CHAPTER III

INVESTMENT AVENUES IN INDIA

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Saving means not spending all of your current income on consumption. Investing on the other hand, is choosing what assets to hold. We may choose to invest in safe assets, risk assets, or a combination of both. In the common usage, however, the term saving is often take to mean investing in safe asset such as an insured bank account. It is easy to confuse saving with safe investing. An investor's portfolio is simply his collection of investment assets. Once the portfolio is established, it is updated or rebalanced by selling existing securities and using the proceeds to buy new securities, by investing additional funds to increase the overall size of the portfolio, or by selling securities to decrease the size of the portfolio.[1]

Investment is the sacrifice of certain present value for the uncertain future reward. It entails arriving at numerous decisions such as type, mix, amount, timing, grade etc. of investment and disinvestment. Further, such decision making has not only to be continuous but rational too. Broadly speaking, an investment decision is a tradeoff between risk and return. All investment choices are made at points of time in accordance with the personal investment ends and in contemplation of an uncertain future. Since investments in securities are revocable, investment ends are transient and investment environment is fluid, the reliable bases for reasoned expectations become more and more vague as one conceives of the distant future. Investors in

[1] Zvi Bodie, Alex Kane, Alan J Marcus, Pitbas Mohanty - 2011 - Investments — Tata McGraw Hill Education Private Limited - Eighth Edition - P.8 – 9.

securities will, therefore, from time to time, reappraise and re-evaluate their various investment commitments in the light of new information, changed expectations and ends[2].

Traditionally, investment is defined as the current commitment of resources in order to achieve later benefits. If resources and benefits take the form of money, investment is the present commitment of money for the purpose of receiving money later. In some cases, such as the purchase of a bank certificate of deposit, the amount of money to be obtained later is known exactly. However, in most situations the amount of money to be obtained later is uncertain.

There is no broader view point of investment – based on the idea of flows of expenditures and receipts spanning a period of time. From this view point, the objective of investment is to tailor the pattern of these flows over time to be as desirable as possible. When expenditures and receipts are denominated in cash, the net receipts at any time period are termed cash flow, and the series of flows over several period is termed a cash flow stream. The investment objective is that of tailoring this cash flow stream to be more desirable than it would be otherwise.

There is also an art to investment. Part of this art knows what to analyse and how to go about it. However, there is also an intuitive art of being able to evaluate an investment from an assortment of qualitative information, such as personality characteristics of the people involved, whether a proposed new product will sell well and so forth.[3]

The word investment has many interpretations. It means different things to different persons. For a person who has lent money to another, it may be an investment for a return. Similarly, if a person purchases shares of a company, bullion or real estate for the purpose of

[2] V.K.Bhalla – 2008 - Investment Management — S.Chand Publications – 15th Revised Edition - – P.3.

[3] David G.Luenberger - 2010 - Investment science — Oxford University Press – Indian Edition — P.1.

price appreciation, it is also an investment for him. Likewise, an insurance plan or a pension plan is an investment to its purchaser. From these illustrations, it is clear that investment is a commitment of funds for earning additional income. In other words, investment is considered the sacrifice of certain present value of money in anticipation of reward[4].

Investment is parting with one's fund, to be used by another party or user of fund for productive activity. It can mean giving an advance or loan or contributing to the equity (ownership capital) or debt capital of a corporate or non corporate business unit. Generalized, investment means conversion of savings, parting with saving or liquidity and lastly taking a risk involving uncertainty about the actual return, time of waiting and cost of getting back funds, safety of funds, and risk of the variability of return. For making proper investment involving both risk and return, the investor has to make a study of the alternative avenues of investment-their risk and return characteristics and make proper projection or expectations of his preferences.

Investing is a term with several closely-related meanings in business management, finance and economics, related to saving or deferring consumption. An asset is usually purchased, or equivalently a deposit made in a bank, in hopes of getting a future return or interest from it.

"An investment is a commitment of funds made in the expectation of some positive return. If the investment is properly undertaken, the returns will be commensurate with the risk the investor assumes" – (Donald E.Fischer and Ronald J.Jordon).

[4] Dr.L.Natarajan - 2008 - Investment Management — Margham Publications – Second Edition – P.1.1.

Investment is “ the purchase by an individual or institutional investor of a financial or real asset that produces a return in proportion to the risk assumed over some future investment period” – (F.Amling).

Classification of Investments:

Investment can be classified as financial investment and economic investment.

Financial Investment: It means employment of funds in the form of assets with the object of earning additional income or appreciation in the value of investment in future. Assets which are the subject matter of investment may be varying between safe and risky ones.

Economic Investment: Economic investment is different from financial investment. The term ‘economic investment’ signifies net additions to the capital stock of the society. Capital stock of the society in turn, means those goods and services which are used in the production of goods and services which are used in the production of other goods and services.

FACTORS DETERMINING INVESTMENT:

The activities related to investment consist of acquisition of assets, their maintenance and the liquidation of assets. A good investment should facilitate these investment activities and foster their growth. There are certain factors which are conducive to the growth of investment.

As investment is the result of savings, the government should introduce adequate measures to encourage savings accumulation. The rights of the investors who have invested their surplus in assets should be protected against any possible infringement.

a) Well organized monetary system:

The existence of a well organized monetary system is essential for the growth of the investment market. Investment consists of channelization of surplus funds in specific form of assets. Payment for these assets in terms of currency of the country calls for the existence of a proper monetary policy. Such a policy should protect the investments against the evil effects of inflation. In fact, it should generate a stable price level, which in turn will contribute to a disciplined investment market.

b) Role of financial institutions:

Financial institutions mobilize savings and channelize them for productive use in industry. There are two types of financial institutions in the Indian capital market, namely developmental institutions and investment institutions. Developmental institutions include IDBI, IFCI, ICICI, etc., which have been organized on an all India basis and state level bodies such as State Finance and Development Corporations. The national level bodies provide assistance to all India projects and regional projects. The state level bodies promote industrial growth in the respective states. Investment institutions include UTI, LIC, GIC etc. Apart from these, commercial banks accept deposits from the public and make them available for productive use. These financial institutions encourage capital formation which is essential for savings and investment.

c) Forms of business organization:

Most of the businesses are organized in the form of joint stock companies. Perhaps the public limited companies are regarded as the most useful form for the investors in the view of their characteristics such as limited liability of the shareholders, perpetual succession and free transferability of shares. Other forms of organizations such as sole proprietorship carry unlimited liability. Further, the life of sole proprietary concerns and partnership firms are comparatively short. proprietary concern may come to an end on the death of the proprietor. Similarly, events such as death, retirement and insanity of partners may result in dissolution of the firm. So, investors do not wish to invest in these unstable forms of business. The partnership firms are unstable, they also restrict free transferability of investment in them from one person to another. In view of these constraints in these forms of organization, investors prefer to invest in the wide range of securities offered by joint stock companies.

d) Macro – Household Savings and Investment

As per the RBI data, published from time to time total financial savings and physical assets held by households are available for discussion. During recent years the data shows that the net investments in financial assets and net physical assets are in the ratio of about 45% and 55%, respectively.

e) Modes of Investment

There are different types of securities conferring different sets of rights on the investors and different sets of conditions under which these rights can be exercised. The various avenues for investment, ranging from risk less to high risk investment opportunities consist of both security and non security forms of investment. All securities listed below are marketable.

i) SECURITY FORMS OF INVESTMENT:

1. Corporate Bonds/Debentures

    a) Convertible

    b) Non convertible

2. Public Sector Bonds

    a) Taxable

    b) Tax free

3. Preference Shares
4. Equity Shares

    a) New issue

    b) Rights issue

    c) Bonus issue

ii) NON-SECURITY FORMS OF INVESTMENT:

