CHAPTER – 4

LITERATURE REVIEW

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4.1 Introduction

Present research theme “behavioural finance” is resulting concept of investor behaviour from marketing world and financial economics from financial markets. This is a serious subject is, however, barely studied. Analysts seem to treat financial markets as an aggregate of statistical observations, technical and fundamental analysis. A rich view of research waits this sophisticated understanding of how financial markets are also affected by the ‘financial behaviour’ of investors. Reforms in industrial policy, financial sector and other advances in Indian money market and capital market has made mutual funds as important portal for mobilizing savings which is also influenced by their financial behaviour.

Investors behavior is a very wide subject so, proposed research work will cover only measurement of attitude and perception about awareness, opportunities and problems for investment in mutual funds. The term attitude refers to the mental state of individuals towards a product or attributes possessed by the product. It also implies the mental readiness to act in a particular manner and influences the individuals’ behaviour towards the product under consideration. The salient factors that go into the building of the overall attitude of the individual towards the product are a) His/her beliefs about the attributes possessed by the object, b) His/her preference or otherwise for those attributes, and c) The relative importance of each attribute to the individual's decision making process.

4.2 Awareness

In most of the history of marketing research there has been a continuing controversy about the relative merits of the two types of measures of awareness called: recall and recognition (Copland, 1958). Recall is the mental reproduction of some target item experienced or learned earlier, while recognition is the awareness of having previously experienced those stimuli. Operationally, in recall some contextual cue is provided and the respondent must retrieve the target item from memory. In recognition, the target item is provided and the contextual circumstances of the earlier event or experience must be retrieved. So, present research defines awareness as a recognition capability of retail investors with reference to mutual funds investment.
4.3 Opportunities
Opportunity is a favorable juncture of circumstances, a good chance of advancement or progress. An opportunity is best opening to add value to people in ways that best align with objective. Opportunities in mutual funds are tremendous especially when investment is concerned. For any individual who intends to allocate his assets into proper forms of investment and want to diversify his investment portfolio as well as the risks, mutual funds can be proved as the biggest opportunity. In this research opportunity is defined as advancement or benefits available to retail investors while investing in mutual funds.

4.4 Problems
A problem is a state of difficulty that needs to be resolved. It is also considered as a source of difficulty. It is perceived gap or deviation between existing state and desired state. Although many problems turn out to have several solutions, difficulties arise where such means are either not obvious or are not immediately available. For this study problem are defined as difficulties or troubles faced by retail investors while selecting and investing in mutual funds.

Mutual funds have attracted interest of both academic and practitioner communities. Compared to the developed markets, very few studies on mutual funds are done in India. Subsequent literature review presents investors behavior studies towards perceived opportunities to and problems of investing in mutual funds. Literature review highlights the important factors which has been given priority by investors while taking investment decisions. Through literature review, researcher has also tried to identify important variables which perform key role for creating awareness among investors.

Present literature review throws light on previous research studies accomplished on awareness, perceived opportunities & problems and preferences of investors for different key variables under study. In this section literature review is divided in to three parts. First section of chapter deals with past studies relating to awareness about mutual funds and investors behaviour. Second section of the chapter deals with past
studies done on opportunities for investing in mutual funds and last section of the chapter deals with past studies done on problems of investment in mutual funds.

4.5 Literature Review on Awareness and Investor Behaviour

Vidyashankar (1990), Agarwal (1992), Gupta (1992), Atmaramani (1996) and Jambodkar (1996) have conducted extensive research regarding investor expectations, protection, awareness and fund selection behaviour. Few striking ones among the other studies are given below.

Jambodekar (1996) conducted a study to assess the awareness of mutual funds among investors, to identify the information sources influencing the buyer decision and the factors influencing the choice of a particular fund. The study revealed that income schemes and open-ended schemes are preferred over growth schemes and close-ended schemes during the prevalent market conditions. Investors look for safety of principal, liquidity and capital appreciation in order of importance; newspapers and magazines are the first source of information through which investors get to know about mutual funds schemes and investor service is the major differentiating factor in the selection of mutual funds.

