INVESTMENT STRATEGIES

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ABSTRACT

In the modern times we cannot imagine a world without the use of money. In fact, Money is the life-blood of the present-day world and our economic activities are carried out through the use of money. We need resources for carrying out any activity which are pooled in terms of money. With Investment Strategies the aim is to study the strategies to be followed which will yield the maximum return to the investor and vis a vis less risk. Again, the definition of risk is different for different persons and it depends on so many factors, when it comes to making an investing decision in the securities market. Nowadays, Investment Strategies is a well-known topic and a critical tool for evaluating investment performance around the globe. Because of the widespread use of this method in advanced economies, this concept is most commonly employed in these economies. when it comes to making an investing decision in the securities market, psychological aspects play a major role to study that we have studied the behavioral finance in which the behavior of the investors is being studied while making the investment. Specifically, the study examines how investors got influenced when making critical financial decisions.

Keyword: *Investment Strategies, Irrational investor approach, Market Timing.*

INTRODUCTION

Whenever a person starts earning, the next thought in his mind is how to grow his/her income. Though his one thought is to spend the whole money on his needs and desires; but generally, a person does not spend the whole money he earns; rather he tries to save some money and invests. The Income Tax Act,1961 also support this propensity to save.

Investment means employment of funds on assets with the aim of earning income or capital appreciation in future. He sacrifices his present consumption to earn a return in future. Though this sacrifice may yield good return in future, yet it is uncertain. There is always a risk of losing or not getting back expected returns from the investment. An investor tries to minimize this risk by following certain strategies.

An investor has number of options from which he must choose the investment which has high yield and low risk. The two characteristics of investment are time and risk. The price that must be paid is certain, but the future reward might not be. He may invest in Gold, property, provident fund, fixed deposits, shares, Insurance Policies, and stocks including mutual funds, etc. Each type of investment has its own advantages and disadvantages. Gold is considered the safest form of investment in terms of risk factor yet keeping its safety is a challenge. Property involves huge investment and is less liquid. Also maintaining a property is not an easy job. Provident Fund and Fixed Deposit has low return though the risk involved is minimal. Considering all the above factors investment in shares and mutual fund is the easiest and most lucrative option. The investment in shares / mutual funds can be made with very less capital and is highly liquid. But the challenge is in which securities to invest. For this the investor must follow certain investment strategies.

For a wide range of players, the financial market is growing more and more popular. Investors, managers, as well as regulators, are all taking advantage of the financial markets. All kinds of theories exist in the literature, and they're used at the right time. In the new field of "behavioural finance," individuals' feelings and characteristics are taken into consideration when making financial decisions. According to the classic theory of finance, arbitrage exists in the market and can be exploited at any time. Authors of behavioural finance, on the other hand, have conclusively demonstrated that arbitrage does not imply reduced return due to increased risk. There is always a cap on it. Furthermore, the related costs are quite substantial, meaning that there is no risk-free profit. When it comes to investing, the term "noise trader" is commonly used to characterise those who aren't reasonable, whereas "arbitrageurs" refers to people who are.

The first theory, is irrational investor's view, in this approach, investors are irrational in that they do not keep up to date with current knowledge about the companies, whereas managers are rational in that they exploit any variation of their stock price from the fundamental value. For Indian capital markets, behavioral finance is not used. This study will help investors avoid falling into the trap of mispricing based on overvaluation in the markets, since many corporate operations such as capital restructuring, capital budgeting, and mergers are taking place in the corporate world.

STATEMENT OF PROBLEM

Although rational decision-makers do exist as company complexity increases, their capabilities are constrained. The truth is that people make decisions, both consciously and unconsciously, based on what they know and what they think. Making wise decisions is achievable as long as the information is accurate and useful from the past. However, decisions frequently result in unpredictable results. Numerous psychological elements that influence decision-making must be researched. The "Bigger and Better" idea and the "A Bird in Hand is Better than Two in the Bush" principle should both be followed by a fair decision-making standard. According to the first principle, larger benefits are preferred to smaller ones, and according to the second, earlier benefits are preferred to later benefits.

