REVIEW OF LITERATURE
CHAPTER III
REVIEW OF LITERATURE

3.1 INTRODUCTION

The Development of Mutual Fund Industry can be attributed to the advancement of Financial Sector. The retail investors consider mutual fund as one of the best alternative investment avenues. In this chapter are enlisted various aspects of mutual fund preferences, sources of information which influence investors while selecting mutual fund, behaviour and awareness of investors. These studies pertain to objectives of present investigation.

3.2 STUDIES ABROAD

International mutual fund studies were reviewed to illustrate the major changes in the evolution of investor preferences. This research project would enlist the following reviews.

The study of the Wharton School of finance and commerce (1962) examines the issues relating to investment policy, portfolio turnover rate, performance and impact of mutual funds trading activity on the stock markets. The study has concluded that, on an average, the funds have not performed better than the composite markets from which they select their securities. Further, the funds net purchase have significantly affected the price movement of individual stocks and to a lesser extent, the price movement in the markets.

Treynor in his study on "How to rate management of investment funds" (1965), has as main aim of the study to relate the expected return of a portfolio containing the fund to the portfolio owner’s risk preferences. The study concludes that relative quantitative performance ranking could be read directly from the Characteristic line despite market fluctuations and different risk policies.

Treynor and Mazuy (1966) study entitled "Can mutual funds outguess the market", aims to study the ability of mutual fund managers to outguess the market. A sample of 57 open ended funds for a period of 10 years beginning in 1953 was studied. They found out that an investor in mutual funds was completely dependent on fluctuations in general market.
Jensen (1968) pointed out an absolute measure rather than a relative measure to evaluate a portfolio manager's predictive ability based on CAPM. The sample consisted of the returns on the portfolios of 115 open-ended mutual funds for the period 1955 to 1964. The study concluded that none of the mutual funds on the sample was able to predict security prices so well as to outperform the market.

Smith and Tito (1969) in their study entitled "Risk-Returns measures of Ex-Post Portfolio Performance", applied all the measures in ranking the 38 mutual funds by taking the 40-quarter period from 1959 to 1967. They found that unsystematic risk was the important factor in determining whether the funds outperform market portfolios.

Friend and Blume (1970) conducted a study on "Measurement of Portfolio Performance under uncertainty". They observed that the parameter risk-adjusted measures of portfolio performance of Sharpe, Treynor, and Jensen are biased and suggested that improved measures of portfolio performance for any period could be obtained by adjusting the earlier measures depending on the degree of risk. They were of the opinion that the traditional two-parameter measures would be more useful.

Fama (1972) made a theoretical attempt suggesting finer breakdowns in performance evaluation like "Selectivity" and "timing" rather than in terms of risk and return. Further, he suggested methods for measuring the effect of foregone diversification when an investment manager decides to concentrate on his holdings in what he thinks as a few winners.

Kon and Jen (1979) in their study entitled "The investment performance of mutual funds: An empirical investigation of timing, selectivity and market Efficiency", have selected a sample consisting of 49 mutual funds. They found that investment performance model provided separate measures of timing and selectivity.

Fabozzi, Francis, and Lee (1980) in their study attempted to investigate the implication of generalised return-generating model. They have a sample of 85 funds during the 73-month period from Dec 1965 to Dec 1971. They wanted to analyze the bias in employing either a linear or logarithmic-linear functional form. They found that a significant number of funds exhibited a functional form which differed significantly from the traditional linear and logarithmic-linear rates of return generating process.
Ippolito’s (1989) “Efficiency with costly information mutual fund performance” is a study with the objective of testing efficiency in capital market. When information is costly to obtain and implement, it is efficient for traders by informed investors to occur at prices sufficiently different from full information prices to compensate them for the cost of becoming informed. The study concluded that risk adjusted returns in mutual fund industry, net of fees and expenses are comparable to returns available in index funds.

Lee and Rahman (1990) in their study market timing and selectivity performance of a sample of 93 mutual funds found individual fund level there in some evidence of superior micro and macro forecasting ability on the part of the fund manager.

