TYPES OF INVESTMENT

Chapter · September 2021

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INTRODUCTION

Savings and investment are the two things that builds the country's economy. It is the asset that is acquired to generate income and to appreciate the value of the principal value. Investment should not be made for immediate consumption but for the use in future, creating wealth. The savings is the sacrifice made by household people, in turn gives income or appreciation in the value when it is properly invested. The investment is made with the hope of greater payment in future than the original amount. In other words, it is the asset that provides better income in the future or will fetch higher profit when sold later. The traditional way of investment involved are buying gold, deposits in banks, savings in post office, buying land in real estates and policies in insurance. But due to industrial development and the growth of nation, the investment has changed to the next level as investment of money in shares, purchase in bonds, debentures, mutual funds, crypto currency etc. A detailed study of the above said investment are given below.

Bank Fixed Deposit

Bank fixed deposit a financial instrument, is one of the oldest and most common methods of investing as it helps the investors to secure their hard-earned money for a fixed and longer duration. This helps the people to deposit a fixed amount for a fixed period, which fetches them a greater interest rate than the savings account. The word "fixed" in the fixed deposit represents the duration of deposit, the amount of deposit, the interest rate and the maturity amount and the withdrawal may not be allowed before the expiry of the tenure. But in certain cases, like loss of interest, the premature retirement of fixed deposits is allowed. However, banks do advance loans to the depositors against such deposit. Since the date of maturity of fixed deposit is known in advance, banks can lend or invest these resources at a higher rate of interest and earn profits . The terms of fixed deposit vary from bank to bank and the minimum number of term deposit is 46 days and the other terms are 6 months, one year, two years and any number of years. The depositors can withdraw the deposit by surrendering the fixed deposit certificate at its maturity date with interest. If not surrendered, the principal amount along with the interest will automatically be renewed as new fixed deposit.

Public Provident Fund

Public Provident Fund is a scheme of the Central Government, framed under the PPF Act of the year 1968, where it is backed by the government to provide retirement scheme for the self- employed and the workers working in unorganized sector. It is said to be the long-term savings scheme and considered as the best tax saving scheme for all the people in need to save tax. This account can be opened by any individual, in any branches of State Bank of India and its subsidiaries, selected branches of nationalized bank and post office with a minimum deposit of Rs.100 and has to deposit a minimum amount of Rs.500 to a maximum of Rs.1,50,000 in a financial year. The deposit can be made in lump sum or in installment in a year. The minimum duration is 15 years and can be extended within one year for a maturity of 5 years duration and so on. Premature closure is not allowed in case of PPF account and it qualifies for deduction u/s 80C of Income Tax Act 1961.

Government Bonds

Government bonds are issued by the government of India, through the Reserve Bank of India on behalf of central government. These bonds have a maturity period of 91 days extended to 182 days or 365 days or more. These bonds are issued at a discount and redeemed at its face value. These bonds are also called zero coupon bonds.

These bonds are short term debt securities, issued by the state government or central government, when the government wants to raise funds from the public. Some of the examples of short term government bonds are treasury bills and State Development Loans. Government bonds are said to be long term, if the tenure is more than a year. The examples are savings bond, National saving Certificates, oil bonds, Food Corporation of India bonds, fertilizer bonds, power bonds etc.

These bonds are considered to be safe and most preferred by the investors who seek for safety returns with tax benefits. Since government bonds bear the characteristics of safety and no risk, they are said to be gilt- edged instruments.

Corporate Bonds

Corporate Bonds are the debt securities, also called debentures issued by both private and public companies, to raise debt capital for the organization. The security holder would receive interest from the company at regular intervals and redeems the principal amount at the end of the maturity period, along with the interest due. A company incorporate in India and statutory corporation like LIC can issue corporate bonds. For the investors, who look for regular income, the corporate bonds are considered to be the ideal investment. These bonds offer a higher interest rate than the fixed deposit or any other deposits and considered to be the less risky than the equity shares. Finally, if the corporate bonds are listed in the stock exchanges, it is easier to sell even before maturity.

