INTRODUCTION TO INVESTMENT

By Rohan Chogale

MEANING

Investment refers to the act of putting money or resources into something with the expectation of gaining a profit or benefit in the future. It involves committing funds into assets, projects, or financial instruments with the goal of increasing wealth or achieving specific financial objective.

Example:Buying a piece of land with the intention to sell it later at a higher price qualifies as an investment.

INVESTMENT OBJECTIVES

Capital Preservation: Protecting the initial investment from loss.

- **Example**: Investing in government bonds or high-quality corporate bonds where the principal amount is relatively secure.

Capital Appreciation: Increasing the value of the initial investment over time.

- **Example**: Buying growth stocks in a technology company expecting their stock price to increase due to innovation and market demand.

Income Generation: Earning regular income from investments.

- **Example**: Investing in dividend-paying stocks or bonds that provide periodic interest payments.

INVESTMENT OBJECTIVES

Liquidity: Ability to convert investments into cash quickly without significant loss of value.

- **Example**: Keeping funds in a savings account or money market funds where withdrawals are easy and immediate.

Diversification: Spreading investments across different asset classes to reduce risk.

- **Example**: Building a portfolio that includes stocks, bonds, and real estate to mitigate the impact of a downturn in any one sector.

Tax Efficiency: Minimizing tax liabilities on investment returns.

- **Example**: Investing in tax-advantaged accounts like IRAs or 401(k)s to defer taxes on gains until retirement.

INVESTMENT OBJECTIVES

Long-term Growth: Achieving substantial returns over an extended period.

- **Example**: Investing in a diversified mutual fund with a history of long-term growth and capital appreciation.

Retirement Planning: Building a nest egg to sustain financial needs after retirement.

- **Example**: Contributing regularly to a retirement account such as an IRA or pension fund to accumulate funds for retirement.

Ethical or Social Impact: Investing in companies or projects that align with personal values or contribute positively to society.

- **Example**: Investing in green energy companies or socially responsible mutual funds that promote environmental sustainability or social justice.

NEED FOR PRODUCTIVE INVESTMENT

Wealth Creation: Building assets that increase in value over time.

- **Example**: Purchasing stocks of a growing company with the expectation of selling them at a higher price in the future.

Income Generation: Earning regular returns or dividends from invested capital.

- **Example**: Investing in rental properties to receive monthly rental income.

Job Creation: Stimulating economic activity by funding businesses that hire employees.

- **Example**: Providing capital to a startup that hires local workers to expand its operations.

NEED FOR PRODUCTIVE INVESTMENT

Innovation and Research: Funding projects that drive technological advancement and societal progress.

- **Example**: Investing in biotech companies developing new medical treatments.

Infrastructure Development: Supporting the construction of essential facilities and utilities.

- **Example**: Investing in bonds issued by municipalities to fund public infrastructure projects like roads or schools.

Risk Diversification: Spreading investments across various sectors to reduce overall risk.

- **Example**: Allocating funds into a diversified mutual fund that invests in stocks across different industries.

NEED FOR PRODUCTIVE INVESTMENT

Long-term Stability: Creating a foundation for financial security and stability.

- **Example**: Contributing regularly to a retirement account to ensure a comfortable retirement.

Social Impact: Funding initiatives that benefit communities and improve quality of life.

- **Example**: Investing in affordable housing projects to address local housing shortages.

Environmental Sustainability: Supporting green initiatives and renewable energy projects.

- **Example**: Investing in solar energy companies to promote clean energy solutions.

Inclusive Growth: Promoting economic opportunities for underserved or marginalized populations.

- **Example**: Investing in microfinance institutions that provide loans to small businesses in developing countries.

INVESTMENT MANAGEMENT

Investment management refers to the professional management of assets and funds on behalf of investors to achieve specific financial goals.

Example: A financial advisor or portfolio manager oversees a client's investment portfolio, making decisions on asset allocation, buying and selling securities, and monitoring performance to maximize returns while managing risks according to the client's objectives and risk tolerance.

IMPORTANCE OF INVESTMENT MANAGEMENT

Wealth Preservation: Safeguarding and growing wealth through strategic asset allocation and risk management.

- **Example**: Diversifying investments across stocks, bonds, and real estate to mitigate risks and preserve capital.

