CHAPTER II

REVIEW OF LITERATURE

The review of previous studies related to investor’s attitude and behaviour towards mutual fund investment are summarized below:

Nalini Prava Tripathy (1996)\(^1\) pointed that, mutual funds creates awareness among urban and rural middle class people about the benefits of investment in capital market, through profitable and safe avenues. Mutual fund could be able to make up a large amount of the surplus funds available with these people.

Sant and Zaman (1996)\(^2\) pointed out that the media played a significant part for retail investors and also at the margins of the mutual funds market. Private investors are highly dependent on additional comments and share-tipping in financial news columns because they have little time or specialist knowledge to make considered decisions. News media was either the only source of information for a particular investor or there were few alternative source of

---

information on a particular stock. The retail investors reacted much more to media information than professional investors.

Raja Rajan (1997,1998)\(^3\) highlighted segmentation of investors on the basis of their characteristics, investment size, and the relationship between stage in life cycle of the investors and their investment.

Gupta & Sehgal, (1998)\(^4\) in their research paper “Investment Performance of Mutual Funds: The Indian Experience” tried to find out the investment performance of 80 schemes managed by 25 mutual funds, 15 in private sector and 10 in public sector for the time period of June 1992-1996. The study has examined the performance in terms of fund diversification and consistency of performance. The paper concludes that mutual fund industry’s portfolio diversification has performed well. But it supported the consistency of performance pattern.

Raj Kapila and Uma Kapila (1998)\(^5\) in its discussion paper printed that as the process of economic reform continues and the share of the corporate sector in the economy increases the role of securities markets as tax source of raising funds for investment is expected to become more critical. If Indian markets are to serve the need of firms as well as a nationwide community of convertors, it is essential that efforts to lower transaction cost and to increase the integrity and fairness of Indian markets continue. While measures that have been

taken by the government, SEBI exchanges and market intermediaries in this direction have led to an increase in capital market activity and investor confidence, it is necessary to focus on further changes that are still required.

Terrance (1998)\(^6\) examined the behaviour of individual investors and found them exhibiting disposition effects, that is, they realize their profitable stocks need as investment at a much higher rate than their unprofitable ones. The disposition effect is found to influence market price; yet its economic significance is likely to be the greatest for individual investors.

Chakarabarti and Rungta (2000)\(^7\) stressed the importance of brand effect in determining the competitive position of the AMCs. Their study reveals that brand image factor, though cannot be easily captured by computable performance measures, influences the investor’s perception and hence his fund/scheme selection.

Gupta, L.C. and Choudhary (2000)\(^8\) in their study pointed out that index funds have gained acceptance among investors because it was found that fund managers often did worse than the manipulation, speculation and insider trading. There was no effective regulation and control as in the USA and the UK.

Sarkar and Majundar (2001)\(^9\) made an attempt to make an operational analysis of various mutual funds over a period of three years


(1996-1999). The results revealed that the income oriented products offered by the public as well as private mutual funds organizations were less expensive than the others as these incurred comparatively low cost per rupee of income generated. The results also indicated that the cost effectiveness is favorable towards private sector mutual funds as against their rival operating in public sector.

Rajeswari and Ramamoorthy 2002) 10 studied the financial behaviour and factors influencing fund/scheme selection of retail investors by conducting Factor Analysis using Principal Component Analysis, to identify the investor’s underlying fund/scheme selection criteria, so as to group them into specific market segment for designing of the appropriate marketing strategy.

Chalam (2003) 11 found the important factors influencing the investment on mutual funds are return, capital appreciation, tax saving purpose, liquidity, marketability and safety. Majority of the investors prefer in real estate investments, followed by mutual fund schemes, gold and precious metals. Majority of the investors in mutual funds are employees. They preferred only growth options compared to income options. Majority of the investors are very much interested to take the re-investment benefit rather than the regular dividend.

Kshama Fernandes (2003) 12 evaluated index fund implementation in India. In this paper, tracking error of index funds in India is measured . The

consistency and level of tracking errors obtained by some well-run index fund suggests that it is possible to attain low levels of tracking error under Indian conditions. At the same time, there do seem to be periods where certain index funds appear to depart from the discipline of indexation.

