CHAPTER – II

REVIEW OF LITERATURE

The review of literature gives a broad outlook of the various research studies made in the past and the details of such studies throw light on the future studies to be made. It also strengthens one’s theoretical base of the research study. Above all, it helps in defining the scope of the research and in choosing the area of research study. The deficiencies of existing studies should help in conducting new studies and updating the relevant literature. A number of studies have been carried on Mutual Funds and this chapter reviews the previous literatures regarding the same. Both foreign and Indian research studies are collected, reviewed and presented in this chapter.

Research Studies on Mutual Funds

Mutual funds are institutions that collect money from several sources - individuals or institutions by issuing 'units', invest them on their behalf with predetermined investment objectives and manage the same all for a fee. They invest the money across a range of financial instruments falling into two broad categories - equity and debt. Mutual funds emerged as professional financial intermediaries bridging the time and skill constraint. They have a team of skilled people who identify the right stocks and debt instruments and construct a portfolio that promises to deliver the best possible 'constrained' returns at the minimum possible cost. In effect, it involves outsourcing the management of money.

In the past twenty years people have started investing heavily in mutual funds all over the world and this has resulted in tremendous competition in the industry. The wide range of products that are available in the market has made it difficult for investors to choose the right product in which to invest.

2.1 Research Studies on Performance of Mutual Fund Schemes

Wide range of studies has been carried out relating to the escalation in the fund industry. The studies provide a choice of diverse data, time frame and different methods used. To judge the performance of a mutual fund, in its beginning stages, it is essential to directly compare it returns with other portfolios with the same kind of risks.
Foreign Literature

The most prominent study by **Sharpe, William F (1966)** developed a composite measure of return and risk. He evaluated 34 open-end mutual funds for the period 1944-63. Sharpe compared the performance of the mutual funds with Dow Jones Index. He also compared his ratios across funds according to their levels of investment fees and concluded better performance is associated with lower expenses. Reward to variability ratio for each scheme was significantly less than DJIA (Dow Jones Industrial Average) and ranged from 0.43 to 0.78.

Performance is scrutinized more specifically by dividing it into selectivity and timing ability. **Treynor and Mazuy’s (1966)** report of 57 U.S. mutual funds from 1953 - 1962 is pertaining to market timing ability and employs a quadratic regression method. The report states that only 1 out of 57 funds show noteworthy market timing.

**Jensen (1968)** developed a composite portfolio evaluation technique concerning risk-adjusted returns. He evaluated the ability of 115 fund managers in selecting securities during the period 1945-66. Analysis of net returns indicated that, 39 funds had above average returns, while 76 funds yielded abnormally poor returns. Using gross returns, 48 funds showed above average results and 67 funds below average results. Jensen concludes that fund managers do not have the capacity to outperform buy-and-hold approach even before deducting fees and expenses.

During the years 1960 – 1968, **Friend, Blume, Crockett (1970)** scrutinized the performance of mutual funds by categorizing them into high, medium and low risk groups. This data was later compared to arbitrary portfolios which were of the same risk category. The result showed that the arbitrary portfolios did better than mutual funds.

**Meyer’s (1977)** findings based on stochastic dominance model revalidated Sharpe’s findings with the caution that it was relevant for mutual funds in the designated past rather than for the future period.

**Klemosky (1977)** examined performance consistency of 158 fund managers for the period 1968-75. The ranking of performance showed better consistency between four-year periods and relatively lower consistency between adjacent two-year periods.
According to Kon (1983) adjusting risk level ahead of the market movements enables a fund manager to have timing ability. Therefore the timing ability is judged by scrutinizing the stationarity of the fund’s regular risk. Kon scrutinizes 37 funds between 1960 and 1976 and states that some funds have reasonable timing ability while on an average it is not so.

Lehmann & Modest (1987) while comparing the mutual funds performance with benchmarks found that the Jensen measure & the Treynor appraisal ratios of individual mutual funds were quite sensitive to the methods to construct Arbitrage Price Theory benchmarks. This study suggested the importance of knowing the appropriate model for risk and return.

Ippolito (1989) uses the same model and data used by Jensen (1968) but contrary to Jensen he utilizes more recent data. Taking into account 143 U.S. mutual funds from 1965-1984, Ippolito examines the proficiency of the capital markets and the general performance of mutual funds to determine if active funds provide adequate returns to balance the higher fee charged. He estimated that risk-adjusted return for the mutual fund industry was greater than zero and attributed positive alpha before load charges and identified that fund performance was not related to expenses and turnover as predicted by efficiency arguments.

Grinblatt and Titman (1994) scrutinized the sensitivity of fund performance to the preference of benchmarks and performance measures. He also scrutinized the connection between fund attributes and fund performance. 4 benchmarks and 3 measures were employed to scrutinize passive portfolios created on the basis of stock characteristics and 279 mutual funds from 1974 to 1984. Consequently it was established that the mutual fund performance was more susceptible to the choice of benchmarks than measurement methods.

Malkiel (1995) scrutinized fund performance in the U.S market from 1972 to 1991, employing Jensen’s single-factor method. According to Malkiel the average alpha equals to -0.6% with very low t-statistic value and mutual funds have generally performed badly after the deduction of fees and expenses.

Rich Fortin and Stuart Michelson (1995) studied 1,326 load funds and 1,161 no load funds and identified that, no-load funds had lower expense ratio and so was suitable for six years and load funds had higher expense ratio and so had fifteen years of average holding period. No-load funds offered superior results in nineteen out of twenty-four schemes. He concluded that, a mutual fund investor had to remain invested in a particular fund for very
long periods to recover the initial front-end charge and achieve investment results similar to that of no-load funds.

Employing Jensen’s method, multifactor model and a relative return to the market, **Gruber (1996)**\(^{13}\) investigates common equity fund performance from 1985 to 1994. Bond and market return premium, disparity in return between large and small cap stocks and the disparity in return between growth and value are the four variables of multifactor model. Gruber found that mutual funds performed badly by 1.56% to 0.65% annually, after taking into consideration 270 mutual funds. He employed a multifactor model and a single factor model.

**Conrad S Ciccotello and C Terry Grant’s (1996)**\(^{14}\) study identified a negative correlation between asset size of the fund and the expense ratio. The results of the study brought out that, larger funds had lower expense acquire information for trading decision and were consistent with the theory of information pricing.

Characteristic-based performance measures were used by **Daniel K., Grinblatt, M., Titman, S. and Wermers, R. (1997)**\(^{15}\) to scrutinize 2500 U.S. based funds from 1975-1994. It was found that contrary to the common belief that fund managers are not able to better the market and that fund managers have selectivity ability but do not have timing ability. Nevertheless, the abnormal performance is comparatively small, 0.8% annually, and close to its management fee. In growth-oriented funds the proof of abnormal performance is stronger.