Risk Management: Balancing risk and return to protect investments from market volatility.

- **Example**: Adjusting portfolio holdings during economic downturns to minimize losses.

Financial Goal Achievement: Helping investors meet specific financial objectives such as retirement savings or education funding.

- **Example**: Allocating funds to growth-oriented assets to achieve long-term financial goals.

IMPORTANCE OF INVESTMENT MANAGEMENT

Income Generation: Generating regular income through dividends, interest payments, or rental income.

- **Example**: Investing in dividend-paying stocks or bonds to supplement monthly income.

Tax Efficiency: Maximizing after-tax returns by utilizing tax-advantaged accounts and strategies.

- **Example**: Contributing to a retirement account like an IRA to defer taxes on investment gains.

Liquidity Management: Ensuring investments can be converted to cash quickly when needed without significant loss.

- **Example**: Keeping a portion of assets in liquid investments like money market funds for emergency expenses.

IMPORTANCE OF INVESTMENT MANAGEMENT

Portfolio Diversification: Spreading investments across different asset classes to reduce overall risk.

- **Example**: Building a diversified portfolio with stocks, bonds, commodities, and real estate to weather market fluctuations.

Inflation Hedge: Protecting the purchasing power of investments against inflation over time.

- **Example**: Investing in inflation-indexed bonds or real estate properties that appreciate in value during inflationary periods.

Professional Expertise: Accessing specialized knowledge and expertise of investment professionals.

- **Example**: Hiring a financial advisor to create and manage a personalized investment strategy based on individual risk tolerance and goals.

Long-term Growth: Achieving sustainable growth and wealth accumulation over the long term.

- **Example**: Investing in high-growth sectors like technology or healthcare to capitalize on future market trends and innovations.

INVESTOR

An investor is an individual or entity that allocates capital with the expectation of generating a return or profit. Investors typically engage in various avenues to grow their wealth or achieve specific financial goals.

Types of Investors:

1. **Individual Investors**:
   - **Definition**: Individuals who invest their personal funds in various financial instruments.
   - **Example**: John buys stocks and bonds through his brokerage account to build wealth for retirement.
2. **Institutional Investors**:
   - **Definition**: Organizations that invest large sums of money on behalf of others, such as pension funds, insurance companies, and endowments.
   - **Example**: A pension fund invests its members' contributions in diversified portfolios to ensure long-term sustainability.

CLASSIFICATION OF INVESTMENT

On the basis of Physical Investments:

1. **Residential Real Estate**:
    - **Definition**: Investment in houses or residential properties.
    - **Example**: Purchasing a condominium as a rental property to generate monthly rental income.
2. **Commercial Real Estate**:
    - **Definition**: Investment in buildings or properties used for business purposes.
    - **Example**: Buying an office building and leasing space to companies for rental income.
3. **Land Investments**:
    - **Definition**: Purchase of undeveloped land or agricultural land.
    - **Example**: Investing in land near urban areas expected to appreciate in value due to future development.
4. **Precious Metals**:
    - **Definition**: Investments in physical commodities like gold, silver, platinum, or palladium.
    - **Example**: Buying gold bars or coins as a hedge against inflation or economic uncertainty.
5. **Precious Stones**:
    - **Definition**: Investments in rare or valuable gemstones like diamonds, rubies, or emeralds.
    - **Example**: Investing in certified diamonds for their potential appreciation in value over time.

CLASSIFICATION OF INVESTMENT

On the basis of Financial Investments: Marketable & Non marketable

Marketable investments are financial assets that can be easily bought and sold on a secondary market like stock exchanges.

Marketable Investments:

1. **Shares (Equity Shares & Preference Shares)**:
   - **Definition**: Ownership in a company represented by shares traded on stock exchanges.
   - **Example**: Buying shares of Apple Inc. or Microsoft Corporation to participate in ownership and potential dividends.
2. **Debentures of Public Limited Companies**:
   - **Definition**: Debt instruments issued by corporations, often traded on stock exchanges.
   - **Example**: Purchasing debentures issued by Tesla Inc. to earn regular interest payments until maturity.
3. **Bonds of Public Sector Units & Government Securities**:
   - **Definition**: Debt securities issued by government entities or public sector units.
   - **Example**: Investing in U.S. Treasury bonds or bonds issued by state-owned enterprises for stable returns and safety.