1. National Savings Schemes

2. National Savings Certificates

3. Provident Funds:

    a) Statutory Provident Fund

    b) Recognised Provident Fund

    c) Unrecognised Provident Fund

    d) Public Provident Fund

4. Corporate Fixed Deposits:

    a) Public Sector

b) Private Sector

5. Life Insurance Policies

6. Post Office savings bank accounts:

a) Recurring

b) Time

c) Monthly Income Scheme

d) Senior citizen savings scheme

7. Real Estate Investment

8. Gold, Silver

9. Others:

a) Kisan Vikas Patra

b) Chits, Nidhis etc

f) **Objectives of Investment**

The options for investing and savings are continually increasing, yet every single investment vehicle can be easily categorized according to three fundamental characteristics - safety, income and growth - which also correspond to types of investment objectives. While it is possible for an investor to have more than one of these objectives, the success of one must come at the expense of others. The objectives of investment are listed below:

i) **Safety**

Perhaps there is truth in the axiom that there is no such thing as a completely safe and secure investment. Yet one can get close to ultimate safety for our investment funds through the purchase of government-issued securities in stable economic systems, or through the purchase of the highest quality corporate bonds issued by the economy's top companies. Such securities are arguably the best means of preserving principal while receiving a specified rate of return. The safest investments are usually found in the money market and include such securities as Treasury bills (T-bills), certificates of deposit, commercial paper or bankers' acceptance slips; or in the fixed income (bond) market in the form of municipal and other government bonds, and in corporate bonds. The securities listed above are ordered according to the typical spectrum of increasing risk and, in turn, increasing potential yield. To compensate for their higher risk, corporate bonds return a greater yield than T-bills.

ii) Income:

However, the safest investments are also the ones that are likely to have the lowest rate of income return, or yield. Investors must inevitably sacrifice a degree of safety if they want to increase their yields. Here is an inverse relationship between safety and yield: as yield increases, safety generally goes down, and vice versa. Most investors, even the most conservative-minded ones, want some level of income generation in their portfolios, even if it's just to keep up with the economy's rate of inflation. But maximizing income return can be an overarching principle for a portfolio, especially for individuals who require a fixed sum from their portfolio every month. A retired person who requires a certain amount of money every month is well served by holding reasonably safe assets that provide funds over and above other income-generating assets, such as pension plans.

iii) Growth of Capital:

This refers to the considered the potential of assets to provide a rate of return from an increase in value, often referred to as a capital gain. Capital gains are entirely different from yield in that they are only realized when the security is sold for a price that is higher than the price at which it was originally purchased. (Selling at a lower price is referred to as a capital loss.) Therefore, investors seeking capital gains are most likely not those who need a fixed, ongoing source of investment returns from their portfolio, but rather those who seek the possibility of longer-term growth. Growth of capital is most closely associated with the purchase of common stock, particularly growth securities, which offer low yields but considerable opportunity for increase in value. For this reason, common stock generally ranks among the most speculative investments, as their return depends on what will happen in an unpredictable future. Blue-chip stocks, by contrast, can potentially offer the best of all worlds by possessing reasonable safety, modest income and potential for growth in capital generated by long-term increases in corporate revenues and earnings as the company matures. Yet rarely is any common stock able to provide the near-absolute safety and Income-generation of government bonds.

iv) Tax Minimization:

An investor may pursue certain investments in order to adopt tax minimize taxes as part of his or her investment strategy. A highly paid executive, for example, may want to seek investments with favorable tax benefits in order to lessen his or her overall income tax burden. Making contributions to tax-sheltered retirement plan, can be an effective tax minimization strategy.

v) Marketability/Liquidity:

Many of the investments discussed are reasonably illiquid, which means they cannot be immediately sold and easily converted into cash. Achieving a degree of liquidity, however, requires the sacrifice of a certain level of income or potential for capital gains. Common stock is often considered the most liquid of investments, since it can usually be sold within a day or two of the decision to sell. Bonds can also be fairly marketable, but some bonds are highly illiquid, or non-tradable, possessing a fixed term. Similarly, money market instruments may only be redeemable on the precise date at which the fixed term ends. If an investor seeks liquidity, money market assets and non-tradable bonds aren't likely to be held in his or her portfolio. In brief, choosing a single strategic objective and assigning weightings to all other possible objectives is a process that depends on such factors as the investor's temperament, his or her stage of life, marital status, family situation, and so forth. Out of the multitude of possibilities out there, each investor is sure to find an appropriate mix of investment opportunities.

g) Sources of Investment Information:

A lookout for new investment opportunities helps investors to beat the market. Investors can gather the required information from many sources. Most often investment information is available from the following categories

- Institutions floating financial securities: Corporate houses, Government bodies and mutual funds are the main sources of investment information. Many of these enterprises have their own websites and post investment related information on the site.
- Financial markets: Stock exchanges and regulatory bodies also provide information useful for making their investment decisions. With reference to the secondary market, the SEBI uses various modes to promote investor education and takes great efforts to achieve an investor friendly secondary market in India. The RBI also provides useful

information relating to the prevalent interest rates on non-banking financial intermediaries that mobilize money through deposit scheme.

- Financial service intermediaries: Intermediaries promote securities among the public. Many of these intermediaries are agencies of specific instruments, especially tax savings instruments. These intermediaries offer to share their commission from the concerned organization with the individual investors. Thus, investors get an additional advantage while investing through intermediaries.
- Media: Press sources, such as financial newspapers, financial magazines, internet web sites, and so on, provide investment information to the public. In addition to information on securities, these sources also provide, to some extent, an analysis of information and, in certain instances, suggest suitable investment decisions to be made by the investors. Investment advices, especially in media, tend to behave erratically and might result in herd behavior in the market. Herd behavior does not lead to profitable investment decisions, especially to small investors, who would benefit a lot by understanding and analyzing information on their own.

h) Investment Process

Generally the investment process can be analysed in four stages namely, i) Investment Policy ii) Investment analysis iii) Valuation of securities and iv) Portfolio construction.

i) Investment policy: The first and foremost stage in the investment process is the preparation of a suitable investment policy. Before investing, the investor should carefully decide the objectives of investment. The objectives of investment may relate to return, capital appreciation, safety, liquidity, hedge against inflation and tax planning. So, the investor should be aware of the available options and their potential to fulfil his investment objectives. Practically, no two investments are totally identical in their capacity to fulfil an investor's expectations. Only through an evaluation of objectives, the investor can realize his objectives. If the investor stresses liquidity and safety of investment, he should compromise on potential return. When investor's wealth is growing and when he also becomes liable to taxation, tax saving investments are advisable for him.

ii) Investment analysis: After formulating the investment policy and deciding on the securities to be bough, the investor should take up an investment analysis. He should scrutinize the securities by anlaysing the securities, the investor should take into consideration a) the type of industry, b) kind of security c) the nature of income from security. The investment analysis also involves a detailed study on the future behavioural pattern of prices and stock, expected returns and risks.

iii) Valuation of securities: The third important step in the process of investments is valuation of securities. Valuation helps the investor to know more about the return and risk expected from an investment. The valuation of securities is done in terms of future benefits from investments. Future value of securities may be determined with the help of a simple statistical technique such as trend analysis. The analysis of behaviour of price in the past helps predict the future value. However, the intrinsic value of securities such as shares is determined through the book value of shares and price earning ratio. Recently, the stock market analysts have developed certain advance models to value the shares. Only after valuing each asset on its individual merit, the portfolio can be constructed.

iv) Construction of Portfolio: Generally speaking, a portfolio is a combination of securities. the objective of portfolio construction is to realize the investors goals and objectives. Construction of portfolio calls for a thorough knowledge of securities. Modern portfolio theory involves a more scientific approach. It is based on estimates of risk and returns of portfolio and the attitude of the investor towards a risk return pattern.

