Investment Decisions of Salary Earners and Professionals

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I) Introduction:

1. Investment:

The money you earn is partly spent and the rest saved for meeting future expenses. Instead of keeping the savings idle you may like to use savings in order to get return on it in the future. This is called Investment.

2. Why should one invest?

One needs to invest to:

- Earn return on your idle resources
- Generate a specified sum of money for a specific goal in life
- Make a provision for an uncertain future

One of the important reasons why one needs to invest wisely is to meet the cost of Inflation.

Investment means putting money into something with the expectation of gain, which upon thorough analysis, has a high degree of security for the principal amount, as well as security of return, within an expected period of time. In contrast putting money into something with an expectation of gain without thorough analysis, without security of principal, and without security of return is speculation or gambling. Investment is related to saving or deferring consumption. Investment is involved in many areas of the economy, such as business management and finance whether for households, firms, or governments.

In finance, investment is the commitment of funds through collateralized lending, or making a deposit into a secured institution. Investments are often made indirectly through intermediaries, such as banks, credit unions, brokers, lenders, and insurance companies. Though their legal and procedural details differ, an intermediary generally makes an investment using money from many individuals, each of whom receives a claim on the intermediary.

Investment Decisions are the decisions wherein the decisions are made to invest funds in investment instrument with objective to earn either valuation increase of returns in form of %. An investment decision is often reached between an investor and his/her investment advisors. Depending on the type of brokerage account an investor has, investment managers may or may not have tremendous leeway in making decisions without consulting the investor himself/herself. Factors contributing to an investment decision include, but are not limited to: money in hand, avenues available, general market conditions, and a specific investment strategy.

There are various investment avenues available in the market for the retail investor such as bank deposit, mutual fund, shares, debenture, bonds, insurances, real estate, bullion market etc. each one has its features which are mentioned below.

Investment Decisions - Needs of investors

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

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

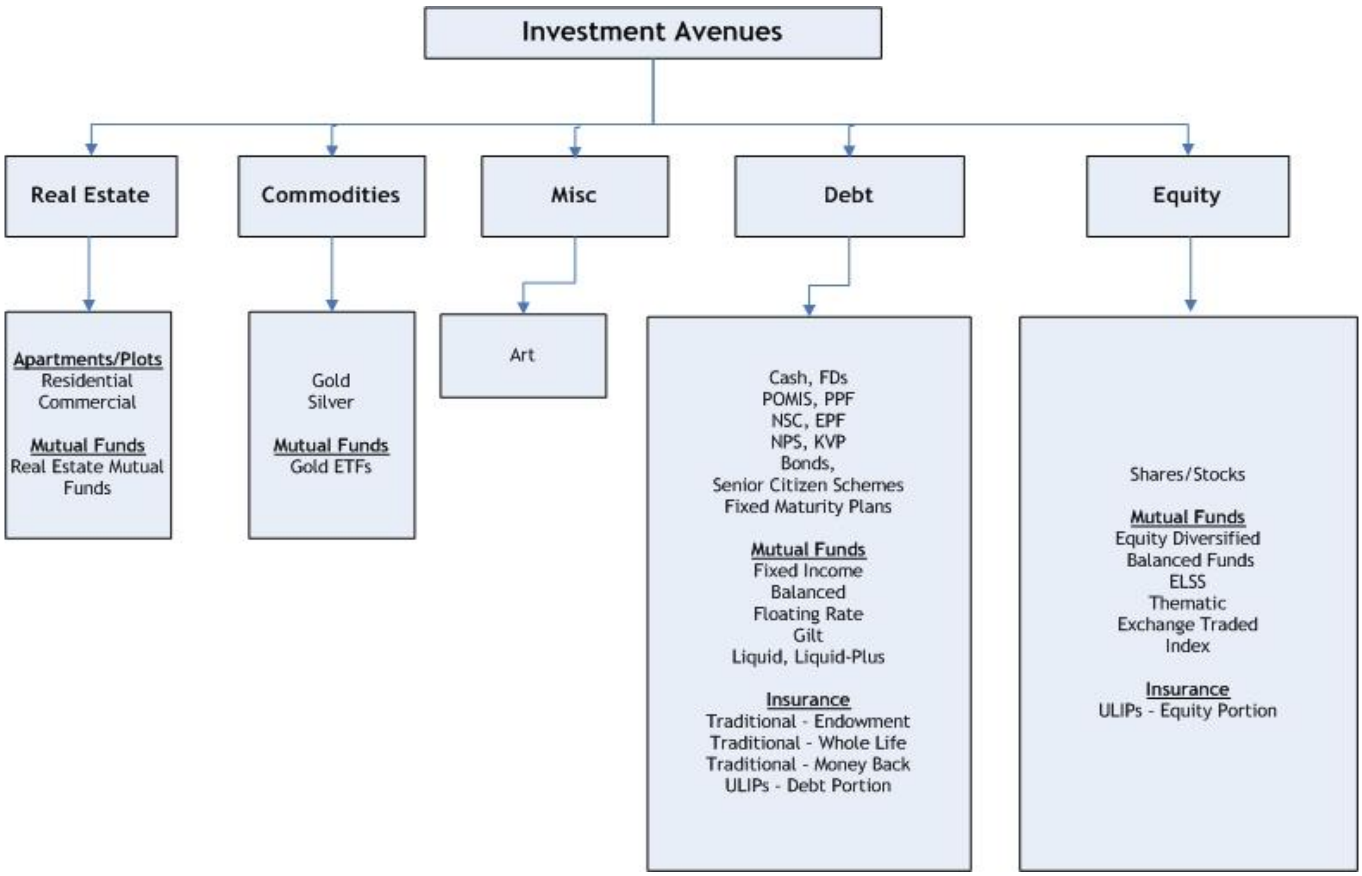
Characteristics of investors for investment decisions

