consequences in the pricing of each type of
fund, the assets held by each type of fund and the manner in which transaction and management fees are collected.

Kale and Uma\(^{11}\) (National Insurance Academy, Pune, India) conducted a study on the performance of Indian Mutual Funds with the help of data pertaining to 77 schemes managed by 8 mutual funds. The study revealed that the schemes, on an average, proved true to their aims. The growth schemes yielded an average of 47 per cent compound annual growth rate (CAGR), Tax-Planning Schemes gave an average of 30 per cent CAGR, followed by Balanced Schemes with 28 per cent CAGR and Income Schemes with 18 per cent CAGR.

In their study, Gupta and Senegal\(^{12}\) (1998) have evaluated the investment performance of 80 Mutual Fund Schemes in the Indian market over a four-year period 1992 – 1996. They have evaluated the performance in relation to Fund Diversification, Consistency of Performance and Consistency between risk measures and objectives of the funds. The BSE national index is used by the author as a bench-mark index. The funds have performed reasonably well with regard to the rate of return and Sharpe measures. Treynor’s ratio is helpful for institutional investors. The results supported the standard deviation as a risk measure. However, the study period covers the boom period and the results reflects the buoyancy in investment of the find.

Kaura and Jayadev\(^{13}\) (1996) attempted to answer two questions relating to the performance of mutual funds. (i) Do growth-oriented Mutual Funds earn higher returns than the bench-mark returns in terms of risk? (ii) Do growth-oriented Mutual Funds offer the advantages of diversification and superior returns due to selectivity? The study evaluated five growth-oriented schemes over the period July 1993 – June 1994 using
Economic Times Ordinary Share Price Index as the bench-mark and the measures of Jenson, Treynor, Sharpe and Fama were calculated. The major findings of the study included the following: Master Gain 1991 and UGS 5000 have earned higher returns than the market whereas the other funds have earned returns lower than the market. The investors are benefited by the additional risk the Funds have taken in Master Gain 1991 and UGS 5000. Imperfect diversification resulted in negative returns in Magnum Express. Ind Sagar has earned superior returns owing to selection of undervalued securities. Master Gain had gained superior returns with respect to systematic risk. The study period was the period of medium economic boom and this had been reflected in the study in general except in the case of Magnum Express. Besides, the period was limited to one year, the number of schemes being limited to five schemes only.

M Jayadev (1996) in his research paper entitled “Mutual Fund Performance: An Analysis of Monthly Returns” made an attempt to evaluate the performance of two growth oriented mutual funds (Mastergain and Magnum Express) on the basis of monthly returns compared to benchmark returns. For this purpose, risk-adjusted performance measures suggested by Jensen, Treynor and Sharpe were employed. The study found that, Mastergain had performed better according to Jensen and Treynor measures and on the basis of Sharpe ratio its performance was not up to the benchmark. The performance of Magnum Express was poor on the basis of all these three measures. However, Magnum Express was well diversified and had reduced its unique risk.

Nalini Prava Tripathi (1996) examined the importance and growth of mutual funds and evaluated their operations in order to suggest some measures for the success of mutual funds in India. The researcher pointed out that with progressive liberalisation of economic policies, there has been a rapid growth of capital market, money market and
financial services industry including mutual funds along with others. This paper suggested that mutual fund organisations were required to upgrade their skills and technology.

Yadav and Mishra\(^6\) (1996) evaluated the performance of 14 growth schemes in India during the period April 92 – March 95. In this study the schemes selected were evaluated with respect to the broad based BSE National Index to find out whether the schemes were able to beat the market. It also examined whether the returns were commensurate with the risk undertaken by the fund manager. It used three risk-adjusted performance measures, namely Sharp Index, Treynor Index and Jenson Index. The analysis indicated that the funds as a whole performed well in terms of non-risk-adjusted measures of average return. In terms of risk-adjusted performance, the mutual funds in aggregate had a higher Sharpe Index, but a lower Treynor Index and a negative mean Alpha for the sample compared to the market index. The Mutual Funds however, failed to provide adequate risk-premium per unit of systematic risk. Further, the fund managers of these growth schemes adopted a conservative investment policy and maintained a low portfolio Beta and were therefore successful in limiting in a rapidly falling stock market.

