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Mutual Funds versus Direct Equity: Retail Investor Trends, Behaviour and Outcomes in India

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Abstract

Indian households that want equity exposure face a basic choice between buying shares directly through a demat account and investing through mutual funds, most often by monthly systematic investment plans (SIPs). This integrative review examines that choice using research on investment costs and investor behaviour together with Indian data available up to 5 June 2026. The review is organised around four lenses: participation and scale, cost and performance, behaviour and decision quality, and structure and regulation. It shows that the direct holding of individuals in NSE-listed companies fell to a five-year low of 9.11 percent in March 2026 while domestic mutual funds reached a record 11.46 percent, that new demat account additions slowed by about a fifth in FY26, that SIP contributions remained near ₹31,000 crore a month, and that more SIP accounts ended than began in both March and April 2026. Evidence from regulator studies shows that about nine in ten individual traders in equity derivatives lose money, while performance scorecards show that most active funds trail their benchmarks over long periods. The paper (a) maps each lens to testable predictions, (b) documents recent Indian trends, (c) compares the two routes on cost, performance and behaviour, and (d) draws implications for investors, intermediaries and regulators. It concludes that costs and behaviour, more than the choice of route as such, drive outcomes, and that for most households a low-cost SIP core with a limited direct satellite is the better-supported approach. A research agenda is proposed that prioritises investor-level data and after-cost measurement for direct investors.

Keywords: *mutual funds; direct equity; SIP; retail investors; behavioural finance; India; SEBI*

1. Introduction

Every Indian household with savings to invest in equities faces a basic choice. It can buy shares directly through a demat account and a broker, choosing companies and timing its own trades. Or it can hand the money to a professional fund manager through a mutual fund, usually by way of a monthly systematic investment plan (SIP). The two routes lead to the same asset class, but they differ in cost, in the skill and time they require, and, above all, in the behaviour they encourage. Direct investing invites frequent decisions, and frequent decisions are where individual investors have historically lost money. A SIP automates the decision and removes most of the occasions on which an investor can make a mistake.

India is a particularly interesting place to study this choice. Between 2020 and 2025 the number of demat accounts rose several-fold, a burst of direct participation that was widely described as a retail boom. Over roughly the same period mutual fund SIP contributions climbed to a record ₹32,087 crore in a single month (March 2026). By the first half of 2026 the two trends had started to diverge. The share of NSE-listed company shares held directly by individuals fell to a five-year low of 9.11 percent at 31 March 2026, while domestic mutual funds reached a record 11.46 percent, and the number of new demat accounts opened in FY26 fell by about a fifth.

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This paper asks how the choice between mutual funds and direct equity plays out for Indian retail investors, what the trends up to June 2026 show, and what the evidence implies for investors, intermediaries and regulators. We organise the answer around four lenses (Table 1): participation and scale, cost and performance, behaviour and decision quality, and structure and regulation.

Table 1. Scope and guiding questions

Lens	Guiding question	Where most salient
Participation and scale	How many households invest through each route, and how is the balance shifting?	Demat and folio data; NSE ownership data
Cost and performance	What do investors pay, and do funds and direct portfolios deliver returns after costs?	Expense ratios; SPIVA scorecards; trading costs
Behaviour and decision quality	Which route reduces the behavioural mistakes that damage returns?	Frequent trading; derivatives; SIP discipline
Structure and regulation	How do SEBI rules and market design shape the choice?	Expense rules; F&O curbs; digital access

Scope and approach. This is an integrative review. It combines established research on investment performance and investor behaviour with Indian data up to 5 June 2026. It does not report original econometric estimates. Where figures are drawn from press reports of regulator, exchange and industry-body releases, they are described as approximate. Data released after 5 June 2026, including the AMFI figures for May 2026, are not covered.

2. Theoretical background: what research says about funds and direct investing

2.1 Active management, costs and market efficiency

The starting point is an accounting identity. Sharpe (1991) showed that, before costs, the average actively managed rupee must earn the market return, because the market is simply the sum of all investors' holdings. After costs, the average active investor must therefore trail the market by the amount of those costs. The same logic applies to funds and to direct investors, which is why costs are central to the comparison.

