

INVESTMENT AVENUES AVAILABLE TO INDIAN INVESTORS

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Abstract

There are various investment alternatives which are available to an Indian investor. An investor may select one or a combination of the best investment options which appeals to him or her. The selection of the investment options also depend on the age, income, dependents, etc of a particular person, you can read more about this in asset allocation strategies. In the modern financial system there are so many investment avenues to choose from today in financial market and it has become difficult for anyone to decide about these avenues. Since if these investment avenues offer attractive returns but with high risks and some offer lower return trade is presented in this article.

Investment carries some amount of risk. No risk leads to no or low returns! Few instruments carry less risk while a few of them carry higher risk. It is said "higher the risk-higher is the return!"

Keywords: *Introduction, various investment options available, Non Marketable fixed income avenues, marketable avenues, other avenues*

GOVERNMENT SECURITIES (BONDS):

Bonds issued by central or state government. These bonds are termed as the safest investment instruments in India. Examples of these bonds are "Dated government security" which is issued for a period of 10 years with a fixed coupon payment. These securities carry least amount of credit risk as they are backed by the government of India.

EQUITY:

Investing in direct equity. One can start investing in Indian equities by participating in primary markets (applying for IPO'S) and also by purchasing securities from secondary markets

(stock exchanges). Investing in direct equity is termed risky and one needs to diversify the risk by investing in multiple securities from various sectors. Equities carry the maximum risk and (may) also provide you with maximum returns. Investors can also participate in equities by investing in mutual funds.

MUTUAL FUNDS:

Mutual fund is a financial instrument created with pool of investments from many investors.

Mutual funds are professionally managed and they invest in equity, debt, gold, foreign equity, etc.

On your behalf. Mutual fund where one tends to invest systematically i.e. once a month or once in three months, etc. [I will come up with a detailed post on mutual funds soon.]

DEBENTURES/BONDS:

Corporate's need money and they don't go to bank every time to fulfil their needs, they have two options to raise money - come up with an IPO or issue bond with fixed term to maturity and fixed coupon payments. They function just like the government bonds and the only difference is that they are a bit riskier compared to government bonds. Returns offered by these bonds are higher compared to government bonds.

REAL ESTATE:

In India investing in real estate is considered as the best form of investment but only after gold. Historically real estate has performed well in India. Investing in metros has become very expensive so it is advisable to invest in outskirts. For example, vashi, vasai and Bhiwandi around Mumbai.

GOLD:

The only form of investment which most of our mothers and fathers would believe in. Gold is considered as the best investment in India, that is

the only reason why India is the highest consumer of gold in the world. Most of the people in India buy physical gold. ETF's, mutual funds, etc. Are yet to pick up as an investment avenues in India. Bank fixed deposits: this considered as one of the traditional ways of investing. Most of the people in India with a bank account will have at least one fixed deposit. FD's offer a fixed return at the end of specified period.

Currently bank FD's offer somewhere around 8% to 9% returns annually.

CORPORATE FIXED DEPOSITS:

They are just like bank FD's they only difference is that they are issued by corporations.

They are a bit riskier compared to bank FD's as most of these corporate deposits are unsecured and hence offer higher interest rate. They offer interest rates as high as 12% to 13% p.a. An example of this would be - FD by Mahindra finance, shriram transport finance, etc.

POST OFFICE SAVINGS SCHEMES:

These saving schemes by post offices are trusted by many Indians. The scheme attracts decent returns. One can start investing with as low as Rs 100 per month.

NATIONAL PENSION SCHEME:

The national pension system (NPS) is a defined contribution based pension system launched by government of India. This instrument is used for retirement planning by many.

COMMODITY:

This is one of the latest passions for investors, trading in MCX to offset the risk of their equity portfolio. Many hedgers and arbitrageurs use this financial instrument. Retail investors can invest in commodity with the help of commodity mutual funds in India.

INVESTING IN ART:

Art as a form of investment is quite common in developed nations and the trend is picking up in India. Many affluent Indians buy art preserve it and diversify their portfolios! I will soon be writing a detailed post on the same.

VENTURE CAPITAL/ ANGEL INVESTING:

Investing in someone's business idea at an early stage of the venture. You get equity for the amount invested and one can exit the investment when the business is acquired by some other company or when the company gets liquid and carry huge risk.