The study by Madhusoodanan\(^7\) (1996) is to choose optimal asset allocation among risky investment avenues. Investors will have different levels of risk tolerances and expected returns. The technique the author has adopted is quadratic programming to find out a portfolio which maximises the return while minimizing the risk. The study analysed the Indian stock market returns from optimal portfolios and then test their performance for the following quarters, half year and a year. The model was based on capital asset pricing model developed by Sharpe. BSE sensitive index as well as National Index are taken as proxies for the market. On the basis of quarterly performance 16 out of 25 funds (64 percent) had outperformed for both the market proxies. In case of half year performance
the constructed portfolios performed better than market in 9 out of 12 cases (75 percent) for both market proxies. The portfolios formed using sensex as benchmark yielded an average return of 43.06 percent compared to the market return of 36.26 percent. But in the case of National Index, the portfolios gave a return of 46.34 percent while the market gave a return of 34.23 percent. The constructed portfolio is better than the market in 5 out of 6 cases (83 percent). The author has not considered the transaction costs.

The author Lalit K. Bansal\(^\text{18}\) (1997) discussed the management and working of Mutual Funds in a simple lucid manner. The book is divided into six chapters. The first chapter gave a view of the Financial Services Industry with the opening up of the economy globalisation and privatisation. The second chapter provided the basics of Mutual Funds, different schemes, funds mobilized. Third chapter was devoted exclusively for the construction and management of Mutual Funds and included the SEBI regulations of mutual funds. The fourth chapter discussed on the accounting procedures and disclosures practice followed by Mutual Funds. The fifth chapter evaluated the mutual funds scheme operating in India. Last chapter was devoted for offshore Mutual Funds and Money Market Mutual Funds.

Sadhak\(^\text{19}\) (1997), while examining the recent growth and performance of mutual funds in India, identified the constraints in their development. The study also outlined the conceptual framework and brought out operational practices of mutual funds in developed countries such the USA, the UK and Japan. The fund management in India differs from that in the US to a certain extent. Investment management is based on scientific perception forecasting and futuristic vision and market induced decision making. Strategy and style of fund management differs from country to country depending on the state of the market and the level of development. Further the strategy and style of funds
management needed to be changed in view of expected change of political and economic perception. About the US mutual funds the author pointed out that the US retirement market consists of private pension funds (asset around $3 trillion) state and local government employee retirement plan (asset $1.75 trillion) and Individual Retirement Account (IRA) (asset $1.5 trillion). Mutual funds managed around 20 percent of these assets. They played a vital role in the US retirement market. This market should be opened up for mutual funds in India. In the developed market like US and UK, mutual funds hold around 12 percent of the household sectors financial asset while it 4.5 percent at present in India.

Sahadevan and Thiripalraju (1997) evaluated the performance of public sector as well as private sector funds. For the analysis of private sector funds, they compiled and analyzed the monthly average returns and calculated standard deviation of 10 selected private sector funds. BSE National Index was used for comparison. In terms of the rate of return, 5 funds, viz. Alliance 95, ICICI Power, Kothari Prima, Kothari Pioneer Blue Chip and Morgan Stanley Growth Fund, outperformed the market during the period of comparison. This analysis was done by using monthly net asset value (NAV) of the selected schemes for varying periods falling between March 94 and July 96. The analysis also showed that, by and large, the performance of a fund was not closely associated with its size. Even small funds like Blue Chip and Alliance 95 had done much better than the market, while relatively bigger funds like CRB Arihant Mangal and ICICI Premier had not performed well. The authors compared the average monthly returns on 32 schemes of UTI with that of the BSE National Index. According to this analysis, seven schemes of UTI had outperformed the market.
Madhumathi\textsuperscript{21} (1997) aimed at examining risk perceptions of individual investors, identifying the influencer’s risk perceptions, developing profiles of investors based on the risk perceptions and analyzing the influence of risk perception on investment decisions of individual investors. The study was conducted at the national level with investors from Bombay, Ahmedabad, Delhi, Chennai and Calcutta. These investors were identified and contacted through investors clubs, investors associations, stock broking firms and stock exchanges. The results suggested that a majority of the investors in India were moderate risk takers. The risk perception of investors was influenced by the operating performance and the capital performance of the scheme. According to the study the risk perception influenced the investment decisions of the investors and the profits earned by them. The study does not take into consideration the returns and the safety of investments.