Shanmugham (1990) examined the factors affecting investment decision and found that the investors are high risk takers. The investors possessed adequate knowledge of government regulations, monetary and fiscal policy.

SyamaSunder (1998) conducted a survey to get an insight into the mutual fund operations of private institutions with special reference to Kothari Pioneer. The survey revealed that the awareness about mutual funds concept was poor during that time in small cities like Vishakapatnam. Agents play a vital role in spreading the mutual funds culture; open-end schemes were much preferred. Age and income are the two important determinants in the selection of fund; brand image and return are their prime considerations. The role of uncertainty and lack of knowledge about return on investment avenues are important components of any investment. Bajtelsmit et. al. (1996), Hariharan et. al. (2000) concluded that males are more risk tolerant than females.

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Shankar (1996) points out that Indian investors do view mutual funds as commodity products and to capture the market AMCs should follow the consumer product distribution model.

Alexander et al., (1996) reported that only 18.9 percent of respondents could provide an estimate of expenses for their largest mutual funds holding. 57 percent stated that they did not know what the expenses were even at the time they made the mutual funds purchase. This suggests insensitivity to costs and many investors do not use funds costs as an evaluative criterion in making investment decisions.

National Council of Applied Economic Research (NCEAR) (2000) ‘Urban Saving survey’ noticed that irrespective of occupation followed, educational level and age attained, households in each group thought saving for the future was desirable. It was found that desire to make provision for emergencies were a very important motive for saving for old age. Securities and Exchange Board of India (SEBI) and NCEAR (2000) ‘Survey of Indian Investors’ had been report that safety and liquidity were the primary considerations which determined the choice of an asset.

Satish (2004) opined that investors from seven major cities in India had a preference for mutual funds compared to banking and insurance products. Investors expected moderate return and accepted moderate risk. 60 percent of investors preferred growth schemes. The image of AMC acted as a major factor in the choice of schemes. Investors had the same level of confidence towards shares and mutual funds.

Venkateshwarlu (2004) had analysed investors from the twin cities of Hyderabad and Sikandarabad. Investors preferred to invest in open-end schemes with growth objectives. Chi-squared value revealed that, the size of income class is independent of preference pattern, and dependent on the choice of fund floating institution. Investors perceived that too many restrictions led to the average performance of mutual funds in India.
A further look at behavioural data shows that non-professional investors might be classified into two groups based on knowledge, sophisticated and unsophisticated investors. Unsophisticated investor’s focus their investments on funds based advertising and advice from brokers (Gruber, 1996). A main reason for this is their lack of knowledge and low level of involvement (Foxall et. al., 1998). Kaniel et al., (2007) and Gallaher et al., (2006) finds that media coverage of mutual funds has a significant effect on investor flows to funds.

Kannadhasan (2006) examined the factors that influence the retail investors’ decision in investing. The decision of the retail investors is based on various dependent variables viz., gender, age, marital status, educational level, income level, awareness, preference and risk bearing capacity.

Shanmugham (2000) conducted a survey of 201 individual investors to study the information sourcing by investors, their perception of various investment strategy dimensions and the factors motivating investment decisions, and reported that, psychological and sociological factors dominated economic factors in investment decisions.

There is evidence that women are more risk averse than men in general and this translates to investing in less risky assets in their investment plans (Agnew, 2003). Differences in financial literacy between men and women may also explain differences in their investment decisions.

Crosnan (2004) in the research work titled “Gender Differences by Preferences” have done an exhaustive review of various studies on gender differences over a period of time. The authors highlighted the differences in perception on the basis of gender. The paper explains that there was vast difference as to how men or women perceive the areas of risk taking, social behavior and competition behavior. The paper establishes that women take less risk than men. According to the authors various factors that might be responsible for such a difference in preference may be age, marital status, number of children and culture. The paper further discusses that gender difference by
preference is reduced when the outcome is unsure as in the case of lottery as the perceptions are made on a subjective idea of outcome.