In the U.K. a parallel study was conducted by **Blake and Timmermann (1998)**\(^{16}\) to scrutinize a huge dataset of unit trusts from 1972- 1995. The three-index method that includes bond and dividend yield and T-bills was employed. It was inferred that the average, annual substandard performance was 1.8%.

A three index method study conducted by **Quigley and Sinquefield (2000)**\(^ {17}\) on UK funds from 1978-1997 showed annual substandard performance.

Conditional measures were employed by **Dahlquist et al. (2000)**\(^ {18}\) to scrutinize Swedish fund performances in broad fund categories between 1993 -1997. Greater performance was noted for funds in the equity class.

**Chen et al. (2000)**\(^ {19}\) established this fact by scrutinizing mutual funds from 1975 -1995 and the selective ability of fund managers was confirmed. Stock held and trading data in mutual funds was used to disclose that fund managers bought stocks that notably outdid the stock
that they sold by 2% annually and did not hold outperforming stocks. Nevertheless, selectivity ability is extinct as fund managers generally hold stocks for more than a year.

Statman, Meir (2000)\textsuperscript{20} emphasizes that, socially responsible investing has to be taken as a tool by the corporations. He further identified that, socially responsible stocks outperformed while socially responsible mutual funds underperformed the S & P 500 Index during 1990-98.

Bollen and Busse (2001)\textsuperscript{21} state that active fund managers regulate their portfolio at elevated frequency, consequently using mutual fund daily data between 1984 and 1995 found encouraging market timing ability in 40% of funds.

The characteristics of performance measures for mutual funds were examined by Kothari and Warner (2001)\textsuperscript{22}. Five dissimilar performance measures, including the regression and characteristic-based measures were tested by them using simulation procedures to simulate funds whose features are similar to actual funds. It was found that performance measures were not reliable and possess negligible capacity to perceive any large scale abnormal performance, more so in funds where styles are not the same as value-weighted benchmark market portfolios.

The strength of the various benchmarks employed to judge performance using the U.K. market was scrutinized by Fletcher and Forbes (2002)\textsuperscript{23}. Their method was the same as that of Grinblatt and Titmann (1994), using passive portfolios, fashioned on the basis of industry and stock characteristics and 724 UK unit trusts, to verify the pattern of two performance measures over five different benchmarks. They concluded that all five benchmarks exhibited some prejudice.

A different approach was utilized by Otten and Bams (2004)\textsuperscript{24} to examine which model is most suited to measure mutual fund performance. A step-wise procedure was used to scrutinize the added value of additional variables, like size, book-to-market, momentum, bond index and a vector of information variables. A more efficient dataset was then employed compared to the dataset used in the earlier studies and the data was scrutinized on aggregate and style levels. It was found that conditional factor models were statistically better than unconditional models and Cahart’s four-factor model is the best model to describe mutual fund returns, and they then concluded that the conditional models attach powerful economic and statistical significance to performance measurement.
At a time when several research papers pertaining to performance were paying attention to equity range, Comer (2006) wanted to scrutinize the amalgamation of fund market timing pertaining to performance. He used a multi-index prototype that incorporated with quadratic variables to look into bond and stock turns. Comer affirmed that there was very little evidence of timing capacity between 1981 and 1991 although between 1992 and 2000 funds demonstrate statistic prominence pertaining to timing capability.

A study conducted from 1975 – 2002 by Kosowski et al. (2006) reveals that the average net return alpha is 0.5% lower than the market standard. However, in certain funds some fund managers notably outperform the market. Consequently, it was scrutinized if skill or luck played a part in the superior performance in certain fund managers. Bootstrapping method was used to examine the data as they argued that return alphas of funds were non-normal. The report states that abnormal performance in fund managers is not only because of luck. Managers’ skills accounted for abnormal returns in top 20% funds, yet this was not sufficient to cover expenses. Positive abnormal performance is sufficient to cover expenses in only 5% funds and this can be noticed in growth-oriented funds.

Performance of mutual funds in Spain was scrutinized by Matallin-Saez (2006) to determine the consequence of passing over a relevant benchmark. Jensen’s method, multi-index models and Treynor and Mazuy’s market timing were employed and the report states that Spanish mutual funds performed with lesser efficiency and do not have a positive market timing. This report is not statistically relevant. He states that passing over the benchmark can result in more vicious market timing.

Research papers presented by Chang and Witte (2010) scrutinizes fund distinctiveness and the involved risk factor added to the performance dealings of every accessible socially responsible funds (SRFs) in the U.S. mutual fund business during a period of fifteen years. The input of the study deals with two exclusive conclusions. Firstly, though SRFs display a comparative lead in lesser cost percentage, lesser yearly revenue charge, lesser tax rate percentage, and lesser risk factor, SRFs also reveal lesser returns and two risk-adjusted return procedures which point out that SRFs has lesser reward-to-risk operation. Especially, national stock SRFs do not produce viable returns comparative to conservative funds in similar grouping in the last fifteen years. The findings are contrary to the existing SRI papers that state that there is a chance of socially accountable investing at minimal or no expenditure. Secondly, a better division by fund category shows that not every SRFs has the same
comparative presentation. In balanced fund and fixed-income fund grouping the SRFs seem to have done comparatively well in contrast to the group averages with lesser risk, higher returns, and better risk-adjusted returns. This puts forward the outlay that publicly accountable investing do not happen to be the same.

The intent of the study by Trainor (2010)\textsuperscript{29} is to investigate the risk-adjusted functioning of single mutual funds that depositors make use of to invest in this benefit category. Restricted surplus returns are designed for single high yielding bond mutual funds. Functional perseverance over a period of time is calculated and extent, increase in assets and its extent, the expenditure percentage, revenue, and manager occupancy are employed to find out whether the variations among funds can be understood. In general, bond funds that have a higher yield noticeably do not function well when taking into consideration the CSFB high yield indicator by 1.6 percent on a yearly base that is 0.5 percent in excess to the standard expenditure percentage. in isolation, funds sometimes reveal functional perseverance and some better class of funds at certain times do better than funds that are not so well placed over the scheduled phase by a standard 2.7 percent per annum. Though, apart from the expenditure percentage, normally employed clarifying variables are not beneficial for making one understand risk-adjusted surplus return dissimilarities about funds, thus about 86 percent of the dissimilarities are not clarified.

Review on Indian Studies on Performance Evaluation of Mutual Funds

The following is a brief account of research articles published in books, financial dailies, magazines and research journals by academicians, professionals and journalists explaining the concepts of mutual funds and its performance.