Lee, Shleiter and Jhaler (1991) examined the proposition that fluctuations in discount of closed end funds are driven by changes in individual investor sentiment. The theory implies that discounts on various funds move together. The new funds get started when seasoned funds sell at a premium or as a small discount and that discounts are correlated with prices of other securities affected by the same investor sentiment.

Goetzman and Grubber (1993) carried out a study entitled, “Cognitive Dissonance and mutual fund Investors”, they critically examined and analysed the investors’ ability to select fund and also averred that there was an evidence to support the selecting ability among active fund investors.

Gupta (1994) made a study on “Mutual funds and Asset preference”. The main objective of the study was to provide data on the investor performance on mutual funds and other financial assets. The study concluded that more appropriate to the policy makers and mutual funds design the financial products.

Wermers, Grinblatt and Titman (1995) in “Russ momentum investment strategies”, portfolio performance and herding-mutual fund Behaviour’, studied the extent to which mutual funds purchase stocks based on their past returns as well as their tendency to exhibit “Herding Behaviour”. They examined the quarterly holdings of 155 mutual funds over the period 1975-1984. They found that 77% of mutual funds were “momentum investor”, buying stocks that were past winners.
Malhotra and Robert (1997) examined the preoccupation of mutual fund investors and thereby how investors make use of performance evaluation. Performance evaluation was considered to be a selection criterion by investors. This is misguided by did not of volatility of returns. Whether it is due to either superior management or just luck, it is difficult to determine. The findings of Ferris and Chance (1987 and 1991) are consistent with the findings of Malhotra and Robert (1997).

Gordon Alexander, Jonathan Jones and Peter Nigro (1998) conducted a study entitled, “Mutual fund shareholders; Characteristics, investor knowledge and sources of information”. The data were collected from 2000 randomly selected mutual fund investors who purchased shares from six different distribution channels. The survey provided data on the demographic, financial and fund ownership characteristics of mutual fund investors. It also provided investors knowledge of the cost investment risks and information sources. The study concluded that there is room for improvement in the level of financial literacy of mutual fund investors.

Brad Barber, Terrance Odean, Luzheng (2000) conducted a study entitled “The Behaviour of Mutual fund investors”. They took a sampling of over 30,000 households with accounts at a large U.S discount broker for six years ending in 1996. They concluded that the representative heuristic leads investors to buy past winners, the disposition effect renders investors reluctant to sell their losers, and framing effects cause investors to react differently to various forms of fund expenses and also reveals how selling, winning fund investments and neglecting a funds operating expense ratio when purchasing a fund is clearly counter productive.

Mart Grinblatt and Keloharju (2000) in their study entitled “The investment behaviour performance of various investors types; study of Finlands unique data set” analysed the extent to which past returns determined the propensity to buy and sell. The study revealed that foreign investors tend to be momentum investors, buying past winning stocks and selling past losers. Domestic investors, particularly the household contradicted the same. This difference in investor behaviour was consistent in regular intervals. The port polios of foreign investors out performed, the portfolio of households, even after controlling the behaviour difference.
Shu, Yeh and Yamada (2002) made a study on “The behaviour of Taiwan mutual fund investors performance and Fund flows” The prime objectives of the study are different patterns in buying and selling behavior of mutual funds. The data of the open-end equity mutual funds from Taiwan was taken up for this study. The results showed that there is a stark difference between investors investing small amount of money and those investing large amounts in mutual funds. And also suggested that searching cost might be an important factor that affects investors decisions. Small investors are more likely to be small household investors, are prone to buy large mutual funds that are well known, while large investors tend to buy small funds that might require a costly search.

Kozup, John, Howlett, Elizabeth Pagano Micheal (2008) conducted a study entitled “The Effects of summary information on consumer perceptions on Mutual fund characteristics”, They examined investors decisions how to best invest especially for retirement. They found that while investors continue to place so much emphasis on prior performance, the provision for supplementary information and investment knowledge too influence perceptions and evaluations of mutual funds.

3.3 STUDIES IN INDIA

Our economic liberalisation has certainly challenged the existing framework of traditional investments. Our national reviews on mutual fund investment has been helpful in examining investor preferences and behaviour.

