CHAPTER 2

REVIEW OF LITERATURE

In the backdrop of increased investors' awareness and competition mutual funds and it substantially has become an area of concern for the AMC of mutual funds. In this context it has become relevant to undertake a review of literature indicating the preferences of investors towards the various mutual funds schemes. It would guide and give direction to the researcher to find the research gaps and conduct research in fruitful manner. Further, the review of literature will provide an outline of the research design to be adopted by the researcher for the conduct of present research study.

The present chapter is devoted to the review of related literature including published papers and articles in various journals and books, published books, published articles in magazines etc. The following section deals with preferences, perception, attitudes and investors' behaviour.

2.1 RESEARCH PAPERS AND ARTICLES IN JOURNALS

Deborah Tan and Julia Henker (2010) discussed the presence of the negative relation between idiosyncratic volatility and future returns in the Australian market, arguing that the behavioral biases of retail investors, which were consistent with prospect theory, cause the anomaly. Their analysis revealed that the negative idiosyncratic risk premium was concentrated in stocks with higher levels of retail trading. They argue that active
trading by retail investors in high idiosyncratic volatility stocks causes these stocks to, on average, earn lower subsequent returns. They show that once retail trading levels were controlled for, the negative relationship between idiosyncratic volatility and future returns disappears. They contend that individuals attracted to the potentially sizeable payoff offered by high idiosyncratic volatility stocks, viewing them as speculative, lottery-type investments. They also consider idiosyncratic skewness, an additional speculative characteristic, and found that the negative idiosyncratic volatility-return relation was largest in stocks with high idiosyncratic skewness, and that retail investors prefer trading in these high idiosyncratic volatility and skewness stocks. Their preference leads retail investors to overpay for this type of stock, lowering their future returns. If the negative relationship between idiosyncratic volatility and future returns can be (at least partially) explained by retail investor behavior, then they would expect that this phenomenon especially prominent in daily data. Day traders are, by definition, short term, speculative retail investors who attempt to profit from the volatility of the stocks in which they invest. Daily realized idiosyncratic volatility analysis provides stronger evidence of a negative idiosyncratic volatility-return relation; both raw and portfolio-specific returns show that this negative relationship was observed over all levels of retail trading. Consistent with conjecture that high idiosyncratic volatility stocks represent a preferred trading habitat for day traders due to the stocks speculative characteristics, they document evidence that daily trading by retail investors was highest in stocks exhibiting both high idiosyncratic volatility and idiosyncratic skewness.

Nidhi Walia and Dr. Mrs. Ravin Kiran (2009) in their paper “An Analysis of Investor’s Risk Perception towards Mutual Funds Services”. The responses of individual
investors were collected through questionnaire after explaining objectives of the research. In order to reduce the complexity of data responses questionnaire were distributed among only those investor who had prior experience of mutual funds investment. For reliability of questionnaire 100 individual investors were selected from different regions of Punjab. Findings of the study emphasised that the mutual funds as an investment avenue is preferred by primarily those investors who don’t want to assume risks of capital market volatility, and it also revealed the fact that very few investors rank mutual funds as most preferred investment avenue, and moreover, majority of the investors invest money in mutual funds for tax benefits purpose.

**Alok Kumar (2009)** in his research article “Dynamic Style Preferences of Individual Investors and Stock Returns” has examined the determinants of investors changing style preferences, and the researcher found that the shifts in investment preferences were sensitive to past style, returns and earnings differentials. Those changing preferences were in turn also influenced by the differential style level sentiments, shifts among investment news analysis. In contrast, investors style level preference shifts were not influenced by innovations in macro-economic variables or shifts in their expectations about stocks’ future cash flows. But in case of style level preference shifts on style returns, the researcher found that demand shocks were induced by systematic preference shifts along with style-based attributes. The contemporaneous relation between style returns and investors preference shift was strong and the strength of return co-movements within a given style was positively related to the magnitude of preference shifts into that style.
D. Kiran and Prof. U. S. Rao (2009) in their paper discussed the demographic and psychographic characteristics of investors. They found that the risk bearing capacity of an individual is strongly dependent on the demographic and psychographics variables of the investors. There appears to be two broad categories of investors - risk taking and risk-averse. The factor analysis of the questionnaire data showed that the investors can be classified into four categories i.e. the professional investors who want more returns and take calculated risk, the ambitious investors who like high returns even if it meant taking higher risk, the cautious investors who look for regular income rather than capital gains and finally the over-cautious investors who primarily want to protect their capital more than anything else, even if it means lower returns.

Jieun Huang (2009) in his paper “Dynamic Liquidity Preferences of Mutual Funds” studied the expected market volatility states as well as the impact of these dynamic preferences on fund performance. Researcher found evidence that fund managers tilt their holdings more heavily toward cash and liquid stocks when expected market volatility is higher. The findings were robust to a number of specification checks and changes in the sample. This type of liquidity preference was more pronounced among low-load funds, funds with unfavorable past performance, funds with high volatility, smaller funds, growth funds, and high- turnover funds. Combined with the findings that these fund characteristics were associated with greater withdrawals risk or better stock picking skills, these results were consistent with the notion that the benefits of precautionary liquidity holdings tend to be greater for these funds. The paper also found strong empirical evidence that funds with high liquid asset holdings during times of high expected market volatility had better risk-adjusted performance in the subsequent period.
This effect was driven mainly by funds that have greater exposure to withdrawal risk and funds that have better stock picking skills. From the perspective of fund investors, the results suggest that actively managed funds provide a valuable hedge against expected market volatility.

Sebastian Mauller and Martin Weber (2009) conducted a study on financial literacy in the context of mutual fund investments. The study revealed that the sophisticated investors overwhelmingly select active funds although they were very much aware of less expensive ETF and index fund alternatives. Additionally, though more sophisticated investors were capable of giving more precise management fee estimates yet they do not minimize fees. However, their results suggested that the level of financial literacy was not related to the performance of the actively managed funds selected. In contrast, overconfidence might prevent subjects from investing passively. They found a positive relationship between the belief of being better than average in identifying superior investments and the likelihood of buying an active fund which confirms this notion. Also, better than average thinking is positively correlated with financial expertise. Their results were consistent with the view of distinct groups of actively managed fund customers based on their level of financial sophistication. Less knowledgeable fund customers mainly choose traditional distribution channels, implying that they seek assistance from a financial advisor who has an incentive to recommend actively managed funds. In contrast, fund investors with a higher degree of financial knowledge believe that they had some fund selection ability, select their funds more often independently and rely more on internet channels, thereby avoiding sales commissions.
K. Senthil Kumar, C.Vijaya Banu, V. Lakshmana Gomathi Nayagam (2008) in this paper, they studied six financial investment products. Each alternative was having slight difference from one another, the selection of the best alternative needs fuzzy knowledge. The objective of the study was to rank financial products according to the preference of the respondents who select, and rank them according to Safety of principal, Liquidity, Stability of income, Capital growth, Tax benefit, Inflation resistance and Concealability. In choosing specific investments, investors need to have definite ideas regarding features which their portfolio should possess which in turn should be consistent with the investors’ general objectives. So in this paper an attempt has been made using Analytical Hierarchy process and Multi Criteria decision making to rank the financial products by taking into account all factors influencing an individual investment decision. This study was conducted in two phases. The first phase may be described as the formulation phase where the basic selection problem was formulated as a multi criteria decision making problem. The second phase was the demonstration phase where the formulated problem was actually applied on a set of participants in the study to come out with conclusions for the larger audience of future investors.

The findings of the study were that the old investors were mostly inclined towards the safety of their principal and want a stable return from their investment to meet their routine expenses like travel, medication, recreation, etc. because they don’t have any more earning years. So the group with old investors should have preferred the criteria “Security of principal” and “Stability of return”. The group with young investors should have preferred the criterion “Capital growth” as the growth is usually at the cost of risk as
the young investors have good future years left to work, so they were not quite bothered about the risk.

**Martin Bengtson and Love Goransson (2008)** wrote a thesis, which examined the relation between net flows and past performance in the Swedish Mutual Fund Market. They studied the behavior of ethical investors by examining the differences in the determinants of net flows to ethical funds and conventional funds. More specifically, they address the question whether ethical investors were less sensitive to past performance, both in terms of past high and poor performance. In addition, they also examined how ethical investors preferences for management fees and volatility in past returns impact on net flows in ethical funds. Firstly, they studied ethical investor behavior by examining the flow-performance relationship on a sample of funds with an ethical profile, i.e. they analyze how ethical investors respond to past performance. The same relation were analyzed for a sample of conventional funds, enabling the researcher to infer behavioral differences between those two investor groups, ethical investors were interesting investor clientele, since those investors integrate their financial requirements with social and moral concerns, hence deriving part of their utility from a non-financial attribute. Secondly, in order to enhance the understanding of ethical investors’ preferences for fund specific characteristics and its impact on fund flows, they explicitly add two other dimension; the financial cost of holding a fund as reflected by the management fee and past volatility in returns. Thus, their results for conventional funds suggest that the flow-performance relationship was stronger for poor performing funds compared to high performing funds. In particular, they found that ethical investors were more sensitive to management fees compared to conventional investors, as reflected by larger decreases in
net flows for ethical funds following increases in fees. Hence, this was inconsistent with the idea that ethical investors were willing to pay a price for investing in a fund with a profile coinciding with the investors' social or ethical objectives. This stronger impact of costs on net flows in ethical funds may actually discourage fund families to launch ethical funds.

**Dr. Bhagaban Das, Ms. Sangeeta Mohanty and Nikhil Chandra Shil (2008)** the study focused on the behavior of the retail investors in the selection of investment vehicles in Indian perspective by making a comparative study. The researchers had tried to sketch the behavioral pattern of retail investors towards two important investment options—mutual fund and life insurance. A couple of hypothesis in this regard have been selected and tested to reach the conclusion. And the research concluded with some important findings that would be valuable for both the investors and the companies having such investment avenues. The researchers came out with the following findings:

- It was found that, the different investment pattern do not provide the same level of services with respect to age of the retail investors in India.

