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COMPARATIVE STUDY ON MUTUAL FUNDS AND FIXED DEPOSITS: AN OVERVIEW

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Abstract
Investment is an activity that is engaged in by people who have savings i.e. investments are made from savings, or in other words people invest their savings. A variety of investment options are available such as bank, Gold, Real estate, post services, mutual funds & so on. Mutual fund industry has experienced a drastic growth in the past two decades. Increase in the number of schemes with increased mobilization of funds in the past few years notes the importance of Indian mutual funds industry. Proper assessment of various fund performance and their comparison with other funds helps retail investors for making investment decisions. The main aim of this paper is to evaluate the performance of mutual fund and compare these returns with fixed deposit rates.
Key words: Mutual funds, Fixed Deposits, Interest Rates, Investments, Risk and Return

Introduction

The developing countries like India face the enormous task of finding sufficient capital in their development efforts. Most of these countries find it difficult to get out of the vicious circle of poverty of low income, low saving, low investment, low employment etc. With high capital output ratio, India needs very high rates of investments to make leap forward in her efforts of attaining high levels of growth. Since the beginning of planning, the emphasis was on investment as the primary instruments of economic growth and increase in national income. In order to have production as per target, investment was considered the crucial determinant and capital formation had to be supported by appropriate volume of saving. Investment is the sacrifice of certain present value for the uncertain future reward. Investments are always interesting, challenging and rewarding. Generally where there is a high risk, more rate of return is assured. Risk and reward go together. The major features of an investment are safety of principal amount, liquidity, income stability, appreciation and easy transferability. A variety of investment avenues are available such as shares, bank, companies, gold and silver, real estate, life insurance, postal savings and so on. All the investors invest their surplus money in the above mentioned avenues based on their risk taking attitude.

Review Of Literature

V.R.Palanivelu &K.Chandrakumar(2013): Examined the Investment choices of salaried class in Namakkal Taluk, Tamilnadu, India with the help of 100 respondents as a sample size & it reveals that as per Income level of employees, invest in different avenues. Age factor is also important while doing investments.

Avinash Kumar Singh (2006) The study analyzed the investment pattern of people in Bangalore city and Bhubaneswar & analysis of the study was undertaken with the help of survey method. After analysis and interpretation of data it is concluded that in Bangalore investors are more aware about various investment avenues & the risk associated with that. All the age groups give more important to invest in equity & except people those who are above 50 give important to insurance, fixed deposits and tax saving benefits.

Karthikeyan (2001) Has conducted research on Small Investors Perception on Post office Saving Schemes and found that there was significant difference among the four age groups, in the level of awareness for kisan vikas patra (KVP), National Savings Scheme (NSS), and deposit Scheme for Retired Employees (DSRE),and the Overall Score Confirmed that the level of awareness among investors in the old age group was higher than in those of young age group.

Sandhu and Singh (2004) The study analyzed in case of adopters that transparency, safety, convenience and economy judged as an important feature of net trading followed by market quality and liquidity whereas in case of non-adopters economy and convenience were the important features followed by the other factors like market quality, safety and liquidity.

Prasad (2009) Examined the perception of the investors and their awareness on various investment alternatives available. A sample of 100 investors has been taken from the twin cities of Hyderabad and Secunderabad. The result of findings showed 75% Net traders were using online stock trading requiring strong technology base whereas Traditional traders felt online trading not an acute process of stock trading and they didn't participate in net trading due to risk of a system failure.

Mutual Funds:

This is an emerging area for investment and there is a large variety of schemes in the market to suit the requirements of a large number of people. In finance, in general, you can think of equity as ownership in any asset after all debts associated with that asset are paid off. For example, a car or house with no outstanding debt is considered the owner's equity because he or she can readily sell the item for cash. Stocks are equity because they represent ownership in a company.

Benefits of mutual funds :

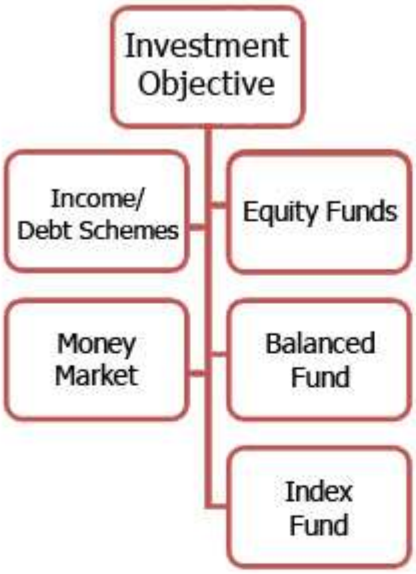
How does one earn returns in a mutual funds?

After investing your money in a mutual fund, you can earn returns in two forms:

1. In the form of **dividends** declared by the scheme.

2. Through **capital appreciation** - meaning an increase in the value of your investments.

Different types of mutual funds



Fixed Deposits:
A Fixed Deposit is a financial instrument provided by banks or NBFCs which provides investors a higher rate of interest than regular savings account, until the given maturity date. It may or may not require the creation of a separate account.

Benefits of FD

- Customers can avail loans against FDs up to 80 to 90 percent of the value of deposits. The rate of interest on the loan could be 1 to 2 percent over the rate offered on the deposit.
- Residents of India can open these accounts for a minimum of 3 months.

