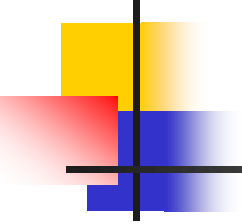
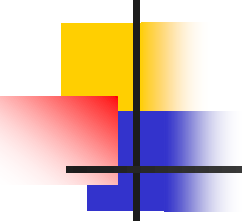




# Fundamentals of Investment

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- Investment involves making of a sacrifice in the present with the hope of deriving future benefits.
  - Two most important features of an investment are current sacrifice and future benefit.
  - Investment is the sacrifice of certain present values for the uncertain future reward.

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- The expectation brings with it a probability that the quantum of return may vary from a minimum to a maximum.
  - This possibility of variation in the actual return is known as investment risk.
  - Thus every investment involves a return and risk.



# DIFFERENCE BETWEEN THE INVESTOR AND THE SPECULATOR

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- **Time horizon**
- Investor – Plans for a longer time horizon. His holding period may be from one year to few years.
- Speculator – Plans for a very short period. Holding period varies from few days to months.



# RISK

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Investor – Assumes moderate risk.

Speculator – Willing to undertake high risk.



# Return

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- Investor – Likes to have moderate rate of return associated with limited risk.
- Speculator – Like to have high return assuming high risk.



# Decision

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- Investor – Considers fundamental factors and evaluates the performance of the company regularly.
- Speculator – Considers inside information and market behaviour.



# Funds

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- Investor - uses his own funds and avoids borrowed funds.
- Speculator - Speculator uses borrowed funds to supplement his personal resources.



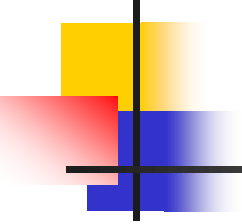


# INVESTMENT PROCESS

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- Investment process is governed by the two important facets of investment they are risk and return.
- Therefore, we first consider these two basic parameters that are of critical importance to all investors and the trade off that exists between expected return and risk.

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- Given the foundation for making investment decisions the trade off between expected return and risk- we next consider the decision process in investments as it is typically practiced today.
  - Although numerous separate decisions must be made, for organizational purposes, this decision process has traditionally been divided into a two step process: security analysis and portfolio management.

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- Security analysis involves the valuation of securities.
  - Portfolio management involves the management of an investor's investment selections as a portfolio (package of assets), with its own unique characteristics.



# Investment categories:

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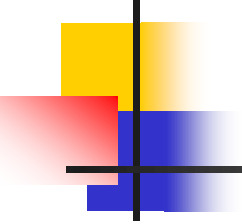
- Investment generally involves commitment of funds in two types of assets:
  - Real assets
  - Financial assets



# Investment avenues

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- 1. Corporate securities
  - Equity shares , Preference shares
  - Debentures/Bonds , GDRs / ADRs
  - Warrants , Derivatives

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- 2. Deposits in banks and non banking companies
  - 3. Post office deposits and certificates
  - 4. Life insurance policies
  - 5. Provident fund schemes
  - 6. Government and semi government securities
  - 7. Mutual fund schemes
  - 8. Real assets



# Equity Shares

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- Equity shares, also known as ordinary shares or common shares, represent the owners, capital in a company .

## **Characteristics of Equity Share**

- Permanent capital
- Residual claim to asset & income
- Right to control or voting rights  
Limited liability .



# Sweat equity

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- The definition of sweat equity has two different dimensions:
- Shares issued for consideration other than cash for providing know-how, intellectual property or value additions.
- Shares issued at a discount to employees and directors.





# Sweat equity is for

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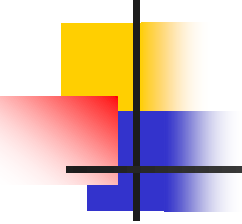
- Computer hardware and software development.
- Management consultancy where a standard strategy is issued to earn a fee, like Enterprise Resource Planning (ERP) solution.
- In the life insurance segment, commission – based business can be converted into sweat equity.



# Non-voting shares

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- Non voting shares carry no voting rights. They carry additional dividends instead of the voting rights.
- They have right to participate in the bonus issue.
- The non-voting shares also can be listed and traded in the stock exchange.
- If non-voting shares are not paid dividend for two years, the shares would automatically get voting rights.

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- The company can issue this to a maximum of 25% of the voting stock.
  - The dividend on non voting shares would have to be 20% higher than the dividend on the voting shares.



# Right shares

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- A right issue (pre-emptive right) is an issue of share to the existing shareholders on a pro rata basis.
- New share issue offered to existing shareholders in proportion to their current shareholding, for a specified period and at a specified (usually discounted) price. Its objective is to afford them the opportunity to maintain their percentage of ownership of the firm.



