Chapter 2
REVIEW OF LITERATURE

2.1 Introduction
The review of literature was done on the broad framework of the study. Articles were reviewed under behavioural finance to have a clear understanding and deep insight into the broad area of the study. The literature review was done under seven heads based on the objectives of the study namely; Factors influencing the purchase of mutual funds, Information source, Investments decision among households and individuals, Investor behaviour, Issues and Perception of mutual fund investors and Risk tolerance.

2.2 Behavioural Finance
Behavioural finance is part of finance that seeks to understand and explain the systematic financial market implications of psychological decision processes. The irrational behaviour of investors, not captured by the traditional models is explained by making use of cognitive psychology, social sciences and anthropology. Behavioural finance can be best described as that field of finance that proposes psychology and human emotion-based theories to explain certain investment anomalies that is seen in real life. It basically assumes that, the characteristics of market participants and their emotions influence the investor’s financial decisions and thus the market outcomes. It replaces the traditional and idealized idea of rational decision makers with real and imperfect people who have social, cognitive, and emotional biases.

The behavioural finance literature falls into two primary areas: the identification of “anomalies” in the efficient market hypothesis that behavioural models may explain DeBondt and Thaler (1985)\(^1\) and the identification of individual investor behaviours or biases inconsistent with classical economic theories of rational behaviour Odean (1999)\(^2\).

According to prospect theory, people do not behave rationally. They behave differently in different context. According to Kahneman and Tversky (1979)\(^3\) “people respond differently to same situation either it is presented in context of loss
or gain. Investors are distressed with prospects of loss and are pleasant with possible gain. Investors become risk averse when faced with sure loss and become risk takers when faced with sure gain”.

Behavioural literature focuses on how individual investors manage their portfolios and that how an active portfolio management offers various strategies for beating the benchmarks. Among investors a common tendency of holding losers for long and selling winners quickly has been pointed out by Shefrin and Statman (1985). They named it as the disposition effect. They related their findings to the concepts of “loss aversion, the issue of self-control, mental accounting, and the aspiration to avoid regret.”

Samuelson and Zeckhauser (1988) defined the status quo bias. It is also related to the influence of default option on choices. The status quo is related to loss aversion (framing as gains and losses) in the sense that current position (status quo) is refereed as the reference point. Other explanations, such as anchoring, sunk costs, regret avoidance, the desire for uniformity, the avoidance of cognitive dissonance, and the illusion of control, may contribute to the perseverance of the status quo bias and all this leads towards poor management of portfolio. The status quo, familiarity bias, inclination for stable returns, poor diversification and not making the proper adjustment in the portfolio with the arrival of new information are the factors that result in less than optimal investment outcomes. In this condition investors invest in those funds that they have already purchased and do not change the investment model.

Festinger’s theory of cognitive dissonance states that “people feel internal tension and anxiety when faced with conflicting beliefs. They try to reduce inner conflicts firstly by changing past values and beliefs, secondly try justifying their choices. Investors also exhibit this kind of behaviour when making investment decisions”.

Goetzmann and Peles (1997) examined the cognitive dissonance in mutual fund investor. According to this research “the mutual funds investors exhibit cognitive dissonance while selling and buying mutual funds and spend more money on leading mutual funds. Investors are reluctant to admit that they have made bad investment and do not want to sell it”. According to regret theory, “investors
anticipate regret if they have made wrong choice and take this recommendation into future reference. Fear of regret plays a great role in making investor to become risk averse or take great risk”.

Behavioural finance attempts to explain human behaviours’ in markets, importing theories of human behaviour from the social sciences Shiller (1998). Behavioural finance is an attempt to explain what causes some of the anomalies that have been observed and reported in the finance literature. Fuller (1998)

Odean (1998) found that particular group of investors sells winners more readily than losers. Even when the other rational motivations are controlled, these investors carry on selling winners and holding losers. Their actions are in accordance with two behavioural hypotheses: the prospect theory and an erroneous conviction that winners and losers will mean revert. This investor behaviour appears not to be motivated by a desire to rebalance portfolios or by a reluctance to incur the higher trading costs of low priced stocks. It is also not justified by subsequent performance, as it leads to lower return. Investors trade too much due to their overconfidence. Successful investors can exhibit overconfidence through self-attribution bias, i.e. they have conviction that their successful trade activity is the mere result of their specific skills and abilities.

According to Olsen (1998) “most people consider themselves to be risk-avoiders rather than risk-takers. People will make decisions in which they are willing to accept a certain small return rather than a larger, but uncertain profit from their financial decisions”. The measurement of risk tolerance should be differentiated on the willingness to take risk. Risk tolerance changes with experience of investment, age, work life, and changes in the market conditions.

Behavioural finance is defined by Shefrin (1999) “as a rapidly growing area that deals with the influence of psychology on the behaviour of financial practitioners”. Within behavioural finance, it is assumed that information structure and the characteristics of market participants such as their educational background and other demographic features systematically influence individuals’ behaviour and their investment decisions. It is due to these factors that people feel more competent than others in interpreting and acting on the information to make investment decisions.
Barber, Odean, and Zheng (2000)\textsuperscript{12} in their article highlighted three important behaviour of investor viz; “(i) investors buy only those funds that have showed good past performance. (ii) investors are reluctant to sell losing funds and are ready to sell winning fund. (iii) investors are less likely to buy the funds having high transaction fee i.e. brokerage fee, front end load fee. They argued that when purchasing a fund, investors show representative heuristic i.e. investors believe that past performance is overly representative of future performance. Thus investors exhibit over-confidence while selecting the past performing funds and overly estimates their future performance”.

According to Simon (2000)\textsuperscript{13} behavioural finance studies the psychological and sociological factors that influence the financial decision making process of individuals, groups and entities. In his study, “the theories of behavioural finance are discussed like cognitive dissonance, prospects theory and regret theory. When investor purchases intended security or mutual funds, experiences an emotional reaction. If security falls in value, investor does not want to sell it to avoid the regret of bad investment. Therefore investors buy the hot stock or mutual fund or follow crowd, in this case if the value of security declines investor can lessen the regret because a group of people also lost money on that bad investment”.

Several studies have examined the link between gender and behavioural finance biases; of these, Barber and Odean (2001)\textsuperscript{14} conclude that men are more subject to overconfidence bias than women in trading. The researchers found that, over a six year period, men on average traded 45% more than women and single men on average traded 67% more than single women.

While other studies have found that high overconfidence behaviour affected not only the frequency but also the volume of trading in the stock market. Glaser and Weber (2003)\textsuperscript{15} show that high overconfidence investors defined as ‘above average’ in investment skill has a tendency to trade in large volumes. Statman et al (2003)\textsuperscript{16} argues that the level of overconfidence has a positive effect on trading volume. Investors with high overconfidence tend to trade in large volume, and then modelled as overconfidence hypothesis. Several studies conclude that overconfidence causes excessive trading, and eventually lead to decline in investor returns.
According to Ranganathan (2006)\(^1\) mostly in financial literature it is considered that “investors are rational but that is not the case the investors whose behaviour is dynamic, which is based upon belief, perceptions and expectations. Investor behaviour changes with the time period even if the variables are constant”.

Barak and Demireli (2006)\(^2\) relates how stock prices are affected by investors’ behaviours. In behavioural finance, investors are normal rather than rational. Behavioural finance is bases on the assumption that most investors make choices based on limited information. As a result, investors’ choices typically are not the ones that would maximise the utility of rational investors; rather investors’ choices satisfy investors whose rationality is bounded by the limited availability of information and limited cognitive ability.

Gurtler and Hartman (2007)\(^3\) study reveals that most changes in attitudes take one time to emerge.

Finance theories, assumes that investors make decisions based on the expected return and risk calculation. Behavioural finance studies from the psychological angle and it depicts people’s financial decisions being affected by the psychological factors viz; heuristics (too much weight on recent past), conservatism (slow to pick up change), disposition effect (avoid to realize paper loss), familiarity biases (prefer to invest in familiar stock, framing effect (loss averse and present the individual matters wrongly).

2.3 Factors Influencing the Purchase of Mutual Funds

It is widely believed that mutual funds (MFs) are targeted towards small investors who are afraid of stock market and would like to garner the advantage of stock market investment. Selection criterions that investors look are scope of mutual fund family, past performance, fund manager etc.

In India, the pioneering attempt was made by NCAER in 1964, by conducting a survey among the house hold investors to understand the attitude towards individual savings.

Lancaster (1966)\(^4\) presents a multi-attribute model of consumer choice that consumer utility resides in the characteristics that a good possesses, rather than in the good itself.
Fishbein and Azjen (1975)\textsuperscript{21} is the most quoted study to model the choice process. They opined that “choice is determined by each alternative’s sum perceived values on multiple attributes and the alternative with largest score is selected”.

The study of Kahneman and Amos (1979)\textsuperscript{22} observes that the psychology of preferences have demonstrated. Kahneman and Amos who originally described ‘Prospect theory’ in 1979 found that contrary to expected utility theory, people place different weights on gains and losses and on different ranges of probability. They found that “individuals are much more distressed by prospective losses than happy by equivalent gains and concluded that investors typically consider the loss of $1 twice as painful as the pleasure received from a $1 gain”. They also found that individuals would respond differently to equivalent situations depending on whether it is presented in the context of losses or gains.