- Although the investment patterns provide more or less the same service, there exist differences depending on the education level of the investors. It was observed that investors with the graduate & postgraduate level of academic qualification were investing more in life insurance and the professional investors investing more in mutual fund.

- The investors had a wide difference with respect to their profession and also the different investment patterns vary widely.
• It was found that on an average; the government servants were investing to the maximum extent (7.16%), where as the students and other professional groups investing the least (0.6%).

• Male investors were more as compared to females in Indian retail market.

• It was clear that majority of the people (35%) were investing with the objective of capital growth, followed by Tax saving (28%) and only 17% were investing for the Retirement plan.

• Maximum investors (30%) like to invest in life insurance followed by mutual fund (20%) & Government saving schemes (18%).

• Majority of the respondents (58%) belongs to the income group of 2.5-5 lakhs, followed by 5-7.5 Lakhs income group.

• 75% of the investors in the income group of 2.5-5lakhs prefer to invest in the life insurance.

• 52% of the investors ranked LIC as number one, 33% ranked ICICI as number two and 15% ranked HDFC as number three in Indian insurance industry.

• Majority (68%) of the investors had a view that the public sector insurance is better than the private sector.

• The brand image and the past performance of the Mutual funds were highly positively correlated (0.975).

• The variables, past performance and Brand image of the Mutual funds were more closely associated.

• 63% of the investors like to invest in open-ended Mutual fund schemes, whereas only 36% prefer Closed-ended ones.
• Investors who lie within the income group of Rs.1-2.5 lakhs invest a lot, whereas the investors in the income group of Rs.7.5 lakhs and above invest a little either in mutual fund or in life insurance.

• The Government servants invest more in life insurance and the private sector employees in Mutual funds.

• 40% of the investors were view that Newspaper and magazines is the main source of information, whereas only 6% get information directly from company.

**Soeren Hvidkjaer (2008)** in his paper “Small Trades and the Cross-Section of Stock Returns” studied relationship between retail investor trading behavior and the cross-section of future stock returns. The sample of the study includes all ordinary common stocks listed on the NYSE and the American Stock Exchange (AMEX) in the period January 1983 through December 2005. The findings of the study revealed that stocks favored by retail investors tend to experience large and prolonged underperformance in the future, relative to stocks out of favor with retail investors. While the results link the systematic component of retail investor behavior to future returns, this relationship could arise through different mechanisms. In one possible mechanism, retail investors actively push prices away from fundamentals with their trades and prices.

**Sai Sundar R., Subramanian S, & U. S Rao (2007)** in this study, they discussed the feasibility of using timing strategy as an investment tool to generate satisfactory returns. For this purpose, the strategies and operating philosophy of Gil Blake has been tested on Indian mutual fund markets. Based on Gil Blakes’ model, an automated decision support model has been developed to provide signals for making investment and sale decisions. Researcher used this trading technique, based on momentum, only for aggregate indices
and mutual funds and not for individual stocks. The philosophy of Blake was that the probability arising out of individual stocks can be explained by using the principles of binomial distribution. The normal stock has a 55% probability of similar trend following the next day. But if they take 10 stocks, this probability goes up to 62% and if the size of the sample goes up to 100 the probability is in the range of 75% to 82%. As per this study, the two key factors that determine the success of this model was the number of stocks that were included in the mutual fund scheme, the momentum of the fund, and swings (price change between high and low in a year) of the stocks in the schemes. This model has proved to be very successful in case of technology sector funds and market indices. The high performance of this model on market indices can be attributed to large number of stocks in the indices. The high performance of this model on technology sector funds was essentially because of comparatively high swings (price change between high and low) and momentum in individual stocks that form part of these funds as compared to other sector funds because of increased interest of the investors and speculators in the individual stocks that form part of these funds. This study also highlighted that much of the gains generated by the trading methodology were lost due to transaction costs that exist in form of spreads, i.e. the difference between repurchase price and sale price, especially if the spread is very high. The study also proves that to get a maximum return (of about 40%) with this methodology, one must ideally choose a fund like technology fund having high swings and momentum with zero spread or very low spread.

Zoran Ivkovic and Scott Weisbenner (2007) studied the relationship between households’ stock purchases and stock purchases made by their neighbors. First, they consider the level of sociability of the state to which the household belongs and found
that the relation between industry-level household purchases and neighborhood purchases was substantially stronger among households in the more sociable states. Second, they consider the households’ own preferences (as revealed by the composition of their respective portfolios across industries at the beginning of each quarter), preferences of the households’ respective neighborhoods (as revealed by the composition of the neighborhoods’ aggregate portfolios), as well as the composition of local firms and workers by industry. It was found that there was strong evidence that individuals’ stock purchase decisions were related to those made by their neighbors. Their results, suggested that word-of-mouth effects were a broad phenomenon that affects financial decisions made by both mutual fund managers and individual investors. Because word-of-mouth effects may create a dynamic exchange of information that could lead to a ripple effect of further information dissemination, which in turn may have an impact on stock prices, understanding the interplay between individual and institutional trading across time and space might yield insights into price dynamics in the stock market.

**William N. Goetzmann and Alok Kumar (2007)** in their research paper they analyzed the diversification choices of more than 60,000 individual investors in U.S. discount brokerage house during a six year period in recent (1991 to 1996) capital market history. Their research focused on three key issues, firstly they estimate the extent of under diversification in investors’ portfolios and examined whether the level of diversification improve over time. Secondly, they identify the key determinants of investors’ diversification choices, along with the traditional determinants of diversification, they considered investors’ personal characteristics, their level of information, and their preferences for certain stock characteristics, and their behavioral biases as potential
determinants of diversification. Finally, they quantify the potential welfare effects of portfolio under-diversification and examined the relation between portfolio diversification and performance. They found that investors in the sample were under-diversified and the under-diversification was greater in retirement accounts. Over time, the average diversification level improves, but the improved diversification does not necessarily imply that investors’ portfolio composition skills have improved. To a large extent, the improvements in the diversification characteristics of investor portfolios were induced by changes in the correlation structure of the U.S. equity market. There was considerable heterogeneity in the diversification choices of individual investors. In the cross-section, older, wealthier, more experienced, and financially sophisticated investors and those who exhibit strong diversification motives in other settings hold relatively better diversified stock portfolios. For instance, investors who hold mutual funds and foreign equities also hold better diversified domestic stock portfolios. Traditional factors such as small portfolio size, high transaction costs, and high search costs did not appear to influence investors’ diversification choices. The research also examined the relation between diversification and performance and they found that a small subset of investors under-diversify because they might have superior private information. However, most investors could have improved the performance of their portfolios by simply investing in one of the many available passive index funds.

Aditya Kaul and Blake Phillips (2007) in their paper “Flight to Quality and Canadian Mutual Fund Flows” examined the asset allocation decisions of mutual fund investors. Their tests focus on the variation in aggregate flow to funds that differ in terms of their riskiness as economic conditions change. By examining asset allocation decisions
conditional on economic conditions, they provide evidence on whether mutual fund investor trading is rational. The rational explanation suggests that flow to riskier categories will be higher when economic conditions were favorable, and that flows to safer categories will be higher in adverse circumstances. Their main findings were that an improvement in Canadian economic conditions causes investors to direct flows away from fixed income-type funds and towards equity based funds; when conditions deteriorate, the reverse happens. In order to provide further evidence on the significance of shifting risk preferences, they examined the flows to equity and money market funds surrounding three major crises: the Long Term Capital Management debacle, the Y2K problem and the 9/11 terrorist attacks. These three episodes prompted fears of a meltdown in global financial markets: if they triggered flight-to-quality concerns, they found that each episode was accompanied by significant flow into money market funds and out of equity funds. The message from their analysis was that mutual fund investors appear to take into consideration the information contained in signals of the economy’s health while making their asset allocation decisions. Specifically, investors direct their dollars to asset categories on the basis of the risk characteristics of the category in conjunction with the prevailing economic environment. Overall, therefore, their results provided evidences of strong flight to quality effects in aggregate mutual fund flows. They also point to some degree of rationality in mutual fund investor asset allocation decisions.

Lauren Cohen and Breno Schmidt (2007) in their paper “Attracting Flows by Attracting Big Clients: Conflicts of Interest and Mutual Fund Portfolio Choice” discussed the basic agency problem in which mutual fund investors would like funds to maximize
risk adjusted returns, while the fund complexes will take actions to maximize their own value as a going concern. Management fees were often tied to the underlying value of the fund; it is in managers' best interest to take actions to increase the size of their funds. Attracting a 401(k) plan results in a large, stagnant, and captive flow of capital which increases not only the current, but also the future size of the fund (as employees continue to save). They found evidence that mutual fund families systematically distort their portfolios to attract these 401(k) clients. This presents a conflict of interest, as the fund's fiduciary responsibility to outside investors was to maximize return subject to a given risk or benchmark. Specifically, they found that mutual fund families who become trustees significantly overweight 401(k) sponsor firm's stock in their fund families. This overweighting was significantly more pronounced for smaller fund families, for larger 401(k) plans, and was concentrated in those mutual funds actually included in the 401(k) plans (those accruing the largest benefit of increased flows). Moreover, they found that the trustee family performs a valuable service to the sponsor company by buying or holding its stocks around times of substantial selling of the sponsor firm by all other funds. They also found that overweighting can in some cases result in a large cost to the mutual fund investors.