Objectives

1. To understand the mutual funds and fixed deposits
2. To compare the mutual funds with fixed deposits

Methodology Adopted

This study is mainly analytical and descriptive in nature, A secondary data is collected from various journals, articles, newspapers and magazines. Considering the objectives of study descriptive type research design is adopted to have more rigorous and accuracy analysis of research study. The accessible secondary data is intensively used.

Mutual funds & fixed deposits: Inflation adjustment
Inflation adjustment is a very important point while comparing mutual funds and fixed deposits. FDs don't come with inflation adjustment guarantees, and if the interest rate is lower than the inflation rate, you actually end up losing the value of your money. In the FY 2011-12, the inflation rate in India was 7%, while the interest rate for around 1 year tenure was something around 7% as well [6.5% for ICICI and HDFC banks, 6.75% for Citibank and HSBC, 7.10% for Axis and Yes Bank and so on. Higher rates are there, but for lump-sum investments like 1 crore. Thus, if you have invested in bank FDs for the last FY, you either failed to beat inflation or ended up with minimal inflation adjusted positive returns. On the other hand, at least half a dozen mutual funds yielded returns greater than 8% (some as high as 12-14%), thereby giving you handsome inflation adjusted returns. Usually, mutual funds outrun inflation and always give positive, real returns.

Mutual funds and fixed deposits: Capital appreciation
When it comes to capital appreciation, mutual funds are better than fixed deposits, because of the equity investment. In longer time periods, market changes result in increasing interest rates. And, your mutual funds manager is there with all the expertise and professionalism to ensure a better capital appreciation.

Mutual funds or fixed deposits, which one is more liquid?

In terms of liquidity, these days both fixed deposits and mutual funds are almost same. Fixed deposits are actually meant for long lock in periods, but most banks allow premature withdrawals with a nominal penalty (usually 1%). The interest rate calculation for bank fixed deposit withdrawals is done on how long the money was parked. Mutual funds are equally liquid; you can take out any number of units within a couple of days. The return for premature withdrawal of mutual funds units is done on the prevalent NAV of the fund. Usually, there is an exit load of 1% for premature withdrawals before 1 year.

Mutual funds and fixed deposits: Risk factor

The only reason why most investors prefer fixed deposits to debt mutual funds is the assured return of the capital. On the other hand, returns from investments in mutual funds are subject to the volatility of the market, and may result in low or even negative returns. An investor should be wise enough to judge the quality of the investment instrument and thereby minimizing risk factors. Do take a look at the Beta Ratio of your mutual fund.

Mutual funds and fixed deposits: Post Demonetization

A demonetization announcement shook the nation on 8 November 2016. Although it was a one-time event, it appears that it did have an impact on the savings of Indians as the money that was running in the parallel economy was brought into the banking system. High denomination notes, accounting for almost 86 per cent of the in-circulation currency were deposited, flooding banks with liquidity immediately after demonetization

Demonetization has been a big growth driver for the Indian mutual fund industry, leading to a surge in assets and sending stocks to new heights, Equity mutual funds received massive net inflows to the tune of Rs 1.23 lakh crore between November 2016 and October 2017, Equity mutual funds received massive net inflows to the tune of Rs 1.23 lakh crore between November 2016 and October 2017 (as per AMFI data compiled by CMIE

Banks were flooded with funds. With few avenues to lend and liquidity high, Banks were forced to slash interest rates on fixed deposits with poor demand for credit and the overall reduction in interest rates. Traditionally, fixed deposits were the most in-demand interest option for Indians, because of guaranteed returns and the assured safety of capital. The dropping interest rates, made more people turn to mutual funds.

Mutual funds and fixed deposits: **Tax implications**

The biggest disadvantage of FDs is that the interest earned is subject to taxation. This eats into the returns. The interest earned on the FD is added to the depositor's income and taxed as per income bracket. This reduces its attractiveness, especially for those in the highest tax bracket.

Mutual funds are taxed under the head 'Income from Capital Gains.' And capital gains can be short-term or long-term based on the holding period of investments. And tax rates are different for both. Moreover, the capital gains rules are different for equity and non-equity schemes.

Taxation of Equity Scheme:

Returns from an equity mutual fund are treated as long term capital gains if investments are held for more than a year. Such returns are completely exempt from income tax according to the current laws. However, if investments are held for one year or less, the returns are taxed under short term capital gains. Such returns are taxed at 15 per cent

How are dividends taxed?

If you have invested in a mutual fund scheme under the dividend option, you may receive dividends. You don't have to pay any tax on them as dividends are exempt from income tax in the hands of the investor in both equity and a debt schemes.

Conclusion

Mutual funds seems to be very much inflation adjusted returns whereas FDs don't come with inflation adjustment guarantees, with respect to capital appreciation mutual funds are better than fixed deposits , in terms of liquidity, these days both fixed deposits and mutual funds are almost same. Fixed deposits are less risk compare to mutual funds, after demonetization all the banks are flooded with more money and reduced interest rates in that time investors has the best option as mutual funds ,if your annual interest on FD crosses 10000 banks deduct TDS, if investment made in equity mutual funds more than one year gains from long term capital completely exempted ,dividends also exempted .researcher has concluded that mutual funds performs well than FD s in all the aspects but tremendous awareness need to create among investors .

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