Woerheide (1982)\textsuperscript{23} done a study on suggested criteria for mutual funds and proved that factors like size of fund, effectiveness of marketing programme and past returns have strong impact.

Dunham (1984)\textsuperscript{24} admits that “although personality factors can change over an extended period of time, the process is slow and tends to be stable from one situation to another and these factors are expected to influence the decision making behaviour of an individual”.

De Bondt and Thaler (1985)\textsuperscript{25} argue that “mean reversion in stock prices is an evidence of investor over reaction where investors over emphasise recent firm performance in forming future expectations”.

Barnewall (1987)\textsuperscript{26} finds that “an individual investor can be found by lifestyle characteristics, risk aversion, control orientation and occupation. He also suggests the use of psychographics as the basis of determining an individual’s financial services needs and takes one closer to the truth from the customer’s perspective of need to build a marketing programme”.

Statman (1988)\textsuperscript{27} observed “that people trade for both cognitive and emotional reasons. They trade because they think they have information, when in reality they make nothing but noise and trade only because trading brings them joy and pride. Trading brings pride when decisions made are profitable, but it brings
regrets when they are not. Investors try to avoid the pain of regret by avoiding realization of losses, employing investment advisors as scapegoats and avoiding stocks of companies with low reputations”.

Gupta (1988)²⁸ brand or product features like price, quality, return and risk for the mutual fund purchase are widely believed to impact significantly upon the weighting of selection criteria.

Consumer survey report of mutual fund investors (1990)²⁹ says that risk and return alone are not adequate as explanatory variable. Although past performance and level of risk (safety) were rated as the two most important factors in aggregate, several additional factors were also relevant: amount of sales charge, management fees, fund managers reputation, fund family, clarity of the fund’s accounting statement, recommendation from a financial magazine or newsletter, availability of telephone switching, the fact that funds are already owned in that family, and friend's recommendation etc.

There is some empirical evidence that investors make mutual fund purchase decisions on the basis of past performance. Kane, Snatini, and Aber (1991)³⁰ Patel, Zeckhauser, and Hendricks (1992)³¹ report that “previous fund performance, adjusted for risk appears to be associated with net inflows to mutual funds”. However, Sirri and Tufano (1992)³² find that “raw returns which are not adjusted for risk, appear to drive fund growth”.

Ippolito (1992)³³ says that “fund/scheme selection by investors is based on past performance of the funds and money flows into winning funds more rapidly than they flow out of losing fund”.

Gupta (1994)³⁴ made a household investor survey with the objective to provide data on the investor preferences on MFs and other financial assets.suggestions were given to the stake holders to design new financial products.

Capon, Fitzsimons and Weingarten (1994)³⁵ explored the mutual fund purchase decision by affluent consumers. They investigated the rationality assumption and compared the affluent with the previously studied sample of consumers. The variables included: sources of information, selection criteria, and mutual fund investment behaviour. In addition, they sought to integrate this
information with demographic data to develop profiles of distinct affluent mutual fund investor groups.

NCAER (1996)\textsuperscript{36} analysed the structure of the capital market and presented the views and attitudes of individual shareholders.

Tripathy (1996)\textsuperscript{37} in her study observed that “with the structural liberalization policies, Indian economy is likely to return to a high growth path in few years, at the same time mutual fund (and life insurance) organizations are needed to upgrade their skills and technology”.

Madhusudhan V Jambodekar (1996)\textsuperscript{38} study reveals that “income schemes and open ended schemes are more preferred than growth schemes and close ended schemes during the period of study. Investors look for safety of principal, liquidity and capital appreciation in the order of importance; newspapers and magazines are the first source of information through which investors get to know about MFs/Schemes and investor service is a major differentiating factor in the selection of mutual fund schemes”.

Sujit Sikidar and Amrit Pal Singh (1996)\textsuperscript{39} carried out a survey with an 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 formed the major investors in mutual fund primarily due to tax concessions and UTI and SBI schemes were popular when the survey was done”.

Shankar (1996)\textsuperscript{40} points that “the Indian investors do view mutual funds as commodity products and AMCs to capture the market, should follow the consumer product distribution model”.

Jambodekar (1996)\textsuperscript{41} conducted a study to know the awareness of mutual fund, to identify the information source, factors influencing the choice of fund. The study reveals that, “income schemes and open ended schemes are more preferred than growth schemes and close ended schemes during the period”.

Capon, et al; (1996)\textsuperscript{42} investigates the manner in which consumers make mutual fund investment decision based on consumer behaviour, information sources and other selection criteria related on mutual fund purchase. Investors report that
“they consider many non-performance related variables. When investors are grouped by similarity of investment decision process, a single small group appears to be highly knowledgeable about its investments. However, most investors appear to be naive, having little knowledge of the investment strategies or financial details of their investments”.

Goetzman and Peles (1997)\textsuperscript{43} established that there is evidence of investor psychology affecting fund/scheme selection and switching. They present evidence from the responses of mutual fund investors about recollection of past performance. They found that the degree of bias is conditional upon previous investor’s choice, a phenomenon related to the well known theory of cognitive dissonance.

According to Talluru (1997)\textsuperscript{44} the objective of mutual fund selection process is to choose a fund from large number of available fund within the limits defined by investor preference, economic climate and constraints. In this study researcher argue that “it is very complex procedure to select appropriate fund and majority of investors lack awareness and expertise”.

Syama Sunder (1998)\textsuperscript{45} done a study on Kothari Pioneer, a private mutual fund player. The survey revealed that “awareness about mutual fund concept was poor during that time in small cities like Visakapatnam and agents play a vital role in spreading them mutual fund culture. Open-end schemes were much preferred then; age and income are the two important determinants in the selection of the fund/scheme; brand image and return are the prime considerations while investing in any mutual funds”.

Khorana and Servaes (1999)\textsuperscript{46} had experimented that “the decision to introduce a new type of fund is affected by a number of variables, including investor demand for the fund’s attributes. Investment companies should continually introduce new types of funds in an effort to attract investor’s capital and maximize assets under management”.

Odean (1999)\textsuperscript{47} says that“as investors are unique and are a highly heterogeneous group at the retail level, designing a general product and expecting a good response will be futile”.

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Rajarajan (2000)\textsuperscript{48} envisage that individual investment choices (e.g., stocks, bonds, real estate) are based on lifestyle and demographic attributes.

SEBI – NCAER Survey (2000)\textsuperscript{49} was carried out to assess the number of households and individual investors, their economic and demographic profile, portfolio size, investment preference for equity as well as other savings instruments. Some of the relevant findings of the study are “households preference for instruments match their risk perception; bank deposit has an appeal across all income class; 43 percent of the non-investor households lack awareness about stock markets and compared to low income groups, the higher income groups have higher share of investments in MFs signifying that they have still not become truly the investment vehicle for small investors”.

Chakrabarti and Rungta (2000)\textsuperscript{50} stressed the importance of brand effect in determining the competitive position of the AMCs. Their study reveals that “that brand image factor, though cannot be easily captured by computable performance measures, influences the investor’s perception and hence his fund/scheme selection”.

Shanmugham (2000)\textsuperscript{51} conducted a survey of 201 individual investors to study the information sourcing by investors, their perceptions and the factors motivating investment decisions and reports that among the various factors, psychological and sociological factors, dominate the economic factors in investment decisions.

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Hakan and Detzler (2002)\textsuperscript{53} present a rigorous framework for asset allocation and selecting mutual funds and takes into account the unique preferences and constraints of individual investors. The AHP based mutual fund selection model is adopted in the study. They recommend AHP as a method to solve the complex decision problem for mutual fund selection. The proliferation of mutual funds has
made it a challenge for investors to select a right fund to invest. Most of the investors are not able to make asset allocation.

Wilcox (2002)\textsuperscript{54} conducted research on investor’s preferences for stock mutual funds in which they conducted a conjoint study on 50 investors. Analysis showed that “investors weighted past performance more than fee structure. The wealthier and the knowledgeable investors are more biased towards entry load and other charges while selecting the mutual funds. Apart from the past performance, there are other factors that affects decision making, but investors make cognitive errors while selecting funds”.

Singh and Chander (2003)\textsuperscript{55} has made a study on general investors with regard to their expectation from mutual funds, taking into consideration their age group and the occupation they are in. The characteristics like past record of organisation, repurchase of the unit, easy transferability, return, etc are rated as important factors.

Lynch and Musto (2003)\textsuperscript{56} 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”.

Bala Ramasamy and Yeung (2003)\textsuperscript{57} conclude that transaction costs (i.e. the expense ratio) is often inversely related to the performance of a mutual fund. They surveys the relative importance of factors considered in selection of Mutual Funds by financial advisors in emerging market. The study focussed on Malaysia, pointed three important factors which dominate the choices of mutual funds. These are consistent past performance, size of fund, and cost of transaction.