This study by Shanmugam and Muthusamy\textsuperscript{22} (1997) was based on a primary data analysis of Coimbatore investors, who invested in equity shares. The study dealt with the characteristics and goals of investors and the nature of investment patterns. The study used chi-square test and the analysis of variance. The major findings of the study were: The investors mainly belong to salaried group. They made investment with long-term goals. Most of the investors were young and first generation investors. The study limited to Coimbatore only and considered only equity investors. This study provided insights for the preparation of questionnaire for primary data and for forming a general appraisal about the investors.

Rao and Venkateswaralu\textsuperscript{23} (1997) aimed at evaluating Mutual Fund schemes of the Unit Trust of India. The evaluation was done the basis of Growth, Return on Investment, Expenditure ratios and Cost Benefit ratios. They study evaluated the performance of the schemes during 1989 – 1994 with five years as a base. The compounded annual growth
rate of sales, return on investment, expenditure ratios and deployment of funds were calculated for open-ended and close-ended schemes. The study showed that the return on investments had a steady growth rate, expenditure ratios came down the cost benefit ratios went up. When measured in terms of market indices, the performance had mixed results. Certain schemes like US-64, ULIP and Master Shares outperformed the market. The study covered the period up to 1994 and not later, and related only to the Unit Trust of India schemes.

The article by Daniel et al. (1997) developed and applied new measures of portfolio performance, which use benchmarks based on the characteristics of stocks held by the portfolio. The benchmarks were constructed from the returns of 125 passive portfolios that were matched with stocks held with portfolios evaluated on the basis of market capitalization, book-to-market and previous year characteristics of those stocks. Based on these benchmarks, timing and selectivity measure were developed, which detect whether portfolio managers had successfully time their portfolio weightings on these characteristics and whether the managers could select stocks that outperform the average stocks having the same characteristics. The researchers applied these measures to a new database of mutual fund holdings covering over 2,500 equity funds from 1975 to 1994. The results show that mutual funds, though exhibit no characteristic timing ability, they exhibit some selectivity ability, particularly aggressive-growth funds.

The authors (Uma Shashikant et al., 1997) differentiated the risk return characteristics of emerging markets from developed market using return data for 20 emerging and 21 developed markets. The data were collected from emerging markets database of International Finance Corporation, and Morgan Stanley Capital International Emerging Market Indexes. IFC Global return index was used as benchmark index. The
period of analysis was 1990 – 1995. The authors had calculated annualized mean returns. The authors had used mean returns, standard deviation, skewness and correlation for analysis. The major findings of the study for emerging markets were: returns and volatility were higher than those obtained in developed markets; returns are auto correlated and are not normally distributed, mean and variance of the return are time varying; correlation with both developed markets and emerging market was low and the explanatory power of a world Index of the returns from emerging markets was weak than in case of developed markets.

The study by Pandey\textsuperscript{26} (1998) focused on options regarding the optimum investment policy for a scheme having a structure such as Monthly Income Plan (MIP) under different assumptions as the upside on returns from investments accrues to the investors while the downside was borne by the Sponsor /AMC, the value of the embedded option in such a scheme for the investor in case the fund manager invests in equities and the risk management issues for the AMC, which launched such a scheme. The author used the minimum variance portfolio model, and considered only the schemes of MIP, Equity-linked schemes.

The study by Rao and Venkateswaralu\textsuperscript{27} (1998) aimed at analyzing whether the timing abilities of Fund Managers had an impact on the performance of Mutual funds. They used the Treynor and Mazuy model and the Henriksson and Merton model. The schemes selected for study were nine schemes of the Unit Trust of India and the Reserve Bank of India All Industries Ordinary Index was take as reflective of the market position. The study showed the absence of market timing abilities of the fund managers of the Unit Trust of India. Of the nine schemes, only one scheme exhibited an attempt at forecasting the market and change the securities accordingly. In terms of the Henriksson and Merton
model, there was no evidence of macro forecasting abilities of fund managers. The study was restricted to only the Unit Trust of India schemes.

