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COMPARATIVE STUDY ON DIRECT EQUITY INVESTMENT AND MUTUAL FUND INVESTMENT

Manas Varshney , DR. Girish Garg

Abstract:
Exposure to heavy The present paper is based on the study of comparing and analyzing the equity investing in respect of risk and return. Further the paper compares and analyzes the mutual fund schemes in respect of risk and return. The main objective of this research work is to study relationship between the risk and return of equity shares and mutual fund through the statistical parameters such as (returns, alpha, beta, standard deviation, Sharpe ratio, Treynor ratio and Jensen ratio, CAPM).The study is based on secondary data which is collected from the BSE official website and money control website. In research study the monthly closing price of 5 years from 1stJan 2016 to 31stDec 2020 of companies are taken. Top Ten companies as per market capitalization in equities as per 2021 on each monthly basis are selected and for Benchmark BSE SENSEX have been taken as a sample and ten mutual funds are selected as per large cap/Blue-chip fund. The need of the 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 findings of this study is Kotak and HUL have performed the best among the selected equity shares and Axis Bluechip Fund and CanaraRobecoBluechip Equity Fund is at top among all analysed funds in terms of performance during the last financial year 2016-2020.

Introduction

The word "financial market" is used to describe an exchange where stocks, bonds, commodities, and money are traded between buyers and sellers at prices that are established by the forces of supply and demand. Commodities, such as food and precious metals, are distinct from securities, such as stocks and bonds.

There are two types of markets: those that are very large and those that are very small. By centralising the delivery of products and services, markets save buyers and sellers time and energy, allowing them to more easily do business. A market economy is one in which the distribution of resources is decided primarily by interactions between buyers and sellers, as opposed to a command economy or a non-market economy such as a gift economy.

- The goal of financial markets is to serve as a resource for raising capital.
- "Risk transfer" is a term used in the derivatives markets.
- Cost Estimation
- The movement of money (in the financial markets) across national borders is an integral part of international trade.
- Money traded on the foreign exchange market

The ability of markets to attract and keep money depends on this rate of return.

Indian Financial Market

It is common practise for borrowers to provide receipts guaranteeing repayment of loans. There are no limits on who may purchase or sell these notes. Creditors expect borrowers to repay their loans with interest or profits. Markets need this rate of return on investment to attract and retain capital.

India The financial market is often regarded as the greatest and fastest-growing of all emerging markets, while being one of the oldest in the world. During the East India Company's reign of India two centuries ago, during the tail end of the 18th century, financial markets were developed in India. It is believed that during the latter half of the nineteenth century, Mumbai was home to two hundred and fifty securities brokers, making it the epicentre of India's developing capital market. The contemporary Indian financial system owes a great deal to the development of the securities markets in Mumbai, Ahmedabad, and Kolkata, all of which were founded in the nineteenth century. On August 26th, 2016, India has 23 stock exchanges, one more than the previous record.

There are presently 21 regional exchanges in India in addition to the National Stock Exchange (NSE) and the Over-the-Counter Exchange of India (OTCEI). The government's rigorous regulation of the free market in India led to the creation of a handful of industrial monopolies that prevented the stock market from taking off. Because private companies were not allowed to join many of the industries that the state monopolized, the economy slowed down until the early 1990s.

A flood of IPOs flooded the market once the Indian government began relaxing its stance on the corporate world. So many new companies sprung up in so many different industries to suit the growing demand for cutting-edge products and services.

By expanding the flow of money and fuelling the growth of the Indian economy, the securities markets in India have played a crucial role in the country's economic success in recent years. Foreign direct investment (FDI) in the form of enormous sums was a crucial element propelling economic growth when markets in many East

Asian nations were initially liberalised. The financial markets' all-encompassing role in sustaining financial resource mobilisation has contributed to the fast growth of India's organised sector throughout this time.

Objectives

Investing in stocks and mutual funds have been analysed for their potential benefits and drawbacks.

The NSE CNX Nifty can be used as a benchmark against which individual stocks or mutual fund strategies can be evaluated.

The results were derived from a 10-year moving average of quarterly data.

With the intention of informing listeners about the potential benefits and risks of investing in stocks and mutual funds.

LITERATURE REVIEW.

2016-09-28 "Sandeep" Due to its importance in stimulating new investment and fueling expansion, the stock exchange must not be ignored. The stock market is more than just a place to buy and sell securities; it also helps pool resources, distribute risk, and transfer wealth by connecting savers and investors. The stock market plays a critical role in economic growth by channelling investment dollars towards the most promising ventures.