Lynch and Musto (2003)\textsuperscript{13} were of opinion that this decade will belong to mutual funds because the ordinary investor does not have the time, experience and patience to take independent investment decisions on his own.

Mazza (2003)\textsuperscript{14} argues that investors may subscribe to or redeem from specific mutual funds in order to change their consumption of or exposure to attributes other than expected return and risk.

Ravindran and Rao (2003)\textsuperscript{15} made the performance analysis of 269 open ended Indian mutual funds in a bear market. This evaluation was carried out through Treynor ratio, Sharpe's ratio, Jensen measure and Fama measure, the study period being September 1998 to April 2002. The study offered that 58 schemes were able to satisfy investor's expectations based on both premium for systematic risk and total risk.

Bhalla (2004)\textsuperscript{16} concluded that investors do not need to be familiar with the characteristics of the different types of mutual funds. Many investors do not understand what they are buying. With so many choices, investors risk making the wrong ones. Besides investing in appropriate and


high-cost mutual funds, investors also buy laggards. There is no shortage of mediocre performers.

Gupta and Amitabh (2004)\(^ {17} \) evaluated investment performance of 80 mutual funds schemes of the Indian market. They have examined performance in terms of fund diversification and consistency. It indicated that there has been lack of adequate portfolio diversification. But, it supported the consistency of performance.

Jaspal Singh and Subash Chander\(^ {18} \) (2004) analysed that, the perceptions about mutual funds in the view of general investor feels that different regulatory bodies like SEBI and others have not been able to regulate and control the working of mutual funds so as to safeguard the small investors’ interest.

Singh Jespal (2004)\(^ {19} \) concluded that most of the growth oriented mutual funds performed poorly as compared to the benchmark. They have also examined the growth of mutual funds in India in terms of resource mobilization, promotion of various types of schemes and NAV based risk and return. The cumulative resources of mutual funds underwent a four-fold rise and found a threefold increase in the number of schemes during the period 1990-91 to 1997-98.

Sodhi and Jain (2004)\(^ {20} \) evaluated 26 equity mutual funds drawn


from 22 Asset management companies belonging to private and public sector. They concluded that the equity mutual funds have overall inferior performance in comparison of risk free return. They compared the rate of return generated by equity mutual funds and 364 days T-bills for the period of 1993-2002.

Gelade and young (2005) examined the relationship between organization climate, employee attitude, customer satisfaction and sales performance and concluded that teamwork climate, job enablers and support climate are organizational climate variables, commitment is an employee attitude and customer satisfaction and sales achievement are organizational performance measures.

Kathleen Byrne (2005) shows that risk and investment experience tend to indicate a positive correlation and past experience of successful investment increases investor tolerance of risk. Inversely, unsuccessful past experience leads to reduced tolerance to risk. Therefore past investment behaviour affects future investment behaviour.

Kulbhushan Chandel and Verma (2005) studied the performance of mutual funds, the study results indicate that the schemes have earned better return than the market return, it also shows that the sample schemes performed better than the risk free return.

Monika Dua (2005)\textsuperscript{24} in his study analyses the perception of mutual fund investors, he reveals that mutual funds are preferred by the small investor who taught that they themselves did not have the expertise to deal directly with shares.

Ramesh Kumar (2005)\textsuperscript{25} found that investors prefer growth schemes to take the reinvestment benefit of regular income. The study also shows that, desire of higher return and benefit of tax are the key motivating factors in boosting the business of mutual funds. He also opined that lesser risk, higher return and easy liquidity are main qualities of an ideal mutual fund.

Sudhakar and SasiKumar (2005)\textsuperscript{26} opined that most of the growth oriented mutual funds have been able to deliver better return than the benchmark indicators. Growth oriented mutual funds are expected to offer the advantage of diversification, market timing and selectivity.

Zakri Y. Bello (2005)\textsuperscript{27} matched a sample of socially responsible stock mutual funds matched to randomly select conventional funds of similar net assets to investigate differences in characteristics of assets held, degree of portfolio diversification and variable effects of diversification on investment performance. The study found that socially responsible funds do not differ significantly from conventional funds in terms of any of these attributes.

\begin{itemize}
\end{itemize}
Moreover, the effect of diversification on investment performance is not different between the two groups.

