



CHAPTER – 1

INTRODUCTION OF INVESTMENTS AND PORTFOLIO MANAGEMENT

1.1 INTRODUCTION

For most of the investors throughout their life, they will be earning and spending money. Rarely, investor's current money income exactly balances with their consumption desires. Sometimes, investors may have more money than they want to spend; at other times, they may want to purchase more than they can afford. These imbalances will lead investors either to borrow or to save to maximize the long-run benefits from their income.

When current income exceeds current consumption desires, people tend to save the excess. They can do any of several things with these savings. One possibility is to put the money under a mattress or bury it in the backyard until some future time when consumption desires exceed current income. When they retrieve their savings from the mattress or backyard, they have the same amount they saved.

Another possibility is that they can give up the immediate possession of these savings for a future larger amount of money that will be available for future consumption. This tradeoff of present consumption for a higher level of future consumption is the reason for saving. What investor does with the savings to make them increase over time is investment. In contrast, when current income is less than current consumption desires, people borrow to make up the difference.

Those who give up immediate possession of savings (that is, defer consumption) expect to receive in the future a greater amount than they gave up. Conversely, those who consume more than their current income (that is, borrowed) must be willing to pay back in the future more than they borrowed.

The rate of exchange between future consumption (future rupee) and current consumption (current rupee) is the pure rate of interest. Both people's willingness to pay this difference for borrowed funds and their desire to receive a surplus on their savings give rise to an interest rate referred to as the pure time value of money. This interest rate is established in the capital market by a comparison of the supply of excess income available (savings) to be invested and the demand for excess consumption (borrowing) at a given time.

An **investment** is the current commitment of rupee for a period of time in order to derive future payments that will compensate the investor for

- (1) The time the funds are committed,
- (2) The expected rate of inflation, and
- (3) The uncertainty of the future payments.

The "Investor" can be an individual, a government, a pension fund, or a corporation. Similarly, this definition includes all types of investments, including investments by corporations in plant and equipment and investments by individuals in stocks, bonds, commodities, or real estate. This study emphasizes investments by individual investors. In all cases, the investor is trading a known rupee amount today for some expected future stream of payments that will be greater than the current outlay.

Definition of Individual investor: "An individual who purchases small amounts of securities for themselves, as opposed to an institutional investor, Also called as Retail Investor or Small Investor."

At this point, researcher has answered the questions about why people invest and what they want from their investments. They invest to earn a return from savings due to their deferred consumption. They want a rate of return that compensates them for the time, the expected rate of inflation, and the uncertainty of the return.

In today's world everybody is running for money and it is considered as a root of happiness. For secure life and for bright future people start investing. Every time investors are confused with investment avenues and their risk return profile. So, even if

Researcher focuses on past, present or future, investment is such a topic that needs constant upgradation as economy changes. The research study will be helpful for the investors to choose proper investment avenue and to create profitable investment portfolio.

1.2 MEANING OF INVESTMENT

Investment is the employment of funds with the aim of getting return on it. In general terms, investment means the use of money in the hope of making more money. In finance, investment means the purchase of a financial product or other item of value with an expectation of favorable future returns.

Investment of hard earned money is a crucial activity of every human being. Investment is the commitment of funds which have been saved from current consumption with the hope that some benefits will be received in future. Thus, it is a reward for waiting for money. Savings of the people are invested in assets depending on their risk and return demands.

Investment refers to the concept of deferred consumption, which involves purchasing an asset, giving a loan or keeping funds in a bank account with the aim of generating future returns. Various investment options are available, offering differing risk-reward tradeoffs. An understanding of the core concepts and a thorough analysis of the options can help an investor create a portfolio that maximizes returns while minimizing risk exposure.

There are Two concepts of Investment:

- 1) **Economic Investment:** The concept of economic investment means addition to the capital stock of the society. The capital stock of the society is the goods which are used in the production of other goods. The term investment implies the formation of new and productive capital in the form of new construction and producers durable instrument such as plant and machinery. Inventories and human capital are also included in this concept. Thus, an investment, in economic terms, means an increase in building, equipment, and inventory.

2) **Financial Investment:** This is an allocation of monetary resources to assets that are expected to yield some gain or return over a given period of time. It means an exchange of financial claims such as shares and bonds, real estate, etc. Financial investment involves contracts written on pieces of paper such as shares and debentures. People invest their funds in shares, debentures, fixed deposits, national saving certificates, life insurance policies, provident fund etc. in their view investment is a commitment of funds to derive future income in the form of interest, dividends, rent, premiums, pension benefits and the appreciation of the value of their principal capital. In primitive economies most investments are of the real variety whereas in a modern economy much investment is of the financial variety.

The economic and financial concepts of investment are related to each other because investment is a part of the savings of individuals which flow into the capital market either directly or through institutions. Thus, investment decisions and financial decisions interact with each other. Financial decisions are primarily concerned with the sources of money where as investment decisions are traditionally concerned with uses or budgeting of money.

1.3 INVESTMENT OBJECTIVES

Investing is a wide spread practice and many have made their fortunes in the process. The starting point in this process is to determine the characteristics of the various investments and then matching them with the individuals need and preferences. All personal investing is designed in order to achieve certain objectives. These objectives may be tangible such as buying a car, house etc. and intangible objectives such as social status, security etc. similarly; these objectives may be classified as financial or personal objectives. Financial objectives are safety, profitability, and liquidity. Personal or individual objectives may be related to personal characteristics of individuals such as family commitments, status, dependents, educational requirements, income, consumption and provision for retirement etc.

The objectives can be classified on the basis of the investors approach as follows:

- a) **Short term high priority objectives:** Investors have a high priority towards achieving certain objectives in a short time. For example, a young couple will give high priority to buy a house. Thus, investors will go for high priority objectives and invest their money accordingly.
- b) **Long term high priority objectives:** Some investors look forward and invest on the basis of objectives of long term needs. They want to achieve financial independence in long period. For example, investing for post retirement period or education of a child etc. investors, usually prefer a diversified approach while selecting different types of investments.
- c) **Low priority objectives:** These objectives have low priority in investing. These objectives are not painful. After investing in high priority assets, investors can invest in these low priority assets. For example, provision for tour, domestic appliances etc.
- d) **Money making objectives:** Investors put their surplus money in these kinds of investment. Their objective is to maximize wealth. Usually, the investors invest in shares of companies which provide capital appreciation apart from regular income from dividend.

Every investor has common objectives with regard to the investment of their capital.

The importance of each objective varies from investor to investor and depends upon the age and the amount of capital they have. These objectives are broadly defined as follows.

- a. **Lifestyle** – Investors want to ensure that their assets can meet their financial needs over their lifetimes.
- b. **Financial security** – Investors want to protect their financial needs against financial risks at all times.

- c. **Return** – Investors want a balance of risk and return that is suitable to their personal risk preferences.
- d. **Value for money** – Investors want to minimize the costs of managing their assets and their financial needs.
- e. **Peace of mind** – Investors do not want to worry about the day to day movements of markets and their present and future financial security.

Achieving the sum of these objectives depends very much on the investor having all their assets and needs managed centrally, with portfolios planned to meet lifetime needs, with one overall investment strategy ensuring that the disposition of assets will match individual needs and risk preferences.

1.4 INVESTMENT AND SPECULATION

“Speculation is an activity, quite contrary to its literal meaning, in which a person assumes high risks, often without regard for the safety of their invested principal, to achieve large capital gains.” The time span in which the gain is sought to be made is usually very short.

Investment involves putting money into an asset which is not necessarily marketable in order to enjoy a series of returns. The investor sacrifices some money today in anticipation of a financial return in future. He indulges in a bit of speculation. There is an element of speculation involved in all investment decisions. However, it does not mean that all investments are speculative by nature. Genuine investments are carefully thought out decisions. On the other hand, speculative investment, are not carefully thought out decisions. They are based on tips, and rumors.

Speculation has a special meaning when talking about money. The person who speculates is called a **speculator**. A speculator does not buy goods to own them, but to sell them later. The reason is that speculator wants to profit from the changes of

market prices. One tries to buy the goods when they are cheap and to sell them when they are expensive.

Speculation includes the buying, holding, selling and short selling of stocks, bonds, commodities, currencies, real estate collectibles, derivatives or any valuable financial instrument. It is the opposite of buying because one wants to use them for daily life or to get income from them (as dividends or interest).

Speculation should not be considered purely a form of gambling, as speculators do make an informed decision before choosing to acquire the additional risks. Additionally, speculation cannot be categorized as a traditional investment because the acquired risk is higher than average. More sophisticated investors will also use a hedging strategy in combination with their speculative investment in order to limit potential losses.

1.4.1 DIFFERENCE BETWEEN INVESTOR AND SPECULATOR:

	Investor	Speculator
Planning horizon	An investor has a Relatively longer planning horizon. His holding period is usually at least 1 year.	A speculator has a Very short planning horizon. His holding period may be a few days to a few months.
Risk disposition	An investor is normally not willing to assume more than moderate risk. Rarely does he knowingly assume high risk.	A speculator is ordinarily willing to assume high risk.
Return expectation	An investor usually seeks a modest rate of return which is commensurate with the limited risk assumed by him/her.	A speculator looks for a high rate of return in exchange for the high risk borne by him/her.
Basis for decisions	An investor attaches greater significance to Fundamental factors and attempt a careful evaluation of the prospects of the firm.	A speculator Relies more on hearsay, tips, technical charts and market psychology.

Leverage	Typically an investor uses his own funds and eschews borrowed funds.	A speculator normally resorts to borrowings, which can be very substantial, to supplement his personal resources.
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1.5 ELEMENTS OF INVESTMENTS

The Elements of Investments are as follows:

- a) **Return:** Investors buy or sell financial instruments in order to earn return on them. The return on investment is the reward to the investors. The return includes both current income and capital gain or losses, which arises by the increase or decrease of the security price.

- b) **Risk:** Risk is the chance of loss due to variability of returns on an investment. In case of every investment, there is a chance of loss. It may be loss of interest, dividend or principal amount of investment. However, risk and return are inseparable. Return is a precise statistical term and it is measurable. But the risk is not precise statistical term. However, the risk can be quantified. The investment process should be considered in terms of both risk and return.

- c) **Time:** time is an important factor in investment. It offers several different courses of action. Time period depends on the attitude of the investor who follows a 'buy and hold' policy. As time moves on, analysis believes that conditions may change and investors may reevaluate expected returns and risk for each investment.