Empirical work is consistent with this. Jensen (1968) found that, on average, mutual funds did not earn returns that covered their expenses. Malkiel (1995) and Gruber (1996) examined fund performance and flows and described the persistence of active funds despite weak after-cost returns as a puzzle. Carhart (1997) found that apparent persistence in fund performance was largely explained by common factors and by expense differences, and Fama and French (2010) concluded that, after costs, few funds show evidence of skill. French (2008) estimated the cost of active investing as a whole and found it substantial. These findings do not mean that funds are a poor choice for individuals. They mean that the right comparison is between a low-cost fund and the alternatives open to a retail investor, who bears costs and mistakes of their own.

Table 2. Active management and costs: the research core

Finding	Implication	Source
Average active investor earns market return minus costs	Costs decide the gap between funds and indices	Sharpe (1991)
Fund returns do not on average cover expenses	Fees matter more than past rank	Jensen (1968)
Persistence is largely explained by common factors and expenses	Past winners are weak guides	Carhart (1997)

Finding	Implication	Source
Few funds show skill after costs	Skill is rare and hard to identify	Fama & French (2010)
Active investing is costly in aggregate	Low-cost access is valuable	French (2008)

2.2 How individual investors trade

The literature on individual investors is less flattering. Odean (1998) showed that investors tend to sell winning shares too early and hold on to losing ones, the disposition effect, which lowers after-tax returns. Barber and Odean (2000) found that households that traded most earned the lowest net returns, because trading costs and poor timing outweighed any information they had. Odean (1999) found that the shares investors bought tended to underperform those they sold, and Barber and Odean (2001) tied excessive trading to overconfidence. Barber and Odean (2008) showed that individuals are drawn to stocks that attract attention, such as those in the news or with extreme returns, which increases the chance that they buy at the wrong time. Barber, Lee, Liu and Odean (2009) examined a complete record of trading on the Taiwan Stock Exchange and estimated the aggregate losses of individual investors from trading to be large.

Benartzi and Thaler (1995) add a further mechanism: myopic loss aversion. Investors who check their portfolios often and react to short-term losses tend to take less risk and to trade more than their long-term goals warrant. A SIP, which commits money regardless of the market level and does not require checking, offsets exactly this tendency.

Table 3. Direct investing: behavioural patterns and consequences

Pattern	Mechanism	Consequence	Source
Disposition effect	Selling winners, holding losers	Lower after-tax return	Odean (1998)
Overtrading	Overconfidence; excess activity	Net returns fall as turnover rises	Barber & Odean (2000, 2001); Odean (1999)
Attention-driven buying	Buying stocks in the news	Buying at peaks	Barber & Odean (2008)
Aggregate trading losses	Costs and poor timing	Individuals lose in aggregate	Barber et al. (2009)
Myopic loss aversion	Frequent evaluation of losses	Under-investment in risk; excess trading	Benartzi & Thaler (1995)

2.3 Fees, search costs and fund flows

Investors in funds make mistakes of their own. Sirri and Tufano (1998) found that fund flows chase past performance but are largely insensitive to fees. Barber, Odean and Zheng (2005) found that investors respond to the more visible costs, such as front-end loads, but not to the less visible operating expenses, which suggests that costs that are hard to see are hard to avoid. India offers a clear natural experiment. Anagol and Kim (2012) studied a change in the way sales charges were disclosed and levied in the Indian mutual fund market, and showed that shrouded fees matter, because the change led to a shift in the funds and the fee structures on offer. This research supports the logic of SEBI's moves toward cost transparency, including the 2026 framework discussed in Section 4.

2.4 Indian micro-evidence on direct stockholding

Indian studies of direct stockholders use account-level data. Campbell, Ramadorai and Ranish (2019) examine household equity investing in India and show how participation and returns differ across investors by wealth. Balasubramaniam, Campbell, Ramadorai and Ranish (2023) use the holdings of millions of Indian direct stockholders

to build a factor model of who owns what, showing that household portfolios are shaped by characteristics such as firm size, age and past performance. Anagol, Balasubramaniam and Ramadorai (2021) use India's IPO lotteries, in which allotment is random, to study the endowment effect, and show that shares acquired by chance can be held more tightly than the investor's own preferences would suggest. These studies show that Indian direct investors display behaviour recognisable from other countries, but that Indian data allow it to be measured unusually well.

