

Analysis of Risk and Return in Equity, Mutual Funds, and Fixed-Income Investments

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Abstract

The risk and return relation of a particular avenue is the first thing which determines the willingness of an investor to invest. After analysing the data from the different sources, the study shows the trend of risk and return on various avenues over the past years. Investment decision usually takes place by analyzing alternative investments which will give a certain return in future. The research on the risk and return on selected investment avenues covers the different dimensions between the returns and risk of equity, mutual funds and debt funds. The investor can choose many investment options as mentioned in the study. The second objective involves examining which investment provides a higher return with lower risk. Analysis of Investment in Mutual Fund is the third objective. The fourth goal is to assess the investment in debt funds or fixed-income securities. Investing provides the opportunity to make a profit but is subject to business risk.

Keywords: Risk, Return, Equity Investments, Mutual Funds, Fixed-Income Securities, Portfolio Management, Diversification, Investment Analysis, Financial Markets, Wealth Creation.

Introduction:

To enhance the economic development of people, businesses, and countries, investment is essential. There are varieties of investment options available for the investors while investing in today's markets. The risk and return of every investment option is different. Consequently, optimum returns at a manageable level of risk as per personal financial objectives is ultimate goal of any investor. Thus, the investor should have a fair knowledge of the risk-return combination to take optimum investment decision. Risk signifies the difference between actual expected returns and future unknowable returns on an investment. Consequently, any doubt related to the investment is termed as risk. Risk in financial transactions means generating financial loss from any cause whatsoever.

Return is a reward earned by investors on their investments after bearing the risk. A return the gain or loss on an investment over a specified time. Returns are an important part of an investment decision. The key takeaway of the financial theory is that high risk-high returns and low risk-low returns. Thus, always remember this. Thus, if the returns on an investment are greater, it bears greater risks and vice versa. Numerous causes that can affect investments are the unexpected changes in prices of the securities, the sudden change in the economic conditions, interest rate changes, inflation, country risk and stock risk. Investors generally prefer to invest their money mostly in equities, mutual funds, and fixed income securities.

Unlike debt obligation securities, payment of monies is not at a specified amount of time. Market conditions and economic development will determine their value. According to some experts, stocks are the riskiest type of securities in the equity class. The inventory returns are better than most different devices over the long haul, regardless of whether it is a reality. Securities have been attracting increasing interest from buyers on a regular basis. The unsupported listing may also include another type of asset class which is mutual funds.

Many buyers are intrigued by this choice. Mutual funds can offer a level of diversification and professional management of author funds. Activity doesn't push it with many buys; but natural mailbox, purchased nevertheless the larger component of active customers.

It is an important decision for many consumers. This is because mutual funds can provide a degree of diversification and professional management of contributor funds. It serves a crucial function since most buyers either cannot manage or do not have available time to do so anymore. A mutual fund is basically the possession of various financial assets such as stocks of many companies. It might be equities, debt or a combination of securities in alignment.



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Several factors affect the selection of investment avenue. When choosing an investment, the best option may be based on investment objectives, risk appetite, investment tenure and liquidity, and market conditions. For example, some investors may prefer equity market for higher return potential, while others may prefer fixed income market for stability. Mutual funds may help achieve a middle road that combines diversification benefits with professional management. It becomes essential to compare the risk and return profile of such investments. The growing importance of diversification of portfolios in modern finance world. This is done by including different types of assets in the portfolio to lower the risk level overall. Further, they are also able to give the investor risk-adjusted returns. If you invest only in equity, he portfolio will have high market risk exposure.

If you only invest in fixed income securities, the market risk will come down but so will the returns. Thus, a proper mix of equities, fixed income securities and also mutual funds can provide better returns. In addition, it can also lower the effect of bad market movements on your portfolio value. In recent years, people have become aware of their money and finances. Furthermore, it is now easy to invest anywhere, anytime with the availability of mobile apps and online investing platforms. For this reason, a lot of individuals are taking part in many financial markets.