Shares

Shares are considered to be one of the investment avenues available for the investors. The investors can buy the shares issued by a company, which needs to rise up their capital by dividing their company's capital into a number of equal parts called shares. By holding a share, the shareholder has a right in the company's capital, voting rights and profit share in the company. The investor i.e., the shareholder is entitled to all rights and obligations of the owners and to residual profits and assets of the company after all claims of the creditors are met in case of winding up. Different kinds of shares are issued to different investors according to the return and risk appetite. The investors who prefer regular and steady income will invest in preference shares and those who have the risk appetite for higher returns will look for equity shares. If only one type of shares is issued, the company may not be in a position to raise sufficient funds. The equity shareholders, considered to be the fractional owner of the company, whereas the preference shareholders do not have any voting rights except preference in getting dividend at a fixed rate of dividend, before any dividend is paid to the equity shareholders. But in case of liquidation, their claims stand below the claims of the company's creditors and debenture holders. In other words, in the time of winding up of the company, the preferential shareholders would be paid after the settlement of the creditors of the company.

Mutual Funds

The name itself describes that the funds are invested by many people to buy shares and securities of many companies. In other words, several investors pool their money in an investment house, wherein the asset manager takes the money and invest in many company's shares and debentures. Then the profits are distributed to the investors in their proportion of investment. The main concept behind the mutual fund is that, instead of investing all the money in one security and meeting future loss, its being invested in many securities and averaged as profit and giving back to the investors to minimize the risk of loss. The collective fund of the investors is called the Asset Under Management (AUM), the manager of these funds is called the Asset Management Company (AMC). The underlying holding of funds is called the Portfolio and each investor owns a portion of the portfolio. Since the investors themselves cannot invest in many securities, gold and gold related instruments and real estates, it is done by the experts called AMC, economically, easily and conveniently and get their share of returns in the proportion of their investment. In 1996, the mutual fund was regulated by the Securities and Exchange Board (SEBI), establishing regulatory framework for the mutual fund industry in India. Mutual fund was started as a government sector undertaking and after 1996 many private sectors also set up mutual funds.

A mutual fund is a trust in which it has got a sponsor, trustees who holds the property for the benefit of the unit holders, AMC manages the funds and the custodian keep the funds secured . There are many categories such as equity mutual funds, mid cap funds, small cap funds, debt mutual funds, balanced funds and tax savings fund.

Post Office Deposit

Post office deposit is the old and well-known investment avenue for the small and medium income group and most popular in both rural and urban areas in India. A minimum amount of Rs. 20 is required to open an account in the post office. A minimum balance of Rs. 50 and Rs. 500 is to be maintained for having a non- cheque facility account and with cheque facility respectively.

All the schemes in post office are subject to tax benefits and eligible for deduction u/s 80C . Post Office also provide with other products of investments such as Time deposit wherein the interest is calculated quarterly and payable annually. From 1.4.2014, interest rates are: (a) for 1 year A/C 8.40%, (b) for 2 year A/C 8.40%, (c) for 3 year A/C 8.40%, (d) for 5 year A/C 8.50%. Another scheme available in post office is the Monthly Income Account Scheme. Under the MIS account, the interest rate is 8.40% per annum, payable monthly. The maximum investment can be made at Rs 4.5 lakhs in single account and Rs 9 lakhs in joint account.

This account can be transferred from one post office to another under the request of the account holder. A retired person can open the Senior citizen savings scheme account at the age of 60 years or more. An individual who is of the age between 55 and 60 years who have retired on superannuation or under VRS can also open SCSS account. Maturity period is 5 years. The only condition is that the account is opened within one month of the retirement benefits receipt and the amount should not exceed the benefits received.

Precious Metals

Gold is the precious and oldest metal that has remained as the biggest investment asset all over the world. The countries also keep gold as reserve in the banks. Gold is considered as a prestigious asset, gift, investment etc. India is the world's largest consumers of gold and it is proved to be the best investment over the decades. People buy gold as investment even at the time of economic uncertainty. People buy gold in the form of jewellery as well as gold bars and coins, because it is easy to invest and can be used as a part of prestige. The coins and bars are now sold in banks and in jewellery shops as well. Another well-known investment is that of the Gold Exchange Traded Funds, which has the combine features of stock investment and liquidity of gold investment. These can be bought and sold at market price and is easily available in the cash market, National Stock Exchange and any other stock exchanges.