Atmaramani and Madhusudan (1996) conducted a study entitled, “Restoring Investor Confidence”, the main objective of the study is to learn the behaviour of mutual fund investors’. They concluded that the investors’ expectations, protection, awareness, fund selection behaviour as well as investment pattern play a vital role in choosing the mutual funds.

Madhusudhan Jambodekar’s (1996) study on “Marketing strategies of mutual fund - Current practices and Future directions”, found that the awareness of mutual funds among investors, The aim of the study is to identify information sources influencing the buyer decision and the factors influencing the choice of a particular fund.
Keith Brown, Harlow and Laura Starks, made a study on an analysis of "managerial incentives in the mutual fund industry" and stated that managers of investment portfolio were likely to end up as 'Losers' and would manage fund risk differentially than likely to be winners especially whom their competition linked with relative performance. This study empirically investigated the performance of 334 growth oriented mutual fund from 1976 to 1991. It also stated that this effect became strong when industry developed and awareness increased.

Syama Sundar (1998) made a study on, "Growth prospects of mutual fund and Investor Perception with special reference to Kothari Pioneer Mutual Fund", The results showed that in the awareness about mutual fund concept, Agents play a vital role in spreading the mutual fund culture and also found that income, age, brand image, returns were the determining factors in fund selection.

In a survey conducted by ORG-MARG, a research organisation (1999) "Investor choices over the investment avenues" had been decided (New Delhi). The study revealed that a majority of investors favoured fixed deposits in banks. Post offices savings schemes, Insurance schemes, Bonds issued by Government, Equity shares were preferred by investors in that order. MF schemes mainly meant for small investors were the least preferred. Guaranteed return coupled with capital appreciation was expected by most of the investors. The survey reports concluded with the remark that awareness was still lacking in MF and it suggested promoting awareness in MF schemes.

In their study entitled "Mutual Fund Investment in Emerging markets", Kaminsky, Graciela, Lyons, Richard, Schmukler Sergio (2001) study observe that international mutual funds are key contributors to the globalization of financial markets and sources of Capital flows to emerging economies. They also provided an overview of emerging markets, funds size, asset allocation and country allocation.

Venkatapathi Raju (2001) in his study under the title "Mutual funds Perceptions of Urban and Rural Investors" examined the spread of mutual fund cults to urban and rural areas in west Godavari District. A total of 870 investors, 558 from urban and 312 from rural areas were interviewed. Random sampling procedure, weighted average and percentage were employed for analysing the data. The study revealed that marketing
strategies were strengthened so as to promote awareness and asset preference of investors. Panda, Tapan Kumar Tripathy, Nalini Prava (2001) brought out a thesis on “us customer orientation in designing mutual fund products: An analytical approach to Indian market preferences” The study concluded that prioritization, preference building and close monitoring of mutual funds are essential for fund managers to make this the strongest and most preferred instrument in Indian capital market for the coming years. With the decline in the bank interest rates, frequent fluctuations.

A study entitled, “Gender Differences in Revealed Risk Taking: Evidence from mutual fund investors” was carried out by Peggy Dwyer and James Gilkeson and John List (2002). The study examined 2000 mutual fund investors data collected in national survey, whether the risk taking behaviour of mutual fund investor is correlated with gender. The study found that women take risk more than men in the largest and riskiest mutual fund investment decisions.

Singh and Vanitha (2002) conducted a study on “Mutual Fund Investors’ Perception and Preferences” The main objectives of the study were time horizon of mutual fund investment, investors’ investment experiences, their perceptions as regards risk, returns, safety and diversification. A sample of 150 mutual fund investors based in Delhi was selected for the study. They found that, as against UTI and other public sector mutual fund the investors were increasingly moving towards private sectors mutual funds.

Santi Swarp (2002) in his study entitled “Role of mutual fund in developing investor confidence in Indian capital markets” identified safety and tax savings as the important factors affecting investment in various avenues by the investor and developed strategies for enhancing common investor confidence such as good return, transferency, investor education, guidance etc.,

Rajeshwari and Ramamoorthy (2002) made a study entitled “Performance Evaluation selected Mutual funds and Investment Behaviour”, The prime objective of the study is to determine the financial behaviour and factors influencing scheme selection of
retail investor. Principal component was employed for analysis of data. They concluded that to identify the investors underlying fund/scheme criteria, so as to group them into specific market segment is for essential designing of appropriate marketing strategies.