INVESTMENT AVENUES FOR EMPLOYEES

Many individuals find investments to be fascinating because they can participate in the decision making process and see the results of their choices. Not all investments will be profitable, as investors do not always make the correct investment decisions. Investing is not a game but a serious subject that can have a major impact on the investor's future well being. Virtually everyone makes investments. Even if the individual does not select specific assets such as stock, investments are still made through participation in pension plan, and employee saving programme or through purchase of life insurance or a home or plot. All these investments have common characteristics such as potential return and risk. The future is uncertain, and one must determine how much risk a person is willing to bear since higher returns are associated with accepting more risk.

The individual should start by specifying investment goals. Once these goals are established, one should be aware of the mechanics of investing and the environment in which investment decisions are made. These include the process by which securities are issued and subsequently bought and sold, the regulations and tax laws that have been enacted by various levels of government, and the sources of information concerning investment avenues that are available to the individual. An understanding of this financial background leads to three important general financial concepts that apply to investing.

Today the field of investment is even more dynamic than it was a decade ago. World events rapidly change and alter the value of specific assets. The individual has so many assets to choose from, and the amount of information available to the investors is staggering and continually growing. Furthermore, inflation has served to increase awareness of the importance of financial planning and wise investing.

An important fallout one can expect due to rising inflation is higher interest rates. The central banks aims to reduce demand in the economy by raising the cost of money. When making fresh investments or evaluating existing holdings in potentially inflationary times one has to keep two things in mind, the possibility of higher interest rates and the erosion in the value of he currency.

It is an added advantage that conventional investments help us save on tax. Section 80C and 80CCF and that we provide for tax deduction on certain investments such as the Employees' Provident Fund (EPF), Public Provident Fund (PPF), Unit Linked Insurance Plan (ULIP), National Savings Certificate (NSC), Tax saver Bank Deposits (FD) and Equity Linked Saving Scheme (ELSS) Insurance products and the like. Apart from providing decent and stable returns these savings options also help to plan and save tax. However, the aggregate of deductions under section 80C and 80CCC cannot exceed Rs.100,000. There are number of investment avenues available. They are as follows:

<u>I. Employees Provident fund:</u>

It includes the following benefits.

a) PF Benefits

b) Pension Benefits

a) Provident Fund benefits:

- Employer also contributes to Members PF @ 12% (10% in case of certain companies).
- EPFO guarantees the Employer contribution and credits interest at such rates as determined by the Central Government.
- Member can withdraw from this accumulations to cater to financial exigencies in life - No need to refund unless misused.
- On resignation, the member can settle the account. i.e., the member gets his PF contribution, Employer Contribution and Interest.

b..Pension Benefits:

i. Pension to Member

ii. Pension to Family (on death of member)

iii. Scheme Certificate:

- This Certificate shows the service & family details of a member
- This is issued if the member has not attained the age of retirement while leaving an establishment and applies for this certificate

- Member can surrender this certificate while joining another establishment and the service stated in the certificate is added with the service one is gaining from the new establishment.

- After attaining the age of 50 or above, the member can apply for Pension by surrendering this scheme certificate (if total service is atleast 10 years).

- This is a better choice than Withdrawal Benefit, as a member dies holding a valid scheme certificate, his or her family will get pension (Death when not in service).

iv. Withdrawal Benefit

- Member may withdraw the amount accumulated in his or her pension account subject to certain conditions.

- The calculation of this amount is based only on (i) Last average salary and (ii) Service (Not based on actual amount available in Pension Fund Account).

II. Public Provident Fund: (PPF)

Under PPF the duration is 15 years, the rate of interest for investment is 8%. It can be done in any Head post office or selection grade sub post office or in any nationalized bank. Any individual above 18 years can invest in PPF schemes. The amount invested must be minimum of Rs.500/- and maximum of Rs.70,000 p.a. One can avail loan from the 3rd year to 6th year upto 25% of the amount available in the preceeding second year, one withdrawal during any one year at any time after 6 years. The amount of withdrawal is limited upto the 50% of the balance on credit. Nomination facility is available. Interest is fully exempted from tax. Balance in the PPF account is completely exempted from wealth tax. The account can be extended for any block period of 5 years, the entire interest income earned is exempt from tax. Investment in EPF can be made by way of a monthly contribution from salary. The amount contributed is 12% of the total of basic salary and dearness allowance. Over and above this 12%, some companies allow their employees, with certain ceilings (a certain amount above which money can't be invested), to contribute an additional amount towards EPF.

EPF serves as a retirement planning tool for many of those who do not have any structured pension plan covering them. The account can be opened by an individual in his own name, on behalf of a minor of whom he is a guardian, or by a Hindu Undivided Family. Maximum number of deposits is twelve in a financial year. The account matures for closure after 15 years. Account can be continued with or without subscriptions after maturity for block periods of five years. Premature withdrawal is permissible every year after completion of 5 years from the end of the year of opening the account. Loans from the amount at credit in PPF amount can be taken after completion of one year from the end of the financial year of opening the account and before completion of the 5th year.

<u>III. Unit Linked Insurance Plan:</u>

Unit linked insurance plan (ULIP) is a life insurance solution that provides for the benefits of protection and flexibility in investment. The investment is denoted as units and is represented by the value that it has attained called as Net Asset Value (NAV). The policy value at any time varies according to the value of the underlying assets at the time. There are a variety of insurance products available. The traditional plans such as money back, cash back, endowment, whole life, children's plans are considered relatively safe. However, the returns thereon vary between 4% per annum to 6% per annum. For most of these plans premium has to be paid monthly, quarterly, semi-annually or annually during the term of the policy. The risk categorization of ULIPs depends on the type of fund opted for. The fund that invests its corpus mainly in equity (stocks) is considered riskier while the one investing chiefly in bonds/debentures is considered relatively safer. The riskier funds offer potential for high returns while safe funds offer moderate returns. Tax deduction can be claimed on the premium paid in respect of life insurance policy of self, spouse or children. If the annual life insurance premium were more than 20% of the sum assured then the deduction would be restricted to 20% of the sum assured. The death benefits of the life insurance policy are exempt from tax. If the annual insurance premium does not exceed 20% of the sum assured, the survival benefits are also exempt from tax under section 10(10D) of the Income Tax Act.

ULIP provides multiple benefits to the consumer. The benefits include:

- Life protection
- Investment and Savings
- Flexibility
- Adjustable Life Cover
- Investment Options
- Transparency
- Options to take additional cover against
- Death due to accident
- Disability
- Critical Illness
- Surgeries
- Liquidity
- Tax planning

IV. Life Insurance:

Life insurance is a contract for payment of a sum of money to the person who is insured with the insurance company on the happening of even insured against. Generally, it is a contract between the insurance company and the insured for a number of years. Though the primary aim of taking a life insurance policy is coverage of risk, of late, the policy partakes all the characteristics of an investment. The annual bonus which is accruing to the policy holders gets accumulated into a substantial amount over a period of time.

