DIRECT STOCK INVESTING VS MUTUAL FUNDS
AN ANALYSIS

It has always been a debate about whether direct stock investment is more rewarding or taking the route of mutual funds is better.

In this report, we attempt to provide some clarity on this subject. We have done some number crunching for top infotech stocks vs technology funds. We have taken 4 of the top IT companies in India on the basis of market cap and 4 mutual fund IT-based mutual fund schemes under the 'Technology Funds' category.



Short Term Returns

When we look at the calendar year returns for stocks and equity funds, individual stocks seem to be more volatile than funds but it is difficult to conclude which category is better.

Direct Stocks - Calendar Year Returns

Year	TCS	Infosys	HCL	Wipro
2015	-4.27%	11.97%	6.44%	1.36%
2016	-2.10%	-8.56%	-2.12%	-14.74%
2017	14.39%	4.09%	7.48%	-0.04%
2018	43.11%	28.52%	9.75%	4.52%
2019	15.87%	9.94%	18.37%	0.33%
2020	32.07%	88.83%	63.63%	55.93%
2021	27.66%	49.77%	40.30%	84.32%
2022	-14.70%	-20.56%	-21.63%	-45.35%



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Technology Based Equity Funds - Calendar Year Returns

Year	ICICI Pru Technology Fund	ABSL Digital India Fund	Tata Digital India Fund	SBI Technology Opp Fund
2015	3.95%	11.22%	-	2.37%
2016	-3.97%	-3.47%	-5.95%	-3.30%
2017	19.80%	22.35%	19.63%	13.01%
2018	19.20%	15.63%	24.92%	17.14%
2019	2.35%	9.57%	7.47%	12.24%
2020	70.59%	59.03%	54.83%	47.34%
2021	75.74%	70.47%	74.44%	66.42%
2022	-23.22%	-21.64%	-23.29%	-15.46%



Weighted Average Calendar Year Returns

The chart below takes into account weighted average returns of 4 stocks vis.a.vis.mutual funds. Weighted average returns of 4 equity funds. Again, mutual funds score results are better. In 5 of the eight years, they delivered better returns.

Year	Weighted Average (Direct Stocks)	Weighted Average (Mutual Funds)
2015	3.87%	4.39%
2016	-6.88%	-4.17%
2017	6.48%	18.70%
2018	21.47%	19.22%
2019	11.13%	7.91%
2020	60.12%	57.95%
2021	50.51%	71.77%
2022	-25.56%	-20.90%

*Weighted Average Returns have been calculated based on the assumption that equal amounts of investment was done in all stocks and mutual fund schemes.

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Medium to Long Term Returns

When we analyse returns for 3, 5, and 10-year periods, equity funds seem to be the clear winners. See chart below:-

CAGR Returns- As on 31/12/22

	TCS	Infosys	HCL	Wipro	ICICI Pru Technology Fund	ABSL Digital India Fund	Tata Digital India Fund	SBI Technology Opp Fund
3 years	14.53%	26.97%	22.03%	16.61%	31.70%	28.37%	27.15%	27.30%
5 years	20.22%	24.08%	18.79%	10.59%	23.01%	21.99%	22.85%	22.36%
10 years	18.23%	18.07%	21.01%	8.46%	21.23%	20.39%	-	-

TCS has underperformed all 4 mutual fund schemes over the last 3,5 and 10-year period.

Wipro has also been a laggard under all time periods and all mutual funds.

HCL lags behind for a 3 and 5-year period and is at par over a 10-year period.

Infosys lags over 5 and 10-year periods and is close in the 3-year period as compared to mutual funds.

Investing in direct stocks looks fascinating but may not be a good option unless you are an expert stock picker. Investing in a stock on hearsay and tip may not work for you. Generally, investors don't compute actual returns generated on their stocks (lack of knowledge, software, inertia) and they mostly over-estimate the returns they actually generate. In many cases, they exclude the losers and calculate returns only on the winners. As against this, when you invest in equity funds, the returns are calculated at the portfolio level.

Investing in the share market requires a lot of time and effort, which may not be possible for an average investor. Identifying a good stock is easier said than done. Mutual funds provide the option of investing in peace with expert fund managers managing your portfolio.

DIRECT STOCK INVESTING CAN BE A THRILL, BUT FOR RETURNS,
MUTUAL FUNDS CAN DO A BETTER JOB FOR YOU.

*This report has been prepared on the basis of data available with us. We have taken all precautions to avoid any error and lapses. However, we do not assume any liability for actions taken on the basis of this report and this is not investment advice. The user is advised to verify the contents of the report independently. Past performance may or may not be sustained in the future. Performance shown assumes lumpsum investment. Mutual fund investments are subject to market risks, read all documents carefully. Source:masterstrokeonline.com, investing.com

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