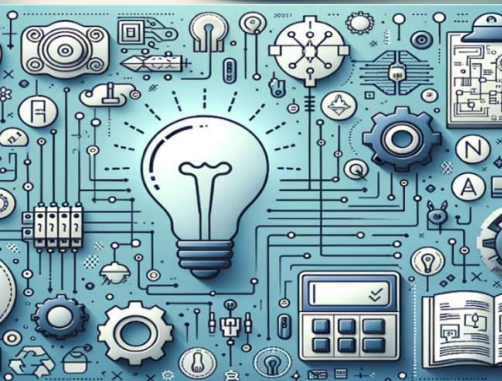


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A Comparative Risk–Return Analysis of Mutual Funds, Equity Shares, and ULIPs

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ABSTRACT: Investment decisions play a critical role in wealth creation and financial stability, especially in an environment characterized by economic uncertainty and market volatility. Investors today are presented with a wide range of investment alternatives, each offering different levels of risk and return. This study aims to analyse and compare major investment alternatives such as mutual funds, equity shares, and Unit Linked Insurance Plans (ULIPs) with respect to their risk-return characteristics. The research is based on secondary data collected from reliable financial sources, including mutual fund houses, stock exchanges, and published financial reports. Statistical tools such as average returns, variance, and standard deviation are employed to assess the performance of selected investment options. The findings of the study reveal that while equities offer higher potential returns, they are associated with greater risk, whereas mutual funds provide comparatively stable returns with lower risk. ULIPs offer a balanced combination of investment and insurance benefits. The study concludes that there is no single best investment option for all investors and emphasizes the importance of portfolio diversification based on individual risk tolerance and financial objectives.

KEYWORDS: Investment alternatives, Risk, Return, Mutual funds, Equity, ULIPs, Portfolio diversification

I. INTRODUCTION

Investment refers to the allocation of funds with the expectation of generating income or capital appreciation over a period of time. In the modern financial system, investment has become an essential component of personal financial planning and economic development. With increasing income levels, financial awareness, and accessibility to financial markets, individuals are actively seeking suitable investment avenues to secure their future and achieve long-term financial goals. The financial market offers a wide range of investment alternatives such as bank deposits, mutual funds, equity shares, bonds, real estate, gold, and insurance-linked investment products. Each investment option differs in terms of risk, return, liquidity, and tax benefits. Selecting the appropriate investment avenue is a complex task as it requires a thorough understanding of the risk-return trade-off and alignment with the investor's risk appetite, time horizon, and financial objectives. In recent years, market volatility, inflationary pressures, and economic uncertainties have increased the importance of informed investment decisions. Investors are increasingly focusing on diversification to minimize risk while maximizing returns. This study attempts to analyse selected investment alternatives—mutual funds, equities, and ULIPs—to evaluate their performance and assist investors in making rational investment choices. In the contemporary financial landscape, technological advancements and digital platforms have significantly transformed the way individuals' access and manage investments.

Online trading applications, systematic investment plans (SIPs), robo-advisory services, and real-time market information have made investment decisions more accessible to retail investors than ever before. However, increased accessibility has also exposed investors to greater market volatility and information overload, often leading to impulsive or poorly informed decisions. Therefore, understanding the fundamental characteristics of various investment alternatives—particularly their risk and return dynamics—has become increasingly important. A systematic comparison of these investment avenues enables investors to make rational, data-driven decisions aligned with their financial goals and risk tolerance.

In India, the investment landscape has evolved rapidly over the past decade due to economic reforms, regulatory improvements, and increasing financial inclusion. Regulatory bodies such as SEBI and RBI have introduced measures to enhance transparency, investor protection, and market efficiency, thereby encouraging greater participation in capital markets. At the same time, rising inflation and changing lifestyle aspirations have compelled individuals to look beyond



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traditional savings instruments such as bank deposits and explore market-linked investment options. However, differences in financial literacy and risk perception often influence investment behavior. Therefore, a structured comparison of major investment avenues like mutual funds, equities, and ULIPs becomes essential to understand their relative performance and suitability under varying market conditions. This study seeks to contribute to that understanding by providing an analytical evaluation of selected investment alternatives.

II. REVIEW OF LITERATURE

The concept of investment and portfolio management has been widely examined in financial literature, particularly in relation to the risk–return tradeoff. Markowitz (1952) laid the foundation of Modern Portfolio Theory (MPT), emphasizing that investors can reduce overall portfolio risk through diversification.

