CHAPTER - 2

LITERATURE REVIEW
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Literature review is a study involving a collection of literatures in the selected area of research in which researcher has limited experience, and critical examination and comparison of them to have a better understanding. It also helps the researchers to update the past data, data Sources and results and identify the gaps, if any in the researches.

Various studies such as Banz (1981), Basu (1977), Bhandari (1988), stattman (1980), Rosenberg, reid and lanstein (1985) etc have explored the feasibility of earning extra normal returns on risk adjusted basis using two sets of categories i.e. Total market capitalization of the company (i.e. Coupon size) and the financial position of the firm as indicated by its various financial ratios (ex: P/E, P/B, D/E).

In India, Mohanty (2001), Sehgal and Muneesh (2002), Sehgal and Tripathi (2005,2007) have show the availability of extra risk adjusted returns in Indian Stock market on the basis of size and value based investment strategies.

Gary.W.Selnow (2003) examined various approaches to promote retirement investment. His study found that automatic enrollment has a good chance of overcoming the natural impediments to wise decisions about retirement investments.

Douglas.A.Hershey and Hendrik.P.Vannalen (2006) in the study explored the psychological mechanisms that underlie the retirement planning and saving tendencies of Dutch and American workers. The research suggests that policy analysts should take into account both individual and cultural differences in the psychological predispositions of
workers when considering Pension reforms that stress individual responsibility for planning and saving.

M.Kabir Hassan and Dr. Shari Lawrance (2007) conducted a survey on “An analysis of financial Preparation for retirement”. In this Study, the researcher analyzes the financial preparation for retirement, regarding retirement plan contributions; the findings indicate significant positive effects regarding income and womanhood. Education is significant and positive as a predictor for the decision to contribute to a pension plan for women in their thirties, thus supporting the hypothesis of a significant positive relationship between education and pension plan contributions. Conversely, the findings do not support the hypothesis of household size as a predictor of retirement plan preparation.

A Study Paper by the Federation of Indian Chambers of Commerce and Industry and accounting firm KPM Cr (2007) on Pension reforms in India holds that after reforms, the pension system in India will push the market to around ₹ 4,06,400 Crore in 2025. Without reforms, the size of the market will touch ₹1, 80,800 crore in 2025. According to the Study Paper, there is a need to push the reforms in the Pension sector to create a system that is suitable and that leaves the states resources to be diverted towards other sectors like education and health. The study has asked for international investment in a portfolio since it offers better diversification of pension portfolio and higher returns.

Subhasis Ray and Shahid Ali (2008) conducted a gap analysis between customers’ expectations and current provisions of Indian life insurance industry. The study made an attempt to identify the gap between available and desired features in terms of existing
products and services in life insurance. They investigated reasons for buying life insurance and found preferred tenure and age cut-off for entering into a life insurance.

Devasenathipathi, Saleendran and Shanmugashunaram (2008) conducted a research on consumer preference and comparative analysis of all life insurance companies. The study found that with the fast changing liberalization, globalization and Privatization policies, the changing and growing needs and demands of people have made the insurance industry more competitive. Both Public and private players now offer greater choice in terms of products and services.

Gireesh Kumar and Eldhosekv (2008) A Study on customer perceptions on life insurance services: A comparative study of Public and Private sectors observes that the insurance industry landscape in India has dramatically changed. The Study revealed that Consequent to the implementation of government Policies on globalization and liberalization. The consumers have become more critical of the quality services. In such an environment it is time that the industry should pay more attention to quality services so that the market opportunities can be tapped.

T.S.Ramakrishna (2008) points out that insurance is no longer an unexciting business and the insurance advisor is not an apologetic Salesman. The insurance market in India has really come to life prior to Privatization, the insurance market in one country grew at an average rate of 10-15% in the last seven years, the growth has been of the order of 20-25% plus much of this growth has come from the private sector companies. The greatest fallout of privatization in the insurance sector has been the perceptible shift from the sellers to the buyer’s market.
Crongvist and Thaler (2004) In their Study of retirement funds in Sweden have observed that when in 2000 Sweden privatized the social security, 43.3% of new participants chose the default plan for retirement savings, despite the fact that 456 plans were available for selection. This % further increased to 91.6% after 3 years in spite of several attempts by the government to motivate employees to choose specific plans.