- d) **Liquidity:** Liquidity is also important factor to be considered while making an investment. Liquidity refers to the ability of an investment to be converted into cash as and when required. The investor wants his money back any time. Therefore, the investment should provide liquidity to the investor.

e) **Tax Saving:** The investors should get **the benefit of tax** exemption from the investments. There are certain investments which provide tax exemption to the investor. The tax saving investments increases the return on investment. Therefore, the investors should also think of saving income tax and invest money in order to maximize the return on investment.

1.6 INVESTMENT ATTRIBUTES

Every investor has certain specific objective to achieve through his long term or short term investment. Such objectives may be monetary/financial or personal in character.

The Three financial objectives are:-

1. **Safety & Security of the fund invested** (Principal amount)
2. **Profitability** (Through interest, dividend and capital appreciation)
3. **Liquidity** (Convertibility into cash as and when required)

These objectives are universal in character as every investors will like to have a fair balance of these three financial objectives. An investor will not like to take undue risk about his principal amount even when the interest rate offered is extremely attractive. These factors are known as investment attributes.

There are **personal objectives** which are given due consideration by every investor while selecting suitable avenues for investment. Personal objectives may be like provision for old age and sickness, provision for house construction, provision for education and marriage of children's and finally provision for dependents including wife, parents or physically handicapped member of the family.

Investment Avenue selected should be suitable for achieving both the financial and personal objectives. Advantages and disadvantages of various investment avenues need to be considered in the context of such investment objectives.

1) Period of Investment :- It is one major consideration while selecting avenue for investment. Such period may be,

- a. Short Term** (up to one year) – To meet such objectives, investment avenues that carry minimum or no risk are suitable.
- b. Medium Term** (1 year to 3 years) – Investment avenues that offers better returns and may carry slightly more risk can be considered, and lastly
- c. Long Term** (3 years and above) – As the time horizon is adequate, investor can look at investment that offers best returns and are considered more risky.

2) Risk in Investment :- Risk is another factor which needs careful consideration while selecting the avenue for investment. Risk is a normal feature of every investment as an investor has to part with his money immediately and has to collect it back with some benefit in due course. The risk may be more in some investment avenues and less in others.

Risk connected with the investment are, liquidity risk, inflation risk, market risk, business risk, political risk etc. Thus, the objective of an investor should be to minimize the risk and to maximize the return out of the investment made.

1.7 INVESTMENT ALTERNATIVES

Wide varieties of investment avenues are now available in India. An investor can himself select the best avenue after studying the merits and demerits of different avenues. Even financial advertisements, newspaper supplements on financial matters and investment journals offer guidance to investors in the selection of suitable investment avenues.

Investment avenues are the outlets of funds. A bewildering range of investment alternatives are available, they fall into two broad categories, viz, financial assets and real assets. Financial assets are paper (or electronic) claim on some issuer such as the government or a corporate body. The important financial assets are equity shares, corporate debentures, government securities, deposit with banks, post office

schemes, mutual fund shares, insurance policies, and derivative instruments. Real assets are represented by tangible assets like residential house, commercial property, agricultural farm, gold, precious stones, and art object. As the economy advances, the relative importance of financial assets tends to increase. Of course, by and large the two forms of investments are complementary and not competitive.

Investors are free to select any one or more alternative avenues depending upon their needs. All categories of investors are equally interested in safety, liquidity and reasonable return on the funds invested by them. In India, investment alternatives are continuously increasing along with new developments in the financial market. Investment is now possible in corporate securities, public provident fund, mutual fund etc. Thus, wide varieties of investment avenues are now available to the investors. However, the investors should be very careful about their hard earned money. An investor can select the best avenue after studying the merits and demerits of the following investment alternatives:

- 1) Shares
- 2) Debentures and Bonds
- 3) Public Deposits
- 4) Bank Deposits
- 5) Post Office Savings
- 6) Public Provident Fund (PPF)
- 7) Money Market Instruments
- 8) Mutual Fund Schemes
- 9) Life Insurance Schemes
- 10) Real Estates
- 11) Gold-Silver
- 12) Derivative Instruments
- 13) Commodity Market (commodities)

For sensible investing, investors should be familiar with the characteristics and features of various investment alternatives. These are the various investment avenues; where individual investors can invest their hard earned money.

The following investment avenues are popular and used extensively in India:

1) SHARES

'Share means a share in the share capital of a company. A company is a business organization. The shares which are issued by companies are of two types i.e. Equity shares and Preference shares. It is registered as per Companies Act, 1956. Every company has share capital. The share capital of a company is divided into number of equal parts and each of such part is known as a 'share'. A public limited company has to complete three stages. The first is registration. The second is raising capital and the third is commencement of business. A public limited company issues shares to the public for raising capital. The first public issue is known as Initial Public Offerings (IPO). The shares can be issued at par, premium or discount. Each share has a face value of Rs 1, 2, 5 or 10. In order to issue shares a prospectus is prepared and it is got approved from Securities and Exchange Board of India (SEBI). These shares are listed with the stock exchange so that the shareholders can sell these shares in the market. The company has to make an application to the stock exchange for listing of shares.

The shares are also called as "stock". Nowadays, shares are issued in DEMAT form. It means shares are credited to a separate account of the applicant opened with depository participant. This is also called paperless security because shares are not issued in physical form. Demat account is compulsory when the shares are issued through Book Building Process, Book Building is a method of public issue of shares by a company in which the price is determined by the investors subject to a price band or range of prices given by the company.

Investment in shares is more risky because the share prices go on changing day by day. Today, the market is more 'volatile' means more fluctuating. The share prices may go up or go down. If the stock market falls the share prices will go down and the investor will lose money in the investment. However, the return on investment in shares is higher. The return on investment in shares is in the form of regular dividend, capital appreciation, bonus and rights. There is also liquidity in this kind of investment. The shares can be sold in stock market and money can be collected within 3 to 4 days. Investment in shares is not a tax saving investment.'

Companies (Private and Public) need capital either to increase their productivity or to increase their market reach or to diversify or to purchase latest modern equipments. Companies go in for IPO and if they have already gone for IPO then they go for FPO. The only thing they do in either IPO or FPO is to sell the shares or debentures to investors (the term investor here represents retail investors, financial institutions, government, high net worth individuals, banks etc).

Investors in Mumbai are so familiar to the ups and downs in the stock markets, but still no one has loosed the confidence over the investment in shares. Even a small investors keeping long term view in mind, are investing some part of their hard earn money in shares. Many investors are playing in market on the basis of the cash balance or the margin funding allowed by the depository (service provider). In Mumbai there are two secondary markets they are as follows,

1. Bombay stock exchange (BSE)
2. National stock exchange (NSE)

Investors in Mumbai are playing in both the markets i.e. primary market and secondary market. Shares constitute the ownership securities and are popular among the investing class. **Investment in shares is risky as well as profitable.** Transactions in shares take place in the primary and secondary markets. Large majority of investors (particularly small investors) prefer to purchase shares through brokers and other dealers operating on commission basis. Purchasing of shares is now easy and quick due to the extensive use of computers and screen based trading system (SBTs).

Orders can be registered on computers. The shares available for investment are classified into different categories. Shares certificates in physical form are no more popular in India due to **Demat facility**. It gives convenience in handling and transfer of shares. For this, demat account can be opened in the bank which provides depository services.

The shares are listed and traded on stock exchanges which facilitate the buying and selling of stocks in the secondary market. The prime stock exchanges in India are The Stock Exchange Mumbai, known as BSE and the National Stock Exchange India Ltd known as NSE. The purpose of a stock exchange is to facilitate the trading of securities between buyers and sellers, thus providing a marketplace. Investing in equities is riskier and definitely demands more time than other investments.

There are two ways in which investment in equities can be made:

- i. Through the primary market (by applying for shares that are offered to the public)
- ii. Through the secondary market (by buying shares that are listed on the stock exchanges)

2) DEBENTURES AND BONDS

A debenture is a document issued by a company as an evidence of a debt. It is a certificate issued by a company under its seal, acknowledging a debt due by it to its holders. The term debenture includes debenture stock, bonds and any other securities issued by a company. The Companies Act provides that a company can raise loans from the public by issue of debentures. The debenture holder becomes the creditor of the company. The debenture holder gets interest on the debenture which is fixed at the time of issue. The debentures are also issued to the public just like issue of shares. However, there is a need for credit rating before issue of debentures or Bonds. Bonds are issued by Government companies and the debentures are issued by the Private sector companies. Therefore, bonds may be tax saving but debentures are not tax saving investment.

The companies use owned capital as well as borrowed capital in their capital structure as compared to equity shares because debenture holders have no say in the management of the company and interest on debentures is allowed as a business expense for tax purposes. The debentures are considered as secured loan. There is no much risk in the investment in debentures as compared to shares. The return on debentures is also reasonable and stable. The debentures are also listed with the stock exchanges and can be traded in the stock market. However, the prices of debentures are not much volatile.

The debenture, being a loan, is redeemable at a certain period or maturity, otherwise it can be irredeemable. The debentures can be convertible or non-convertible. If a debenture is convertible into shares at maturity, it is called convertible. The convertible debentures may be partly convertible or fully convertible. Convertible debentures became popular in the last decade. The method of raising long term funds through debentures is not much popular in India. A very few companies have issued debentures and very few companies debentures or bonds are traded in the stock market. The debentures were also not popular till recent years.

Bonds refer to debt instruments bearing interest on maturity. In simple terms, organizations may borrow funds by issuing debt securities named bonds, having a fixed maturity period (more than one year) and pay a specified rate of interest (coupon rate) on the principal amount to the holders. Bonds have a maturity period of more than one year which differentiates it from other debt securities like commercial papers, treasury bills and other money market instruments.

Debt instrument represents a contract whereby one party lends money to another on pre-determined terms with regards to rate and periodicity of interest, repayment of principal amount by the borrower to the lender. In Indian securities markets, the term '*bond*' is used for debt instruments issued by the Central and State governments and

public sector organizations and the term '*debenture*' is used for instruments issued by private corporate sector.

Infrastructure bonds / Infra bonds : In 2010, the government introduced a new section 80CCF under the Income Tax Act, 1961 ("Income Tax Act") to provide for income tax deductions for subscription to long-term infrastructure bonds and pursuant to that the Central Board of Direct Taxes passed Notification No. 48/2010/F.No.149/84/2010-SO(TPL) dated July 9, 2010. These long term infrastructure bonds offer an additional window of tax deduction of investments up to ₹20,000 for the financial year 2010-11. This deduction is over and above the ₹1 lakh deduction available under sections 80C, 80CCC and 80CCD read with section 80CCE of the Income Tax Act. Infrastructure bonds help in intermediating the retail investor's savings into infrastructure sector directly.