Edwin J. Elton, Martin J. Gruber, and T. Clifton Green (2007) conducted a study on the "impact of mutual fund family membership on investor risk". In this article, they examined whether the propensity of investors and retirement plans to confine their investments to a single fund family, influences the risk characteristics of their portfolios. In this paper, they showed that this restriction causes investors on average to had higher risk portfolios than if they selected similar funds across different fund families. The
principal reason for this higher risk was that funds within a family have higher correlation than if funds were selected from two families. This higher correlation holds for all ICDI categories involving stock and combination funds both when two funds were in the same ICDI category. They found that for most combinations more than 90% was due to residual correlation. Examining the effects of common holdings on the increase in correlation, they found about 60% of the increase in correlation was due to common holdings. Thus, about 30% was due to a common response to factors other than the market such as industry and sector factors. Overall, the results suggest that on the basis of risk and in the absence of proven ability of certain families to produce excess return, investors would be wise to build portfolios of funds from different families, and that retirement plan administrators would do well to include offerings for more than one mutual fund family.

Sharan (2007) according to the author reforms in the mutual fund business have been multi-pronged. Healthy regulations designing the organisational structure, resource mobilisation, investment valuation and disclosure norms and focusing on SEBI’s supervision have been significant. The inclusion of private sector companies both Indian and foreign in mutual fund business brought in competition and thereby helped improve efficiency. The positive impact of reforms was evident in fast emerging net assets under management. The mutual funds were given variety of incentives and area of their operation was widened. All this had a positive impact on their functioning.

K. Balanaga Gurunathan (2007) conducted a study of “an investors requirements in Indian securities market”. In this paper he pointed out that investors were heterogeneous group they may be large or small, rich or poor, expert or lay man and not all investors
need equal degree of protection. An investor had three basic objectives while investing his money, namely safety of invested money, liquidity position of invested money and return on investment. The findings of the study were: that in India, the worries for the investors in the securities market were shortage of application forms, preferential allotment to the financial institutions, mis-statements, concealment of facts and pushing the issue through advertisement, fraudulent company management, price volatility, price manipulation, insider-trading, unfair trade practices of brokers and sub-brokers, increasing the number of vanishing companies, lack of commitment for the corporate entities, stock market scams, price rigging, insider trading, lack of professional expertise, defaults committed by brokers, multiplicity of number of investor complaints, absence of genuine investors, price rigging before issue, prevalence of insider-trading, lack of liquidity, scarcity of floating securities, lack of transparency, high volatility in the secondary market, dominance of public sector and financial institutions. The revival of investors' protection in the corporate securities market was necessary to make market more efficient by means of converting savings to investment. If the investors have not been protected properly by means of rate of return and capital, the corporates will not be able to collect the funds from the market with cheap rate and effectively in future days. For gaining the confidence of investors in the securities market there is a need to provide an adequate rate of return and fair operating efficiency of corporates in the securities market, then the investors lure back to market. This can be done by a series of systematic measures which would build their confidence in the systems and processes and protect the interest of investors.
John R. Graham and Alok Kumar (2006) in this paper they studied an evidence of retail dividend clienteles using a 6-year panel of portfolio choices and trading behavior of a sample of retail investors. First, they examined portfolio holdings. They found that, as a group, retail investors prefer non dividend paying stocks over dividend paying stocks. However, cross-sectional within the retail investor group, older and low-income investors prefer dividend paying stocks. They also focus on the behavior of older and low-income investors. First, they found evidence that older and low-income investors buy stocks on the cum-dividend day or earlier, in order to obtain the dividend. This is somewhat surprising because it indicates that older and low-income investors trade more actively in pursuit of dividends than might have been anticipated. This result could be unique to the data set of discount brokerage accounts, if these investors are more active traders than is typical. They also found that income and age characteristics appear to be impounded into ex-day returns among small-cap stocks. Second, they found that older and low-income investors purchase stocks that recently announced dividends, consistent with a behavioral hypothesis that posits that investors purchase stocks that attract their attention. They also found that the strength of the attention reaction varies predictably with the degree to which the attention of an investor was drawn to a particular event. Third, they found that older investors purchase stocks after the stocks initiate dividends. Finally, they found that the main portfolio-based results hold when they examined the initial purchase of stocks, making it unlikely that the conclusions they draw based on holdings were spurious.

Banerjee (2006) in his article discussed that systematic investment plan (SIP) is a regular investment plan enabling an investor to purchase units of mutual funds scheme. This strategy is primary modeled on the underlying concept of rupee cost averaging. This
unique strategy facilitates the investors to restrict their unit purchase in a rising market and expand it in a falling market. These are most advantageous in case of long term investments. These are the most viable investment instruments for the small investors because most of the mutual funds attach the minimum periodic investment amount in their SIP at Rs. 500. The success or failure of the SIP would depend upon the performance of the corresponding scheme that requires a regular monitoring. The article also highlights the advantages and disadvantages of SIP.

Gupta (2006) in her paper discussed the present scenario of real estate mutual funds in India with its advantages and challenges. According to this article, real estate mutual funds sector is now being considered as the engine of the economic growth. With the emergence of REMFs not only will the small investors earn profits but overall the industry will also stand to gain. For this, mutual fund trustees need to play a greater role as far as new offerings are concerned. Besides this, SEBI and AMFI also need to play a crucial role with respect to guidelines and monitoring of funds. REMFs should make the potential investors aware about the stock market volatility as the level of knowledge of the investors can affect their returns. It is high time that the untapped potential of REMF industry is tapped.

Mohapatra (2006) in his article discusses the relevance and growing importance of mutual funds in India. The article says that the mutual funds can play a prominent role in the channelizing savings into investments and thereby, bringing in more domestic funds into the markets. These are the institutions that can promise maximum satisfaction to their investors by diversifying the portfolio. It can act as a contrarian fund in the Indian market, if the government can give it more freedom. During the recent crash, FIIs were
the net sellers. But mutual funds went against the herd and became the net buyers that kept the Sensex in the positive territory.

Nigam (2006) in her paper presents a brief commentary on the growth of mutual fund industry. According to her, the Indian mutual fund industry has come a long way in the last few years. A growing mutual fund industry is a symbol of strong financial system. The paper claims that there has been a tremendous growth in the mutual fund industry in India, attracting huge investments from investors with in the country and abroad. However, there is still a long way to go. With the projected increase in the number of middle class to around 200 million, there is an immense potential for growth in the country. India’s young generation accompanied by a high rate of savings and a rapidly liberating economy is expected to evaluate the mutual fund sectors to new highs.

Ms. Kavitha Ranganathan (2006) the study mainly deals with the financial behavior of individual investors towards mutual funds. The required data had been collected through a pretested questionnaire, administered on a combination of simple random and judgment sample of 100 educated individual investors. The researcher found that the saving objective of individual investors remains the utmost priority and preference for the saving instrument amongst the individual investors was influenced by pension, provident fund. The current attitude of individual investors towards the financial instruments depends upon the investor investment goals, Risk tolerance, Time horizon, performance aspect of the asset class. Further study revealed that, there was a fair opportunity for mutual fund investment in future and majority of the individual investor’s preferred growth scheme for investing in mutual fund, which should be open-ended in operation. The preferential feature in mutual funds depend upon the psyche of Indian investors in three words; yield,
Security, liquidity. The preferable route to mutual fund investing among individual investors, finding of the study revealed that investors attach high priority to published information, preferred mode of communication; the survey reveals that 29% of the respondents use internet facility to know about mutual funds, 29% of respondents prefer to get information by personally visiting the office of mutual fund industry, while 30% of the respondents prefer to telephone the office and 12% have no preference. Majority of the individual investors had good knowledge of mutual funds and fund selection behavior was influenced by the fund performance record.

Richard Deaves, Catherine Dine and William Horton (2006) in their report “How Are Investment Decisions Made” discussed that how investment decisions were made in Canada. Issues of interest include the knowledge level of investors and the extent to which they were subject to behavioral biases; what information, whether mandated corporate disclosures or information provided by third parties, was used; and the openness of investors to electronic disclosure. They found that most retail investors make most of their investment decision decisions with the help of financial professionals. There was, however, a small minority of do-it-yourselfers. Knowledge levels were often low and decisions tainted by behavioral bias. Some were overconfident, subject to emotion and chase winners (when they should be contrarians). Plus the ability to understand diversification and asset allocation was quite limited. Despite these problems, mandatory disclosures and third-party information were being used by many investors. Greater information usage was linked with markers of sophistication. Mutual fund unit holders rely much less on information than direct investors. Information didn’t tend to be accessed electronically (except by a small minority), but there was a reasonable level of
openness to electronic disclosure. Along these lines, a slim majority embraced a “continuously updated disclosure document available on-line that consolidates all relevant information”. There seems to be a desire for greater (and clearer) disclosure on fees and returns. The needs and desires for greater fee disclosure were strongest for mutual fund holders.

Raju (2006) the article focuses on the behavioural aspects of an individual while investing in different mutual fund schemes. The article primarily seeks to know the factors influencing the retail investors to invest in mutual fund schemes study the performance of mutual funds in recent times and trace the vicinity of false perception of mutual funds among retail investors. It also seeks to understand the role of SEBI in safeguarding the interests of retail investors in mutual funds and to identify the important factors to be considered before investing. The paper observes that the retail investors are hardly conscious of mutual fund investments leaving the scope to conclude that to some extent, a good number of retail investors have not preferred but rather were induced to invest in mutual funds. If at all the investor’s decision was a preferred choice, it was without complete awareness of the investor about the mutual fund as an investment instrument and its relative features like risk, return and load. Important inducing factors are aggressive marketing by AMCs, abnormal return in the recent times, misperception of mutual fund as an equal substitute with more returns, tax benefits and liquidity of the investment.

Rao & Saikia (2006) in their paper identify the factors that influence customer preferences for a particular mutual fund. The factors identified in the study will help fund organizers design their services and product mix in accordance with those preferred by
customers. The technique of factor analysis has been applied to lead to the identification of six major factors. These include monetary, core product, fund strength, promotional, customer expectation and serviced quality. Any product that is good in the aspect of quality, variety and monetary implications is preferred by the customer.