Gupta Ramesh (1989)\textsuperscript{30} assessed the fund functioning in India measuring up to the proceeds made by plans of the same risk and restraints. An unambiguous risk-return affiliation was formatted to make evaluation among funds with diverse risk. His research thoroughly analyzed return from managers’ risk and return into return from depositors risk and objective risk. Mutual fund return because of selectivity was also thoroughly analyzed into return due to choice of securities and the time of investment in certain class of securities.

Sharad Shukla (1991)\textsuperscript{31} evaluated and compared the performance of Can share and master share by employing the Sharpe, Jensen, and Treynor ratios for the period January 1988 to
June 1991 and concluded that the Master share had performed better in terms of risk and return than Can share.

Sarkar A K (1991) critically examined mutual fund evaluation methodology and pointed out that Sharpe and Treynor performance measures ranked mutual funds alike in spite of their differences in terms of risk. The Sharpe and Treynor index could be used to rank performance of portfolios with different risk levels.

Jaideep and Sudip (1994) evaluated the performance of 5 growth-oriented schemes for the period Feb 1991 to August 1993. CAPM model was used to evaluate the superior performance.

Shukla and Singh (1994) tried to spot if portfolio administrator’s knowledge of the subject could result in enhanced functioning. They came to the conclusion that equity mutual funds administered by people who had the right qualifications were at a greater risk however they were a lot more branched out otherwise. While the functional variations were not statistically important, three of the fund administrators with the right qualification, who were evaluated did better than the others.

Jayadev M (1996) studied the performance of UTI Master gain 1991 and SBI Magnum Express from 1992-94 with 13 percent return offered by Post Office Monthly Income Deposits as risk-free return. Master gain earned an average return of 2.89 percent as against market earnings of 2.84 percent. Volatility of Magnum Express was high compared to Master gain. Master gain had a superior performance over its benchmark (Economic Times Ordinary Share Price Index) by taking greater risk than the market. Master gain indicated lesser degree of diversification of the portfolio with lower R2 value and very high unique risk. Magnum Express portfolio was well diversified with higher R2 value along with lower unique risk and total risk. Both the funds did not earn superior returns because of lack of selectivity on the part of the fund managers indicating that, the funds did not offer the advantages of professionalism to the investors.

Chander (2000) scrutinized 34 mutual fund plans taking into consideration three fund features with 91-days treasury bills graded as risk-free savings between January 1994 and December 1997. Proceeds pertaining to NAV of several trial plans were better and greatly unpredictable when weighed against BSE SENSEX. Open-end plans did better than close-end plans when considering yield. Income funds fared better than balanced and growth funds. Banks and UTI supported plans did reasonably well in connection with funding. Standard yearly proceeds of model plans were about 7.34 percent because of venturing into diverse fields and about 4.1 percent because of stock choice. The research showed the inefficient market timing capability of mutual fund savings. The investigator also acknowledged that, 12 features clarified a bulk of differences in portfolio administration methods.

Gupta Amitabh (2001) evaluated the performance of 73 selected schemes with different investment objectives, both from the public and private sector using Market Index and Fundex. NAV of both close-end and open-end schemes from April 1994 to March 1999 were tested. The sample schemes were not adequately diversified, risk and return of schemes were not in conformity with their objectives, and there was no evidence of market timing abilities of mutual fund industry in India.

Narasimhan M S and Vijayalakshmi S (2001) analysed the top holding of 76 mutual fund schemes from January 1998 to March 1999. The study showed that, 62 stocks were held in portfolio of several schemes, of which only 26 companies provided positive gains. The top holdings represented more than 90 percent of the total corpus in the case of 11 funds. The top holdings showed higher risk levels compared to the return. The correlation between portfolio stocks and diversification benefits was significant at one percent level for 30 pairs and at five percent level for 53 pairs.

In the research papers presented by Roy and Deb (2004) they acknowledge the functioning of mutual funds in India in the restricted structure supported by Ferson and Schadt (1996); Christopherson, Ferson and Glassman (1998). The conclusion of the study reveals that on a regular basis administrators of mutual funds in India only take advantage of openings from what financial data is accessible, they add very little of their own to the already existing data. This study uses an example of 133 open-ended mutual fund plans in India between the beginning of 1999 and the middle of 2003. The extensive S&P CNX 500 is employed in the study as a standard. The research utilizes the delayed data variables - interest tariff, dividend
returns, term formation profit and a model for April-effect. This study also investigates the perseverance in the functioning of mutual funds in India. The methodology undertaken here to weigh the perseverance of the functionality of funds is formatted on cross-sectional regressions of potential surplus proceeds on the basis of past fund functioning. Both unrestricted and provisional procedures of functioning are utilized as modes of previous fund functioning. Between the two dissimilar restrictive procedures of past functioning, time-varying restrictive alpha is seen a more apt way in predicting perseverance in the functioning of mutual funds in India. The average errors t-ratios employing hetero skedasticity-consistent (HC) and autocorrelation-adjusted inference methods of White (1980), Hansen (1982) and Newey and West (1987) was approximately calculated by the researchers.

Sondhi and Jain (2005) in his report investigates market-timing ability of the fund administrators of branched out equity funds functioning in India. An examination was carried out on 36 equity mutual funds taken from 21 establishments dealing with management of assets. This was done over a time frame of nine years between 1993 and 2002. T-tests were carried out to determine the importance of the timing limitations. The mean and median returns for the aggregate period (1993-2002) were lower than the returns on 364 days treasury bills, and higher than the BSE 100 index. Alliance Equity fund was the top performer and Canbonus and LIC Dhanvikas (I) were the worst performers. They hypothesized that majority of the sample schemes earned returns better than the market. Private equity schemes had superior performance due to its popularity; fund management practices, well-researched stock selection and timing skills. More than three-fourth of public sector schemes were unable to achieve better returns in spite of higher investor confidence associated with high safety. The funds did not show consistency in performance. Resulting information is utilized in this research

The research conducted by Anand and Murugaih (2006) investigates the workings and basis of venture functioning so as to confine it to certain actions of fund administrators in India. It tries to spot a section of the experiential proceeds that is because of the capability to choose the finest securities at a certain grade of risk. Fama's method is taken up here to do this. The research is undertaken from April 1999 to March 2003 and assesses the functioning of 113 chosen mutual fund plans with a disclosure of an excess of 90% of quantity to equity stocks of 25 fund firms. The experiential outcome reported here shows the reality that the mutual funds are not in a position to reimburse the depositors for the extra risk involved in depositing in mutual funds. The research states that the effect of market issues are stern when
there is a negative functioning of the funds even as the influence of the ability to choose correctly by fund administrators is much more than other issues on the fund functioning when producing optimistic fund proceeds. The research proves that choosing the right fund, anticipated risk and market issues have revealed a better association with the fund.