It is not advisable for a retail investor to invest in these kinds of instruments.

NON MARKETABLE FIXED INCOME AVENUES

This avenue includes bank deposit, corporate fixed deposit, provident fund including PPF, National saving certificate etc. Such instruments are not transferable in the market without the permission of the concerned issuing body. These instruments cannot be sold in open market, after the maturity period investors get their maturity amount.

BANK DEPOSIT

There are two types' deposits:

Demand deposits:

The money we keep in our saving account is like a medium of exchange and this is called demand deposits. This is because ownership of this deposit may be transferred from one person to another via cheques or electronic transfers. There is no fixed term to maturity for demand deposits.

Time deposits:

If we deposit our money as an FD in the bank it becomes a time deposit on which NO cheque is drawn. They are paid on maturity at a particular time.

CORPORATE FIXED DEPOSIT:

Company deposits: large and well reputed companies generally call for fixed deposit from public. These fixed deposits collected from public represent unsecured loans and are regulated by company law board and RBI. This instrument is similar to that of bank FDs- money will be parked for a fixed duration at a predetermined rate of interest. Does this mean investors should overlook this investment should overlook this investment instrument completely? The key to

investing in this instrument is to manage risks effectively. The key risk is the risk of default by corporate. So if you find a way to effectively pick those instruments where default risk is very low, investing in this instrument will help you earn higher returns.

PROVIDING FUND INCLUDING PPF:

Employee provident fund:

A provident fund is created with a purpose of providing financial security and stability to elderly people. Generally one contributes in these funds when one starts as employee: the contributions are made on a regular basis (monthly in most cases). Its purpose is to help employees save a fraction of their salary every month to be used in an event that the employee is temporarily or no longer fit to work or at retirement. The investments made by a number of people? Employees are pooled together and invested by a trust.

The purpose of the scheme is to provide for

1. Superannuation pension: member who has rendered eligible service of 20 years and retires on attaining the age of 58 years.
2. Retiring pension: member who has rendered eligible service of 20 years and retires or otherwise ceases to be in employment before attaining the age of 58 years.
3. Permanent total disablement pension
4. Short service pension: member has to render eligible service of 10 years and more but less 20 years.

NATIONAL SAVING CERTIFICATE:

National saving certification, also known as NSC is an Indian government saving bond, primarily used for small savings and tax saving investments in Indian. It is a part of the postal saving system of Indian postal service. NSC comes in denomination of Rs. 100, 500, 1000 and there is no maximum limit.

This investment avenue has

- Limited risk
- choice

Earlier there was a single instrument that was available for investors and this was a 6 year

national savings certificate. The key for the instrument was that there was an accumulation of the earnings over the life of the instrument so that there was no payment that was available. This meant that the entire money including the earnings came to the investor only at the time of maturity of the instrument. The money was compounding on a half yearly basis. This is different from most bonds and fixed deposits that offer a cash payout as well as a cumulative option as here there is no option for taking a cash payout.

There is a 5 year instrument and there is a 10 year instrument. The interest rate that is currently available on the 5 year instrument is 8.6 per cent and that on the 10 years instrument is 8.9 per cent. Both these instruments have their specific term and they will earn at a different rate of interest that has been set for each of them.

Rate of interest:

A key part of the entire investment process is the rate of interest that will be earned on the investment and this has been set differently for the two instruments. For the 5 years NSC the interest rate is 8.6 per cent and it is 8.9 per cent for the 10 year instrument.

Tax benefit:

Another aspect of the entire investment process into a NSC is that there is a tax benefit that is available when the investment is made into the instrument. The amount invested is allowed as a deduction under section 80c of the income tax act and this is part of the overall rs.1 lakh limit that is present here.

Suitability: This instrument is suitable for all those who want to keep their money away for a slightly longer time period and want this figure to compound.

Marketable avenues:

These are the instruments available to investors which can be sold in market and there is no restriction on the transference of these is no restriction on the transference of these instruments.

These are quite risky in nature and provide good

return if compared with non marketable fixed income avenues. Investment in such instruments requires in such instruments requires investors to do a lot of analysis and study of financial market of country and globe.

Equity Shares:

Equity shares also known as Ordinary shares. Equity shares represent the ownership position in a company. The shareholders of equity shares are the legal owner of the company Equity shares are the source of the permanent capital since they do not have a maturity date.

