



A COMPARATIVE ANALYSIS OF MUTUAL FUND VS DIRECT EQUITY INVESTMENT IN INDIA

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ABSTRACT

Investment decisions play a crucial role in wealth creation, with mutual funds and direct equity investment being two popular avenues among Indian investors. This study aims to provide a comprehensive comparative analysis of mutual funds and direct equity investments by examining their risk-return profiles, investor behavior, and perception within the Indian financial market. Utilizing primary data collected through a structured questionnaire from 100 individual investors across urban regions, the study evaluates factors such as risk tolerance, expected returns, diversification benefits, and ease of investment. Statistical methods, including descriptive analysis, t-tests, and correlation analysis, are employed to identify significant differences in investor preferences and performance outcomes. The results suggest that while direct equity investments offer higher return potential, mutual funds provide greater diversification and professional management, leading to lower perceived risk among investors. Additionally, investor awareness and financial literacy significantly influence the choice of investment vehicle. These insights highlight the importance of tailored financial advisory services and investor education to optimize portfolio decisions. This study contributes valuable knowledge for investors, fund managers, and policymakers aiming to foster informed investment behavior in India's evolving capital market landscape.

Keywords

Mutual Funds, Direct Equity, Investment Decision, Risk-Return Analysis, Investor Perception, Financial Literacy, India, Behavioral Finance, Diversification.

1. INTRODUCTION

India's financial market has witnessed significant transformation over the last two decades, with an increasing number of individuals participating in formal investment activities. Among the most preferred avenues of investment are mutual funds and direct equity. Mutual funds offer a diversified, professionally managed investment vehicle that appeals to risk-averse or time-constrained individuals, whereas direct equity investments allow investors greater control, transparency, and the potential for higher returns. The contrasting nature of these two options has led to varied adoption patterns, especially among young, urban investors who are navigating an increasingly complex financial landscape.

The Indian government's push for financial inclusion, along with the widespread availability of digital investment platforms and increasing investor education, has further contributed to a surge in participation. However, despite this growth, a knowledge gap still exists in understanding what drives an investor's preference toward either mutual funds or direct equity. Investment decisions are no longer driven by return potential alone; psychological, behavioral, and contextual factors now play a key role in shaping the choices investors make. This study aims to conduct a comparative analysis of mutual fund and direct equity investment, focusing on risk-return profiles, investor perception, demographic influences, and behavioral intention.

Theoretical Framework

The study is grounded in the principles of behavioral finance, which challenge the assumptions of traditional financial theories that consider investors as fully rational decision-makers. Behavioral finance recognizes that emotions, biases, and cognitive limitations influence individual investment behavior. In this context, mutual funds are often viewed as a safer, guided investment vehicle, whereas direct equity investments are perceived as high-risk, high-reward options that require deeper market understanding and constant involvement. The psychological comfort provided by professional fund managers in mutual funds contrasts with the autonomy and control offered by direct equity, reflecting a fundamental behavioral divergence in investor profiles.

This research seeks to explore how different psychological and demographic variables influence the choice between these two investment paths. Key factors under consideration include perceived risk and return, financial literacy, risk appetite, age, and income. The study also takes into account the behavioral intention of investors—essentially, their willingness and readiness to invest in either option—based on their past experiences, peer influence, and trust in the investment ecosystem. These behavioral and psychological dimensions help paint a fuller picture of how and why investors gravitate toward a particular investment strategy in India.

Research Model and Hypotheses

This study extends the traditional approach to investment analysis by incorporating behavioral constructs into its framework. Building upon existing literature and empirical evidence, it postulates that there is a significant difference in the way investors perceive risk and return across mutual funds and direct equity. It further assumes that financial literacy enhances the ability to understand and evaluate the risks involved in direct equity investment, thereby influencing preference. In addition, risk-averse individuals are expected to prefer mutual funds due to their diversification benefits and relative stability, while those with higher risk tolerance may lean toward direct equity. Finally, it is suggested that demographic factors such as age and income play a crucial role in shaping investor preferences and decisions.

