

Comparitive Analysis Of Investment Returns: Mutual Funds V/S Stock Trading With Special Reference To Investors

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ABSTRACT

In today's dynamic financial environment, investors are faced with numerous choices when deciding how best to grow and protect their wealth. Among the most popular options are mutual funds and stock trading, each offering distinct benefits and challenges. This study presents a comparative analysis of these two investment avenues, focusing on their return potential, risk characteristics, and suitability for different types of investors. Mutual funds, known for their diversification and professional management, are often preferred by individuals seeking a relatively stable and less time-intensive investment approach. In contrast, stock trading attracts investors who desire greater control and are willing to actively engage with market movements in pursuit of higher returns. The research examines how mutual funds and stock trading perform under varying market conditions, while also considering risk-adjusted returns, costs, liquidity, and tax implications. Special attention is given to investor behavior and personal factors such as age, income, financial knowledge, and investment objectives, as these elements play a significant role in shaping investment outcomes. By drawing on existing literature, historical performance data, and potential investor insights, the study highlights that no single investment strategy is universally superior. Instead, the effectiveness of mutual funds or stock trading largely depends on an investor's goals, risk tolerance, and level of market involvement. The findings aim to help investors make more informed and personalized investment decisions in an increasingly complex financial landscape.

Key Words: Mutual Funds, Stock Trading, Investment Returns, Risk and Return Analysis, Investor Behavior

INTRODUCTION

Investing has become an essential part of financial planning in today's fast-changing economic environment, as individuals seek better ways to grow their wealth and secure their future. With a wide range of investment options available, mutual funds and stock trading have emerged as two of the most popular choices among investors, each offering distinct benefits and risks. Mutual funds allow investors to pool their money into diversified portfolios that are managed by financial professionals. This makes them an attractive option for individuals who prefer a long-term, relatively stable investment approach and do not want to actively track market movements. On the other hand, stock trading involves the direct buying and selling of individual company shares, giving investors greater control over their investments but also exposing them to higher risk and market volatility. The choice between mutual funds and stock trading depends on factors such as financial goals, risk tolerance, investment knowledge, and time commitment. Emotional and behavioral aspects also play a significant role in investment decisions. This study aims to compare mutual funds and stock trading by examining their returns, risk, costs, and investor experiences, helping investors choose strategies that best align with their financial objectives.

Why is this research important?

This research is important because it helps investors better understand the differences between mutual funds and stock trading—two of the most popular investment options. Many investors make decisions based on limited knowledge or general assumptions, often without fully understanding the risks, returns, costs, and performance patterns of each option. This can lead to poor investment choices and unmet financial goals. By offering a clear comparative analysis of returns, risk, costs, and investor behavior, the study supports informed and rational decision-making. It is particularly useful for new and inexperienced investors who need simple and reliable guidance. Overall, the research contributes to improved financial awareness and helps investors align their investment choices with their personal financial objectives.

OBJECTIVES

This study's main goals are to:

1. Comparative Analysis of Investment returns: Mutual funds vs stock trading with special reference to investors.
2. Understand Why Investors Choose Mutual Funds or Stocks
3. Compare Costs of Investing in Mutual Funds vs. Stocks