3) PUBLIC DEPOSITS

The Companies Act provides that companies can accept deposits directly from the public. This mode of raising funds has become popular in the 1990s, because the bank credit had become costlier. As per provisions of the Companies ACT, a company cannot accept deposits for a period of less than 6 months and more than 36 months. However, deposits up to 10% of the paid up capital and free reserves can be accepted for a minimum period of three months for meeting short-term requirements. Again, a company cannot accept or renew deposits in excess of 35% of its paid up capital and free reserves.

In order to meet, temporary financial needs, companies accept deposits from the investors. Such deposits are called public deposits or company fixed deposits and are popular particularly among the middle class investors. All most all companies collect crores of rupees through such deposits. Companies were offering attractive interest rates previously. However, the interest rates are now reduced considerably. At present, the interest rate offered is 9 to 12 per cent.

On maturity, the depositor has to return the deposit receipt (duly discharged) to the company and the company pays back the deposit amount. The depositor can renew his deposit for further period of one to three years at his option. Many companies are now supplementing their fixed deposit scheme by cumulative time deposit scheme under which the deposited amount along with interest is paid back in lumpsum on maturity. Companies, now, appoint managers (collecting agents) to their fixed deposit schemes. The managers are usually reputed share brokers. They help companies in collecting the deposits and also look after the administrative work in connection with such deposits.

At present, along with private sector companies, even public sector companies and public utilities also accept such deposits in order to meet their working capital needs. This source is popular and used extensively by the companies. **The popularity of public deposits is due to the following Advantages:**

- a) Public deposits are available **easily and quickly**, provided the company enjoys public confidence.
- b) This method of financing is **simple and cheaper** than obtaining loans from commercial banks. This makes public deposits attractive and agreeable to companies and also to depositors.
- c) Public deposits enable the companies to **trade on equity** and pay higher dividends on equity shares.
- d) The depositors receive **interest on their deposits**. This rate is higher than the interest rate offered by banks. The interest is also paid regularly by reputed companies.
- e) The formalities to be completed for depositing money are **easy and simple**. There is no deduction of tax at source where interest does not exceed a particular limit.
- f) The risk involved is also limited particularly when money is deposited with a reputed company.

4) BANK DEPOSITS

Investment of surplus money in bank deposits is quite popular among the investors (Particularly among salaried people). Banks (Co-operative and Commercial) collect working capital for their business through deposits called bank deposits. The deposits are given by the customers for specific period and the bank pays interest on them. In India, all types of banks accept deposits by offering interest. The deposits can be accepted from individuals, institutions and even business enterprises, the business and profitability of banks depend on deposit collection. For depositing money in the bank, an investor/depositor has to open an account in a bank.

Different types of deposit accounts are:

1. Current Account
2. Savings Bank Account
3. Fixed Deposit Account, and
4. Recurring Deposit Account

The rate of interest for Fixed Deposits (FD) differs from bank to bank unlike previously when the same were regulated by RBI and all banks used to have the same interest rate structure. The present trends indicate that private sector and foreign banks offer higher rate of interest. Usually a bank FD is paid in lump sum on the date of maturity. However, some banks have facility to pay interest at the end of every quarter. If one desires to get interest paid every month, then the interest paid will be at a discounted rate. The Interest payable on Fixed Deposit can also be transferred to Savings Bank or Current Account of the customer.

This indicates the use of bank deposit as an avenue of investment by Indian investors. NRIs and NREs can keep money in nationalised and other banks as savings or fixed deposits. The case of NRI and NRE Account, the bank interest is not taxable. Some

banks offer one percent higher interest rate on NRI/NRE accounts. **Important features of bank deposit account are as follows:**

- a) Any individual (of major age) can open a bank account by following simple procedure. An account holder is treated as bank customer and all normal banking facilities and services are offered to him. A bank account may be single or joint. Nomination facility is also given to account holders.
- b) Deposits in the banks are safe and secured. They can be withdrawn as per the terms and conditions of the bank account. The benefit of deposit insurance scheme is also available to bank depositors.
- c) Money can be deposited at any time in the case of current and savings bank accounts. In the case of fixed deposit account, it is deposited only once and money is deposited every month in the case of recurring deposit account.
- d) Interest is paid on bank deposits (except current deposits). The interest rate is decided by the RBI from time to time as per the money market situation. The co-operative banks offer nearly one per cent higher interest rate as compared to commercial banks. Even senior citizens are offered a little higher interest rate (normally one per cent).
- e) Interest is paid on quarterly or six monthly basis. However, if the deposit period is less than 90 days, the interest is paid on maturity.
- f) Bank deposits have high liquidity. Banks even give loan on the security of fixed deposit receipts.

A. Advantages of Bank Deposits:

1. Investment is reasonably safe and secured with adequate Liquidity.
2. Banks offer reasonable return on the investment made and that too in a regular manner.
3. Banks offer loan facility against the investments made.
4. Procedures and formalities involved in bank investment are limited, simple and quick.
5. Banks offer various services and facilities to their customers.

B. Limitations of Bank Deposits:

- 1. The rate of return** in the case of bank investment **is low** as compared to other avenues of investment.
- The return on investment is not adequate even to give protection against the present inflation rate in the country.
- Capital appreciation **is not** possible in bank investment.

5) POST OFFICE SAVINGS

Post office operates as a financial institution. It collects small savings of the people through savings bank accounts facility. In addition, time deposits and government loans are also collected through post offices. Certain government securities such as **Kisan Vikas Patras, National Saving Certificates**, etc. are sold through post offices. New schemes are regularly introduced by the Postal Department in order to collect savings of the people. This includes recurring deposits, monthly income scheme, PPF and so on.

Postal savings bank schemes were popular in India for a long period as banking facilities were limited and were available mainly in the urban areas upto 1950s. The popularity of postal savings schemes is now reducing due to the growth of banking and other investment facilities throughout the country. However, even at present, small investors use postal savings facilities for investing their savings/ surplus money for short term/long term due to certain benefits like **stable return, security and safety of investment and loan facility against postal deposits. Even tax benefit** is one attraction for investment in post office. Investment in postal schemes is as good as giving money to the government for **economic development** along with **reasonable return and tax benefits**. Post Office Savings Bank (POSB) has a customer base of more than 11 crores accountholders with annual deposits exceeding Rs.70,000 crores and a network of 1,55,000 branches. The outstanding balance under all national savings schemes in post offices stood at Rs.2,18,695.15 crore by March 2001.

Postal savings schemes include the following:

- (1) Savings Bank Account:** Simple interest rate 3.5% with effect from March 1, 2003 (The rate was 3.50 from March 1, 2002). Maximum deposit upto 150,000 individual account and Rs.1 lakh in joint account. Interest earned is totally tax free.
- (2) Monthly Income Scheme:** Period: 6 years. Interest rate is 8.00 per cent p.a. payable monthly. Plus bonus @ 10 per cent at maturity with effect from March 1, 2003. (The rate was 9 per cent from March 1, 2002). There will be no tax deduction at source.
- (3) Recurring Deposits:** Period: 5 years. Interest rate 7.5 with effect from March 1, 2003. The interest is compounded on quarterly basis. Maturity value is notified and paid accordingly.
- (4) Time Deposits:** Period: 1 year to 5 years. No maximum limit of deposit in an account. The interest rates on time deposits vary from time to time but it is higher than other deposits due to long maturity period.

Thus, post office provides various schemes for safe investment of surplus funds. However, the return on investment is rather low. The interest rates are reduced considerably in recent years. Such trend of lowering of interest rate is applicable to all types of savings schemes in India. The postal rules and procedures are lengthy. Moreover, quick service and personal attention are not given due to inadequate staff, use of old methods and procedures, etc.

6) Public Provident Fund (PPF)

PPF is one attractive tax sheltered investment scheme for middle class and salaried persons. It is even useful to businessmen and higher income earning people. The PPF scheme is very popular among the marginal income tax payers. The scheme was introduced in 1969.

The features of PPF scheme are as noted below:

1. PPF account may be opened at any branch of the SBI or its subsidiaries or at Specified branches of nationalised banks. PPF account can be opened even in a post office on the same terms and conditions. Such account can be opened by any individual.
2. Only one account can be opened in the name of a person.
3. The PPF account is for a period of 15 years but can be extended for more years (five years at a time) at the desire of the depositor.
4. The depositor is expected to make a minimum deposit of Rs.500 every year. In addition, money can be deposited once in every month. (A minimum deposit in a year is Rs. 500 and maximum is Rs. 70,000/-)
5. The PPF account is not transferable, but nomination facility is available.
6. Loan is admissible from the third year. Loan amount is limited to 25 % of at the end of two years preceding.
7. Fresh loan is not allowed when previous loan or interest thereof is outstanding.
8. Interest is charged at the rate of 1% if prepaid within 36 months and at 6% on the outstanding loan after 36 months.
9. Withdrawal is permissible from seventh financial year from the year of opening, limited to one in a financial year.
10. Amount of withdrawal is limited to 50 % of balance at the end of the fourth preceding year less amount of outstanding loan or 50% of balance at the end of immediate preceding year of withdrawal less amount of outstanding loan, if any whichever is less.
11. The deposits in a PPF account are qualified for tax exemption under the Income-tax Act (Section 80 - C). The balance amount in a PPF account is fully exempted from the Wealth Tax. The PPF account is also exempted from attachment from the court.
12. A compound interest at 8% per annum is paid in the case of PPF account with effect from 1-3-2003. The interest accumulated in the PPF account is also tax free.
13. On maturity, the credit balance in the PPF account can be withdrawn. However, at the option of the subscriber, the account can be continued for

three successive block periods of five years each, with or without deposits. During the extensions the account holder can make one withdrawal per year, subject to the condition that the total amount withdrawn during a 5-year block does not exceed 60 percent of the balance to the credit of the account at the beginning.

A. Special Advantages of PPF Account:

- 1) Reasonably attractive interest rate even when it is reduced by one per cent with effect from 1-3-2003.
- 2) Income from PPF A/c (interest payment) is exempted from income tax and wealth tax.
- 3) Tax exemption on investment made in PPF.
- 4) Withdrawal facility at certain intervals which also avoids frequent withdrawals.
- 5) It is useful as a provision for old age, or as provision for certain expenses such as marriage of a son/daughter, purchase of flat, etc.
- 6) PPF account is exempted from attachment from the court. This gives security to family members /dependents.