The present study investigates risk and returns nature of equity mutual fund and fixed income security. It tries to compare these investment tools after examining them and analyze which investment is more beneficial for the investors. According to the outcome of the research, investment and financing strategies will be packaged and formulated. In simpler terms, it can be employed by financial planners, researchers and large investors to make wise investment choices for achieving long-term financial goals. According to the study, this research will add to the literature on investment analysis as researcher in large numbers are considering the importance of risk-return characteristics for the selection of investment portfolio. One of the best ways through which an individual can stay safe and get superior returns in the future. Similarly, you should never ignore diversification of your investment portfolio. One of the best investment strategies as different classes of assets will not behave the same way at the same time.

Review of Literature

Fama and French (2004) contributed to the literature through this discussion of the Capital Asset Pricing Model (CAPM), which explains the relationship between risk and expected return. An study finds higher systematic risk requires higher returns as compensation for investors. Analyzing both the theory and other empirical evidence related to the model is the key to taking investment decision on the basis of such theory. The work of Markowitz and Sharpe continues to serve as the basis for modern finance's risk-return analysis.

Sharpe (2007) examined how the conduct of investors affects the working of financial markets. That is how investment decisions are influenced by risk preferences and market expectations. Reducing the risk of your portfolio by diversifying and allocating your assets. Sharpe states that investing in a good mix of assets in a portfolio will help earn better returns than concentrating on a few. His work served as guidance on investment strategy and portfolio performance.

According to Markowitz (2008), potential investors can increase their return and minimize risk through diversity. A combination of diversifying the investment across different assets can aid in risk reduction.

The EAP study may have been the first to contribute to the field of investment and introduced the general idea of a frontier of efficient portfolios. This research studied the risky asset's optimal portfolios by coming up with the concept of a portfolio's efficient frontier and established that every rational investor must pick his portfolio from efficient set. Yadav and Jain (2011), evaluated the performances of selected mutual fund in India. The paper studied the efficiency of mutual funds in generating returns for their investors. The study suggests the



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mutual fund is a profitable investment option for the investor because of professional fund management along with diversification of risk. The study also reported that the chosen fund schemes aren't similarly performing. For investors, a careful evaluation of all the investment schemes is essential for achieving a better return.

Mishra and Mohapatra, in 2012, examined mutual fund performance in the Indian financial market. As per the result of performing evaluation mutual fund has proved that risk of investing in stock is reduced with the use of mutual funds. It allows the investors to invest in capital market. As a result, the paper concluded that the investment performance has become positive due to mutual fund diversification and expert management. This, in turn, injects more confidence in investors and there is an increase in mutual funds accordingly.

According to Rao and Qamar (2014), different equity mutual funds were studied comparatively. Performance differences were found among the schemes. You should not invest in a fund because of above-average past performance measures. While choosing a mutual fund, investors should consider risk measures, investment objective and portfolio composition. Berk and Van Binsbergen 2015 studies the new development of the mutual fund industry. They explored the idea of managerial skill. In their previous study, several measures to evaluate mutual funds. These metrics either examine abnormal returns or employ factor models. Currently, they are examining the profit created for the investors. They created fund portfolios to assess the level of skill. They tested for abnormal returns after that. The outcome shows proof of managerial skill. Investment decisions enhance manager's value for their portfolio. It also underscores.

professional skill. Tripathi and Bansal (2015) conducted a study on mutual funds. The performance of equity mutual funds was analysed. They talked about whether equity mutual funds beat the odds or not. This research presents varied replies. Some managed funds give better returns. Investments decisions and performance evaluation has been emphasized by the authors The correlation between risk and return has been looked into by Vijayakumar (2018). For their investigation, they chose equity mutual funds. There existed a positive correlation between Risk and Return.

If you invest in different types of mutual funds, you can bring down your risk. A key benefit of mutual funds is risk management, which makes the mutual fund an ideal type of investment for many investors. In a study, Deb (2019) utilized the VaR technique to explore disadvantageous risks in Indian equity mutual fund investments. The period before and after the global financial crisis was taken into consideration to compare the performance of the funds.

The researchers also revealed that the volatility in the market had a major impact on the risk. The research showed to consider investment opportunities and evaluation of the portfolio some downside risk measures should be looked at. In 2020, Singh and Subhashree examined the risk-reward traits of some mutual fund schemes. The research noted that the schemes of mutual funds could provide a better growth-stability mix.