The investor of today is:-

- Educated and knowledgeable
- Well informed about global trends
- Willing to take risks

- Demanding and quality conscious
- Performance oriented in taking decisions and less loyal
- Techno savvy and seeks information from various sources
- Smart in looking for the best deal
- Not attracted by traditional status symbols that do not add value
- Hands on in checking investments, making deals and getting personally involved

A) **INVESMENT AVENUES:**



I. Physical Assets:

- **Real Estate**

Real Estate investment is also on of the good investment option available. Real Estate investment means investments in the Land, Buildings, Flats, and Houses etc. Now a day the growth in the prices of real estate is very rapid. That's why investor gets good returns in this investment. But the growth of real estate investment is in the long term only. In short term there is no growth in this. It requires very huge investment. Only big investors can invest in this... In Real Estate investment you will not have the liquidity. Buying & selling of property is not so easy at least in India. The Procedures & Documentation of 'Transfer of Property' is very lengthy. It takes time & money. For transfer you have pay taxes & duties & some charges.

- **Commodity:**

Commodities market, contrary to the beliefs of many people, has been in existence in India through the ages. However the recent attempt by the Government to permit Multi-commodity National levels exchanges has indeed given it, a shot in the arm. As a result two exchanges Multi Commodity Exchange (MCX) and National Commodity and derivatives Exchange (NCDEX) have come into being. These exchanges, by virtue of their high profile promoters and stakeholders, bundle in themselves, online trading facilities, robust surveillance measures and a hassle-free settlement system. The futures contracts available on a wide spectrum of commodities like Gold, Silver, Cotton, Steel, Soya oil, Soya beans, Wheat, Sugar, Channa etc., provide excellent opportunities for hedging the risks of the farmers,

Importers, exporters, traders and large-scale consumers. They also make open an avenue for quality investments in precious metals. The commodities market, as the movements of the stock market or debt market do not affect it provides tremendous opportunities for better diversification of risk. Realizing this fact, even mutual funds are contemplating of entering into this market.

Financial Assets:

- **Investment in Capital Market:**

Capital Market is a place where buyers and sellers of securities can enter into transactions to purchase and sell shares, bonds, debentures etc. Further, it performs an important role of enabling corporate, entrepreneurs to raise resources for their companies and business ventures through public issues. Transfer of resources from those having idle resources (investors) to others who have a need for them (corporate) is most efficiently achieved.

Through the securities market. Stated formally, securities markets provide channels for reallocation of savings to investments and entrepreneurship. Savings are linked to investments by a variety of intermediaries, through a range of financial products,

Called 'Securities'.

- **Small Saving Instruments:**

It is again classified in to short term and long term saving instruments**.**

Short term saving instruments:

Broadly speaking, savings bank account, money market/liquid funds and fixed deposits with banks may be considered as short-term financial investment options:

Savings Bank Account: It is often the first banking product people use, which offers low interest (4%-5% p.a.), making them only marginally better than fixed deposits**.**

- **Money Market or Liquid Funds:**

These funds are a specialized form of mutual funds that invest in extremely short-term fixed income instruments and thereby provide easy liquidity. Unlike most mutual funds, money market funds are primarily oriented towards protecting your capital and then, aim to maximise returns. Money market funds usually yield better returns than savings accounts, but lower than bank fixed deposits.