Hussein A. Hassan Al-Tamimi (2006) the focus of the study was to identify the UAE investor’s behavior, and the study was important for individual investors, companies listed in Dubai Financial Market and Abu Dhabi Securities Market and Government. For both local and international investors, the most influencing influential factor(s) on their investment decisions was crucial because this would affect their future financial plans. The findings of the study were found to be the most influencing factors, where more than 50% of total respondents consider these factors as the most affecting factors on their behavior. The most influencing factor was, by order of importance: expected corporate earnings, get rich quick, stock marketability, past performance of the firm’s stock, government holdings, the creation of the organized financial markets (i.e. Dubai Financial Market and Abu Dhabi Securities Markets). Five factors were found to be the least influencing factors, where less than 10% of total respondents consider these factors as the least affecting factors on their behavior. The least influencing factor was, by order of importance: expected losses in other local investments, minimizing risk, expected losses in international financial markets, family member opinions and gut feeling on the economy. The most influencing group was, by order of importance: accounting information, self-image/ firm-image coincidence, neutral information, advocate recommendation and personal financial needs. Two factors unexpectedly had the least
influence on the behavior of the UAE investor, namely religious reasons and the factor of family member opinions.

George D. Cashman, Daniel N. Deli, Federico Nardari, and Sriram V. Villupuram (2006) in their paper “Investors Do Respond to Poor Mutual Fund Performance: Evidence from Inflows and Outflows” with special reference to existing investors, who punish poorly performing funds by increasing outflows. The sample was compiled using investment company’s’ N-SAR filings with the SEC, and the Center for Research in Security Prices Survivor Bias Free Mutual Fund Data base (hereafter referred to as CRSP). The SEC requires that all regulated investment companies file two NSARs each fiscal year, the N-SARA covers the first six months of the investment company’s fiscal year, and the N-SARB covers the full fiscal year. They pull all N-SARs from the SEC web site for the calendar years 1997 through 2003. One of the best-documented empirical regularities in mutual fund research was the non-linear relation between annual performance and net flows. Typically, the non-linear relation was argued to exist because, while investors reward funds for good performance, they did not punish them for comparable bad performance. They examined the relation between monthly performance and net flows and found a similar non-linear relation. If investors reward good performance but fails to punish bad performance they examined the relation between performance and gross flows. They found that investors reward good performance. They also found that existing investors punish funds for poor performance and current and potential investors punish bad performance by reducing their purchases. Finally, they documented that current investors respond to both good and bad performance with similar intensity.
Markus Glaser and Martin Weber (2005) studied the stock expectation of individual investors. They used data that offers the unique opportunity to analyze how an unprecedented crisis such as the September 11 tragedy influences expected returns and volatility forecasts of individual investors. Approximately 3,000 randomly selected individual investors of a German online broker received an e-mail on Thursday, August 2nd, 2001 with a link to the online questionnaire. 129 investors answered around the following week-end. They call this group the “first group”. The remaining group of investors received a second e-mail on Thursday, September 20, 2001. 86 investors answered around the following weekend. The group was called the “second group”. Thus, they have a response rate of about 7%, which was comparable to the response rates of similar questionnaire studies. In this paper they analyzed stock return and volatility forecasts and the level of disagreement of individual investors before and after the terror attacks of September 11. Their main results were summarized as:

1. Return forecasts were significantly higher after September 11 and the large drop in share prices after the terror attacks when compared to the return forecasts before the attacks. Thus, investors expect mean reversion. The large drop in stock prices was almost completely regarded as temporary rather than permanent.

2. After the terror attacks, volatility estimates were in two out of four cases higher than the historical volatility of returns whereas before the terror attacks historical volatilities were always underestimated. Therefore, investors were not generally overconfident in the way that they underestimate the variance of stock returns.
3. Differences of opinion with regard to return forecasts were lower after the terror attacks whereas differences of opinion concerning volatility forecasts were mainly unaffected.

Ravi Jain (2005) studied in his paper about the Institutional and Individual Investor Preferences for Dividends and Share Repurchases. Regression analysis was applied to examine the cross-sectional relation between investor holdings (either institutional or individual) and either dividend yield or a dummy for dividend paying firms. After controlling other factors, relatively lower-taxed institutional investors were observed to prefer low dividend yield stocks to high dividend yield stocks whereas higher-taxed individual investors were found to prefer high dividend yield stocks to low dividend yield stocks. Additionally, individual investors prefer dividend paying firms whereas institutional investors typically prefer non-paying firms. Finally, an examination of investor preferences for share repurchases revealed that, relative to individual investors, institutional investors generally prefer firms that engage in larger share repurchases. These results were inconsistent with the tax based dividend clientele hypothesis. The results were also inconsistent with the widely believed claim that non tax factors (such as fiduciary reasons or charter restrictions) induce institutions to invest in dividend paying firms. As such, these results puzzling because during the period under study individual investors generally faced a higher tax burden from dividend income as opposed to potentially deferrable and lower taxed capital gains. The results suggested that the personal tax rate on equity was probably much higher.

Thierry Post and Haim Levy (2005) in their paper “Does Risk Seeking Drive Stock Prices: A Stochastic Dominance Analysis of Aggregate Investor Preferences and Beliefs”
found that the investors were risk averse for losses and risk seeking for gains, and then they willing to pay a premium that give downside protection in bear market and offset potential in bull market. Stock return suggests that investors were driven by the twin desire for security and potential, that investment portfolio was designed to avoid poverty and to give a chance at riches. The preferences of the investors were increasing marginal utility of wealth for gains and the subjective over weighting of the probability of large gains.

Daniel Dorn and Gur Huberman (2005) conducted a study about confront of investors actual portfolio and trading choices with their stated attitudes toward investment. Survey responses, available for a sample of German discount brokerage clients, revealed objective investor attributes such as age, gender, and income as well as subjective attributes such as perceived knowledge, self-reported risk attitude, and the perceived control over investments. The questionnaire elicited information on the investors' investment objectives, risk attitudes and perceptions, investment experience and knowledge, portfolio structure, and demographic and socio-economic status. The findings of the study were; that younger and male investors trade more aggressively than older and female investors. Older or more experienced and better educated investors hold less concentrated portfolios. In this paper they analysed actual investor behavior with both objective and subjective investor attributes. The paper uncovers a prominent role for self-reported risk aversion in explaining variation in investor behavior. By contrast, there was little evidence that differences in overconfidence were associated with differences in behavior. These results should be interpreted in light of the sample size, definition of proxies, and the cross-sectional nature of the analysis; larger samples, different proxies
for overconfidence, and availability of panel data, may produce different results. Given the data present, the appropriate conclusion was that risk attitudes of investors was key to understanding two of the most puzzling aspects of their behavior poor diversification and high turnover.

Verma (2005) in his paper examines the role of technology in shaping the mutual funds industry. Mutual funds industry uses technology in order to a) deliver both the required disclosure materials to potential investors more quickly, and in a more economical manner and b) educate their investors about the myriad choices facing them in today’s market by providing online tools to assist investors in developing asset allocation models etc. the article also highlights the advantages of harnessing technology in the mutual funds industry. Overall, it provides a snapshot of the technological advances that have taken place in the mutual funds industry and the challenges that lie ahead.

Kishore (2005) has discussed about the risks associated with mutual fund investment. The article attempts to focus on a few problems and risks faced by mutual fund investors. It claims that investment in mutual funds is always risky. It also discusses the present scenario of the mutual fund market and suggests various ways to invest safely in mutual funds. The paper identifies major risks faced by mutual fund investors viz., investors psychology risk, prediction risk, competition risk, choice risk, jargon risk, risk of redemption restrictions, judgment risk, management change risk, forward pricing risk, breakpoint risk, risk of blind diversification, risk of changes in the regulatory norms, and other common risks such as call risk, country risk, credit risk, inflation risk, market risk etc. Finally, the paper concludes that investors should always have full knowledge of
mutual funds and understanding that mutual fund investments are subjected to market risks and should manage the risks carefully for a safe and happy investment.

**Sharma (2007)** undertakes a detailed portfolio analysis of certain leading diversified equity growth funds from the period June 2005-March 2006 to understand the impact of the diversification strategy on the performance of mutual funds. In his article, he proves a perspective as to how the fund managers used diversification as a strategy across various asset classes and within an asset class to enhance the performance of mutual fund schemes.

**Jorge A. Chan-Lau and Li Lianong (2005)** in this paper, they examined the impact of allocation decisions by U.S. retail investors of mutual funds, in emerging equity markets. Using a VAR model, they found that allocation decisions by retail investors involving Emerging Markets, Europe and U.S. equity funds tend to affect the volatility of returns in emerging equity markets. Notably, innovations in net flow changes to mature Europe equity funds were more important for the volatility in both the Asia-Pacific (ex-Japan) and Latin America markets compared to the variability in the dedicated (emerging market) regional funds. This suggests that variability in reallocations into and out of these mature market funds provide a better indication of the volatility in emerging markets, than any activity in the specific-region funds. The trend in U.S. retail investor allocations between the pre- and post-crisis periods seems to suggest that investors have become more discriminating in assessing the individual emerging market regions. The performance in the emerging equity market asset class appears to be increasingly driven by flows to individual regions, rather than to emerging markets as a whole. They also found the suggestion of investor segmentation between Japan and other Asia equity
markets. Furthermore, allocations by U.S. retail investors to crossover funds appear to have a significant impact on emerging market returns. Finally, their findings also confirm that fund managers’ actions were driven by retail investor allocations, and usually within a two week period, as evident in the impact of retail flow changes on emerging equity market returns.