REVIEW OF LITERATURE

1. Prof. Darpan K. Nagda (2025): The Indian mutual fund industry has witnessed remarkable growth over the last decade, with Assets Under Management reaching ₹39.88 trillion by May 2023, driven by rising disposable incomes, digital platforms, SIP adoption, and strong regulatory support from SEBI. Government initiatives promoting financial literacy and the expansion of fintech services have further improved accessibility and investor confidence. Despite challenges such as market volatility and liquidity risks, the sector is expected to grow steadily, supported by increasing financial awareness, a growing middle-class population, and wider investor outreach.
2. Shubham Shirke¹, Adarsh Kumar (2025): The study examines the role of mutual fund distributors, with special reference to NJ India Invest Pvt. Ltd., in promoting Systematic Investment Plans (SIPs) and building long-term investor relationships in the Indian mutual fund industry. Using survey data from 64 investors and interviews with mutual fund distributors, the findings reveal that a majority of investors depend on distributor guidance, which significantly improves trust, portfolio performance, and investment discipline. The study highlights the importance of effective communication, personalized advice, and customer-centric strategies in enhancing investor satisfaction, SIP adoption, and sustained industry growth.
3. Shilpa Sivan, Dr. Madhu Druvakumar (2025): This study examines the investment preferences and challenges of salaried women in Ernakulam, highlighting that returns, capital safety, tax benefits, and liquidity are key determinants, while fear of loss, market volatility, low income, and limited financial knowledge act as barriers. Women tend to prefer low-risk investments, emphasizing financial security over high returns, and structured plans like Systematic Investment Plans (SIPs) are recommended to encourage disciplined and safer investing. Financial counselling, tailored investment products, government incentives, and awareness programs can enhance women's confidence, knowledge, and participation in investment decisions, supporting long-term financial empowerment and economic stability.
4. Dr. Haritha S.M, Mr. M.G. Palani, Dr. Anjaly R, Dr. Sanjith S.R (2025): This study examines the investment preferences and challenges of salaried women in Ernakulam, showing that returns, capital safety, tax benefits, and liquidity drive choices, while fear of loss, market volatility, low income, and limited financial knowledge hinder participation. Women generally prefer low-risk investments, and structured plans like Systematic Investment Plans (SIPs), along with tailored investment products and financial counselling, can help overcome barriers and improve confidence and risk perception. Additionally, government incentives, awareness programs, and social media campaigns can educate women on financial opportunities, promoting informed decision-making, long-term wealth creation, and greater financial independence.

STATEMENT OF THE PROBLEM

Many investors today struggle to choose between mutual funds and stock trading due to limited financial knowledge and a lack of clear, practical comparisons between the two options. Although both are popular investment avenues, decisions are often based on assumptions rather than a proper understanding of their risks, returns, costs, and performance under different market conditions. Investors may underestimate the risks of stock trading or overestimate the safety of mutual funds, while overlooking important factors such as historical performance, expenses, and long-term impact on returns. Personal and psychological factors, including income level, risk tolerance, and emotional decision-making, further influence investment choices but are rarely considered alongside financial analysis. As a result, especially for new investors, making informed and confident investment decisions becomes difficult, highlighting the need for a clear and relatable comparative study of mutual funds and stock trading.

RESEARCH QUESTIONS

- What is your risk tolerance when it comes to investing?
- Which of the following best describes the primary goal of investing in mutual funds?
- What is the major advantage of investing in mutual funds over individual stocks?
- Which of the following is NOT a cost associated with mutual fund investments?

RESEARCH METHODOLOGY

In this research primary data is collected by distributing questionnaire to the employees of the company to obtain their perspectives and secondary data is obtained from the published materials and websites. The population of the study comprises the employees of the company and the sample size for this research is 50 and the sampling technique adopted in this study is simple random sampling. Data analysis is done by Chi-Square Goodness-of-Fit Test and percentage analysis.

● Chi-square

A Chi-square statistics which is used to test the measure of expectations compare above or model result.

$$X^2 = \sum [(Observed\ Frequency - Expected\ Frequency)^2 / Expected\ Frequency]$$

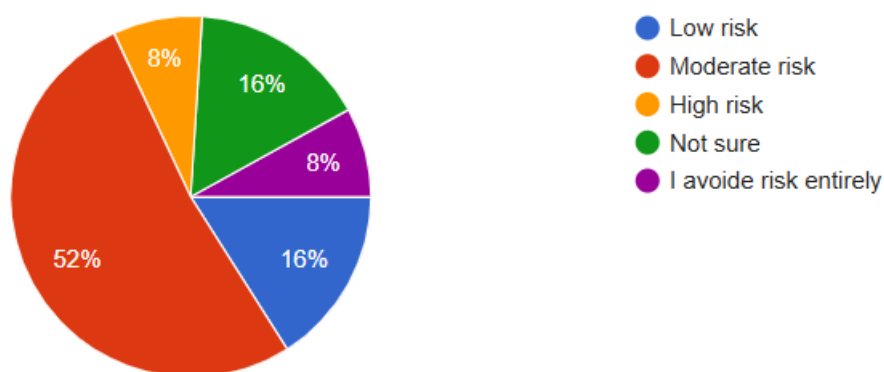
● Simple percentage analysis

Percentage base analysis helps to find which factors is significant among a number of factors.