The distribution of funds to assets with the expectation of a profit over time is known as financial investment. In return for cash, financial claims like stocks and bonds are exchanged. They are anticipated to generate income and increase in value over time. Because personal funds are invested in the capital market as financial assets to be used for economic purposes, the financial and economic meanings are intertwined. Despite their connection, we are only interested in the monetary transaction made in securities. Consequently, "a commitment of money made in the expectation of some positive rate of return" can be used to define investment. Investments must include the expectation of a profit. Since the return is anticipated to materialise in the future, it's possible that the actual return surpassed the anticipated return. Investment risk is the potential for variation in the real return. Consequently, every investment entails danger and return.

OBJECTIVE OF THE STUDY:

1) To study & analyze the perceptions of financial experts in relation to capital market investment.
2) To study & find out various investment strategies for young investors.
3) To draw various observations in order to suggest young investors for successful investment

REVIEW OF LITERATURE:

Simran Saini; Dr Bimal Anjum; Ramandeep Saini (2011): Only UTI was previously available to investors as a means of investment; however, mutual funds have recently gained popularity. The author of this paper examines the relationship between investor conduct and mutual fund investment. It primarily focuses on the flaws in how mutual funds operate, and it solicits investor suggestions to fix them. Investors today prefer to work with portfolio managers rather than do their own investment. Investors receive minimum guaranteed returns through mutual funds.

Dr.Ravi Vyas (2012): According to popular thinking, mutual funds are a retail product made specifically for people who don't invest directly in the stock market due to its unpredictable and volatile character. It's time to comprehend and examine investors' expectations, perceptions, and risk return analysis after comparing the growth and returns mutual funds provide to the market. In order to maximise the use of investors' funds, mutual fund companies must now provide complete support. They must also launch investor advice services.

Geetha And Vimala (2014): In their paper, they conducted a sample study of 500 people and used one sample T test and one sample Chi Square test to determine the general perception of individual investors towards various investment avenues and the key factors that drive people to choose that instrument for savings. They came to the conclusion that there has been a notable shift in the investment avenues as a result of the establishment of new financial institutions, credible sources, attractive returns, and good capital. From the perspective of the investor, changes in demographic factors like age, income, education, and occupation have an impact on the preferred investment path.

Raheja and Lamba (2014): They concluded that there are many investment options on the market, and people prefer to invest in different investment options with some objective behind investment and that life cycle stages and investment objectives are dependent on one another. The goal of their literature was to study investment behaviour and individual investment practises as per different stages in their life cycle and to understand what an investor looks for in investment avenues.

Arathy B, Aswathy A Nair, Anju Sai P, Pravitha N R (2015): The assets under administration of different fund companies are rising as a result of the rapid growth of the Indian mutual fund industry. As a result of its preference over retail investors, MF companies would be better able to develop fresh, cutting-edge products that cater to the preferences of investors for equity-based schemes.

Mrs. B. Kishori (2016): The performance of open-ended growth-oriented equity schemes over the period from April 2011 to March 2015 of the transaction economy was gathered by the researcher for this article. The goal of the study is to understand the various factors that customers take into account. In particular, it relates to the fact that out of 30 mutual fund schemes evaluated, 15 outperformed the benchmark return, which helps customers make better mutual fund selection decisions. Additionally beneficial to the customer, the analysis revealed that all 30 sample mutual fund schemes had positive returns that exceeded the benchmark return.

Chaitra S.B, Suman Chakraborty (2017): The academic and research community, as well as asset management companies, will find it helpful to know how investors behave when investing in mutual fund schemes in order to identify any gaps in the body of existing knowledge and suggest future directions for worthwhile research in the field.

Tidake and Bajaj (2021): They wrote the essay with the intention of assisting nascent investors in selecting their approach to investing. Young investors in the industry are always on the lookout for investing advice. They advised that the children should be in charge of his financial affairs because that would give them security for the future. They must keep in mind that while having money is nice, having control over it is still preferable, thus if they want to be in charge of their finances, picking the appropriate investment strategy is essential. As a result, this research report would be helpful for new investors as they choose their investment approach in the present. They came to the conclusion that in order for young investors to succeed, a thorough market research is necessary to lower the likelihood of future losses. We have also come to the conclusion that a more effective investing plan will ultimately result in a future that is financially secure.

