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"A Study on Comparison between Investment in Equity and Mutual Fund"

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ABSTRACT:

This study consist two main variables or factors of the stock market i.e. Equity stock and Mutual funds. Stock or share is a security that represents ownership in a company. Here money that is invested in a firm by its owner/s or holder/s of common stock (ordinary shares) is recovered when they sell their shareholdings to other investors. Mutual fund is a professionally managed investment scheme, usually run by an asset management company that brings together a group of people and invests their money in stocks, bonds and other securities depending on the underlying objective of the scheme. The objective of the study is to identify the reasons for preferring equity and mutual fund and also know about the factor which affecting the behaviour of the investors while they invest into mutual fund and equity market. This study is in descriptive nature since it is based on primary data's facts and findings of investigation in a structured manner. It also consist association between demographic factors with various variables like savings, investment pattern, expected rate of return and frequency of changing Portfolio of the investors. People need a systematic way of investing should go for mutual fund investing. Investing with a fixed income strategy, should choose mutual fund as an investment choice. Short term as well as medium term investors should choose direct equity investing as an investment choice. Mutual fund investing is termed as a long term horizon of getting a good return, as the fund is going in a systematic way. If an investor has got time in making a market study and managing his/her portfolio, should invest in equity shares directly, otherwise go for mutual fund investing. If an investor like in buying and selling stocks, managing the stocks in his portfolio should choose direct investing in equity stocks.

Keyword: Equity, Mutual Fund, Stock Market, Investors

INTRODUCTION:

A financial market is a market in which people trade financial securities and derivatives at low transaction costs. Some of the securities include stocks and bonds, and precious metals.

The term "market" is sometimes used for what are more strictly exchanges, organizations that facilitate the trade in financial securities, e.g., a stock exchange or commodity exchange.

Much trading of stocks takes place on an exchange; still, corporate actions (merger, spinoff) are outside an exchange, while any two companies or people, for whatever reason, may agree to sell stock from the one to the other without using an exchange.

Components of financial market

A. Based on market levels

Primary market: A primary market is a market for new issues or new financial claims. Therefore, it is also called new issue market. The primary market deals with those securities which are issued to the public for the first time.

Secondary market: A market for secondary sale of securities. In other words, securities which have already passed through the new issue market are traded in this market. Generally, such securities are quoted in the stock exchange and it provides a continuous and regular market for buying and selling of securities.

Simply put, primary market is the market where the newly started company issued shares to the public for the first time through IPO (initial public offering). Secondary market is the market where the second hand securities are sold (security Commodity Markets).

B. Based on security types

Money market: Money market is a market for dealing with the financial assets and securities which have a maturity period of up to one year. In other words, it's a market for purely short-term funds.

Capital market: A capital market is a market for financial assets which have a long or indefinite maturity. Generally, it deals with long-term securities which have a maturity period of above one year. The capital market may be further divided into (a) industrial securities market (b) Govt. securities market and (c) long-term loans market.

1. Equity markets: A market where ownership of securities are issued and subscribed is known as equity market. An example of a secondary equity market for shares is the New York (NYSE) stock exchange.

2. Debt market: The market where funds are borrowed and lent is known as debt market. Arrangements are made in such a way that the borrowers agree to pay the lender the original amount of the loan plus some specified amount of interest.

Derivative markets: A market where financial instruments are derived and traded based on an underlying asset such as commodities or stocks.

Financial service market: A market that comprises participants such as commercial banks that provide various financial services like ATM. Credit cards.

Credit rating, stock broking etc. is known as financial service market. Individuals and firms use financial services markets, to purchase services that enhance the workings of debt and equity markets.

Depository markets: A depository market consists of depository institutions (such as banks) that accept deposits from individuals and firms and uses these funds to participate in the debt market, by giving loans or purchasing other debt instruments such as treasury bills.

Non-depository market: Non-depository market carry out various functions in financial markets ranging from financial intermediary to selling, insurance etc.

The various constituencies in non-depositary markets are mutual funds, insurance companies, pension funds, brokerage firms etc.