Table 4. Indian evidence relevant to the choice

Study	Focus	Relevance to the fund versus direct choice
Anagol & Kim (2012)	Shrouded fees in Indian mutual funds	Cost transparency changes outcomes for fund investors
Campbell et al. (2019)	Household equity returns and participation	Differences across investors in what direct investing delivers
Balasubramaniam et al. (2023)	Factor model of direct stockholding	What drives retail portfolio composition
Anagol et al. (2021)	Endowment effect in IPO lotteries	Behavioural biases in direct holdings

2.5 What the theories jointly predict

The research points in a consistent direction. Costs matter because they reduce what active investors keep. Behaviour matters because the investor's own decisions, such as when to trade, which stock to buy and when to sell, can add or destroy more value than the choice of fund. The route that reduces costs and cuts the number of discretionary decisions is, on average, the one most likely to deliver the market's return to a typical household. This prediction favours low-cost, automated investing. It does not say that direct investing is never rewarding. Skilled, patient and disciplined direct investors exist, but they are a minority, and the research suggests that the typical retail investor is not among them.

3. Retail investor trends in India, to June 2026

3.1 Direct participation: large accounts base, slowing growth

India's depositories hold more than 22.5 crore demat accounts as of March 2026, with about 18.0 crore at CDSL and about 4.4 crore at NSDL. That number is large, but its growth has slowed. Combined net additions at the two depositories fell by about 22 percent in FY26, to roughly 3.2 crore from about 4.1 crore in FY25 (Whalesbook, 2026). Calendar-year data tell the same story: about 3.1 crore accounts were added in 2025, compared with about 4.6 crore in 2024 (Motilal Oswal, 2026). The count of accounts is also a poor measure of activity, since many accounts are dormant or duplicated. NSE reported that the number of active clients, meaning those who traded in the period, fell from about 4.92 crore in March 2025 to about 4.57 crore in March 2026, a decline of roughly 7 percent (Angel One, 2026a).

Ownership data show the same drift from a different angle. According to NSE and Prime Database figures, individual investors' direct share of the market capitalisation of NSE-listed companies stood at 9.11 percent at 31 March 2026, the lowest in five years, down from 9.28 percent at the end of December 2025. Within that figure, retail investors, defined as individuals holding up to ₹2 lakh in a company, held 7.12 percent, and high-net-worth individuals held 1.99 percent. Individual investors were net sellers of about ₹13,134 crore in the March quarter (Angel One, 2026b; National Stock Exchange of India, 2026).

Over a longer period the direct holding of individuals has been remarkably stable, in a band of roughly 9 to 10 percent for more than a decade, while the mutual fund share has grown steadily (Table 5). In March 2012 domestic mutual funds held about 3.2 percent of NSE-listed companies and individuals about 8.5 percent. By March 2025 the mutual

fund share had risen to about 10.4 percent, overtaking the 9.5 percent held by individuals for the first time, and at 31 March 2026 it reached a record 11.46 percent. NSE's own tracker describes this as a maturing of the investor base, in which households increasingly reach equities through funds and not only through direct holdings.

Table 5. Ownership of NSE-listed companies: individuals versus domestic mutual funds

Date	Individuals (direct)	Domestic mutual funds	Comment
March 2012	about 8.5%	about 3.2%	Individuals hold far more than funds
March 2025	about 9.5%	about 10.4%	Funds overtake individuals for the first time
September 2025	about 9.6%	about 10.9%	Funds at record; individuals plus funds at a 22-year high
December 2025	9.28%	record at the time	Individuals at 5-year low in March 2026
March 2026	9.11% (retail 7.12%, HNI 1.99%)	11.46% (record)	Individuals net sellers; funds net buyers

Figures are from NSE and Prime Database ownership data as reported in the press and are rounded. Where two sources differ slightly, the more conservative figure is shown.

3.2 Mutual fund participation: SIP strength and a warning sign

The mutual fund industry's net assets under management stood at ₹81.92 lakh crore at the end of April 2026, up from ₹73.73 lakh crore at the end of March, with a rise in market values contributing to the increase (Khanna, 2026). SIP contributions were ₹31,115 crore in April 2026, 18 percent above April 2025 but 3 percent below the record of ₹32,087 crore in March. SIP assets stood at ₹16.85 lakh crore, about 20.6 percent of industry assets, and contributing SIP accounts numbered 9.65 crore. Equity scheme inflows were ₹38,440 crore in April, down about 5 percent from March. Total mutual fund folios were 27.53 crore, with about 6.17 crore unique investors (Angel One, 2026c).