What is investment strategy

An investment strategy is a set of guidelines used in the field of finance to help investors choose their investment portfolio. People have various profit objectives, and according to their unique skills, they should use various techniques and strategies. Some decisions require balancing risk and reward. The majority of investors strike a balance between the two, taking some risk in exchange for higher expected profits.

The general process that the fund manager does to put together a group of assets is sometimes referred to as an investment style or strategy. According to Joshi, an investor's spending choices "give some insight into which risks and returns investors are likely to be exposed to and what the drivers of those returns are likely to be."
The four most common investment types are value, growth, quality, and momentum. Investment styles can be categorised using a wide range of usually highly esoteric techniques, including quality, momentum, cyclical, dividend growth, deep value, event-driven, and exceptional circumstances, to mention a few.

Investment Styles

The investing strategy is determined by the investor's or fund manager's investment style. Investment Style: What Is It? Investment style refers to the approach and philosophy a portfolio manager or investor uses while choosing investments. Investment style depends on a number of variables and frequently takes into account market cap, growth vs. value orientation, and risk preferences.

The most common investment styles being practiced are Value, Growth, Quality and Momentum.
Value Style:- This style of investing focuses on low priced stocks with higher dividend yield. The market value of these shares is low depicted by low P/E ratio and intrinsic value is high.
Growth Style:- This style focuses on those stocks whose profit margins are high , return on equity is high but low dividend yields. These companies re invest their profits.
Quality Style:- Quality style of investing focuses on a combination of financial productivity, low leverage, and stability. This style of investing is fruitful in the long run.
Momentum Style:- It is a trading style in which investors buy securities whose prices are showing an upward trend and sell them when the investor is of the opinion that the security has reached its peak.

HOW DOES IT HELP INVESTORS

Investment strategies let investors choose where and how to spend their money based on their projected return, risk tolerance, time horizon, and preferred investment styles. It is governed by a set of rules and regulations created to help investors build their investment portfolios.

A barbell investment plan, for instance, places a Value Style and a Growth Style at either end. A bucketing strategy uses Value style as the Core and Momentum style as the Satellite, and a core and satellite strategy uses Value style as the Core and Momentum style as the Satellite.
Barbell trading entails taking positions in both extremes. To balance risk and reward, one might invest in high-risk and low-risk assets rather than those in the mushy centre. However, according to experts, the emergence of different investment styles has made it difficult to implement a barbell plan.

TYPES OF INVESTMENT STRATEGY

Source : https://www.wallstreetmojo.com/investment-strategies/

The above chart shows the various investment strategies which are explained below:-

- **Active and Passive Strategy** Active and Passive Strategy is when an investor is of the opinion that he can analyse and buy best investments and will be able to beat the market. He will be able to earn better than S & P 500 and cover all investment costs. On the other hand a passive investor’s belief is that trading too often increases the transaction costs and it’s a better strategy to do minimal trading as the market is volatile.
- **Growth Investing** The investors who have faith in companies which have just started and are expected to outperform their competitors in the industry ; invest in the shares of these companies. These companies have good potential for growth and generally re invest their earnings in the business. As a result they are unable to declare any dividend or very less dividend. These investors look for those companies who use new technologies or services. These companies also invest part of their earnings for research and get their patents registered,
  The investors look at a few key factors namely the present profitability, Return on equity, future expected profitability, share price performance, etc. These investors wish to earn by selling the stocks rather than dividend.
- **Value investing** This investment strategy focuses on intrinsic value of the share. There are various ways to determine the intrinsic value like company’s financial performance, its cash flows (reflecting cash rich company), brand name, business model , having competitive edge over its competitors, etc including Price

to book ratio. Book value is Net worth divided by number of shares. If the book value is higher than market value ; Value investors invest in these shares . The value investor beliefs that the market will correct itself in the long run and the share price will increase. They do not follow the herd. These investors also keep a good margin of safety. Sometimes the period of holding the stock depends on various other goals of the investor like his retirement plan , buying a house, etc and also his analysis whether the price will rise further or not.