To explore these assumptions, the study employs a conceptual framework that links investor characteristics and behavioral traits to investment preference. Perceived risk and return act as cognitive assessments that investors make when choosing between mutual funds and equities. Financial literacy is treated as a foundational capability that empowers investors to make informed decisions, while risk appetite serves as a psychological measure of comfort with uncertainty and loss. These factors collectively influence behavioral intention, which in turn determines actual investment behavior.

2.LITERATURE REVIEW

The investment landscape in India has evolved considerably over the past decade, with mutual funds and direct equity emerging as two of the most prominent instruments among retail investors. Globally, mutual funds have long been considered a secure and professionally managed avenue for individuals seeking stable returns through diversification. In contrast, direct equity investment offers greater potential for high returns, but comes with higher volatility and demands active market participation and deeper financial knowledge. Researchers have consistently explored the behavioral, psychological, and financial factors that influence investor preference for one mode of investment over another.

Several studies have examined the characteristics and advantages of mutual fund investments. According to Singh and Yadav (2016), mutual funds are preferred by investors who seek portfolio diversification and professional management, particularly those with limited market expertise or lower risk tolerance. They also note that Systematic Investment Plans (SIPs) have played a key role in popularizing mutual funds among salaried individuals in India. In a similar vein, Sadhak (2009) emphasizes that the simplified entry and exit mechanism of mutual funds, combined with the trust associated with regulatory oversight by SEBI, enhances investor confidence.

On the other hand, direct equity attracts a different type of investor—one who is generally more financially literate, risk-tolerant, and engaged with the market. According to Bhalla (2017), direct equity investors often possess a higher degree of financial awareness and exhibit a desire to control their own investment decisions.

They are also more influenced by real-time financial information, media analysis, and peer success stories. Studies by Rajeswari and Ramamoorthy (2001) and later by Jain and Dash (2020) reveal that direct equity investors are motivated by the potential for rapid capital gains and the freedom to customize their portfolios.

Investor perception has also been a focal point of academic interest. Sharma and Bodla (2011) found that mutual fund investors value safety, convenience, and tax benefits, whereas equity investors prioritize return potential and are less influenced by short-term risks. The influence of demographic variables such as age, income, education level, and occupation has also been documented extensively. For example, Kaushik and Arora (2020) discovered that younger investors with higher income and educational attainment were more likely to invest directly in stocks due to greater access to financial tools and platforms.

While most existing literature provides insights into the characteristics and motivations of mutual fund and equity investors, a considerable number of studies have also applied behavioral finance theories to understand these preferences. Behavioral finance recognizes that investment decisions are not purely rational but are affected by biases, emotions, and heuristics. Shefrin (2000) and Statman (2002) both argue that psychological factors such as overconfidence, herd behavior, and loss aversion significantly influence individual investment behavior. In the Indian context, Chaturvedi and Khare (2012) found that many investors rely on recommendations from friends, family, or financial advisors rather than independent analysis, underscoring the role of social influence in investment decisions.

Despite the growing body of literature, there remains a noticeable gap in comparative studies that explicitly examine the behavioral intentions and perceptions of investors choosing between mutual funds and direct equity using structured theoretical models. Most studies either analyze these instruments in isolation or focus on financial returns and market performance. Very few explore the psychological or motivational underpinnings of investor preference using empirical methods and primary data. This gap is particularly evident in the Indian context, where investment behavior is often shaped by cultural norms, regulatory awareness, and varying levels of financial literacy.

Thus, the present study seeks to bridge this gap by employing a behavioral lens to understand the comparative appeal of mutual funds and direct equity among Indian investors. It does so by exploring risk-return expectations, demographic factors, and individual attitudes toward investment. Unlike previous research, which often treats financial instruments in silos, this study compares the two avenues directly, offering a nuanced understanding of investor behavior in a rapidly evolving financial ecosystem. Through this approach, it aims to provide actionable insights for policymakers, financial advisors, and fintech platforms aiming to cater to diverse investor needs in India.