ANALYSIS

Research Question 1: What is your risk tolerance when it comes to investing?

Risk Tolerance Level	Number of Respondents	Percentage
Low Risk	4	16%
Moderate Risk	13	52%
High Risk	2	8%
Not Sure	4	16%
I Avoid Risk Entirely	2	8%
Total	25	100%



Interpretation

The findings suggest that investors generally prefer moderate risk strategies, making mutual funds and diversified investment options more appealing than aggressive stock trading.

Null and Alternative Hypotheses

H₀ (Null Hypothesis): There is no significant difference in the distribution of investors' risk tolerance levels

H₁ (Alternative Hypothesis): There is a significant difference in the distribution of investors' risk tolerance levels.

Variables and Frequencies

Independent Variable: Risk tolerance level

(Low risk, Moderate risk, High risk, Not sure, Avoid risk entirely)

Dependent Variable: Number of respondents choosing each risk level

Chi-Square Goodness-of-Fit Test for Analysis with Returns Information

Category	Observed (O)	Expected (E)	(O-E) ² / E
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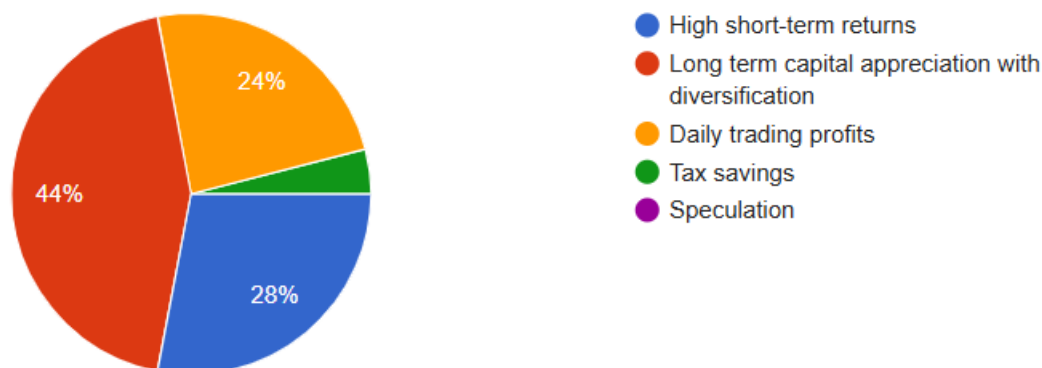
Low Risk	4	5	0.20
Moderate Risk	13	5	12.80
High Risk	2	5	1.80
Not Sure	4	5	0.20
Avoid Risk Entirely	2	5	1.80
Total χ^2 value			16.80

Since the calculated chi-square value (16.80) is greater than the critical value (9.49), the null hypothesis is rejected.

This indicates that there is a significant difference in the distribution of investors' risk tolerance levels. The results confirm that investors do not have a uniform risk preference, with a strong inclination toward moderate risk investments.

Research Question 2: Which of the following best describes the primary goal of investing in mutual funds?

Investment Goal	Number of Respondents	Percentage
High short-term returns	7	28%
Long-term capital appreciation with diversification	11	44%
Daily trading profits	6	24%
Tax savings	1	4%
Speculation	0	0%



Interpretation

The findings suggest that investors largely recognize mutual funds as tools for long-term wealth creation rather than speculative trading.

Null and Alternative Hypotheses

H₀ (Null Hypothesis): There is no significant difference in the distribution of respondents' primary goals for investing in mutual funds.

H₁ (Alternative Hypothesis): There is a significant difference in the distribution of respondents' primary goals for investing in mutual funds.

Variables and Frequencies

Independent Variable: Primary investment goal

(High short-term returns, Long-term capital appreciation with diversification, Daily trading profits, Tax savings, Speculation)

Dependent Variable: Number of respondents selecting each investment goal.

