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"THE STUDY ON INVESTMENT OPTION WITH SPECIAL REFERENCE TO MUTUAL FUND AND DIRECT EQUITY"

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Abstract:

Using a multi-criteria approach integrating various aspects of performance evaluation, including calculations over different time periods and three dimensions, is suggested. Fundamental analysis is crucial for analyzing company performance before investing in equity and mutual funds, both of which are subject to market risk. This exploratory study evaluates the performance of selected equity shares and mutual fund schemes based on risk and return, using secondary data collected from published sources over a three-year period. The sample includes top companies in terms of market capitalization and open-ended equity diversified direct funds from different AMC's. Non-probability judgmental sampling is used, and statistical and financial tools are employed for evaluation. The study found that equity share schemes have higher risk and higher returns compared to mutual fund schemes, which have lower risk and lower returns. The analysis of selected equity shares involved evaluating returns, standard deviation, alpha, beta, and performance ratios such as Sharpe, Treynor, and Jensen ratio. The analysis of selected mutual funds showed that Kotakbluechip and Axis blue-chip funds had the highest returns over different time periods. A multi-criteria approach integrating various aspects of performance evaluation is recommended, emphasizing the importance of fundamental analysis before investing in equity or mutual funds, which are subject to market risk.

Keywords: Sharpe, Treynor and Jensen Model.

1. Introduction:

This data provides an overview of the Indian stock market and the mutual fund industry. The Indian stock market has two main exchanges, the BSE and NSE, where investors trade in financial instruments like shares, bonds, and derivatives. The Securities and Exchange Board of India (SEBI) regulates and supervises the stock market in India. Mutual funds are a type of financial intermediary that allow small and large investors to participate and invest in the capital market. Mutual funds have seen significant growth in India since their inception in 1963 and have expanded in all parameters, such as assets under management, number of schemes, funds, and fund houses. The major companies in the industry are ranked based on market capitalization and benchmark, with Reliance, TCS, HDFC Bank, Infosys, and HUL being the top five. The major products in this industry are mutual funds and direct equity investments. Mutual funds are a popular investment option in India as they allow for expert-managed portfolios and diversification. On the other hand, direct equity investments involve purchasing shares of a company directly from the stock market. Overall, the Indian stock market and the mutual fund industry provide investors with opportunities to diversify their investments and participate in the capital market.

2. Objective of the study:

- The objective of the study is to evaluate the dynamics of the relationship between equity investing and mutual fund investing in India over a period of 3 years from 2018-2020.
- It also aims to analyze the relationship between the risk and return of equity shares and mutual funds.

3. Literature review

- (Dibin K. K & Alfia Thaha, 2017) examined about — the aim was to analyse the real and nominal returns from Banks, Mutual Funds, and Stocks, and suggest the best investment platform based on the risk-return dynamics. Financial data of 10 years, from the Financial Year (FY) starting 2007 to 2017, were collected for the purpose of evaluation. The survey method was used, and samples were selected based on Judgmental sampling, which involved the choice of funds and companies based on the report published by the rating agency (CRISIL), and the stock samples were chosen based on the market capitalization. The study found that mutual funds outperformed other investment alternatives in terms of return and risk. The real return from the Mutual funds with an average half-yearly return of 7.15% was an exemption. The study suggested that the reason behind this could be the entry of millennial investors.

- (ANKITA SHARMA & DEEPAK KUMAR ADHANA, 2020), conducted a study on the performance evaluation of equity share and mutual funds to analyze the average return and the risk involved in investing in mutual funds. They used a descriptive research study method and selected a total of ten companies, five of which were equities listed in the BSE 500 benchmark and the remaining five were mutual fund companies also listed in the BSE 500 Benchmark. The finding of their study revealed that the Sharpe's Ratio result shows that a higher return does not necessarily mean a well-performing fund, and the ANOVA result shows that the null hypothesis is accepted because there is no significant difference between the return and risk of equity and mutual fund. Mutual funds had an average return of 1.4% while equity shares had an average return of 17.2%.

- (Ehsan Khan & Pallavi Gedamkar, 2015), conducted a study on the performance evaluation of equity shares and mutual funds with respect to their risk and return. Their aim was to analyse the financial performance of selected equity shares and mutual fund schemes through statistical parameters. They used an exploratory research method and non-probability judgmental sampling (purposive sampling/authoritative sampling). They covered five selected stocks out of 30 BSE and five mutual fund schemes out of the mutual fund industry in India for comparison. The finding of their study revealed that fund managers mostly use performance evaluation measurement ratios such as Treynor's, Sharpe's, and Jensen's alpha to make investment decisions and diversify portfolios. For new investors, mutual funds are advantageous in terms of portfolio diversification, high liquidity, lesser risk, low transaction cost, professional management, choice of schemes, transparency and safety, and flexibility.

- (Dabbeeru, 2006) The Indian mutual fund market can be confusing for common investors due to the large number of schemes available and the fancy labels used by mutual fund companies. A study was conducted to classify the various schemes based on the nature of returns provided and to compare the performance of Growth and Dividend plans. The study found that the majority of Growth plans had better returns and lower risk than Dividend plans, and only a small number of plans were able to generate higher returns than the market. The study also highlighted the importance of investment styles in driving performance. However, the study was conducted over a 12-month period during a bullish market, so the findings should be taken with caution. A more comprehensive study over a longer period of time may be necessary to address the issues facing the Indian mutual fund industry.