The study by Ramachandran\(^{28}\) (1998) rejected CAPM under predictive and non-predictive forms. Risk aversion was rather weakly explained when individual stocks, portfolio grouping and Mutual Fund schemes were considered. The market looked rather volatile during 1994-97. There was an inverse relationship between variables (under the arbitrage pricing theory framework). CAPM was found to be strongly rejected. Only Price Earning (P/E) and Earnings Growth are taken for analysis. The statistical distribution underlying stock returns is found to be non-normal with high peak and long tails. Such markets had a tendency to experience steep rises and falls quiet often. The inclusion of non-specified scripts and public sector undertakings scripts to a certain extent in mutual fund schemes seems to have made such portfolios to deviate from the normal. The study suggested that the median of returns and the absolute mean deviation of returns might be considered as an alternative to the mean and standard deviation of returns while evaluating the risk adjusted performance of mutual fund scheme meaningfully whenever normality is violated with high peakedness and long tails. When both methods are individually applied, the performance ranking of mutual fund schemes is found to differ significantly.

The objective of the joint study by FE – Value Research\(^{29}\) (1998) was to analyse the performance of mutual funds during the period of economic slowdown 1998. The performance was based on NAV based returns of the schemes. The NAV based returns were calculated for different schemes ranging from 3 months, 6 months, 1 year, 2 year, 5 years. Ranks were assigned for the schemes based on the returns. The schemes were evaluated with the benchmark Index (BSE Sensex.). The top holdings of the finds were
also analysed. The 54 funds selected for the study fell under three categories namely those which are actively traded, those which are reviving and those that offer worthwhile investment opportunities. The major findings of the study were that overall performance in terms of returns had been very poor due to weak market sentiments. The funds were improving their standards of transparency, disclosure and service. This would help to regain investor confidence in future. The funds had also come with different schemes. There was a shift towards open ended schemes. New and Small Funds like Alliance, Apple and Birla had done well and produced good returns to the investors. The study does not consider Risk Factor and Risk adjusted Returns were also not calculated for analysis. This year (1998) was the worst year for the Mutual Fund Industry.

The study by Jayadev (1998) was done with the objective to compare the returns obtained by the portfolio through active management by the investment manager. The month end NAV were used for 48 schemes of UTI and Public sector funds. The period of study was the availability of at least 14 months data up to March 1995. The NAV were adjusted for dividends and returns were computed. BSE National Index was used as benchmark index. The study used interest rate on bank deposits as risk free return. The author used the established models like Sharpe, Treynor and Jenson measures. The major findings of the study were that 30 schemes out of 44 selected were having superior performance than the benchmark portfolio in terms of total risk (Sharpe ratio) and 24 schemes had superior performance in terms of systematic risk (Treynor). The funds were able to earn higher return due to selectivity. But because of poor diversification, the funds performance had declined. The major limitation of the study was they have not considered private mutual funds. They used non identical time period and period of study was only 14 months.
Tripathi and Sahu\(^{31}\) (1998), in their study on the performance of selected growth oriented mutual funds in India, aimed to find whether growth oriented mutual funds earned higher returns than the market portfolio returns and whether they offered the advantages of diversification and superior returns due to selectivity exercised by the fund manager.

The study by M. Thirupalraj\(^{32}\) (1999) was done to identify the micro and macro forecasting abilities of fund managers. Micro factors relates to selection of securities and macro factors relates to the timing activities of fund managers. The authors used Fama’s decomposition methodology and evaluated the performance of Indian fund Managers. They had considered 22 Equity Linked Savings Schemes (ELSS). The period of the schemes are 1990 – 91 to 1994-95. The findings of the study were that no schemes were in a position to provide excess return over risk free rate of return. Timing parameter showed that none of the fund managers were able to predict the investments. None of the schemes rewarded the investors and main constraint on the portfolio manager was they cannot book profits when the markets was in boom phase due to lack of depth in the market. There were no holding instruments available for portfolio managers to hedge the market uncertainties.