One feature deserves attention. AMFI data show that, in both March and April 2026, more SIP accounts were discontinued or matured than were started. In April the industry added about 50.71 lakh SIP registrations and saw about 51.28 lakh discontinued or matured (Kumar, 2026). The SIP stoppage ratio therefore exceeded 100 percent, and the number of outstanding SIP accounts shrank, even though the amount of money flowing through SIPs remained near a record. Larger monthly contributions from the remaining accounts explain the difference. The pattern suggests that SIP discipline remains strong among the core investor base while the pace of new recruitment has slowed after a volatile year.

Table 6. Mutual fund indicators, April 2026

Indicator	Value	Comment
Industry net AUM	₹81.92 lakh crore	Up from ₹73.73 lakh crore in March
Monthly SIP inflow	₹31,115 crore	18% above April 2025; 3% below March record of ₹32,087 crore
SIP assets	₹16.85 lakh crore	About 20.6% of industry AUM
Contributing SIP accounts	about 9.65 crore	Shrank in March and April
SIP stoppage ratio	above 100%	More accounts ended than began
Equity scheme inflow	₹38,440 crore	Down about 5% month on month

Indicator	Value	Comment
Total folios	about 27.53 crore	About 6.17 crore unique investors

3.3 The derivatives dimension: where direct trading has hurt most

Any account of retail trends must include futures and options (F&O), the part of direct trading in which losses have been best documented. SEBI studies of individual traders in equity derivatives found that about 93 percent of traders lost money over FY22 to FY24, with aggregate losses above ₹1.8 lakh crore. In the study for FY25, released in July 2025, nearly 91 percent of individual traders incurred net losses, aggregate net losses rose about 41 percent to ₹1,05,603 crore, and the average loss per trader was about ₹1.1 lakh. The study covered roughly 96 lakh unique traders at the top 13 brokers. It also recorded the effect of SEBI's tightening of derivatives rules: the number of unique individual traders fell from about 61.4 lakh in the first quarter of FY25 to about 42.7 lakh in the fourth (Business Standard, 2025; Outlook Money, 2025).

F&O trading is a special form of direct investing, with leverage, expiry and high turnover, so its results should not be taken as a verdict on all direct equity. They do show, however, how large the damage can be when retail investors trade frequently with borrowed exposure, and they provide a clear contrast with the SIP channel.

Table 7. SEBI studies of individual F&O traders

Period	Share of traders with net losses	Aggregate net loss	Note
FY22 to FY24 (combined)	about 93%	above ₹1.8 lakh crore	SEBI study, September 2024
FY24	about 91%	₹74,812 crore	Average loss about ₹86,700 per trader
FY25	about 91%	₹1,05,603 crore	Average loss about ₹1.1 lakh; participation fell as rules tightened

3.4 Market context: a volatile first half of 2026

The investor trends above were formed against a volatile market. The Nifty 50 and Sensex fell about 5 percent and 7 percent respectively over FY26, according to press reports of exchange data. The outbreak of war involving the United States, Israel and Iran on 28 February 2026 triggered a sharp fall in March, record foreign selling and a weaker rupee. In the March quarter, the value of households' combined direct and mutual fund holdings in NSE-listed companies fell by nearly 13 percent to about ₹76.5 lakh crore. Even so, domestic institutions, led by mutual funds, were reported to have bought about ₹2.5 trillion of equities in the quarter, which cushioned the fall, while individuals were net sellers. The episode illustrates the difference between the two routes: money in SIPs kept flowing, while direct investors reduced their holdings.

4. Mutual funds versus direct equity: a comparative analysis

4.1 Costs and regulation

Mutual funds charge an annual expense ratio, while direct investors pay brokerage, transaction taxes, depository charges and the cost of their own research and time. For funds, the Indian regime changed on 1 April 2026, when the SEBI (Mutual Funds) Regulations, 2026 came into effect, replacing the 1996 regulations. Under the new framework the expense ratio is split into a base expense ratio (BER), which is what the fund house charges, plus brokerage, regulatory levies and statutory levies, so the TER is disclosed in parts and statutory costs are no longer buried in it. Brokerage caps for fund transactions were reduced, to 6 basis points for the cash market (excluding levies) and 2 basis

points for derivatives. The regulations also allow performance-linked expense charging under specified conditions (Business Standard, 2026).

