

DILEMMA IN MIND WHERE TO INVEST EITHER FIXED DEPOSIT OR MUTUAL FUND

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ABSTRACT:

From the early age to Modern age every investor always search a best option to invest their savings with a good return which is less risky .Near about a decade ago Fixed Deposit was one of the best option to put the savings as there was an excellent rate of interest on term deposit but recently this rate is reducing day by day .Because of that investors are investigating a better path for engage their saving money .By taking these opportunity all the fund managers of mutual funds companies/trust pooling the money from the market or retail investor and utilizing that in equity market. For the last 5-10 years a drastic growth of investment along with diversification of scheme has been seen in mutual fund industry and giving a better rate of return than Fixed Deposit consistently .Now the main purpose of this paper is to evaluate the performance between mutual fund and term deposit of nationalized banks.

KEYWORDS:- Mutual Fund, Fixed deposit, Investors, Investment , Return, Fund.

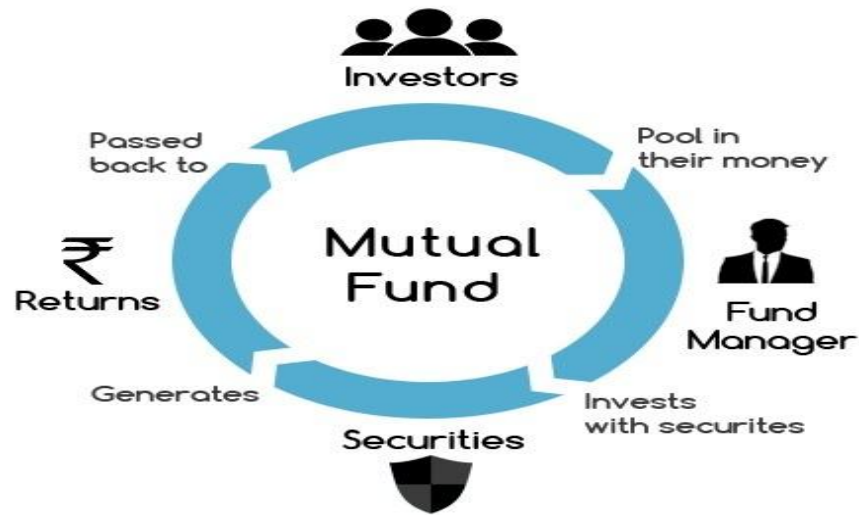
INTRODUCTION

From the last one decade a question arose in the mind of every investors that –“Is mutual fund returns better than fixed deposit?” In present scenario there are many sectors for investment like Post Office savings, PPF, Bond & Debenture, Life Insurance Policy, Equity Shares, Gold, Money Market and etc. Out of them many investment option have low risk low return, moderate risk moderate return, high risk high return but among them every investor seeking high return but low risk . To get this kind of return an investor requires management, expatriation, convenience, economical, diversification, liquidity, safe and transparent, etc. After many research & investigation the investor come to a conclusion that mutual fund can yield better return than others investment with low risk.

OBJECTIVES

1. To identify the better opportunity of investment for the investor who are searching better return than F.D
2. To identify the risk –return factor between F.D & M.F
3. To study the various type of M.F investment as per the requirement of the investors.
4. To know the return on investment in companies to the current inflation.