Bagga (2004) highlights the growth and overall size of the mutual fund market in his interview. He also gives an overall performance of different schemes and how trading in international market benefits the high end customers. Researcher made comments on various aspects of the mutual fund industry; viz. on the growth of the industry, the overall size of the market, on the performance of different schemes, on economies of scale, internal research, benefits by trading, competition in the industry, increasing retail participation and on future growth potential.

Swaminathan (2004) in his paper discussed the key challenges in the mutual funds industry and likely future innovations in products, services and distribution. The author acknowledges that the Indian mutual fund industry has a high degree of transparency and disclosure standards, though there are many challenges that need to be addressed. The key challenges include net mobilization, investor trust, investor education, product innovation, cost of distribution, regulatory environment, retail investors, etc.

Denise D. Schoenbachler and Geoffrey L. Gordon (2004): studied about building brand loyalty and role of individual investors. The statistics regarding brand loyalty suggest that current marketing efforts to encourage loyalty may not be enough to develop the psychological commitment to the brand necessary to establish true loyalty. The
importance of brand loyalty to long-term success is to identify the factors that may build brand loyalty is key. A survey instrument was developed and pre-tested which measures individual investor stockholding characteristics, brand preference and loyalty. The findings from this research have interesting implications for investor relations managers and marketing managers seeking ways to build and manage brand loyalty. Anecdotal evidence and some proprietary company research suggest stockholders were brand loyal customers. This exploratory study suggested that although individual investors may show some brand preference and repeat purchase behavior, they did not typically exhibit true brand loyalty. The essential elements of brand loyalty imply that truly loyal customers do not purchase competitive offerings and that they usually seek out the preferred brand. Across industries, individual investors may purchase brands more if they own stock and they may purchase stock because of a good product experience, but they do not exhibit true brand loyalty.

Fiotakis and Philippas (2004) examined the trading behaviour of mutual fund investors, its medium term profitability and its impact on performance of mutual funds. They found that mutual fund investors do not chase past returns. The empirical evidence also suggests that do not hunt past superior performance. However they do seem to employ a current performance momentum screen to pick their funds, while their trading behaviour does not seem to affect the concurrent performance of the fund. They also claim that mutual fund investors are perverse fund pickers and conclude that money is inefficiently invested in mutual funds.

Gupta (2004) analyses the role of transparency and disclosures in the case of mutual fund industry in enabling the investor to make better decisions. The paper examines the
present disclosures requirements of mutual funds. Further, it also examines whether or not such disclosure serves any meaningful purpose in taking any investment decision. The author observes that though the current regulations demand detailed disclosures from mutual funds and the industry is moving in the right direction of greater transparency and investor’s knowledge; there is still a lot that remains desired. Malpractices are still rampant and the principle of ‘buyers beware’ does not hold. Thus, what is required is that besides disclosures, strict actions should be taken against such practices which are against the code of good governance. Also, the regulator must ban practices which prevent the fund from being ‘trustworthy guardian’ to ensure that the investor has a fair chance to reap the gains of the capital market, as desired to the objective of the industry.

Bruce A. Huhmann and Nalinaksha Bhattacharyya (2004) in this paper discussed the information available in the marketing of a particular financial product - mutual funds. They examined whether or not the information in mutual fund advertisements aimed at consumers conforms to theories regarding the information required for investment decisions from the discipline of finance. They found that mutual fund advertisements often do not contain the information required to optimize consumer investment decisions, nor do mutual funds attempt to persuade consumers through large visuals, emotional appeals, or celebrity endorsements. Moreover (88.8 per cent) of mutual fund advertisements did not contain all the requisite information on the risk-return trade-off, principal-agent conflict, and transaction costs that consumers need to optimize their investment decisions. While mutual fund advertisements use techniques that advertising research has found to increase the proportion of consumers who notice an advertisement, they do not use appeals or techniques found to increase readership of the information in
an advertisement. Instead it appears that mutual funds were being advertised in a way that prior research suggested would to increase perceptions of quality, successfulness, and honesty regardless of the accuracy of these perceptions.

Sengupta (2003) developed a set of non parametric tests for evaluating the performance of mutual fund portfolios. He purports that some groups of funds based on new technology tend to outperform the others and in most cases the investors show a preference for skewness, thus emphasizing an asymmetry in the mean variance relationship. Technology funds tend to exhibit second order stochastic over the income and growth funds.

Bansal (2003) pointed out in his article that mutual funds have the potential for organic growth. Participants in this market must become the opportunity seeking missiles exploring path breaking initiatives to lead the revolution. The article is an analysis of some issues and recommendations on how to pave the way for participants in the opportunity zone to find the path to growth. The study concentrates on eight ideas, presented in the form of recommendations. These include migrate from ‘industry’ to ‘opportunity’ zone, revisit mutual funds core competency, lead through innovation, rebuild investors’ confidence, manage risk through derivatives, widen geographical spread strategically, educate investors aggressively and finally, treat investors like customers.

Ronald T. Wilcox (2003) highlights the individual-level preferences by putting a group of mutual fund investors through a carefully designed set of conjoint experiments. In this study he attempts to characterize those individuals who were more likely to make
reasonable decisions in this marketplace versus those who were less likely to do so. The information gleaned from this particular exercise directly calls into question, understanding of what constitutes” naive” and "savvy" mutual fund investors. Researcher adopted an experimental approach to generate the utility estimates of interest. The findings of the study were that the investors based their decisions on the information provided to potential investors in a fund prospectus, as well as information commonly provided in fund’s annual report, although fee structure, past performance, demographic factors, managerial and regulatory implications also influenced the choice process of investors in decision making process.

PriceWaterhouse Coopers (2003) in their survey revealed that 50% of the respondents from mutual funds industry are not managing risk properly. If this is not all, 50% of the respondents did not even have documented risk procedure or dedicated risk mangers. The respondents included among some of the heavyweights of the Indian mutual funds industry, viz. Alliance, ICICI, IDBI, and Templeton.

Singh and Chander (2003) in their paper discussed the expectations of investors from mutual funds taking into consideration their age group and occupation. Therefore, the need of the hour is to know what characteristics mutual funds should possess. The paper identifies key characteristics viz. ‘past record of the organisation’, ‘repurchase of the units’ by the funds, ‘easy transferability’ and ‘return provided on investment by the fund’, that have been rated as important because the money earned and saved is too precious and the investors are not willing to compromise on the safety of their invested money along with receiving reasonably good returns over it.
Gilkar (2002) conducted a study in the context of MF product awareness among investors. The study revealed that investors gave last position to MF products in their investment portfolio as compared to various investment alternatives such as provident fund, insurance, bank, deposits, etc. As far as MF products investment behaviour had some linkage with the occupational background of the investors. It was also found, as the result of the study revealed, that MF investors have their preference towards the buying of ‘tax saving’ MF products.

Hall (2002) has conducted a research on broker’s recommendations. He found that investors who invested in the Johannesburg Securities Exchange (JSE) based on their broker’s advice were able to get risk adjusted returns superior or equal to the market. Oliver (2002) in his presentation to the senate standing committee on banking, trade and commerce, suggested that close to half of all Canadians have investments in equities and their confidence is essential to healthy and dynamic capital market.

Statman (2002) in his research compared the investors a century ago with investors today. He concluded that today’s investors are more rapidly informed than their predecessors, but they are neither better informed nor better behaved. Stout (2002) has indicated that investors have adaptive and not rational expectations. Adaptive expectations result in both trust and mistrust in securities market based on past actions.

Stephen J. Brown, William N. Goetzmann, Takato Hiraki, Noriyoshi Shiraishi, and Masahiro Watanabe (2002) the study revealed a number of results that the potential interest to both asset pricing and behavioral research. First, the structure of flow correlations across funds representing major asset classes was strong and significant.
Investors make correlated rebalancing decisions on a daily basis. In the U.S., where mutual funds were a major factor in the securities markets, these choices appeared to be simultaneous correlated to asset class returns. In Japan, the negative correlation of bull and bear fund flows was strongly suggestive of speculative herding by retail investors in the Japanese market. U.S. investors regard domestic and foreign equities as economic complements. By contrast, Japanese investors appear to have independent sentiments about domestic and foreign markets. In fact, they also found that flows to bull and bear funds were strongly negatively and positively correlated to lagged equity returns, respectively.

**Dr. Tapan K Panda and Dr. Nalini Prava Tripathy (2001):** conducted a study on investor's preferences and priorities towards different types of mutual fund products. They also made an attempt to found out the important mutual fund product attributes that were essential in influencing the purchase decision of the investors. It was evident from the analysis that the changing preferences of the investor create many new needs, which may be controlled by key determinants. That the first factor identified with product features, awareness of attribute of the product, hassle free trading, exclusivity for small investors, ownership of the product, technology, lock in period and brand name. The second factor was designated Performance Factor on the basis of the loaded variables. The data set of the Factor-2 loading indicates that among various product feature variables, performance of the fund, safety, liquidity, regular income, tax benefit, emergency need fulfillment attributes were found to be important by customers for making a brand choice. Factor- 3 shows significance for transparency, service behaviors and delivery schedule. This factor suggests that the process of delivery should be prompt
and on time. An investor’s service expectation statement should be the vision for the organization to aspire for. This component of service augmentation of the product makes it mandatory on the part of the fund manager to provide services in a continuous basis so that the customer stays loyal and happy with the fund and responds to changing needs of the customers. Factor-4 includes attributes such as sponsor reputation, advertisements, Broker/Agents recommendations, friend/relative suggestion. These elements were more important in a competitive market where most of the product offerings were similar and the customer found it difficult to take a decision. Factor-5 clearly indicates the combination of three attributes such as performance guarantee, assured return and degree of capital appreciation. This factor was termed as investor’s confidence factor, which is built over a period of time due to consistency in performance and transparency in market behavior.

