

A Comparative Study of Investment in Equity Vis-a-vis Mutual Fund

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ARTICLE DETAILS

Article History

Published Online: 16 Mar 2020

Keywords

Mutal Fund, UTI, RBI, Indian Economic, Capital Market, NSE, BSE

ABSTRACT

One of the most important and difficult task as a new investor is to make choice between Equity Mutual Funds vs. Individual Stocks. Whether we should invest in equity funds or individual stocks everyone knows there are two distinct ways of investing in equity. One is to choose individual stocks and buy and sell them yourself. The other is to invest through equity mutual funds. The final goal is the same: to benefit from the superior returns that equity investing offers. Choosing between the two kinds of investments depends on a person's risk taking ability, and returns expectations. It also depends on how much time you have to research your investments, what type of fees and expenses you are willing to withstand.. Mutual funds are essentially investment vehicles where people with similar investment objective come together to pool their money and then invest accordingly. Appreciation and reduction in value of investment is reflected in Net Asset Value (NAV) of the concerned scheme, which is declared by the fund from time to time. Mutual fund schemes are managed by Asset Management Companies (AMC). Market for equity shares, stocks and other fixed income instruments, derivatives and other assets have become mature and information driven. Price changes in these assets are driven by global events.

1. Introduction

In India, Mutual fund industry started in 1963 when Unit Trust of India (UTI) was formed at the initiative of the Reserve Bank of India (RBI) and the Government of India. The objective of mutual fund is to attract small investors and induce them to invest in mutual funds. Equity investment carry larger risks, their returns are more volatile and uneven. A mutual fund can effectively spread its investment across various sectors of the economy and amongst various products. So, in case of mutual fund risks are easily diversified. The need of the study arises because the investors are confused to take right decision on investment in equality vis-a-vis mutual fund. Fund that is invest in equity shares are called equity fund. They carry the principal objective of capital appreciation of the investment over the medium to long term. The aim of investing in equity fund is long-term growth through capital appreciation.

Comparative Analysis: Equity Mutual Funds & Stocks

One of the most important and difficult task as a new investor is to make choice between Equity Mutual Funds vs Individual Stocks. Whether we should invest in equity funds or individual stocks. Everyone knows there are two distinct ways of investing in equity. One is to choose individual stocks and buy and sell them yourself. The other is to invest through equity mutual funds. The final goal is the same: to benefit from the superior returns that equity investing offers. Choosing between the two kinds of investments depends on a person's risk taking ability, and returns expectations. It also depends on how much time you have to research your investments, what type of fees and expenses you are willing to withstand.

2. Equity Mutual Funds vs. Individual Stocks

When you buy a stock, you are owning a share of the corporation. You make money in two ways- Appreciation in Share Price and Dividends offered by those stocks. While,

Mutual Fund is an investment led by professional managers who invest a pool of money collected from various investors in diversified securities.

Let us discuss the comparative analysis of investments in equity mutual funds and in individual stocks.

Risk

- Stocks are riskier than mutual funds. Individual Stocks are vulnerable to the market conditions and volatility. The performance of one stock can't compensate for the other.
- A major advantage of investing in equity through equity mutual funds is disciplined diversification. The risk gets reduced by diversifying a portfolio by investing in a large number of stocks.

Professional Fund Management

- Picking individual stocks means it is your responsibility to build a portfolio. You'll need to do a lot of research to build your own diversified portfolio. You'll need to pick companies with different sizes, strategies, and industries, explore the annual reports. You should be keep yourself up to date with what is happening at each of the companies in which you maintain an investment.
- With an investment in equity mutual funds, you have the benefit of a fund manager who has extensive expertise and experience in the field. Whether it is picking the stocks or monitoring them and making allocations, you do not have to worry about any of it.

Affordability

- Generally, to have a well balanced portfolio, you would need to have about 25-30 stocks in your

portfolio. This can lead to a good mix of performance and stability. Such an approach can be achieved if you have a large enough corpus. As an individual, you may not have enough funds to create a adequately diversified portfolio of stocks. Thus, Stocks is an expensive investment.

- On the other hand, Equity Mutual funds provide instant diversification. You receive diversification benefit without investing a huge corpus when you buy units of the mutual funds that are spread across several stocks. One can have a diversified portfolio by investing in (beginning with an amount as low as Rs. 100). So, it is comparatively an affordable investment.

DEMAT Account

- With stocks, you have to open a DEMAT and a share trading account.
- It is very convenient to invest in mutual funds, no need of DEMAT account. Everything gets done for you for a very small management fee. Online platforms make it even easier to invest in mutual funds. They do fund selection, annual portfolio review, automated investments and more, completely online.

cost of investing

- Brokers charge you when you buy or sell the stock. Those fees can vary depending on the services you receive. If you select your own stocks, you will pay less. If you want advice so you can outperform the market, you will need a full-service broker, incurring an additional costs.

- Equity Mutual funds charge annual management fees. You need to pay fund management charges, a front-end load upon initial purchase, back-end load upon sale, early redemption charges, etc. No-load funds charge no fees. Due to the economies of scale, a very small management fee is charged.