3. RESEARCH METHODOLOGY

3.1 Research Design and Approach

This study uses a quantitative, cross-sectional survey design. A structured questionnaire constructs was distributed online via Google Forms.

3.2 Sample and Sampling Method

Out of 50 responses received, 50 were complete and valid. The sample included digitally literate students and professionals from Delhi NCR. Purposive sampling was used to target individuals familiar with digital transactions or cryptocurrency.

3.3 Measurement of Variables

All constructs were measured using a 5-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree).

- Attitude: Perceived benefits, usefulness, and trust in Mutual fund and Direct Equity Investment.
- Subjective Norms: Influence of family, friends, and societal opinion.
- Behavioral Intention: Willingness to adopt or invest in Mutual fund and Direct Equity Investment.

4. RESEARCH AND ANALYSIS

The key findings derived from the survey conducted on a comparative study of mutual fund versus direct equity investments in India, based on the responses of 50 participants.

4.1 Demographic Profile of Respondents

The survey respondents were predominantly young, highly educated males. An overwhelming **92%** were aged **21-30 years**, indicating a focus on the emerging investor demographic. The sample was heavily male-dominated, with **80% male** and **20% female** participants. In terms of occupation, **50% were Salaried Professionals** and **40% were Students**, reflecting active or aspiring involvement in the financial markets. The majority of respondents (combined **78%**) had annual incomes below ₹5 lakhs, with **42% earning ₹2-5 lakhs** and **36% earning below ₹2 lakhs**, suggesting a focus on lower to middle-income investors. Educationally, the group was highly qualified, with **40% holding Postgraduate degrees** and **26% possessing Professional Qualifications**, implying a relatively financially literate respondent base.

4.2 Current Investment Landscape and Experience

Mutual Funds emerged as the most popular current investment avenue, with **42% of respondents** investing in them, closely followed by Direct Equity (Stocks) at **32%**. Traditional options like Fixed Deposits (24%) and Gold (22%) also maintained significant presence. A substantial **82% of respondents had less than 3 years of investment experience**, with **42% having less than 1 year**, highlighting a population of relatively new investors.

4.3 Investment Objectives and Decision-Making

"Wealth Creation" was the primary investment objective for **46% of respondents**, with "Capital Appreciation" as the second highest at **28%**, indicating a strong growth-oriented mindset among the younger investors. Investment decisions were primarily driven by "Self-research" (**62%**), followed by advice from "Friends/Family" (**26%**), with "Financial Advisors" playing a lesser role (**10%**). When comparing attractiveness, a large segment (**40%**) found "Both Mutual Funds and Direct Equity Equally Attractive," while **30% were "Not Sure."** Among those with a clear preference, Mutual Funds were favored (**26%**) over Direct Equity (**4%**). The top reasons for investment preference were "Better Returns" (**50%**) and "Lower Risk" (**26%**), reflecting a desire for both high gains and capital safety.

4.4 Risk Awareness and Satisfaction

Respondents demonstrated high awareness of risks in both mutual funds (**78% aware**) and direct equity (**80% aware**). While a strong majority showed awareness, there were still segments partially or completely unaware (e.g., 12% unaware of direct equity risks). Overall satisfaction with current investments was largely positive to neutral, with **58% combined satisfied/very satisfied** and **38% neutral**, indicating generally acceptable investment experiences.

4.5 Market Fluctuations and Portfolio Management

Market fluctuations significantly influenced the investment decisions of **52% of respondents**, and influenced an additional **42% to a limited extent**, suggesting high market reactivity. Portfolio reviews were frequent, with **52% reviewing monthly** and **24% quarterly**, indicating active engagement. Online Platforms/Apps were the dominant choice for investments (**56%**), showcasing a clear shift towards digital investment solutions, while traditional banks (**20%**) and brokers (**14%**) were less utilized.