The research article by Giessen et. al. (2009) titled “Sex Matters: Gender Differences in the Mutual Funds Industry”, investigates gender differences between female and male. The research was carried along three broad dimensions of: risk taking, investment styles, and trading activity. The primary data was gathered from the CRSP (Collaborative Research Support Program) Survivor Bias Free Mutual Funds Database. The data for analysis was only of actively managed equity funds that invest more than 50 percent of their assets in stocks and excludes bond, money market and index funds. Performance measures of the study are obtained by using various statistical tools like regressions, significance testing, Fame’s regression models etc. The findings of the study are that 1. Female are moderately more risk averse than male: 2. Female follow significantly less extreme investment styles as compared to male: 3. Female investment styles are more stable over a period of time: 4. Male trade more than female.

SEBI-NCAER survey (2000) was carried out to estimate the number of households and the population of individual investors, their economic and demographic profile, portfolio size, and investment preference for equity as well as other savings instruments. This was a unique and comprehensive study of individual investors, for which data were collected from 300000 geographically dispersed rural and urban households.

Some of the relevant findings of the study were: households preference for instruments match their risk perception; bank deposit has an appeal across all income class; 43 percent of the non-investor households apparently lack awareness about mutual funds and compared with low income groups, the higher income groups have a higher share of investments in mutual funds signifying that mutual funds does not truly become the investment vehicle for small investors; the number of households owning units of mutual funds is more (9 percent) than the investor households owning investments in shares and debentures (8 percent). Nevertheless, the study predicts that

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in the next two years the investment of households in mutual funds is likely to increase.

Survey also observed that the majority of investors prefer mutual funds as the optimal tool of investing. It is therefore important that all aspects related to the functioning of the mutual fund market are optimally regulated. This survey clearly suggests that investors expect SEBI to put in place a set of mechanisms that would enable investors to effectively access the mutual funds market. SEBI has put in place a large number of disclosure and corporate governance norms that are related to transparency, conflict of interest, etc. Even then, nearly 80 per cent of all participants think that the regulator must take additional steps related to transparency and conflict between shareholders and firms. Since such conflict can affect share prices, they will have a cascading effect on the value of the unit of mutual funds held by the investors. The survey participants expect the regulator to correctly articulate the source of fluctuations of unit prices. It is puzzling to find a persistently high degree of lack of knowledge about the role of the regulator in the mutual funds markets.

Sikidar et. al. (1996) carried out a survey with an objective to understand the behavioural aspects of the investors towards equity and mutual funds investment portfolio. The survey revealed that the salaried and self-employed formed the major investors in mutual funds primarily due to tax concessions. Unit trust of India and state bank of India’s schemes were popular and other funds had not proved to be a big hit during the time when the survey was done.

Rajeshwari et. al. (2002) studied the financial behavior and factors influencing fund selection of retail investors found that above all the given investments avenues, bank deposits were the most preferred investment avenue, mutual fund ranked fourth among eight choices. In which growth schemes ranked first followed by income schemes and balanced schemes. Based upon the duration of operation of the schemes, 84.57 per cent of respondents preferred open ended schemes and only 15.43 per cent of the respondents favored close ended schemes. The investors looked for safety first in mutual fund products followed by good returns, tax benefits, liquidity and capital appreciation.

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Petter (1970) identified those factors which motivated and guided the investment decisions of the investors. The factors include (i) Income from dividends (ii) Rapid growth (iii) Purposeful investment as a protective outlet of savings (iv) Professional investment management.

Krishnan et. al. (2002) analyzed the factors influencing the decisions of investors who basically used analysts’ recommendations to arrive at short term decision to hold or to sell a stock. Merikas et al, (2004) analyzed the factors influencing Greek investors’ behavior on the Athens Stock Exchange. The results indicated that individuals base their stock purchase decision on economic criteria combined with diverse other variables.

Shukla et. al. (1994) attempted to identify whether portfolio manager’s professional education brought out superior performance. They found that equity mutual funds managed by professionally qualified managers were riskier but better diversified than the others. Though the performance differences were not statistically significant, the three professionally qualified fund managers reviewed outperformed others.