Financial Functions

- Providing the borrower with funds so as to enable them to carry out their investment plans.
- Providing the lenders with earning assets so as to enable them to earn wealth by deploying the assets in production debentures.
- Providing liquidity in the market so as to facilitate trading of funds.
- Providing liquidity to commercial bank
- Facilitating credit creation
- Promoting savings
- Promoting investment
- Facilitating balanced economic growth
- Improving trading floors

Equity:

- People who can balance risk and return while dealing with direct equity are the winners.
- The risk associated with direct equity comes from complexity of information.
- It's not so easy to decode information's related to equity.
- Information's related to equity is contained in companies financial reports like balance sheet etc.
- While buying stocks, one of the most essential parameters to evaluate about company is 'return on capital employed (ROCE)'.
- This parameter is so important that a true investor cannot buy stocks without noting it.
- In India alone, there are millions of people who invest in stocks.
- This lack of know-how generates the 'risk of losses associated with direct equity investment.
- Millions of people buy stocks, only few has the critical know of reading and analyzing balance sheet.
- These minority people are the ones who are making huge money in stocks market.
- For balance, stocks market is more like a casino because they are investing blindly.
- Direct equity investment can be very profitable if one has those critical know hows.
- Direct equity investment cannot be consistently profitable if one does not know to decode financial statements of companies.
- But there is a great alternative to direct equity.
- Mutual funds are such products which are designed for common men.
- People who do not have time to gather financial know-how can select a good mutual fund and enjoy the returns.
- In direct equity, timing the market is important. But timing market is not easy.
- If one can invest in equity through SIP (indirect equity), they need not care about market-timing.
- Rightly timing the market is one essential trait that one must have while dealing with direct equity.
- Historically investors have found timing the market very rewarding.

- Investors know that how rewarding it can be to time the market to perfection.

Mutual Fund:

A mutual fund is an open-end professionally managed investment fund that pools money from many investors to purchase securities. These investors may be retail or institutional in nature. The term is typically used in the United States, while similar structures across the globe include the SICAV in Europe ('Investment Company with variable capital') and open-ended investment company (OEIC) in the UK. Mutual funds have advantages and disadvantages compared to direct investing in individual securities. Advantages of mutual funds include economies of scale, diversification, liquidity, and professional management. However, these come with mutual fund fees and expenses.

Not all investment funds are mutual funds; alternative structures include unit investment trusts, closed-end funds, and exchange-traded funds (ETFs). These alternative structures share similarities such as liquidity due to trading on exchanges and, in the United States, similar consumer protections under the Investment Company Act of 1940. Mutual funds are also classified by their principal investments as money market funds, bond or fixed income funds, stock or equity funds, hybrid funds or other.

Funds may also be categorized as index funds, which are passively managed funds that match the performance of an index, or actively managed funds. Hedge funds are not mutual funds as hedge funds cannot be sold to the general public and lack various standard investor protections.

LITERATURE REVIEW

Pritam P. kothari & Shivganga C. Mindargi: A STUDY OF INVESTORS ATTITUDE TOWARDS MUTUAL FUND WITH SPECIALREFERENCE TO INVERSOTRS IN SOLAPUR CITY (2013) the role of Indian mutual fund industry as significant financial service in financial market has really been noteworthy. In fact, the mutual fund industry has emerged as an important segment of financial market of India, especially in channelizing the savings of millions of individuals into the investment in equity and debt instruments. Mutual funds are seemingly the easiest and the least stressful way to invest in the stock market. Quiet a large amount of money has been invested in mutual funds during the past few years. Any investor would like to invest in a reputed Mutual Fund organization. Mutual funds are financial intermediaries concerned with mobilizing savings of those who have surplus and the canalization of these savings in those avenues where there is a demand for funds. These intermediaries employ their resources in such a manner as to provide combined benefits of low risk, steady return, high liquidity and capital appreciation through diversification and expert management. Reforms in the Indian economic system and the opening up of the economy have been the reasons for the tremendous growth in the Indian capital market. This study analyzes the impact of different demographic variables on the attitude of investors towards mutual funds. Apart from this, it also focuses on the benefits delivered by mutual funds to investors. To this end, 200 respondents of Solapur City, having different demographic profiles were surveyed. The study reveals that the majority of investors have still not formed any attitude towards mutual fund investments.

Prafulla kumar swami & Manorajan dash: A STUDY OF INVESTOR'S PERCEPTION TOWARDS MUTUAL FUND DECISION: AN INDIAN PERSPECTIVE(August,2017), Day by day Indian financial market is becoming competitive and the supply of various financial instruments needs to be in equilibrium to the demand perspectives of the investors. The prime drive of any investment is to get maximum return with a minimum risk and mutual funds provide the opportunity for the investors. The research provides an insight into the types of risks which exist in a mutual fund scheme. The data was collected from mutual fund investors as well as non-mutual fund investors of this industry. The research focuses on the relationship between investment decision and factors like liquidity, financial awareness, and demography. It was found low risk funds and liquidity of fund scheme are having impact on the investor's perception for investing in the mutual fund.