Black (2004)\textsuperscript{58} observed that“ in recent years, investors’ attitudes towards the securities industry dropped, in reaction to both the conflicted research and the mutual fund scandals and concluded that the most optimistic assessment is that, the SEC has plenty of unfinished business to attend to”.

Keli (2005)\textsuperscript{59} is of opinion that “past performance and funds’ investment strategy continued to be the top two drivers in the selection of a new fund manager”.

Rajeswari and Moorthy (2005)\textsuperscript{60} observed that “investors demand inter-temporal wealth shifting as they progress through the life cycle and the investors are
basically influenced by intrinsic qualities of the product followed by efficient fund management”.

Ramamurthy and Reddy (2005)\textsuperscript{61} carried out a study to analyse recent trends in the mutual fund industry and concluded that the major benefits delivered to the small investors by mutual funds are professional management, diversification of investment, convenient administration, return potential, liquidity, transparency, flexibility, affordability, wide choice and proper regulation. They also analyzed certain recent trends in the mutual fund industry such as, entry and exit of mutual fund companies, compulsory certification of mutual fund sales/marketing personnel, mutual fund schemes related to real estate, commodity, bullion and precious metals, etc; shift from income funds to money market funds, and shift from banks to mutual funds and buying and selling of mutual funds online.

Sharma (2006)\textsuperscript{62} aims at identifying factors, which influence investment behaviour of Indian HNWIs to invest in mutual funds and to know whether there is any relationship between the factors that influence investment behaviour of Indian HNWIs to invest into mutual funds. It has been observed that these investors were highly focused in their mutual fund investments, both as regards to fund families and individual mutual funds, yet invested a small percentage of their liquid assets in mutual funds.

Singh and Chander (2006)\textsuperscript{63} conducted a study to find out the investors preference in mutual funds investment. The result showed that “the investors belonging to salaried category and in age group of 20-35 years showed preference towards close ended growth schemes. A majority of investors support their investment on advice of brokers, professionals and financial advisors. The findings also reveal the varied experiences of respondents regarding the return received from investments made in mutual funds”.

Donnor and Oxenstierna (2007)\textsuperscript{64} examined the factors that investor value while choosing mutual fund on Swedish market and concluded that “company related factors i.e. reputation and availability is more valued by inexperienced investors because they lack necessary knowledge about complex financial products. The experienced investor’s value fund specific attributes and demands good presence of company in market in order to recognize it”.

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Stefan Engstrom (2007) study shows that “there are significant differences between men and women. Men tend to chase and invest with funds that have high past return and women invest with low fee funds. When examining individual characteristics that can serve as a proxy for familiarity and previous experience of investing in funds. The empirical findings are consistent concerning past experience of investing in funds and attitude towards fund fees”.

Joshua and Mungo (2008) identified that actively managed mutual funds suffer from diminishing returns to scale, funds should alter investment behaviour as assets under management increase. Although asset growth has little effect on the behaviour of the typical fund, they found that large funds and small-cap funds diversify their portfolios in response to growth. Greater diversification, especially for small-cap funds, is associated with better performance.

Nagpa and Bodla (2009) in their study concluded that “the modern investor is a mature and adequately groomed person. In spite of the phenomenal growth in the security market and quality Initial Public Offerings (IPOs) in the market, the individual investors prefer less risky investments, viz., life insurance policies, fixed deposits with banks and post office, PPF and NSC. Occasions of blind investments are scarce, as a majority of investors are found to be using some source and reference groups for taking decisions. Though investors fall to cognitive illusions such as overconfidence and narrow framing, they consider multiple factors and seek diversified information before executing some kind of investment transaction. Investors have made media as a part of their investment life. According to them, financial dailies, TV channels and peer groups can play a pivotal role in making investment decisions. Moreover, psychographics play an important role in determining investment behaviour and preferences of individual investors”.

Parihar, Sharma, etal (2009) study analyses the impact of different demographic variables on the attitude of investors towards mutual funds. Apart from this, it also focuses on the benefits delivered by mutual funds to investors. The study reveals that majority of investors have still not formed an attitude towards mutual funds investments. The main reason is the lack of awareness of investors.

Nidhi Walia and Ravi Kiran (2009) conducted a research on investors’ perception towards the mutual fund services. The study suggested that innovations
in mutual fund should be in accordance with investor’s expectations and they would like to get more quality in existing products.

Rao (2011)\textsuperscript{70} presents mutual fund investor awareness and adoption of different schemes with educational level. The research findings showed that “increased level of education is linked with greater risk tolerance and tends to support the hypothesis that positive relationship exists between educational attainment and financial risk tolerance”.

Kandavel D (2009)\textsuperscript{71} makes an earnest attempt to study the attitude of the retail investors with regard to fund selection criterion in Puducherry. No significant relationship was found between the attitude of the respondents belonging to different gender, educational status, annual family income, occupation, and amount of wealth owned towards importance level of the fund selection criterion. However, a significant relationship was found among the attitude of respondents of different age groups towards importance level of the fund selection criterion.

Hayat M.Awan and Shanza Arshad (2012)\textsuperscript{72} explore the factors that investors value while making investment decisions regarding mutual funds and type of behaviour they exhibit. Major findings are that “investor age group and cities have different impact on fund selection schemes but income, education level and occupation has no effect. Attributes like past performance of fund, reputation of company, withdrawal facility, company services towards investor have greater impact on decision making. Investors are overconfident that they have selected best scheme. Investors are risk adverse, exhibit representativeness, status quo bias, and are conservative. Investors consider that losses in investment are due to incorrect recommendations of family and friends and gains are due to better result of investing companies. Image conscious investors are more inclined towards sponsor related services than professional investors”.

Mehta Shantanu and Shah Charmi (2012)\textsuperscript{73} has an objective to know preference of mutual funds investors and performance evaluation of the preferred schemes by the investors. The major findings reveal that the annual income of the individual investor and annual investment in mutual fund are independent of each other.
Wilkinson-Ryan, Tess and Fisch, Jill E (2012) over time, mutual fund fees have striking effects on investor returns, but evidence suggests that most investors ignore or misunderstand the impact of fund fees. It is unclear whether this behaviour is due to the complexity of fee disclosures or to underestimation of the real cost of fees. They conclude that when fee information is presented simply, educating investors about the importance of fees updates their investment beliefs, motivates more thorough research, and yields higher-value investment choices.

2.4 Information Source

In the purchase decision process, consumers may receive two types of information namely, interpersonal (formal and informal sources) and impersonal (mass) communication. For the mutual fund purchase decision, impersonal sources of information include advertising, direct mails, TV shows, databases, literature from AMCs and published performance rankings/returns or statistics. Interpersonal formal sources of information include advice from brokers or agents, advice from chartered accountants or bankers, advice from analysts, books, magazines, journals or newspapers. Formal interpersonal sources include fee-based advisors and commission-based advisors. Informal interpersonal sources include family and friends, recommendations from business associates and colleagues, etc. In the MF studies the role played by sources of information in mutual fund selection process is greatly untouched. With the innovations and quantity of information picking the fund that most appropriately matches his/her personal risk-return trade off is a challenging task even for the knowledgable investors.

However, for that information to have a positive impact on the investor’s decision-making process, it must be easily accessible and presented in a clear and understandable format. Vinson and Mc Vandon (1978) establish that a strong relationship has been found between information source and purchase decision and subjects’ information sources and their product concept recall.

Mazis, Richard et al (1981) opined that “the provision of information in a choice situation typically can provide important consumer benefits such as improved decision making, enhanced product quality, and lower prices”. On the other hand Verrecchia (1982) shows that risk-averse investors acquire less information.
Engel, Blackwell, and Miniard (1986)\textsuperscript{78} Research on the relationship between information sources and other purchase decision constructs is limited. In related research by Surprenant and Solomon (1987)\textsuperscript{79} the degree of personalization of a service encounter has been shown to impact the level of consumer satisfaction. Crosby and Stephens (1987)\textsuperscript{80} demonstrate that insurance customer’s value, personal over impersonal information sources.

Carroll (1990)\textsuperscript{81} argues that “a bank's retail customer mix may be enhanced through selective information presentation”. In Murrays study\textsuperscript{82} (1991) “related information source use to product category (goods versus services) and consumer experience; internal memory was preferred as a source of information to those with greater experience”.

Capon, Fitzsimons and Prince (1996)\textsuperscript{83} in respect of mutulafund “sources of information act both as information source presenting information about other selection criteria and at the same time selection criteria themselves”.

Alexander, Jones and Nigro (1998)\textsuperscript{84} analysis the responses from a nationwide telephone survey of 2,000 randomly selected mutual fund investors who purchased shares using the services of six different intermediaries, referred to as distribution channels; brokers, banks, mutual fund companies, insurance companies, employer-sponsored pension plans, and financial planners. The survey provides data on the demographic, financial, and fund ownership characteristics of mutual fund investors. Furthermore, it contains data on investors’ familiarity with the costs and certain investment risks associated with mutual funds and the information sources used to learn about these costs and risks. Study suggest that there is room for improvement in investor knowledge of the expenses and risks associated with mutual funds and more can be done to make mutual fund prospectus more useful to investors.