Choimadrian and Metrick (2003) observed that up to 80% assets in different plans are invested in default plans. The same trend is also noted in the U.K.

Bridgeland (2002) A Study conducted by the consulting firm Hewitt Bacon and Woodrow observed that 80% of the members of group personal pension Schemes in UK accepted the default option provided by the plans.

Pension Decision Research, a pension research company in the US, after studying 31 large plans across eight different sectors found that 80% of employees favored default funds rather than alternatives put forward by their employers.

John Hancock Financial Services (2002) a survey of defined contribution savings plans in the US reported that 38% of respondents have little or no financial knowledge, 40% of respondents reported that they believe money market funds contain stocks and two thirds of respondents did not know that it was possible to lose money in govt. bonds.

'A Survey on Financial literacy' (Pension fund Association of Japan (2007) ) A Survey conducted in Japan on Financial literacy among the Direct Contribution plan Sponsors and Participants. It is noted that 53.2% respondents do not understand how DC Plans work.
Iyengar, Huberman and Jiang (2004) – A Survey was conducted on the complexity of asset allocation which leads to the employee to delay enrolment for pension plans. They also observed a negative relationship between the number of funds offered in the 401 (k) plan and 401 (k) participation rate, it is noted that more the funds, less the participation rate.

Dellavigna (2007) in the pioneering research paper “Psychology and Economics” mentioned that: “Evidence from the field observed that individual preferences are assumed to be time consistent and independent of the framing of the decision are time-inconsistent.”

Bodie et al. (2007) emphasized the life cycle portfolio approach for retirement savings plan. Emphasized as life cycle portfolio model helps broadly provides guidance to investors about present and future savings and investing, as it is a great help to investors to plan retirement savings and investing.

Viceira (2007) The main characteristics of life style funds is that “They change the stock exposure of the fund as a function of investors risk tolerance”. Whereas the life cycle fund reduces the “Stock exposure of the fund as their target maturity date approach”. Life cycle funds are age-based asset allocation funds and the portfolio gets readjusted not with the changes in the market but with the changes in the age profile of investors.

Kintzel (2007) – “The general life cycle proposition calls for investment portfolios that hold a decreasing proportion of assets in equities (associates with higher risk) and a
greater proportion in fixed return investments (associated with lower risk) as an individual ages”.

A Survey by securities and Exchange Board of India (SEBI) – National council of Applied Economic research (NCAER) on Indian investors (2000-01) showed that “the behaviors of investor households has generally shown negative correlation between the degree of risk and choice of instruments of investments. It is noted that Indian investors are risk averse and they go for investment offering moderate return and lower or nil credit risk’.

(Shukla 2008) A Study by NCAER- Max- New York Life quotes D.Swarop of PFRDA, “The main challenges, to my mind, are to empower the subscribers to take appropriate investment decisions based on their risk and return profile, provide safety and high returns, extending coverage to as many people as possible and to improve Financial Literacy levels”.

Therefore while designing for retirement one should keep in mind the Socio economic environment, level of financial literacy etc. moreover the investors should be able to identify themselves with such funds and at least be able to assess the implicit and risk level.

OECD (DEC 2008, Issue 5) “Pension Market in Focus” mentioned that “by October 2008, the total assets of all pension funds in the OECD Countries has declined by about $3.3 trillion or nearly 20% relative to Dec 2007, Including other private Pension assets, Such as those held under Personal Pension plans in the united States ( i.e. IRAS) and in
other countries, the loss increases to about $5 trillion. The Study has further shown that
the devastating effect was more in countries "Where equities represent over a one third
of total assets invested", with Ireland the worst hit at – 30% (equity exposure of Irish
Pension fund is 66% on an average). Investment for retirement is a long-term
Proposition and the fund is expected to undergo several business and stock market cycles.
Hence prudence in Portfolio design is absolutely essential.