HOW MUTUAL FUND WORKS



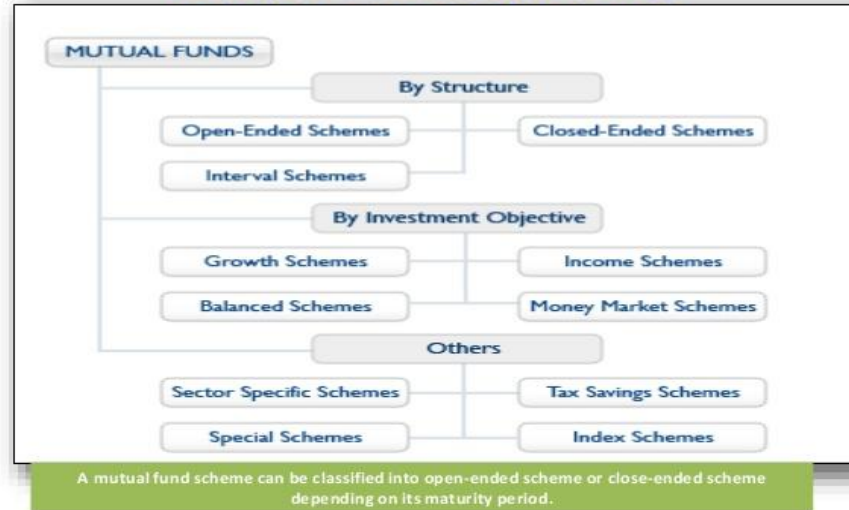
TYPE OF MUTUAL FUND:

By structure: Open ended, Close ended, interval scheme

By investment objectives: Equity Fund, Bond Funds, Balanced Fund, Growth Fund, and Income Fund

Others: Tax Savings scheme, Country Funds, Index scheme, Sector specific scheme etc.

Mutual Funds Schemes



Different sector of investment for mutual fund manager:

1. Equity Fund
2. Debt Fund
3. Money Market Fund
4. Hybrid Fund
5. Gold Fund and others.

RETURN ON INVESTMENT:

Firstly if you consider the fixed deposit rate of State Bank of India it serves 6.5% for general and 7% for senior citizen as on 12th March 2018. Few banks provides maximum 7.5% for general . On the other hand Mutual Funds have no assure rate of return it completely depend upon the market scenario and performance of the fund. The advantages of the F.D is that ,investors will earn a consistent return even if the market is down but if the market is up M.F can fetch a lucrative return . For example “Reliance Small Cap Fund (g) could yield 38.2% for 1 year,38.4% for 2 years,21.4% for 3 years and 35.8% for 5 years on average ,(Source –Moneycontrol.com as on 7th March ,2018

Inflation Adjustment: This is a crucial part while comparison between F.D and M.F comes .It was found that many times F.D rate is near about same or lower than inflation .If it happens than one investor will lose at the end of term. On the other part M.F managers look after all these factor and always give positive and real return.

INFLATION V/S RETURN

Class of Asset	Inflation	Return (approx.)
FIXED DEPOSIT	8.82%	8.50%
GOLD	8.82%	10-12%
SHARE	8.82%	17%
MUTUAL FUND	8.82%	14-15%

(Source: Professional Training Academy Slide share)

RETURN OF VERIOUS TYPE OF MUTUAL FUNS:

FUND CATEGORY	FUND NAME	1 YR RETURN	3 YRS RETURN	5 YRS RETURN	10 YRS RETURN
LARGE CAP FUND	FRANLIN INDIA BLUE CHIP FUND(G)	36.28%	19.70%	12.84%	18.80%
	ICICI PRU FOCUSED BLUECHIP FUND	40.84%	23.51%	16.18%	-----
LARGE AND MID CAP	S&P BSE 100 (BENCHMARK FOR FUND)	32.85%	19.71%	9.70%	15.46%
	QUANTUM LONG TERM EQUITY FUND (G)	39.12%	23.53%	15.82%	---
SMALL AND MID CAP	IDFC PREMIER EQUITY REGULAR (G)	62.87%	29.85%	20.77%	----
	RELIANCE EQUITY OPP FUND (G)	65.81%	32.03%	20.71%	-----
MULTI CAP	RELIANCE REGULAR SAVING PLAN (G)	59.17%	25.92%	12.97%	----
	S&P BSE 100	32.85%	19.71%	9.70%	15.66%
BALANCE FUND	HDFC BALANCED FUND(G)	52.53%	24.62%	18.77%	18.36%
	ICICI PRU BALANCED FUND(G)	46.79%	25.72%	17.79%	17.33%
TAX SAVING FUND	CANARA ROBECO EQUITY TAX SAVER (G)	46.11%	23.72%	15.80%	22.44%
	ICICI PRU TAX PLAN (G)	52.63%	28.57%	17.08%	20.59%