4. Research Methodology:

The study aims to evaluate the performance of selected equity shares and mutual fund schemes with the market based on risk and return. The research design is exploratory in nature. The data for the study is primarily based on secondary data collected from published sources such as websites, organizational documents, and other research objectives. The data collection period is for three years, and the source of data is collected from the BSE and mutual fund websites. The sample size consists of five top companies in terms of market capitalization from different sectors for equities and five open-ended equity diversified direct funds from different AMC's for mutual funds. The sampling technique used is non-probability sampling technique-judgmental sampling based on market capitalization. Various statistical and financial tools are used to evaluate the performance of the equity shares and mutual fund schemes.

5. Hypothesis:

H0: There is no statistically significant difference in the returns and risks between equity and mutual funds.
H1: There is a statistically significant difference in the returns and risks between equity and mutual funds.

6. Data Analysis and Interpretation:

Table 1 Showing the risk-return matrix of top five companies as per market capitalization during 2018-2020

Security Name	Return	SD	Alpha	Beta	Sharpe	Treynor	Jensen
Reliance	7.512	1.795	0.006	1.278	-0.030	27.25	-0.017
TCS	7.474	1.444	-0.043	0.729	0.527	7.117	0.239

HDFC Bank	7.439	1.435	-0.059	1.132	0.164	6.542	0.074
Infosys	7.395	1.651	-0.103	1.061	0.133	6.271	0.069
HUL	7.550	0.675	0.230	0.195	1.915	7.302	0.406

Table 2 Showing the ranking of top five companies as per market capitalization during 2018-2020

Rank	Sharpe Ratio	Treynor Ratio	Jensen Ratio
1	HUL	Reliance	HUL
2	TCS	HUL	TCS
3	HDFC Bank	TCS	HDFC Bank
4	Infosys	HDFC Bank	Infosys
5	Reliance	Infosys	Reliance

Analysis of selected Equity Shares:

Interpretation of selected equity shares: The selected equity shares are analyzed based on their returns, standard deviation, alpha, beta, and performance ratios like Sharpe, Treynor, and Jensen ratio. HUL gave the highest return while Infosys gave the lowest from 2018 to 2020. Positive alpha indicates outperformed shares, and a higher beta ratio indicates more volatility than the market.

Table 3 Showing the SIP Absolute returns of Mutual Fund during 2018-2020

	Year	**2020**	**2019**	**2018**
	Nifty Large cap 250 TRI (Total Return Index)	**47.40**	**11.20**	**9.30**
SIP ABSOLUTE RETURN	Kotak Bluechip Fund	64.14	**15.81**	**13.03**
	SBI Bluechip Fund	**63.79**	**14.7**	**10.79**
	Franklin India Bluechip Fund	**61.13**	**12.05**	**10.68**
	Mirea Asset Largecap Fund	**59.21**	**13.05**	**12.77**
	ICICI Prudential Blue chip Fund	**58.47**	**12.18**	**10.64**

Table 4 Showing the various measurement of Mutual Fund during 2018-2020

	Portfolio of selected mutual fund				
	Kotak Bluechip Fund	SBI Bluechip Fund	Franklin India Bluechip Fund	Mirae Asset Largecap Fund	ICICI Prudential Bluechip Fund
Beta	1.36	1.40	1.36	1.24	1.27
Alpha	-0.65	-2.43	-3.47	0.32	-1.58
Average Return	26.86	25.72	23.95	25.37	23.97
SD	24.88	25.44	24.79	22.62	23.06
Risk Free Rate of Return	0.08	0.08	0.08	0.08	0.08
Sharpe	1.12	1.12	1.12	1.12	1.12
Treynor	19.64	18.38	17.56	20.37	18.86
Jensen	219.93	219.30	220.01	222.38	221.88

Analysis of selected Mutual Fund: The above table displays the absolute returns of selected mutual funds over different time periods. Kotakbluechip fund had the highest return of 64.14% in 1 year (2020) followed by SBI bluechip fund at 63.79%. Kotak Bluechip Fund had the highest return in 2 year (2019) at 15.81%, and in 3 year (2018) at 13.03%. Axis bluechip fund had the highest returns in all the mentioned time periods.

7. Findings:

1. It was set up that equity share schemes have advanced risk with advanced return and mutual fund schemes have lower risk with lower return.
2. This study compared the risk and return of equity and mutual fund companies using secondary data from reliable sources. The results showed that while new investors want maximum returns, they need to devote time to studying the stock market and portfolio management. Mutual funds have lower risk than the stock market but are still subject to market risk. Fund managers use performance evaluation ratios to diversify portfolios.
3. Interpretation of selected equity shares: The selected equity shares are analysed based on their returns, standard deviation, alpha, beta, and performance ratios like Sharpe, Treynor, and Jensen ratio. HUL gave the highest return while Infosys gave the lowest from 2018 to 2020. Positive alpha indicates outperformed shares, and a higher beta ratio indicates more volatility than the market and Analysis of selected Mutual Fund: The above table displays the absolute returns of selected mutual funds over different time periods. Kotakbluechip fund had the highest return of 64.14% in 1 year (2020) followed by SBI blue-chip fund at 63.79%. Kotak Blue-chip Fund had the highest return in 2 year (2019) at 15.81%, and in 3 year (2018) at 13.03%. Axis blue-chip fund had the highest returns in all the mentioned time periods.

8. Conclusion:

It was suggested that a multi-criteria approach should be used to analyze performance, which integrates various aspects, including calculations over different time periods and the three dimensions of performance evaluation. It was also emphasized that analyzing company performance through fundamental analysis is crucial before investing. Therefore, both equity and mutual fund investments are subject to market risk.

9. References

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