Building on Markowitz’s work, Sharpe (1964) introduced the Capital Asset Pricing Model (CAPM), which established a systematic relationship between risk and expected return. According to CAPM, only systematic risk (market risk) is rewarded with higher returns, while unsystematic risk can be eliminated through diversification. Lintner (1965) further supported this framework and emphasized the role of market beta in determining asset pricing. These theories provide the conceptual basis for analyzing equities and understanding their volatility compared to other financial instruments.

Bodie, Kane, and Marcus (2018) discussed comprehensive investment principles focusing on asset allocation, diversification strategies, and risk management techniques. Their work highlights that different asset classes behave differently under varying market conditions, making strategic allocation essential for long-term wealth creation. Elton et al. (2014) expanded on portfolio theory by examining efficient frontier analysis and risk-adjusted performance measures, reinforcing the importance of statistical tools such as variance and standard deviation in investment evaluation.

Reilly and Brown (2019) explored various investment analysis techniques, including fundamental and technical analysis, to assess asset performance. Their research underscores the importance of analyzing historical returns and market trends before making investment decisions. Damodaran (2021) contributed significantly to equity valuation methodologies and risk assessment frameworks, emphasizing that equity investments, although potentially high-return, are inherently volatile due to market dynamics and macroeconomic factors.

In the context of mutual funds, Morningstar (2022) analyzed fund performance and highlighted the role of professional management and diversification in reducing investment risk. Mutual funds pool resources from multiple investors, thereby spreading risk across diversified portfolios. Reports published by HDFC Asset Management Company (2024) and Aditya Birla Capital (2024) further emphasized systematic investment planning, risk profiling, and performance consistency as key determinants of mutual fund effectiveness.

ULIPs, which combine insurance and investment features, have also been examined in financial studies focusing on long-term wealth creation and financial security. These products provide both risk coverage and market-linked returns, making them suitable for investors seeking moderate risk exposure along with insurance benefits. Regulatory bodies such as SEBI (2022) and RBI (2023) have consistently highlighted the importance of financial literacy and risk awareness among investors to promote informed decision-making in selecting appropriate investment instruments.

Additionally, global institutions such as the World Bank (2022), OECD (2021), and IMF (2022) have examined the broader functioning of financial markets and emphasized the importance of stable investment environments for economic growth. Their reports highlight how macroeconomic stability, inflation, and regulatory frameworks influence investment performance and investor confidence.

Overall, the existing literature indicates that no single investment avenue is universally superior. The choice depends on risk tolerance, financial goals, and market conditions. While equities offer high growth potential with higher volatility, mutual funds provide diversification benefits and relatively stable returns. ULIPs offer a hybrid structure combining protection and investment growth. However, empirical comparisons of these instruments over specific time frames remain essential for practical investment decision-making, thereby justifying the present study.



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1. Research Questions

1. What are the major investment alternatives available to investors?
2. How do risk and returns differ among mutual funds, equities, and ULIPs?
3. Which investment alternative provides an optimal balance between risk and return?

2. Research Objectives

1. To study the concept of different investment alternatives.
2. To analyze the risk and return associated with selected investment options.
3. To compare mutual funds, equities, and ULIPs based on performance.
4. To provide suitable recommendations for investors.

3. Research Hypotheses

- H_0 (Null Hypothesis): There is no significant difference in risk and returns among selected investment alternatives.
- H_1 (Alternative Hypothesis): There is a significant difference in risk and returns among selected investment alternatives.

4. Research Design

The research design of the present study is structured to systematically examine the risk and return characteristics of selected investment alternatives, namely mutual funds, equity shares, and Unit Linked Insurance Plans (ULIPs).

III. RESEARCH APPROACH

The present study adopts a quantitative and descriptive research approach. The objective is to analyse and compare selected investment alternatives based on measurable risk and return indicators. The study relies on statistical tools to evaluate performance and draw comparative conclusions.

1. Nature of Research

This study is analytical and comparative in nature, as it examines the differences in risk and return among mutual funds, equity shares, and ULIPs. The research does not manipulate variables but analyses historical financial data to identify patterns and relationships.

2. Data Type

The study is based on secondary data. The data includes:

- Net Asset Value (NAV)
- Daily closing prices
- Daily returns
- Average returns
- Variance
- Standard deviation (risk measure)

3. Sources of Data

Secondary data has been collected from reliable financial sources such as:

- Mutual fund house websites
- National Stock Exchange (NSE)
- Company annual reports
- Published financial statements
- Regulatory publications

These sources ensure accuracy and authenticity of the data used in analysis.

