UNIT – I (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, deposits 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 earn 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 sale 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 nonconvertible.
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 accountholder 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 accountholders.
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 cooperative 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.

2. The return on investment is not adequate even to give protection against the present inflation rate in the country.

3. 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 withdrawals 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/Salariedclass/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: Dying 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 process 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 nationallevel 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.

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.