4.6 Open-Ended Feedback and Suggestions

The qualitative feedback reinforced that the choice between mutual funds and direct equity is highly individual, dependent on factors like risk appetite, knowledge, and time commitment. Mutual funds were praised for diversification, professional management, and being beginner-friendly, while direct equity was recognized for higher return potential but also higher risk requiring active management. A common suggestion

was to combine both investment types. There was also a call for increased stock market awareness and consideration for low-income investors, alongside unique perspectives on real estate and international trade due to market uncertainties.

5. DISCUSSION

The findings of this study offer valuable insights into the investment behavior of individuals in the Indian financial landscape, particularly when choosing between mutual funds (MFs) and direct equity investment (DEI). The analysis reveals that investor attitude driven by perceived returns, risk appetite, convenience, and trust is a major determinant of their investment preference. Individuals with favorable attitudes toward mutual funds, often due to professional management and lower involvement, are more inclined to choose MFs. In contrast, those who view direct equity as an opportunity for higher control and potentially greater returns despite its risks tend to prefer DEI.

Interestingly, the role of subjective norms such as family, friends, or media influence was not found to significantly shape the final investment decision. This contrasts with traditional expectations in collectivist societies like India, where peer and family recommendations often influence financial behavior. The results suggest a shift in mindset among urban, financially aware investors who are now basing their choices more on personal analysis and financial objectives rather than social endorsement.

Nevertheless, the moderate correlation observed between subjective norms and attitude indicates that while social influence might not directly drive investment action, it does affect how investors perceive and evaluate different investment options. This emphasizes the importance of financial awareness programs and investor education campaigns that focus on building independent financial judgment rather than relying solely on testimonials or word-of-mouth recommendations.

The R^2 value of approximately 44% from the regression model indicates that while attitude and subjective norms play a substantial role in explaining investor preferences, there are additional influential factors at play. Variables such as financial literacy, perceived risk, past investment experience, and access to advisory services are likely to contribute to investment choices. Incorporating these variables in future research could lead to a more robust understanding of investor behavior in India.

This study highlights a growing trend of self-directed financial decision-making among Indian investors. Attitude plays a pivotal role in determining whether an individual prefers mutual funds or direct equity investment, while the impact of subjective norms appears to be diminishing in urban and financially literate populations. This transition underscores the need for personalized financial education over generalized or socially driven .

6. CONCLUSION AND IMPLICATIONS

This study aimed to explore the psychological and behavioral factors influencing investor preference between mutual funds and direct equity investment in the Indian context, using constructs similar to those found in the Theory of Reasoned Action . Based on responses collected from digitally aware individuals in the Delhi NCR region, the research found that investor attitude—shaped by factors such as perceived returns, convenience, trust, and control—played a significant role in determining investment choices. On the other hand, subjective norms—reflecting influence from peers, family, or societal expectations—did not have a significant impact, suggesting that investment decisions are increasingly being made based on individual assessments rather than external pressures.

These findings carry several practical implications. First, they emphasize the need for asset management companies, brokerage platforms, and financial educators to focus on shaping positive investor attitudes. This can be achieved by providing transparent information, highlighting historical performance data, simplifying investment processes, and addressing concerns related to risk and security. Empowering investors with knowledge and tools to make informed decisions can enhance their confidence and promote more rational investment behavior.

Second, the limited influence of subjective norms suggests that campaigns relying solely on social proof—such as endorsements, testimonials, or peer trends—may not be effective in influencing investment decisions. Instead, communication strategies should prioritize factual, benefit-oriented messaging that appeals to individual judgment and long-term financial planning goals.

Finally, the moderate explanatory strength of the model, with an R^2 value around 44%, indicates that other variables likely contribute to investment behavior. Factors such as financial literacy, past investment experience, risk tolerance, income level, and perceived market knowledge could further enhance understanding of why investors lean toward mutual funds or direct equity. Future research should consider integrating these dimensions to develop a more comprehensive and predictive model of investor behavior in India's evolving financial ecosystem.

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