The study carried out by Narasimhan and Vijayalakshmi\(^{33}\) (1999) analysed the stocks in the portfolio and the diversification. The objectives of the study were to examine the correlation between the stocks in the portfolio of mutual funds and the diversification benefits derived from such stocks. The study also examined the fund manager’s performance in selecting and investing in top performance stocks of different periods and the fund manager’s performance in timing on such top performance stocks of different periods. The companies sampled had an equity holding of above 50%. Seventy-six
schemes were selected for the study and the quarterly data were analyzed for 104 periods. The benefit of diversification achieved by the schemes was assessed by computing bivariate correlations. The top holdings of the portfolio were compared with the top 100 for the same quarter. The study also examined the fund managers’ ability to identify and invest in stocks that were expected to perform both currently and in the near future. The study did not use any models developed by the previous researchers and the period of time was not consistent.

The study by Datar (2000) focused on stock market liquidity and its measurement. It also discussed the relative merits and alternative measures for the measurement of market liquidity viz. volume by frequency of trading, turnover ratio and impact cost. The study proposed elasticity of trading as an alternative measure, which is easy to compute and has superior information content. The elasticity of trading measures the volume of trading in relation to change in prices. The study analysed the liquidity of quality trading on the National Stock Exchange with the help of the co-efficient of elasticity of trading during April 1998 – May 2000.

Gupta (2000) examined the market timing abilities of Indian mutual fund managers during the period April 1, 1994 to March 31, 1995. The study used sample of 73 mutual fund schemes both from the public as well as private sector. The weekly NAV data had been used for analysis. Bombay Stock Exchange National Index had been used as a bench mark for the study. The author used Treynor & Mauzy model and Henrikssion & Merton model to test the market timing abilities of fund managers. The analysis was done for growth oriented funds and close ended funds. The study analysed whether market timing had relevance to fund objectives and market timing had relevance to the nature of the fund. The major findings of the study were that Indian fund managers were not able to
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time the market correctly. Growth schemes fund managers were not able to time the market as well as close ended fund managers. The fund objectives as well as nature of fund has no relevances for market timing of Indian fund managers.

The study by Irrisappane, Murugasen and Rao\textsuperscript{36} (2000) aimed at evaluating the selection skill and market timing abilities of fund managers in India. The study selected 34 schemes of the Life Insurance Corporation of India, the Unit Trust of India and CanBank Mutual Funds. The study evaluated 16 growth oriented schemes and 18 income-oriented schemes. Sensex and Natex were used as a benchmark. The study covered a period of 10 years (1988 – 1998) and used the models of Treynor and Mazuy, and Henriksson and Merton. The study showed that only 8 schemes had outperformed the market. The Beta turned out to be statistically significant in twelve out of thirty-four schemes. The overall evidence suggested that mutual funds managers do not exhibit good market timing abilities. The study concluded that there will not be any future for the mutual fund industry unless the Asset Management Companies exhibit superior portfolio management skills in the years to come.

The objective of the study\textsuperscript{37} (Intelligent Investor Feb. 2000) was to evaluate the performance of Mutual Funds with a cut off date for the survey 31\textsuperscript{st} December, 1999. Returns were calculated by taking the percentage change in net asset value adjusted for rights, bonus or dividends if any for 3 months, 1 year return, 3 year return and 5 year return. Three months performance showed that Fund Managers can catch the short term market trends. Medium term returns are on the basis of one-year return and long term returns are for three year and five year. Rankings were done for schemes separately on the basis of objectives, nature of schemes. Risk adjusted returns (Sharpe’s measures) were also calculated and analysed. The year 1999 was the golden year of the Mutual Fund
Industry. Majority of the Mutual Funds provided returns to the investor because of the stock market boom and software industry. The fund managers have gone for aggressive stock picking. There was a shift towards investments to new software companies. The three year performance should be considered by investors before making investments. The major limitation of the study was they have considered only total risk. The other measures like Treynor, Jenson were not considered.