**Cromwell, Taylor & Yoder (2000)** in their paper examined the change in the first three moments of the return distribution of a portfolio of mutual funds as the number of funds in the portfolio increases. They seek to determine if diversifying across mutual funds benefits investors by reducing unsystematic risk. They also investigate whether there may be an optimal number of funds in a portfolio due to undesirable skewness effects. The study concludes that diversifying across mutual funds substantially reduces portfolio dispersion but also causes an undesirable increase in negative return skewness. Thus mutual fund investors can substantially reduce unsystematic risk by diversifying. Also, the portfolio skewness is negative and increases with portfolio size.

**Jane E. Baird* and Robert C. Zelin (2000)** conducted a study on experimental evidences regarding the existence of order effects related to the presentation of positive
and negative qualitative information in annual reports. Specifically, the effect of information order in the president’s letter was examined. The president’s letter in an annual report is an important vehicle for management to persuade investors that the company is a worthwhile investment. Therefore, the purpose of this study was to determine, the ordering of positive and negative information about a company in the president’s letter within its annual report could influence investor perceptions of that company. A hypothetical president’s letter was constructed utilizing positive and negative pieces of information obtained from several actual presidents’ letters in annual reports. Two versions of the letter were constructed, both including the same statements, but with the ordering of the positive and negative components varied.

The first version, hereafter termed “positive,” included all the positive information about the company first, followed by the negative information. The second version, hereafter termed “negative,” included all the negative information first, followed by the positive information. The conclusions of the study were that the ordering of bad news and good news in the qualitative sections of an annual report could influence investor perceptions. The subjects relied most on the first information read when assessing both the past performance of the company and its future potential. The implications of this finding were in two-fold. First, corporate management must realize that the order of presentation might be equally as important as the content presented to shareholders and potential investors. Therefore, in getting their message across, presentation order should be considered. The Belief-Adjustment Model could potentially be used by corporate management as a strategic tool in planning communications with various stakeholders. Secondly, investors should be aware that their perceptions could be influenced by
corporate presentation strategies. Awareness of order effects and how they might influence an individual’s decision-making process may enable investors to adopt different information processing techniques. Such techniques could help the decision maker to ameliorate any primacy or regency effects that may otherwise occur. The results of this study particularly alarming in light of past survey results indicating extensive use of management information, such as presidents’ letters, in investment decisions.

Brad M. Barber, Terrance Odean and Lu Zheng (2000) in this paper, they attempt to shed light on the behavior of mutual fund investors by separately analyzing their fund purchase and sale decisions. They analyzed a unique data set that consists of mutual fund positions and trades for over 30,000 households at a large discount brokerage firm over a six-year period ending in 1996. They documented that fund investors appear to use different decision methods when deciding what to purchase versus what to sell. When purchasing mutual funds, they argued that investors use representativeness heuristic. Investors believed that recent performance is overly representative of a fund’s future prospects. Thus, investors predominantly chase past performance. Over half of all purchases occur in funds that rank in the top quintile of past annual returns. When buying mutual funds, investors act as though past returns predict future performance. Mutual fund investors display systematic patterns in the mutual funds that they buy and sell. They tend to purchase funds with strong past performance, while generally neglecting operating expenses charged by the fund. Investors tend to sell funds that have posted strong returns. They also argued that decision-making biases can explain these patterns. Thus, they predominantly chase past performance; over half of all purchases occur in funds that rank in the top quintile of past annual returns. This behavior may be
reasonable, since there was empirical evidence that top-performing mutual funds tend to repeat. However, they believe it’s more likely that investors were unrealistically optimistic about the odds that fund performance will persist, that they have rationally interpreted the empirical evidence regarding performance persistence (particularly since this evidence was only well known since the late 1980s).

Joshua D. Coval and Tobias J. Moskowitz (1999): in their paper “Home Bias at Home: Local Equity Preference in Domestic Portfolios” investigates that whether investors have a preference for geographically proximate investments and also assessed the importance of preferences for portfolio choice. Since geographic separation is certainly a factor in both domestic and international settings, they analyzed the effect of geographic proximity (distance) on investment portfolio choice by restricting attention to the domestic economy, avoiding confounding factors due to political and monetary boundaries. In this paper, they found geographic proximity plays an important role in determining investor portfolio choice. On international scale, investment proximity may account for a large portion of the observed abstinence in holdings of foreign securities. Furthermore, they identified several firm characteristics that account for a substantial fraction of the local equity preference. Specifically, local holdings tend to be in small, non-tradable goods-producing firms with high degrees of financial leverage. These results suggested that information asymmetries may be driving the observed preference for geographically proximate firms. Moreover, they indicate an important link between local equity preference and the cross-sectional asset pricing implications associated with size and firm distress. Finally, these results were common across a variety of manager types and fund classes.
Nicholas Barberis, Andrei Shleifer, and Robert Vishny (1998) in this paper, they propose a parsimonious model of investor sentiment of how investors form their beliefs that was consistent with the available statistical evidence. The model they propose was motivated by a variety of psychological evidence, in making forecasts, people pay too much attention to the strength of the evidence they were presented with and too little attention to its statistical weight. They have supposed that corporate announcements such as those of earnings represent information that is of low strength but significant statistical weight. This assumption had yielded the prediction that stock prices under react to earnings announcements and similar events. They have further assumed that consistent patterns of news, such as series of good earnings announcements, represent information that was of high strength and low weight. This assumption has yielded a prediction that stock prices overreact to consistent patterns of good or bad news. Their paper makes reasonable, and empirically supportable, assumptions about the strength and weight of different pieces of evidence and derives empirical implications from these assumptions. One interpretation of the crash was that investors overreacted to the news of panic selling by other investors even though there was little fundamental news about security values. Thus the crash was a high-strength, low-weight news event which, according to the theory, should have caused an overreaction. Thus the price of a closed-end country fund reacts more strongly to the news about its fundamentals, when the country whose stocks the fund holds appears on the front page of the newspaper. That is, increasing the strength of the news, holding the weight constant, increases the price reaction. All these were bits of information consistent with the broader implications of the theory. A real test,
however, must await a better and more objective way of estimating the strength of news announcements.

William N. Goetzman and J.P. Morgan (1999) in their paper discussed about the evidences of investor psychology that affects the fund switching decision. They used a questionnaire to gather information from several mutual fund investors and the questionnaire requested information about exactly what mutual funds they use and how they believe these funds performed in the past. They collected samples from two groups of mutual fund investors. The first sample was collected from members of state chapter of the American association of individual investors and the second sample was collected from a group of professional architects, who invest in mutual funds. The questionnaire responses from two groups of investors about their personal holdings and mutual fund choice suggest that even well informed investors tend to bias their perceptions about past performance. This positive bias doesn’t avoid the possibility that investors confront genuine economic costs. However, where they were slow to respond to past poor performance, then they justify their behavior through biased beliefs about performance. They also found that the cross-sectional distribution of fund size, using a simple probability measure of performance that exceeds T-bills returns suggest the number of the investors in poor funds, as well as the total wealth invested in poor funds, was small. The existence of many irrational investors in the mutual fund industry was contradicted by their cross-sectional evidence. Unlike previous researchers they were not concerned that the market fails to discipline poor performers, but this cross-sectional study indicates that few investors hold their shares in lagging funds. At last they suggested that if new
investors focus on past performance rankings, the optimal mutual fund company strategy was to increase the number of funds under management, increase the volatility of individual fund and decrease the cross-fund correlation.

Mathur (1996) in her article has discussed various aspects of mutual funds. The author holds the view that mutual funds have emerged as key intermediaries and important players in the securities market. They have come in real handy for the investors. The mutual funds have become a major vehicle for the mobilization of savings. This is true with regard to retail investors. The author further states that the mutual funds have provided a form of collective investment that is useful in spreading risk and thereby optimizing gains. The concept is gaining relevance as a result of which a large number of funds have been floated in the recent past.

Vaid (1996) has deliberated on mutual funds in India. The mutual funds have been discussed in detail by the researcher. The study has been more conceptual in nature. The topics covered under study included types of mutual funds, characteristics of mutual funds, emergence and growth of mutual funds and the emerging scenario of mutual funds. The author is of the opinion that in future the mutual funds will face very competition. More and more open ended schemes will be floated as they have been more successful in the market. Moreover the mutual funds have a greater role in the development of financial markets as the mutual funds will lead to greater liquidity and increase in market price of the listed shares.

D. Eric Hirst, Lisa Koonce, and Paul J. Simko (1995) the purpose of this paper was to show that investors' reactions to information in financial analysts' research reports
depending on characteristics of both the analyst and the report. The findings of the study were that investor reactions to financial analyst research reports depend not only on the incentives of the analyst issuing the report but also on the conclusion about the stocks. When investors received a favorable research report, they judged the report to be consistent with their expectations that analysts tend to issue favorable reports and that investment-banking analysts tend to issue more favorable reports than noninvestment-banking analysts. They also found that the perception of investors were strongly influenced their attributions for such reports than their Stock Performance judgments. When investors received an unfavorable report, from analyst they found that they considered the report to be unexpected. Specifically, investors judge the company's stock as having less potential when an unfavorable report originates from an investment-banking analyst than when it originates from a noninvestment-banking analyst.

Robert A. Nagy and Robert W. Obenberger (1994) studied the various factors influencing individual investor behavior and to identify the relative variables that influence the individual investors, while making stock purchasing decisions. The objective of the study was to identify the homogenous group of variables that investors consider, while making equity investment decisions. The questionnaires were distributed to 500 experienced respondents via e-mail, whose names were obtained from a proprietary source involved in financial marketing research. Respondents were asked to evaluate the importance of 34 variables, which had been identified by extensive testing as potentially influencing investment decisions. Respondents noted whether each variables was : a significant item used to make investment decision (“Act on”), a secondary item (“consider”) and an item ignored in the investment decision process (“No influence”).
After that variables were ranked with the help of factor analysis of 34 items. Factors considered by respondents while making stock purchase decisions were: Most of the variables ranked significant are classical wealth maximization criteria such as, diversification needs, expected returns and minimizing risk. The second finding of the study was that the impression held by many experienced retail brokers that investors employ diverse decision criteria when choosing stocks. Third finding of the study revealed that experienced stock investors base their decisions on contemporary concerns such as international operations, environmental track record and the firm ethical posture. There were some variables which respondents ignore them when making stock purchase decisions such as, local operation were not important, mostly respondents highly self reliant. Second focus of the study was on whether the variables most important to investors form homogenous groups. The major findings of the second objective of the study identify seven relatively homogenous groups of variables that influence individual investor behavior.

