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Investment Avenue In Investors

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Abstract

Investors are a heterogeneous group, they may be large or small, rich or poor, expert or lay man and not all investors need equal degree of protection (Mayya, 1996). An investor has three objectives while investing his money, namely safety of invested money, liquidity position of invested money and return on investment. The return on investment may further be divided into capital gain and the rate of return on investment as interest or dividend. Among all investment options available, securities are considered the most challenging as well as rewarding. Securities include shares, debentures, derivatives, units of mutual funds, Government securities etc. An investor may be an individual or corporate legal entity investing funds with a view to derive maximum economic advantage from investment such as rate of return, capital appreciation, marketability, tax advantage and convenience of investment. The Capital market facilitates mobilization of savings of individuals and pools them into reservoir of capital which can be used for the economic development of a country. An efficient capital market is essential for raising capital by the corporate sector of the economy and for the protection of the interest of investors in corporate securities. There arises a need to strike a balance between raising of capital for economic development on one side and protection of investors on the other. Unless the interests of investors are protected, raising

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of capital, by corporates is not possible. Like, the primary objective of a senior citizen's asset allocation is the generation of regular income.

Keywords: Investment, Investment Avenues

Introduction

Economic investment means the net additions to the capital stock of the society which consists economic of goods and services that are used in the production of other goods and services. Addition to the capital stock means an increase in building, plants, equipment and inventories over the amount of goods and services that existed. The financial and economic meanings are related to each other because investment is a part of the savings of individuals which flow into the capital market either directly or through institutions, divided in new and secondhand capital financing. Investors as suppliers and investors as users of long-term funds find a meeting place in the market

Different types of investors

Conservative investors often invest in cash. THIS means that they put their money in interest bearing savings accounts, money market accounts, mutual funds, US Treasury bills, and Certificates of Deposit. These are very safe investments that grow over a long period of time. These are also low risk investments.

Moderate investors often invest in cash and bonds, and may dabble in the stock market. Moderate investing may be low or moderate risks. Moderate investors often also invest in real estate, providing that it is low risk real estate.

Aggressive investors commonly do most of THEIR investing in the stock market, which is higher risk. They also tend to invest in business ventures as well as higher risk real estate. For instance, if an aggressive investor puts his or her money into an older apartment building, then invests more money renovating the property, they are running a risk. They expect to be able to rent the apartments out for more money than the apartments are currently worth or to sell the entire property for a profit on their initial Investments. In some cases, this works out just fine, and in other cases, it doesn't. It's a risk.

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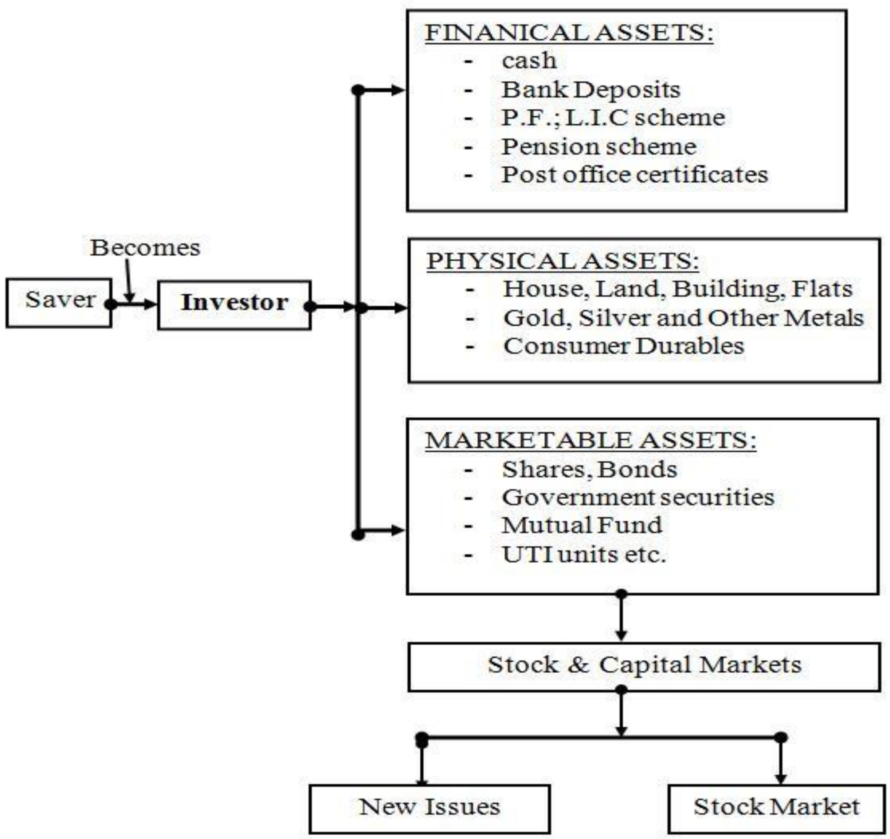
Needs of investors