Divya (2006)\(^{28}\) identified that there has been a tremendous growth in the mutual fund industry in India, attracting huge investments from investors within the country and abroad, however, there is still a long way to go. With the growing middle-class, projected to be 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-liberalizing economy, is expected to elevate the mutual fund sector to new heights.

Faisal Ahmed and Ahuja (2006)\(^{29}\) evaluated the cause and effect relationship between mutual fund investment decision and fund family, fund size, type of fund, type of portfolio and schemes, risk involved of the fund manager, past performance of the fund, liquidity factors and current market conditions.

Kaul and Gupta (2006)\(^{30}\) analysed the investor’s perception on various reasons to select the mutual fund scheme. These are risk capacity and tolerance, liquidity needs, specific objectives, credibility of the sponsors, investment philosophy of the fund, performance of the scheme, dividends, entry and exit loads, expenses charged to the fund and services offered by the fund.

Mohanty (2006)\(^{31}\) analyzed the weakness of mutual funds. These


\(\text{30. } \text{Kuldip Kaul and Rachana Gupta (2006),’Mutual funds: Mutually yours’, } \text{Portfolio Organiser, Vol.7(9), pp.33-41.}\)

\(\text{31. } \text{Ajaykumar Mohanty (2006), ‘ABC of Mutual funds: The Indian Way’, } \text{Portfolio Organiser, Vol.7(7), pp.45-51.}\)
are non availability of tailor-made schemes, no guarantee of returns, no control over costs, problem of managing large corpus, volatility of return depends on market conditions, which is subject to frequent market volatility and mostly investment period is medium term to long-term where expected return is more. Market mutual funds scheme is for short period where return is not lucrative and the instruments are lesser in number.

Muttappan, P.K (2006)\(^\text{32}\) in his study explains about the factors influencing mutual fund investment decision making. The study reveals that tax exemption given to the investments in mutual funds was the most influencing factor.

Ronay and Kim (2006)\(^\text{33}\) have pointed out that there is no difference in risk attitude between individuals of different gender, but between groups of such, males indicate a stronger inclination to risk tolerance. That is, no gender difference was found at an individual level, but in groups, males expressed a stronger pro-risk position than females.

Subhash Chander and Jaspal Singh\(^\text{34}\) (2006) studied the preference of investors, the study revealed that, investor’s decision to invest in a particular mutual fund is affected by different sources from where information about working of that fund becomes available to investor, they also opined that the


occupation groups differ significantly in their perception about the returns received from the mutual fund.

Sorescu and Subrahmanyam (2006)\textsuperscript{35} provide evidence that investors focus on the content of analyst recommendations, and do not much consider the skill of the person making them, which suggests that they may also be open to peer influence.

Surjit (2006)\textsuperscript{36} analysed the relationship between investors and mutual funds. Investors have started believing in mutual funds to manage their hard-earned money. Mutual funds are those institutions that can give maximum satisfaction to their investors by diversifying the portfolio. The mutual funds are becoming popular among the people who are more risk-average than pure equity investors. Carefully managed mutual funds can ensure optimum returns even during turbulent times in the market and that makes the mutual fund a good choice among the retail investors. Due to the reduction in the bank interest rates and high degree of volatility in the Indian stock market, investors are looking for an alternative for their small time investors which will provide them a higher return and also safety to their investments.

Verma (2006)\textsuperscript{37} mentioned the advantages of mutual funds investors among the investors are diversification, professional management, liquidity, affordability, tax benefits, transparency, cost effectiveness, risk associated with mutual funds, market risk, inflation risk, credit risk and effect of

\textsuperscript{36} Surjit Mohana,(2006), ‘Mutual funds and Indian Capital Market’, Portfolio Organizer, Vol.7(8), pp.50-53.
loss of key professionals. The investors prefer the mutual funds since it has specified investment objectives such as growth of capital, safety of principal, current income or tax exempt income. They also generated decisional matrix for mutual fund investment on the basis of the relationship between the fund size and NAV returns. By that they exhibited the decisional optimization, decisional consideration, decisional reconsideration and decisional fallacy.