The study by Business World (April 2000) was done on the basis of data provided by value research for the period 1\textsuperscript{st} April 1999 – 31\textsuperscript{st} March 2000. The net asset value was used for analyzing the performance of the funds. Returns were calculated for all the schemes annually. Top five and bottom five scheme returns were analysed for schemes of equity, income, balanced, tax planning, Gilt schemes and sectoral schemes. The major findings of a study were the amount mobilised was Rs.18000 crores. The best funds and the best fund managers were attracting the most investments. But when the investible amount was unmanageable, they find it difficult to beat the market. The top holdings have changed. In the last year fund managers preferred Infotech, Fast Moving Consumer Goods (FMCG), and Pharma. This year the funds were invested in Information, Communication and Entertainment (ICE). The major limitation of the study was that it does not follow any models. Risk adjusted returns were not calculated for analysis.

The terms of reference of the study by SEBI – NCAER (2001) were to estimate the number of household and the population of individual investor, their economic and demographic profile, portfolio size, investment preference for equity as well as other instruments. The study provided information regarding households on their risk perception, return on investment. The study also provided the estimates of non-investors
households and population on their pattern of investments in various instruments. The study covered awareness of investors rights, experience with grievance redressal mechanism. The data have been collected from 3 lakh geographically dispersed rural and urban households and a sub sample of 25 thousand households were chosen for detailed canvassing through a structured questionnaire. The field survey was conducted between January – March 1999. The sample drawn in this study was taken from a cross section of the households in the country within the objective of enhancing the precision of the estimates. The responses of the households bring out the sum total of their experience in investing in the securities market during the entire decade of the 1990 and the findings impound on the cumulative impact in the market development during the period. The major findings of the study relating to mutual funds are about 15 million (9 percent) of all households invested in units of Mutual Funds. It was more than the investments in shares and debentures (12 million). Higher income groups have larger share of investments in mutual funds compared to lower income group signifying that mutual funds still not become the investment vehicle for small investors. The total investment resources of mutual fund account for 23 percent of market capitalization compared to more than 50 percent for developed markets. There is untapped potential of mutual funds and the need for the asset managed companies to design appropriate schemes to cater to the needs of small investors and develop infrastructure to reach them. Majority of the investors had very small investments in mutual funds. About 60 percent of the unit owning households had upto 10 per cent of their investments in mutual funds and another 30 percent have 11 – 25 percent of their investments in mutual funds. The income group classification shows about 6 million households or 40 percent of the units owning were low income group, another 6 million households in middle income or 20% in the high income group. In terms of investments, higher income group had invested more in mutual funds. Mutual funds
should be able to attract low and middle income group by designing attractive schemes and services. In terms of occupation nearly 14 million or 93 percent are in the category of salaried or self employed or wage earner class. About 1 million investors are from retired households. Salaried class accounted for 42 percent of the unit owning households. After survey was conducted (Oct.1999) there had been an upswing in the market. The Union Budget 1999 – 2000 had provided certain tax benefits to mutual funds. These factor coupled with the buoyancy of the market livened the interest of households in mutual funds grew to a phenomenal figure of Rs.500 billion higher than any amount mobilised through equity and debentures in any year so far. Post survey developments are likely to have an impact on the investment pattern and investment behaviour of the households. This has resulted for a new survey to be conducted to better assess the impact.

This survey was done by Intelligent Investor (Feb. 2001) with the objective of who lost and how much. A weak market and falling interest rates had an impact on the mutual fund performance last year (2000). The emphasis was not on the returns but more on risk management. They had introduced three concepts in risk namely down side risk, concentration risk and nondisclosure risk. Downside risk refers negative returns for the period (returns below the risk free rate). Concentration risk relates to sector fund investments and risk involved. Non disclosure risk refers not providing information regarding topholdings. For all the schemes, the values for the three types of risks are clubbed to arrive at its total risk. The analysis was done for schemes on the basis of their objectives namely growth oriented schemes, income oriented schemes, balanced schemes. The schemes of sector funds and money market funds were also analysed. The findings of the study were the equity funds with diversified portfolio have done well, debt funds that managed their average portfolio maturity astutely and capitalized on trading opportunities
fared well. Investors seeking stable returns should not make investments in monthly schemes that doesn’t assure returns. While making investment in sector schemes investor should look at the long term sustainability of the industry.