Jaspal Singh and Subhash Chander (2003) carried out a study entitled “What drivers the investors towards mutual funds” The prime objectives of the study were to determine the factors affecting the mutual fund investors. A convenience sampling method was used to collect the data from 400 respondents in major cities of Delhi, Mumbai, Punjab. Weighted Average scores, ANOVA was employed for analysing the data. They concluded that both occupation and age of respondents have a significant bearing on the rating of different factors by them affecting their decision regarding investment.

Qamar (2003) made a study on “Saving Behaviour and Investment Preferences among Average urban households”. A sample of 300 average urban middle class households were taken from Delhi. The aim of the study is to identify the factors influencing saving behaviour and investment behaviour. The study concluded that level of literacy, educational achievement, occupational distribution and income play a vital role in choosing the saving and investment pattern by mutual fund investors.

Micheal Jones and Tom Smythe (2003) in their study on “The information content of mutual fund print advertising” conclude how a large number of managers have differential information seeking investment advice and management would(Pave the way for) reducing the return for investors. The study stated things which were partly responsible for investor preference or choice by having insight from the psychology, consumer behaviour and behaviourl finance wreature. It concluded with the fact what is essential a more informed consumer investors.

Singh, Jospal Chander, Subhash (2004) brought out a thesis on “Empirical Analysis of perceptions of investors towards mutual funds”. They carried out this study on the perceptions of investors towards mutual fund that has crossed Rs.1,20,000 crore mark by November 2002. The investors perceptions regarding day-to-day disclose of net asset value by the funds and provisions for more tax rebates on investments in mutual funds by the government have emerged as an important requirement for the investors.
Kaminsky, Graciela Lyons, Richard Schmukler and Sergiol (2004) made a study on “Manager, investor, and crises; mutual fund strategies in emerging markets”. They examined the trading strategies of mutual funds in emerging markets. They developed a method for disentangling the behaviour of fund managers from that of underlying investors. For both managers and investors, they strongly rejected the null hypothesis of no momentum trading: mutual funds systematically sell losers and buy winners. Selling current losers and buying current winners is stronger during crises, and equally strong for managers and investors.

Agudo, Luis Ferruz, Lazaro and Cristina Ortiz (2005) in their study entitled “Does Mutual fund management in India correspond to its investment objective classification”. endeavor to investigate the mutual fund market in India and verify whether or not fund classification obtained from the name given to identify them corresponds to that which would be obtained were prior management to be taken into account. Factor analysis and cluster analysis were employed for analysing the data. They found that risk clearly identified two groups of funds in the same manner as public classifications of the funds and cluster analysis indicated that funds that are in fact, very close to one another, when for the bulk of investors they are not.

Duke, Lawrence, Upadhyay, Arun (2006) published a work entitled “Drivers of mutual fund investment and marketing performance in a changing regulatory environment”. The main aim of the study was to analyse the factors that affect the demand from investors in mutual fund industry. They found that reduction of fees would attract new investment capital leading to the increase in fund size.

Kavitha Ranganathan’s (2006) study entitled “A study of Fund selection Behaviour of Individual investor towards Mutual funds” has as its objective to study the fund selection behaviour of mutual fund investors. A sample of 100 respondents were selected at Mumbai city. The study incorporates some useful managerial implication for the Asset management companies in the product designing, marketing, management of the fund and also helps in making cost effective strategic decisions of fund manager and investors.

Jaspal Singh and Subhash Chander (2006) in their study under the title “Investors Preference for investment in mutual funds”. Point out investors perception regarding
mutual funds. A sample of 400 respondents were selected in Punjab weighted average scores, chi-square, mean, median was employed for analysing the data. They found that the majority of investors 145 based their investment decision on the advice of brokers, professionals, Financial advisors and newspapers advertisements. The salaried category of investors regulatory track the better performing funds and also the study revealed that occupation group differ significantly in regard to their perception about the returns.