- **Income Investing**
  This sort of approach focuses on generating cash flow from stocks rather than investing in equities that simply increase the value of your portfolio. Dividends and fixed interest from bonds are the two main sources of cash income for investors. Investors that want dependable returns on their investments opt for such a method.
- **Dividend Growth Investing**
  This kind of investment strategy is used by the investor to look for companies that consistently pay a dividend each year. Companies that have a track record of consistently paying dividends are less erratic and more stable than other companies, and they work to improve their dividend payout every year. The investors reinvest these profits in order to increase their wealth over time due to compounding.
- **Contrarian Investing**
  Using this type of technique, investors might buy company stocks while the market is down. This strategy places a focus on buying cheap and selling expensively. Whenever there is a recession, war, natural disaster, etc., the stock market normally declines. But during a downturn, investors shouldn't just buy any company's stock. They should be on the lookout for companies that have the potential to increase in value and a brand that prevents rivals from doing business with them.
- **Indexing**
  This kind of investment approach enables investors to place a small number of equities in an index of the market. S&P 500, mutual funds, and exchange-traded funds are a few examples.
- **Barbell strategy**
  According to the barbell strategy, the ideal way to find a balance between reward and risk is to invest in the two extremes of high-risk and low-risk assets while avoiding middle-of-the-road choices.

All investment strategies entail attempting to maximise returns while taking into account the level of risk the investor is willing to accept. Investors that use the barbell method are adamant that this can only be accomplished by using severe measures.

The barbell method encourages pairing two assets that are very different from one another. Only extremely safe investments are contained in one basket, while only leveraged and speculative investments are contained in the other.

The barbell technique, as used in fixed income investment, suggests combining short-term and long-term bonds. As a result, the investor has long-term bonds as insurance in case yields decline and a chance to outperform short-term yields.

The majority of investment strategists start the portfolio-building process by determining the level of risk the investor can handle. A young professional might be willing to assume a lot of risk. A retiree might rely on a consistent income. The strategist then develops a portfolio by splitting the funds into three or more pools, each of which represents a different risk level. Risky investments include speculative equities like initial public offerings (IPOs) or small biotechnology firms. Although less hazardous, blue-chip stocks are nonetheless susceptible to economic ups and downs. Bank certificates of deposit (CDs) are the safest investment option out of all bonds.

That youthful investor might invest 20% in bonds, 40% in blue-chip equities, and 40% in risky stocks. The retiree might retain 20% of blue-chip stocks and 80% of bonds. Each is seeking the greatest reward for the least amount of risk. ESG investing examines how a company's long-term value may be impacted by environmental, social, and governance aspects. It is argued that successful businesses are more inclined to take governance and the environment seriously.

SRI (socially responsible investing), impact investing, and ethical investment strategies are similar to ESG investing. These strategies, however, aim to limit how capital is employed. ESG investment examines how similar issues impact profits. Individual investors have two options: they can invest in ESG funds or use ESG stock selection tools. The effectiveness of these tactics has not been established, and the area is quite young. Before making an investment in a fund or signing up for a ratings service, it is advisable to conduct some research.

How does it help investors

According to their expected return, risk tolerance, time horizon, and favoured investment styles, investment strategies assist investors in deciding where and how to spend. It is controlled by a collection of policies and guidelines developed to assist investors in creating their investment portfolios.
A barbell investment plan, for instance, places a Value Style and a Growth Style at either end.
Barbell trading entails taking positions in both extremes. To balance risk and reward, one might invest in high-risk and low-risk assets rather than those in the mushy centre. However, according to experts, the emergence of different investment styles has made it difficult to implement a barbell plan.