Malkiel (1990) – The most well known thumb rule approach is “100 minus age”. This
rule dictates that equity portion would be an amount equivalent to 100 minus age. If age
of an investor is 30 years, the equity in the portfolio would be 70% i.e., 100-30

Hickman Etal (2001) analyze “Your age in bond” by using the Monte Carlo Simulation.
“Your age in bond” thumb rule dictates the % of bond in portfolio would be equivalent to
the age of investor, i.e. if the age of an investor is 30, the bond in the portfolio would
be 30%.

Shiller (2005) – Studies on how to determine association of assets for retirement funding-
Analyzes that plan is the life cycle model which is aggressive at a young age and tends to
become – conservative at a later stage.

Carrollet (2005) “ Defaults may be socially optimal when agents have a shared optimum
an the default leads them to it”

Gordon J. Alexander, Jonathan D. Jones and Peter J. Nigro (1997) analyzed the various
characteristics and investment knowledge of investors in a telephonic survey of 2000
mutual fund investors. Results showed that the overall investors are knowledgeable
about costs, risks and returns associated with mutual funds. The result suggested that there is no much room for improvement in investor education for a large segment of investors.

Edward S. O. Neal (2002) evaluates the performance of select mutual funds from 1999-2001 and the implications of the dividend policy was correlated with the performance of the mutual fund.

Bala Ramaswamy and Mathew C. W. Yeung (2003) evaluated the mutual funds in an emerging market like Malaysia. A questionnaire was administered to financial advisors on few attributes of mutual funds like Past performance of funds, qualification of fund manager, experience of fund manager, Investment style of fund manager, Size of funds, Affiliation of mutual funds, Number of funds managed and cost of transaction. The research article surveyed the relative importance of factors considered important in the selection of mutual funds in the emerging markets like Malaysia.

John N. Sorros (2003) evaluated the risk and return of equity mutual funds operating in the Greek financial market over the period 1995-1999. The mutual funds were ranked on the basis of return, total risk, coefficient of variation, systematic risk and techniques of Sharpe and Treynor ratios.

Brain J. Glenn (2004) examined the performance of open-ended and close-ended mutual funds, their difference and impact upon the performance i.e. NAV and its volatility was also examined.
Athanasiou.G. Noulas, John A. Papanastasiou and John Lazaridis (2005) evaluated the performance of 23 equity funds during the year 1997-2000 in Greece. The performance evaluation was based on measuring risk and return using Treynor, Sharpe and Jensen techniques. The Study proves that the investor needs to know the long term behaviour of mutual funds in order to make the right decision. The Study showed that equity funds neither have the same risk nor the same returns.


Black et al (1972), Blume and Friend (1973), and Fama and MacBeth (1973) – empirical research done on the determinants of expected stock returns focused on the association between average returns on beta – sorted portfolios and their betas, as predicted by the CAPM.

The earnings yield of Basu (1977 and 1983), The size effect of Banz (1981), analyzed the relationship between stock returns and company attributes are Voluminous.

Reinganum (1981) found the size and P/E Ratios could explain variations in returns.

Fama and French (1992) suggest that stock risks can be proxied by size and book to market equity.

Davis (1994) and Davis et al (2000) confirmed the influence of book-to-market ratio and size over various time periods from 1929 to 1997.
Fama and French (1993) found that three factors – the market portfolio and the differences in portfolios as indices. The difference in returns in returns on portfolios of small stocks and large and the difference in returns on portfolios containing stocks with high book to market ratios and stocks with low book to market ratios-can explain the cross-section of returns. These Studies were conducted in the American stock market.


Pandey and Chee (2002) used yearly panel data from 1993 to 2000 and found that size, beta, E/P Ratio, dividend yield and Book-to-market (B/M) ratio play a significant role in predicting the expected stock returns in Malaysia.