Sirri and Tufano (1998)\textsuperscript{85} studied the flow of funds into and out of equity mutual funds. Consumers base their fund purchase decisions on prior performance information, but do so irregularly and disproportionately in funds that performed very well during the past period. Search cost seems to be an important determinant of fund flows. High performance appears to be most salient for funds that exert higher marketing efforts, as measured by higher fees.
Jain and Shuang (2000)\(^{86}\) examined a sample of 294 mutual funds that are advertised. They tested whether the sponsors select funds to signal continued superior performance or they use the past superior performance to attract more money into funds. Analysis shows that there is no superior performance in the post advertisement period. Advertised funds attract significantly more money in comparison with a group of control funds.

Wilcox (2003)\(^{87}\) says that “the sources of information get transformed into selection criteria, which ultimately form intentions that help investors in decision making and researcher argue that sources of information and selection criteria are interrelated”.

Peress (2004)\(^{88}\) shows that wealthier investors value information more and poor investors trade little even with very precise information. Peress shows “very risk-averse investors benefit little from information because they would invest little in stocks even if they had very precise information”. Investigating investors’ financial knowledge and perceptions of investment products explores ways to facilitate the most important and challenging decisions made by investors.

The Federal Trade Commission, The Securities and Exchange Commission (SEC) and Woodward (2004)\(^{89}\) have investigated the possibility of mandating a standardized summary disclosure in order to improve consumer comprehension, facilitate fund differentiation, and increase awareness of key information.

Graham, Harvey and Huang (2005)\(^{90}\) found that investors who feel competent trade more often. Bruce and Nalinaksha (2005)\(^{91}\) aims to investigate whether or not such information is present in advertisements for one investment vehicle – mutual funds. The major findings were (i) mutual fund advertisements are not providing the information necessary for optimal investment decisions. (ii) mutual funds use techniques to increase that their advertisements are noticed, but they also use techniques to decrease the readership of their advertisements and rarely included convenience information. Use of techniques known to influence advertisement noting (i.e. advertisement size and colour) and copy readership (i.e. visual size, text length, unique selling proposition/brand-differentiating message, celebrity endorsements, direct or indirect comparisons with competitors, and emotional appeals) was also investigated. The study concluded that, mutual fund
advertisements are not providing the information necessary for optimal investment decisions.

SEC (2006)\(^{92}\) is sensitive that, the ordinary investor faces a complex decision when choosing a mutual fund and thus the SEC provides a detailed online guide that describes numerous relevant factors related to risk, return and expenses.

Fisher and Gerhardt (2007)\(^{93}\) argue that “financial advice from professionals should lead to a better self-evaluation by investors of their own skills and therefore to more rational investment decisions, with a clear positive impact on trading”.

Ivkovic and Weisbenner (2007)\(^{94}\) claim that “the word-of-mouth effect is a broad phenomenon that affects financial decisions made by individual investors for they may seek to reduce search costs and evade their lack of expertise by relying on word-of-mouth communication with those around them”.

Calvet, Campbell and Sodini (2007)\(^{95}\) provide evidence that “active rebalancing is more pronounced for sophisticated households and irrational behaviour diminishes substantially with investors’ wealth or with investors sophistication and investors’ characteristics may have an impact on trading and on the acquisition of information”.

John, Elizabeth and Michael (2008)\(^{96}\) the objective of the research was to explore whether a modified method of supplemental information disclosure impacts investors’ fund evaluations and investment intentions. Results indicate that “while investors continue to place too much emphasis on prior performance, the provision of supplemental information, particularly in a graphical format, interacts with performance and investment knowledge to influence perceptions and evaluations of mutual funds”.

Epstein and Schneider (2008)\(^{97}\) suggested that “the quality of the information signals has an influence on investor trading behaviour. News from a trustworthy source should lead to more trades and portfolio rebalancing than news from a less reliable one”.

Huang Hui (2009)\(^{98}\) study examined, how financial news affected individual investors investment behaviour. It explores the financial news effect on investors,
based on communication and behavioural theories. Study suggests that using of financial news had a strong effect on people’s attitude, intentions and behaviour.

Jayabal, Kasilingam (2011)\textsuperscript{99} study attempts to find out the characteristics of people using different sources and to identify the impact of sources of information on the choice of securities and expected returns. It was found that the information sources used is having impact on range of awareness, choice criteria, expected return, and saving motive. Study states that the source of information used is having indirect effect on both size of savings and choice of securities.

Gupta and Chandra (2011)\textsuperscript{100} study presents a comparative analysis of retail and non-retail mutual fund investors with respect to sources of information in the context of their selection of various mutual funds for their investments. Factor analysis was used to extract the components viz; data and information, advice and recommendations, and published returns.

Margarida and Victor (2011)\textsuperscript{101} investigate how the strength of the positive association between frequency of trading and information acquisition is dependent on investors’ self-confidence and on the sources of information used by investors. The results confirm that “the more frequently individual investors invest in information, the more they trade in financial products. It also validate that, overconfident investors who show a better than average bias, trade more frequently. The overconfident investors trade more frequently when they collect information directly using specialized sources and that non-overconfident investors trade less frequently when they use professional advice from the bank/account manager”.

2.5 Investments Decision among Households and Individuals

Savings play an important role in economic development and the major objective of Government policy has been the promotion of savings and capital formation for economic growth. These include the capacity of the economy to maintain high rates of investment, ensuring productive use of capital. This in turn depends upon investor expectations and the ability to mobilise financing for investment.

A comparison of responses with regard to likely future investment avenue showed diverse but much higher preference for less risky, fixed-interest type
Educated investors in the age group of 45-55 years developed well planned investment structures in terms of their future investment plans suggesting that such investors prefer to take moderate risk. (Rajarajan (2000), Ranjith (2002) and Singh (2003), SEBI-NCAER (2000) study observed that “households hardly differed in their perception about equity shares and debentures as distinguishable ‘risk classes' in earlier studies”. Khanna (2004) findings revealed that household investors have become more sophisticated and judicious. “The capital market’s development depends on the willingness of the investing public to invest in capital market instruments. Such willingness of investors, in turn depends on their satisfactory past investment experience. There was relatively a high level of satisfaction with respect to investment in equity shares”. The highest proportion of unsatisfactory investment experience was reported for private-sector bonds. SEBI NCAER (2000), Gupta et al (2004) and Gupta (2005). The satisfaction level was low with regards to investment in mutual funds. Singh and Vanita (2002), Singh (2003), Gupta et al (2004) and Gupta (2005). Gupta and Choudhury (2005) study shows that the safety considerations dominated the overall suitability criterion.

Significant insights about household investors' IDM have also been put forth by investigations on the impact of demographic factors such as age, education, occupation, and income. Generally “as age increases, the tendency to take risk declines”. Ranjith (2002), Gupta and Jain (2008) and Verma (2008).
According to Gupta et al (2001)\textsuperscript{127} “bonds were regarded as an investment for the retired people and did not have much appeal for young people except in the case of Development Financial Institution (DFI) bonds. The market penetration achieved by mutual funds was found to be much lower than equity shares for all age-classes. Higher the education, higher was the level of understanding of investment complexities. Graduates and above in qualification preferred to invest in equity shares as well as mutual funds” Mittal and Vyas (2007)\textsuperscript{128}, (2008)\textsuperscript{129} and Verma (2008)\textsuperscript{130}.

SEBI NCAER (2000)\textsuperscript{131} reveals that education level is an influencing factor in investments and the incidence of investing in equity shares has been the highest amongst the service class.

“There was a marked preference for fixed-interest type of investments amongst all income groups while mutual funds have found favour only with middle and high income groups. Equity shares uniformly have been found to have a high degree of acceptability across all income classes; particularly the level of penetration was very high for the middle class investors”. Gupta (1991)\textsuperscript{132},  Ranjith (2002)\textsuperscript{133} Khanna (2004)\textsuperscript{134}, Gupta (2005)\textsuperscript{135}, Gupta and Jain (2008)\textsuperscript{136} It is inferred that demographic factors certainly influence households’ decision to invest in a particular investment avenue.

National Council of Applied Economic Research SEBI NCAER (1961)\textsuperscript{137} found that, irrespective of various demographic factors investors preferred saving and provision for emergencies was the most important motive for savings. The preference for financial assets, especially bank accounts and small savings, were rising noticeably with education, but does not seem to increase with income, except at the lowest end of income distribution. Thus, it would appear that efforts must be taken to popularise financial forms of savings particularly among the less educated members of upper-income group. Profitability, safety and liquidity seem to be the most important motive for determining saving preference.

Tamilkodi (1983)\textsuperscript{138} has stated that “small savings schemes have a psychological appeal and it provides an opportunity for ordinary to park their savings. It reaches a large number of people and covers a wide range of areas”. The researcher suggested that efforts should be taken to simplify the procedure of small
savings schemes to suit the needs of illiterate and socially oppressed people. Further, she suggested an increase in the rate of interest of small savings schemes to meet the challenges of commercial banks.