B. Limitations of PPF Account:

- 1) Low liquidity as one withdrawal is allowed in a year.
- 2) The PPF account is for a period of 15 years which is a very long period.

In spite of limitations, PPF is an attractive avenue for investment in the case of Tax payers/Salaried class/Businessmen/Professionals.

7) MONEY MARKET INSTRUMENTS

Money market is a centre in which financial institutions join together for the purpose of dealing in financial or monetary assets, which may be of short term maturity. The short term generally means a period upto one year and the term near

substitutes to money denotes any financial asset which may be quickly converted into money with minimum transaction cost.

Thus, money market is a market for short term financial instruments, maturity period of which is less than a year. The deals are over the counter. The numbers of players in the market are limited. It is regulated by Reserve Bank of India. Money Market Instruments where Investors can invest are Treasury bills, Certificate of Deposit, Commercial Paper, Repurchase Options (Repo), Money Market Mutual Funds (MMMFs).

8) MUTUAL FUNDS

Mutual fund is a financial intermediary which collects savings of the people for secured and profitable investment. The main function of mutual fund is to mobilize the savings of the general public and invest them in stock market securities. The entire income of mutual fund is distributed among the investors in proportion to their investments- Expenses for managing the fund are charged to the fund, like mutual funds in India are registered as trusts under the Indian Trust Act. The trustees are appointed and they look after the management of the trust. They decide the investment policy and give the benefit of professional investment through the mutual funds. These funds are managed by financial and professional experts. The savings collected from small investors are invested in a safe, secured and profitable manner. Therefore, it is said that mutual fund is a boon to the small investors.

UTI had virtual monopoly in the field of mutual fund from 1964 to 1987. After 1987, State Bank of India, Bank of India and other banks started their mutual funds. After 1991 (due to economic liberalisation) many financial institutions started their mutual funds (e.g. Kothari Pioneer Fund, CRB Capital Markets and so on). In brief, along with UTI, many more mutual funds are now started for the benefit of small investors. They are given recognition by RBI/SEBI. Mutual funds, in general, are popular among the investing class. Moreover, practically all mutual fund

organisations are successful in collecting crores of rupees from the investing class. **A mutual fund is formed by the coming together of a number of investors who hand over their surplus funds to a professional organisation to manage their funds.**

The main function of mutual fund is to mobilise the savings of the general public and invest them in stock market securities. At present, there is diversion of savings of the middle class investors from banks to mutual funds. The government has thrown the field open to the private sector and joint sector mutual funds. The performance of mutual funds is showing significant growth during 1998-99 and 99-2000. During 2000-01, the public sector and private sector mutual funds (excluding UTI) mobilised resource worth Rs.11,340 crores as against Rs. 15,400 crores during 1999-00. More than 43 mutual funds are operating in India.

Mutual funds have introduced many schemes for attracting investors and also for collecting their savings. Such schemes include open ended schemes which are open to the investors for all the time. They can buy or sell the units whenever they desire. Such schemes are Regular Income Schemes, Recurring Income Schemes, Cumulative Growth Schemes, etc. There are close-ended schemes in which there is a lock in period of three to five years and investors cannot buy or sell the investment during that period. Such schemes are Dhanshree 1989, of LIC mutual fund. Magnum Regular Income Scheme 1987, of SBI mutual fund.

Basically, there are four schemes by which mutual funds collect money from the investors such as (1) Growth Schemes (2) Income Schemes (3)Balanced Schemes (4) Tax Saving Schemes. In case of growth schemes the investment grows according to the time and in case of income schemes the investors get regular income from the investments. Balanced schemes are the combination of both these schemes. Tax saving scheme is designed to save income tax while investing in the market. There are different types of investors and their objectives are also different. Therefore,

mutual funds have started different schemes in order to suit the objectives of these investors.

Mutual funds are popular investments because of low risk and high returns. There is liquidity in case of open-ended schemes and some of the schemes provide tax savings. There are income schemes which provide regular income to the investors.

The popularity of mutual funds is fast growing in India. The number of such funds is increasing and is getting popular support from the investing class. Investors prefer to give their savings to mutual funds for the safety of their funds and also for securing the benefits of diversified investment. These funds take appropriate investment decisions and handover the benefits of profitable investment to the investors.

Now a days, investors are creating their mutual fund portfolios on the basis of the nature of mutual funds i.e. instead of categorizing the mutual funds in different types (as given above) investors mainly focus on the following categories which simple to understand and the schemes itself explains the risk factor associated with the particular category.

1. Equity mutual funds: These funds invest a maximum part of their corpus into equities holdings. The structure of the fund may vary different for different schemes and the fund manager's outlook on different stocks. The Equity Funds are sub-classified depending upon their investment objective, as follows:

- i. Diversified Equity Funds(Large Cap)
- ii. Mid-Cap Funds
- iii. Small Cap Funds
- iv. Sector Specific Funds
- v. Tax Savings Funds (ELSS)
- vi. Thematic Funds

Equity investments are meant for a longer time horizon, thus Equity funds rank high on the risk-return matrix.

2. Debt mutual funds: The objective of these Funds is to invest in debt papers. Government authorities, private companies, banks and financial institutions are some of the major issuers of debt papers. By investing in debt instruments, these funds ensure low risk and provide stable income to the investors. Debt funds are further classified as:

- i. Gilt Funds
- ii. Income Funds
- iii. MIPs
- iv. Short Term Plans
- v. Liquid Funds

3. Balanced funds: As the name suggest they, are a mix of both equity and debt funds. They invest in both equities and fixed income securities, which are in line with pre-defined investment objective of the scheme. These schemes aim to provide investors with the best of both the worlds. Equity part provides growth and the debt part provides stability in returns.

More than 43 mutual funds are operating in India. The assets under management (AUM) is Rs. 7 Trillion (Rs. 7 lakhs crore) in india. The top three mutual fund companies are (1) reliance mutual funds (2) HDFC mutual funds (3) Birla mutual funds. Currently 3,500 schemes are offered by mutual fund companies in india. As of now there are 85000 mutual fund agents, are operating in india. But few of them are active in the market. Basically these agents are ARN holders i.e. certified to sell the mutual funds in the market. The SEBI and AMFI are acting as a regulators in the market. According to current updates SEBI has made KYC compulsory for all the investors. As per new SEBI guidelines, Currently there is no concept of entry load. Also if investors investment horizon is long term then there is no exit load charged by the company but at the same time if investor would like to withdraw invested money before 1 year then the investors are liable to pay prescribed exit load on the mutual funds schemes.

9) LIFE INSURANCE POLICIES

Nothing is more important to a person than the feeling that their family is financially secure - at all times. "Life insurance is a contract whereby the insurer, in consideration of a premium paid either in a lumpsum or in periodical installments undertakes to pay an annuity or certain sum of money either on the death of the insured or on the expiry of a certain number of years, whichever is earlier."

There are 23 life insurance companies in India. Life Insurance Corporation of India (LIC) is the only Public Sector insurance company, the rest all being private insurance players. Most of the private players have tied up with international insurance biggies for their life insurance foray. The life insurance sector in India has seen a lot of action in the last decade with a lot of new players entering the market. The distribution system for life insurance products involves various intermediaries between the insurer and the insured. The different distribution channels used by insurance companies are, Agents, Brokers, Corporate Agents, Bancassurance. Private insurance companies have been exploring the various distribution channels available instead of concentrating on individual agents.

Insurance Regulatory and Development Authority (IRDA) is the regulatory arm of the government of India which oversees the proper functioning of the insurance sector.

Life insurance is a kind of Investment Avenue provides family protection to the investor as well as return on investment in the form of yearly bonus on the policy. The return on investment is reasonably low i.e. 6% p.a. because of risk coverage and tax incentives. The amount of premium paid on a life insurance policy is exempted from taxable income under section 80-C of the Income-tax Act. Though, the maturity period is longer the insurance policy can be surrendered or loan can be availed on the policy, therefore there is some sort of liquidity in this investment. Thus, investment in life insurance is a profitable investment and there is no risk in this investment.

Life insurance covers the risk that exists in one's life. These risks may arise due to accident, illness or natural causes like fire, flood, earthquake. Life insurance aims to protect the family of the life insured so that they may not suffer from financial consequences on the death or disability of the insured person. Life insurance needs to be a mandatory part of every person's life. Life insurance covers three contingencies:

1. Contingency of death
2. Contingency of old age
3. Contingency of disability and critical illness.

The three major concerns of any person are: Dieing too early, Living too long, and Living with disability. Besides, there are other concerns about taking care of children and their future and about creating wealth that most individuals think. Life insurance products are generally designed to address such needs. With these situations in mind, life insurance products also provide for risk cover, investment, health care and tax saving.

Life insurance is usually taken by the earning member(s) of the family to ensure that in case of their death, and hence their source of income ceasing to exist, the dependent family members would have a lump-sum amount to fall back on. So by paying a small amount every year the earning member of the family can ensure that the future of their loved ones is absolutely secure from a financial point of view. So in the event of death of an insured person, the nominee of the policy would receive an amount called the sum assured which can then be used effectively to plan for their future.

Broadly one can classify their requirements into protecting the family when they die or planning for children's careers or retirement. Whether it is protection or planning needs there are suitable insurance policies that suffice the need appropriately. For Planning needs Endowment, Pension or ULIP will be a good choice based on the risk one can afford to take. For protection needs the traditional Term or whole life policies are must.

The Common Types of Insurance Policies are as follows:

1. Term Insurance
2. Whole Life Insurance

3. Endowment Insurance
4. Money Back Insurance
5. Annuities (Pension Plans / Retirement Insurance)
6. Unit-Linked Insurance Plan (ULIPs)
7. Child Life Insurance Policy

Health expenses are increasing considerably each day and so are the health risks. **Health Insurance**, also known as medical insurance is a form of insurance which covers the expenses incurred on medical treatment and hospitalisation. It covers the individual and family against any financial constraints arising from medical emergencies.

Tax Benefits of taking a Health Insurance Policy Under Section 80D of the Income Tax Act, income tax benefit is provided to the customer for the premium amount till a maximum of Rs. 15,000 for regular and Rs. 20,000 for senior citizen respectively.

Hence, life insurance should be planned and the correct amount of life insurance needs to be purchased but only after evaluating the requirement and the need depending on Investors life stage, priority and capacity. If properly planned, the life insurance can be the answer to a sound financial planning for lifetime!