Shareholders are entitled for dividend. The amount or rate of dividend is not fixed: the company's board of directors decides it. An ordinary share is known as variable income security. Authorized Share Capital represents the maximum amount of capital, which a company can raise from shareholders.

The portion of the authorized share capital, which has been offered to shareholders, is called issued Share Capital. Subscribed Share Capital represents that part of the issued share capital which has been accepted by shareholders. The amount of subscribed share capital actually paid up by shareholders to the company is called Paid-Up Share Capital. The Company's earnings, which have not been distributed to shareholders and have been retained in the business, are called Reserves and Surplus.

Features of Equity Shares:

Maturity: Equity shares provide permanent capital to the company and cannot be redeemed during the life time of the company

Claims on Income: Equity shareholders have a residual claim on the income of a company. They have a claim on income left after paying dividend to preference shareholders.

Claim on Assets: Ordinary shareholders have a residual claim on the company's assets in the case of liquidation

Right to control: Ordinary shareholders have the legal power to elect directors on the board. Ordinary shareholders are able to control management of the company through their voting

rights and right to maintain proportionate ownership.

Voting rights: Ordinary shareholders are required to vote for election of directors and change in the memorandum of association. An ordinary share holder has votes equal to the number of shares held by him. Shareholders may vote in person or by proxy. A proxy gives a designated person right to vote on behalf of a shareholder at the company's annual general meeting.

Types of Equity Shares for investment purpose

1. Momentum Share
2. Growth Share
3. Value Shares
4. Cyclical Shares
5. Defensive Shares
6. Income Shares

PREFERENCE SHARES:

Preference share dividend has to be paid before any dividend payment to ordinary equity shares.

- Preference shares have fixed dividends.
- Also preference dividends are not tax deductible.
- Preference over Equity
- Features of Preference Shares:
 - Fixed Dividends
 - Preference shareholders cannot claim on the residual earnings and residual assets.
 - At the time of liquidation also, these shares would be paid before equity shares.
 - No Share in Earnings
 - Preference share dividend is paid out of the profits left after all expenses and even taxes. It requires that all past unpaid preference dividend be paid before any ordinary dividends are paid.
 - Dividend from PAT Like debt, preference shares also have fixed maturity date.

Fully-convertible debentures (FCDS):

FCDS are converted into shares as per the terms of the issue, with regard to the price and time of conversion.

Non -convertible debentures (NCDS):

NCDS are pure debentures without a feature of conversion. They are repayable on maturity. The

investor is entitled for interest and repayment of principal

Bonds:

Ass company needs funds to expand into new markets, while governments need money for everything from infrastructure to social programs. The solution is to raise money by issuing bonds (or other debt instruments) to a public market. Thousands of investors then each lend a portion of the capital needed. Really, a bond is nothing more than a loan for which you are the lender. The organization that sells a bond is known as the issuer.

RBI Tax Free Bonds:

Tax-saving bonds are one among the important tax saving options available to individuals.

Interest incomes generated by them are tax deductible and this is over and above the Rs 1 lakh tax exemption investors can avail of under section 80C of the I-T Act. A disadvantage of tax-saving bonds is that the interest rates offered are not adjusted for inflation which, at current 10% level, can significantly erode investments. The bonds are for individuals with low risk appetite, who are looking to primarily preserve income and earn returns on the same as a secondary goal. Tax-saving bonds are issued by RBI and organizations the value of bond belonging to both public and private sectors.

Gilt Edged Securities:

Gilt-edged securities also called as government securities. The government security market of India is an integral part of the stock exchange. Many forms of the government securities like stock certifications, promissory note and bearer bonds. The Gilt Edge Market refers to the market for government and semi government securities, backed by the Reserve Bank of India (RBI). Government securities are tradeable debt securities also called as instruments issued by the government authorities for meeting its financial requirements. The term Gilt Edged means of the best quality. This is because the Government securities do not suffer from risk of default and are highly liquid (as they can be easily sold in the

market at their current price). The open market operations of the RBI are also conducted in such securities. Gilt-edged securities are bonds issued by certain national governments. The term is of British origin, and originally referred to the debt securities issued by the Bank of England, which had a gilt (or gilded) edge. Hence, they are known as gilt-edged securities, or gilts for short.