Jayaraman (1987)\textsuperscript{139} has stated that “instead of issuing special bonds for unearthing black money the Government of India can encourage investment of black money in various small savings schemes”. Researcher further insisted the need to draft the assistance of voluntary agencies at the school and college level for further mobilization of savings.

Mukhi (1989)\textsuperscript{140} has made known that NSC is the most popular tax saving instrument because of its simplicity and it is extremely used as a security instrument for pledging purpose.

Arangasami (1992)\textsuperscript{141} has observed that “more and more dependence on mobilization of resources through small savings will ensure and promote self-reliance and concluded that the central government should give proper assistance and encouragement to the small savings agencies, which will be useful not only in mobilization of funds but also for the economic development”.

Somasundaram (1998)\textsuperscript{142} has found that “bank deposits and chit funds were the best known modes of savings among investors and the least known modes were Unit Trust of India (UTI) schemes and plantation schemes. Attitudes of investors were highly positive and showed their intention to save for better future. Nearly two-thirds of the investors were satisfied with their savings. The most common mode of investment was bank deposits. However, a shift was noticed from bank deposits to other forms of investment. Among several parameters in investing, safety of money was considered to be the most important element followed by regular return from their investments”.

Gavini and Athma (1999)\textsuperscript{143} found that “social considerations, tax benefits, and provision for old age were the reasons cited for saving in urban areas, whereas to provide for old age was the main reason in rural areas. Among the post office schemes, Indira Vikas Patra (IVP), KVP and Post Office Recurring Deposit Account were the most popular, in both urban and rural areas”.

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Securities and Exchange Board of India (SEBI) and NCAER (2000)\textsuperscript{144} has reported that safety and liquidity were the primary considerations which determined the choice of an asset. Bank deposit was highly preferred among all income classes. Middle income and higher income group favoured tax saving schemes. There was a correlation between the income levels and investments of households in market-related securities.

Karthikeyan (2001)\textsuperscript{145} has conducted research on small investors' perception on Post Office Saving Schemes and found that “there was significant difference among the four age groups, and the overall score confirmed that the level of awareness among investors in the old age group was higher than in those of the young age group. Life and tax benefits were the two major ones that influence the investors both in semi-urban and urban areas. 73.3 per cent of investors of both semi-urban and urban areas were very much willing to invest in small savings schemes in future provided they have more for savings”.

According to SEBI-NCAER (2003)\textsuperscript{146} a mere 7 percent of total Indian households have investments in capital market and concluded that, a low participation of households in the capital markets will not boost investments and economic growth of the country.

Qumar (2003)\textsuperscript{147} conducted a survey among 300 average urban middle class households in Delhi to find out the investment preference of households that are able to save and to identify the factors influencing saving behaviour and investment preferences. Results show that there is high propensity to save moderate to high proportions of income. It was found that the level of literacy, education, occupation and income profile of the respondents were significant.

Khanna (2004)\textsuperscript{148} Gupta (2005)\textsuperscript{149} studies highlight a relationship between investors' awareness and investment behaviour and came out with the inference that investors in general, have good knowledge about simple forms of investments, like fixed deposits and government savings schemes.

According to the report of the working group on savings in the 11th Five-Year Plan, “the estimates of financial savings of the households have shown a
decline over recent years, whereas physical savings have increased”. Patnaik and Narayan (2007)\textsuperscript{150}

Mohan Rakesh (2008)\textsuperscript{151} reviews the overall macroeconomic performance in India since independence and argues that India’s growth has been largely enabled by the availability of domestic savings, which has increased steadily over the decades.

Verma (2008)\textsuperscript{152} showed that “mutual funds were popular among professionals, students and the self employed and retired people displayed their risk aversion by not investing in mutual funds and/or in equity shares”.

Sushant and Bodla (2009)\textsuperscript{153} points out those financial planning needs of individuals are different. Demographics alone no longer suffice as the basis of segmentation of individual investors. Study attempts to bring out life characteristics of the respondents and their influence on investment preference and conclude that investor’s lifestyle predominantly decides the risk taking capacity of investors.

Yesh Pal Davar and Suveera Gill (2010)\textsuperscript{154} reported the underlying dimensions in the selection of different investment avenues for the households. The results of factor analysis revealed emphasis on familiarity, satisfaction, opinion and demographic dimensions for all investment avenues.

Vanjeko Rajarajen (2010)\textsuperscript{155} collected data over thousand individual investors from eleven cities of India. Study suggests that characteristics of investors in terms of their investment, strategies, expectations etc. for the better understanding of individual investors and their financial product needs. It also studied investor’s future investment preferences. The study reveals the increasing popularity of equity as an investment option among retail investors.

Brinda Jagirdar (2011)\textsuperscript{156} lists out the factors influencing household financial savings viz: availability and ease of access to instruments, financial literacy and level of sophistication, interest rates on bank deposits etc. The study suggests that, with the economy and banking sector poised to grow, there is tremendous scope for mobilising household savings and channelling them into financial instruments. Efforts are required to channelise savings away from physical savings and into financial savings, which will expand financial intermediation and provide more funds for investment.
MoF, GoI (2010-11)\textsuperscript{157}, (2011-12)\textsuperscript{158}, (2012-13)\textsuperscript{159} critically review the Indian economic developments, ratio of savings and investment to GDP and discuss the savings investment gap.

Rehha Metha (2013)\textsuperscript{160} analysed the household saving pattern for the period 1950 to 2010 and determined different saving functions which explained the long term saving behaviour and potentials of household sector. The study analysed the pre- economic reform and post reform period.

### 2.6 Investor Behaviour

Investment behaviour is related to activities of individual investors regarding searching, evaluating, acquiring, reviewing the investment products and if necessary disposing such investment products. Investment behaviour reveals how the individual investor allocates the surplus financial resources to various instruments available. This process consists of why they invest, where and how they got information, what factors they use to evaluate, who influence them on choice of investment and how they act after investment.

Literature suggests that major research in the area of investors’ behaviour has been done by behavioural scientists such as Gla ser and Weber (2003)\textsuperscript{161}, Shiller (2000)\textsuperscript{162} and Shefrin (2000)\textsuperscript{163}. Individual investor behaviour is documented in Odean (1998)\textsuperscript{164}, (1999)\textsuperscript{165}, Barber and Odean (2000)\textsuperscript{166}, (2001)\textsuperscript{167} among others. They attribute the high volume of trading to investors’ overconfidence. Overconfidence can be termed as the tendency of investors to perceive them as skilful.

The Wharton survey, one of the more comprehensive studies of investor behaviour, examines how demographic variables influence the investment selection and portfolio composition process. Blume and Friend provide an excellent overview of the results and implications of the study. Cohn et al. (1975)\textsuperscript{168} provide tentative evidence that, the risk-aversion decreases as investors wealth increases. Riley and Chow (1992)\textsuperscript{169} finds that risk-aversion decreases as age, wealth, income and education increase. LeBaron, Farrelly and Gula\textsuperscript{170} counter that individuals' risk-aversion is largely a function of intuitive rather than rational considerations.
Nagy and Obenberger (1994)\textsuperscript{171} findings suggest that “classical wealth-maximization criteria are important to investors, even though investors employ diverse criteria when choosing stocks and contemporary concerns such as local or international operations, environmental track record and the firm’s ethical posture appear to be given only superficial consideration”.

Lewellen, Lease and Schlarbaum (1997)\textsuperscript{172} determine that age, sex, income and education affect investor preferences for capital gains, dividend yield and overall return. They empirically tested the matter of the portfolio decision processes of the individual equity investor, using data obtained from a large-scale questionnaire survey of a representative cross-section of individuals, together with supplementary transactions information from the corresponding trading accounts. The objectives were to identify the systematic patterns of investment behaviour exhibited and to appraise the rationality of those patterns.

Goetzmann, Massimo and Rouwenhorst (1999)\textsuperscript{173} identified a set of systematic factors that explain a significant amount of the variation in flows. They suggest the existence of a common component to mutual fund investors’ behaviour and indicate which asset classes may be regarded as substitutes for mutual fund shares. They found that, flows into equity funds both domestic and international are negatively correlated to flows to money market funds and precious metals funds. The investor re-balancing between cash and equity explains a significant amount of trade in mutual fund shares. The negative correlation of equities to metals suggests that this timing is not simply due to liquidity concerns, but rather to sentiment about the equity premium.

Shiller (2000)\textsuperscript{174} who strongly advocated that “stock market is governed by the market information which directly affects the behaviour of the investors. Several studies have brought out the relationship between the demographics such as gender, age and risk tolerance level of individuals”.

Brad, Terrance and Lu Zheng (2000)\textsuperscript{175} analysed the mutual fund purchase and sale decisions of households and documented three primary results. First, investors buy funds with strong past performance; over half of all fund purchases occur in funds ranked in the top quintile of past annual returns. Second, investors sell funds with strong past performance and are reluctant to sell their losing fund.
investments; they are twice as likely to sell a winning mutual fund rather than a losing mutual fund and thus nearly 40 percent of fund sales occur in funds ranked in the top quintile of past annual returns. Third, investors are sensitive to the form in which fund expenses are charged; though investors are less likely to buy funds with high transaction fees (e.g., broker commissions or front-end load fees) their purchases are relatively insensitive to a fund’s operating expense ratio.