Control on picking and holding of stocks

- An investor has more control over the stocks while picking, holding and selling them in his/her portfolio. Most investors intend to buy low and then sell high. They invest in fast-growing companies that appreciate in value. That's attractive to both day traders and buy-and-hold investors. Day traders group hopes to take advantage of short-term trends, while the buy-and-hold investors expect to see the company's earnings and stock price grow over time. They both believe their stock-picking skills allow them to outperform the market.
- In the case of mutual funds, the decision pertaining to the choice of stocks and their trading is solely in the hands of the funds manager. You do not have control over which stock is to be picked and for what duration. As an investor, if you invest in mutual funds you do not have the option to exit from some stocks that are in your portfolio. The decisions pertaining to the fate of the stocks rest in the hands of the fund manager. we should check the mutual fund annual report each year. It is to ensure the management company is sticking to the financial philosophy in which we believe that we are comfortable with the holdings.

<p>Advantages of Mutual Funds :</p> <ul style="list-style-type: none"> • High Liquidity. • Diversification of Investment. • Tax Free Returns • Flexibility of Switching Plans. 	<p>Disadvantages of Mutual Funds :</p> <ul style="list-style-type: none"> • Asset Management Company (AMC) charges. • Blocking money • Dilution of Control
<p>Advantages of Equity Shares :</p> <ul style="list-style-type: none"> • Limited Liability. • Capital Gain. • Tax Benefit. • Ease of Transferability 	<p>Disadvantages of Equity Shares :</p> <ul style="list-style-type: none"> • Dividend is not fixed. • Limited Control. • High Risk. • Fluctuation in market price.

3. Objective of the Study :

The research was conducted to find out about the preference of the target population to invest in mutual funds and Equity Shares. Besides this, the research was conducted to know about reasons for preferring mutual funds and equity shares. Also, the research was conducted to study the merits and demerits of mutual funds and equity shares in India.

4. Literature Review :

A number of studies have done on the financial performance of mutual funds and equity shares in India.

Jayadev (1996) evaluated the performance of two growth-oriented mutual funds namely Mastergain and Magnum express by using monthly returns. Agarwal (2009) studied the need of individual investors also to focus on managing the port folios that provide regular income, growth, safety, liquidity, tax advantage, professional management and diversification.

Riend, et al., (1962) made an extensive and systematic study on 152 mutual funds found that mutual fund schemes had earned an average annual return of 12.4 percent, while their composite benchmark earned a return of 12.6 percent and its alpha value was negative with 20 basis points.

Lomba (2011) evaluated the performance and growth of Indian mutual funds vis-a-vis the Indian equity market. Kruskal Wallis H-test was applied to know whether the returns significantly differ or not and the results indicated that the returns of schemes do not differ significantly.

Irwin, Brown, FE (1965) analyzed issues linking to investment policy, portfolio turnover rate, performance of mutual funds and its impact on the stock markets. They acknowledged that mutual funds had a significant impact from the price movement in the stock market. They concluded that on an average, funds did not perform better

than the composite markets and there was no continual relationship between portfolio turnover and fund performance.

Bhaskar Biswas, (2012), investigated out performance and under performance of diversified funds, by studying the performance of some ten best and ten worst performing diversified equity

Dhanda, Batra and Anjum, (2012) attempted to study a performance evaluation of selected open ended schemes in terms of risk and return relationship. Rate of return method, Beta, Standard .

Bansal, Garg and Saini, (2012), examined the performance of selected mutual fund schemes that the risk profile of the aggregate mutual fund universe can be accurately compared by a simple market index that offers comparative monthly liquidity, returns, systematic & unsystematic risk and complete fund analysis by using the special reference of Sharpe & Treynor's ratio.

5. Research Methodology:

An exploratory research was conducted to get some insights about the topic. Findings of the exploratory research were regarded as input to further research. This research will be followed by descriptive design.

Primary Method:- For the purpose of primary data collection, the target population was administered with a structured questionnaire and the target respondents were asked to fill the questionnaire.

Secondary Method:- Secondary data was collected from various sources such as, internet and financial magazines.

6. Conclusion:

This study helped the investor in understanding the different categories of mutual funds and equity shares and the best performing mutual fund from a selected pool of mutual fund in respect of risk, return and liquidity. This enabled the researcher in suggesting in investor the best mutual fund company to invest his or her money. It is not advisable to invest in equity fund category as the market undergoing fluctuations asset component are subject to high risk.

It is also advised to the investor that, Investors have to make an investment in the funds which has high liquidity, Tax free returns and low risk. This study helped the investigator in understanding the different categories of mutual fund, the nature of the market, and the best performing mutual fund from a selected pool of mutual fund. This enabled the researcher in suggesting the retail investor the best mutual fund company to invest his or her money. The study is very relevant in today's financial market context and will form basis for the performance evaluation of the mutual funds in future also. The performance of mutual fund are measured by different performance evaluation technique like Ranking, Average Return, Standard Deviation, Sharpe Ratio and outcome from an evaluation will let the investor to invest in to the right categories of mutual fund.

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