Siggelkow (2003) studies the diversification of fund offerings by mutual funds families. He discovers that funds belonging to more focused fund families outperform similar funds in more diversified families. However, he finds that diversification improves the fund family's cash inflow. So he argues that there exist conflicts of interests between the shareholders and fund family owners in terms of focusing and diversification.

Engstrom et. al. (2004) examined Swedish data and found that, in mutual funds, the management fees have a stronger impact on selection decision of mutual funds, in that they avoid high-fee funds. Furthermore, they document evidence to suggest that indirect costs, due to unfamiliarity, matters when investor choose funds. With respect to load structure Wilcox (2003) found that investors appear to be more sensitive to load charges than to expense ratios.
An internally commissioned study by the NSE shows that the knowledge and understanding of financial products and services and their impact is important for investor’s selection decision making process. Studies also found that investor expertise and knowledge is important to the decision-making process for the purchase of financial products or services (Perry et. al., 2005).

With respect to marketing and distribution efforts of fund managers, according to Capon et. al. (1996) marketing efforts and advertisements have a positive effect on subsequent flows. Jain et. al. (2000) provides direct evidence of the effect of marketing on fund purchase. They examined a sample of equity mutual funds that advertised in various magazines during the period 1994-96 and documented that advertised funds attracted approximately 20 percent more money than funds that did not advertise.

Chakrabarti et. al. (2000) stressed the importance of brand effect in determining the competitive position of the asset management companies. Their study reveals that brand image factor, influences investors perception and hence his fund or scheme selection.

Ranganathan (2006) studied fund selection behavior of individual investors towards mutual funds. The study found along with the fund performance record, sponsor’s expertise in managing money, which is closely, followed by reputation of the sponsoring firm are the most influencing factors in mutual funds selection.

Hussein (2006) identified the factors influencing the UAE investors’ behaviour. Six factors were found as the most influencing factors on the UAE. The most influencing factors include corporate earnings, get rich quick and past performance of the stock.

Neo-classical economic theory tells us that investor are rational and that their behavior is driven by wealth maximization and self-interest. However, as suggested by the somewhat mixed empirical evidence presented above, there seem to be investors that consider other factors as well when forming their investment decisions, i.e. social, moral and ethical concerns.

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4.6 Literature Review on Opportunity to Invest in Mutual Funds

Sahadevan et. al. (1997) stated that, mutual funds provide opportunity for the middle and lower income groups to acquire shares. The savings of household sector constituted more than 75 percent of the GDS along with a shift in the preference from physical assets to financial assets and also identified that, savings pattern of households shifted from bank deposits to shares, debentures, and mutual funds.

Gangadhar (1992) identified mutual funds as the prime vehicle for mobilization of household sectors’ savings as it ensures the triple benefits of steady return, capital appreciation and low risk. He identified that open-end funds were very popular in India due to its size, economies of operations and for its liquidity. Investors opted for mutual funds with the expectation of higher return for a given risk, greater convenience and liquidity.

Saha et. al. (1993-94) identified that return, liquidity, safety and capital appreciation played a predominant role in the preference of the schemes by investors. The preference of the households towards shares and debentures was 7 percent by 1989-90. Mutual funds being an alternative way for direct purchase of stocks should be managed effectively adopting investment analysis, valuation models, and portfolio management techniques. The study suggested that, fund managers could adopt portfolio selection techniques to make more informed judgments rather than making investments on an intuition basis.

Krishnamurthi (1997) identified mutual funds as an ideal investment vehicle for small and medium investors with limited resources, to reap the benefits of investing in blue chip shares through firm allotment in primary market, avoid dud shares, access to price sensitive information and spread risk along with the benefits of professional fund management.

Khare (2007) opined that investors could purchase stocks or bonds with much lower trading costs through mutual funds and enjoy the advantages of diversification and lower risk. The researcher identified that, with a higher savings rate of 23 percent, channeling savings into mutual funds sector has been growing rapidly as retail
investors were gradually keeping out of the primary and secondary market. Mutual funds have to penetrate into rural areas with diversified products, through better corporate governance and introduction of financial planners.