Barber and Odean (2001)\(^{176}\) argued that the relationship between gender and trading activity is due to the greater overconfidence of men. The evidence from their study suggests that single, young male investors tend to trade most frequently. They also found that the turnover of males exceeded that of females, which they attributed to the greater overconfidence of males.

Glaser and Weber (2003)\(^{177}\) argued that there are three aspects of overconfidence, viz., mis-calibration, the ‘better-than-average’ effect (i.e. people tend to think that they have higher than average skills) and illusion-of-control (i.e. the tendency to believe that one’s personal probability of success is higher than what objective probability would warrant). They establish that all but mis-calibration lead to higher trading activities.

Malmendier and Shantikumar (2003)\(^{178}\) in their study of small investors, found that, while large investors adjust their reaction to hold and buy recommendations downward, small investors take recommendations literally. Small investors also fail to account for the additional distortion due to underwriter affiliation. Potential reasons for their trading behaviour are: (i) higher costs of information; and (ii) naiveté about analysts’ distortions. Small investors may be naive about the distortions and trust analysts too much.

Jackson A (2003)\(^{179}\) examines the aggregation assumption using a unique database of individual investor trades. Firstly he examined the trading behaviour of a large group of individual investors to assess whether there are any systematic patterns in their trading that remain after aggregation. Secondly he examined whether the actions of unrelated subgroups of individual investors from a large number of independent brokerage firms are positively correlated and finally the relationship between aggregated trades and future returns. The analysis was performed at two levels, at the market level; examining flows into and out of the
equity market as a whole and at the cross-sectional level; examining flows into and out of individual stocks.

Graham J. R, Harvey C. R and Huang Hai (2004) found that home bias, coupled with the competence effect play a major role in high trading frequency. They came up with the idea that investors who feel more competent tend to trade more frequently than those who feel less competent. The competent effect also contributes to home bias. When an investor feels more competent about investing in foreign assets, he is more willing to shift a portion of his assets overseas. Their study indicated that investors with higher competence are more likely to invest in international assets.

DaSilva A. and C. Giannikos (2004) opines that investors’ behaviour with regard to information depends on socio-economic and psychological characteristics and that investor behaviour may vary according to age, occupation or the environment in which they live. Goetzmann et al. (2004)

Demier and Kutan (2005) opined that individual investors rationally herd others as they believe others may be better informed and possess some information which is unavailable to the market. Therefore herding behaviour illustrate that investors do not base their decisions on their own analysis and information but just follow the market consensus.

Ranganathan Kavitha (2006) attempt to examine the related aspects of the fund selection behaviour of individual investors towards mutual funds, in the city of Mumbai. The study suggests that, AMCs should continuously design suitable schemes to meet the triple needs of adequate returns, safety and liquidity in a balanced proportion and develop infrastructure to reach to the investor and they should also simplify the operational environment. In addition, mutual fund companies should segment their target customers and position their various products based on the target segment.

The role of two psychological attributes in the trading tendency of investors has been studied by Grinblatt and Keloharju (2006). They analyzed the role played by sensation seeking and overconfidence in the tendency of investors to trade stocks. They found those overconfident investors and those investors more prone to
sensation seeking, trade more frequently. Thus, for most investors, trading is driven by behavioural attributes.

Cohn-Urbach and Westerholm (2006) attempted to determine whether the frequency of trading on the part of household and institutional investors had an effect on the returns they achieved. They found strong evidence that investors with high trading frequency earned substantially lower returns than those investors in the same demographic group who traded less frequently. It was shown that investors with larger portfolios tended to trade more frequently than those with smaller portfolios. Further, it was demonstrated that those investors with larger portfolios tended to trade actively for a longer period of time than those who held smaller portfolios.

Bollen Nicolas (2007) studied the dynamics of investor cash flow in socially responsible funds. Consistent with the subjective evidence of loyalty, the monthly volatility of investor cash flow is lower in socially responsible funds than in conventional funds. Cash flows into socially responsible funds are more sensitive than cash flows into conventional funds.

Rita Martenson (2008) reviews prior studies on gender differences for financial consumers. There are less significant differences between expert men and women. Most differences are between novice men and women. Men are both more profit-oriented and more motivated to make financial investments than women.

Bhagaban D., Sangeeta M., Nikhil C. S. (2008) makes an earnest attempt to study the behaviour of the investors in the selection of these two investment vehicles mutual fund and insurance policy in an Indian perspective by making a comparative study. The research concludes with some important findings that, “the different investment pattern do not provide the same level of services with respect to age of the retail investors in India and there exist differences depending on the education level of the investors. It is observed that investors with the graduate and postgraduate level of academic qualification are investing more in life insurance and the professionals are investing more in mutual fund”.

Chandra (2009) measures the investor competence and its impact on investor trading behaviour by using survey method. The study finds that level of
education and income of individual investors are likely to have a significant impact on their competence, followed by factors, such as, age, investment and gender. Through this study, it was shown that investors who feel themselves more competent tend to trade more frequently than those with less perceived competence. This trading behaviour is attributed to the competence effect. Thus, it can be said that competence effect rules the trading behaviour of individual investors.

Chandra and Sharma (2010)\textsuperscript{191} examine the Indian investors’ behaviour. More importantly, this study tries to identify the psychological biases that may drive momentum effect in the stock market. Five main cognitive biases namely, overconfidence, conservatism, representativeness, under/over optimism and excess sensitivity to rumours are drawn from both theory of psychological experiments as well as from professionals associated with the stock market. The authors have tried to verify and make sure that these five psychological biases considered by the financial behavioural literature influence effectively the investors’ behaviour especially in the Indian stock market.

Rajesh and Pankaj (2010)\textsuperscript{192} obtained a general overview of the investment pattern of the Indian MFs. The investment trends over a period of time that was long enough to facilitate meaningful comparison and short enough to catch the short-term investment pattern were analysed. The study states that there is a need for shifting the focus of the industry to a long-term view, which would put the investors before incentive structures benefiting the mutual funds.

Syed Tabassum Sultana (2010)\textsuperscript{193} the study tries to untie the influence of demographic factors like gender and age on risk tolerance level of the investor. The study reveals that there is a relationship between gender and age, the risk tolerance level of individual investors. The study also observes that, Indian investors prefer safe investment options.

Kasilingam and Jayabal (2010)\textsuperscript{194} Family income and family size have impact not only savings size but also investment choice. Increase in family size may have influence on family expenditure and time to spend on investment activities. There are lot of studies which have critically analysed effect of income on savings. Investment behaviour implies not only investment size and choice of investment but, it also includes information search, choice criteria and perception of investors. This
study attempts to analyse the impact of family size and family income on all investment behaviour variables.

Lakshmana Rao (2011)\textsuperscript{195} present mutual fund investor’s awareness and adoption of different mutual fund schemes with educational levels. Educational level is important factor that influence the behaviour of investment decisions. Increasing educational level attainment is associated with decreased levels of risk tolerance. An investor’s level of formal education has found to influence risk tolerance.

2.7 Issues and Perception of Mutual Fund Investors

Mutual Funds are a retail product which is designed for those who do not directly invest in the share market because of its unpredictable and volatile nature. Mutual funds have come as a much needed help for retail investors. Mutual funds are financial intermediaries which is professionally manged and process information, identify investment opportunities, formulate investment strategies, invest funds and monitor progress at low cost. Individual investors are generally constrained by inadequate knowledge, non availability of information, lack of investment skill etc; that effect the formation of investment perception as well as the investment activities. The perception influences the investment process including the choice of avenues, planning of funds, holding and receiving of funds etc.

Chakarabarti and Rungta (2000)\textsuperscript{196} examined the importance of brand effect in determining the competitive advantage of the AMCs. The study revealed that brand image influenced the investor’s perception and ultimately the fund selection.

Rajeswari and Ramamoorthy (2001)\textsuperscript{197} in their study attempted to measure the awareness of retail investors about the concept and functioning of mutual funds. The study was conducted among potential and present investors. The study revealed that investors had poor/inadequate awareness.

Singh and Vanita (2002)\textsuperscript{198} conducted a study on mutual fund investor’s perception and preference. The objectives were purpose and time horizon for investment, investors’ investment objectives, and investors’ perception with regard to risk, return, safety etc. The result showed that, as against UTI and other public sector mutual funds, the investors were increasingly moving towards private sector
mutual funds. Majority of the investors are not aware of the inherent risk in mutual fund investment.

Saraoglu and Detzler (2002)\(^{199}\) presents a rigorous framework for asset allocation and selecting mutual funds that take into account the unique preferences and constraints of an individual investor. The framework is based on the analytic hierarchy process (AHP) and the model generates reasonable asset allocation recommendations and identifies the most suitable funds within an asset class.

Gilkar (2002)\(^{200}\) examined that empirical evidence with regard to the perceptions of mutual fund investors and revealed that, the growth products were rated highest by the respondents, whereas income products had the least preference. Recommendations of friends and relatives played a major role in investment decisions. Lack of awareness and poor investor service were considered as the main obstacles hindering the growth of mutual fund industry in India.

