

INVESTMENT DECISION MAKING: MUTUAL FUNDS VS DIRECT EQUITY IN MODERN FINANCIAL MARKETS

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ABSTRACT

This study aims to compare the outcomes of direct investment in equity with investment through mutual funds, providing insights into their respective performance, risks, and returns. The significance of this study arises because the investors are confused to take right decision on investment. Since investments are risky in nature, investors have to consider various factors before investing in equity share or else in mutual fund. The research is based on secondary data collected from SEBI, AMFI, NSE reports, and various journals. The findings suggest that mutual funds provide diversification and are suitable for risk-averse investors, whereas direct equity offers higher return potential but involves higher risk and requires market knowledge. The study concludes that both investment options have their own advantages and limitations, and investors should choose based on their financial goals, risk appetite, and investment knowledge.

Keyword: Mutual Funds, Direct Equity, Investment Decision, Risk-Return Analysis, financial Literacy, Diversification.

1. INTRODUCTION

A stock market is a platform where investors come to trade in financial instruments like shares, bonds, and derivatives. This transaction is facilitated by the stock exchange, which makes it possible to buy and sell shares. The biggest investment opportunities are found in stock markets. The Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) are the two main stock exchanges in India. During an IPO, companies list their shares on the primary market for the first time, and investors can purchase and sell their shares on secondary markets. The Securities and Exchange Board of India is in charge of overseeing and regulating the Indian stock markets. India's financial market has witnessed significant transformation over the last decades, with an increasing number of individuals participating in formal investment activities. Among the most preferred avenues of investment are mutual funds and direct equity.

An investment is an asset or item acquired with the goal of generating income or appreciation. An Equity investment is money that is invested in a company by purchasing shares of that company in the stock market. These shares are traded on stock exchanges. Investor sparks their surplus into stocks mainly for capital appreciation, dividends,

and also for voting rights, which allows them to be a part of key company decisions. A Mutual fund is a type of financial instrument that combines the capital of many participants to purchase a variety of securities, including bonds, equities, and money market instruments. They give people access to diverse portfolios under the supervision of qualified fund managers, reducing risk and providing affordable, professional management. The decision between mutual funds and direct equity is influenced by several factors such as risk appetite, financial knowledge, investment objectives, and market conditions. While mutual funds emphasize diversification and risk reduction, direct equity investments focus on maximizing returns through strategic stock selection and market timing. The goal of this study is to find out how various demographic and psychological factors affect the decision between these two investment options. Perceived risk and return, financial literacy, risk appetite, age, and income are important variables taken into account. Based on their prior experiences, peer pressure, and trust in the investment ecosystem, investors' behavioral intentions—basically, their willingness and desire to participate in any option—are also taken into consideration. These psychological and behavioral aspects contribute to

a deeper knowledge of how and why investors favor a specific investment approach.

2. LITERATURE REVIEW:

Sushil Moar (2014) examined about —A Comparative Study on Stock Market and Mutual Fund Industry. The aim of this study was to compare the stock market and mutual fund. Survey method was secondary data and research design is descriptive data. The finding of this study was revealed that mutual fund is a low risk low profit form of investment, the stock market is a high risk high profit one and the stock market is full of risks but if manage to overcome it, then become successful

Ehsan Khan, PallaviGedamkar(2015), examined about —Performance Evaluation of Equity Shares and Mutual Funds with Respect to their Risk and Return. The aim of this study was to analysis financial performance of selected equity shares and mutual fund schemes through the statistical parameters. Survey method was Exploratory Research and Non probability judgmental sampling (purposive sampling/ authoritative sampling). The study covers 5 selected stocks out of 30 BSE and 5 mutual fund schemes out of mutual fund industry in India for comparison. The finding of this study was revealed that Performance evaluation measurement ratios i.e. Treynor's, Sharpe's and Jensen's alpha are mostly used by fund managers to take decision of investment and to diversify portfolio and for new investors mutual funds is advantageous in terms of portfolio diversification, high liquidity, lesser risk, low transaction cost, professional management, choice of schemes, transparency & safety, flexibility.

According to Singh and Yadav (2016), mutual funds are preferred by investors who seek portfolio diversification and professional management, particularly those with limited market expertise or lower risk tolerance. They also note that Systematic Investment Plans (SIPs) have played a key role in popularizing mutual funds among salaried individuals in India.

According to Bhalla (2017), direct equity investors often possess a higher degree of financial awareness and exhibit a desire to control their own investment decisions. They are also more influenced by real-time financial information, media analysis, and peer success stories

Ankitasharma, Deepak Kumar Adhana (2020), studied about —A study on performance evaluation of equity share and mutual funds. The aim of this study was to analyze the average return and the risk involved in investing in the mutual funds. Survey method was descriptive research study and total ten companies selected where 5 companies of equities are listed in BSE 500 benchmark and rest other 5 mutual fund Companies who were also listed in BSE 500 Benchmark. The finding of this study was revealed that the result of Sharpe's Ratio shows that Sharpe's performance index it is not necessary fund with higher return is always well performing fund standard first time. ANOVA result shows that Null $h(0)$ hypothesis is Accepted because there is no significant difference between the return and risk of equity and mutual fund Mutual funds have average Return of 1.4% and Equity shares have average return of 17.2%

3. OBJECTIVES:-

- To identify factors considered while investing in mutual funds & direct equity.
- To compare risk and return of Mutual funds and direct equity
- To evaluate advantages and limitations using theoretical data.
- To provide recommendations for investment decisions.