According to Dilipsingh Chauhan, Manager, Reliance Asset Management Company, mutual funds give investors the benefit of diversification if the fund is actively managed by professional money management. Many large, well-known mutual funds provide these services at low prices. But how can unsophisticated investors know whether they are paying a reasonable price? A premise of current mutual funds regulation is that the market should set fees, but those fees should be transparent. However, it would be a mistake for researchers and regulators to focus only on what could be done with new rules, to the exclusion of what might be done by relaxing or altering existing rules. Unlike most of securities regulation, mutual funds regulation is not focused principally on disclosure, but tightly constrains compensation and governance practices. Regulators should consider whether those constraints have frozen non optimal practices into place.

To the extent new rules are needed, the traditional focus on disclosure and transparency may work best. The Securities and Exchange Commission has tried to draw investor attention to fees and other expenses in mutual fund prospectuses and on its own website. It is therefore curious that the Security and Exchange Commission has resisted calls for investor specific disclosure of the amount of fees and expenses in the quarterly account statements sent to investors. Given that industry wide investor costs are measured in the tens of billions of dollars annually, even a modest increase in investors' sensitivity to costs could result in enormous aggregate savings.

According to Mr. Pritesh Patel, NJ Investment, individual investors increasingly use mutual funds to invest in the equity market instead of trading individual stocks.

Funds associated with lower search costs receive larger flows as investors seem to favour funds that they are familiar with, which is also in line with behavioural literature (Engström et. al. 2004). Companies can lower the search costs of investors

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by increasing their visibility through advertising, and it has been shown that advertising in financial magazines tends to attract larger flows (Jain et. al. 2000).

Funds belonging to a larger company have an advantage in that their greater visibility generates flows regardless of fund related variables as the search and information costs for the investor are lower. Different investors have different preferences and for some there is utility in the extra services that larger companies can provide. Mutual funds flows can be directly related to fund visibility as funds belong to larger companies (Sirri et. al. 1998).

Investors, policymakers, academics, and fund companies have long been concerned about how taxes affect fund returns, trading activities, and fund flows. Barclay et al. (1998) provide empirical evidence showing that new investors care about the unrealized capital gains and move more new money to low tax overhang funds than to high overhang funds, when returns are held constant.

4.7 Literature Review on Problems of Investing in Mutual Funds
Shiller (1993) reported that many investors do not have data analysis and interpretation skills. This is because, data from the market supports the merits of index investing, passive investors are more likely to base their investment choices on information received from objective or scientific sources.

Hirshleifer (2001) categorized different types of cognitive errors that investors make i.e. self-deception, occur because people tend to think that they are better than they really are; heuristic simplification, which occurs because individuals have limited attention, memory and processing capabilities; disposition effect; individuals are prone to sell their winners too quickly and hold on to their losers too long.

Venugopalan (1992) opined that India (15 million) ranks third in the world next to U.S.A. (50 million) and Japan (25 million) in terms of number of shareholders ensuring the spread of equity cult. However, many investors face hardships in the mutual funds market due to lack of professional advice, inability to minimize risk, limited resources and information.
Ansari (1993) stressed the need for mutual funds to bring in innovative schemes suitable to the varied needs of the small savers in order to become predominant financial service institution in the country.

Ippolito (1992) found that investors are sensitive to the form in which funds expenses are charged though investors are less likely to buy funds with high transaction fees (e.g. broker commission or front-end load fees). Barber et. al. (2000) found that investors react differently to various fund expenses. They have added that investors are less likely to buy funds that incur salient fees, such as a brokerage commissions or front-end loads.

Irissappane (2000) evaluated the investment pattern and performance of 34 close-ended schemes from 1988-98 and elicited the views of investors and managers belonging to Chennai, Mumbai, Pune and Delhi. The survey identified that the investors desired a return equivalent to market.

Bansal (2003) survey of 2819 respondents revealed that, the percentage of investors holding only unit trust of India schemes reduced. The unit holders’ loyalty seemed to have become a myth as investors were looking for performance. Unit-holders spread their holdings over two or more funds with an urge to diversify increasing competitive mutual funds environment.