The relevance for investors is that a regular plan, which pays a distributor's commission, costs more than a direct plan of the same fund, and the difference compounds over time. The finding of Anagol and Kim (2012) that fee structure matters supports SEBI's emphasis on transparency. For direct investors, the main costs are trading frequency and taxes. Listed equity and equity-oriented funds are, as of the rules in force, taxed in the same way, with a rate of 20 percent on short-term gains and 12.5 percent on long-term gains above an annual exemption of ₹1.25 lakh, so tax treatment does not by itself favour either route.

4.2 Performance

For funds, the S&P SPIVA India scorecards compare active funds with benchmarks. The Year-End 2025 edition reports that a firm majority of funds in every category underperformed their benchmark over the decade ending in December 2025. In 2025 itself the S&P India LargeMidCap index gained 8.9 percent, while Indian large-cap funds gained 7.3 percent on an equal-weighted basis and 9.4 percent on an asset-weighted basis. Mid- and small-cap funds, which had a better year relative to their benchmark, fell 0.7 percent against a 7.9 percent decline in the S&P India SmallCap index (S&P Dow Jones Indices, 2026). The results are mixed in the short run and unfavourable in the long run, which is consistent with the international evidence in Section 2.

For direct investors, the evidence is harder to summarise. Account-level studies exist (Campbell et al., 2019; Balasubramaniam et al., 2023), but there is no regular publication of after-cost returns of Indian direct stockholders comparable to SPIVA. The F&O data in Section 3.3 show poor outcomes for leveraged trading. For cash-market investors who buy and hold, outcomes depend on stock selection and holding periods, and the international evidence (Barber & Odean, 2000; Barber et al., 2009) suggests that frequent trading lowers returns.

Table 8. Performance evidence: funds and direct investors

Route	Evidence	Reading	Source
Active equity funds	Majority underperform benchmarks over 10 years; short-run results mixed	Index and low-cost options are a sensible core	S&P Dow Jones Indices (2026)
Mid/small-cap active funds	Beat a falling benchmark in 2025	Active management may help in less efficient segments	S&P Dow Jones Indices (2026)
Direct F&O traders	About 91–93% net losers	Leveraged trading destroys wealth for most	SEBI studies; Business Standard (2025)
Direct cash-market investors	No regular published after-cost series	Outcomes depend on discipline and turnover	Campbell et al. (2019); Barber & Odean (2000)

4.3 Behaviour and decision quality

Behaviour is where the routes differ most. A SIP commits a fixed amount at regular intervals, which means the investor buys more units when prices are low and fewer when they are high, and which removes the decision about when to enter. The investor's decisions are limited to choosing the fund, setting the amount and deciding whether to stop. Direct investing requires frequent decisions about what to buy, when to sell and how to react to news, which are the decisions that research associates with the disposition effect, overtrading and attention-driven buying (Odean, 1998; Barber & Odean, 2000, 2008).

This does not make fund investing free of behavioural risk. Investors in funds chase recent performance (Sirri & Tufano, 1998), and the stoppage of SIPs in volatile periods is a form of timing error. The SIP stoppage ratio above 100 percent in March and April 2026 shows that some investors responded to a volatile period by stopping, even if

the money flowing through SIPs remained near a record. The advantage of funds is that the opportunities for error are fewer and the default, continuing the SIP, favours long-term holding.

4.4 A side-by-side comparison

Table 9. Mutual funds versus direct equity: comparison matrix

Dimension	Mutual funds (SIP)	Direct equity
Minimum ticket	Low; SIPs from small amounts	Low per share; but diversification needs more capital
Diversification	Built in	Requires deliberate building of a portfolio
Skill and time	Fund selection only	Stock selection, monitoring and timing
Costs	Expense ratio; lower in direct plans and index funds	Brokerage, taxes, depository charges, own time
Behavioural risk	Lower; automated discipline	Higher; many discretionary decisions
Tax	Same capital gains rules for equity-oriented funds	Same rules; control over timing of realisation
Control	Low; manager decides	High; investor decides
Evidence on outcomes	SPIVA: most active funds lag over 10 years	F&O: about 91–93% net losers; cash market not regularly published