The important advantages of life insurance are

i)Protection: The contract for life insurance provides for the payment of an amount on the date of maturity or on the death of policy holder, which ever is earlier. Thus, life insurance provides a protection against risk of early death. If a person dies before the maturity of the policy, the insurance corporation undertakes to pay the assured sum to the representative of the deceased.

ii) Facility for savings: Life insurance contract facilitates mobilization of savings from among the investors. The insured pay the premium in easy installments such as monthly, quarterly, half yearly or yearly. To ensure convenience to the salaried class, the insurance company offers the salary savings scheme. Provision for easy payment of premium encourages people to take insurance cover.

iii) Liquidity: The investment in the form of insurance policy is considered to be liquid as it can be surrendered with the insurance company at a pre determined value, depending upon the amount of insurance premium paid so far. However, such a surrender of policy with the insurance company results in loss to the policy holder. Another advantage is that a policy holder can avail a loan against the policy from the insurance company. The interest charged by the company for such a loan is nominal.

iv) Tax benefits: The assessees who are liable to pay income tax can reduce their tax liability by making investments in the form of insurance policies. The premium paid by the policy holder qualifies for rebate from income tax under section 88. Moreover, the amount deposited under an annuity plan of the Life Insurance Corporation by the individual tax payer is deductible from gross total income, subject to a maximum of Rs.10,000.

V. Post Office Schemes:

Generally, post office schemes are also like the commercial bank schemes. Originally institutions called trustee savings banks were operating the savings bank account. These institutions became extinct gradually and the postal department took up the task of providing a facility to save through their post savings accounts. As this account became popular, the Government of India could collect crores of rupees through this account. Apart from this savings bank account, post office offers various schemes which prove to be attractive for the investors who attach utmost importance to safety aspect.

i) Post Office Monthly Income Scheme (POMIS): Under the post office monthly income scheme, an individual can invest between Rs.1,000 and Rs.3,00,000 or jointly by two individuals upto Rs.6,00,000. The period of deposit is 6 years and this scheme carries benefit in the form of interest at 8% and 10% bonus at the time of maturity of deposit amount. The investor is also entitled to tax benefit in the form of deduction under section 80L in respect of interest earned by him.

ii) National Savings Certificates: National Savings Certificates, popularly known as NSC, is a time-tested tax saving instrument that combines adequate returns with high safety. National Savings Certificates can be purchased by the following:

- An adult in his own name or on behalf of a minor,
- A minor,
- A trust
- Two adults jointly,
- Hindu Undivided Family

National Savings Certificates are available in the denominations of Rs. 100, Rs 500, Rs. 1000, Rs. 5000, & Rs. 10,000. There is no maximum limit on the purchase of the certificates. Period of maturity of a certificate was six years. Presently, maturity value of a certificate of Rs. 100 denomination is Rs. 160.10. Maturity value of a certificate of any other denomination is at a proportionate rate. Premature encashment of the certificate is not permissible except at a discount in the case of death of the holder(s), forfeiture by a pledge and when ordered by a court of law. National Savings Certificates (NSC) are also a very safe investment avenue. The certificate has a maturity period of 6 years. The current interest rate is 8.16% per annum. The interest rate is fixed in a sense that subsequent changes to the interest rates do not affect the investment. That is, any increase/decrease in interest rates will not have any impact on investment or interest earned. One major drawback of NSC is that the interest is taxable. If a person is in the highest tax bracket then the post-tax return could be as less as 5.44% per annum instead of 8.16%. NSCs' can be purchased at any post office. Section 80C also allows deduction on earned interest on NSC during the first five years. However, no deduction on accrued interest is available in the year in which the NSC matures. Interest accrued on the certificates every year is liable to income tax but is deemed to have been reinvested. Income Tax rebate is available on the amount invested and interest accruing under Section 88 of Income Tax Act, as amended from time to time.

iii) Recurring Deposit: The Recurring deposit account can be opened at any post office Period of maturity of account is 5 years. Sixty equal monthly deposits shall be made in an account in multiples of Rs. 5 subject to a minimum of ten rupees. Premature closure of accounts is permissible after expiry of three years. In case of premature closure of account, the interest at the rate applicable to post office savings account shall be payable.

iv) Kisan Vikas Patra (KVP): It is a popular scheme operated by post offices. This has a face value of Rs.100,Rs.1,000,Rs.5,000 and Rs.10,000 and gives compound interest. The investment doubles in 8 years and 7 months. The encashment of the Kisan Vikas Patra is permitted after the holding period of 2 years and 6 months. Individuals and trusts can purchase these investments and these instruments are not transferable from one person to another.

v) Post Office Time Depostis (POTD): Fixed deposits are accepted by Post offices for a period varying between 1 and 5 years. Depending upon the period of deposit, the interest offered by the POTD varies between 6.25% and 7.50%. (1^{st} year 6.25%, 2^{nd} year 6.50%, 3^{rd} year 7.25% and 4^{th} year 7.50%).

vi) Deposit schemes for retired Govt. employees or Public sector undertaking (DSRGE / DSRPSU): Under the above scheme, the retired employees from Govt. Service and Public sector undertakings can open an account in certain nationalized banks like SBI, situated in the district headquarters. It carries an interest of 7% and Retirement benefits can be invested within 3 years from the date of retirement.

Savings schemes for Senior Citizens: The Government of India has introduced a new Savings scheme for senior citizens. The salient features of the scheme are as follow:

(a) Person who have attained 60 years of age are eligible to join the scheme.

(b) Person who have availed voluntary retirement scheme (VRS) are also eligible to join the scheme.

(c) The amount of investment may vary between Rs. 1,000 and Rs. 15,00,000.

(d) The scheme carries a rate of interest of 9% per annum. The due dates for payment of interest are March 31, June 30, September 30 and December 31,

(e) The deposit amount matures after the expiry of 5 years. However, the period of deposit can be further extended by another 3 years.

(f) The deposit account is transferable from one post office to another.

VI. Equity Linked Savings Schemes:

Investing in ELSSs gets investors a tax rebate for the amount invested. ELSSs are growth mutual funds, with a lock in period of three years. ELSSs have a risk higher than PPF and NSC's; however, they have the potential to yield higher returns[5]. Equity Linked Saving Schemes (ELSS) is an investment option that provides tax saving benefits as well as capital gains. Now, the investor can invest in ELSS Rs.1, 00,000/- under Section 80C. These schemes have a lock-in period of three years. Hence the investor is benefited the most as he gets good returns by investing periodically. The reasons for choosing ELSS were

[5]M.Ranganatham and R.Madhumathi - Security Analysis and Portfolio Management – Pearson Publications - Second Edition – Pg.No.103.

- Money is invested over a longer period as the ELSS funds have a lock-in period of three years.
- Better returns are achieved as the investment in equity is over a long-term and it prevents unnecessary withdrawals.
- Apart from tax savings, the investor receives Capital gains or high returns.
- Small amounts even Rs.500 can be invested in ELSS through Systematic Investments Plan.
- Involves less risk - Investing in ELSS, one cannot run away from equity market risk as equity market is very volatile and fluctuating. One option to minimize risk is to invest in Diversified funds and another option is to trust the fund manager for Systematic Investments Plan.
- Dividends that are earned are tax free.

Systematic Investment Plan in ELSS

There are very beneficial for an investor as one can invest as low as Rs.500/- per month in ELSS through the Systematic Investment Plan. The theory of SIP is that it makes sure that the investor buys more when the market is declining and buys less when the market value is rising. The main reason behind the success of SIP route is that if an investor does not want to buy when the market is falling, he cannot back out from the market. The investor who has faith in SIP always lands up in profit. Normally, one will not buy when the market is falling and he or she might end up buying more when the market is at peak. This results in his or her buying at high rate and selling at low rate and thus he or she ends up in loss. So one should continue with SIP irrespective of the market rise or fall.

