



**EDELWEISS**  
MUTUAL FUND

# MIDCAPS

## Mid Cap Mutual Funds Vs Direct Stocks: Which Is Better Option For You?

Why take a detour when you can head straight to your destination? Many investors think the same way, since mutual funds ultimately invest in stocks. So, why not skip the middleperson and invest directly in equities? It is a fair question. But there are several reasons why mutual funds, especially mid-cap ones, hold their own ground. If you are debating between investing in direct stocks or mid-cap funds, this article is here to help you make an informed choice.

### What is a mid-cap fund?

Mid-cap mutual funds are a type of equity mutual fund that invest primarily in stocks of medium-sized companies. As per the Securities and Exchange Board of India's (SEBI) guidelines, these are companies ranked between 101 and 250 in terms of market capitalisation, typically falling in the Rs 5,000 crore to Rs 20,000 crore range.

These companies are growing but have not yet reached their full potential. Hence, they are relatively stable compared to new businesses but not as steady as well-established organisations.

Mid-cap funds are managed by fund managers who curate a portfolio of mid-cap securities. All you do is invest in the fund through a Systematic Investment Plan (SIP) or a lump sum. The rest is handled by the fund manager.

### What does investing in direct mid-cap stocks involve?

As mentioned earlier, mid-cap stocks belong to companies with a medium market capitalisation. When you choose to invest in these stocks directly, you buy and sell shares straight from the market using your demat account.

There is no fund manager managing the investments on your behalf. You have to do all the research, pick the right stocks, and decide when to buy or sell. While this gives you full control, it also puts the responsibility squarely on your shoulders.

### Mid-cap mutual funds vs direct stocks

Here are some differences between investing in mid-cap mutual funds and direct stocks:

- **Convenience and participation**

Mid-cap funds are managed by professional fund managers who do all the stock-picking and rebalancing for you. These funds offer a more hands-off experience, which can be perfect if you prefer convenience. On the other hand, investing in direct mid-cap stocks

puts you in charge. You need to research, select, and manage your investments yourself. It offers more control, but also demands time and effort.

- **Risk**

Mutual funds usually spread their investments across multiple mid-cap stocks, which helps in reducing overall risk. But with direct equity, your returns depend entirely on the stocks you choose. If your selection of stocks underperforms, it could have a bigger impact on your portfolio.

- **Diversification**

Mid-cap investment funds generally include a variety of stocks across industries and sectors, which results in better diversification. Doing this on your own is possible, but it may require larger capital and a deep understanding of different sectors. In most cases, this may be hard to achieve through direct stock investing.

- **Costs**

Mutual funds come with certain costs, like the expense ratio, fund manager fees, and sometimes an exit load. You may also incur some costs when investing directly in stocks. These include brokerage charges, demat account fees, and possibly other transaction costs.

- **Liquidity**

Both mutual funds and stocks can be liquidated easily and quickly. You can usually redeem your mutual fund units or sell your stocks whenever you want. The exception here is the Equity Linked Savings Scheme (ELSS), a mutual fund, which has a mandatory lock-in period of three years.

## **Taxation**

Mid-cap mutual funds are taxed just like stocks, depending on the holding period. However, ELSS funds offer a tax benefit under Section 80C, which allows deductions of up to Rs 1.5 lakh a year. So, if you invest in an ELSS fund that invests in mid-cap stocks, you can avail of this annual tax deduction and lower your tax dues.

## **Which investment option should you choose?**

Mid-cap mutual funds might be the better choice if you prefer a hands-off approach, want broader diversification, are looking for potential tax benefits, and want to reduce risk through professional management.

On the other hand, direct equity investing could be right for you if you like having full control over your portfolio and have the time and experience to manage your investments actively.

It also comes down to your experience. If you are a seasoned investor and enjoy researching stocks or keeping up with the market news, direct equity might suit you. But if you are relatively new to investing, mutual funds can be more convenient.

## **Conclusion**

Now that you understand the differences between these two routes, you can make the right choice. Make sure you do a deep dive into your needs and preferences. And do not forget to thoroughly research. Research is your best friend when it comes to making informed investment decisions.

An investor education initiative by Edelweiss Mutual Fund

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**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**