In order to improve their effectiveness, Gupta (2012) analyses how Indian stock exchanges currently function and provides a number of suggestions. The study highlights the significance of limiting speculation in order to preserve market liquidity and stability. It suggests that companies increase the liquidity of their securities by listing them on multiple stock exchanges at once. In order to protect retail investors, the study calls for low issue costs.

Defining Indian investors and rating their potential, Author: Lal, Jamadar

decisions. He probed to find out how fiscally literate they are and how they put their understanding to use. Individual investors have a negative impression of companies' Annual Reports and other statements due to the lack of information they provide.

In his 2017 book, "Guide to Buying and Selling Stocks," Nabhi Kumar Jain laid out some rules to follow. He advocated investing in a company that was taking advantage of a growing market. Spread your risk by investing in a number of rapidly expanding businesses in different sectors. At that point, he said, investors should cash out, because the company had reached its full potential. In addition, you should sell the shares right away if you made a mistake in picking them. Stocks with a high price tag require careful evaluation before being added to or removed from a portfolio.

Sathya Swaroop Debashish (2011) analysed equity mutual funds in India. A total of 23 different schemes were examined over the course of 13 years (April 1996 - March 21st, 2009). The average return, beta risk, R-squared, sharp ratio, Treynor ratio, and Jensen alpha were all used in the analysis. We have first analysed the return on schemes and then compared it to the return on the market. Public sector mutual fund schemes from UTI were found to have performed exceptionally well, while private sector mutual fund schemes from Franklin Templeton were found to have performed exceptionally well. Mutual fund schemes from Deutsche, Franklin Templeton, Prudential ICICI (from the private sector) and SBI and UTI (from the public sector) have outperformed the market portfolio according to metrics such as the Sharpe ratio. Mutual funds from Birla Sun Life, HDFC, and LIC perform below average when compared to risk-return relationship models and measures, while those from Franklin Templeton and UTI perform above average.

According to Rohatgi (2016), the primary function of the stock market is to facilitate the buying and selling of securities. The stock market would be perfect if it could instantly provide unlimited liquidity. A careful long-term investor in stocks, however, should be able to provide for his immediate financial needs. There is confirmation of all three arguments in favour of liquidity. 'Instant' liquidity would then be closer to moderate liquidity. Investors who trade their shares like currency are asking for trouble.

Jack Clark Francis (2017) investigated the relationship between investment return and the threat of default or bankruptcy. In his opinion, nobody can know the rate of return on any investment in today's uncertain world. However, he suggested that the investors make a probability distribution of the potential returns.

RESEARCH METHODOLOGY

Research Methodology:

Sampling technique: - Since the population is heterogeneous stratified random sampling were taken.

Sample size: - Ten companies and ten mutual fund schemes were selected.

Sample description: Ten companies and ten mutual funds were selected and compared to one another using the NSE CNX Nifty as a benchmark.

Data collection methods:

Date information was obtained from a third party. The Internet is the most important tertiary source for this information. Magazines, newspapers, and academic journals were scoured for additional information.

ANALYSIS AND INTERPRETATION

The analysis and interpretation have been made with the help of graphs and percentage of returns of securities. Microsoft Excel is the software used for this purpose.

% Return (YoY) = (current year price – previous year price) / previous year price * 100

Following are the equity shares selected for the study from NSE CNX NIFTY:

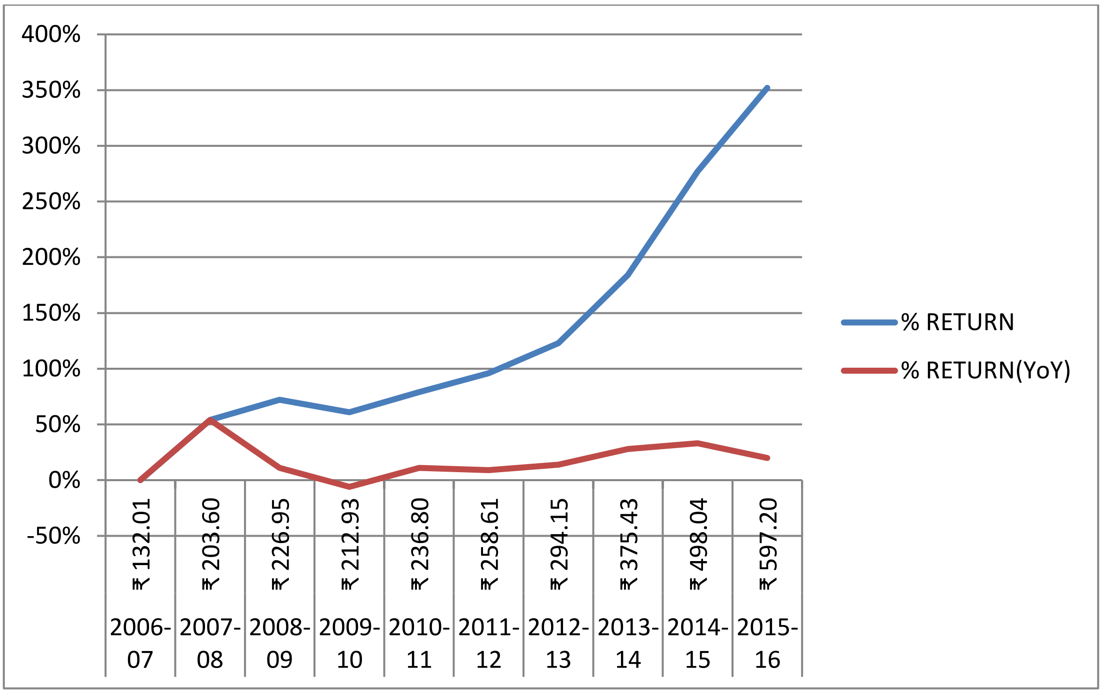
1. Hindustan Unilever limited
2. Larsen & Toubro Ltd.
3. Bharat Petroleum Corporation Limited
4. Infosys Ltd.
5. Dr. Reddy's Laboratories Ltd.
6. State Bank of India
7. Tata Steel Ltd.
8. Maruti Suzuki India Ltd.
9. Bharat Heavy Electricals Limited
10. Bharti Airtel Ltd.

1. Hindustan Unilever limited

FY	PRICE(Avg)	% RETURN	% RETURN(YoY)
2006-07	₹ 132.01	0%	0%
2007-08	₹ 203.60	54%	54%
2008-09	₹ 226.95	72%	11%
2009-10	₹ 212.93	61%	-6%
2010-11	₹ 236.80	79%	11%
2011-12	₹ 258.61	96%	9%
2012-13	₹ 294.15	123%	14%
2013-14	₹ 375.43	184%	28%
2014-15	₹ 498.04	277%	33%
2015-16	₹ 597.20	352%	20%

Average share price and percentage returns of the company is as follows; Price and return of HUL

Price and return of HUL



Hindustan Unilever Limited produces a lot of the best-selling products in India. For the past decade, the stock price has increased annually with no years of negative returns. Except in 2007 and 2008 (when losses were incurred due to the stock market crash), short-term investors also do well. The overall return for Hindustan Unilever, however, is at an all-time high, showing a return of 352% by the end of the decade.

If a shareholder invested $132.01 in 2004-05 to purchase 10 shares, that shareholder would have $5,972.40 in 2013-2014.

FINDINGS

These findings are based on my personal experience as a stock market investor. In sum, I discover:

Investment in equity shares provides the best window into a country's stock market and economy.

If you want to be actively involved in managing your portfolio, direct investments are the way to go.

If you're not stock market savvy but are more concerned with income than growth, a mutual fund scheme may be for you

Do your due diligence before making any investments.

Bear in mind that investing in securities, whether directly or through a mutual fund, carries some degree of risk. Before settling on a specific investment strategy, you should weigh its potential benefits against its possible drawbacks.

Limitations

- The maximum number of shares or units for which a sample can be taken is 10.
- Other securities indices may have shown varying results compared to the NSE CNX NIFTY, which is used as a benchmark for stock and mutual fund performance.
- Data was collected for a full decade, from April 2006 through March 2016.
- This study focuses narrowly on a comparison of equity share prices and mutual fund net asset values.
- Due to our reliance on secondary sources, we are unable to verify the veracity of the information presented.

CONCLUSIONS

It's crucial to do some serious comparing and contrasting before settling on either direct investment or mutual funds. Here are some key points:

Those just starting out in the world of finance would be wise to invest in mutual funds rather than going the direct investment route.

For an investor with limited funds, investing in a mutual fund is preferable because the NAV is typically lower than the price of a stock.

Direct investment in equity shares is a good option for anyone hoping to profit from market fluctuations.

Direct equity investing is ideal if you want to gain insight into the company, the financial market, and the economy.

Those who prefer a more structured approach to their investments should look into mutual funds.

Mutual funds are a good investment vehicle for those seeking a fixed income investment strategy.

Investors with both short and medium time horizons can benefit from direct equity investments.

Investors in mutual funds should have a long time horizon because of the systematic nature of the investment strategy.

If you have the time and inclination to actively monitor the market and your investments, purchasing shares of stock directly may be preferable to investing in a mutual fund.

Investors with a genuine interest in the stock market and portfolio management should put their money directly into equity stocks.

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