- Mutual Fund Problem - The Fund Manager is a human being and so liable mistakes he might not always select the best stocks.
- Commissions - Fund Manager is trying to help the investor so he will charge some commission. Even if the Fund Manager makes the investor invest in the best funds, the investor has to pay high commissions and this reduces the profits of the investor.
- A Fund Manager cannot perform better than the market, hence might miss out on one year and if that happens to be the last year, the maturity value will be reduced. Investor might invest less amount every year but has to pay commission to the Fund manager and there is no guarantee that it will perform better next year.
- Apart from the Fund Manager the Investor also has to learn the market changes, then alone he will be able to do profit and loss calculations.
- The investor might land up in the worst performing ELS Scheme. In that case the investor might not be interested in tax savings and capital gain, and would want the principal amount to be given back.
- There is always a risk involved when the market goes down.

Advantages of ELSS

- Maturity period of NSC is 6 years and PPF is 15 years while that of ELSS is 3 years. So with a lesser lock-in period, one can withdraw the amount
- Earning potential is very high as it is an equity linked scheme.
- Investor gains money during the lock-in period and also has the option of dividend.
- Systematic Investment Plan is a part of ELSS.
- Accident death cover insurance is offered in some ELSS funds.

- NSC and PPF gives return of 8% and ELSS gives return of 30-40%.

VII. Savings bank account:

Commercial banks like ICICI, HDFC, co-operative banks like COSMOS, public sector banks like SBI, IOB etc and postal departments accept deposits by way of opening savings bank account with them. The savings account is generally opened in bank by salaried persons or by the persons who have a fixed regular income. This facility is also given to students, senior citizens, pensioners, and so on. Savings accounts are opened to encourage the people to save money and collect their savings. In India, savings account can be opened by depositing Rs.100 to Rs.5000. The savings account holder is allowed to withdraw money from the account as and when required. The interest which is given on savings account is sometime attractive, but often nominal. At present, the rate of interest ranges between 4 to 6% per annum in India. The interest rates vary as per the amount of money deposited in the savings bank account, scheme opted, and its maturity range. It is also subject to current trend of banking policies in the country.[6] The features of savings account are

- The main objective of savings account is to promote savings.
- There is no restriction on the number and amount of deposits. However in India, mandatory PAN details are required to be furnished for doing cash transactions exceeding Rs.50,000.
- Withdrawals are allowed subject to certain restrictions.
- The money can be withdrawn either by cheque or withdrawal slip of the respective bank.
- The rate of interest payable is very nominal on savings accounts.

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[6] http://kalyan-city.blogspot.in/2011/02/saving-account-bank-meaning-features.html

- Savings account is of continuing nature. There is no maximum period of holding.
- A minimum amount has to be kept in savings account to keep it functioning.
- No loan facility is provided against savings account.
- Electronic clearing system (ECS) or e-banking are available to pay electricity bill, telephone bill, and other routing household expenses.
- Generally equated monthly installments (EMI) for housing loan, personal loan, car loan etc., are paid through savings bank account.

The advantages of savings account are as follows:

- Savings account encourages savings habit among salary earners and others who have fixed income.
- It enables the depositor to earn income by way of savings bank interest.
- Savings account helps the depositor to make payment by way of issuing cheques.
- It shows income of a salaried and other persons earned during the year.
- Savings account passbook acts as an identity and residential proof of the account holder.
- It provides a facility such as Electronic fund transfer (EFT) to other people's accounts.
- It helps to do online shopping via facility like internet banking.
- It aids to keep records of all online transactions carried on by the account holder.
- It provides immediate funds as and when required through ATM.
- The bank offers number of services to the savings account holders.

VIII. Fixed Deposits:

A fixed deposit is meant for those investors who want to deposit a lump sum of money for a fixed period starting from a minimum period of 15 days to five years and above, thereby earning a higher rate of interest in return. The investor gets a lump sum (principal + interest) on the maturity of the deposit. Bank fixed deposits are one of the most common savings scheme open to an average investor. Fixed deposits also give a higher rate of interest than a savings bank account. The facilities vary from bank to bank. Some of the facilities offered by banks are overdraft facility on the amount deposited, premature withdrawal before maturity period (which involves a loss of interest) etc. Bank deposits are fairly safe because banks are subject to the control of the Reserve Bank of India.

Features

Bank deposits are fairly safe because banks are subject to the control of the Reserve Bank of India (RBI) with regard to several policy and operational parameters. The banks are free to offer varying interests on fixed deposits of different maturities. Interest is compounded once in a quarter, leading to a somewhat higher effective rate. The minimum deposit amount varies with each bank. It can range from as low as Rs.100 to an unlimited amount with some banks. Deposits can be made in multiples of Rs.100/-. Before opening a FD account, it is good to check the rates of interest in different banks for different periods. It is advisable to keep the amount in five or ten small deposits instead of making one big deposit. In case of any need for premature withdrawal then only one or two deposits need be prematurely encashed. The loss sustained in interest will, thus, be less than if one big deposit were to be encashed or it is better to borrow. Check deposit receipts carefully to see that all particulars have been properly and accurately filled in. The thing to consider before investing in an FD is the rate of interest and the inflation rate. A high inflation rate can simply chip away real returns.

Returns

The rate of interest for Bank Fixed Deposits varies between 4 and 11 per cent, depending on the maturity period (duration) of the FD and the amount invested. Interest rate also varies between banks. A Bank FD does not provide regular interest income, but a lump-sum amount on maturity. Some banks have facility to pay interest every quarter or every month, but the interest paid may be at a discounted rate in case of monthly interest. The Interest payable on Fixed Deposit can also be transferred to the Savings Bank or Current Account of the customer. The deposit period can vary from 15days to 10 years.

TABLE 3.1

INTEREST RATES ON BANK FIXED DEPOSITS

Duration	**Interest % per annum**
91 – 179 days	2.45 -5.00
180 days – 1 year	3.60 – 6.25
1 – 2 years	4.60 – 7.50
2 – 3 years	5.70 – 7.75
3 – 5 years	6.10 – 7.75
Above 5 years	6.10 – 7.75

Source: The Economic Times, 7th September 2010, P.18

Advantages

Bank deposits are the safest investment after Post office savings because all bank deposits are insured under the Deposit Insurance & Credit Guarantee Scheme of India. It is possible to get loan up to 75- 90% of the deposit amount from banks against fixed deposit receipts. The interest charged will be 2% more than the rate of interest earned by the deposit, with effect from A.Y.

1998-99, investment on bank deposits, along with other specified incomes, is exempt from income tax up to a limit of Rs.12, 000/- under Section 80L. Also, from A.Y. 1993-94, bank deposits are totally exempt from wealth tax. The 1995 Finance Bill Proposals introduced tax deduction at source (TDS) on fixed deposits on interest incomes of Rs.5000/- and above per annum.

Procedure

One can open a FD account at any bank, be it nationalised, private, or foreign. However, some banks insist that the customers must maintain a savings account with them to operate a FD. When a depositor opens an FD account with a bank, a deposit receipt or an account statement is issued to him or her, which can be updated from time to time, depending on the duration of the FD and the frequency of the interest calculation.

IX. Company Fixed Deposits:

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. The RBI has issued various regulations to monitor the company fixed deposit market. However, credit rating services 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 because they are unsecured; however they promise higher returns than bank deposits. Fixed deposit in non banking financial companies is another investment avenue open to savers. NBFC,s include leasing companies, hire purchase companies, investment companies, chit funds and so on. Deposits in NBFC's carry higher returns with higher risk compared to bank deposits.