Sovereign Gold Bond (SGB)

Sovereign Gold Bond is another form of investment in gold, denominated in grams of gold and are issued by the Reserve Bank of India through the government of India, a substitute for holding physical gold. It is just like holding physical gold, but in demat form. The bonds are held in the books of the RBI or in demat form eliminating risk of loss of scrip etc . The money paid for the quantity purchased by the investors is protected and transparent as the price is known by the investors. Investors are assured of the price of maturity and the interest of the bond they invested. SGB is also free from making and wastage charges as it would happen in the case of physical gold investment.

Insurance

Insurance is the protection against any loss that arises in the financial aspect or the lives of the people. Life insurance protects the insured against the life of the insured, financing with the insured amount to his or her family. General insurance, on the other hand, protects the insured from financial losses arising out of accident, theft or damages if any. Insurance is an agreement between the insurance company and the insured, whereas the insurer agrees to pay the insured amount to the insured on the maturity or happenings of such event, in exchange of the premium received from the insured. The premium could be paid either monthly, quarterly or annually.

The insurance amount will be paid out of the premium collected from the insured public. Insurance helps the insured and his family on the maturity period or the occurrence of the insured person's death or any other event, such as lethal or critical illness. Insurance also comes with the growth of capital at the payment of regular intervals. The popular forms of life insurance are whole life policy, universal life policy and variable life policy and the general insurance comprises of vehicle insurance, home insurance, health insurance, theft insurance, property insurance, accidental insurance, sickness insurance, casualty insurance, liability and credit insurance, fire and marine insurance in case of corporate undertakings. The common types of insurance policies are Term Insurance policy, whole life Insurance policy, endowment Insurance policy, money back Insurance policy, Annuities or pension plans/Retirement Insurance policy, Unit-Linked Insurance plan, and Child Life Insurance policy .

Real Estate

Real estate is the land along with any construction, water, trees, empty spaces on it and the air above and the ground below it. In short, any ground, building and other things attached to the land is the real estate.

Real estate involved the purchase or sale of land for residential or non- residential purposes. It covers residential houses, business, offices, trading spaces, hotels and restaurants, theatres and retail outlets, industries and factories and even government buildings. The people involved in the real estate are the owners or landlords, developers, builders, agents, tenants, buyers etc. The Indian real estate market is still in the beginning stage and mostly dominated by the unorganized large number of small players and only very few are in the hands of large corporate. Since it is unorganized, the Indian real estate is high priced and does not provide with good quality space for the investors. The availability of the land is limited and the wants of the population is unlimited. Taking this into consideration, the real estate prices are increasing day by day because of the demand for residential houses. This is an attractive investment avenue with higher returns even at a shorter period of time but with lower rate of liquidity.

Crypto currency:

It is a newer form of investment in which asset is purchased digitally. In simple terms, crypto currency is a digitalized asset, invested online through computers and mobiles. The money investment in crypto currency is virtual and is secured by cryptography, encrypted multiple times to make it safe and secure. It is completely decentralized and free from the control of government regulations and policies. But many countries are trying to bring the crypto currency under a centralized government body. Crypto currency is designed to be used as a medium of exchange which does not need any debit or credit card and funds are transferred with minimal processing fees, but the payments are irreversible. Today we have many types of crypto currencies like Peercoin, Litecoin, Bitcoin, Namecoin, Ethereum and Cardana. But mostly crypto currency is confused with bitcoins because Bitcoin is the first type of crypto currency. A research shows that the aggregate value of all the crypto currencies that are existing in the world is around 1.5 trillion dollars and individual ownership is stored in computerized database. Since crypto currency transactions are hidden, it is seen as illegal activities such as money laundering, tax- evasion and terror- financing.

CONCLUSION

Savings and investment are like the eyes of a developing nation. As people’s investment if channelized for the development of the nation, they should be wise in investing by getting knowledge from experts, attending government campaign arranged for the investors, reading stock exchange news, articles in news papers and through the stock brokers. The government should take initiatives for arranging programmes for the small investors for wise and safe investment which is not known to them. Above all, the investors should be encouraged to invest in new avenues available in the market for better income and returns from the investment without fear, ensuring them with safety measures like redressal forum available for the investors in the market.