Wealthy investors being aware of the emerging investment opportunities use sophisticated investment strategies such as:-

- Leveraging on the professional advisors' capability to analyze market trends and make appropriate investments
- searching for innovative products to enhance value
- Diversifying across various types of assets
- Investing across emerging geographies
- Consolidating financial information and assets

Types of investment: or various investment alternatives /avenues



Non-Marketable Financial Assets

A good portion of financial assets is represented by non-marketable financial assets. A distinguishing feature of these assets is that they represent personal transactions between the investor and the issuer. For example, when you open a savings bank account at a bank you deal with the bank personally. In contrast when you buy equity shares in

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the stock market you do not know who the seller is and you do not care. These can be classified into the following broad categories:

- Post office deposits
- Company deposits
- Provident fund deposits
- Bank deposits

Equity Shares

Equities are a type of security that represents the ownership in a company. Equities are traded (bought and sold) in stock markets. Alternatively, they can be purchased via the Initial Public Offering (IPO) route, i.e. directly from the company. Investing in equities is a good long-term investment option as the returns on equities over a long time horizon are generally higher than most other investment avenues. However, along with the possibility of greater returns comes greater risk. Equity shares are classified into the following broad categories by stock market analysts:

- Blue chip shares
- Growth shares
- Income shares
- Cyclical shares
- Speculative shares

Bonds

Bond is a debt instrument issued for a period of more than one year with the purpose of raising capital by borrowing. It is certificates acknowledging the money lend by a bondholder to the company. It states it maturity date, interest rate, and par value. The Federal government, states, cities, corporations, and many other types of institutions sell bonds. When an investor buys a bond, he/she becomes a creditor of the issuer. However, the buyer does not gain any kind of ownership rights to the issuer, unlike in the case of equities. On the hand, a bond holder has a greater claim on an issuer's income than a shareholder in the case of financial distress (this is true for all creditors). The yield from a bond is made up of three components: coupon interest, capital gains and interest on interest (if a bond pays no coupon interest, the only yield will be capital gains). A bond might be sold at above or below par (the amount paid out at maturity), but the

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market price will approach par value as the bond approaches maturity. A riskier bond has to provide a higher payout to compensate for that additional risk. Some bonds are tax-exempt, and these are typically issued by municipal, county or state governments, whose interest payments are not subject to federal income tax, and sometimes also state or local income tax.

Bonds may be classified into the following categories:

- Government securities
- Government of India relief bonds
- Government agency securities
- PSU bonds
- Debentures of private sector companies
- Preference shares

Money Market Instruments

Debt instruments which have a maturity of less than one year at the time of issue are called money market instruments. The important money market instruments are:

- Treasury bills
- Commercial paper
- Certificates of deposits

Mutual Funds

Instead of directly buying equity shares and/or fixed income instruments, you can participate in various schemes floated by mutual funds which, in turn, invest in equity shares and fixed income securities.

A mutual fund is made up of money that is pooled together by a large number of investors who give their money to a fund manager to invest in a large portfolio of stocks and / or bonds Mutual fund is a kind of trust that manages the pool of money collected from various investors and it is managed by a team of professional fund managers (usually called an Asset Management Company) for a small fee. The investments by the Mutual Funds are made in equities, bonds, debentures, call money etc., depending on the terms of each scheme floated by the Fund. The current value of such investments is now a day is calculated almost on daily basis and the same is reflected in the Net Asset Value (NAV) declared by the funds from time to time. This NAV keeps on changing with the

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changes in the equity and bond market. Therefore, the investments in Mutual Funds is not risk free, but a good managed Fund can give you regular and higher returns than when you can get from fixed deposits of a bank etc.