Gupta 41 (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 households 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 middle group (Rs.10001 – Rs.20000 per month). The occupational distribution showed that 60 percent of the respondents were salaried person, 25 percent were self employed and one 15 percent were retired persons. The total number of respondents were 542 distributed in 40 cities spread over 22 states and Union territories. The major findings of the study are that only 18.1 of the respondents taken as a whole viewed stock market as a good place for long term investment and 44 percent feel that investors lose their money in stock market. About 45 percent of respondents considers mutual fund equity schemes as reasonably good long term investment. Mutual fund income schemes were considered better than equity schemes by 56.2 percent. When mutual funds were compared with equity around 44 percent were satisfied with investments in mutual funds. 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 set back due to repeated market scams.

Pandya 42 (2001) analysed whether Mutual Funds outperform in both rising and falling markets. The study was carried out during the period April 1999 – March 2001 on
38 equity fund schemes taking the Sensex as the benchmark index. Of the 38 schemes while only 6 schemes had beaten the index. In the 6 schemes, only 2 schemes managed to beat the Sensex during both the rise and decline periods. Fund managers failed to anticipate the ensuring sharp fall in technology stocks. The Mutual Funds had found it difficult to beat the bearish market because of lack of diversity and over-exposure to technical stocks. The study had taken into consideration only the growth oriented schemes.

Kumar43 (2001) studied the problem for the markets as well as for the investors. During both ups and downs, the concept of momentum investing was driven with the fundamentals taking a back seat. For the year 2000, both the equities and balanced funds were in the red. The private sector funds having diversified portfolio did well during 1999. The value research category of 50 diversified equity funds posted a net loss of 26.52% against the BSE Sensex slide of 20.65% in the calendar year 2000.

The study by Merriman44 (2001) discussed the difference types of risks. The amount of risk undertaken by an individual depends on his risk-bearing capacity. The investor should first recognize the risks so that they can formulate simple solutions to manage them effectively. The author discussed the different methods for reducing the risks, like dollar cost averaging, individual retirement account and variance annuity plan. The study throws light on risk perception and its measurement besides management of risks.

Turan and Bodla45 (2001) have analysed both open-ended and close-ended schemes. The major objectives of the study includes to examine the growth of mutual funds in India; to analyse the investment pattern of mutual funds; to evaluate the
performance of mutual funds in terms of their returns and risks; to carry out a comparative analysis of the performance of mutual fund schemes and that of market portfolio so as to bring out whether mutual funds are outperforming or underperforming the benchmark of market portfolio; to bring out how far the investors are satisfied from the mutual funds with respect to the investment opportunities offered, returns generated, financial disclosures made and the change in market price; and suggesting appropriate strategy to plug the deficiencies in the operations of mutual funds and strengthen investors’ confidence therein. The first chapter provides conceptual and textual knowledge of the subject, the second offers a review of relevant research works and research methodology used in the conduct of this project. The third chapter gave a vivid picture of the investment pattern of the select mutual funds. The performance appraisal of the selected mutual fund schemes in terms of their risk and returns form the subject matter in fourth and fifth chapters. The results of opinionistic survey of mutual fund investors are provided in the sixth chapter. Finally, the last chapter recapitulates some of the important findings and offers concrete suggestions and implications based on the experience gained through the execution of the project. The authors have analysed the risk-return performance of selected schemes. The sample comprises 50 listed and 20 open ended schemes in 1995; 53 listed and 26 open ended during 1996; 54 listed and 34 open ended in 1997, and 45 listed and 36 open ended in 1998. These schemes were in the nature of growth, income and both. The reference period of the study for the purpose of NAV and market price based risk return analysis of the sample schemes has been has been 01.03.1995 to 30.06.1998. However, the secondary data on the size and growth of mutual fund industry in India pertains to seven years, from 1991 – 92 to 1997-98. The analysis of investment pattern was restricted to 37 schemes. These schemes include the schemes of UTI, SBI and select private sector mutual funds. The analysis had been carried out across five dimensions: (i)
Growth of mutual fund industry in terms of number of schemes launched, resources mobilized, number of investors accounts etc., (ii) the investment pattern according to portfolio of securities as well as across industries, (iii) the gains and pains to the investors in terms of average weekly as well as yearly returns in NAVs and market prices and the risk associated with these returns; (iv) systematic risk, and the risk adjusted performance measures; and (v) an opinionistic survey of mutual fund investors. The risk and return analysis has been carried out sector-wise, aim-wise and according to periodically. The popular models developed by Sharpe, Treynor and Jenson have been applied to evaluate the risk adjusted performance.