Prasada Rao and Vedntam Saikia (2006) conducted a study entitled “Mutual Funds Exploring the Retail Customer Expectations”. With the growth of the Mutual Fund industry, there has been an increase in consumers' preferences and choices. At the same time, it has slowly become cluttered with numerous players trying to lure the Indian investors with a variety of schemes. They identified the key factors that influence customer preferences for a particular mutual fund. The factors identified the fund organizers design, their services and product mix in accordance with those preferred by customers. The technique of Factor Analysis leads to the identification of six major factors: Monetary, core product, fund strength, promotional, customer expectation and service quality. This study concluded that prudent product development with the value-added features that will make mutual funds more attractive for investors.

Gautam Bhardwaj (2007), A study entitled “How to create mass market for mutual funds”. He is taken for analysis is based on the invest India incomes and savings survey 2007. In terms of money, retail investment flow in mutual funds in the last 12 months stood at US $ 5.6 billion. The study concluded that the mutual fund penetration of the active work force of less than two percent .If the mutual fund industry manages to mobilize the necessary effort to bring the huge number of potential investors for whom mutual fund investments are not yet on the radar, the sky could literally be the limit.

Bollen (2007) undertook a study entitled “Mutual fund Attributes and Investors and Investor Behaviour”, He examined the cash flow into and out of socially responsible mutual funds, or funds that are invested in firms demonstrating high level of social responsibility or corporate ethics. The study concluded that the socially responsible funds attract loyal investors.
Nalini Tripathy (2007) undertook a study entitled, “Mutual fund in India”. The study was conducted in Delhi. The data were collected from 100 investors randomly selected, with the objective to examine investor related services of mutual fund. The study concluded that investor related services played a major role in improving mutual fund investor awareness.

Raju (2007) brought out a study entitled “Mutual fund Investment: Preferred or Induced”. The main focus of the study is on understanding individual investors behavioral aspects, while investing in MFs schemes in Visakhapatnam, which was based on a simple questionnaire analysis with a sample size of 200. They found that the retail investors are hardly conscious of MF investments leaving the scope to some extent. If at all the investors’ decision was a preferred choice, it was without complete awareness of the investor about the MF as an investment instrument and its relative features like risk, return, and load.

Woodrew Johnson and James Poterba (2008) a study entitled “Taxes and mutual fund inflows around Distribution Dates”. The main aim of the study is taxable investors who consider purchasing fund shares around distribution dates have an incentive to delay their purchase until the distribution, since this will reduce the present value of their tax liability. They concluded that the some taxable share holders time their purchase of mutual fund to avoid the tax acceleration associated with distributions. Taxable shareholders who purchase shares just before distribution dates also have shorter holding periods, on average, than those who buy after distribution.

Umaya Salma Shajahan and Archana (2008) conducted a study entitled, “A study on factors influencing the investments on mutual funds in Salem District of Tamilnadu”. The study was conducted with the prime objective to determine the factors which influence investors to invest in mutual fund. A sample was taken of private chit fund, using a structured questionnaire. The percentage analysis, chi-square analysis and weighted average technique were employed in this study. The study concluded that the factors such as safety, risk, high return played a major role in influencing investor to invest in mutual fund. It is also found that liquidity, tax benefits, low risk, safety are attributed to selected mutual fund schemes.
Kurian (2008) participating in a conference on “The Evolution of India mutual fund industry” in Montreal, Canada, examined the competition from assured return products from Government like Government of India Bonds, Post office monthly income schemes, senior citizen savings schemes, National savings certificates etc. They concluded that the lack of awareness and knowledge about mutual funds—only about eight percent of household savings are invested in mutual funds and also revealed that investors were unwilling to undertake even minimal risk.

3.4 CONCLUSION

The earlier studies made pertaining to mutual fund described and analysed mutual fund process and reported the chronological growth and development of mutual fund. The earlier studies found out the reasons of success and failure of mutual fund as well as high and low return. No extensive and intensive studies have been made in relation with investor awareness and behaviour. The present study focuses on “Mutual Fund Investors Awareness”. The research methodology followed for carrying out the study is dealt with in the next chapter.
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