4.5 Which route suits which investor?

The evidence does not point to a single answer for everyone, because investors differ in knowledge, time, capital and temperament. A new investor with small savings gains most from the diversification and automation of a SIP, since a handful of directly held shares cannot spread risk and each decision is a chance to err. A salaried saver working towards goals such as education or retirement benefits from the discipline of a monthly commitment, which does not depend on watching markets. Investors with time, training and a record of patient, low-turnover decisions can reasonably hold individual shares, and large portfolios can build diversification directly. A trader who uses leveraged derivatives is in a different category altogether, one in which the regulator's own studies document very high loss rates.

Two practical points follow. First, the choice is not binary: a core-and-satellite structure lets an investor satisfy the wish to pick stocks while limiting the damage if the picks go wrong. Second, the right route can change over time, as an investor's knowledge and wealth grow, so the decision is best revisited periodically and not made once.

Table 10. Matching the route to the investor

Investor segment	Typical situation	Better-supported route	Reasoning
New investor, small savings	Limited capital; little experience	SIP in a diversified or index fund	Built-in diversification; automated discipline
Salaried goal-based saver	Regular income; long horizon	SIP with step-up	Habit beats timing; costs stay low
Experienced, patient investor	Time and skill; low turnover	SIP core plus a limited direct satellite	Control without staking the whole portfolio

Investor segment	Typical situation	Better-supported route	Reasoning
High-net-worth investor	Large capital; advice available	Mix of funds and direct holdings	Direct diversification possible; tax planning matters
Leveraged derivatives trader	High turnover; borrowed exposure	Extreme caution; consider exiting	About 91–93% of individual traders lose money

5. Drivers of the shift towards funds

Several forces explain why the balance between the two routes has moved towards mutual funds (Table 11). The first is automation. SIPs, which can be set up digitally and paid through UPI mandates, convert investing from a series of decisions into a habit. The second is the lesson of experience. Many investors who opened demat accounts after 2020 have since lived through a long period of volatile and weak returns, with the benchmark indices falling over FY26, and some have concluded that direct stock picking is harder than it looked during the rally. The third is regulation. SEBI's curbs on derivatives trading reduced the number of active F&O traders, and its 2026 mutual fund rules are intended to make fund costs clearer and lower. The fourth is the growth of passive products, which give investors cheap access to the index without manager risk.

The shift should not be exaggerated. Direct individual ownership has remained within a narrow band of 9 to 10 percent for more than a decade, so the story is less one of direct investors leaving than of new household money going mainly through funds. Many investors also use both routes. A common pattern is a SIP core with a direct satellite, so the two are better seen as complements than as exclusive choices.

Table 11. Drivers of the shift towards mutual funds

Driver	Mechanism	Evidence to June 2026
Automation	SIPs remove timing decisions	SIP inflows near ₹31,000 crore a month; SIP assets about 20.6% of industry AUM
Experience of volatility	Weak and volatile returns sap enthusiasm for direct picking	Slowing demat additions; active NSE clients down about 7% in FY26
Regulation	F&O curbs; lower and clearer fund costs	F&O trader numbers fell; MF Regulations 2026 effective 1 April 2026
Passive products	Low-cost market exposure	Passive funds hold about 2% of NSE-listed companies
Institutionalisation	Households access equities through institutions	Funds at a record 11.46% of NSE-listed companies

6. Implications: turning the evidence into practice

6.1 The arithmetic of cost and behaviour

Table 12 illustrates, with hypothetical figures, how cost and behaviour compound. Suppose an investor puts ₹10,000 a month into equities for 20 years, so that the total amount invested is ₹24 lakh, and that the market delivers 12 percent a year before costs. A low-cost direct-plan fund that charges 0.7 percent a year leaves the investor with a net return of 11.3 percent and a final value of about ₹84.5 lakh. A regular-plan fund that charges 1.7 percent leaves 10.3 percent and about ₹75.0 lakh. A direct investor who captures the same 12 percent from the market but gives up 3 percentage points a year through trading costs and poor timing ends up with a net 9 percent and about ₹64.3 lakh. The difference between the first and last cases, about ₹20 lakh, is wealth that is lost to costs and behaviour, not to the market.