CLASSIFICATION OF INVESTMENT

On the basis of Financial Investments: Marketable & Non marketable

Non-marketable investments are financial instruments that typically cannot be easily bought or sold on a secondary market like stock exchanges. Here's how non-marketable investments are categorized:

Non-Marketable Investments:

1. **Bank Deposits**:
   - **Definition**: Funds placed in savings accounts, fixed deposits, or recurring deposits with banks.
   - **Example**: Depositing money in a savings account with a bank to earn interest income.
2. **Provident and Pension Funds**:
   - **Definition**: Retirement savings vehicles where contributions accumulate over time to provide income in retirement.
   - **Example**: Contributing to a 401(k) retirement plan through payroll deductions for long-term financial security.

CLASSIFICATION OF INVESTMENT

Non-Marketable Investments:

3. Insurance Certificates:

- **Definition**: Policies that provide financial protection or investment opportunities offered by insurance companies.
- **Example**: Purchasing a life insurance policy that includes investment components like cash value accumulation.

4. Post Office Deposits:

- **Definition**: Funds deposited with postal authorities offering savings schemes.
- **Example**: Investing in a post office recurring deposit scheme for secure savings with competitive interest rates.

5. National Saving Certificates:

- **Definition**: Government-backed savings certificates offering fixed returns over a specified period.
- **Example**: Buying National Savings Certificates issued by the government to earn guaranteed returns.

CLASSIFICATION OF INVESTMENT

Non-Marketable Investments:

6. Company Deposits:

- **Definition**: Funds deposited with non-banking financial companies (NBFCs) or corporations for fixed periods at agreed-upon interest rates.
- **Example**: Placing funds in a corporate fixed deposit offered by a reputable company for higher interest rates compared to bank deposits.

7. Private Companies Shares:

- **Definition**: Ownership in privately held companies that are not listed on stock exchanges.
- **Example**: Investing in shares of a startup or small private company through private placements or venture capital deals.

MODES OF INVESTMENT

Security Forms of Investment

Non-Security Forms of Investment/Non-Marketable Investment

Security Forms of Investment:

1. **Corporate Bonds/Debentures**:
   - **Convertible**: Bonds that can be converted into equity shares of the issuing company.
   - **Non-Convertible**: Bonds that cannot be converted into equity shares, typically offering fixed interest payments.
2. **Public Sector Bonds**:
   - **Taxable**: Bonds issued by government entities or agencies that are subject to income tax on interest earnings.
   - **Tax-Free**: Bonds issued by government entities or agencies that provide tax-exempt interest income to investors.
3. **Preference Shares**:
   - Shares that entitle holders to a fixed dividend and priority over common shareholders in case of liquidation, but typically do not carry voting rights.
4. **Equity Shares**:
   - **New Issue**: Shares issued by a company for the first time to raise capital, often through initial public offerings (IPOs).
   - **Rights Issue**: Shares offered to existing shareholders in proportion to their current holdings, usually at a discounted price.
   - **Bonus Issue**: Additional shares given to existing shareholders without requiring payment, often as a reward for loyalty or based on company profits.

Non-Security Forms of Investment (Non-Transferable):

1. **National Savings Scheme**:
   - Government-sponsored savings schemes offering secure investment options with fixed returns and tax benefits.
2. **National Savings Certificates (NSC)**:
   - Government-backed savings certificates providing fixed interest rates and tax benefits on investment.
3. **Provident Funds**:
   - Retirement savings schemes where contributions accumulate over time to provide financial security in retirement:
   - **Statutory Provident Fund**: Managed by government bodies or organizations as mandated by law.
   - **Recognised Provident Fund**: Established by employers for their employees and approved by the Employees' Provident Fund Organization (EPFO) in India.
   - **Unrecognised Provident Fund**: Not approved by EPFO, typically set up by employers for retirement savings.
   - **Public Provident Fund (PPF)**: A government-backed savings scheme in India that offers tax benefits and long-term savings options for individuals.
4. **Corporate Fixed Deposits**:
   - Fixed deposits offered by corporations, providing higher interest rates compared to bank deposits:
   - **Public Sector**: Fixed deposits offered by government-owned companies or entities.
   - **Private Sector**: Fixed deposits offered by privately owned companies or non-banking financial institutions (NBFCs).

Thank You