10) INVESTMENT IN REAL ESTATES

Investment in real estate includes properties like building, industrial land, plantations, farm houses, agricultural land near cities and flats or houses. Such properties attract the attention of affluent investors. It is an attractive, as well as profitable investment avenue today. A residential building represents the most attractive real estate property for majority of investors. The prices of real estate are increasing day by day. The land is limited on the earth but the population has been increasing. As the demand increases but the supply of land is limited, the prices tend to increase. Therefore, it is attractive investment which generates higher return during a short period of time.

Types of properties are Residential property, Commercial property, N.A. Plots and Agricultural land. Ownership of a residential house provides owned accommodation to the family and gives satisfaction to the family members. It acts as one useful family asset with saleable value. It is a long term investment. The government provides tax incentives to the individuals who buy the residential house. The interest paid on borrowings for purchase of house is exempted from income tax. The repayment of principal amount during a year is also exempted from income tax up to an amount of Rs.100000. Thus, the investment in residential house is also treated as tax saving investment.

Investment in real estate provides capital appreciation of residential buildings, urban land and flats. It gives reasonable return on investment. There is a low risk but there is no liquidity. There are chances of capital appreciation also. The property can also be used as security for raising loans. There is a tax saving in case of residential house. It is a long term investment. There is a quick appreciation in the value of assets.

There is a low liquidity in case of investment in real estates. The risk in the investment is also more as compared to investment in banks and mutual funds. The government Rules and Regulations regarding buying and selling of the property are troublesome in case of real estates. Stamp duty, registration and legal formalities are complicated and there is a chance of cheating at the time of buying or selling. The amount of investment is huge and therefore the benefits of diversification of investment are not available. In real estate profitability is available at the cost of liquidity. The liquidity is low.

The property rates in Mumbai are increasing day by day. Buying a property in Mumbai is a dream of every resident, but now due to tremendous increase in property rates, the investors started buying property at affordable rate. Despite the availability of more rationally priced options, investing in real estate is most definitely not child's play. It requires forethought, research and planning.

11) INVESTMENT IN GOLD AND SILVER

Gold and silver are the precious objects. Everybody likes gold and hence requires gold or silver. These two precious metals are used for making ornaments and also for investment of surplus funds over a long period of time. In India, gold is an obsession deep-rooted in mythology, religious rites and it is very psychological. In every family at least a little quantity of gold and silver is available. Some people buy these metals as an investment. The prices of gold and silver are also increasing continuously. The prices also depend upon demand and supply of gold. The supply has been increasing at low speed. However, the demand has been increasing very fast. Therefore, the prices also go on increasing. People use gold and silver at the time of marriages and other festivals. Apart from gold and silver, precious stones such as diamonds, rubies and pearls are also appealing for long term investment particularly among rich people.

Gold and silver are useful as a store of wealth. They act as secret assets. The investment is highly liquid, which can be sold at any time. The market prices are continuously increasing. Therefore, the return on investment is also increasing. The investment is also safe and secured. There is a high degree of prestige value for gold and silver in the society. The benefit of capital appreciation is also available.

The investment in gold and silver is risky due to the chances of theft. It may also cause an injury to the life of the investor. It is a long term investment. Regular income from the investment is not available. This investment is not available for capital formation and economic growth of the country. The traditional attraction for gold and silver is gradually reducing. The import of gold is now free. There is no tax saving on this investment. Gold and silver, the two most widely held precious metals, appeal to almost all kinds of investors for the following reasons.

- i. Historically, they have been good hedges against inflation.
- ii. They are highly liquid with very low trading commissions.
- iii. They are aesthetically attractive.

- iv. Returns on gold, in general, have been negatively correlated with returns on stocks. So, gold provides a good diversification opportunity.
- v. They possess a high degree of 'moneyness'. According to Jack Clark Francis: "A substance possesses moneyness when it is (1) a store of value, (2) durable, (3) easy to own anonymously, (4) easy to subdivide into small pieces that are also valuable, (5) easy to authenticate, and (6) interchangeable, that is, homogeneous or fungible."

As against these advantages, investment in gold and silver has the following disadvantages:

- i. They do not provide regular current income.
- ii. There is no tax advantage associated with them,
- iii. There may be a possibility of being cheated.

Investment in gold and silver can be in physical or nonphysical forms. The physical form includes bullion, coins, and jewellery. Gold or silver bars, called bullion, come in a wide range of sizes. Jewellery made of gold or silver may provide aesthetic satisfaction but is not a good form of investment because of high making charges which may not be recovered.

The nonphysical form includes futures contracts, units of gold exchange-traded funds, and shares of gold mining companies. Investors can buy futures contracts in gold and silver—such contracts tend to be highly leveraged investments. The units of gold exchange—traded funds (ETFs) are listed on a secondary market and investors can buy such units easily. Gold ETFs have been permitted in India since March 2007. Benchmark Mutual Fund and UTI were the first two funds to launch gold ETFs. Each share of a gold ETF represents one-tenth of an ounce of physical gold. This may be the best way to invest in gold as it spares you the hassles involved in ascertaining the purity of gold and storing it safely. Finally, investors can buy shares of common stock of a company that mines gold or silver as an indirect way of investing in these metals.

12) DERIVATIVE INSTRUMENTS

A derivative is a product whose value is derived from the value of an underlying asset, index or reference rate. The underlying asset can be equity, forex, commodity or any other asset. For example, if the settlement price of a derivative is based on the stock price of a stock for e.g. Tata Steel which frequently changes on a daily basis, then the derivative risks are also changing on a daily basis. This means that derivative risks and positions must be monitored constantly. A derivative security can be defined as a security whose value depends on the values of other underlying variables. Very often, the variables underlying the derivative securities are the prices of traded securities. Derivatives are of four types, (1) Forward (2) Futures (3) Options and (4) Swaps. From the point of view of investors and portfolio managers, futures and options are the two most important financial derivatives. They are used for hedging and speculation. Trading in these derivatives has begun in India. The difference between a share and derivative is that shares/securities are an asset while derivative instrument is a contract.

13) COMMODITIES

A commodity may be defined as a product or material or any physical substance like food grains, processed products and agro-based products, metals or currencies, which investors can trade in the commodity market. One of the characteristics of a commodity is that its price is determined as a function of its market as a whole. Well-established physical commodities are actively traded in spot and derivative commodity market. Commodities actually offer immense potential to become a separate asset class for market-savvy investors, arbitragers and speculators. Retail investors, who claim to understand the equity market, may find commodity market quite tricky. But commodities are easy to understand as far as fundamentals of demand and supply are concerned. Retail investors should understand the risks and advantages of trading in commodity market before taking a leap. Historically, prices of commodities have remained extremely volatile.

The gradual evolution of commodity market in India has been of great significance for the country's economic prosperity. The commodity futures exchanges were evolved in 1800 with the sole objective of meeting the demand of exchangeable contracts for trading agricultural commodities. For example, the cotton exchange located at Cotton Green in Mumbai (then Bombay) was the one of the first organised commodity market in the country.

A commodity market is a market where various commodities and derivatives products are traded. Most commodity market across the world trade in agricultural products and other raw materials (like wheat, barley, sugar, maize, cotton, cocoa, coffee, milk products, pork bellies, oil, metals, etc.) and contracts based on them. These contracts can include spot prices, forwards, futures and options on futures. Other sophisticated products may include interest rates, environmental instruments, swaps, or ocean freight contracts. The sale and purchase of commodities is usually carried out through futures contracts on exchanges that standardize the quantity and minimum quality of the commodity being traded.

Commodities exchanges usually trade futures contracts on commodities, such as trading contracts to receive a particular commodity in physical form. Speculators and investors also buy and sell the futures contracts at commodity exchanges to make a profit and provide liquidity to the system.

The Indian commodity market offers a variety of products like rice, wheat, coal, petroleum, kerosene, gasoline; metals like copper, gold, silver, aluminum and many more. There are some commodities such as sugar, cocoa, and coffee, which are perishable, so cannot be stocked for long time. These days, a wide range of agricultural products, energy products, perishable commodities and metals can be sold under standardised contracts on futures exchanges prevailing across the globe. Commodities have gained importance with the development of commodity futures indexes along with the mobilisation of more resources in the commodity market.

India has around 25 recognised commodity future exchanges including three national-level commodity exchanges. They are:

1. National Commodity & Derivatives Exchange Limited (NCDEX)
2. Multi Commodity Exchange of India Limited (MCX)
3. National Multi-Commodity Exchange of India Limited (NMCE)

All these exchanges are under the control of the Forward Market Commission (FMC) of Government of India.

Multi Commodity Exchange of India Limited (MCX) in Mumbai, is also an independent and de-mutualised exchange recognized by the Government of India. This commodity exchange which started operations in November 2003 has above 40 commodities on its platform and has a market share of around 80% in the Indian commodity market. Key shareholders of MCX are Financial Technologies (India) Ltd., State Bank of India, Union Bank of India, Corporation Bank, Bank of India and Canara Bank. This commodity exchange facilitates online trading, clearing and settlement operations for commodity futures market across the country.

As compared to other markets in the last ten years, commodity market has performed relatively better than other markets like bonds, equity or currency. However, the participation in future trading in Indian commodity market is very low as compared to other countries as there is lack of knowledge about this market to the investors and traders. It is not for mere trading purpose; commodity trading is also used for hedge against inflation, price discovery of the commodity and also as a sound investment. In order to trade in commodities, DEMAT account is required.

1.8 TAX SAVING INVESTMENTS

There are certain schemes introduced for the purpose of tax saving. These schemes provide income tax benefits to the investors who invest in these schemes. Under Section 80C of the Income Tax Act, 1961, the following schemes are eligible for tax saving. The Finance Act, 2010 provides tax exemption upto Rs.1,00,000 for the investments in the following schemes:

- 1. Life Insurance Premium:** Life insurance premium paid by a person on his life or on the life of spouse or on life of any child of that person is entitled for deduction under this section. Maximum premium of 20% of the policy amount can be allowed for deduction.
- 2. Public Provident Fund:** Investment made by an individual towards the 15 year Public Provident Fund set up by the government under the Public Provident Fund Scheme, 1968 is qualified for deduction upto a maximum of Rs. 70,000 in a year.
- 3. Post Office Savings Deposits:** Any sum deposited in a 10 year or 15 year account under the Post Office Savings Bank Rules 1959 by an individual is entitled for deduction upto a limit of Rs.1,00,000.
- 4. National Savings Certificate (NSC):** Amount invested by an individual in National Savings Certificate issued by post office is entitled for deduction.
- 5. Unit Linked Insurance Plan (ULIP):** Investments made by an individual for participating in the Unit Linked Insurance Plan of Unit Trust of India are entitled for deduction upto an amount of Rs.1,00,000 in a year.
- 6. Deposits in National Housing Bank:** Any sum invested in home loan account scheme of the National Housing Bank is entitled for deduction upto an overall limit of Rs.60,000 in a year.
- 7. Repayment of Housing Loan:** Payment not exceeding Rs.1,00,000 in respect of loan installment or repayment of housing loan taken for the purpose of a residential house is entitled for deduction. **Deduction under section 24(b) :** Under this section, Interest on borrowed capital for the purpose of house purchase or construction is deductible from taxable income up to Rs. 1,50,000 with some conditions to be fulfilled.