Table 12. Illustrative effect of cost and behaviour on a ₹10,000 monthly investment over 20 years (hypothetical)

Scenario	Net annual return	Final value	Gap to best case
Market return, before any cost	12.0%	about ₹92.0 lakh	Not achievable in practice
Low-cost direct-plan fund (0.7% cost)	11.3%	about ₹84.5 lakh	Base case
Regular-plan fund (1.7% cost)	10.3%	about ₹75.0 lakh	about ₹9.5 lakh lower
Direct investor losing 3 points to trading and timing	9.0%	about ₹64.3 lakh	about ₹20.2 lakh lower

All figures are assumptions chosen for illustration; they do not describe any actual fund or investor. Final values assume monthly contributions at the start of each month with monthly compounding.

6.2 For investors

- **Build a core before a satellite.** A SIP in a low-cost diversified or index fund can serve as the core, with any direct stock holdings kept to a limited share of the portfolio that the investor can afford to lose.
- **Check costs and plan type.** Direct plans and low-cost index funds reduce the drag shown in Table 12. The SEBI regulations from 1 April 2026 make the base expense ratio and the other charges easier to see.
- **Avoid leveraged F&O trading unless prepared for loss.** SEBI's studies show that about nine in ten individual F&O traders lose money.
- **Keep the SIP running in volatile periods.** Stopping after a fall turns a temporary decline into a permanent one. The SIP stoppage ratio above 100 percent in March and April 2026 shows how common this response is.

6.3 For intermediaries and fund houses

- **Compete on cost and clarity.** The new framework shifts the basis of competition towards visible costs.
- **Support behaviour, not only access.** Reminders, step-up SIPs and educational content can reduce stoppage during falls.
- **Be careful with performance-linked fees.** They are permitted under the 2026 rules, and investors need clear explanations of how they work.

6.4 For regulators

- **Publish regular after-cost data on direct investors.** SPIVA provides a benchmark for funds, but the performance of direct cash-market investors is not tracked in the same way.
- **Continue investor education.** Financial literacy is a significant predictor of financial decisions (Lusardi & Mitchell, 2014), and the surge of new investors after 2020 makes it especially relevant.
- **Monitor the outcomes of recent rule changes.** The effects of derivatives curbs and the 2026 fund regulations should be assessed against investor outcomes.

6.5 A simple decision framework

The findings can be turned into a short sequence of questions that an investor, or an adviser, can work through (Table 13). The questions move from the most robust conclusions, such as keeping costs low and avoiding leveraged trading, to the more personal ones, such as how much time and skill the investor really has. If the answers point to limited time, limited experience or a history of reacting to market swings, a SIP core is the sensible default. If they point to time, skill and patience, a direct satellite is reasonable, provided it is capped.

Table 13. Decision framework for choosing between funds and direct equity

Question	If yes	If no
Is the money needed within three to five years?	Equity of either kind is risky; consider debt-oriented options	Continue to the next question
Do you trade futures or options with borrowed exposure?	Reassess; evidence shows most individual traders lose	Continue
Have you stopped investing or sold in panic during past falls?	Prefer automated SIPs and avoid frequent checking	Continue
Do you have the time and skill to research and monitor companies?	A capped direct satellite is reasonable	Hold funds only
Are you paying a distributor's commission through a regular plan?	Compare with a direct plan or index fund	Review costs annually

Table 14. Stakeholder playbook

Stakeholder	Action	Rationale
Retail investor	SIP core in low-cost funds; limited direct satellite	Reduces cost drag and behavioural error
Fund house or distributor	Compete on cost; support SIP continuity	Costs and stoppage drive outcomes
Regulator	Publish direct-investor outcome data; monitor new rules	Closes the evidence gap
Adviser	Assess risk capacity before recommending direct stocks	Matches the route to the investor

Table 15. Common pitfalls in the funds versus direct debate

Pitfall	Why it misleads	Safer approach
Treating the demat account count as the number of active investors	Many accounts are dormant or duplicated	Use active-client and ownership data
Assuming funds always beat direct investing	Most active funds lag benchmarks over long periods	Compare after-cost returns with an index
Assuming direct investing always beats funds	Frequent trading lowers returns	Consider turnover and discipline
Judging a route by one year	Short-run results are noisy	Use multi-year, after-cost evidence

7. Methodological notes and a proposed empirical design

This paper is an integrative review. It prioritises established academic studies, regulator and exchange releases, and widely reported industry data up to 5 June 2026. Because the 2026 data are recent, several figures are taken from press reports of NSE, AMFI, depository and SEBI releases, and should be replaced by the primary releases in any formal study. Table 16 summarises the inclusion emphasis.

