Mutual Fund Distributor

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 pharmaceutical stocks vs pharma/healthcare funds. We have taken 3 of the top Pharma/Healthcare companies in India on the basis of market capitalisation and 3 mutual fund Pharma and Healthcare based mutual fund sectoral schemes.



Short Term Returns

When we look at the calendar year returns for stocks & equity funds, stocks and mutual funds seem to mirror each other. However, individual stocks seem to be more volatile than funds.

Direct Stocks - Calendar Year Returns

Year	Sun Pharma	Divi's Labs	Dr. Reddy's
2015	-0.24%	32.19%	-3.18%
2016	-22.70%	-32.56%	-1.54%
2017	-9.37%	40.10%	-21.11%
2018	-25.09%	34.85%	8.82%
2019	-0.23%	25.08%	10.24%
2020	36.41%	111.28%	80.79%
2021	41.78%	21.54%	-6.37%
2022	18.46%	-27.04%	-13.65%



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Pharma and Healthcare Based Equity Funds - Calendar Year Returns

Year	Nippon India Pharma Fund	SBI Healthcare Opp Fund	UTI Healthcare Fund
2015	19.37%	27.06%	12.37%
2016	-10.58%	-14.02%	-9.71%
2017	7.61%	2.05%	6.20%
2018	3.64%	-9.89%	-7.53%
2019	1.68%	-0.49%	1.18%
2020	66.44%	65.83%	67.36%
2021	23.93%	20.15%	19.08%
2022	-9.90%	-6.02%	-12.32%



Weighted Average Calendar Year Returns

The chart below takes into account weighted average returns of stocks vis.a.vis.mutual funds. Equity funds outperformed in 4 years compared to direct stocks whereas direct stocks did better in the other four years. Considering lower risk in mutual funds (since they invest in a basket of stocks and experts manage the portfolio), mutual funds have a slight edge here.

Year	Weighted Average (Direct Stocks)	Weighted Average (Mutual Funds)
2015	9.59%	19.60%
2016	-18.93%	-11.44%
2017	3.21%	5.29%
2018	6.19%	-4.59%
2019	11.70%	0.79%
2020	76.16%	66.54%
2021	18.98%	21.05%
2022	-7.41%	-9.41%

*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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Long Term Returns

When we analyse returns for 5, and 10-year periods, equity funds seem to have the edge over the longer time periods.

CAGR Returns- As on 31/12/22

	Sun Pharma	Divi's Labs	Dr. Reddy's Labs	Nippon India Pharma	SBI Healthcare Opp Fund	UTI Healthcare Fund
5 years	11.76%	25.44%	12.00%	14.44%	10.92%	10.38%
10 years	10.46%	12.01%	8.72%	15.01%	13.94%	12.03%

Sun Pharma is at par over 5 years but has underperformed over a 10 year period.

Divi's Laboratory has comfortably outperformed all funds in the 5 year period but lags over a 10 year period.

Dr. Reddy has been quite an underperformer over any horizon.

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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