Alexander, Cici and Gibson (2007)\(^ {38}\) reveal that mutual fund managers are able to value stocks and motivation plays a vital role in the assessment of trade performance. As far as they are concerned, valuation-motivated buys produce higher performance than their benchmarks. In sharp contrast to this, liquidity-motivated buys underperform their benchmarks, thus indicating that mutual fund managers are not able to beat the market since they are compelled to pump additional cash from inflows.

Aman Srivastava\(^ {39}\) (2007) analysed the behaviour of investors in India, the study revealed that Indian investors have not been absolutely logical and rational in their investment decisions are always affected by definite behavioural factors.

Balanaga Gurunathan (2007)\(^ {40}\) examined, the investors need protection from the various malpractices and unfair practices made by the corporate and intermediaries. As the individual investors’ community and the

---

investment avenues are on the rise, it is interesting to know how the investors shall be protected through various legislations. The present positive attitude of investors is heartening though investor sentiments have been shaken by the various scandals.

Bodla and Garg (2007)\textsuperscript{41} evaluate the performance of 24 growth schemes of mutual funds. They reveal that most of the schemes have outperformed the market during the study period in terms of return. However, the difference in market return and funds return is found insignificant. There exists a moderate positive correlation between risk and return of the sample schemes. A large majority of the schemes have succeeded in earning a risk premium irrespective of the performance measurement model concerned. Most of the schemes have performed better than the market on the basis of risk adjusted return also.

Hanumantha Rao and Vijay Kr. Mishra, (2007)\textsuperscript{42} opined, The Indian Mutual Funds industry has been growing at a healthy pace of 16.68 per cent for the past eight years and the trend will move further. According to his study, it has been found out that almost 54 \% of people invests for security and certainty while 38 \% of the people invests for current spending. Some 53 \% of the people prefer long term investment whereas 23\% people each prefer medium term and small term investment.

Rao and Mishra (2007)\textsuperscript{43} revealed that the Indian mutual funds

\begin{itemize}
\end{itemize}
industry has witnessed several structural and regulatory reforms. The people invest in mutual funds for the purpose of earning higher rate of return by taking minimal risks. With entry of new fund houses and the introduction of new funds into the market, investors are now being presented with a broad array of fund choices. The global players are finding Indian mutual funds industry a potential sector.

Selvaraj, V., and Marammal Devi, V., (2007) examine the performance of mutual funds, they opined that “the performance of an actively managed fund largely depends on the investment decisions of its manager. Statistically, for every investor who outperforms the market, there is one who underperforms. Among those who outperform their index before expenses, though, many end up underperforming after expenses. Before expenses, a well run index fund should have average performance. By minimizing the impact of expenses, index funds should be able to perform better than average”

Vijayalakshmi (2007) identified that the number of investors in systematic investment plans (SIP) have been increased by 10 fold times compared to the previous year. The important investors on SIP are salaried class, small corporates and SMEs. The concept of diversification is there in fund of funds. The idea of hold Exchange Traded Funds was first conceptualized by Benchmark Asset Management Company in India.

Arugaslan, Edwards and Samant (2008) present that if the level

of risk imposed by the fund is factored in the analysis conducted, the mutual funds with greater average returns compared with the others may not be attractive enough to investors as they are before. Similarly, mutual funds with lower average returns may enhance their attractiveness if their low level of risk is factored in their performance analysis. In addition, the authors demonstrate convincingly that the returns on international mutual funds with low level of risk can be boosted by means of financial leverage.

Sasaki and Rathiha (2008) pointed out that the different variables which influence to invest on mutual funds are safety, liquidity, stability, speculative values, diversification and low cost. Through the study the researcher found that, the most important factors leading to mutual fund investments are risk freeness and income, the next factors are savings and cost.

Rakhi Arora and Rajni Sofat (2008) says risk and return are the two inseparable parts of an investment strategy. They have direct relationship between them: higher the risks, higher are the returns and vice versa. The very basic consideration of an investor while investing the money should be how to maximize the returns and what are the risks involved in investing in a particular instrument.