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Table 16. Inclusion emphasis

Priority	Rationale
Foundational academic studies	Establish mechanisms and regularities
Regulator and exchange releases	Define the facts of participation and rules
Industry-body data (AMFI, depositories)	Provide timely participation and flow figures
Independent performance scorecards (SPIVA)	Provide benchmark-based comparisons

Readers who wish to extend the work empirically can model the share of household equity held through funds. A simple specification relates the quarterly mutual fund share of NSE-listed market capitalisation to market volatility, the market return, SIP flows and regulatory changes:

$$\mathbf{MFshare}_t = \alpha + \beta_1\,\mathbf{Volatility}_t + \beta_2\,\mathbf{MarketReturn}_t + \beta_3\,\mathbf{SIPflow}_t + \beta_4\,\mathbf{Regulation}_t + \varepsilon_t$$

A more powerful design uses investor-level data from depositories or brokers, following the same investor across routes, and measures the gap between the return of the investor and the return of the portfolio they hold (the behavioural gap). Table 17 outlines a feasible design.

Table 17. Proposed empirical design

Element	Proposal
Sample	Quarterly NSE ownership data from 2012; monthly AMFI and depository data; SEBI trader studies
Outcome variables	Mutual fund share of market capitalisation; SIP stoppage ratio; behavioural gap
Explanatory variables	Volatility; index return; SIP inflows; F&O curbs; MF Regulations 2026
Identification	Event windows around rule changes; comparison of investors with and without F&O exposure
Robustness	Alternative ownership definitions; sub-periods before and after 2020; investor-level splits

8. Limitations and open questions

- **Data limits.** Published data on direct cash-market investors' after-cost returns are scarce, which limits the comparison with funds.
- **Press-based figures.** Some figures come from press reports of regulator and industry data and are approximate.
- **Short post-2020 window.** The investor cohort that entered after 2020 has not yet completed a full market cycle.
- **Cut-off date.** Data released after 5 June 2026, including the AMFI figures for May 2026, are not included.
- **Overlap between routes.** Many investors use both routes, so aggregate trends do not describe individual choices.

Table 18. Research agenda

Theme	Next steps
Behavioural gap	Measure the gap between investor and fund returns for Indian SIP investors
Direct investor outcomes	Publish after-cost returns for cash-market investors using depository data
SIP durability	Study why accounts stop and how stoppage responds to volatility
Regulatory impact	Assess the effect of F&O curbs and the 2026 fund rules on outcomes
Passive adoption	Track the adoption of index funds and its effect on costs

9. Conclusion

The choice between mutual funds and direct equity is less a contest than a question of fit. The research evidence shows that costs and behaviour decide most of the difference in outcomes. Mutual funds, particularly low-cost and direct-plan options, limit both, and automated SIPs reduce the number of occasions on which an investor can err. Direct investing offers control and, for the skilled and disciplined, the possibility of better returns, but the evidence on frequent trading and derivatives shows that the typical retail investor is not rewarded for the extra decisions.

Indian data up to June 2026 are consistent with this picture. Direct individual ownership has stayed within a narrow band and hit a five-year low of 9.11 percent in March 2026, while domestic mutual funds reached a record 11.46 percent, and SIP inflows stayed near ₹31,000 crore a month even through a volatile period. A rising stoppage ratio is a reminder that discipline is not guaranteed. For most households the sensible response is a low-cost SIP core with a limited satellite of direct holdings, if any, and for regulators it is to keep improving transparency and to measure outcomes for direct investors as carefully as for funds.

Table 19. Practitioner summary

Action	Why
Anchor the portfolio in low-cost SIPs	Limits cost drag and behavioural error
Prefer direct plans and index options where suitable	Reduces fees that compound over time
Limit direct holdings to what you can afford to lose	Direct trading rewards few retail investors
Avoid leveraged F&O	About nine in ten individual traders lose
Keep investing through volatility	Stopping after falls locks in losses

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