**Muthappan P K and Damodharan E (2006)** evaluated 40 schemes for the period April 1995 to March 2000. The study identified that majority of the schemes earned returns higher than the market but lower than 91 days Treasury bill rate. The average risk of the schemes was higher than the market. 15 schemes had an above average monthly return. Growth schemes earned average monthly return. The risk and return of the schemes were not always in conformity with their stated investment objectives. The sample schemes were not adequately diversified, as the average unique risk was 7.45 percent with an average diversification of 35.01 percent. 23 schemes outperformed both in terms of total risk and systematic risk. 19 schemes with positive alpha values indicated superior performance. The study concludes that, the Indian Mutual Funds were not properly diversified.

**Panwar and Madhumathi (2006)** in their study utilizes the example of private-sector and public-sector supported mutual funds of diverse network resources to examine the dissimilarities in individuality of possessions at hand, portfolio alterations, and changeable consequences of alterations on depositor functioning between 2002 and 2005. The research shows that public-sector supported funds are not different from private-sector supported funds specifically on procedural norms on returns percentage. Nevertheless, there is a noteworthy distinction among mutual funds supported by the public-sector and mutual funds supported by the private-sector regarding the average regular variation, standard variance and standard coefficient of variation (COV). The research also identified a numerical dissimilarity among funding groups regarding e SDAR (excess standard deviation adjusted returns) as a functional gauge. When residual variance (RV) is employed as the gauge of mutual fund group development features, there is a numerical variation among mutual funds supported by the public-sector mutual funds supported by the private-sector during the research time frame. The prototype developed on gauging the influence of branching out on mutual fund functioning and noted that a numerical variation between funding groups when RV is employed as a gauge of group branching out and e SDAR as a functional gauge. Residual Variance, nevertheless, has a straight influence on Sharpe fund functional gauge.
Agarwal (2007) in his research paper discusses the procedure to investigate the Indian Mutual Fund Industry valuation system with experiential theories on its assessment. The research paper in addition investigates information the fund-manager and fund-investor stages together. The research shows that the functioning is influenced by the saving and investment behavior of individuals and the other aspects of the self-assurance and allegiance of the fund Manager and benefits involve the functioning of the Indian mutual fund sector.

The study by Acharya and Sidana (2007) tries to categorize hundred mutual funds using group investigation and employing a wide range of norms similar to the yearly total proceeds, the annualized 2 year proceeds, the annualized 5 year proceeds, beta, alpha, R-squared, mean and standard deviation and Sharpe’s ratio. The information is gained from ‘Value research online’. There is proof of discrepancy among the categorization of the purpose of saving and the proceeds gained by the mutual fund.

Research conducted by Lakshmi (2007) analyzes the functioning of the mutual funds sector in India by particularly making a reference to developing plans. The main aim of development plans with expansion chances assures utmost capital increase. Therefore, the investigator proposes to examine expansion plans with plans started in 1993 and at the same time functioning in a disciplined atmosphere. The objective of the study was to spot if mutual funds in India enjoyed a steady expansion, found the issues impacting the choice of the depositors and make out the opinions of fund managers, brokers and investors. Depositors opted for mutual funds based on steady income, security, profit and tax relief. The study also reveals that mostly private sector joint venture mutual funds in India were greatly popular among depositors and dealers. Dealers and depositors both find expansion plans succeeded by income plans a better option. Brokers / agents were the main source of information about mutual funds. In the depositors point of view mutual funds prefer the benefits of abundance while brokers choose mutual funds for its group diversification, liquidity of investment and professional management. For depositors, increase in capital was the deciding factor to choose a particular mutual fund plan. For traders, proceeds on their speculation and the security it offered was the norm to choose a particular mutual fund plan. At the same time for fund administrators, increase in the capital, liquidity and their environment happen to be the important reasons for choosing a certain mutual fund plan.

Kapil Sharma (2007) in his article explores the performance of few equity mutual funds in India and throws light on investing on the same. He says that mutual fund managers, use
portfolio diversification as a strategy across various asset classes and within an asset class to enhance the performance of their schemes. The purpose of diversification is to cut down risk, he adds. His analysis proves that funds that were quick to adapt to changing market conditions jarred well he says. He concludes that mutual fund scheme has a defined investment objective and strategy. Equity mutual funds are one of the avenues if a person is looking for any real return on his/her investment i.e., returns are reasonably higher than the current rate inflation.

Tarnal Dutta Chaudhri (2007) examines the return distribution of select mutual fund schemes across various Asset Management Companies in India. The data period covers between August 1, 2005 and December 1, 2006. The AMC’s covered in the study include, SBI, KOTAK, TATA GROUP, LIC etc. The findings begin with the computation of daily returns, fund-wise, for each AMC. He concludes this article’s purpose is to examine the returns distribution of selected funds for a selected sample of AMC’s. All funds do well. It is during the bearish phase, the performance of mutual funds comes under the scanner. The results that occur during this phase, along with the return pattern across all AMC’s and all funds get diffused.

Somashekar (2008) revealed in his study a financial investigation of the functioning and directive of mutual funds in India. It was finally concluded that many mutual funds in India were not in a position to be compared with mutual funds in the US or in other developed nations considering the size. However, there is a possibility of mutual funds to improve similar to that of US funds although the standard functioning of funds both market and beta accustomed seldom show dis-economies. The more prominent mutual funds appear not to do well mostly at the time of bearish stages of the market. When the phase is not negative or bullish it seems that prominent mutual funds do better some times.

In the research conducted by Debasish (2009), an effort was taken to examine the functioning of a few chosen plans of mutual funds on the bases of risk-return affiliation representations and means. Totally 23 plans taken up by six mutual funds supported by the private sector and three mutual funds supported by the public sector were analyzed between April 1996 and March 2009. The investigation was made based on mean return, coefficient of determination, beta risk, Treynor ratio, Jensen Alpha and Sharpe ratio. According to the general investigation report, Franklin Templeton and UTI were adjudged as excellent executors and Birla Sun Life, LIC mutual funds and HDFC were adjudged as firms
functioning below par when they were gauged in opposition to the risk-return affiliation representations.

Parmar (2010) in his study has put forth an experimental examination on the functioning of Indian mutual funds.

2.2 Research Studies done on Growth of Mutual Fund Industry

The other objective of the study focuses on the growth of mutual fund industry in India. With regard to that the researcher put forth some of the reviews on Indian and Foreign studies made to analyse the growth of mutual fund industries.