Bettman (1979) recognizes that individuals have limited capabilities for processing information and this limitation affects their decision-making activities. Fishbein (1967) linked attitudes and outcomes, arguing that individuals’ attitudes towards certain outcomes motivate behavior. Among the most important of consumers’ attitudes to financial services are fatalism and assertiveness (Lunt et. al. 1991). Shostack (1977) found that uncertainty or “confidence" is largely determined by perceptions of risk, which are determined by the complexity of the product being purchased and the certainty of outcome associated with that product.
Due to the great number of funds in existence, evaluating manager’s performance and selecting funds with relatively high risk-adjusted returns can be difficult and challenging task. The growth of data companies such as Lipper, Morningstar, and Micropal and the explosion in the publication of books and articles on mutual funds both reflect investors' tremendous demand for detailed mutual funds information and investment advice. This huge demand suggests that many investors are making mutual funds investment decisions themselves and many of them study current and historical information about funds carefully during the decision-making process.

A handful of previous papers have examined specific dimensions of the mutual funds choices of individual investors. Barber et. al. (2005) finds that investors are more sensitive to salient fees such as front-end loads, but not as sensitive to hidden management fees. Zhu (2005) shows that busy investors are more likely to invest in funds instead of individual stocks.

Malhotra et. al. (1997) reported that the preoccupation of mutual funds investors with using performance evaluation as selection criteria is misguided because of volatility of returns, which may be due to superior management or just good luck is difficult to determine. The findings are consistent with the findings for Ferris et. al. (1987).

Lu Zheng (1998) examined the fund selection ability of mutual funds investors and found that the investor’s decisions are based on short-term past performance and investors use fund specific information in their selection decision.

Surveys also reveal that investors rely heavily on past performance when evaluating their fund purchase decisions (Goetzman et. al. 1997, Capon et. al. 1996). Patel et. al. (1992) have shown that mutual fund’s purchase decision is influenced by past performance. Capon at el. (1994) added despite the fact that funds are supposed to warn customers that previous returns do not guarantee future performance, a survey of 298 affluent investors found performance track record to be one of the four most important criteria for mutual funds selection.
Ippolito (1992) says that fund 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 funds.

Singh et. al. (2003) identified that past record and growth prospects influenced the choice of scheme. Investors in mutual funds expected repurchase facility, prompt service and adequate information. Return, portfolio selection and NAV were important criteria for mutual funds appraisal. The ANOVA results indicated that, occupational status; age had significant influence on the choice of scheme. Salaried and retired categories had priority for past record and safety in their mutual funds investment decisions.

Campenhout (2007) documented that, while selecting mutual funds considering the past performance of the fund, the investors interpret high performance as evidence of superior managerial ability.

It is well documented that investors chase past positive performance and that performance persists on a short-term basis. Patel et. al. (1990), Ippolito (1992), Sirri et. al. (1998), Goetzmann et al. (1997), Chevalier et. al. (1997), Roston (1997), and others have reported that money flows into past good performers and flows out of past poor performers. Researchers have also provided strong evidence for performance persistence: Hendricks et. al. (1993), Goetzmann et. al. (1994), Carhart (1997), Brown et. al. (1995), Elton et. al. (1996), and Grinblatt et. al. (1992) all suggest that performance persists.

Extant research shows that mutual funds investors respond to past performance, which is typically measured as raw returns, market-adjusted returns or alphas defined by individual models (Sirri et. al. 1998 and Chevalier et. al. 1997). This approach is restrictive because it assumes that investors behave as if they use a single mutual funds return generating model to measure past performance. A more plausible assumption is that investors behave as if they employ a variety of models to measure past performance. In the aggregate, researcher would expect fund flows to respond to a performance measure that combines information contained in a variety of mutual
funds return generating models but lack of expertise restrict perfect measurement of future opportunity.