Rakesh H M: A STUDY ON INDIVIDUALS INVESTORS BEHAVIOR INSTOCK MARKETS OF INDIA (February, 2014), the investor plays a very important role in the stock market because of their big share of savings in the country. The Regulators of the stock market never can ignore the behavior of individual investor. This study aims to understand the behavior of individual investor in stock market, specifically their attitude and perception with respect to the stock market. A survey is conducted to collect data relating to the above subject. Respondents were classified into different categories like income, profession, education status, sex and age. Primary data is collected from a sample of 150 investors of Mysore City, Karnataka, India. The study also attempts to find the factors affecting the investment behavior of individual investors such as their awareness level, duration of investment etc.

Project report by Mr. Vikash kumar: A study of preferences of investors for investment in mutual funds for the SBI mutual funds (April 2008), the topic was a study of preferences of investors for investment in mutual funds for the SBI mutual funds. Mr. Vikash kumar concluded that most of the investors don’t invest in SBI mutual fund due to non-awareness. And he adds that most of the investors of patna had invested in reliance or UTI mutual funds and ICICI mutual funds also has good brand position among them. And SBI mf places after ICICI mutual fund according to respondents. The most portfolio are equity second most is balance and least prefer portfolio was debts portfolio. Most of the investors doesn’t want to invest in sectored fund. And he observed that many people have the fear of mf. They need information brand place and important role and SBI mf UTI mf ICICI mf etc. are well non brand so they are doing well.

Noronha (2007) has evaluated the performance of 11 equity schemes of three asset management companies with the help of Sharpe and Trey nor measure for a period April 2002- March 2005. The study found that equity, tax plan and index funds offer diversification and are able to earn better returns as compared to sector specific funds. The study is a commendable work on performance of mutual funds highlighting the better earning capacity of equity, tax plans and index funds.

Prof. Kalpesh P Prajapati and Prof. Mahesh K Patel: Study on Performance Evaluation of Mutual Fund Schemes Of Indian Companies (Jul 2012), have done a Comparative Study On Performance Evaluation of Mutual Fund Schemes Of Indian Companies. In this paper the performance evaluation of Indian mutual funds is carried out through relative performance index, risk-return analysis, Treynor's ratio, Sharp's ratio, Sharp's measure, Jensen's measure, and Fama's measure. The data used is daily closing NAVs. The source of data is website of Association of Mutual Funds in India (AMFI). The study period is 1st January 2007 to 31st December, 2011. The results of performance measures suggest that most of the mutual fund have given positive return during 2007 to 2011.

Research Methodology:

STATEMENT OF THE PROBLEM

- Research study on mutual funds and equity has been extensive since its introduction. Mutual funds provide opportunity to generate income and it is booming sector now a days. On the other hand, Equity provides ownership capital. Thus, this study makes an attempt to comparative analysis of mutual funds and direct equity and also finds out the preference of the target populations for mutual funds and direct equity.

OBJECTIVES

- To study the preference of the target investors for equity mutual funds and direct equity
- To identify reasons for preferring mutual funds and direct equity investment.
- To identify factors considered while investing in mutual funds
- To identify the investment objective while investing in equity stock.

RESEARCH DESIGN

- This study is in descriptive nature since it is based on primary data's facts and findings of investigation in a structured manner.

SAMPLE DESIGN

- Sampling Method: Convenience sampling
- Sampling Frame: Equity and mutual fund investors
- Sample Size: 100 respondents

SOURCES OF DATA

The study is based on primary and secondary data:

- Primary Data: For primary data, research work has been collected through Structured, Undisguised Questionnaire is used.
- Secondary Data: For this study data has been collected through books, magazines, journals and the internet is used.

TOOLS FOR DATA COLLECTION

- Structure non-disguise questionnaire
- Linkert scale

DATA ANLYSIS

- Statistical tool: Microsoft Excel

LIMITATIONS OF THE STUDY

- The study is limited to 100 investors.
- The study is limited to the city only.
- It is assumed that respondents are honest and true in expressing their view and fill questionnaire without any bias.