Ganapthy, R., (2008) in his study pointed that, “investors whom have hitherto been investing in assured return schemes like fixed deposits and small savings, often refuse to look at other smart options like mutual funds just

because they do not offer guaranteed returns. It will be quite a challenge for the industry to bring investors into its fold. The industry will also have to ensure that as and when these investors decided to begin investing in mutual funds, they select the right type of funds and invest with a long-term view in mind”

Mohan Nayak, V., (2008)\(^{50}\) has examined the service sector of mutual funds, he suggested that, “Leading asset management companies are only those companies are successful which offer customized services along with the innovative products. The investment in mutual fund is not a one-time activity. It is a continuous activity. The same investor if satisfied will come to the company again and again and become the loyal customer. The information in the investor’s application if tabulated and analyzed would provide important insight in to investor needs, preferences and behaviour”.

Lakshmi.R, (2009)\(^{51}\) studied the investor servicing factor. It shows that the investors in mutual funds place quality of service very high among the attributes, something even above returns. It is thus in the fund managers, marketing interest to ensure that investor service commitments are well executed. The entry of foreign fund managers brings to the capital market a new level of service.

Megil Subha (2009)\(^{52}\) in his study examined the expectation of mutual fund investors, the investors prefers to invest in mutual fund with the expectation of getting regular income. Similarly as an investment and to get tax

---

benefit they prefer to invest their savings in mutual fund. Another great expectation about mutual fund is that they should give guaranteed return which is not there.

Nidhi Walia and Ravi Kiran (2009)\textsuperscript{53}, analysed, Mutual fund as an investment avenue is preferred by those investors who don’t want to take complete risk of capital market volatility or those investors who want to rely on professional knowledge of mutual funds AMCs. Survey results reveal the fact that very few investors rank mutual funds as most preferred investment avenue and rank it at first position.

Sharma Anuj, (2009)\textsuperscript{54} focuses of mutual fund on retail investors. Mutual fund industry to stick-on to know-your-customer (KYC) norms by implementing them in letter and spirit, the Securities Exchange Board of India (SEBI) increased focus on retail investors was the key to the growth of the mutual fund industry. KYC was not difficult but a requirement in the interest of the investor and the industry as a whole. It also highlighted the role of the retail investor by saying that though India had close to 39 per cent savings rate, the retail side was quite untapped by the industry.

Venkatesh, B., (2009)\textsuperscript{55} analyzed the tax-saving funds and opined that Investors buy ELSS with a primary objective of saving taxes and that could


turn out to be sub-optimal, for the primary objective should be to optimize post-tax returns, not to save taxes.

Tarapore, S.S., (2009)\textsuperscript{56} identified the biggest problem of the mutual fund industry is that the funds prefer bulk investors over retail investors and, hence, the distribution mechanism remains underdeveloped. The time has come to undertake drastic and speedy action on this and a host of their issues.

Dnyandeo V. Ingle (2010)\textsuperscript{57} pointed the strategy for the selection of mutual fund is, while invest in mutual funds the investor should read the research reports supplied for each mutual fund scheme and study the graphs and compare each portfolio’s published results with the results that were achieved by the investor’s portfolio manager.

Nayak (2010)\textsuperscript{58} studied the grievance level of investors, the study revealed that, Occupational affiliations cultivate a set of values and beliefs which may or may not always be supportive to the decision making ability of an individual income level, length of experience of investing in capital market and various occupational background of investors. have significant association with their awareness of the functions of various grievance redressal agencies.

Syed Tabassum Sultana (2010)\textsuperscript{59} in his study, “An Empirical Study

\begin{itemize}
\end{itemize}
of Indian Individual Investors’ Behaviour’, mentioned that, age accounts for the major differences in risk taking decisions by the investors. The older an investor, the better seemed his/her performance in comparison to the younger ones. Over-confidence in their own investment ability among the youngsters largely accounts for the excessive trading among younger investors leading to lower returns and this direct to decline in the risk tolerance level.

Yamal Vyas (2010) examined the retail investors, he says that, the retail investors have taken great fancy to the systematic Investment Plan and it seems that every middle class household has a SIP investment. He also taught the mutual fund investment cannot be different from equity investments.

**Research Gap**

All previous studies are mainly focused to the performance of mutual funds and the growth of industry, variety of schemes etc. A few studies analyze the behavioural aspect but it limits to the decision making level only. No major study has been done regarding the investor’s behavioural aspect, expectation of investor, risk tolerance level of investors and the effectiveness of grievances and redressal mechanism.

---