Review of Foreign Studies

(ICI) Investment Company Institute of the United States Global research (2002) opined that Global Mutual Fund Industry Experiencing Rapid Growth. The global mutual fund industry’s assets have grown more than sevenfold in the last two decades, according to a new research report by ICI Global. The paper offers a statistical analysis—the first of its kind conducted on post-2008 financial crisis data—of the numbers of mutual funds and assets under management in various regions. The paper explains that rising per-capita income in developing market countries around the world has the potential to significantly increase the demand for long-term mutual funds and foster industry growth outside the United States and Europe broadly. This growth potential is a natural consequence of economic and financial development—in particular, the growing wealth, gross domestic production, and income per capita of many developing economies.

eibrary.worldbank.org (ICI 2002) In the United States, not only did mutual fund assets grow explosively over this period, but household ownership of mutual funds also experienced rapid growth. Survey estimates reported by the Investment Company Institute (the trade association of US mutual funds) show that the proportion of US households owning mutual funds grew from 6 percent in 1980 to 27 percent in 1992 and 44 percent in 1998. The increase in the size of the Indian mutual fund industry as a percentage of nominal GDP has been substantial. However, a global comparison using AUM figures from the Investment Company Institute (and from the Securities and Exchange Board of India for domestic data) and World Bank figures for nominal GDP shows that India has plenty of scope for growth. India's mutual fund industry is eight per cent of GDP. Australia's is 105 per cent, the US's is...
77 per cent, and France's 50 per cent. Brazil's is approximately 40 per cent of GDP and the sixth largest in the world. China and Russia lag behind India.

Fernando, Deepthi et al (2003) in their policy research working paper states that with few exceptions, mainly in Asia, mutual funds grew explosively in most countries around the world during the 1990s. Equity funds predominated in Anglo-American countries while bond funds predominated in most of Continental Europe, and in middle-income countries. Capital market development (reflecting investor confidence in market integrity, liquidity, and efficiency) and financial system orientation were the main determinants of mutual fund growth. Restrictions on competing products acted as a catalyst for the development of money market and (short-term) bond funds. Brazil is a country where the non-household sector accounts for a large share of mutual fund shares. This is partly attributed to the tax on financial transactions that pension funds avoid by investing in mutual funds that are exempt from it. Mutual fund assets grew from 8 to 16 percent of GDP between 1992 and 1998 for the countries covered in the paper. Their main findings reveals that in high-income countries, mutual fund assets expanded from 10 to 24 percent of GDP over this period, but in middle-income countries they first grew from 4 to 8 percent but then fell back to 4 percent of GDP after the East Asian crisis. This reversal was mostly caused by the experience of Asian countries. A total of 16 countries had mutual fund sectors with net assets exceeding 20 percent of GDP in 1998. 11 of these countries were from Continental Europe. In 12 countries equity funds represented more than 40 percent of total mutual fund assets. However, in only 5 countries (Hong Kong, South Africa, Sweden, Switzerland and the United Kingdom) did they exceed 60 percent of the total. In 10 countries bond funds accounted for more than 40 percent of total assets. In 4 of these, they represented more than 60 percent of the total (Brazil, Hungary, Thailand and Tunisia). In 4 countries (Argentina, Chile, France and Greece) the largest share of the sector was held by money market funds. With the exception of France, the share of money market funds exceeded 60 percent of the total. In 4 countries (Czech Republic, India, New Zealand, and Poland) balanced funds were the predominant type.

Mutual funds are more advanced in countries with better developed capital markets (reflecting investor confidence in market integrity, liquidity and efficiency and a greater supply of investable securities) and market-based financial systems. Higher market returns and liquidity and lower volatility have also contributed to mutual fund growth. Openness to trade and a high share of high-tech exports are significant factors in high income countries,
while per capita income and strong banking systems are related to mutual fund development in middle-income countries.

**Review on Indian Studies**

According to A.P. Kurian, Former Chairman, AMFI, there are about 180 million households in India, of which only 11.8 million invest in mutual funds, making it a penetration of 6.7% in urban areas, 13.7% of the households invest in mutual funds, in rural areas this percentage is just 3.8%.

**Vidyashankar (1990)**\(^{56}\) states that the change from bank or business investments to mutual funds is because of its advantage by way of guaranteeing a strong and methodical expansion of capital market with sufficient depositor safe-guard with the help of SEBI support was made known by. The research found that mutual funds in India can look forward to potential growth as a major means of savings at the turn of this century.

**Bansal (1991)**\(^{57}\) stated that mutual funds similar to financial establishments are a likely go-between the potential depositor and the capital market. Mutual funds, as a venture group was favoured between 1985 and 86, because of the assurance of liquidity, security and realistic enhancement that was guaranteed by the business. The plans which had guaranteed returns revealed great development. Most of the funds introduced by commercial banks implied that the accountability of funds was the forte of the individual banks and their assets was protected.

**L.C. Gupta (1993)**\(^{58}\) while analyzing the socio-economic profile of Indian Investors has identified a trend of popularity of mutual fund investment among investors and he concluded that the mutual fund investment has been associated with the middle class households of Indian.

**Sahu and Panda (1993)**\(^{59}\) acknowledged that, the savings of public funds in India was about 5 percent of all fiscal investments, about 11 percent of deposits in banks and not more than 15 percent of capitalization in the equity market. The study recommended that, mutual funds have to improve their plan considering the savings probability, increase in savings channels, national schemes and precedence.

**Vaid (1994)**\(^{60}\) in his research shows that the financial system revealed a constant development in increasing savings and also the number of people who invested in units during the period 1987 to 1992. 58.40 percent of resources mobilized by the industry were through income schemes. UTI accounted for 83.90 percent of industry mobilization. Pure
growth schemes displayed a sound investment pattern with 81.80 percent of portfolios in equity scrips and had identified that semi-urban and rural areas were not adequately tapped by the mutual funds in spite of satisfactory returns.


Sethu .G (1999) while discussing on mutual fund puzzle evaluated the performance of 18 open – markets funds. Despite poor performance, he concluded that the popularity of the mutual funds might be due to investor related behaviour and institutional factors in the capital market rather than risk return trade off.

Agrawal and Motilal (2000) were of the opinion that mutual funds developed at a fast pace between 1987 and 95. Mutual funds collective investible funds showed tremendous increase from 1987 and touched Rs.8,059 crores from Rs.4,564 crores by the end of 1995.

Gupta Amitabh (2000) identified that the IMFI had come a long way since its inception in 1964. The transformation in the previous decade was the outcome of policy initiatives taken by the Government of India to break the monolithic structure of the industry in 1987 by permitting public sector banks and insurance sectors to enter the market.