Capaul et al (1993) also found a Book-to-market effect in European and Japanese stock markets.

Balis (1978) analysed that earnings variables proxy for omitted variables or other misspecification effects in two Parameter model.

Fama and French (1988) feel that yield surrogates such as dividend and earnings yield are correlated with returns because the proxy for underlying risks not accounted for by beta.

Roll (1981) found that size and industry classification do not affect stock returns, while shares with poorer liquidity offer a premium in returns.
Mohanty (2002) found size, market leverage, E/P ratio and price to book value ratio were related to returns and the size effect was most prominent.

Connor and sehgal (2001) studied the Fama and French three-factor model for the period 1989-99. They found the proxies for market, size and value factors could explain the cross-sectional dispersion of their mean returns, and however they did not find any relationship between earnings growth rates and equity return factors.

Dhankar and singh (2005) found that multiple factors were needed to explain the variation in returns based on principal components analysis.

Sharpe and Cooper (1972) examined the investment performance of investment strategy which was based on high-risk return relationship. They divided the stocks listed on NYSE into 10 portfolios according to their systematic risk ranking. The Study reported that the average annual return for the highest risk investment strategy was over 22% per year while the lower risk investment strategy provided less than 12% during the period 1931-67. By and large the results suggested that when the average market return was large, higher risk-return class tend to provide higher return on average than lower risk return class and vice versa.

Basu (1977) made an attempt to determine empirically the relationship between investment performance of common stocks and their P/E ratios. The study exhibited that during the period April 1957 to March 1971, the low P/E Portfolios earned higher absolute and risk adjusted rate of return than higher P/E securities. The results reported were consistent with the view that P/E ratios were not fully reflected in security prices in

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as rapid a manner as postulated by the semi–strong hypothesis. The results also suggested that the violation in the hypothesis was because the security price behaviour was consistent with efficient market hypothesis.

Reinganum (1981) in his first study measured risk using CAPM model and in the second study in (1982) using arbitrage pricing theory, reported that the market capitalization is a significant predictor of average return of common equities and the effect was large about 18% per annum in excess return for the deciles of the smallest firms.

Banz (1981) examined the historical monthly for NYSE common stocks for the period 1931-75 and found that the size of the firm had been highly correlated with stock returns. The study indicated that the larger the market value of a firms common stock the lower the rate of return generated by the stock.

Roll (1981) studied the relationship between investment performance and market capitalization investment strategy. The study tested small firm effect abnormally and reported the misstatement of risk had the potential to explain why small firms, low P/E ratio firms displayed large excess returns. The Study also exhibited auto correlation in such firms as a cause of downward biased measures of portfolio risk and corresponding overestimates risk adjusted average return.

Reinganum (1982) tested the Rolls (1981) conjecture that the abnormal returns attributed to small firms were the statistical artefacts’ of improperly estimated betas. The Study used 10 portfolios which were constructed using market capitalization of individual firms.
and reported that while the direction of the bias in beta estimation was consistent with Rolls conjecture, the magnitude of bias appeared to be too small to explain the firm size effect.

James and Edmister (1983) explored the relationship among common stock returns, market capitalization and trading activity. The study documented that small size firms produced a significant higher mean daily return (0.13%) than large firms (0.053%). The same was true in case of mean risk adjusted return and systematic risk. The Study also reported that the smaller firms traded less frequently than the larger firms and this bias was not large enough to explain the difference between the mean daily return of large firms and small firms.\footnote{1}

Williamson (1972) made comparisons of rankings of 180 funds for the period 1961-65 with their rankings over the subsequent five year period, 1966-70. It highlighted the growing prominence of volatility in the process of measurement of investment risk.

Klemosky (1973) analyzed investment performance of mutual funds to identify bias that could be removed by using mean absolute deviation and semi-standard deviation as risk surrogates.