**Goyal (1993)** states that the future of mutual fund industry in India is inextricably linked to the growth of the Indian economy, savings and investment patterns, government policy towards private sector and the development of the capital market. The government has provided the initial impetus for launching of the funds by providing tax concessions and tax exemptions. Mutual funds in India provide safety, liquidity, and growth to investors.

**David S. Scharfstein and Jeremy C. Stein (1990)** in this paper they develop a clear understanding of some of the forces that can lead to herd behavior. They found that, under certain circumstances, managers simply mimic the investment decisions of other managers, ignoring substantive private information. Although this behavior was
inefficient from a social standpoint, it can be rational from the perspective of managers who were concerned about their reputations in the labor market. Herd behavior can arise in a variety of contexts, as a consequence of rational attempts by managers to enhance their reputations as decision makers. In addition to reputational concerns, there were other factors that influence herding. The extent to which there were commonly unpredictable components to investment outcomes: correlated prediction errors lead to the "sharing-the-blame" effect that drives managers to herd. Also important in the nature of the managerial labor market: herding was more likely to be a problem when managers' outside opportunities were relatively unattractive, and when compensation depends on absolute rather than relative ability assessment.

Simkowitz and Beedles (1978) find that the standardized skewness of randomly generated portfolio return distributions decreases and then becomes negative on average as the number of stocks in the portfolio increases. They argued that an investor's utility function depend not only the mean and variance but is also positively related to the skewness of the return distribution. Thus if investors dislike the potential for large downside risk, there may be an optimal number of stocks in a portfolio due to the tradeoff between the desirable reduction of unsystematic risk and the undesirable increase in negative skewness.

Wilbur G. Lewellen, Ronald C. Lease, and Gary G. Schlarbaum (1977) studied the patterns of investment strategy and behavior among individual investors. The investor group on which they focus consists of a sample drawn from the customer clientele of a large national retail brokerage house. It was comprised specifically of individuals who had accounts open with the firm over the full period from January 1964 through
December 1970 and represents a random selection of approximately 10% of all the individuals who had such a persistent relationship with the firm. It was stratified geographically to match the composition of the total population of U.S. common-stockers, as reported by New York Stock Exchange (NYSE) surveys. The findings of the study were that the full set of demographic relationships portrayed therefore revealed both a reasonable and consistent collection of phenomena. Strong indications of systematic changes in investment objectives and risk preferences across age brackets-and, to milder extent, income classes were apparent. These were mirrored in differences in investment tactics, portfolio composition, and environmental attitudes. Though analytical styles were diverse, especially between the sexes, the ultimate goals and resulting decisions have an underlying harmony. None of the patterns violates any tenets of rational behavior; by and large, they fit traditional hypotheses; evidence of incongruity was sparse.

Stiglitz and Weiss (1984) have indicated that any bunch of new entrants into the equity market contains a number of frauds. Potential investors know this, but cannot identify the frauds. Gupta (1992) made a household investors survey in April 1992. The main objective of the survey is to provide data on the investor perception on mutual funds and other financial assets. The findings of the study are more appropriate to the policy makers and mutual funds to design the financial products for the future.

Gupta (1993) in his survey revealed that the changing pattern of ownership of different types of financial assets by households of different income and age groups. The findings also provide deep insights into the investor’s perception and preferences for different saving instruments from the view point of safety, risk, return, liquidity, portfolio
diversification, distribution arrangement and customer service. The survey findings suggest that the main support for private sector mutual funds would come from the upper income classes, at least initially. Hence there would be tough competition between the public and private sector mutual funds in the upper income segment of the market. Unless the public sector mutual funds adapt themselves to the new situation quickly, they may become poor man’s mutual funds.

Gupta (1994) made a household investor survey keeping in view the objective to study the investor preference with regard to mutual funds and financial assets. The findings of the study proved relevant at that time for the financial policy makers to develop and design mutual funds products for marketing. The study undertaken by Srivastava et al (1995) is in generic nature and segmented mutual fund investors based on four criteria (a) investor motives, (b) investor loyalty, (c) investment decisions, and (d) product innovations.

Gupta (1996) has indicated that from the angle of investor protection, the regulation of the new issue market is important for several reasons. The number of small investors in new issue market is massive. Most of new investors make their first entry into equity investments via the new issue market. So retaining common investor confidence in primary markets is important. Similarly, Jambodekar (1996) conducted a study to assess the awareness of mutual funds among investors and reported the need for investor education.

Sikidar and Singh (1996) carried out a survey with the objective to understand the behavioural aspects of the investors of the north-eastern region towards equity and
mutual funds investment portfolio. The survey revealed that the salaried and self-employed constituted the major investor group in mutual funds primarily due to tax concessions. UTI and SEBI schemes were popular in that part of the country and other funds had not proved to be a big hit during the time when survey was done.

Tripathy (1996) in her paper examines the importance and growth of mutual funds in India. She observed that as mutual fund has entered into Indian market, growing profitable enough to attract competitors into this cherished territory encouraging competition among all the mutual fund operators, there is a need to make some strategy to bring more confidence among investors for which mutual funds would be able to project their image successfully. A few suggestions made in the paper include forming of unified coordinated regulations by a single agency, introduction of non-voting shares and lowering of debt-equity ratio, clear demarcation between the role of constituents, such as sponsors, trustee and fund manager to protect the interests of small investors, etc. Rajan (1998) highlighted investor’s characteristics primarily on their investment size of life cycle of the investor and their investment pattern.

Chawla and Batra (2000) in their paper examined the positioning of SEBI MF vis-à-vis other competitors and to analyse the investors perception towards mutual funds as a mode of investment. The study indicates that SBI MF was not favorably placed in comparison to their competitors like UTI, private sector mutual funds and public sector mutual funds. According to the authors, the causes of poor performance were associated with large exposure to B-2 group scripts, high percentage of NPAs and high cost of initial investment. The competitors were better placed because of aggressive marketing, better product mix, and prompt delivery in case of redemption and transparency. The authors
further suggest a turnaround strategy that fund should stress on cost reduction techniques, deliver products in line with expectations of investors and develop distinct market network.

Loong (2000) while addressing Financial Institutions in Bangkok stressed the importance of rebuilding investor confidence for prosperity of ASEAN countries. He indicated that for investor confidence, rebuilding of sound fundamentals, dealing with capital account risks, economic co-operation among ASEAN, corporate restructuring, banking sector reforms and improvement of political and social conditions is important.

Rajeshwari & Moorthy (2001) made a survey of sample 350 potential retail investors to identify the demographic and financial factors which influence their awareness and perception levels. The survey revealed that the awareness level of potential investors was not satisfactory. Bloomfield, Libby and Nelson (2002) have indicated that less informed investors are over confident in investments. Providing more information to professional investors only could harm the welfare of less informed investors if less informed investors are not aware of the extent of their informational disadvantage.

2.2 PUBLISHED BOOKS

Bansal (1996) the book deals with the entire panorama of mutual funds. The author is of the opinion that the mutual fund industry has gained momentum during the late eighties and it is going to dominate Indian investment scene in future. The author further opines that with growing institutionalization of public issues, retail investors are slowly deprived
of interaction in primary and secondary market forcing them to turn to mutual funds. The author in this book gives an insight into the changing scenario of financial services sector in India, innovation in financial instruments and infrastructure support to this segment. The book also deals with emergence of mutual funds, the constitution and management of mutual funds. The author also discusses the accounting and disclosure practices of mutual funds. The book endeavors to highlight the features of mutual fund schemes operating in India. The concluding part of the book considers a number of policy issues pertaining to management and regulation of mutual funds industry in India to make it a more effective vehicle of investment.

Bhatia and Batra (1997) in their book have collected articles which deal with interrelated structural facts of the financial markets, institutions and emerging trends in the area of financial services. In this book, an attempt to highlight the contemporary issues in management of financial services, particularly mutual funds, has been made. The book deals with various financial services. Besides these, some other contemporary topics like dynamics of securities market; commercial paper management control system etc. have been discussed by contributors in the book.

Fredman and wiles (1997) in their book discussed the growth and maturation of mutual fund industry in the twentieth century. The book gives a detailed presentation that provides investors with the background and tools necessary to analyse mutual fund. The book written together by an academic specializing on investments and a journalist well versed in mutual funds, devote considerable attention to the different kinds of securities that funds invest in. Other topic such as return and risk analysis, mutual fund analysis, the efficient market hypothesis, currency fluctuations, bond compares mutual funds to
attentive vehicles, especially closed end funds, unit investment trusts and individual stocks and bonds etc. The book also compares mutual funds to alternatives vehicles, especially closed – end funds, unit investment trusts, and individual stocks and bonds.

Kohn (1997) explains the origin and growth of mutual funds in other countries in his book. He states that mutual funds have adopted the technology they developed in the long term market to create an important vehicle for short term saving- the money market mutual fund. This has been enormously successful and it now accounts for significant fraction of their business.

Sahadevan and Thiripalraju (1997) in their book provide all facts and figures relating to mutual funds in India. The book obviates the necessity to wade through the numerous sources generated for the last 30 years. It provides a unique source for critical analysis of the mutual funds regulation and the reader gets a comprehensive picture of mutual funds regulation in India vis-à-vis the USA and the U.K. It provides statistics relating to the performance of many mutual funds, both public and private sectors.