Article tremendous potential in Chartered Financial Analyst, July (2005). States that Mutual funds form a part of Indian financial sector and have gained significant position in the economy since 1992. They form 1/10th of banking industry’s size. It has ample shelf space to grow into an industry like banking. They play a vital role in channelizing the earnings of investors towards capital formation. Intermediaries play a good role in promoting its sales.

Rahul Mukim (2005) in his paper analyzes the current scenario in the industry characterized by problems with distribution, low investor awareness and concentration of corporate investors. In the next section he made a comparison of the MF industry with global standards and the study reveals that the industry still compares unfavorably with developed countries in terms of penetration, investor awareness, and diversity of products and the extent of use of risk management techniques. Further comparison reveals that the attitude of regulator towards investor protection and the governance of mutual funds are at par with global standards. The paper then analyses the future expectations from the mutual fund
industry in terms of increased investor awareness, product diversity and improvement in penetration and distribution. In the end he recommends that SEBI and the AMCs should take steps in order to build investor confidence and trust. These steps focus on investor education, increased accountability of various players, and development of AMFI as an SRO and regulation of corporate investments.

According to T.P. Raman (2005)\textsuperscript{67} MD of Sundaram Mutual Fund, stock markets are for long-term investments rather than short term. He further says that the IPO investments are based on case to case basis depending upon the valuation of the company. He also says that it’s advisable to invest in the funds with the short term maturity where the risk rate is very low compared to generic income funds. He also says “we are just about in the growth stage with the Indian market stabilizing; we think that the market will become enticing for more players to enter”.

S. Mohanan (2006)\textsuperscript{68} in his studies state that the Indian mutual fund industry is one of the fastest growing sectors in the Indian Capital and Financial markets. The mutual fund industry in India has seen dramatic improvements in quantity as well as quality of product and service offerings in recent years. Mutual Funds assets under management grew by 96\% between the end of 1997 and June 2003 and as a result it rose from 8\% of GDP to 15\%. The industry has grown in size and manages total assets of more than $30351 million. Of the various sectors, the private sector accounts for nearly 91\% of the resources mobilised showing their overwhelming dominance in the market. Individuals constitute 98.04\% of the total number of investors and contribute $12062 million, which is 55.16\% of the net assets under management.

Avishek Maitra, Sourav Majumdar (2007)\textsuperscript{69} in their article posted online states that Non – resident Indians (NRIs) are queuing up to grab a share of the booming equities market through the MF route. In fact, the share of NRIs to the total assets under management (AUM) of the MF industry has been rising rapidly since 2004. According to Association of MF in India, the share of NRIs in the total AUM has raised from just 2\% in March 2004 to 5.34\% in 2007.

Divya Venkataraman (2007)\textsuperscript{70} analyses that Indian Mutual fund has passed through 3 phases. Her research gives the estimate that the asset base will continue to grow at an annual rate of about 30-35\%. Mutual fund companies are awaiting permission for investing in real
assets. Bullish market and favourable tax treatment did encourage the Mutual funds to come up equity oriented products. Due to the failures in equity market in recent years this situation presents an irony as the diversification benefits are likely to arise in large measures. She concluded that ultimately, going by the current trend, it can be confidently concluded that the industry is set to boom

**Mahesh Nayak (2007)** analyzed why 85-90% of the assets managed by Indian funds are those of institutions and high net worth individuals. It’s more of a social problem, unlike the west, the lack of social security in our country has seen Mutual funds investments as the sixth or seventh layer of saving.” Mahesh Nayak concludes that if Mutual fund industry is really serious about wooing the retail investors, it’s got to focus sharply on 2 fronts which include Performance and Products, areas where most fund managers will agree.

**Manisha Pillai (2007)** in her article on Scope of Mutual Funds among SME’s states that Small and medium enterprises have a high growth potential in India. The objective of the article is to explore the scope of mutual funds among SME’s. This also aims to bring the light of various investment option for SME’s. The author concludes that the major concern here is the time frame of investments. The SME’s may sometime require their surplus funds to cater their working capital needs. Thus it will be advisable for them to perk their funds in more liquid funds that can easily be liquidated and would be prone to lesser market risk.

**S.Vijayalakshmi (2007)** opines that the popularity of mutual funds is increasing and India’s robust capital market has resulted in the growth of its MF sector. The Asset under Management (AUM) of MF’s in India has grown by 57% amounting to over 3 lakh crore between August 2005 and August 2006.

**Dr. Sanjay Kant Khare (2007)** states that there is hundred percent growth in mutual fund industry in the last six years. He concludes that mutual fund will be the financial instruments of the future for the investors in our country.

**P.Hamumantha Rao, (2007)** opines that IMF industry has withered several structural and regulatory reforms and it takes a closer look at some of those changes. During the past decade, the IMF has witnessed considerable maturity and the primary reason behind is the liberalization, privatization, globalization process in 1991 (LPG)
2.3 Research studies on Scheme Preferences

Review collected only on scheme preferences of Indian investors

L.C.Gupta (1994)\(^76\) conducted a household investor survey. The survey provided data on the investors’ preferences for mutual funds and other financial assets. The outcomes suggested on the likely demand and expected supply of financial products for the future.

Ansari (1993)\(^77\) 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.

Asish and Rama Murthy (1994)\(^78\) made known that yield, liquidity, security and capital enhancement had a major part in the favorites of the plans by depositors. The choice of individuals for debentures and shares was about 7 percent between 1989 and 90. Mutual funds were the other option for purchasing stocks directly. Stocks have to be handled efficiently taking on outlay investigation, assessment forms, and portfolio administration methods. The research shows that, fund administrators can use portfolio choosing methods to make the right choice instead of investing by instinct.

Gruber (1996)\(^79\) states that despite the basic academic advice offered to investors to prefer low expense index funds, actively managed funds continue to be popular.

Rao, Mohana P (1998)\(^80\) opined that, UTI followed by LIC Mutual Fund dominated the market with 54 and 15 schemes respectively. His interview with 120 respondents showed that, 96 percent invested in UTI due to better service and return. 50 percent of shareholding and 25 percent of unit-holding respondents were from metro cities. Investor’s services, income–cum-growth option and capital appreciation were very important aspects while choosing a fund. He identified that the close-end schemes were very popular among investors and respondents in general expected private sector funds to improve the quality of services, investors’ confidence besides reducing fraud and mismanagement.