Mc Donald (1974) examined funds performance relative to stated objectives to dominate a positive relationship between objectives and risk measures, that is risk increasing with objectives becoming more aggressiveness and there was a positive relationship between return and risk.
Ang and Chua (1979) examined mean-variance measures and found unsatisfactory in evaluating investment performance. This was attributed to asymmetry of return distributions at small intervals and the failure to identify appropriate holding period.

Reilly (1982) examined mutual fund performance over a 15 year period-1966-80 and found that the mean return of all funds was quite close to that of the market and noted a large range of fund returns pointing to inadequate portfolio diversification. Likewise, two risk measures (S.D and Beta) exhibited a wide range.

Shome (1994) found that the average return of Indian mutual funds was marginally lower than the benchmark (BSE Sensex). However variability of returns was discovered to be higher than the benchmark portfolio.

Kale and Uma (1995) examined risk return relationship for 77 investment schemes managed by eight mutual funds and that the schemes proved worth their objectives.

Wartner (1995) reported aggregate security returns highly coincident with concurrent expected flows. Interestingly, it provided evidence of a positive relation between flows and subsequent returns, and also negative evidence between returns and subsequent flows.

Yadav and Mishra (1996) indicated that funds as a whole performed well in terms of non-risk adjusted measure of average return.

Chander (2002) reported a superior performance of mutual funds when compared to the market in terms of average return for a majority of investment portfolios.
Gupta (2002) on examining risk-return relationship of 73 mutual fund schemes in India from Jan 1994 to March 1999, Concluded that risk-return characteristics for Indian mutual fund schemes were not in conformity with their stated objectives.

Litner's (1956) study perhaps one of the pioneering studies on corporate dividend policy. Major findings were

a) Dividend represents an ‘active and primary decision’ variable in Financial policy making in most of the situations, i.e. dividend decision is taken first and retained earnings are its by-product.

b) Managers focus on the change in the existing rate of dividend payout, not on the amount of the newly established payout as such;

c) The primary determinants of change in dividend payout are the “most recent earnings” and the “past dividends paid”;

d) Dividend decided in the previous year (i.e. existing rate of dividend) is considered as the “central benchmark” by the management while declaring the current level of dividend.

e) The primary effect of Taxes, on the volume of net corporate earnings, results from their impact on the magnitude of net earnings.

f) The level of current earnings is almost invariably the starting point in the management’s consideration of whether dividend should be changed in any given year.

g) Dividend changes are made only when the management feels secure that the new level of dividends could be maintained;
h) There is a propensity to move towards some "target pay out ratio" for most companies.

i) Companies are very reluctant to cut or eliminate dividend. They avoid making such changes in their dividend rates that might have to be reversed within a year or so.

The stability of the dividend behaviour that underlies the Lintner hypothesis is the outcome of various Considerations of management and shareholder preferences. It is argued that shareholder prefer to receive a steady income from their investments.

Rozeffs (1982) study is the first to explicitly recognize the 'role of insiders' as one of the monitoring managers. He finds that companies with higher levels of insider holding have less need to signal company value through dividends.

Revin (1992) analyzed the dividend distribution pattern of 650 non-financial companies which cloased their accounts between Sep 1983 and Aug 1984 and net sales income of one crore rupees or more. He finds evidence for a sticky dividend policy and that concludes that a change in profitability is of minor importance.

Fama and French (2001) analyze the issue of lower dividends paid by companies over the period 1973-99 and the factors responsible for the decline. In particular, They analyze whether the lower dividends were the effect of changing the company characteristics or lower propensity to pay on the part of the companies. They observe that the proportion of companies paying dividend has dropped from peak of 66.5% in 1978 to 20.8% in1999. They attribute this decline to the changing characteristics of companies.
Mahaptra and Sahu (1993) analyze the determinants of dividend policy using the models developed by Lintner (1956), for a sample of 90 companies for the period 1977-78 to 1988-89. They find that cash flow is a major determinant of dividend followed by net earnings. Further, their analysis shows that past dividend - and not past earnings – is a significant factor in influencing the dividend decision of companies.