- 8. Fixed Deposit:** FD in a bank for more than 5 years maturity period is allowed as deduction upto Rs.1,00,000.
- 9. Mutual Fund:** Investment upto Rs.1,00,000 in units of a mutual fund referred to in Section 10(23D); popularly known as Equity Linked Savings Scheme (ELSS) and approved by the board are eligible for deduction under this act.
- 10. LIC's Pension Plan:** The premium paid for LIC's New Jeevan Suraksha policy qualifies for deduction upto a limit of Rs.1,00,000 in a year.

In addition, deduction of Rs.20,000 is available u/s 80CCF of the Income Tax Act, 1961 towards the amount invested in the Infrastructure Bonds which will be of Long Term in nature.

1.9 INTRODUCTION OF PORTFOLIO

“Portfolio means combined holding of many kinds of financial securities i.e. shares, debentures, government bonds, units and other financial assets.” The term investment portfolio refers to the various assets of an investor which are to be considered as a unit. It is not merely a collection of unrelated assets but a carefully blended asset combination within a unified framework. It is necessary for investors to take all decisions as regards their wealth position in a context of portfolio. Making a portfolio means putting ones eggs in different baskets with varying element of risk and return. The object of portfolio is to reduce risk by diversification and maximise gains.

Thus, portfolio is a combination of various instruments of investment. It is also a combination of securities with different risk-return characteristics. A portfolio is built up out of the wealth or income of the investor over a period of time with a view to manage the risk-return preferences. The analysis of risk-return characteristics of individual securities in the portfolio is made from time to time and changed that may take place in combination with other securities are adjusted accordingly. The object of portfolio is to reduce risk by diversification and maximize gains.

1.10 PORTFOLIO MANAGEMENT

Portfolio management means selection of securities and constant shifting of the portfolio in the light of varying attractiveness of the constituents of the portfolio. It is a choice of selecting and revising spectrum of securities to it in with the characteristics of an investor.

Portfolio management includes portfolio planning, selection and construction, review and evaluation of securities. The skill in portfolio management lies in achieving a sound balance between the objectives of safety, liquidity and profitability.

Timing is an important aspect of portfolio revision. Ideally, investors should sell at market tops and buy at market bottoms. Investors may switch from bonds to share in a bullish market and vice-versa in a bearish market.

Portfolio management is all about strengths, weaknesses, opportunities and threats in the choice of debt vs. equity, domestic vs. international, growth vs. safety, and many other tradeoffs encountered in the attempt to maximize return at a given appetite for risk.

Portfolio management is an art and science of making decisions about investment mix and policy, matching investments to objectives, asset allocation for individuals and institutions, and balancing risk against performance.

Portfolio management in common parlance refers to the selection of securities and their continuous shifting in the portfolio to optimize the returns to suit the objectives of the investor. This however requires financial expertise in selecting the right mix of securities in changing market conditions to get the best out of the stock market. In India, as well as in many western countries, portfolio management service has assumed the role of specialized service now a days and a number of professional merchant bankers compete aggressively to provide the best to high net-worth clients, who have little time to manage their investments. The idea is catching up with the boom in the capital market and an increasing number of people are inclined to make the profits out of their hard earned savings.

Markowitz analysed the implications of the fact that the investors, although seeking high expected returns, generally wish to avoid risk. It is the basis of all scientific portfolio management. Although the expected return on a portfolio is directly related to the expected returns on component securities, it is not possible to deduce a portfolio riskiness simply by knowing the riskiness of individual securities. The riskiness of portfolio depends upon the attributes of individual securities as well as the interrelationships among securities.

A professional, who manages other people's or institution's investment portfolio with the object of profitability, growth and risk minimization is known as a portfolio manager. He is expected to manage the investor's assets prudently and choose particular investment avenues appropriate for particular times aiming at maximization of profit. Portfolio management includes portfolio planning, selection and construction, review and evaluation of securities. The skill in portfolio management lies in achieving a sound balance between the objectives of safety, liquidity and profitability.

Timing is an important aspect of portfolio revision. Ideally, investors should sell at market tops and buy at market bottoms. They should be guarded against buying at high prices and selling at low prices. Timing is a crucial factor while switching between shares and bonds. Investors may switch from bonds to shares in a bullish market and vice-versa in a bearish market.

Portfolio management service is one of the merchant banking activities recognized by Securities and Exchange Board of India (SEBI). The portfolio management service can be rendered either by the SEBI recognized categories I and II merchant bankers or portfolio managers or discretionary portfolio manager as defined in clause (e) and (f) of rule 2 SEBI (portfolio managers) Rules 1993.

According to the definitions as contained in the above clauses, a portfolio manager means any person who pursuant to contract or arrangement with a client, advises or directs or undertakes on behalf of the client (whether as a discretionary portfolio manager or otherwise) the management or administration of a portfolio of securities or the funds of the client, as the case may be. A merchant banker acting as a portfolio

Manager shall also be bound by the rules and regulations as applicable to the portfolio manager. Realizing the importance of portfolio management services, the SEBI has laid down certain guidelines for the proper and professional conduct of portfolio management services. As per guidelines only recognized merchant bankers registered with SEBI are authorized to offer these services.

Portfolio management or investment helps investors in effective and efficient management of their investment to achieve their financial goals. The rapid growth of capital markets in India has opened up new investment avenues for investors.

The stock markets have become attractive investment options for the common man. But investors should be able to effectively and efficiently manage investments in order to keep maximum returns with minimum risk.

A portfolio manager by virtue of his knowledge, background and experience is expected to study the various avenues available for profitable investment and advise his client to enable the latter to maximize the return on his investment and at the same time safeguard the funds invested.

1.11 OBJECTIVES OF PORTFOLIO MANAGEMENT

- 1) Security/Safety of Principal:** Security not only involves keeping the principal sum intact but also keeping intact its purchasing power intact. Safety means protection for investment against loss under reasonably variations. In order to provide safety, a careful review of economic and industry trends is necessary. In other words, errors in portfolio are unavoidable and it requires extensive diversification. Even investor wants that his basic amount of investment should remain safe.

- 2) Stability of Income:** So as to facilitate planning more accurately and systematically the reinvestment consumption of income is important.

- 3) **Capital Growth:** This can be attained by reinvesting in growth securities or through purchase of growth securities. Capital appreciation has become an important investment principle. Investors seek growth stocks which provides a very large capital appreciation by way of rights, bonus and appreciation in the market price of a share.
- 4) **Marketability:** It is the ease with which a security can be bought or sold. This is essential for providing flexibility to investment portfolio.
- 5) **Liquidity i.e. nearness to money:** It is desirable to investor so as to take advantage of attractive opportunities upcoming in the market.
- 6) **Diversification:** The basic objective of building a portfolio is to reduce risk of loss of capital and / or income by investing in various types of securities and over a wide range of industries.
- 7) **Favorable Tax status (Tax Incentives):** The effective yield an investor gets from his investment depends on tax to which it is subject. By minimizing the tax burden, yield can be effectively improved. Investors try to minimise their tax liabilities from the investments. The portfolio manager has to keep a list of such investment avenues along with the return risk, profile, tax implications, yields and other returns. Investment programmers without considering tax implications may be costly to the investor.

1.12 PORTFOLIO MANAGEMENT PROCESS

Portfolio management is on-going process involving the following basic tasks:

- i. Identification of the investor's objectives, constraints and preferences.

- ii. Strategies are to be developed and implemented in tune with investment policy formulated.
- iii. Review and monitoring of the performance of the portfolio.
- iv. Finally the evaluation of the portfolio and make some adjustments for the future.

1.13 CONSTRUCTION OF PORTFOLIO:

Portfolio construction means determining the actual composition of portfolio. It refers to the allocation of funds among a variety of financial assets open for investment. Portfolio theory concerns itself with the principles governing such allocation. Therefore, the objective of the theory is to elaborate the principles in which the risk can be minimized subject to a desired level of return on the portfolio or maximize the return subject to the constraints of a certain level of risk. The portfolio manager has to set out all the alternative investments along with their projected return and risk, and choose investments which satisfy the requirements of the investor and cater to his preferences.

It is a critical stage because asset mix is the single most determinant of portfolio performance. Portfolio construction requires a knowledge of the different aspects of securities. The components of portfolio construction are (a) Asset allocation (b) Security selection and (c) Portfolio structure. Asset allocation means setting the asset mix. Security selection involves choosing the appropriate security to meet the portfolio targets and portfolio structure involves setting the amount of each security to be included in the portfolio.

Investing in securities presupposes risk. A common way of reducing risk is to follow the principle of diversification. Diversification is investing in a number of different securities rather than concentrating in one or two securities. The diversification assures the benefit of obtaining the anticipated return on the portfolio of securities. In a diversified portfolio, some securities may not perform as expected but other securities may exceed expectations with the effect that the actual results of the portfolio will be reasonably close to the anticipated results.

1.14 MEARCHANT BANKING / INVESTMENT BANKING

A merchant bank is a financial institution primarily engaged in offering financial services and advice to corporations and to wealthy individuals. The term can also be used to describe the private equity activities of banking. The chief distinction between an investment bank and a merchant bank is that a merchant bank invests its own capital in a client company whereas an investment bank purely distributes (and trades) the securities of that company in its capital raising role. Both merchant banks and investment banks provide fee based corporate advisory services. Merchant banking services are provided by the financial institutions, subsidiaries of many commercial banks and by the private sector. The activities that merchant bankers are authorised to perform are listed by the SEBI and include issue management, loan syndication, lease financing, corporate advisory services, underwriting, portfolio management services and managers or consultants to public issues.

1.15 ROLE OF PORTFOLIO MANAGER

A **portfolio manager** is a person who makes investment decisions using money other people have placed under his or her control. In other words, it is a financial career involved in investment management. They work with a team of analysts and researchers, and are ultimately responsible for establishing an investment strategy, selecting appropriate investments and allocating each investment properly for a fund- or asset-management vehicle.

