

# Investments

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# Definition

- The action or process of investing money for profit
- An investment is a monetary asset purchased with the idea that the asset will provide income in the future or will later be sold at a higher price for a profit
- Taking an action in the hopes of raising future revenue can also be considered an investment. For example, when choosing to pursue additional education, the goal is often to increase knowledge and improve skills in the hopes of ultimately producing more income

# Objectives of Investment

- Safety of Capital
- Growth (Appreciation)
- Return (Income / Profit)
- Wealth Accumulation
- Comfort Factor (Peace of mind)
- Tax Efficiency
- Life Cover
- Simplicity (Ease of withdrawal / Liquidity)

# Financial System

- A system that helps in mobilization of resources from surplus sector to deficit sector
- Resources may be money or monetary assets
- It covers:
  - Financial Markets
  - Financial Institutions
  - Financial Instruments (Products)

# Financial Markets

- Where a financial transaction takes place
- It is not a specific place or location

# Financial Markets (Classification)

- Debt Market
- Equity Market
- Money Market
- Capital Market
- Primary Market
- Secondary Market
- Cash or Spot Market
- Forward or Future Market
- Exchange Traded Market
- Over-the-counter Market

# Financial Institutions

- RBI (Reserve Bank of India)
- Commercial Banks
  - Public Sector : SBI, BOI, Canara Bank
  - Private Sector : ICICI, HDFC Bank, AXIS
- NBFCs (Non Banking Financial Corporations)
  - HDFC, Mahindra Finance, Muthoot Finance



# Financial Products

- Fixed Deposits, Recurring Deposits
- Bonds, Debentures
- Mutual Funds
- Shares
- Derivatives (Futures & Options)
- Insurance (Life, Medical, General)

# Concepts

- Savings Formula
- Time Value of money
- Rate of Return, Required rate of return, Real rate of return
- Risk & Returns
- Present Value & Future Value
- Rule of 72
- Power of compounding
- Annuity

# Concepts

- Savings Formula?
- $\text{Income} - \text{Expenditure} = \text{Savings}$
- $\text{Income} - \text{Savings} = \text{Expenditure}$

# Concepts

- Time Value of Money

A rupee today is not the same tomorrow.

# Concepts

- Interest Rate :
  - Simple interest
  - Compound interest

# Concepts

- Rate of Return
- Required (Expected) rate of return =  
Risk Free rate + Risk Premium
- Real rate of return =  
Actual rate of return – Inflation rate

# Concepts

- **Risks**

Risks of :

- Lower returns than expected (Inflation rate, Interest rate)
- Losing the Principal (Default risk, Market risk)

# Concepts

## Risk & Returns

- High Risk, High Returns
- Low Risk, Low Returns



# Concepts

- Present Value
- Future Value
- Compounding Value Factor (CVF)
- Discounting Factor

# Concepts

- Rule of 72

No. of years to double your money  
=  $72 / \text{expected rate of return}$

# Concepts

## Power of compounding

Consider a chess board (64 squares)

If you place 1 wheat grain in 1<sup>st</sup> square, & go on doubling in each next square, i.e. 2 in 2<sup>nd</sup> square, 4 in 3<sup>rd</sup> square & so on.....

How many food grains would be there in 64<sup>th</sup> square?

92,223,400,000,000,000,000

# Concepts

- **Annuity**

Annuity is a Fixed Amount (payment Or receipt) each year for a specified no. of years.

e.g. Rent, EMI, Insurance Premium  
Pension

# Investment Avenues

1. Debt
2. Equity
3. Derivatives & structured Products
4. Mutual Fund
5. Insurance
6. Gold
7. Real Estate

# Investment Avenues

(Refer Excel)

# Systematic Investment Plan

SIP (Systematic Investment Plan / Process) :

- Fixed Amount
- Fixed (Regular) interval

# Systematic Investment Plan

Month	Investment	Current NAV	Units Purchased
3 <sup>rd</sup> Jan , 2011	1000	10	100
2 <sup>nd</sup> Feb, 2011	1000	5	200
2 <sup>nd</sup> March,2011	1000	15	67
1 <sup>st</sup> April,2011	1000	14	71
2 <sup>nd</sup> May,2011	1000	15	67
1 <sup>st</sup> June,2011	1000	20	50
1 <sup>st</sup> July,2011	1000	22	45
1 <sup>st</sup> August,2011	1000	25	40
1 <sup>st</sup> September,2011	1000	27	37
3 <sup>rd</sup> October,2011	1000	29	34
Total	10,000		711

Average NAV =  $(10+5+15+14+15+20+22+25+27+29) / 10 = 18.2$



# Systematic Investment Plan

SIP (Systematic Investment Plan) :

- Advantages:
  - ✓ Averaging
  - ✓ Minimizing risk
  - ✓ Compounding
  - ✓ Budgeting
  - ✓ Discipline (Regularity)
  - ✓ Convenience (ECS)

# Investment Wisdoms

# Wisdom 1

**Start saving early and cultivate the 'saving habit'**

**Increase your savings each year, as your income increases**

# Wisdom 2

**Set financial goals early in life**

**A focused approach has more chances of  
success**

# Wisdom 3

**Build a contingency fund before you start investing the money in long run instruments**

**To build a contingency fund you can start a recurring deposit with your bank. Ideally, maintain 3 to 4 months of your regular expenses in a separate bank account for contingencies**

# Wisdom 4

**Buy insurance policy**

# Wisdom 5

**Buy term insurance for the maximum term possible, especially when you are young**

**Buying early will enable you to purchase a robust insurance cover at a low premium**

# Wisdom 6

**Avoid buying traditional insurance policies as the returns don't beat inflation and with falling interest rates over the years, the returns will be even lower**



# Wisdom 7

**Do your risk profiling so that you understand  
what kind of an investor you are**

# Wisdom 8

**Create a portfolio as per your financial goals.  
Seek professional help if you need assistance in  
setting up your investment portfolio, in  
accordance with your goals and risk profile**

# Wisdom 9

**Mutual funds are one of the best investment assets to create long term wealth and earn inflation beating / tax friendly returns**

**Don't keep tinkering with your portfolio from time to time; it may not help you**

# Wisdom 10

**Don't invest in too many funds**

**Beyond 5-6 funds, the diversification doesn't provide any benefits but increases your time and efforts towards monitoring**

# Wisdom 11

**Shares are good long term investments but for only those people who have the time to analyze performance and familiar with the risks/ returns involved**

**For others, mutual funds are the best way of gaining exposure to equity**

# Wisdom 12

**Fixed deposit investors falling in high tax brackets can explore debt funds as they are more tax friendly than FDs and also provide liquidity**

# Wisdom 13

**Most of the time, it's the 'investor's behaviour' rather than investment management which is responsible for the performance of your investments**

**Stay away from tips, market forecasts, predictions etc. and focus on your goals**

# Wisdom 14

**Keep investments simple and easy to manage**

**Don't invest in products or schemes which you  
don't understand**



# Wisdom 15

**Finally, do not compare your financial situation  
with that of others**

**You are unique and so is your situation**