4. RESEARCH METHDOLOGY:-

1. **Research design:** This study is descriptive and analytical in nature. It focuses on comparing mutual funds and direct equity based on theoretical concepts.
2. **Nature and sources of data:** The study is based on secondary data. The data has been collected from the following sources: books in financial management, research journals and articles, SEBI reports, RBI publications, published research papers, website like AMFI, NSE, BSE, Money control.
3. **Tools and techniques:** The following tools have been used for analysis:

Comparative Analysis: Comparing mutual funds and direct equity on parameters like risk, return, liquidity, etc.

Theoretical Analysis: Understanding investment concepts, risk-return relationship, and diversification.

5. FACTORS AFFECTING INVESTMENT DECISION

Key Factors Affecting Investment Decisions:

1. **Risk Tolerance:** Your ability to handle potential losses, which is shaped by age, income, and financial stability.
2. **Investment Goals & Horizon:** Asset allocation is determined by whether you are investing for immediate needs or long-term gain (such as retirement)
3. **Expected Returns:** The anticipated profitability of an investment.
4. **Liquidity Needs:** How quickly an asset can be converted into cash without significant loss.
5. **Tax Implications:** Taxes can significantly reduce returns; tax-saving options like ELSS or PPF are often preferred.
6. **Inflation Rate:** High inflation reduces the real rate of return, making high-return investments necessary.
7. **Market Conditions:** Economic stability, interest rates, and market cycles affect asset prices and investor sentiment.
8. **Behavioral Factors:** Psychological factors such as fear, greed, or overconfidence, as well as the reputation of the company, can affect decisions.
9. **Other Influential Elements:**
10. **Diversification:** Spreading investments to mitigate risk.
11. **Regulatory Environment:** Changes in regulations or tax laws.
12. **Personal Financial Situation:** Current income, expenses, and existing debts

6. COMPARISON OF MUTUAL FUNDS VS DIRECT EQUITY:-

Basis	Mutual funds	Direct equity
Risk	Low to moderate	high
Return	Moderate	high
Management	Professional	Self managed
Diversification	high	limited
Knowledge requires	low	high
Liquidity	high	high
Cost	Expense ratio	Brokerage charges
control	Less	Full control

7. ADVANTAGES AND LIMITATIONS:

Advantages

Mutual fund:

- Professional Management: Experienced fund managers manage mutual funds and

make investment choices on behalf of clients.

- Diversification: The diversity of securities in which funds are invested lowers overall risk.

- Minimal Risk: Because of their diversity, mutual funds are comparatively safer than direct equities.
- Convenience: Systematic Investment Plans (SIPs) and lump sum investments are simple.
Ideal for beginners: Investing is simple even for those with little experience

Equity:

- High Return Potential: Direct equity can generate higher returns compared to mutual funds.
- Full Control: Investors have complete control over buying and selling decisions.
- No Management Fees: No fund management charges are involved.
- Ownership of Shares: Investors become direct shareholders in the company.

Limitations

Mutual fund:

- Expense Ratios: Mutual funds charge management fees, known as the expense ratio, which can reduce overall returns. The average expense ratio for equity mutual funds in India ranges between 1% and 2.5%.
- Fluctuating Returns: The performance of mutual funds generally depends on market conditions, which can cause fluctuations in returns.
- Risky Options: Risky schemes such as equity funds may have fluctuations in returns.
- Lock-in Periods: Some schemes, such as ELSS, have lock-in periods, reducing the flexibility of the investment.
- Costs of Lock-in Periods: Mutual funds may charge exit fees when redeeming an investment which can lower returns.
- Tax: Returns from mutual funds are subject to taxes.

Equity :

- High Risk: Share prices are highly volatile and can lead to losses.
- Requires Knowledge: Investors must have good understanding of the stock market.
- Time-Consuming: Requires regular monitoring and research.
- Lack of Diversification: Risk is higher if investments are concentrated in a few stocks.
- Limited Liability: Shareholders' liability is limited to the amount they have invested. If the company incurs losses, shareholders are not personally responsible for its debts

beyond their investment.

No Guaranteed Return: Equity shares do not guarantee returns. The value of shares can fluctuate widely due to various factors, and there is always a risk that the company may not perform well.

8. SUGGESTIONS:

- Select funds according to your level of risk tolerance: shares offer greater risk-return potential, while mutual funds offer stability.
- Mutual funds are a better option for beginners because of their expert management and diversity.
- For greater returns, experienced investors with market expertise might make direct stock investments.
- To lower risk, keep your portfolio diversified at all times.
- To take advantage of compounding and lessen the impact of volatility, choose a long-term investment strategy.
- For disciplined investment, use Systematic Investment Plans (SIP) in mutual funds.
- Regularly monitor and rebalance your portfolio.
- Avoid emotional decisions during market ups and downs.
- Take into account cost elements such as brokerage (equity) and expense ratio (mutual funds).

- Instead than depending on short-term speculation, concentrate on building wealth.
An ideal risk-return trade-off can be achieved with a well-balanced combination of equity and mutual funds.

9. CONCLUSION

The purpose of the paper is to examine the differences between investing in shares and mutual funds. The study found that while a new investor wants to maximize profits on his investments, it's crucial to take the time to research and monitor the stock market. Effective portfolio management also requires a great deal of research and understanding. Mutual funds are therefore beneficial for new investors in terms of portfolio diversification, high liquidity, reduced risk, low transaction costs, expert management, scheme selection, transparency and safety, flexibility, etc. Even though mutual funds are less risky than the stock market, they are just subjected to market risk. The results highlight several important implications for investors considering direct investment in equity versus investment through mutual funds. The discussion also addresses potential limitations of the study, such as data constraints and market dynamics, and suggests avenues for future research. The study highlights that no single option is universally superior; rather, the choice depends on the investor's financial goals, risk tolerance, and expertise. A combination of both mutual funds and direct equity can help achieve an optimal balance between risk and return. Therefore, investors should adopt a diversified and long-term investment strategy, supported by informed decision-making, to maximize wealth and minimize risk.

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