Things to keep in mind

There isn't a method that works for everyone. The investment styles and their weights can vary within each plan. To create an investment framework, one can combine different types of plan and style, according to Joshi.
The risk and reward must be thoroughly understood, backed by back testing, scenario analysis, and other empirical evidence.
According to industry specialists, the days when investors constructed portfolios haphazardly without a firm understanding of the investment strategy are long gone. Joshi continues, "Instead, people have realized that having the ideal blend of investment style and strategy greatly increases their odds of success and is essential for an All-Weather portfolio. And with good reason—the "how" of investing is just as crucial as the "what."

INVESTING TIPS

Before making a purchase, newbie investors should have the following advice in mind.
• Establish Objectives: Decide how much cash you'll need over the coming months. By doing this, you'll be able to decide whether to make investments for the long run or the short term and how much profit to expect.
• Conduct detailed research and trend analysis to thoroughly understand how the stock market and various instruments (equity, bonds, options, derivatives, mutual funds, etc.) operate. The price and return trends of the equities you have chosen to invest in should be monitored.
• Portfolio optimisation: From a range of portfolios, select the one that best achieves your objective. A portfolio that provides the best dividend at the lowest risk is optimal.
The best advice is to locate a trustworthy brokerage or consulting firm. They'll give you suggestions on where to invest and how to spend money so you can reach your financial objectives.
• Risk Tolerance: To achieve the desired return, be aware of your level of risk tolerance. Additionally, this is dependent on your short- and long-term goals. If you want a bigger return quickly, the risk will be higher and vice versa.
• Risk diversification: Developing a portfolio with a mix of debt, shares, and derivatives will help you reduce your exposure to risk. Check to see that the two assets are not totally connected with one another.

ADVANTAGES OF INVESTMENT STRATEGIES

The following are a few benefits of using investment methods.

- Investment methods provide risk diversification in the portfolio by investing in a variety of investment types and industries in accordance with timing and projected returns Depending on the desires and requirements of the investors, a portfolio may consist of a single strategy or a combination of strategies.
- Investing carefully enables investors to maximise the return on their capital.
- Investment strategies can help you pay less tax and cut transaction expenses.

LIMITATIONS OF INVESTMENT STRATEGIES

These are a few of the investment methods' drawbacks.

- Why Beating the market is difficult for typical investors. A professional investor would get the same result in a couple of weeks or months, but they could take years to achieve an average return on their assets.
- While thorough research, analysis, and historical data are considered before investing, the majority of choices are based on a predictive premise. Investors may not be able to meet their goals on time if performance and returns don't always meet expectations.

CONCLUSION:

Therefore, based on the aforementioned data, we may draw the conclusion that for young investors to succeed, a thorough market analysis is necessary to lower the likelihood of future losses. We have also come to the conclusion that a more effective investing plan will ultimately result in a future that is secure financially. Recent research indicates that human behaviour does not entirely determine Indian markets. Behavioural finance has not yet had an impact on every aspect of finance. The dominating theories in corporate finance continue to be rationalism and efficiency. According to this study, psychological, social, and demographic factors play a significant effect in financial decision-making.

Additionally, it has been demonstrated that demographic variables like age, education, and experience all significantly affect these psychological biases. All of these traits together interact in various ways, such as the investor's age and level of confidence. When all of these factors were taken into account, an advantageous scenario for investing in stocks was produced.

SUGGESTIONS:

- Prior to making a financial decision, company decision-makers must be proactive in their analysis of past successes and failures.
- Keeping emotions in check and not jumping to conclusions about a situation based on what you see will help you avoid making mistakes.
- When personal and organizational goals aren't aligned, over-cautious judgments can lead to underutilization of resources, which can lead to below-average returns on investment. As a result, it is recommended that the decision-makers look for the root cause of the mismatch and act on the suggestions proactively.

PRACTICAL IMPLICATIONS

The conclusions have implications for scholars and researchers involved in behavioural finance and the financial markets, specifically when it comes to individual investors and personal finances. The results of this study are anticipated to be helpful to a broad spectrum of people, including policymakers, financial advisors, investors, and other financial experts.