1. Association between percentage of total saving income and Annual income.

H_0=There is no significant relation between total saving income and Satisfaction of annual income.

H_1: There is a significant relation between total saving and Satisfaction of Annual income.

Particulars	**Percentage of savings**				
Annual Income	**10-20%**	**20-30%**	**30-40%**	**40-50%**	**Total**
10-12 Lacs	6	5	3	2	16
2-4 Lacs	43	12	4	3	62
2-4 Lacs, 4-8 Lacs	1				1
2-4 Lacs, 8-10 Lacs	1				1
4-8 Lacs	6	9	1		16
8-10 Lacs	1	1	2		4
Total	58	27	10	5	100

Particulars	**Percentage of savings**				
Annual Income	**10-20%**	**20-30%**	**30-40%**	**40-50%**	**Total**
10-12 Lacs	9.28	4.32	1.6	0.8	16
2-4 Lacs	35.96	16.74	6.2	3.1	62
2-4 Lacs, 4-8 Lacs	0.58	0.27	0.1	0.05	1
2-4 Lacs, 8-10 Lacs	0.58	0.27	0.1	0.05	1
4-8 Lacs	9.28	4.32	1.6	0.8	16
8-10 Lacs	2.32	1.08	0.4	0.2	4
Total	58	27	10	5	100

Chi-square test = 0.107407

Interpretation:

From the above table it can be concluded that the p value is 0.107 which is more than 0.05. So that null hypothesis is accepted. Therefore, it indicates that there is significant relation between percentage of savings and annual income.

2. Association between Experience in market and category of investor.

H_0=There is no significant relation between Experience in market and Satisfaction of Category of investor.

H_1: There is a significant relation between Experience in market and Satisfaction of category of investor.

Particulars	**Category of investors**			
Experience in Market	**Both**	**Day trader**	**Long term investors**	**Total**
3-5 Years	9	5	9	23
5 Years & Above	5	2	2	9
Less than 3 Years	18	14	36	68
Total	32	41	47	100

Particulars	**Category of investors**			
Experience in Market	**Both**	**Day trader**	**Long term investors**	**Total**
3-5 Years	7.36	4.83	10.81	23
5 Years & Above	2.88	1.89	4.23	9
Less than 3 Years	21.76	14.28	31.96	68
Total	32	41	47	100

Chi-square test =0.332825

Interpretation:

From the above table it can be concluded that the p value is 0.332 which is more than 0.05. So that null hypothesis is accepted. Therefore, it indicates that there is significant relation between category of investors and experience in the market.

Findings:

- There has been 1000 respondent (investor) are taken as a sample.
- 100% respondents are aware about share/debenture and mutual fund investment.
- We have 61 male and 39 female respondents in our research.
- Most of our respondents are getting information from financial institution or consultant for both equity and mutual funds. And thereafter they dependent on brokers.
- In this research, it has been seen that both equity and mutual fund users are changed their portfolio in period of less than 3 years.
- It has been found that AMC (Assets Management Company) is play significant role in investing in mutual funds. Thereafter they consider expense ratio and credit rating factors. They give similar preference to risk and liquidity parameters.
- It can be found that quick gain is their primary objective investing in equity funds. Then they focus on dividend and capital appreciation objectives.
- From the above table it can be concluded that the p value is 0.107 which is more than 0.05. So that null hypothesis is accepted. Therefore, it indicates that there is significant relation between percentage of savings and annual income.

- From the above table it can be concluded that the p value is 0.332 which is more than 0.05. So that null hypothesis is accepted. Therefore, it indicates that there is significant relation between category of investors and experience in the market.

Conclusion:

- Saving money is not enough. Each of us also need to invest one's savings intelligently in order to have enough money available for funding the higher education of one's children, for buying a house, or for one's own golden years.
- The study recommends new investors to go for in both mutual funds and equities, because of high risk and market instability.
- People need a systematic way of investing should go for mutual fund investing. Investing with a fixed income strategy, should choose mutual fund as an investment choice. Short term as well as medium term investors should choose direct equity investing as an investment choice. Mutual fund investing is termed as a long term horizon of getting a good return, as the fund is going in a systematic way.
- If an investor has got time in making a market study and managing his/her portfolio, should invest in equity shares directly, otherwise go for mutual fund investing. If an investor like in buying and selling stocks, managing the stocks in his portfolio should choose direct investing in equity stocks.

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