# *Stock Dividend (Bonus Shares)*

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- Stock dividend is the payment of additional shares of common stocks to the ordinary shareholders instead of cash dividend.
- **Stock dividend or bonus shares are issued by firm to existing shareholders by conversion of reserves into capitalisation.**
- **Bonus shares can be issued only out of the reserve build out from the profits or share premium collected on cash only.**



# Preference Shares:

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- Preference shares refer to a form of shares that lie in between pure equity and debt. They have the characteristic of ownership rights while retaining the privilege of a consistent return on investment.
- The claims of these holders carry higher priority than that of ordinary shareholders but lower than that of debt holders.



# Types of Preference shares

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- Cumulative preference shares
- Non-cumulative preference share
- Redeemable Preference share
- Irredeemable Preference Share
- Participating Preference share
- Non-participating preference share
- Convertible preference share
- Non-convertible preference shares.



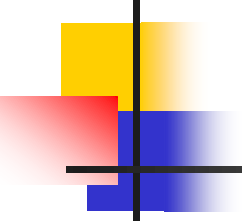
# Debentures and Bonds

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- A debenture is an acknowledgement of debt.
- These are essentially long-term debt instruments.
- Many types of debentures and bonds have been structured to suit investors with different time needs. Though having a higher risk as compared to bank fixed deposits, bonds, and debentures do offer higher returns.
- Debenture investment requires scanning the market and choosing specific securities that will cater to the investment objectives of the investors.



# Types of debenture :

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- Simple or unsecured debentures
  - Secured or mortgaged debentures
  - Bearer debentures
  - Registered debentures
  - Redeemable debentures
  - Irredeemable debentures
  - Convertible debentures
  - Non-Convertible debentures
  - Guaranteed debentures .



# Zero coupon bonds/Deep discount bonds

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- There is no interest payment in these bonds. These bonds sell at a discount and the face value is repaid at the time of maturity.



# Depository Receipts (GDRs/ADRs):

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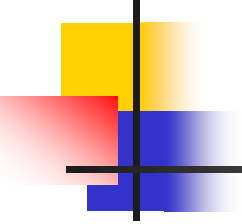
- American Depository Receipts (ADRs) and Global Depository Receipts (GDRs) are shares of Indian companies listed and traded in foreign stock exchanges.



# Warrants:

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- A warrant is a certificate giving its holder the right to purchase equity shares at a stipulated price within a specified time limit or perpetually.
- Sometimes a warrant is offered with debt securities as an inducement to buy the shares at a latter date.
- The warrant acts as a value addition because the holder of the warrant has the right but not the obligation of investing in the equity at the indicated rate.

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- The life periods of warrants are long.
  - Warrants can be detachable. The investor can sell the warrants separately and they are traded in the market.



# Derivatives:

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- It is a financial instrument which is derived from some other financial assets. It is designed to minimize risk for the investors on their investment.
- Financial futures are contracts or obligations that help to lock-in the price at which one wishes to buy or sell an asset in the future, to protect against price changes.



# DEPOSITS:

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- Among non-corporate investments, the most popular are deposits with banks such as savings accounts and fixed deposits.
- Savings deposits carry low interest rates whereas fixed deposits carry higher interest rates, varying with the period of maturity, interest is payable quarterly or half-yearly or annually.



# Company Fixed Deposits:

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- Many companies have come up with fixed deposit schemes to mobilize money for their needs. The company fixed deposit market is a risky market and ought to be looked at with caution.
- RBI has issued various regulations to monitor the company fixed deposit market. However, credit rating services are available to rate the risk of company fixed deposit schemes.
- The maturity period varies from three to five years. Fixed deposits in companies have a high risk since they are unsecured, but they promise higher returns than bank deposits.





# Post Office Deposits and Certificates:

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- The investment avenues provided by post offices are non-marketable. However, most of the savings schemes in post offices enjoy tax concessions.
- Post offices accept savings deposits as well as fixed deposits from the public.
- There is also a recurring deposit scheme that is an instrument of regular monthly savings.

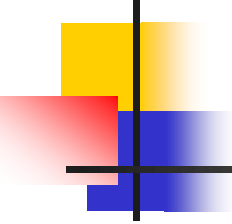


# Life Insurance Policies:

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- Insurance companies offer many investment schemes to investors. These schemes promote savings and additionally provide insurance cover.
- LIC is the largest life insurance company in India. Some of its schemes include life policies, Jeevan Saathi, Money Back Plan, Jeevan Dhara etc.

# Equity Linked Savings Schemes (ELSSs):

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- Investing in ELSSs gets investors a tax rebate of the amount invested.
  - ELSSs are basically growth mutual funds with a lock-in period of three years.



# Pension Plan:

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- Certain notified retirement/pension funds entitle investors to a tax rebate.
- UTI, LIC, and ICICI are some financial institutions that offer retirement plans to investors.



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# Mutual Fund Schemes:

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- The Unit Trust of India is the first mutual fund in the country. A number of commercial banks and financial institutions have also set up mutual funds.
- Mutual funds have been set up in the private sector also. These mutual funds offer various investment schemes to investors.



# REAL ASSETS

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- Investments in real assets are also made when the expected returns are very attractive.
- Real estate, gold, silver, currency, and other investments such as art are also treated as investments since the expectation from holding of such assets is associated with higher returns.