Tapan and Tripathy (2002)\(^{201}\) study has been undertaken with the object of finding out the perception of investors towards mutual funds through marketing variables and also analyse the investors preferences and importance assigned to different attributes. Secondly, to examine the satisfaction level of respondents regarding customer service offered by the company. Thirdly, analysis has been made to the problems faced by intermediary agents in selling the mutual fund. The general perception of investors is that mutual fund has not rewarded the common man. They are unsatisfied with the mutual fund schemes.

Mehru K D (2004)\(^{202}\) study covers the problem and perspectives of mutual funds related to structure, investment, policies, performance and investors. It also discussed the problems and steps to improve organisational and operational effectiveness. Study also suggested for greater transparency, increased innovation, better service to investors, liquidity and higher return to make mutual fund scheme more popular and investor friendly.

Singh J (2004)\(^{203}\) study was undertaken to know the perceptions of small investors, who are exploited in Indian capital market. Study analysed whether mutual fund is giving adequate return by measuring the performance of the funds. The major perception factors were; age of investors do not have impact on a
decision to invest in mutual funds; salaried and retired investors gave maximum weight-age to past performance of the organisation; professionals assigned maximum importance to availability of adequate information etc.

Singh J and Chander S (2004) conducted research by administering a questionnaire having various parameters of perceptions of investors towards mutual fund. Factor analysis was used to find the significant factors affecting perception of investors. The research was done to find preferences and perception of mutual fund investors and the reasons for withdrawing investments from mutual funds. The professionals would like to disclose NAV on a daily basis and preferred tax savings funds. The small investors preferred public sector mutual fund as a better investment. The study further revealed that the investor did not have confidence on the management of funds and regulators of the market and cited these as reasons for withdrawing from the mutual fund investment.

Desigan G, Kalaiselvi S and Anusuya L (2006) conducted a study on women investors’ perception towards investment in general and found that “women investor’s generally hesitate in investing in mutual funds due to their lack of knowledge regarding investment protection, procedure of making investment, market fluctuations, risk associated with investment, valuation of investment and redressal of grievances regarding their investment related problems”.

Martenson Rita (2007) states that there are less significant differences between expert men and women. Most differences are between novice men and women. Men are more profit oriented and motivated to make financial investment than women.

Hsuan and Christine (2008) examines the role of reputation stretching in the context of mutual funds. The reputation stretching strategy increases net fund inflows to new funds run by well-performing fund managers and yields a net increase of fund inflows to fund families. Reputable fund managers exhibit one year performance persistence for managing new funds, which can help investors assess managers when selecting funds. They also find that the decrease in information asymmetry associated with managerial reputation benefits investors by leading to an increase in new fund returns in the short run, compared to those of new funds run by managers without track records. Overall, the reputation stretching strategy benefits
both investors, by reducing information asymmetry and improving investment returns, and fund families, by increasing net fund inflows to new equity funds.

Shollapur and Kuchanur (2008)\textsuperscript{208} attempts to measure the degree of investors agreeableness with the selected perceptions on liquidity, profitability, statutory protection etc. The perceptual gap analysis presents certain revelations. There is a need to help investors develop a right perspective of investment schemes and their attributes.

Mittal and Gupta (2008)\textsuperscript{209} examined the awareness of mutual fund investors and various factors affecting the investment decision. The study revealed that 85\% of the respondents were aware of the mutual fund products and the associated risks. Further most of the investors were satisfied with the services provided by the mutual funds.

Sudalaimuthu and Senthil Kumar (2008)\textsuperscript{210} researched in this area about investors perception towards mutual fund investments taking into account the investors preference towards the mutual fund sector, scheme type, purchase of mutual fund units, level of risks undertaken by investors, source of information about the market value of the units, investors opinion on factors influenced to invest in mutual funds, the investors satisfaction level towards various motivating factors, source of awareness of mutual fund schemes, types of plan held by the investors, awareness of risk category by investors, problems faced by mutual fund investors etc.

Viramgami (2009)\textsuperscript{211} in his study, in terms of resource mobilisation liquid /money market, growth, ELSS and income funds emerged as the most popular schemes among the investors and among the various sectors operating in the mutual fund industry, the private sector was the most prominent player in the industry.

Nidhi Walia and Ravi Kiran (2009)\textsuperscript{212} identified critical gaps in existing framework for mutual fund and further extent it to redesign existing mutual fund services. Study analyse investors perception, expectations and unveils some extremely valuable information to support financial decision making of mutual funds. 66.7\% investors with working knowledge agree that actual returns from mutual fund are not found to be satisfied.
Simran, Bimal and Ramandeep (2011)\textsuperscript{213} analysis that the mutual fund investment in relation to investor’s behaviour. Investor’s opinion and perception has been studied relating to various issues like type of mutual funds scheme, objective behind investing in mutual fund, role of financial advisers and brokers, sources of information, deficiencies in the services etc. The study outlined that “the investors have positive approach towards investing in mutual funds. In order to maintain confidence in mutual funds they should be provided with appropriate information relating to different trends in the industry”.

Vennila and Nandhagopal R (2012)\textsuperscript{214} aims at finding out the attitude of the investors towards investment in mutual fund. The study opined that “most of the investors rely on investment consultants to choose the right fund for them and there is a significant relationship between the satisfaction level of male and female respondents with the investment in mutual funds”.

Vyas and Moonat (2012)\textsuperscript{215} studied the perception of mutual fund investors and revealed that most of the respondents invested in equity options and they were aware of the risk associated with mutual funds. Lump sum investment was the most preferred mode followed by SIP. Further, mutual funds got an average score on all parameters like safety, liquidity, reliability, tax benefits etc.

Sanjay Das (2012)\textsuperscript{216} analysed the factors affecting small investors’ perception towards mutual fund and found that small investors are now turning more towards mutual fund because of its advantages.

Rajesh Kumar and Arora R.S (2013)\textsuperscript{217} attempt to study the perception of mutual fund investors regarding respondent’s knowhow, advertisement media, attributes of successful fund manager, risk tolerance, etc. Majority of respondents expressed their agreement with regard to mutual fund as an investor friendly vehicle for small investors.

2.8 Risk Tolerance

One of the pillars concepts for investments and decision making is the concept of risk. In the traditional theories risk is determined using both the deviations from the average return and the probability of those deviations. An investor attitude toward risk could be characterized as risk-aversion, risk seeking

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(risk-tolerance, risk-taking, risk loving) or risk neutrality. This attitude is influenced by several factors: the competition and collaboration between the cognitive and affective system. Lowenstein et al. (2001)\textsuperscript{218}, demographic factors as age. Byrnes et al. (1999)\textsuperscript{219} and the temporal perspective. Jaggia and Thosar (2000)\textsuperscript{220}.

Wallach and Kogan (1961)\textsuperscript{221} are the pioneers to study the relationship between risk tolerance and age. The early studies indicated that older individuals were less risk tolerant than younger individuals.

Slovic (1966)\textsuperscript{222} states that “belief prevails in our culture that men do take greater risks than women” which has generated a consensus among investment managers that gender is an effective differentiating and classifying factor.

According to Baker and Haslem (1974)\textsuperscript{223} “the balancing of risk and return represents the classic dilemma faced by investors”.

Cohn, Lewellen et.al (1975)\textsuperscript{224} found “risky asset fraction of the portfolio to be positively correlated with income and age and negatively correlated with marital status”.

Friend and Blume (1975)\textsuperscript{225} observe that “an individual’s risk tolerance can be inferred from the asset allocation decision by calculating the percentage of a person’s assets invested in risky securities and the extent to which an investor’s can tolerate these uncertainties of return is referred as risk tolerance level of an investor”.

Morin and Suarez (1983)\textsuperscript{226} found evidence of “increasing risk aversion with age although the households appear to become less risk averse as their wealth increases”.

Risk tolerance tends to be subjective rather than objective. This approach was extended by Bellante and Saba (1986)\textsuperscript{227} Siegel and Hoban (1991)\textsuperscript{228} Riley and Chow (1992)\textsuperscript{229}.

Mac Crimmon & Wehrung (1986)\textsuperscript{230} found that empirical findings relating to risk tolerance and age, nationality, number of dependents, gender, race, wealth, income, and occupation were contradictory over the period of review. “One can expect individuals with low risk tolerance to act differently with regard to risk than individuals with a high risk tolerance. Individuals with low levels of risk tolerance
generally (a) require lower chances of a loss (b) choose not to operate in unfamiliar situations (c) tolerate less uncertainty and (d) require more information about the performance of an investment. In summary, high risk-tolerance individuals accept volatile events, while low risk-tolerance individuals require certainty”.

A few empirical studies have uncovered more direct information. LeBaron, Farrelly and Guha (1989)\(^\text{231}\) and Schooley and Worden (1996)\(^\text{232}\) obtain a measure of risk tolerance by survey. The 1989 Survey of Consumer Finance (SCF) used by Schooley and Worden regress the share of risky assets on dummy variables for the answers to this SCF question. As the CAPM predicts, risk tolerant investors hold a smaller proportion of risk-free assets and more of the risky portfolio.