Bhat and pandey (1994) Study the managers perceptions of dividend decision for a sample of 425 Indian companies for the period 1986-87 to 1990-91. They find that on an average third of their net earnings and that the average payout ratio is 43.6%. They also find that the average dividend pay out ratio is 54% for the samples of both profit making and loss making companies and the average dividend rate is in the range of 14.3% to 19.2%. They also observe variation in dividend policy of different industries. Further on the basis of a primary survey of those 425 companies they find that managers perceive current earnings as the most significant factor influencing their dividend decision, followed by patterns of past dividend. They also find two other variables (i.e. increasing equity base and expected future earnings) to have a significant influence. However, they find ‘industry’ to have the least influence on dividend, which has been contrary to the expectations.

Mishra and Narender (1996) analyze the dividend policies of 39 State Owned Enterprises (SOE) in India for the period 1984-85 to 1993-94. They find that earnings per share (EPS) is a major factor in Determining the dividend payout SOES.

Narasimhan and Asha (1997) discuss the impact of dividend tax on dividend policy of companies. They observe that the uniform tax rate of 10% on dividend as proposed by the
union budget 1997-98 alters the demand of investors in favour of high payouts - rather than low payouts - as the capital gains are taxed at 20 % in the said period.

Mohanty (1999) analyzes the dividend behaviour of more than 200 companies for a period of over 15 years. He finds that in most bonus issue cases, companies have either maintained the pre-bonus level or only decreased it marginally there by increasing the pay out to shareholders. The study also finds that companies that declared bonus during 1982-1991 showed higher returns to their shareholders compared to companies which did not issue bonus shares but maintained a steady dividend growth. He finds evidence for a reversal of this trend during 1992-96. He attributes such a reversal in trend to the changed strategy of multinational corporations (MNCS) and their reluctance to issue bonus shares.

Reddy (2002) examines the dividend behaviour of Indian companies over the period 1990-2001. Analysis of dividend trends for a large sample of stocks traded on NSE and BSE indicate that the percentage of companies paying dividends has declined from 60.5% in 1990 to 32.1% in 2001 and that only a few companies have consistently paid the same levels of dividends.

Jensen (1967) He laid the foundation of contemporary mutual fund performance Studies. He documents that expense adjusted funds returns are significantly lower than randomly of efficient markets and the general conclusion prevalent in the early literature that professionally managed funds do not beat a risk adjusted index portfolio.

Several subsequent studies on the topic however contradict the early findings.

Ippolito (1993), Suggests that mutual fund returns, after expenses (but before loads) are equivalent or superior to those available from a risk-adjusted market index implying at mutual fund managers may have access to useful private information.

Goetzmann and Ibbotson (1994) and Volkman and Wohar (1995) provide further support for market inefficiency by finding evidence of repeated winners among fund managers and positive performance persistence.


Carhart (1997) demonstrates that those common factors driving stock also explain persistence in mutual fund performance.

Sharpe (1996) analyzed that funds with lower expenses realize better performance.

Ippolito (1989) finds no significant relationship between performance, after expenses turnover and investment fees.

Hooks (1996) In a study of load and no load funds, concludes that low expense load funds do sufficiently outperform average expense no load funds.
Dellva and Olson (1998) In contrast to the above study found that funds with front-end load changes earn lower risk-adjusted returns.

Malkiel (1995) and Carhart (1997) reported a negative impact for portfolio turnover and total fund expenses on fund returns.

Wermers (2000) demonstrated a positive relationship between performance and turnover, suggested that those funds engaged in more active trading may be finding under priced securities.8

F.Amling – The objectives of portfolio management is to invest in securities to provide a maximum yield and minimum risk that will meet the particular investors stated investment goals. A good portfolio should have multiple objectives and should achieve a sound balance between competitive objectives. Any one objective should not be given undue importance at a cost of other objectives.