The authors examined the risk-return profiles (RRP) of mutual fund schemes. The authors found that mutual fund schemes are suitable for investors who require moderate returns with a moderate level of risk. According to the authors, selection of the scheme by the investor should be according to financial goals and risk-taking ability. Nedumparambil and Bhandari (2020) examined the uncertainty and risk factors in mutual fund investment in India. The analysis established a strong relationship between investors' behaviour and uncertainty, risk factors, and expectation about future returns.

Zabiullah (2020) focuses on fixed income mutual funds. Moreover, he examines how performance consistency changes throughout the passage of time. After analyzing various fixed income mutual funds schemes, he found that most funds give consistent returns because of their disciplined investment processes as well as very good risk management strategies. In addition, it also stresses the importance of fixed income investments to give investors stability,



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income security and diversification advantage in an investment portfolio. The paper by Malhotra, Singh and Ramani (2021) examines the impact of volatility in the Indian financial market on mutual funds. In addition, they evaluate the risk-return traits of mutual funds under changing economic conditions. The authors in their study analyzed the risk-return characteristics of Indian mutual fund schemes in the changing market volatility. Additionally, the findings revealed that diversified mutual funds are able to withstand market fluctuations more effectively than concentrated portfolios. Overall, the authors concluded that professional fund management and diversification in Indian mutual funds is an important ingredient for consistency in investment performance during the period of uncertainty. Based on the findings of the literature review, it is clear that the risk and returns are the two basic criteria which affect the investment decision. The majority of research indicates that while equities give higher returns but they also involve higher risk at the same time. The fixed-income investment option provides stability and fixed returns on the investment. Additionally, the idea of mutual funds emerged as a compromise to give investors diversification and professional management but with less risk than equities. Numerous studies have been done.

Objectives of the Study:

- To analyze the risk and return characteristics of equity, mutual fund and fixed-income investments.
- To compare the performance and volatility of equity, mutual funds, and fixed-income securities as investment avenues.
- To evaluate the suitability of equity, mutual funds, and fixed-income investments for different categories of investors based on their risk tolerance and return expectations.

Research Methodology:

The researcher provides a descriptive and analytical study to examine the risk and return characteristics of Equity investment. In addition to this, the investigator also conducted a comparative study between mutual funds and fixed income investments. The present study tries to show the relationship between risk and the value of an expected return. The research and study of investment options indicate that all investment options are not equally suitable to the investor either for meeting his current cash flow requirements or for meeting his long-term financial goals.

Selected investment instruments within fixed-incomes securities, mutual fund and equity investment are selected for the study. Additionally, the researcher has also conducted a comparative analysis of mutual funds and fixed income investments. The present study focuses on selection of investment avenues that are essentially different in terms of risk they involve. The bonds that correspond to the definition of corporate bonds have got all the features that are required.

The primary focus of the research is to undertake a comparative analysis of various investment options. The investment pattern of mutual fund, fixed income and equity investment has been study with the help of qualitative and quantitative technique.

Then, interpret every finding that comes out of the investigator. The investigator has carried out an analytical and descriptive study to examine nature and features of equity investment. In addition, the researcher also conducted a comparative analysis of mutual fund and fixed income investment. The current study attempts to express the linkage of risk and value of an expected return.

Analysis of the study:

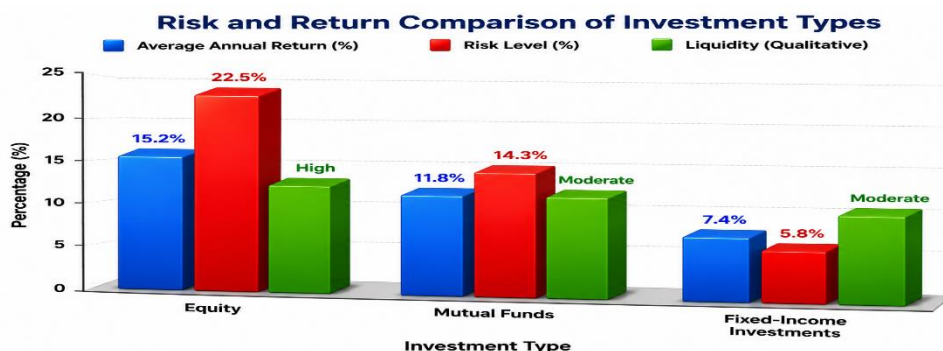
Table 1: Comparative Analysis of Risk and Return in Different Investment Avenues