Portfolio managers are presented with investment ideas from internal buy-side analysts and sell-side analysts from investment banks. It is their job to sift through the relevant information and use their judgment to buy and sell securities. Throughout each day, they read reports, talk to company managers and monitor industry and economic trends looking for the right company and time to invest the portfolio's capital.

A team of analysts and researchers are ultimately responsible for establishing an investment strategy, selecting appropriate investments and allocating each investment properly for a fund or asset-management vehicle. Portfolio managers make decisions about investment mix and policy, matching investments to objectives, asset allocation for individuals and institutions, and balancing risk against performance.

A professional, who manages other people's or institution's investment portfolio with the object of profitability, growth and risk minimization, is known as a portfolio manager. They are expected to manage the investor's assets prudently and choose particular investment avenues appropriate for particular times aiming at maximization of profit.

The role of portfolio manager includes the following,

1. Quantify their clients' risk tolerances and return needs by taking into account his liquidity, income, time horizon, expectations
2. Do an optimal asset allocation and choose strategy that meets the clients needs
3. Diversify the portfolio to eliminate the unsystematic risk
4. Monitor the changing market scenario, expectations, client needs etc and rebalance accordingly
5. Lower the transaction cost by minimizing the taxes, trading turnover, and liquidity costs.

1.16 COLLECTING THE BASIC DATA

Initially, the portfolio manager has to devote a great deal of attention to basic consideration such as pension plans, life insurance and educational funds for children. Usually, the basic needs must be satisfied before making an investment programme.

Every individual investor has a priority of expenditures. The following list of priority expenditure is probably representative.

- a) Food, clothing, housing and transportation.
- b) Life insurance.
- c) Pension plan.
- d) Savings for emergency.
- e) Investments.

Investments in securities can be considered only after basic family needs are satisfied. The type of data that can be collected about the investor includes the following items:

- a) Stated purpose for the portfolio,
- b) Age and health of the family.
- c) Marital status and responsibilities.
- d) Occupation.
- e) Approximate income, sources and expected duration.
- f) Saving habits.
- g) Property ownership.
- h) Current security holdings.

If all priority expenditures have been satisfied, the portfolio manager has greater freedom to pursue a more aggressive policy.

1.17 FORMULATING THE PORTFOLIO OBJECTIVES

The portfolio objectives can be determined by ascertaining the constraints on portfolio. The greater the number of constraints and the more binding these constraints, more conservative the portfolio must be. The following are the six

possible portfolio constraints which are evaluated to determine the appropriate objectives:

1. Need for current income to meet the living expenses.
2. Need for constant income to face inflation.
3. Need for safety principal to liquidate the investments on a short notice.
4. Need for safety principal to reduce the effect of purchasing power.
5. Need for tax exemption.
6. Temperament

1.18 NEED FOR DESIGNING AN INVESTMENT PORTFOLIO

There are large numbers of savers in India. It is also surprising that the saving rate in India is as high as 32% of GDP per annum and investment at 34% of GDP. High levels of investment could not generate comparable rates of growth of output because of poor investment strategy, high capital output ratios, low productivity of capital and high rates of obsolescence of capital. Thus, the use of capital in India is wasteful and inefficient. The portfolio managers lack the expertise and experience.

The average Indian household saves around 55% in financial form and 45% in physical form. As per latest RBI data, savings in the financial form is held 64% in cash and bank deposits which gives negative real returns. Around 24% of financial savings is held in the form of Insurance, Provident Fund, Pension Funds and 5% is in Government Securities like post office savings, NSCs, Public Provident Funds, National Savings Schemes etc. The investment in capital market instruments is around 6% of the total financial savings. Their objectives are capital appreciation, safety marketability, liquidity and hedge against inflation. The investors should follow proper strategy for investment management. Therefore, portfolio management becomes desirable. Indian markets are developing and all the basic principles and theories of portfolio management would apply in the market.

Since 1952, investors have better understood the dimension of attractiveness and why the rational and professional management of portfolios includes more than the listing of

securities by the magnitude of their expected returns. The great 1952 event was the publication of Harry Markowitz's celebrated article "Portfolio selection." Markowitz analyzed the implications of the fact that investors although seeking high expected returns generally wish to avoid risk. Since there is overwhelming evidence that risk aversion characterizes most investors, especially most large-investor's rationality in portfolio management demands that account be taken not only expected returns for a portfolio but also of the risk that is incurred. Although the expected return on a portfolio is directly related to the expected returns on component securities, it is impossible to deduce a portfolio's riskiness simply by knowing the riskiness of individual securities.

The riskiness of portfolios depends not only on the attributes of individual securities, but also on the interrelationships among securities. Therefore, it is primarily for this reason that portfolio management is desirable.

Another reason for the need for portfolio management is that it depends upon the preferences of individual investors. It is possible to estimate expected returns for individual securities without regard to any investor, but it is impossible to construct an optimal portfolio for an investor without taking personal preferences into account. The output of security analysts is essential for portfolio management or at least portfolio managers make use of security analysts output but this output must be analyzed with reference to the tastes and financial circumstances of individual investors when building portfolios.

Portfolio management is still in its infancy in India. Professional portfolio management started in India after the setting up of public sector mutual funds in 1987. After the success of mutual funds in portfolio management, a number of brokers and investment consultants have become portfolio managers. Basically portfolio management is required for proper investment decision-making regarding buy and sell of securities. There is a need for proper money management in terms of investment as a basket of assets so as to satisfy the asset preferences of the investors and to reduce the risk and increase the returns on investment.

1.19 POPULARITY OF EQUITY PORTFOLIO MANAGEMENT SERVICES

Portfolio Management Service (PMS) is a professional service rendered for management of portfolio of others with the help of experts in Investment advisory services. It involves continuing relationship with client to manage investments with or without discretion for the client as per his requirements. Portfolio management is an art and requires high degree of expertise. The SEBI has set out guidelines in which the relationship of the client and the portfolio manager and the respective rights and duties of both have been set out. The job of the portfolio manager in managing the client's fund either on discretionary or non-discretionary basis has become challenging and difficult due to the multitude of obligations laid on his shoulders by the SEBI, in respect of their operations, accounts and audit.

Thus, portfolio management has become a complex and responsible job which requires an in-depth training and expertise. The activities of buying and selling of securities in the primary as well as secondary market are carried out through the mechanism of stock exchanges. There has been a substantial growth of capital market in India during the last 25 years. There are 23 stock exchanges in India and more than 9500 listed companies. There were 56,588 capital issues and the market value of capital was Rs.12,01,207 crores till 2004-05.

As per SEBI regulations, only those who are registered with SEBI are eligible to operate as a portfolio manager. They have to pay required license fees. For this purpose the eligible persons should have necessary infrastructure with professionally qualified persons and minimum net worth of Rs.50 lakhs. The SEBI has imposed a number of obligations and a code of conduct on the portfolio managers.

1.20 TYPES OF PORTFOLIO

When it comes to investing there are many options available to individuals. A person can invest in stocks, bonds, mutual funds, etc. Once a person invests in multiple products their performance needs to be tracked and strategies made to ensure the investor reaps the most profit possible. This is where the investment portfolio comes into play. According to Investor Awareness, it is a term that describes all investments

owned. To take this definition a little farther, an investment portfolio is a significant aspect in diversification. Maintaining a diverse portfolio helps to mitigate loss because the investor has not placed all of their eggs in one basket. There are different types of investment portfolios. Perhaps the most common type's individuals are exposed to are: Conservative, Balanced and Aggressive Growth.

A portfolio is a combination of different investment assets mixed and matched for the purpose of achieving an investor's goals. Items that are considered a part of Investors portfolio can include any asset that they own - from real items such as art and real estate, to equities, fixed-income instruments and their cash and equivalents. For the purpose of this section, Investors will focus on the most liquid asset types: equities, fixed-income securities and cash and equivalents. The asset mix they choose according to their aims and strategy will determine the risk and expected return of their portfolio.

1. Aggressive Investment Portfolio

In general, aggressive investment strategies - those that shoot for the highest possible return - are most appropriate for investors who, for the sake of this potential high return, have a high risk tolerance and a longer time horizon. Aggressive portfolios generally have a higher investment in equities. Aggressive investment portfolios are for investors not afraid of high risk. This type of portfolio may incorporate mutual funds that aim for high capital gain, equities, stocks, bonds, cash and maybe some commodities. In the short-term, growth will be very small and some loss will be observed. As a result, aggressive portfolios perform better in the long term - about five years or longer. An actively traded aggressive portfolio will typically gain maximum returns for the investor. The loss factor is why only individuals who are willing to take a high financial risk should seek an aggressive investment portfolio.

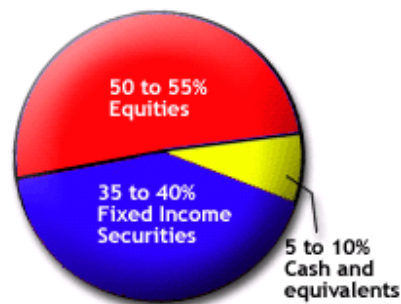
An aggressive portfolio contains high growth investments that will hopefully appreciate in value. This strategy attempts to achieve high long-term growth by investing in often risky but profitable, short-term stocks. Under normal market conditions, the Aggressive

Growth Portfolio will invest approximately 100% of its total assets in equity securities. The Aggressive Growth Portfolio can invest up to 100% of its total assets in equity securities and up to 25% of its total assets in fixed income securities.

2. Balanced or Moderate Investment Portfolio

A moderately aggressive portfolio is meant for individuals with a longer time horizon and an average risk tolerance. Investors who find these types of portfolios attractive are seeking to balance the amount of risk and return contained within the fund. The portfolio would consist of approximately 50-55% equities, 35-40% bonds, 5-10% cash and equivalents.

Moderately Aggressive Portfolio



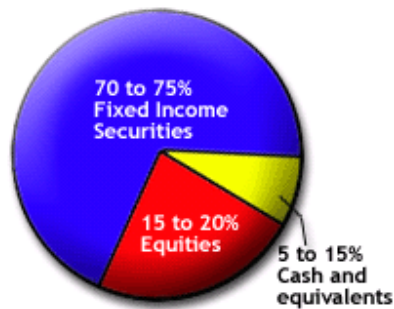
The Moderate Portfolio's primary investment objective is to seek long-term capital appreciation and also the Moderate Portfolio seeks current income.