Chi-Square Goodness-of-Fit Test for Analysis with Returns Information

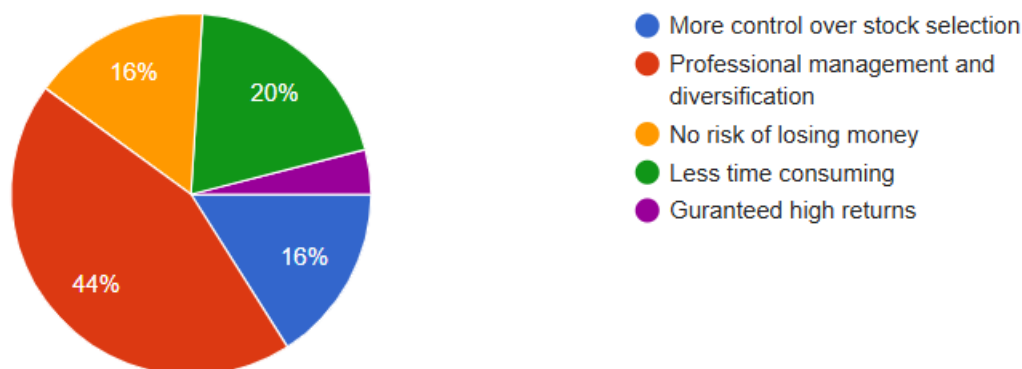
Category	Observed (O)	Expected (E)	(O-E) ² / E
High short-term returns	7	5	0.80
Long-term capital appreciation with diversification	11	5	7.20
Daily trading profits	6	5	0.20
Tax savings	1	5	3.20
Speculation	0	5	5.00
Total χ^2 value			16.40

Since the calculated chi-square value (16.40) is greater than the critical value (9.49), the null hypothesis is rejected.

This indicates a significant difference in the distribution of respondents' investment goals. The results confirm that investors predominantly view mutual funds as a vehicle for long-term capital growth with diversification rather than for speculation or short-term trading.

Research Question 3: What is the major advantage of investing in mutual funds over individual stocks?

Advantage	Number of Respondents	Percentage
More control over stock selection	4	16%
Professional management and diversification	11	44%
No risk of losing money	4	16%
Less time consuming	5	20%
Guaranteed high returns	1	4%
Total	25	100%



Interpretation

The results suggest that while most investors recognize the true advantages of mutual funds, some lack complete awareness of the associated risks.

Null and Alternative Hypotheses

H₀ (Null Hypothesis): There is no significant difference in respondents' opinions regarding the advantages of investing in mutual funds over individual stocks.

H₁ (Alternative Hypothesis): There is a significant difference in respondents' opinions regarding the advantages of investing in mutual funds over individual stocks.

Variables and Frequencies

Independent Variable: Perceived advantage of mutual funds

(More control, Professional management and diversification, No risk of losing money, Less time consuming, Guaranteed high returns)

Dependent Variable: Number of respondents selecting each option

Chi-Square Goodness-of-Fit Test for Analysis with Returns Information

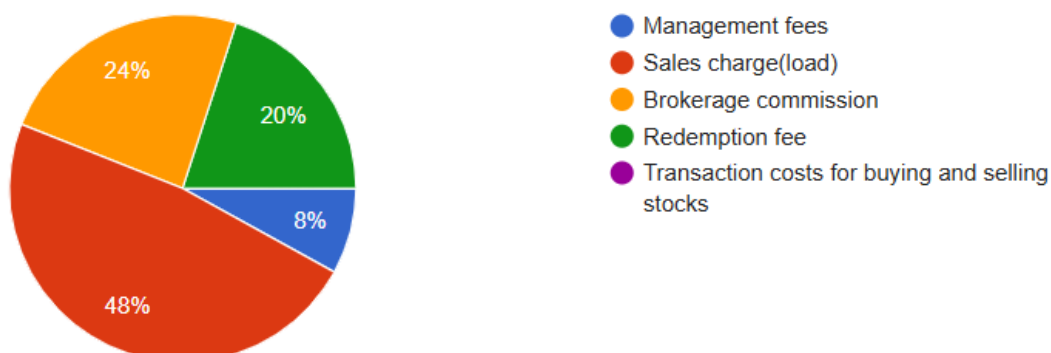
Category	Observed (O)	Expected (E)	(O-E) ² / E
More control over stock selection	4	5	0.20
Professional management and diversification	11	5	7.20
No risk of losing money	4	5	0.20
Less time consuming	5	5	0.00
Guaranteed high returns	1	5	3.20
Total χ^2 value			10.80

Since the calculated chi-square value (10.80) is greater than the critical value (9.49), the null hypothesis is rejected.