The study by Dua (1997) was done with the following objectives namely to study the existing frame-work of operation of Mutual Funds in India, to study the various schemes of Mutual Funds in operation and to analyse the perception of investors with regard to Mutual Funds in India. The primary data analysis was done with the help of a questionnaire, which was administered to 60 respondents selected at random from Patiala and Nabha. It mainly dealt with the objectives of investment, the amount invested, the type of investment, investors servicing and the ranking of the performance of Mutual Funds by investors. The various schemes of Mutual Funds were analysed on the basis of Net Assets Value (NAV). The investors in the study considered mutual funds on par with fixed deposits. The study was limited to only 60 investors from Patiala and Nabha and there was no bench-mark for comparing the different schemes.

The objective of the study by Graciela et. al, (2001) was to provide an overview of the importance and behaviour of international mutual funds in emerging markets. Secondly it examined whether mutual fund investments tends to be stable over time and during crises. The financial crisis not only affects a particular country but spread to other
countries. The role of mutual funds in capital flow reversals during crises were analysed. The data for the study were collected from U.S. Securities and Exchange Commission semi annual reports and private companies mutual funds quarterly data. The authors used cross sectional and time series analysis. The advantage in studying mutual funds was their allocations to emerging markets had grown considerable in scope and size. The study revealed that mutual funds pulled out from Asia and Latin America during the periods of financial crisis. The decisions were taken by fund managers. Both large and small mutual funds hold smaller liquid position in times of redemption indicating that fund managers behaviours helped to smooth the effects of investors withdrawals on equity markets in Latin America. By contrast medium size funds hold more liquid assets in times of redemption thus magnifying investors withdrawals from emerging markets. Equity investments in emerging markets have grown rapidly in 1990s. A significant proportion of that equity flow is channeled through mutual funds. These funds have large investors and hold a sizeable share of market capitalization in emerging markets. Asian and Latin American funds achieved the fastest growth. Their size remains small compared with US domestic and global funds. US Global funds invest only 10 percent to Asia and Latin America. The study does not evaluate the link between the institutional investors behaviour and country and market characteristics.

Vidya Viswanathan (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, 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 mobilized rather than
from the reserves. The authors concluded that UTI should have gone for market driven NAV during Jan 2000 when their repurchase price was equal to NAV. UTI have missed that opportunity.

The study by G.Ramachandran\(^49\) (2001) analysed how investors interest were affected by Government decision. The governments 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 decision 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.

The above studies indicated that the evaluation of mutual funds had been a matter of concern for researchers, portfolio managers and financial analysts. The major criticism leveled against these studies viz. the number of schemes selected for study are relatively small and the time period was also relatively short. The researcher has taken 30 schemes under both open ended and close ended schemes. The period of study is related to five year period from January 1996 to December 2000. Majority of the studies are done in open ended and close ended schemes only. There is hardly any study which includes evaluation of open ended or close ended schemes. The investors perception on mutual funds had not been resorted by the researchers. The present study analyses the investors perception about mutual funds relating to safety, return, liquidity and transparency. The performance of mutual fund schemes has been evaluated on the basis of primary as well as secondary data.
The present study has tried to overcome the limitations of the previous studies. It considered both open-ended and close-ended schemes. It covered a period of 5 years and used primary data for analysis the investors’ perception on the performance of Mutual Funds. The performance of the mutual funds has been analysed by using both primary and secondary data.


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