Investment Type	Average Annual Return (%)	Risk Level (%)	Liquidity
Equity	15.2	22.5	High
Mutual Funds	11.8	14.3	Moderate



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Fixed-Income Investments	7.4	5.8	Moderate
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Analysis

Out of all other asset classes, equities have given the highest annualised return of 15.2%. This indicates that these types of investments can create immense wealth for individuals. Investors can earn a bigger return for their risk. In addition, mutual funds give 11.8% returns on the yearly basis. Fixed income investments yield 7.4% returns per annum. When we think of risk equity, they have the highest risk. There is a 22.5% risk here. The price levels of such investments experience a huge amount of fluctuation meaning volatility. Investments of these types come with an uncertain return. Moreover, there is a 14.3% risk of Mutual Funds. Investing in the stock market is comparatively less risky.

Table 2: Suitability of Investment Avenues for Different Investor Categories

Investor Category	Equity	Mutual Funds	Fixed-Income Investments
Conservative Investors	Low	Moderate	High
Moderate Investors	Moderate	High	Moderate
Aggressive Investors	High	Moderate	Low

Analysis

Based on the suitability analysis, fixed income investments are suitable to conservative investors because they look for capital preservation and steady income. Whereas, mutual funds are suitable to moderate investors because they have a combination of risk and return. In a similar fashion, equity investments are attractive to aggressive investors who can manage high market risk in pursuit of better returns. The suitedness of investment avenue primarily depends on investor risk tolerance.

Table 3: Comparison of Key Investment Characteristics

Criteria	Equity	Mutual Funds	Fixed-Income Investments
Capital Appreciation	High	Moderate	Low
Income Stability	Low	Moderate	High
Market Volatility	High	Moderate	Low
Professional Management	No	Yes	Limited
Investment Flexibility	High	High	Moderate

Analysis

Evaluating strengths of investment alternatives should be the focus. Investing in equity may offer you capital appreciation but it is a risky affair. Investors find mutual funds appealing due to their professional management and diversification abilities. Fixed-income investments are suitable for risk-averse investors due to their income stability and low volatility. The study shows that these investment types can be used in a combination in portfolios to achieve better risk-adjusted returns.



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Overall Conclusion.

Most investment choices primarily rely on risk and return element. Our research focused on three major investment options: equities, mutual funds, and fixed income. Each option offered a unique range of opportunities for the investors. This study's significance lies in the fact that there are some sets of people who are looking to invest for the long term and thus will investing in the equity as they provide higher returns over the long term to 00 investment worldwide. However, it will also absorb more risk as there are higher levels of uncertainty. Another group that would exist is people who do not want to take any higher risk and just want to protect their existing capital so they only prefer to invest in fixed income.

A mutual fund is a type of investment. Funding option that basically invests in equity. This fund can also invests in equity but to decries extent or equity) will be limited. It is certain that no single investment is suitable for all classes of people. It varies from one person to another depending on their financial objectives, willingness to take risks, time, and income. Numerous individuals are prepared to invest their funds for an extended period of time, however not all income is prepared. As a result, people who invest for long term, they mostly invest in equity as it will yield better return and for the others who want regular income and do not prefer to take any risk at all, they invest in fixed income as it will give them comfort of not lose any capital.

By diversifying across asset classes, you can lower overall risk and improve your portfolio's performance, says Lindsay. Having a mix of equity mutual fund and fixed-income investment will reap the benefits of growth while maintaining some level of stability during the uncertain time. To sum up, smart investing is not about finding the investment that has the highest future returns. An investor must find an apt mix of investments to satisfy his/her financial goal and risk appetite. Through diversification and a long-term perspective, an investor can hope to achieve the goal of financial security and wealth creation.

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