TABLE 3.2

TABLE SHOWING INTEREST RATE ON COMPANY FIXED DEPOSITS

	1 Year	**2 Years**	**3 Years**
Sundaram Finance	7.5	8	8.5
Fenner India	8	8.25	8.5
Godrej Industries	-	8	8.5
Mahindra and Mahindra	7	-	8
Prism Cements	8.5	8.5	8.5

Source: Leaflets of respective companies

X. Shares:

The capital of the company can be divided into different units with definite value called shares. Holders of these shares are called shareholders or members of the company. There are two types of shares which a company may issue (i) Preference Shares (ii)Equity shares.

(i) Preferences Shares:

Shares which enjoy the preferential rights as to dividend and repayment of capital in the event of winding up of the company over the equity shares are called preference shares. The holder of preference shares will get a fixed rate of dividend. Preference shares may be

Cumulative Preference Shares: If the company does no earn adequate profit in any year, dividends on preference shares may not be paid for that year. But if the preference shares are cumulative such unpaid dividends on these shares go on accumulating and become payable out of the profits of the company, in subsequent years. Only after such arrears have been paid off, any dividend can be paid to the holder of quality shares. Thus a cumulative preference shareholder is sure to receive dividend on his shares for all the years our of the earnings of the company.

Non-cumulative Preference Shares: The holders of non-cumulative preference shares no doubt will get a preferential right in getting a fixed dividend it is distributed to quality shareholders. The fixed dividend is to be paid only out of the divisible profits but if in a particular year there is no profit as to distribute it among the shareholders, the non-cumulative preference shareholders, will not get any dividend for that year and they cannot claim it in the next year during which period there might be profits. If it is not paid, it cannot be carried forward. These shares will be treated on the same footing as other preference shareholders as regards payment of capital in concerned.

Redeemable Preference Shares: Capital raised by issuing shares, is not to be repaid to the shareholders (except buy back of shares in certain conditions) but capital raised through the issue of redeemable preference shares is to be paid back by the raised thought the issue of redeemable preference shares is to be paid back to the company to such shareholders after the expiry of a stipulated period, whether the company is wound up or not. As per section (80) 5a, a company after the commencement of the Companies (Amendment) Act, 1988 cannot issue any preference shares which are irredeemable or redeemable after the expiry of a period of 10 years from the date of its issue. It means a company can issue redeemable preference share which are redeemable within 10 years from the date of their issue.

Participating Preference Shares : The preference shares which are entitled to a share in the surplus profit of the company in addition to the fixed rate of preference dividend are known as participating preference shares. After the payment of the dividend a part of surplus is distributed as dividend among the quality shareholders at a particulate rate. The balance may be shared both by equity shareholders at a particular rate. The balance may be shared both by equity and participating preference shares. Thus participating preference shareholders obtain return on their capital in two forms (i) fixed dividend (ii) share in excess of profits.

Non Participating Preference Shares: Those preference shares which do not carry the right of share in excess profits are known as non-participating preference shares.

(ii) Equity Shares:

Equity shares will get dividend and repayment of capital after meeting the claims of preference shareholders. There will be no fixed rate of dividend to be paid to the equity shareholders and this rate may vary form year to year. This rate of dividend is determined by directors and in case of larger profits, it may even be more than the rate attached to preference shares. Such shareholders may go without any dividend if no profit is made.[7]

XI. Bond/Debentures:

A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate.[8] Debentures are divided into different categories on the basis of: (i) Convertibility of the instrument (ii) Security[9].

i) On the basis of convertibility debentures can be classified into:

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[7] http://kalyan-city.blogspot.in/2011/02/saving-account-bank-meaning-features.html

[8] http://www.investopedia.com/terms/b/bond.asp#ixzz2EHh5ccTt

[9] http://wiki.answers.com/Q/What_are_the_types_of_debentures

Non Convertible Debentures (NCD): These instruments retain the debt character and can not be converted in to equity shares.

Partly Convertible Debentures (PCD): A part of these instruments are converted into Equity shares in the future at notice of the issuer. The issuer decides the ratio for conversion. This is normally decided at the time of subscription.

Fully convertible Debentures (FCD): These are fully convertible into Equity shares at the issuer's notice. The ratio of conversion is decided by the issuer. Upon conversion the investors enjoy the same status as ordinary shareholders of the company.

Optionally Convertible Debentures (OCD): The investor has the option to either convert these debentures into shares at price decided by the issuer/agreed upon at the time of issue.

ii) On basis of Security, debentures are classified into:

Secured Debentures: These instruments are secured by a charge on the fixed assets of the issuer company. So if the issuer fails on payment of either the principal or interest amount, his assets can be sold to repay the liability to the investors.

Unsecured Debentures: These instrument are unsecured in the sense that if the issuer defaults on payment of the interest or principal amount, the investor has to be along with other unsecured creditors of the company.

XII. Mutual Funds:

Recently, mutual funds have become popular all over the world, mutual funds carry benefits in the form of safety of principal, capital appreciation and interest or dividend. Under mutual fund scheme an investor even with a little money can be a participant in investing in big companies, which are otherwise inaccessible to him because of his small investment. Mutual funds collect the savings of small investors, invest them in Government and other corporate securities and earn income in the form of interest and dividend. The income and capital appreciation arising out of investment are shared among the investors by careful selection of securities over a diversified portfolio, covering large number of companies and industries. Mutual funds are able to perform better than an individual investor. When mutual funds select a large share of equities, the investment in mutual funds select a large share of equities, the investment in mutual funds is exposed to greater risks. So, the investor should be aware of the risks of these growth schemes while making an investment decision. When mutual funds have income schemes, then investment is made in securities of a guaranteed return. Under income schemes, mutual funds select a large share of fixed income securities like debentures and bonds.

A mutual fund is an investment that spreads its money across a diversified portfolio of securities including stocks, bonds, or money market instruments. Shareholders who invest in a fund each own a representative portion of those investments, less any expenses charged by the fund. Mutual fund investors make money either by receiving dividends and interest from their investments, or by the rise in value of the securities. Dividends, interest and profits from the sale of any securities (capital gains) are passed on to the shareholders in the form of distributions. And shareholders generally are allowed to sell their shares at any time for the closing market price of the fund on that day.

There are a variety of of reasons why investors might choose mutual funds over other investments, such as individual stocks and bonds. The number one reason is diversity, which can both increase potential returns and decrease overall risk. Mutual funds allow an investor to spread out his or her money across many companies. Funds can be especially advantageous for small investors who would be forced to pay enormous transaction fees if they bought the securities individually, and for investors who either don't have the time to research their own investments or who don't trust their own investment expertise. Mutual funds aren't necessarily low-cost investments. Many of them charge one-time "load fees" to new purchasers that cannot exceed 5 percent of the investment, and all mutual funds take on an average 1.3 percent of assets a year for operating expenses, expressed as the "expense ratio." As a result, "index" funds have surged in popularity in recent years because, on an average, they provide a much lower expense ratio than managed funds. Also an index fund's risk is limited to that of the benchmark index that it tracks, such as the Standard & Poor 500.

Professional management can be both a benefit and a liability of actively managed mutual funds. Several studies show that, over time, the average, actively managed fund has under performed the overall stock market. Still, by picking funds with good long-term track records, managers trust and low expenses, investors can build a portfolio with the potential for steady, long-term returns that match their own investment goals and tolerance for risk. Liquidity -- the ability to readily access your money -- is another benefit of mutual funds. Funds can be sold on any business day at that day's closing price – or at the following day's close if the sell order is placed after the market closes. The price per share at any given time is known as the net asset value, or NAV, which is the current market value of all the fund's assets, minus liabilities, divided by the total number of outstanding shares. As new investors buy into a fund, the number of outstanding shares goes up, as does the market value of assets, but the NAV remains the same.

