FINANCIAL MARKETS

INVESTMENT:

Investment is using savings in order to get returns.

1. Risk
2. Return

Higher the risk, higher is return

Lower the risk, lower the return

Return:

Realized - history

Expected - predicted

WHY:

* Earn returns on your idle resources
* Generate money for specific goals
* Make provision for uncertain future

WHEN:

* Invest early
* Invest regularly
* Invest for long term

OBJECTIVES:

* MAIN OBJECTIVES
* Maximising the return
* Minimizing the risk
* SUBSIDARY OBJECTIVES
* Maintaining liquidity
* Hedging against inflation
* Increasing safety
* Saving tax

1. Maximising return

Return =

1. Minimizing risk

AR < ER =RISK

1. Maintaining liquidity

It determines the ease, time and cost involved in converting investment to cash.

1. Hedging against inflation

* INFLATION

Increase in the price of goods

Indicates fall of purchasing power

Purchasing power reduces when cost of goods increases

If inflation is high cost of living is high

High inflation effects economic growth

Ministry of statistics and programme implementation measures inflation in India.

RBI limits inflation through its monetary policy

RBI uses repo rate

Repo rate is the rate at which the central bank lends money to commercial bank (shortage of funds)

Govt influences inflation through Taxation and fiscal policy

WPI and CPI measures inflation

* Causes of inflation

High demand and low supply of goods

Excess circulation of money

Spurt in cost of production

Rate of return should be higher than rate of inflation

1. Increasing safety

Investment made by government are safe than private parties.

1. Saving tax

Certain investments tax incentives.

MEASURES

1. Obtain documents
2. Read and understand
3. Verify
4. Find out benefits
5. Risk return profile
6. Liquidity and safety aspects
7. Appropriate
8. Compare
9. Examine
10. Authorised intermediary
11. Invest only when comfortable
12. Explore

INTEREST:

When we borrow money, we are expected to pay for using it-it is called interest.

FACTORS DETERMINING INTEREST RATE:

* Rates bank offer to their depositors
* Rates that they lend to their borrowers
* Rates at which government borrows in the bond
* Rates offered to investors in small schemes

Macro-economic factors:

* Demand for money
* Level of government borrowings
* Supply of money
* Initiation rate

TYPES OF INVESTMENT

* Securities
* Stocks
* Bonds
* G-securities
* Money market investments
* Derivatives
* Mutual funds
* Deposits
* Bank deposits
* NBFC deposits
* Postal schemes
* Monthly income scheme
* National saving schemes
* Vikas Patras
* Public provident fund
* Insurance
* Life insurance policies
* ULIP
* Real assets
* Real estate
* Precious metals
* Art and antiques

OPTIONS AVAILABLE FOR INVESTEMENT

1. Physical assets
2. Financial assets
3. Short term
4. Long term

SHORT TERM:

* Savings bank account:
* Interest is really low
* Money market investments:
* Easy liquidity
* Maximum returns
* Better than savings
* Lower than bank fds
* Fixed deposits
* 30 days period
* Low risk
* 6-12 months period (high returns)

LONG TERM:

* Post office savings
* Monthly income scheme
* 8.4% per annum
* Min:1,000
* Add:1,500(multiples)
* Max:4,50,000(single)

9,00,000(joint)

* Maturity :6 yrs
* Bonus :10%
* If prematurely withdrawn

Bonus cancelled

Only after 1 yr.

5 % is levied

* Public provident fund
* Maturity :15 yrs.
* 8.7 % per annum
* Company fds
* Short term: 6 months
* Medium term :3-5 yrs.
* 8-12 % per annum
* Bonds and debentures
* > 1 year
* Maturity date
* Debenture

Convertible

Non-convertible

Partly convertible

* Mutual funds
* Funds management company
* NAV =
* Life insurance policy
* Term life insurance policy -lumpsum
* Endowment policy -periodic payment
* Annuities -certain period
* ULIPS – risk +investment

STOCK EXCHANGE:

It is a body of individuals constituted for the purpose of assisting, regulating or controlling the buying, selling or dealing in securities.

Regional stock exchange

National exchange (NSE)

Bombay stock exchange (BSE)

EQUITY:

Total capital is divided into equal units of small denominations.

DEBT INSTRUMENT:

A contract where by one party lends money to another on predetermined terms with regards to periodicity, rate of interest.

Bond -central and state

Debenture – private

DERIVATIVE:

* Value derived from basic variables called underlying
* Equity, index, forex or any other asset
* They emerged as hedging devices against fluctuations in commodity prices
* Commodity linked derivatives-30 yrs.
* Financial derivatives -financial market (occupy 2/3 of total transactions)

TYPES:

1. FORWARD
2. FUTURE
3. OPTION
4. SWAP

MUTUAL FUND:

* Registered with SEBI (Securities Exchange Board of India)
* SEBI pools money from individuals and invests in financial instruments
* Financial intermediaries
* Objectives according to mutual fund scheme
* Some are pure equity while others are mix of equity and bonds

INDEX:

* Shows market trends
* Price movement of basket of securities indicates the index movement, whether upwards or downwards
* Main index of NSE is nifty 50
* NIFTY 50 is a well diversified 50 stock index accounting for 13 sectors of the economy
* Benchmarking fund portfolios, index-based derivatives and index funds

DEPOSITORY:

Deposits are shares, debentures, units etc., in electronic form

DEMATERIALIZATION (DEMAT):

* It is a process by which physical certificates are converted to electronic form
* Physical certificate is destroyed
* Shares are transferred into beneficiary account

PHYSICAL CERTIFICATE



ELECTRONIC FORM



CONCLUSION

Investing is the process of employing the savings made in order to make money from the savings. There are certain precautions to be taken while investing. The investor should be comfortable with the investments made. Earlier investments yield better returns. The investment mantra is to start early to earn maximum. There are various short- and long-term options of investments including equity and debt. Interest is the amount earned on debt. Equity represents ownership in the company and gives returns in the form of dividends and capital appreciation. The purchase and sale of equity is governed by stock exchanges. The movement of the markets is represented by the index. Other products include derivatives which are derived from equity, debt as underlying assets and mutual funds which invest professionally in the markets. Almost all dealings on the stock exchange are through dematerialised securities, which are financial securities in electronic form.