Sadhak (1998) in his book critically examines the growth of mutual fund industry in India. The book focuses on strategic directions for mutual funds with regard to marketing and investment to enable them to cope with the emerging challenges in the fast changing saving patterns and capital markets in India.

Avadhani (1999) in his book critically examines the role of mutual funds, guidelines of money market mutual funds, RBI guidelines on mutual funds and regulation of mutual funds in India. Srivastava (1999) in this book suggests that there should be comprehensive legislation to control the operations of the mutual funds including Unit
Trust of India. He further suggests that investors’ confidence in mutual funds can be inspired by rendering their activity more transparent and providing better services.

**Benz, Teresa and Kinnel (2003)** in their book provide the way to build a sound and lucrative portfolio of mutual funds. It would act as a guide in the selection process of mutual funds and would help the investors to choose the right funds to meet the investment goals. The book proposes that to protect the assets in any market conditions. It explains how to look at a particular mutual fund, the way it operates and what it has invested in. When a new fund manager takes over the operations and asset allocation of a mutual fund, it is very important to note that the way the changes are going to take place. The book also elaborates on the concepts of risk and return, diversification, asset allocation, appropriate risk based on one’s attitude, Age and aptitude. The book highlight the tools and techniques to be applied while picking up the mutual funds, focuses on construction of a diversified portfolio to suit investment goals and covers the strategies for getting the most out of stock and bond funds. Further the authors have explained the need to monitor and rearrange portfolio precisely because it is a mixture of different kinds of investments, which will perform differently over the time. The book also explains some of the Morningstar’s portfolio management strategies. In selecting the funds for the portfolios, Morningstar suggests to have a look at all the usual factors such as a strong past performance, moderate costs, and assets base and bright fund managers along with good analysis behind them.

**Bhole (2003)** explains the nomenclature and nature of mutual funds and Unit Trust of India’s functioning. He states that, a mutual fund is a pure intermediary which performs a basic function of buying and selling securities on behalf of its unit holders, which the
latter can also perform but not as easily, conveniently, economically and profitably. 

Gordon and Natarajan (2003) have explained the features and role of mutual funds in their book. They suggest that to ensure mutual funds for good return, quick liquidity and safety and create a good rapport with the investors; their future will be very bright.

Avadhani (2004) in his book discussed the theoretical inputs of the fast changing economic and financial scene so that investment management can be attuned to the changing conditions. The book presents the investment setting and includes the various concepts such as securities market investments and saving avenues, tax planning, growth process of the economy and financial system in India. Further it sets out the process of investment decisions making which includes the sources of information, inflation, security market analysis, financial analysis, fundamental and technical analysis etc. Finally it deals with the portfolio management, diversification, risk and return analysis, portfolio construction, revision, monitoring and evaluation through the treatment of the mutual funds and their schemes.

Mrudula and Raju (2005) in their book discussed the various strategies that mutual fund investors need to adopt to win in their pursuit of higher returns and greater satisfaction, along with the history of the industry and it present regulatory framework. The book has been compiled keeping in view the increasing growth and popularity of mutual funds as an investment option and it attempts to provide a platform to the investors for taking well informed investment decisions. While providing an overview of the mutual fund industry in India, it contains the analysis of the Indian mutual fund industry, emerging perspectives, and mutual funds outsourcing: slashing expenses, easing fee, transparency and disclosures and opportunities and challenges. The book contains lessons for
investors, namely, what drives investors towards mutual funds, five strategies for success and when to say good bye to mutual funds. The factors that derive investors towards mutual funds include ‘past record of the organisation’, ‘growth prospects’, ‘credit rating’, ‘market speculations’, ‘disclosure of adequate information’, and ‘early bird incentives’. The five strategies include building a diversified portfolio, finding ideas for the portfolio to boost returns and ensure stability, finding ideas for the portfolio to boost returns and ensure stability, finding the right bond fund with the help of strategies such as multiple bond investing and high yield bond investing, monitoring the portfolio and reassessing the investments’ potential to know when to sell. The book also contains lessons for fund managers, viz., eight steps to growth and beating the street along with various interviews with CEOs of leading players in the industry.

Banerjee (2006) in his book present various articles relating to capital markets and the regulatory measures that are adopted to sustain the investor confidence. The book deals with the issues, perspectives and regulatory measures related to mutual funds. The book initiates discussions on the oft-debated volatile Indian capital market and its frantic swings, resulting in a significant erosion of investor wealth and confidence in the market. The various articles throw light on the increasing demand of India as an investment destination. The other areas of discussion include mutual funds industry entering into the derivatives and the real estate markets. It also comments on the emerging debt market in India.

Finally, it discusses the recent regulatory measures adopted by SEBI in an attempt to protect the investors’ confidence and sustain retail investor participation. In general, the
book provides a comprehensive guide to the various trends witnessed in the capital markets amidst a volatile environment.

Banerjee (2007) covers the divergent areas in this book that provides a unique blend of perspectives, trends and strategies that is must for all retail investors trying to benefit the most out of these instruments. The book deals with perspectives, with trends and with strategies. The study captures the various aspects such as ‘tax benefits’, ‘flexibility’, ‘diversification’, ‘professional assistance’, that have made mutual funds have an important investment vehicle, popular among the investor class. It also deals with the recent trends in mutual fund industry. Finally, the study captures all the major strategies that are adopted by mutual fund houses to manage their funds effectively including asset allocation, investment styles, harnessing technology, wealth creation on through systematic investment plans and contrarian investment.

2.3 INDUSTRY REPORTS

The Investment Company Institute (ICI) Director of Investor Research (2006) studied the Investor Preferences for Mutual Fund Information. The Investment Company Institute (ICI) regularly conducts research to promote understanding of mutual funds, fund investing, and fund investors. As part of its investor research program, in February 2006 the Institute undertook a comprehensive study to identify the information needs of mutual fund investors and the sources from which they gather that information. The Institute engaged GfK NOP, an independent research firm, to conduct in-home interviews with 737 randomly selected investors who had purchased shares in stock, bond, or hybrid
mutual funds outside retirement plans at work in the preceding five years. The findings of
the study were:

Shareholders consider a wide range of information before purchasing mutual fund shares.
They most frequently review or ask questions about a fund’s fees and expenses and its
historical performance.

- Shareholders prefer a concise summary of the mutual fund information they want
to know before buying fund shares. They also prefer graphic rather than narrative
presentations of fund information.

- Shareholders rely on a variety of sources for mutual fund information. They most
often turn to professional financial advisers for information prior to purchasing
fund shares. Some shareholders also visit Fund Company or other websites for
information before buying fund shares, while others confer with friends, family,
or business associates.

- Although shareholders typically obtain mutual fund information from several
different sources, a large majority do not consult mutual fund prospectuses before
purchasing fund shares. Shareholders say prospectuses are difficult to understand
and too long.

- Most fund investors use the Internet regularly, and those who go online use it for
a variety of financial purposes, particularly to gather investment information. The
Internet, with its interactive capabilities, is an effective vehicle for communicating
mutual fund information to investors.
SEBI-NCAER (2000) survey reported that the estimated number of households owing units of MFs (15 million) were more than estimated number of investor households (12.8 million) parking their investments in shares and debentures. Higher income groups had largest share of their investments in mutual funds compared to lower income groups signifying that MFs did not still become truly the investment vehicle for small investors. These findings highlighted the untapped potential of the MFs and the need for the asset management companies was to design appropriate products to cater to the needs of the small investors and develop infrastructure to reach them. Some researchers attempted to measure the MF concept awareness level of a sample of potential retail investors and their perception level of future performance of MF industry. They also made an attempt to identify the demographic and financial factors which influence their awareness and perception levels.

2.4 THESIS AND DESERTATIONS

Otto Donner and Oskar Oxenstierna (2007) in their thesis “The Factors that Investors Value when Choosing Mutual Funds” described the relationship between fund flows, fund attributes and analysis. They collected the total net assets from Finansinspektionen, while NAVs for all the funds were obtained from the SIX Trust database. The examined period is 2000/12/31-2006/12/31 on a quarterly basis, and thus the sample comprises data on a total of 25 quarters. In the last quarter of 2006 the data consisted of 441 funds. They found that the performance was positively related to flows on the Swedish mutual fund market for certain types of funds. For mixed funds, fixed income funds and for the
sample as a whole, performance was positively related to flows. For equity funds they do not found a significant relationship. The Inexperienced investors didn’t not significantly value fund- and fund company visibility more than experienced investors. However, while experienced investors seem to only demand that the fund company establishes a general presence on the market in order to recognize it; inexperienced investors seem to crave higher levels of visibility for it to have an impact on their decision-making. The factors investors’ value differs as experienced investor’s value fund specific factors, while inexperienced investors favour company specific factors.

RESEARCH GAP

The above presented detailed literature review on investor’s attitude and demographic variables impact on preferences of retail investors provides rationale for the present study. The discussion in the review of literature review indicates that the most of the research has been conducted comparing mutual fund as an investment destination vis-à-vis other avenues of investments like shares, debentures, bonds, insurance products etc. Except for the few studies like that conducted by K. Senthil Kumar, C.Vijaya Banu, V. Lakshmana and Gomathi Nayagam (2008), Similarly study conducted by The Investment Company Institute (ICI) Director of Investor Research (2006) which focused on the various sources of information consulted by the investors. Knowing the perspective of the investors is very important in mutual fund industry. This provides insights into retail investor’s behaviour and their preferences while making investment in mutual fund schemes. The need of the hour is to know what are the preferences and sources of
information consulted by investors while investing in mutual fund schemes. There remained a gap in identifying the schemes within the mutual funds while decision making. So the focus of the present study is to find the preferences of retail investors towards mutual fund schemes.
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