Apex Institute (2000)\(^81\) analyzed the portfolios of investors. Mutual funds was part of their portfolios for 78.97% of the investor and it was ranked third in the order, first being savings bank account and the second, fixed deposit. The motivational factor emphasized here was the safety of the capital.
Roshni Jayam’s (2002) study brought out that equities had a good chance of appreciation in future. The researcher was of the view that, investors should correctly judge their investment objective and risk appetite before picking schemes, diversified equity funds were typically safer than others and index funds were the best when market movements were not certain. The researcher suggested Systematic Withdrawal Plan (SWP) with growth option was more suitable for investors in need of regular cash inflows.

Dr.A.Sudhakar, Dr.B.R.Ambedkar (2004) concludes that the profile of IMF industry when delineated indicates that around 20% are equity investments and the remaining 80% are spread over debt, G – Sec and money market investments.

Satish D (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.

According to Shashi Krishnan (2005) CEO of Chola, mutual funds in the regulatory environment for mutual funds in India has evolved over the years and today there is very comprehensive regulatory frame work governing the mutual fund industry. He also says that globally the pension market is a very big market. In India such centers are yet to be opened. he also says that in Chola mutual fund, there are 5 equity funds, each of these funds is clearly positioned on the risk-return curve and would be suitable for various risk profiles. He says Chola AMC offers the investors a complete range of funds. The mutual fund investments are very convenient tools for wealth creation. Systematic investment plans are also available which approaches wealth creation.

Dr. D. Rajasekar (2013) conducted a Study on Investor’s preference of mutual funds with reference to reliance private limited” a project which is mainly carried out to know about the investor’s perception with regard to their profile, income, savings pattern, investment patterns and their personality traits. In order to understand the level of investor’s preference, a survey was conducted taking into consideration various parameters involved in investors decision making. From the findings, it was inferred overall that the investor are highly concerned about safety and growth and liquidity of investments. Most of the respondents are highly satisfied with the benefits and the service rendered by the reliance mutual funds.
2.4 Review on Behavioral Theories

Foreign Literature

According to prospect theory, people’s behaviour is not rational. Their behaviour varies with varying contexts. According to Kahneman and Tversky (1979), people behave differently in the circumstances of loss or gain. Investors are happy with gain and distressed with loss. Investors turn to be risk averse when they encounter sure loss, and become risk takers when they encounter sure gain. According to Kahneman, investors are of the “loss aversion” type, i.e., they assume more risk to avoid loss rather than to gain money.

Goetzmann and Peles (1997), observed the cognitive dissonance in mutual fund investors. This research shows that the mutual fund investors display cognitive dissonance while selling and purchasing mutual funds. In the majority of cases, investors were found spending more money on leading mutual funds than lagging ones. However, investors are hesitant in admitting that they have made a bad investment choice and are reluctant to sell it.

According to Ricciardi and Simon (2000), behavioural finance studies the psychological and sociological factors that influence the decision-making process in financial matters of individuals, groups, and entities. They state that investors go through an emotional reaction upon buying an intended security or mutual funds.

Barber, Odean, and Zheng (2005) in their article on investor behaviour pinpoints that Investors buy those funds that have demonstrated good past performance. Investors do not like buying funds that have high transaction fees, i.e, brokerage fee, front end load fee, etc. They conclude that investors show overconfidence in buying a past winner fund and excessively estimate their future performance.

Indian literature

Ranganathan (2006) found that in financial literature, mostly, that investors are found to be rational. However, investment behaviour is dynamic and has its basis on belief, perceptions, and expectations. Behaviour was found to change with time even while the variables remained a constant. Proponents of behavioural finance suggest that investors being humans are not always rational.

Muhammad (2007) wrote a paper on “Is the behaviour of individual investor rational?” In his paper, he shows that despite traditionally assuming finance with the rational investor
behaviour, there exist certain behavioural characteristics. Investor behaviour is seen to be sharpened by perception and, most importantly, by psychological aspects. This novel theory of behavioural finance has its basis on the literature of cognitive psychology. Investors are found to show the following psychological characteristics: Investors commit systematic errors while taking a decision called heuristics, show overconfidence, put too much importance on recent past (heuristics), are slow to agree to a change (conservatism), avoid to comprehend paper loss and look to comprehending paper gain (disposition effect); also, they like to invest in familiar stocks or funds as they think that the investment is not that risky as compared to the others and look at it as safe (familiarity biases), they are loss-averse and show the individual matters incorrectly (framing effect).

2.5 Studies Related to Factors Affecting the Selection of Funds

Selecting the appropriate fund is indeed a challenge for investors due to the proliferation of mutual funds. There are a number of magazines and newspapers existing to help in the investors’ decision making regarding investments. However, the investors are not equipped with the right kind of expertise in making use of this available information as guidance for decision making. There exist many websites and financial software that function as screening tools.

Foreign Literature

Woerheide (1982)\textsuperscript{93} carried out a study on “investor response to suggested criteria for mutual funds” in which various factors and their effects were tested. Fund size, efficiency of marketing programme, and previous return of funds were proven to have enormous impact. Of these factors, efficiency of marketing programme has the greatest impact.

Ippolito (1992)\textsuperscript{94} found that investors choose funds based on past performance, and that they spend more money on winning funds than on losing funds.

Capon et al. (1994)\textsuperscript{95} in a study, “Affluent investors and mutual fund purchases” put forth that apart from risk and return, other factors also influence mutual fund selection. For example, a consumer survey in 1990 on mutual funds showed that previous performance and risk levels were two important factors; however, other factors were also found to influence such as management fee, amount of sales charges, reputation of fund family, funds previously possessed in family, suggestions from magazines and newsletters, and clarity of accounting
statements. Depending on demographical background, investors showed varying behavioral traits and showed preference for different factors while selecting funds.

**Goetzman (1997)** states that there is evidence that investor psychology affects fund/scheme selection and switching.

Selecting a fund from many available funds taking into consideration limits such as economic climate, investor preference, and constraints is where the objective of mutual fund selection process lies *(Talluru, 1997)*. Researcher in this study, argue that selecting a proper fund is a complex procedure and that many investors do not possess the skill or awareness. The researchers built a fuzzy system for the selection of the proper fund. This fuzzy system while removing the vagueness in the selection process, introduces many new methods of mutual fund selection.

**Saraoglu and Detzler (2002)** identify that many investors do not possess the ability of screening variables correctly and coming to proper asset allocation decisions. The preferences of the investors are not taken into account by these screening tools. Hiring a broker is an alternative way in order to arrive at investment decisions keeping in mind investor’s preferences, objectives, and investment constraints.

**Wilcox (2003)** carried out research on investor’s preferences for stock mutual funds in which they considered 50 investors. According to the analysis, it was past performance that was considered more than fee structure by investors. In the selection of mutual funds, the rich and knowledgeable investors were found more inclined towards load. However, the authors do not agree that past performances alone guarantee future return. Other factors are also involved in decision making, but investors are seen to commit cognitive errors in the selection of funds.