Types of Mutual Fund Investment in India:

There are varieties of funds available for investment. Some of them are:

1. Closed-end funds: A closed-end mutual fund bears a number of shares which are issued to the public by an initial public offering (IPO).
2. Open-end funds: Open end funds are managed by mutual fund houses for raising money from shareholders and they invest in a group of assets.
3. Large cap funds: Large cap funds are those mutual funds, which look for capital appreciation by way of investing in blue chip stocks.
4. Mid-cap funds: Mid cap funds invest in small/medium sized companies, but with no proper definition of classifying a company.
5. Equity funds: Equity mutual funds, also known as stock mutual funds invest pooled amounts of money in public company stocks.
6. Balanced funds: Balanced funds are also known as hybrid fund, buying a combination of common stock, preferred stock, bonds, and short-term bonds.
7. Growth funds: Growth funds are mutual funds that target at capital appreciation by investing in growth stocks.
8. Exchange traded funds: Exchange Traded Funds (ETFs) are a basket of securities being traded on an exchange, just similar to that of a stock. They are not like the conventional mutual funds.
9. Sector funds: These funds are funds that restrict the investments to a specific segment or sector.

10. Index funds: An index fund aims to replicate the actions of an index of a specific financial market.

XIII. Real Estate Investment:

Real estate includes land and house property. It is true to say that real estate offer a rate of return which is superior to avenues such as company deposits on a long term basis. Now-a-days more and more investments are made in the form of real estates for the following reasons:

- Real estate ensures high capital appreciation as compared against gold and silver particularly in the urban area.
- Loans are available on liberal terms for purchase of land site and construction of houses. In India, apex banks like Housing and Urban Development Bank encourage mortgage loans in the form of housing loans. The rates of interest are not only cheaper but also the payment of interest and principal sum qualify in the form of tax concessions to the assessees.
- Ownership of a house gives an investor a secured feeling and enhances his/her status in the society.

Real Estate Investment is now treated as a major case of capital budgeting on the basis of the income it may generate and the associated risk adjustments. It has been the highlight of the investment literature since the 1970's when investment theorists extended techniques such as probability, time value of money and utility into its analysis. Real estate is basically defined as immovable property such as land and everything permanently attached to it like buildings. Real property as opposed to personal or movable property is characterized by the right to transfer the title to the land whereas title to personal property can be retained. The investment in real estate essentially depends on the risks associated with it, and the alternative investment opportunities. Real estate investment can be attractive if viewed as a business opportunity; it can generate rental income, using it as collateral to secure a loan for a business venture, to offset otherwise taxable income through cash savings on tax-deductible interest rate losses, or simply from the profits garnered from its resale. Notable, in this context is the gains reaped by real estate speculators who trade in real estate futures. Common examples of real estate investment are individuals owning multiple pieces of real estate's one of which is his primary residence and others are occupied by tenants from where the rental income accrues. Real estate investment is also associated with appreciation in the value of property thereby having the potential for capital gains. Tax implications differ for real estate investment and residential real estates. Real estate investment is long term in nature and investment professionals routinely maintain that one's investment portfolio should have at least 5%-20%. A Real Estate Investment Trust (REIT) is a corporation or body investing in real estate that has the property to reduce or eliminate corporate income taxes. In return, REIT's are required to distribute 90% of their income among the investors. These incomes are often taxable. REIT's perform a similar function as do that Mutual Funds provide for stocks in the share market. The key statistics to study about the REIT's are the NAV (Net Asset Value) and AFFO (Adjusted Funds From Operation). using state-of-the-art investment analysis which incorporates the future stream. The Indian Government is yet to introduce REIT's in the country. The government and the SEBI (Securities and Exchange Board of India) are planning to bring in legislations for the smooth functioning of the real estate market in India. With Initial Public Offers (IPO's) streaming in from various listed real estate companies, it will be the best time to have REIT which can help capture the current boom in the real estate market. Various online real estate investment sites have also emerged in the last decade as fallout of the surge in realty business.

Real estate investing involves the purchase, ownership, management, rental and/or sale of real estate for profit. Improvement of realty property as part of a real estate investment strategy is generally considered to be a sub-specialty of real estate investing called real estate development. Real estate is an asset form with limited liquidity relative to other investments, it is also capital intensive (although capital may be gained through mortgage leverage) and is highly cash flow dependent. If these factors are not well understood and managed by the investor, real estate becomes a risky investment. The primary cause of investment failure for real estate is that the investor goes into negative cash flow for a period of time that is not sustainable, often forcing them to resell the property at a loss or go into insolvency. A similar practice known as flipping is another reason for failure as the nature of the investment is often associated with short term profit with less effort.

Real estate markets in most countries are not as organized or efficient as markets for , more liquid investment instruments. Individual properties are unique to themselves and not directly interchangeable, which presents a major challenge to an investor seeking to evaluate prices and investment opportunities. For this reason, locating properties in which to invest can involve substantial work and competition among investors to purchase individual properties may be highly variable depending on knowledge of availability. Information asymmetries are commonplace in real estate markets. This increases transactional risk, but also provides many opportunities for investors to obtain properties at bargain prices. Real estate investors typically use a variety of appraisal techniques to determine the value of properties prior to purchase.

Once an investment property has been located, and preliminary due diligence (investigation and verification of the condition and status of the property) completed, the investor will have to negotiate a sale price and sale terms with the seller, then execute a contract for sale. Most investors employ real estate agents and real estate attorneys to assist with the acquisition process, as it can be quite complex and improperly executed transactions can be very costly. During the acquisition of a property, an investor will typically make a formal offer to buy including payment of "earnest money" to the seller at the start of negotiation to reserve the investor's rights to complete the transaction if price and terms can be satisfactorily negotiated. This earnest money may or may not be refundable, and is considered to be a signal of the seriousness of the investor to purchase. The terms of the offer will also usually include a number of contingencies which allow the investor time to complete due diligence and obtain financing among other requirements prior to final purchase. Within the contingency period, the investor usually has the right to rescind the offer with no penalty and obtain a refund of earnest money deposits. Once contingencies have expired, rescinding the offer will usually require forfeit of earnest money deposits and may involve other penalties as well. [10]

Though investment in real estate ensures speedy capital appreciation, investors do not invest in more than one or two houses. The reasons being

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[10] http://en.wikipedia.org/wiki/Real_estate_investing#References

- To purchase a house or land in the urban area, investor needs money not in thousands but in lakhs. But it is easy for them to buy equity, gold or other forms of investment which do not require much investment.
- Investors have to be very cautious while purchasing land. They may be cheated in the purchase of land for want of a clear title.
- The Land Ceiling Act restricts the purchase of agricultural land beyond a limit.
- The investor who has invested his money in the form of real estate cannot immediately realize his money.

In view of these limitations, investor while buying the real estate should take the following precautions:

- The investor should ensure that the plots which he intends to buy are approved by the local authority.
- The investor should be convinced that there is a possibility of capital appreciation in real estate.
- The investor should seek proper legal advice with regard to the title deeds of the real estate. To ensure that it is free from encumbrances, he should get an encumbrance certificate for the latest 15 years from the Registrar office.
- The investor should verify the correctness of the plinth area in the case of a flat.

Tax savings for investment in house property:

Deduction under section 80C of the Income tax Act is available up to Rs.1,00,000 for investment in house property subject to the satisfaction of the conditions of that section in regard to qualifying amounts in the following circumstances to the individuals/Hindu undivided families. Payments made towards the cost of purchase/construction of new residential house property during the previous year are eligible for deduction under section 80C and Sec.54 also. Section 80C provides that in computing the total income of an assessee, deduction shall be provided in respect of various payments/investments made as included in the aforesaid Section subject to a ceiling of Rs.1 lakh on the aggregate amount of such payments/investments. Section 80C(5) stipulates that in case an assessee transfers the house property referred to above before the expiry of five years from the end of the financial year in which possession of such property is obtained by him, or receives back, whether by way of refund or otherwise, any sum specified above, then no deduction shall be allowed with reference to any of the sums referred to above and the aggregate amount of deductions of income already allowed in respect of the previous year or years shall be deemed to be the income of the assessee of such previous year and shall be liable to tax in the assessment year relevant to such previous year.