Risk is a factor that shapes individuals’ decisions, including financial and investment decisions and it determines the rate of return that the investors are likely to receive. Lipe (1998)\(^\text{233}\), Yang and Qiu (2005)\(^\text{234}\), Viscusi (1992)\(^\text{235}\) infers risk tolerance from a willingness to undertake risky endeavours in other areas of life. Many things other than financial risk tolerance affect willingness to engage in other sorts of risky behaviour.

Horvath and Zuckerman (1993)\(^\text{236}\) suggested that “one’s biological, demographic and socioeconomic characteristics together with his/her psychological makeup affects one’s risk tolerance level”.

Roszkowski Snelbecker, and Leimberg (1993)\(^\text{237}\) considered gender an important investor risk-tolerance classification factor because more men than women tend to fit the personality trait called “thrill seeker” or “sensation seeker”. The study reveals that, single individuals take more risk, married individuals are prone to social risk. According to Roszkowski et al. other things being equal, different occupations can be used to differentiate between levels of investor risk tolerances.

Yoo (1994)\(^\text{238}\) found “that the change in the risky asset holdings were not uniform and found that individuals tend to increase their investments in risky assets throughout their working life time, and decrease their risk exposure once they retire”.

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Mitra (1995) discussed factors that were related to individuals risk tolerance, which included “years until retirement, knowledge sophistication, income and net worth”.

Haliassos and Bertaut (1995) determined that “education was an important factor in overcoming the barriers to stockholding, which included an initial risk of loss associated with equities”.

Sung and Hanna (1996) studied the effects of financial and demographics variables on risk tolerance were estimated for households with an employed respondents. Logistic regression analysis showed that female headed households were less likely to be risk tolerant than other wise similar households with a male head or a married couple. Differences in risk tolerance by gender, marital status, ethnic group, education could be due to differences in understanding of the nature of risk and concluded that single females were less likely to take financial risks than single males and married individuals.

Malkiel (1996) suggested that “an individual’s risk tolerance is related to his/her household situation, lifecycle stage and subjective factors”.

Canner, Mankiw and Weil (1997) suggest that Wall Street financial planners often recommend a different mix of financial assets for highly risk tolerant clients than for more risk adverse individuals.

John E. Grable (1997) study was designed to determine whether the variables gender, age, marital status, occupation, self-employment, income, race, and education could be used individually or in combination to both differentiate among levels of investor risk tolerance and classify individuals into risk-tolerance categories. Risk tolerance level differed on education and gender and concluded that demographic characteristics provide only a starting point in assessing investor risk tolerance.

According to Olsen (1998) most people consider themselves to be risk-avoiders rather than risk-takers and the attitude towards risk changes with age to their family or work lives, and changes in the performance of markets.

Demographic factors as gender or age induce important shifting in risk attitude. Byrnes et al. (1999) validates the assumption of a higher propensity for
taking risk in male investors and found that this tendency of the gender gap to decrease with age. Other important factor is represented by the temporal perspective. The investors’ confidence in their prospect for success decreases as they come closer to the investment liquidation date so usually the risk assessment is more conservative with shorter temporal distance that in longer term investments.

Bajtelsmit, Bernasek and Jianakoplos (1999) presents a version of the Capital Asset Pricing Model that allows individuals to allocate their funds between risky assets, a risk-free asset. Consequently investors with high human capital investments hold larger fractions of their wealth in risky assets.

Govind Hariharan, Kenneth S. Chapman, and Dale L. Domian (2000) uses a large individual level data set to isolate the effects of risk tolerance on portfolio composition. They tested and confirm two predictions of the Capital Asset Pricing Model- (i) increased risk tolerance reduces an individual’s propensity to purchase risk-free assets and (ii) higher risk tolerance does not affect the composition of an individual’s portfolio of risky assets. The risk tolerant investors nearing retirement do not reduce their bond allocations in order to buy more stock.

Jaggia and Thosar (2000) argues that “risk perception is not only a function of age but also of temporal distance between the initial investment point and the cash-out point typically represented by the individuals retirement”.

Barber and Odean (2001) have shown that overconfidence may result in more trading, but no better returns. Lack of confidence may however influence motivation to learn more about the stock market and in that way be negative for many women. Barber and Odean claim that gender is a good proxy for overconfidence (overconfidence among men is higher than among women) and find that men trade more than women.

Dwyer, Gilkeson and List (2002) using data from a national survey of nearly 2000 mutual fund investors examined, whether the risk taking behaviour of mutual fund investors is correlated to gender. The findings revealed that women exhibit less risk taking than men and the impact of risk taking is significantly weakened when investor’s knowledge is controlled in regression equation.
Dulebohn, James H (2002)\textsuperscript{253} presents the result of an investigation of the determinants of investment behaviour in employee sponsored retirement plans. He examined the significance of demographic and attitudinal variables on employees risk behaviour in selecting among investment allocation options. The results identified primary causes of risky investment behaviour including income, age, other retirement plan participation, self- efficacy, knowledge of investment and general risk propensity.

Kenneth A. Froot, Paul G. J. and O’Connell (2003)\textsuperscript{254} proposed a methodology for measuring investor confidence by decomposing investor demand for international assets. This was based on an examination of the cross section of international portfolio holdings and flows of international institutional investors over time. The risk tolerance component turns out to account for a substantial portion of variation in portfolio holdings and a smaller but meaningful amount of variation in equity returns. In addition, it appears to be informative about future returns.

Rajarajan V (1997)\textsuperscript{255}, (1998)\textsuperscript{256}, (2000)\textsuperscript{257} and (2003)\textsuperscript{258} classified investors on the basis of their demographics and bought out the investors characteristics. He found that “the percentage of risky assets to total financial investments had declined as the investor moves up through various stages in life cycle. The role of uncertainty and the lack of knowledge about the return on investment avenue are important components of any investment”.

According to Frieder (2004)\textsuperscript{259} illustrate that “for many investors, investing constitutes more than simply weighting the risk and returns of various investment assets”.

Statman, Thorley and Vorkink (2006)\textsuperscript{260} present empirical evidence for the US market and argue that trading volume is higher after high returns, as investment success increases the degree of overconfidence. This finding is that “a higher degree of overconfidence leads to higher trading volume as long as we accept that high past returns are positively correlated with overconfidence”.

Glaser and Weber (2007)\textsuperscript{261} confirm higher trading propensity for overconfident investors when they identify overconfident investors as those who think they are above average in terms of investment skills or past performance. The
same conclusion doesn’t hold when the authors use measures of miscalibration as proxies for overconfidence.

Jasim Y. Al-Ajmi (2008) study presents new evidence on the determinants of risk tolerance of individual investors in Bahrain. The findings indicate that “men have high propensity towards risk tolerance than women. Investors with better level of education and wealth are more likely to seek risk than less educated and less wealthy ones. The study finds that, investors’ risk tolerance declines when they have more financial commitments as well as when they are approaching towards their retirement age or are retired”.

Prabakaran and Jayabal (2009) quantified the risk tolerance of mutual fund investors. Study identifies the socio economic variables and correlates the same with risk tolerance. Empirically it has been proved mutual fund investors are from low and moderate risk tolerant groups.

Syed Tabassum Sultana (2010) study infers that “individual investor still prefers to invest in financial products which give risk free returns. This confirms that Indian investors even if they are of high income, well educated, salaried, independent are conservative investors prefer to play safe. The investment product designers can design products which can cater to the investors who are low risk tolerant and use TV as a marketing media as they seem to spend long time watching TVs”.

Rui Yaoa, Deanna L. Sharpe, Feifei Wangc (2011) study used an analytical method to separate effects on financial risk tolerance. Results supported the hypothesis that, age has a negative effect on the willingness to take financial risks. As people age they are likely to accumulate investment experience which would positively influence the willingness to accept risk. Knowledge of and experience with investments may also influence difference in the perception of financial risks.

Ebrahim Kunju Sulaiman (2012) the study was designed to examine the association between the risk tolerance of individual investors and their demographic features. Most of the anticipated relationship between financial risk tolerance and each of the demographic features from the literature were found to be relevant.
Conclusion

From the literature review presented above, it is evident that there is a literature gap in relation to the behavioural aspects of mutual fund investors and leaves scope for a lot of further research. Most of the studies are either theoretical in nature or analysis of the fund performance. There is no much research examining the impact of mutual fund as an investment option among the retail investors. This attempt in this direction is expected to contribute towards filling that gap in the literature.

Mutual funds have already attracted the attention of global practitioners and academicians. Few studies are available that focus on investor’s objective and considering issues and perceptions of investors especially in Indian context. The dramatic growth in the mutual fund industry has heightened policymakers’ concern with the level of investor knowledge and perceptual factors associated with mutual funds. The literature reviews has identified critical gaps in the behavioural aspects of mutual fund investors and further extend it to understand and realize the need of existing mutual fund investors. Thus, it has become imperative to study mutual funds from the investor’s angle and uncover the unidentified expectations and parameters that account for their dissatisfaction.
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