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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. We have selected 6 of the largest companies/stocks from a variety of sectors and 6 diversified mutual fund schemes belonging to various categories. We have analysed some numbers which make for an interesting reading.

Direct Stocks: CAGR Returns- As on 31/12/22

	HDFC Bank	Reliance	LT	ITC	Sun Pharma	Tata Steel
3 years	8.40%	19.43%	16.79%	11.62%	32.12%	33.85%
5 years	11.97%	23.10%	10.60%	4.79%	11.76%	11.57%
10 years	16.92%	19.87%	11.19%	5.71%	10.46%	11.04%

Mutual Funds: CAGR Returns- As on 31/12/22

	HDFC FlexiCap Fund	ICICI Pru Bluechip Fund	Mirae Asset Emerging Bluechip Fund	Quant FlexiCap Fund	SBI Bluechip Fund	Nippon India Large Cap Fund
3 years	19.53%	16.08%	18.74%	37.29%	15.23%	15.62%
5 years	12.17%	11.40%	12.86%	17.67%	10.50%	10.71%
10 years	14.53%	14.15%	21.30%	18.58%	14.30%	14.23%

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Observations



When you buy direct stocks, you expect to generate a return that is higher than most investment avenues, including mutual funds. However, what we see here is that it is not that straightforward. These companies are the leaders in their sectors and industry. Even if you are able to pick the right stock at the right time (extremely difficult and low probability), you may still struggle to beat mutual funds schemes over the long term. Furthermore, the moment you diversify into more than a few stocks, you may not be lucky to get it right.

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. Also, most of the time 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.

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