LIQUIDITY: In case of liquidity both M.F & F.D are near about similar .Earlier F.D had lock in period but now a days most of the banks allows his customers for premature withdrawn with minimal penalty (normally 1%) and interest is calculate how long the money was invested .M.F are also equally liquid, anyone can withdraw his money or any number of units within a couple of days .It is calculated as NAV *NUMBER OF UNITS and it also charge 1% penalty for premature withdrawal.

NAV (NET ASSET VALUE): NAV is the total asset value per unit of the fund and is calculated by the AMC at the end of every business day.

Formula:

Market or fair value of securities +Accrued income+ Receivable+ Other asset+ Accrued expenses- payable – other liabilities/ Number of units outstanding of the scheme or option

RISK FACTOR: When the matter of risk comes most of the investor seek for assured return on capital i.e fixed deposit .On the other hand ,return from investment in M.F are subject to market risk .That means when the market is in bearish mood it will give negative return while in bulling mood can give a handsome return. For selection of M.F one investor should judge the BETA RATIO of mutual fund.(A beta of less than 1.0 indicates that the investment will be less volatile than the market ,and, correspondingly a beta of more than 1.0 indicates that the investment's price will be more volatile than the market)

COST OF INVESTMENT: Investment in bank F.D costs nothing. On the other side M.F changes two kind of charges 1) Entry Load 2) Exit Load. Now a days M.F cannot charge entry load but there are no fixed exit loads which are charged .It may varies from 0.50% to 3.00% depending on holding period .If the investor continue to hold the investment beyond specific period ,no exit load is charged .

BENEFIT OF TAX : With effect from 01/04/2018 ,dividend from equity oriented mutual fund will be subject to DIVIDEND DISTRIBUTION TAX (DDT) at the rate of 10% ,the fund houses will deduct DDT before declaring dividend .Whereas bank deduct TDS @ 10% from interest of fixed deposit exceeds Rs. 10,000/- in a year of different companies which gives a better tax benefit than other investment

PRODUCT	RETURN	SAFETY	LIQUIDITY	TAX BENEFIT	CONVENIENCE
BANK DEPOSIT	LOW	HIGH	HIGH	NO/YES	HIGH
EQUITY INSTRUMENT	HIGH	LOW	HIGH/LOW	NO	MODERATE
LIFE INSURANCE POLICY	LOW	MODERATE	LOW	MODERATE	LOW
MUTUAL FUND	HIGH	MODERATE	MODERATE	YES/NO	HIGH

RESEARCH METHODOLOGY:

Source of Data- All those data for this study is mainly collected from secondary sources like journal, various website like moneycontrol.com, www.nseindia.com, economicstimes.com.

Statistical Tools- Here the simple statistical techniques like charts, rate of return, table are used .Considering the interest of retail investor this study /output has been made simple & average rate of return of M.F scheme compared to the other domestic term deposit rates.

LIMITATION OF THE STUDY:

As there are various kind of scheme for mutual fund and it provides a different outcome for variant period of time. Here all the data are collected for the period of 2017-2018 for selected scheme. The return from mutual fund investment shows when the share market is bullish.

CONCLUSION:

After a thorough research and study a conclusion can be made that those investor can put their investment in M.F who have vision and future goal or long term plan/short term plan of anything to buy or any purpose and can take risk ,patience as well as a bullish speculation on the economy of the country .Presently M.F companies have variety of product or scheme for various requirement of the investor .Elsewhere those investor require security ,determination of tenure, mode of interest payment and can avail loan on principle /investment should opt for F.D.Specially young and middle age people with average middle and upper level of income with ability to take risk should go for investing in M.F. On the other part elderly and lower income people who cannot take risk or securing the principle money should opt for F.D.