A number of recent papers studied the investment performance of mutual funds managers, yet only Gruber (1996) studies the ability of investors to select funds. Beginning with Jensen (1969), many researchers have examined the performance of different groups of mutual funds managers using various methods. Most find that managers on average underperform the market, but others find that managers display some management skill.

A fundamental aspect of investments is the inherent risk involved. As investors make risky decisions, there is a need for them to know what information are necessary as well as the possibility to obtain that particular information (Jacoby et al., 2001). Their aptitude, stimulus and opportunity to collect this information are determinants for what the investor can reasonably expect in terms of return on their investment. However, there is such a vast magnitude of information on and about the market that it becomes virtually impossible for investors to assess and process the information regarding the mutual funds on the market (e.g., Aldridge, 1998; Sandler, 2002). This affects the involvement of investors which has been confirmed by other studies that shows that investors have low levels of involvement in situations regarding investment decision-making (e.g., Foxall et. al. 1998, Benartzi et. al. 1999).

In order to comfortably make an investment decision not relying on heuristics, investors have a need to reduce the perceived risk of purchase and need to increase their lack of expertise and subsequently the skills needed to assess fund characteristics. However, the process of objectively assessing fund characteristics is too complex and investors do not feel like allocating their time to this (Martenson, 2005). Investors who still, consciously or unconsciously, use heuristics to make complex financial decisions are thus often described as naive and in a poor position on the financial market (Capon et al., 1996; Sandler, 2002).

Within the area of consumer behaviour, involvement is assumed to influence subsequent consumer behaviour which is important when trying to predict the actions of consumers (e.g., Alba et. al. 1987; Zaichkowsky 1985, 1986, 1994; Laurent et. al."

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1985). Previous research also emphasizes the significant role of consumer knowledge although the effects of knowledge on investor behaviour can not only be regarded on its own, but must be studied along with a wider range of variables (Alba et. al. 1987).

Tripathy et. al. (1996) identified that the Indian capital market expanded tremendously as a result of economic reforms, globalization and privatization. Household sector accounted for about 80 percent of country’s savings and only about one-third of such savings were available for the corporate sector. The study suggested that, mutual funds should build investor confidence through schemes meeting the diversified needs of investors, speedy disposal of information, improved transparency in operation, better customer service and assured benefits of professionalism.

Kumar (1999) analysed the roles, products and the problems faced by the individual mutual funds investors. He suggested the turnaround strategies of awareness programs, transparency of information, distinct marketing and distribution systems to rebuild confidence.

Investors are clearly not only affected by past performance in selecting mutual funds but other variables often taken into consideration. Investors prefer to pay lower fees, but are more sensitive to visible fees as front-end-load fees and commissions compared to less visible fees such as operating expenses (Barber et al. 2005). Moreover, the role of the search and information costs that investors face is increasingly being recognized in the literature.

Given that trillions of dollars are managed in the mutual funds industry, mutual funds fee structure is economically important and has long been debated among investors, policy makers and funds industry. Chordia (1996) attempt to explain the relationship among loads (sales charge), investor redemption behavior and corresponding fund investment strategy. He found that loads dissuade redemptions and load funds hold less cash than no-load counterparts. Another issue under debate is whether the current fee regulation is appropriate. In a series of papers by Das and Sundaram (1998a, 1998b), an asymmetric performance based fee structure, although prohibited by law,
is proved to be superior to a hat or symmetric performance based fee structure in terms of efficiency and social welfare.

4.8 Summary
The aforementioned studies indicate that the evolution of mutual funds has been a matter of concern in India for the researchers, academicians, fund managers and financial analysts to a greater extent after 1985. The reviews bring to light the importance of mutual funds in the Indian financial scenario; highlight the need for adequate investor protection, single regulatory authority, higher return for a given risk as per investors’ expectation, greater convenience and liquidity, and the expectations that mutual funds should act as a catalytic agent of economic growth and foster investors’ interest.

Further from the above review it can be inferred that mutual funds as an investment vehicle is capturing the attention of various segments of the society for varied reasons and deserves an in-depth study. So, the proposed research work has been carried out to understand the awareness, opportunities and problems faced by retail investors in Indian mutual funds industry.