In a survey he concluded that portfolio management will be an incomplete exercise without a periodic review. Every security should be subject to severe scrutiny and a case made out for its continuation or disposal.

S.H.Archer – Supported the view and added that the Review should include a careful examination of Investment objectives, targets for portfolio performance and actual results obtained. The review should be followed by taking suitable and timely action.9

Schwarz, Anita M et al 1999 (‘Taking Stock of pension reforms around the world’) – systems providing financial security for the old are under increasing strain throughout the world. According to an estimate by the World Bank, over the next 35 years, the
proportion of the world’s population over 60 years of age will almost double from the present 9% to 16%.

Ibid, PP (2-3) Population are aging rapidly due to the rise in life expectancies and declining fertility rates. Traditional family systems are weakening under the pressures of urbanization, industrialization and increased mobility. Public systems of old age security the world over are in need of reform.

Ibid, PP (2-3) Different developed and emerging economies are carrying out pension reforms. The demographic profile of a country is a major factor influencing the type of pension reforms. Chile was the first country to move to a publicly managed fully funded defined contribution scheme. Brazil, Peru, Australia, the UK, France and Germany are some countries which have undertaken pension reforms.

World Bank Report, (2005), old Age Income support in 21st century In India, The publicly managed pension scheme is moving into a fully funded defined contribution scheme. Old age financial security systems can be determined according to the following criteria. Funded/pay as you go (PAYG) schemes; publicly managed /privately managed; defined benefits (DB)/defined contribution (DC) schemes; managed by employer/self managed. The World Bank suggests a multi pillar approach10.

Definitions:

1. Defined Benefit scheme: In this scheme, pension benefits to the beneficiary are assured at the time of the beneficiary are assured at the time of the beneficiary
entering into scheme. The assured benefit usually links pension to the cost of living and the last pay.

II. Defined Contribution scheme: Here the annual contribution to the pension fund is fixed in advance. This periodic payment is invested to earn return till the retirement of the member. At the time of retirement, the corpus is used to buy annuities provided by insurance companies. While the contribution is fixed in advance, the benefit is not\textsuperscript{11}.

The three pillars, which are a part of the universal system, supplementing each other for risk diversification are:

I. Publicly funded tax financed pension for the poorest of the poor.

II. Privately managed mandatory savings accounts for those employed in the organized sector.

III. Voluntary (also called individual) retirement saving accounts for the self-employed\textsuperscript{12}.

Berk, Green and Naik (1999) show that according an asset with low systematic risk leads to a decrease in firm's book-to-market ratio and lower future returns.

Gomes, Kogan and Zhang (2003) explicitly link risk premium to characteristics of firm cash flows in general equilibrium.

Zhang (2005) shows how asymmetric adjustment costs and a time – varying price of risk interact to produce value stocks that suffer increased risk during downturns.
Cornell (1999) shows that growth companies may have high because of the duration of their cash flows, even if the risk of these cash flows, even if the risk of these cash flow is mainly idiosyncratic\textsuperscript{13}.

Berk, Green and Naik (2004) Value a firm with large research and development expenses and show how discount rate and cash flow risk interact to produce risk premia that change over the course of a project\textsuperscript{14}.

Dechow, Sloan and Soliman (2004) measure cash flow duration of value and growth portfolios; they find that empirically, growth stocks have higher duration than value stocks and that this contributes to their higher betas.

Campbell and Vuolteenaho (2004) decompose The market return into news about cash flows and news about discount rates. They show that growth stocks have higher betas with respect to discount rate news than do value stocks, Consistent with the view that growth stocks are read high – duration assets\textsuperscript{15}.

Thus the reviews discussed above reveal that there are very scant studies in India emphasizing on the “a study on security analysis and portfolio management with special reference to retirement planning”. The Earlier studies clearly highlights the major gaps in the research. Indian capital and financial markets are one of the fastest growing segments. The industry has grown in size. This thesis intends to cover the gap by suggesting a portfolio for retirement planning.
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