4. Sample Selection

The study considers selected financial products from:

- Aditya Birla
- HDFC

The investment categories selected for comparison are:



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- Mutual Funds
- Equity Shares
- Unit Linked Insurance Plans (ULIPs)

5. Sample Period

The data covers a period of three months (January 2024 to March 2024). Daily data during this period is used to compute returns and risk measures.

6. Variables Used in the Study

Independent Variable:

Type of investment alternative (Mutual Funds, Equities, ULIPs)

Dependent Variables:

- Average Return
- Variance
- Standard Deviation

7. Tools and Techniques for Data Analysis

The following statistical tools are used:

- **Mean (Average Return)** – To measure expected return
- **Variance** – To measure dispersion of returns
- **Standard Deviation** – To measure investment risk
- **Comparative Analysis** – To evaluate performance differences

IV. DATA ANALYSIS AND INTERPRETATION

Table 1: Risk and Return of Mutual Funds

Company	Average Return	Variance	Risk (Std. Dev.)
Aditya Birla	-0.0255	0.0003	0.1372
HDFC	0.0329	0.0005	0.1810

Interpretation:

Mutual funds exhibit relatively low risk. HDFC Mutual Fund shows better average returns compared to Aditya Birla but with slightly higher risk.

Table 2: Risk and Return of Equity Shares

Company	Average Return	Variance	Risk (Std. Dev.)
Aditya Birla Capital	-0.3465	5.0970	17.6330
HDFC Bank	-0.0074	1.6662	10.0818

Interpretation:

Equity investments show high volatility. Aditya Birla Capital demonstrates higher risk and negative returns, while HDFC Bank shows comparatively lower risk.

Table 3: Risk and Return of ULIPs

Company	Average Return	Variance	Risk (Std. Dev.)
Aditya Birla ULIP	0.0527	0.3328	4.5061
HDFC ULIP	0.0869	1.1766	8.4719



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Interpretation:

ULIPs provide moderate returns with insurance coverage. HDFC ULIP offers higher returns with increased risk compared to Aditya Birla ULIP.

V. RESULTS AND DISCUSSION

The analysis of the selected investment alternatives reveals clear variations in their risk and return profiles during the study period. Mutual funds demonstrated relatively stable performance with lower variance and standard deviation, indicating reduced volatility compared to other instruments. Although the average returns were moderate, the lower level of risk suggests that mutual funds are suitable for conservative investors seeking steady growth. Among the selected funds, HDFC showed slightly higher returns accompanied by marginally higher risk than Aditya Birla, reflecting a balanced risk–return trade-off within the mutual fund category. In contrast, equity shares exhibited significantly higher volatility, as reflected by large variance and standard deviation values. The fluctuations in returns indicate strong sensitivity to market conditions and company-specific factors. While equities have the potential for high long-term returns, their short-term instability makes them more appropriate for aggressive investors with higher risk tolerance. ULIPs displayed a moderate risk–return pattern, offering comparatively stable growth along with insurance benefits. Overall, the findings support the existence of significant differences among the selected investment alternatives and reaffirm the principle that higher returns are generally associated with higher risk.

VI. FINDINGS OF THE STUDY

1. Mutual funds are the least risky investment option among the selected alternatives.
2. Equity investments involve the highest risk and volatility.
3. ULIPs offer moderate returns with additional insurance benefits.
4. HDFC investment products generally show higher returns with higher risk.
5. Aditya Birla products exhibit relatively lower risk.

Recommendations of the Study

1. Investors should diversify their portfolios to reduce overall risk.
2. Conservative investors may prefer mutual funds.
3. Aggressive investors with higher risk tolerance may invest in equities.
4. Investors seeking long-term security may consider ULIPs.
5. Financial awareness and professional advice can enhance investment decisions.

VII. CONCLUSION

The study concludes that mutual funds, equity shares, and ULIPs differ substantially in terms of risk exposure and return potential. Mutual funds emerged as the least risky option, providing relatively consistent returns due to diversification benefits. Equity shares showed the highest volatility, reflecting their exposure to market fluctuations and economic conditions. ULIPs demonstrated a balanced profile, combining moderate returns with insurance coverage, making them suitable for investors seeking both protection and growth. The findings emphasize that there is no single best investment alternative for all investors. Investment decisions must be aligned with individual risk tolerance, financial goals, and investment horizon. A diversified portfolio incorporating different asset classes can help manage risk while optimizing returns. Therefore, informed decision-making and strategic asset allocation remain essential for achieving long-term financial stability and wealth creation.

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