This indicates that there is a significant difference in respondents' perceptions of the advantages of investing in mutual funds over individual stocks. The results confirm that professional management and diversification are clearly perceived as the primary benefits, while some misconceptions regarding risk and guaranteed returns still exist among a minority of investors.

Research Question 4: Which of the following is NOT a cost associated with mutual fund investments?

Cost Component	Number of Respondents	Percentage
Management fees	2	8%
Sales charge (load)	12	48%
Brokerage commission	6	24%
Redemption fee	5	20%
Transaction costs for buying and selling stocks	0	0%
Total	25	100%



Interpretation

The results reveal a moderate level of misunderstanding among investors regarding the various costs involved in mutual fund investments.

Null and Alternative Hypotheses

H₀ (Null Hypothesis): There is no significant difference in respondents' understanding of costs associated with mutual fund investments.

H₁ (Alternative Hypothesis): There is a significant difference in respondents' understanding of costs associated with mutual fund investments.

Variables and Frequencies

Independent Variable: Type of cost

(Management fees, Sales charge, Brokerage commission, Redemption fee, Transaction costs for buying and selling stocks)

Dependent Variable: Number of respondents selecting each option

Chi-Square Goodness-of-Fit Test for Analysis with Returns Information

Category	Observed (O)	Expected (E)	$(O-E)^2 / E$
Management fees	2	5	1.80
Sales charge (load)	12	5	9.80
Brokerage commission	6	5	0.20
Redemption fee	5	5	0.00
Transaction costs for buying and selling stocks	0	5	5.00
Total χ^2 value			16.80

Since the calculated chi-square value (16.80) is greater than the critical value (9.49), the null hypothesis is rejected.

This indicates a significant difference in respondents' understanding of mutual fund costs. The results suggest that many investors are not fully aware of which costs are actually associated with mutual fund investments, highlighting the need for improved financial education regarding investment expenses.

FINDINGS

- Most investors prefer a moderate level of risk, suggesting that they aim for a balance between earning reasonable returns and protecting their invested capital from high volatility.
- Mutual funds are mainly chosen for long-term capital appreciation along with diversification, showing that investors view them as stable and reliable investment options rather than short-term profit tools.
- Professional management and diversification are widely recognized as the key advantages of mutual funds, as they help reduce risk and remove the need for constant market monitoring by investors.
- Many investors also appreciate mutual funds because they are less time-consuming and easier to manage compared to direct stock trading, making them suitable for working professionals and beginners.
- The study highlights a lack of clear understanding about mutual fund costs, with many investors unaware of how fees and charges can affect their overall investment returns over time.

SUGGESTIONS

- Investors should clearly assess their risk tolerance and financial goals before choosing between mutual funds and stock trading, as this helps in selecting investments that match their comfort level and expectations.
- Greater efforts should be made to improve financial literacy, especially regarding how mutual funds and stock markets work, so investors can make informed and confident decisions.
- Investors are advised to pay close attention to costs and charges such as expense ratios, loads, and other fees, as these can significantly impact long-term returns.
- Beginners and risk-averse investors should consider mutual funds as a starting point, since they offer diversification and professional management with relatively lower risk.
- Investors interested in stock trading should develop strong market knowledge and emotional discipline, as stock investing requires continuous monitoring and the ability to handle market volatility.
- Financial advisors and institutions should provide clear and transparent information about investment products, risks, and costs to help investors avoid misconceptions and unrealistic expectations.

CONCLUSION

In conclusion, this study highlights the key differences between mutual funds and stock trading and shows that investor preferences are largely influenced by risk tolerance, investment goals, and level of financial awareness. The findings indicate that most investors prefer mutual funds due to their moderate risk, diversification, and professional management, making them suitable for long-term wealth creation. However, the study also reveals gaps in investor understanding, particularly regarding investment risks and cost structures. Therefore, making informed investment decisions requires better financial knowledge and clarity about personal financial goals. By improving awareness and aligning investment choices with individual needs, investors can make more effective and confident decisions in an increasingly complex financial environment.

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