Real estate investment law in India:

- Transfer of Property Act
- Indian Registration Act, 1908
- Indian Urban Land (Ceiling & Regulation) Act, 1976
- Stamp Duty
- Property Tax

XIV. Depository Receipts:

Global Depository Receipts (GDR) are instruments in the form of a depositary receipt or certificate created by the overseas depository bank outside India and issued to non-resident investors against ordinary shares or Foreign Currency Convertible Bonds (FCCB) of an issuing company. A GDR issued in America is an American Depository Receipt (ADR). Indian companies are permitted to raise resources in foreign currency through the issue of FCCBs and/or issue of ordinary equity shares through GDR/ADR to foreign investors. – institutional investors or individuals residing abroad. GDR's are designated in US Dollars and are not subject to any ceilings on investment. There is no restriction on the number of euro issues that can be floated by a company or a group of companies in a financial year. The proceeds of GDR can be used for financing capital goods imports; capital expenditure including domestic purchase or installation of plant, equipment and building and investment in software development, pre-payment or scheduled repayment of earlier external borrowings; equity investment in joint ventures or wholly owned subsidiaries in India. Companies may retain the proceeds abroad or may remit the funds into India in anticipation of the approved end uses. Among Indian companies, Reliance Industries Limited was the first company to raise funds through a GDR issue. In addition to GDR's ADR are also popular in the capital market.[11]

XV. Gold:

Of all the precious metals, gold is the most popular as an investment. Investors generally buy gold as a hedge or harbor against economic, political, or social fiat currency crises (including investment market declines, burgeoning national debt, currency failure, inflation, war and social unrest). The gold market is subject to speculation as are other markets, especially through the use of futures contracts and derivatives. The history of the gold standard, the role of

[11] M.Ranganatham & R.Madhumathi – 2006 – "Security Analysis and Portfolio Management" – Second Edition - Pearson Publications – P.96

gold reserves in central banking, gold's low correlation with other commodity prices, and its pricing in relation to fiat currencies during the 2007–2012 global financial crisis, suggest that gold behaves more like a currency than a commodity. Gold has been used throughout history as money and has been a relative standard for currency equivalents specific to economic regions or countries, until recent times. Many European countries implemented gold standards in the latter part of the 19th century until these were temporarily suspended in the financial crises involving World War I. After World War II, the Bretton Woods system pegged the United States dollar to gold at a rate of US$35 per troy ounce. The system existed until the 1971 Nixon Shock, when the US unilaterally suspended the direct convertibility of the United States dollar to gold and made the transition to a fiat currency system. The last currency to be divorced from gold was the Swiss Franc in 2000[12]. Gold is the oldest currency in the world and is coveted across continents and cultures for a variety of reasons.

- Maintains long term value: Market cycles have their ups and downs, but gold has maintained its long term value. Paper currencies may rise and fall but gold always endures. Gold has demonstrated its capacity to store value for centuries.
- Safe refuge: During times of calamities like war or economic crisis, there may be a negative effect on investments like currencies, bonds and equities, but may have an opposite effect on the value of gold. Also gold is not a liability of any Government or corporation and hence it does not run a risk of becoming worthless due to unexpected events.

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[12] http://www.investopedia.com/features/industryhandbook/metals.asp - "The Industry Handbook: Precious Metals" - Investopedia.

- Inflation hedge: The value of gold, in terms of real goods and services that it can buy, has remained remarkably stable whereas the purchasing power of many currencies has generally declined.
- Effective diversifier: Diverse investments help protect the portfolio against fluctuations in the value of any single asset class. Gold is an excellent portfolio diversifier because its performance tends to move independently of other investments and key economic factors.
- Both tangible and liquid: Gold is an asset that is both tangible and liquid, unlike real estate which is tangible but not liquid, or company shares and bonds which are liquid but not tangible. [13].

Investor Protection

An investor is any party that makes an Investment. However, the term has taken on a specific meaning in finance to describe the particular types of people and companies that regularly purchase equity or debt securities for financial gain in exchange for funding an expanding company. Less frequently the term is applied to parties who purchase real estate, currency, commodity derivatives, personal property, or other assets. The term implies that a party purchases and holds assets in hopes of achieving capital gain, not as a profession or for short-term income.

Investor Protection Guidelines:

Following are the Do’s and Don’ts for the Investors

[13] http://www.kotak.com/bank/personal-banking/investments/gold.html

Investing in Shares:

Do's:

- Read the Prospectus and carefully note:
  a) Risk factors pertaining to the issue.
  b) Outstanding litigation and defaults, if any
  c) Financials of the issuer.
  d) Object of the issue.
  e) Company history.
  f) Background of the promoters.
  g) Instructions before making applications.
- In case of any doubt or problem, contact the compliance officer named in the offer documents.
- In case you do not receive physical certificates or credit to Demat account or application money refund lodge a complaint with compliance officer of issuer company and post issue lead manager as stated in the offer document.

Don'ts:

- Do not fall prey to market rumors.
- Do not go by any implicit or explicit promise made by the issuer or any one else.
- Do not invest based on bull run of the market index of other companies in same industry or issuer company.

Investing in Mutual Funds:

Following are the Do's and Don'ts for the Investors

Do's:

- Read the offer document clearly before investing.
- Note that investments in Mutual funds may be risky.
- Mention your bank account number in the application form.

- Invest in a scheme depending upon your investment objective and risk appetite.
- Note that Net Asset Value of a scheme is subject to change depending upon market conditions.
- Insist for a copy of the offer document or key information memorandum before investing.
- Note that past performance of a scheme is not indicative of future performance.
- Past performance of a scheme may or may not be sustained in future.
- Keep track of the Net Asset Value of a scheme, where your have invested on a regular basis.
- Ensure that you receive an account statement for the money that you have invested.
- Update yourself on the performance of the scheme on a regular basis.

Don'ts:

- Do not invest in a scheme just because somebody is offering you a commission or other incentive or gift etc.
- Do not get carried away by the name of the scheme or mutual fund.
- Do not fall prey to promises of unrealistic returns.
- Do not forget to take note of risks involved in the investment.
- Do not hesitate to approach concerned person and then the appropriate authorities for any problem.
- Do not deal with any agent or broker dealer who is not registered with Association of Mutual Funds in India (AMFI)[14].

Investment opportunities for investors exist in different types of securities, each having its own risk-return pattern. The grouping of investible financial assets can be corporate securities, deposits in banks and non banking companies, post office deposits and certificates, life insurance policies, provident fund schemes, Government and Semi-Government securities, mutual fund schemes and real assets. The best investment opportunity for an investor would

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depend on their own risk return expectation and may be subject to the prevailing market and economic environment. Indian markets also encourage foreign investment, especially flows of non resident investment into India. The main sources of investment information for investors are the institutions floating the instrument, financial markets, financial service intermediaries and media. There are abundant investment opportunities in the Indian market. It is for the investor to use the available information and analyze it to make meaningful investment decisions. Numerous tools and techniques are available to investors for choosing appropriate securities for investment.[15]

[15] M.Ranganatham & R.Madhumathi – 2006 – "Security Analysis and Portfolio Management" – Second Edition - Pearson Publications – P.111