3. Conservative Investment Portfolio

The conservative investment strategies, which put safety at a high priority, are most appropriate for investors who are risk averse and have a shorter time horizon. Conservative portfolios will generally consist mainly of cash and cash equivalents, or high-quality fixed-income instruments. The main goal of a conservative portfolio strategy is to maintain the real value of the portfolio, or to protect the value of the portfolio

against inflation. The portfolio shown below would yield a high amount of current income from the bonds and would also yield long-term capital growth potential from the investment in high quality equities.

Conservative Portfolio



The conservative investment portfolio is geared towards preserving capital. A minimal risk investment strategy is used. This type of portfolio is ideal for retirees who are focused more on having assets available than a stream of income from interest. Since the primary goal is to preserve capital, investors can dip into their principal to supplement living expenses instead of relying on the portfolio's earned income. The Conservative Portfolio's primary investment objective is to seek preservation of capital and current income. The Conservative Portfolio also seeks capital appreciation. Under normal market conditions, the Conservative Portfolio will invest approximately 65% of its total assets in fixed income securities and cash and approximately 35% of its total assets in equity securities. The Conservative Portfolio can invest up to 100% of its total assets in fixed income securities and or some time up to 20% of its total assets in equity securities.

Investors can further break down the above asset classes into subclasses, which also have different risks and potential returns. For example, an investor might divide the equity portion between large companies, small companies and international firms. The bond portion might be allocated between those that are short-term and long-term, government versus corporate debt, and so forth. More advanced investors might also have some of the alternative assets such as options and futures in the mix. As, the number of possible asset allocations is practically unlimited.

1.21 NEED AND IMPORTANCE OF PORTFOLIO MANAGEMENT

Portfolio management is a process encompassing many activities of investment in assets and securities. It is a dynamic and flexible concept and involves regular and systematic analysis, judgment and action. The objective of this service is to help the unknown and investors with the expertise of professionals in investment portfolio management. It involves construction of a portfolio based upon the investor's objectives, constraints, preferences for risk and returns and tax liability. The portfolio is reviewed and adjusted from time to time in tune with the market conditions. The evaluation of portfolio is to be done in terms of targets set for risk and returns. The changes in the portfolio are to be effected to meet the changing condition.

Portfolio construction refers to the allocation of surplus funds in hand among a variety of financial assets open for investment. Portfolio theory concerns itself with the principles governing such allocation. The modern view of investment is oriented more go towards the assembly of proper combination of individual securities to form investment portfolio.

A combination of securities held together will give a beneficial result if they grouped in a manner to secure higher returns after taking into consideration the risk elements. The modern theory is the view that by diversification risk can be reduced. Diversification can be made by the investor either by having a large number of shares of companies in different regions, in different industries or those producing different types of product lines. Modern theory believes in the perspective of combination of securities under constraints of risk and returns.

1.22 ROLE OF FINANCIAL PLANNER AND INVESTMENT ADVISOR

Portfolio manager, Investment advisor, Investment consultant, Tax planner, Tax consultant, Financial planner, Financial advisor, Certified Financial Planner (CFP) are the different names given by investors to investment managers. These people are

playing very important role in advising and managing investors' investment portfolio in Mumbai.

The Role played by Financial Planner and Investment Advisor in creating investment portfolio of investors are as follows:

1.22.1 FINANCIAL PLANNER

MEANING:

A Financial Planner advises individuals on setting personal financial goals and strategies. Many work independently or in small firms, though larger financial services firms either are adding Financial Planners to their staffs or are insisting that their Financial Advisors (or Financial Consultants) also become certified as Financial Planners.

Duties and Responsibilities:

1. A Financial Planner helps clients create personal budgets, control expenditures, set goals for saving and implement strategies for accumulating wealth.
2. They may have working relationships with Financial Advisors, Investment Managers and/or Mutual Fund Companies, utilizing these specialists for the actual investment of their clients' funds.
3. The job requires keeping current about developments in financial products, tax laws and strategies for personal financial management, particularly with respect to retirement plans and real estates.
4. Success also requires sales ability, both in the acquisition of new clients and in the development of new ideas to improve the financial situation of existing clients.

1.22.2 INVESTMENT ADVISOR

As defined by the Investment Advisors Act of 1940, any person or group that makes investment recommendations or conducts securities analysis in return for a fee, whether through direct management of client assets or via written publications.

An investment advisor who has sufficient assets to be registered with the SEBI is known as a Registered Investment Advisor, or Registered Investment Advisor (RIA). Investment advisors are prohibited from disseminating advice known to be deceitful or fraudulent and from acting as a principal on their own accounts by buying and selling securities between themselves and a client without prior written consent.

Like financial planners, investment advisors must understand clients financial goals; knowing when they will need to use their money, and what they will be using it for.

To give good advice an investment advisor must gather personal and financial data about client (Investor). They must understand investor tolerance for risk and their expected rate of return on their investments. An investment advisor will use this data to analyze investors existing investments, and make recommendations about what they should do going forward.

Most investment advisors charge either a flat fee for their services or a percentage of the assets being managed. In most cases, there are very limited conflicts of interest between investment advisors and their clients, because the advisor will only earn more if the clients' asset base grows as a result of the advisor's recommendations and securities selection.

Mr. N. J. Yasaswy has advised, "Never invest your money without seeking professional and objective advice from competent and experienced investment consultants. Remember that like self-medication, without proper analysis and advice can often prove to be harmful."

"To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights, or inside information. What's needed is a sound intellectual

framework for making a decision and the ability to keep emotions from corroding that framework”

1.22.3 Certified Financial Planner (CFP)

The **Certified Financial Planner (CFP)** designation is a professional certification mark for financial planners conferred by the Certified Financial Planner Board of Standards (CFP Board) in the United States, Financial Planners Standards Council in Canada and 18 other organizations affiliated with Financial Planning Standards Board (FPSB) , the international owner of the CFP mark outside of the United States.

CFP or Certified Financial Planner Certification program in India are offered mainly by Financial Planning Standards Board India. It's a certification after doing which person will be a certified to be a Financial Planner and take different roles in the area of financial planning.

1.23 FINANCIAL PLANNING PROCESS

Financial planning is must for every household. Financial planning goes beyond savings. It is an investment with a purpose. It is a plan to save and spend future income. It should be carefully budgeted. Financial Planning is the process of meeting investor's life goals through proper management of their finances. Life goals can include buying a house, saving for their child's higher education or planning for retirement.

In Today's world it was found that people living beyond their means, having credit card debt, making risky investments and doing things that are irresponsible and against the basic principles of financial planning. Further the proliferation of new and often complex

financial products demands more financial expertise. Also turbulent conditions and changing tax laws compound the need for adequate financial planning. Thus it has become inevitable for all to get into financial planning and understanding financial products.

Financial planning envisages both short term and long term savings. A portion of the savings is invested in certain assets. There are various investment options in the form of assets: bank deposits, government saving schemes, shares, mutual funds, insurance, commodities, bonds, debentures, company fixed deposits etc.



(SOURCE : SEBI, Financial Education for Middle Income Group)

Financial planning is not something that happens by itself. It requires focus and discipline. It is a **six step process** that helps investor takes a 'big picture' look at where investor is and where investor want to be financially.

1.24 SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)

Securities and Exchange Board of India (SEBI) has been established with the prime mandate to protect the interest of investors in securities. It is also mandated to promote the development of, and to regulate the securities market.

The securities market enables capital formation in the economy and enhances wealth of investors who make the right choices. The investor confidence is the key prerequisite for the emergence of a vibrant and deep capital market. The role of regulator in creating and enhancing investor confidence is, therefore, paramount.

Accordingly, Securities and Exchange Board of India (SEBI) was set up by an Act of Parliament of India in April, 1992 with a mandate to

- a. Protect the interest of investors
- b. Promote the development of and
- c. Regulate the securities market

1) Market Regulation:

SEBI prescribes the conditions for issuer companies to raise capital from the public so as to protect the interest of the suppliers of capital (investors). The extensive disclosures prescribed for issuers facilitate informed investment decision making by investors while simultaneously ensuring quality of the issuer. Further, it has prescribed norms for such corporate on 'ongoing' basis and also during their restructuring (like substantial acquisition, buy back and delisting of shares) to safeguard the interest of investors.

To ensure fair and high standards of service to investors, SEBI allows only fit and proper entities to operate in the capital markets as intermediaries. In this regard, it has prescribed detailed and uniform norms of their registration. Further, to ensure market integrity, it has prescribed norms for fair market practices including prohibiting fraudulent and unfair trade practices and insider trading. Detailed norms for safeguarding the interest of investors in secondary markets have also been prescribed. SEBI also prescribes conditions for operation of collective investor schemes, including Mutual Funds.

2) Market Development:

On an ongoing basis, SEBI initiates measures to widen and deepen the securities markets by bringing changes in market micro and macrostructure. The major market development measures undertaken by SEBI include shift from the non transparent open out cry system to the transparent screen based on line trading system, elimination of problems of physical certificates by shifting to electronic mode (Demat), implementing robust risk management framework in stock market trading etc. In the recent past SEBI has initiated ASBA (application supported by blocked amount) to eliminate problems pertaining to refunds in public issues.

SEBI's major policy decisions are formulated through a consultative process involving expert committees with representation from industry, academia, investors' associations. Further, public comments are invited before implementation of major changes, rendering the whole process participative.

3) Investor Protection:

The above mentioned regulatory framework and the market development measures of SEBI are invariably geared towards protecting the interest of investors. Besides, SEBI also has a comprehensive mechanism to facilitate redressal of investor's grievances. Further, in keeping with its belief that an informed investor is a protected investor, SEBI

promotes education and awareness of investors. Moreover, mechanisms for dispute redressal (arbitration at stock exchanges) and to compensate investors have also been provided.

4) Enforcement:

SEBI ascertains compliance to its norms by carrying out inspections of registered intermediaries, investigations and while processing of documents filed with it, including investors complaints. SEBI is vested with the power of civil court to call for information and records, to issue summons, to inspect and to investigate entities associated with securities markets. If breach of norms is established, SEBI suspends or cancels the license granted to intermediaries. Besides, SEBI issues prohibitive and cease and desist orders against intermediaries and non intermediaries and also imposes monetary penalties through adjudication proceedings.

Apart from these civil proceedings, SEBI also launches criminal proceedings against entities for breach of norms. All such orders of SEBI are available in the website (www.sebi.gov.in), serving as a warning to potential defaulter.