There are three broad types of mutual fund schemes:

- Equity schemes
- Debt schemes
- Balanced schemes

Life Insurance

In a broad sense, life insurance may be viewed as an investment. Life insurance is a contract between the policy holder and the insurer, where the insurer promises to pay a designated beneficiary a sum of money (the "benefits") upon the death of the insured person. Depending on the contract, other events such as terminal illness or critical illness may also Trigger payment. In return, the policy holder agrees to pay a stipulated amount (the "premium") at Regular intervals or in lump sums. The important types of insurance policies in India are:

- Endowment assurance policy
- Money back policy
- Whole life policy
- Term assurance policy

Real Estate

For the bulk of the investors the most important asset in their portfolio is a residential house. In addition to a residential house, the more affluent investors are likely to be interested in the following types of real estate:

- Agricultural land
- Semi-urban land
- Time share in a holiday resort

Precious Objects

Precious objects are items that are generally small in size but highly valuable in monetary terms. Some important precious objects are:

- Gold and Silver
- Precious stones

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- Art objects

Financial Derivative

A financial derivative is an instrument whose value is derived from the value of an underlying asset. It may be viewed as a side bet on the asset. The most important financial derivatives from the point of view of investors are:

- Options
- Futures

Non-Financial Instruments

Real estate

With the ever-increasing cost of land, real estate has come up as a profitable investment proposition. Gold, The 'yellow metal' is a preferred investment option, particularly when markets are volatile. Today, beyond physical gold, a number of products which derive their value from the price of gold are available for investment. These include gold futures and gold exchange traded funds.

Investment Risk and Return Characteristics

The chart below provides some examples of common types of investments classified according to their potential return and investment risk.

Potential Return	Investment Risk (Volatility)	Examples of Common Investments
High	High	○ Aggressive growth funds ○ Emerging markets mutual funds ○ Foreign company stocks ○ Global, international, sector, and precious metal ○ mutual funds ○ Penny stocks ○ Small cap stocks and funds ○ Variable annuities invested in aggressive growth ○ sub-accounts
Moderate	Moderate	○ Convertible bonds ○ High-yield (junk) bond funds ○ Large-cap stocks and funds ○ S&P 500 & Wilshire 5000 stock index funds ○ Variable annuities invested in large-cap stock sub accounts
Low	Low	○ Fixed annuities ○ Government agency securities (e.g., Ginnie Maes)

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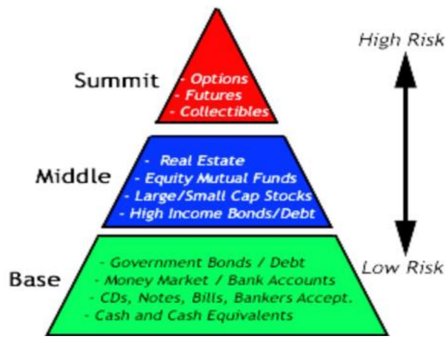
		○ High quality short- and intermediate-term municipal ○ and corporate bonds and bond funds ○ Money market mutual funds ○ Treasury bills and notes ○ U.S. savings bonds (Series I and EE) ○ Variable annuities invested in high-quality bond ○ sub-accounts

Investors should align their fixed income portfolios towards medium and long-tenure products to benefit from the fall in interest rates. Investment avenues should be such to provide a platform where convenience, cost-effectiveness and tax-efficiency are combined to make investment a simple and attractive vehicle.

Investment Risk Pyramid

After deciding on how much risk is acceptable in your portfolio by acknowledging your time horizon and bankroll, you can use the risk pyramid approach for balancing your assets.



This pyramid can be thought of as an asset allocation tool that investors can use to diversify their portfolio investments according to the risk profile of each security. The pyramid, representing the investor's portfolio, has three distinct tiers:

Base of the Pyramid The foundation of the pyramid represents the strongest portion, which supports everything above it. This area should be comprised of investments that are low in risk and have foreseeable returns. It is the largest area and composes the bulk of your assets.

Middle Portion This area should be made up of medium-risk investments that offer a stable return while still allowing for capital appreciation. Although more risky than the assets creating the base, these investments should still be relatively safe.

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Summit Reserved specifically for high-risk investments, this is the smallest area of the pyramid (portfolio) and should be made up of money you can lose without any serious repercussions. Furthermore, money in the summit should be fairly disposable so that you don't have to sell prematurely in instances where there are capital losses.

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