**Donner and Oxenstierna (2007)** carried out a thesis on “the factors that investors value while choosing mutual fund” in the Swedish market. It was discovered that factors related to the company, i.e., name and availability were more appreciated by inexperienced customers and this was due to their lack in knowledge required about complex financial products. However, when it came to the experienced investors, they valued fund-specific aspects and demanded notable presence of company in the market for them to identify it.
Indian Literature

Madhusudhan V Jambodekar (1996)\textsuperscript{101} conducted a study to assess the awareness of MFs among investors, to identify the information sources influencing the buying decision and the factors influencing the choice of a particular fund. The study reveals among other things that Income Schemes and Open Ended Schemes are more preferred than Growth Schemes and Close Ended Schemes during the then prevalent market conditions. 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.

Shankar (1996)\textsuperscript{102} points out that the Indian investors do view Mutual Funds as commodity products and AMCs, to capture the market should follow the consumer product distribution model.

Sujit Sikidar and Amrit Pal Singh (1996)\textsuperscript{103} 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. UTI and SBI schemes were popular in that part of the country then and other funds had not proved to be a big hit during the time when survey was done.

Raja Rajan (1997)\textsuperscript{104} highlighted segmentation of investors on the basis of their characteristics and also studied Investor’s characteristics on the basis of their investment size.

Anjan Chakorabarthis and Harsh Rungta (2000)\textsuperscript{105} when discussing problems on creditability, risk and brand loyalty associated with mutual funds, they concluded that there has been no one to one correspondence between performance by return and performance by risk adjusted returns on evaluating the performance of private sector equity funds. This study emphasized on the importance of brand effect in determining the competitive position of the companies.

Shanmugham (2000)\textsuperscript{106} conducted a survey of 201 individual investors to study the information sourcing by investors, their perceptions of various investment strategy dimensions and the factors motivating share investment decisions, and reports that among the
various factors, psychological and sociological factors dominated the economic factors in share investment decisions.

Research was carried out by Rajeswari and Ramamoorthy (2001) on “An Empirical study on factors influencing the mutual fund/scheme selection by retail investors”. According to the study, fund performance followed by brand name of scheme were prime factors among product qualities; while considering sponsor-related factors, the prime factor was sponsor’s know-how in managing money; and in customer services, the prime factor was revelation of investment objective followed by methods and periodicity of valuation in advertisements.

According to Mr.N.R.Ramanujam (2005) MD of AMC-Can bank mutual fund which is been a pioneer in the mutual fund industry, is focusing on retail investors and helping them to derive maximum benefit from the mutual fund investing. He also says that investing in equity has got both higher the risk and also higher the profit. He says during high period small investors should not become prey to the market gossip rather they should analyze the risk involved in that and then only they should invest in that. And he also says that the competition in very high in this environment. He also says that as mutual fund does not have any branches they have to solely depend on the distributors for increasing their investments. He also says that the brand name plays its own role in the mutual fund marketing. It helps the customer in knowing the product quality, nature of the product, its performance, the services provided by it etc.

According to V.Uday Shankar (2005) Branding is an essential feature in this industry. A well known connected bond must be created with fund’s overall objectives. The performance of fund house should create a feeling of trust in the minds of investors. The brand should stand for trust and reassurance that their money is safe.

Walia and Kiran (2009) carried out a research on investors’ risk perception towards the mutual fund services. Investor’s expectations and factors causing discontent were identified in this study. This study also dealt with the innovation of mutual funds portfolio and pointed out that these innovations should be in the lines of investors’ expectations. The main finding of this study is that investors are in need of innovative products and also desire quality to be added to the services already present.

Rao (2011) carried out a study on “Analysis of individual investor behavior towards Mutual Fund Scheme”. In this study, the author correlates the investor knowledge and
adoption of different schemes with educational level. According to the research, the greater the level of education, the greater is the level of risk tolerance. This finding was seen to be in accordance to the hypothesis developed in previous researches, i.e., a positive relationship was present between educational level and financial risk tolerance.

2.6 Research Summary of Empirical Studies and Gap

The review of literature shows that the research studies evaluates mutual fund performance measures and empirical data of mutual fund performance in developed markets over a period of time. Therefore it is concluded that in developed markets, mutual funds, on the whole, are not able to beat the market, yet certain studies shows that growth-oriented funds do better than others. The poor standard in performance is not only due to fund managers’ inability but mostly due to high transaction costs and expenses. Consequently, most researchers are of the opinion that investors should invest in passive index funds that have low costs. Moreover, certain studies judge performance from the perspective of the ability to predict market direction. Most studies find insignificant evidence of market timing, or even perverse market timing in mutual fund performance. Many empirical studies reinstate the reality that mutual fund performance is sensitive to both measurement model and to the data and benchmark used.

To sum up the reviews of literature it is clear that the research studies both Indian and foreign are in relation to the socio-economic features of the investors factors affecting risk bearing capacity of investors, decision variables influencing investment decision making and the methods used to evaluate the mutual fund schemes. Based on the reviews of literature and the deficiencies of the studies the objectives of the proposed study have been defined. With regard to performance evaluation of mutual funds the studies already made by the Indian and foreign researchers focuses on specific schemes for a limited period. In the course of time there may be variances in the market which have resulted in changes in the fund performances. Therefore the study like the current one has to be conducted in frequent intervals in order to provide useful information to the industry and the investors. Most of the growth oriented mutual funds have been able to deliver better returns than the benchmark indication.

The current study considered the growth and dividend schemes for evaluation as the majority of the respondents in the study preferred growth scheme as their first option and dividend pay–out scheme ranked in second place.
Many research studies have been done on various aspects of mutual funds and a lot of data is available on characteristics features of mutual funds. A large number of studies have been carried out in US and other Western countries to identify the important factors that guide the performance of mutual fund companies and investors while selecting mutual fund products.

Though studies done on performance evaluation of mutual funds, scheme preference and factors influencing the mutual fund investment decision making, studies like the present one needs to be conducted at intervals as the attitude of the investors and their behaviour tends to change and also there are lot of mutual funds and different innovative schemes introduced in this attractive investment. Formulation of alternative schemes by various mutual fund companies has become important to fight the battle and to secure a sound position in the industry. The rising customer awareness and aspiration of quality service and availability of alternative service providers in the Indian market has made customers more demanding. Mutual Fund as an investment Vehicle is capturing the attention of various segments of the society, like investors, AMC’s, and regulators for varied reasons and deserves an in-depth study at frequent intervals.

Having seen the studies made by many scholars on various aspects of mutual funds the next chapter is devoted to growth of mutual fund industry in India.
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