PRIVATE EQUITY:

Investment strategy that involves the purchase of equity or equity linked securities in a company. Investment is made through a negotiated process. By sophisticated investors with financial and operating expertise. The goal is to acquire undervalued or "promising" assets and realize profits in 3-5 years after the acquisition information asymmetry and inefficiencies are important factors.

VENTURE CAPITAL EARLY STAGE:

Firms with substantial risk of failure - business models and marketing approach are yet to be proved. Small and illiquid investments with size of \$500k - \$2 million. The smallest type is the entrepreneur who needs the financing to conduct initial research and development. The most mature type are those firms that are starting to turn profits but need capital for expansion. Angel capital is an important source of funding.

VENTURE CAPITAL - LATE STAGE:

Firms with more certain business models - proven technology and market - profitable and need expansion capital, General size of \$2 - \$15 million. IPO or sale expected/feasible in near term. Original investors may achieve some liquidity. Because the risk is generally lower and the liquidity higher, later-stage investments require lower returns than early stage investments.

Other Avenues:

Mutual fund:

A mutual fund is professionally managed type of collective investment scheme that pool money from many investors and invest typically in investment securities (stock, bond, cash).

Mutual fund sells their share to the investors: invest the proceeds in a wide choice of securities

in the financial market. Thus reduced risk by diversification. A mutual fund is a trust pools the savings of a number of investors who share a common financial goal. The money those collected is then invested in capital market instruments such as share debentures and other securities. The income earned through these investments and the capital appreciation realized are shared by its unit holder in proportion to the number of units owned by them. Thus a mutual fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

Life insurance:

Life insurance can be termed as an agreement between the policy owner and the insurer, where the insurer for a consideration agrees to pay a sum of money upon the occurrence of the insured individuals or individuals death or other event, such as terminal illness, critical illness or maturity of the policy. They are one of the important parts of good investment portfolios. Life insurance is an investment for security of life. The main objectives of other investment avenues is to earn return but the primary objectives of other investment avenues is to earn return but the primary objective of life insurance is to secure our families against unfortunate event of our families against unfortunate event of our death. It is popular in individuals. other kinds of general insurances are useful for corporate. There are different types of insurances which are follows:

- Endowment Insurance Policy
- Money Back Policy
- Whole Life Policy
- Term Insurance Policy
- General Insurance for any kind of assets.

Non - Security Forms of Investment:

- Security investments are traded in the market and are transferable in nature .Ex: Shares, Debentures etc.
- Non Security investments are neither traded nor transferable. Ex: Post office savings deposits, Deposits with commercial banks, etc

REAL ESTATE:

Real Estate: Every investor has some part of their portfolio invested in real assets. Almost every individual and corporate investors in residential and office buildings respectively. Apart from these, others include:

- Agriculture Land
- Semi_Urban Land
- Commercial Property
- Raw House
- Retail
- Farm House etc.
- Industrial Property
- Manufacture Only
- Warehousing

Introduction to various investment options available:

- Retail/showroom/office

Money market instrument:

Debt instruments that have maturity period of less than one year. Are called money market instruments.

- These instruments are highly liquid and have negligible risk.
- The major money market instruments are treasury bills, certificate of deposits, Commercial paper and repos. Govt., Banks, Financial institution and companies do not participate in money market directly. A brief description of money market instruments is as follow.

Findings:

1. To know what are the alternatives investment opportunities
2. Investor can choose wise decision to know alternative investments.
3. As an investor think about returns yielding on different investments.
4. As he know that are alternatives investments he can evaluate which one is suitable according his savings are surplus income's.

Suggestions:

1. Based on alternative investments investor try to save more or less savings.
2. A wise investor can think about this alternative investment based on his age an income level.

3. As a investor he can change is portfolio (alternative investment) time to time trend to trend
4. Investor invest either bullish market or bearish market
5. In India most of them investors less awareness avenues of alternative investor.
6. Though this article i want to explore alternative investment in India.

Conclusion:

In India investor having less knowledge about alternatives investors so that an investor most knows the avenues of alternative investor in India. As per Indian standard any person can not save much savings. If it doesn't have knowledge about alternative investment his investment may not grow (or) may not provide much return with his investments.

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