- **Fixed Deposits with Banks:**

These are also referred to as term deposits and minimum investment period for bank FDs is 30 days. Fixed Deposits with banks are for investors with low risk appetite, and may be considered for 6-12 months investment period as normally interest on less than 6 months bank FDs is likely to be lower than money market fund returns. Bank deposit offer money deposits at banking institutions that are not capable of being withdrawn for a specific preset term or time period. When the period of the term is over, then the money can either be withdrawn from the account or it can be rolled over into another term in the same account. The longer the term period is for this type of account, generally speaking, the better the yield is going to be for the money that is invested. Different deposit accounts offer different features and regulations. Some consumers hold several different types of deposit in order to meet different financial needs.

Long Term Financial options available for investment:

Post Office Savings Schemes, Public Provident Fund, Company Fixed Deposits, Bonds and Debentures, Mutual Funds etc.

- **Public Provident Fund:**

A long-term savings instrument with a maturity of 15 years and interest payable at 8% per annum compounded annually. A PPF account can be opened through a nationalized bank at anytime during the year and is open all through the year for depositing money. Tax benefits can be availed for the amount invested and interest accrued is tax-free. A withdrawal is permissible every year from the seventh. Financial year of the date of opening of the account and the amount of withdrawal will be limited to 50% of the balance at credit at the end of the 4th year immediately preceding the year in which the amount is withdrawn or at the end of the preceding year whichever is lower the amount of loan if any.

- **Bonds:**

It is a fixed income (debt) instrument issued for a period of more than one year with the purpose of raising capital. The central or state government, corporations and similar institutions sell bonds. A bond is generally a promise to repay the principal along with a fixed rate of interest on a specified date, called the Maturity Date.

- **Mutual Fund:**

For the most part, investors should buy mutual funds as a long-term investment. The nice thing about mutual funds is that the objectives change from fund to fund. Each mutual fund has a different strategy - it is your job to decide what your objectives are and which fund best suits those objectives. Mutual fund strategies include growth/aggressive, low risk, balanced, momentum, and many others.

These are funds operated by an investment company, which raises money from the public and invests in a group of assets (shares, debentures etc.), in accordance with a stated set of objectives. It is a substitute for those who are unable to invest directly in equities or debt because of resource, time or knowledge constraints. Benefits include professional money management, buying in small amounts and diversification. Mutual fund units are issued and redeemed by the *Fund Management Company* based on the fund's net Asset value (NAV), which is determined at the end of each trading session.

- **Life insurance**

Life insurance is income protection in the event of your death. The person you name as your beneficiary will receive proceeds from an insurance company to offset the income lost as a result of your death. You can think of life insurance as a morbid form of gambling: if you lived longer than the insurance company expected you to, then you would "lose" the bet. But if you died early, then you would "win" because the insurance company would have to pay out your beneficiary.
Insurers (or underwriters) look carefully at decade’s worth of data to try to predict exactly how long you will live. Insurance underwriters classify individuals based on their height, weight, lifestyle (i.e. whether or not they smoke) and medical history (i.e. if they have had any serious health complications). All these variables will determine what rate class category a person fits into. This doesn't mean that smokers and people who've had serious health problems can't be insured, it just means they'll pay different premiums.

Shares /Common Stock:

Stock is sometimes referred to as shares, securities or equity. Simply put, common stock is ownership in part of a company. For every stock you own in a company, you own a small piece of the office furniture, company cars, and even that lunch the boss paid for with the company credit card. More importantly, you are entitled to a portion of the company's profits and any voting rights attached to the stock. With some companies, the profits are typically paid out in dividends. The more shares you own, the larger the portion of the company (and profits) you own.

Common stock is just that, "common". The majority of stocks trading today are in this form. Common stock represents ownership in a company and a portion of profits (dividends). Investors also have voting rights (one vote per share) to elect the board members who oversee the major decisions made by management. In the long term, common stock, by means of capital growth, yield higher rewards than other forms of investment securities. This higher return comes at a cost, as common stock entails the most risk. Should a company go bankrupt and liquidate, the common shareholders will not receive money until the creditors, bondholders and preferred shareholders are paid.

Buying and selling stocks provides better returns as compared to other financial instruments.

Stock trading can be done either on a full time or part time basis. Online stock trading can also be used as a source of income from home for housewives, the elderly as well as the physically challenged. Stock trading also offers scope for diversification across various companies, geographies.