

THE SECURITIES MARKET- LEVEL 1

Understanding them from an investor's perspective



Understanding Money

- 👁 Meet Raj.
- 👁 Raj is a young professional with many dreams.
- 👁 He just started working and wants to learn how to manage his finances.
- 👁 Raj's father always said, "Money doesn't grow on trees", and through this, Raj learns the importance of earning and saving money.

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- ▶ What does money mean to you?

Money is a medium of exchange.

- ▶ Why is money important?

- Essential for meeting basic needs
- Helps to achieve your aspirations such as owning a house, buying car, vacations, higher education, comfortable retirement etc.



Income, Saving & Investing

- 🕒 **Income:** Earnings from work or investments.
- 🕒 **Saving:** Portion of income set aside in a bank account to meet future expenses.
- 🕒 **Investing:** Putting money into assets for potential growth to meet financial goals.

But, if Saving and Investing both mean putting money aside for future consumption, what's the difference?

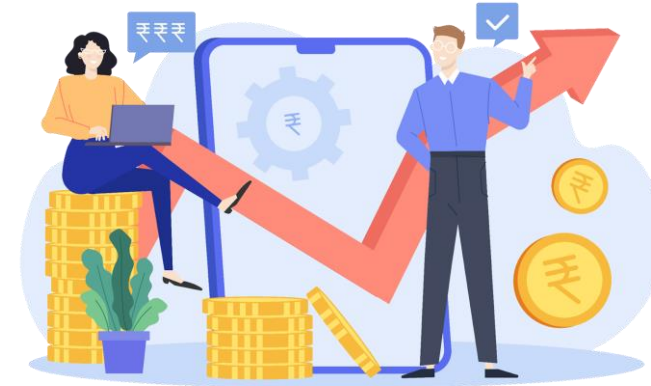
	SAVINGS	INVESTING
Pros	<ul style="list-style-type: none">• Helps meet short-term expenses like buying groceries, or goals such as purchasing a new phone, or going on a vacation.	<ul style="list-style-type: none">• Can earn higher returns than savings• Can help achieve long-term financial goals• Several options to diversify help reduce risk• Can generate inflation beating returns
Cons	<ul style="list-style-type: none">• Much lower yields compared to other options• Does not help to beat inflation	<ul style="list-style-type: none">• Subject to a risk of loss, especially in the short-run

Illustration: Savings Vs. Investment

What if you saved and invested ₹500 every month? What could it grow into in 5, 10 and 20 years?



VS



	Savings at 2.5%	Investments at 12%
5 Years	₹ 31,987	₹ 41,243.18
10 Years	₹ 68,228	₹ 1,16,169.54
15 Years	₹ 1,09,289	₹ 4,99,573.96

Savings grow much slower than investments, and to build wealth one must invest!

Can you earn money while you sleep?

YES!

Priya (27) worked a 9-to-5 job and earned a monthly salary. But she also earned money while she slept, through her rental property and investments. She is now 47, has retired early and travels the world, while she continues to earn from her investments and rental income.

Income can be earned

- ▶ Actively through Direct work (e.g., salaries) (Active Income)
- ▶ Passively through Investments, rentals, dividends, etc. (Passive Income)

Income builds financial stability and independence.



Why Is Passive Income Important?

- 🕒 Essential for securing your financial future
- 🕒 Provides a steady stream of revenue

HAVING MULTIPLE INCOME STREAMS IS IMPORTANT FOR:

- ▶ Financial Security
- ▶ Increased Financial Freedom to pursue your passions, or even retire early
- ▶ Reduced Financial Stress
- ▶ Supports your Retirement Lifestyle

Passive income is more than just a financial strategy; it is a path to greater financial freedom.



Did You Know? Money Loses Value Over Time...

Raj's grandparents bought a house for Rs. 50,000 in the 1970s. It costs Rs. 5.5 crores to buy the same house today!

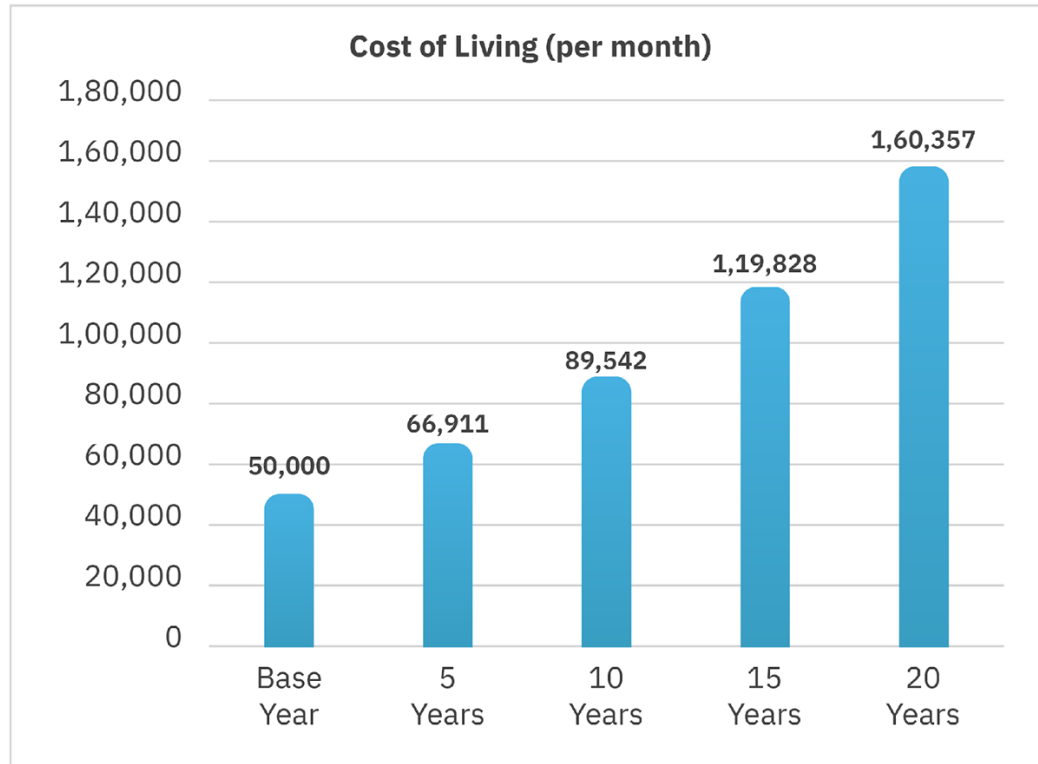
Cost of 1 liter of milk was Rs. 3 in 1980 and is Rs.60 today

Inflation is the general rise in prices over time, eroding purchasing power.

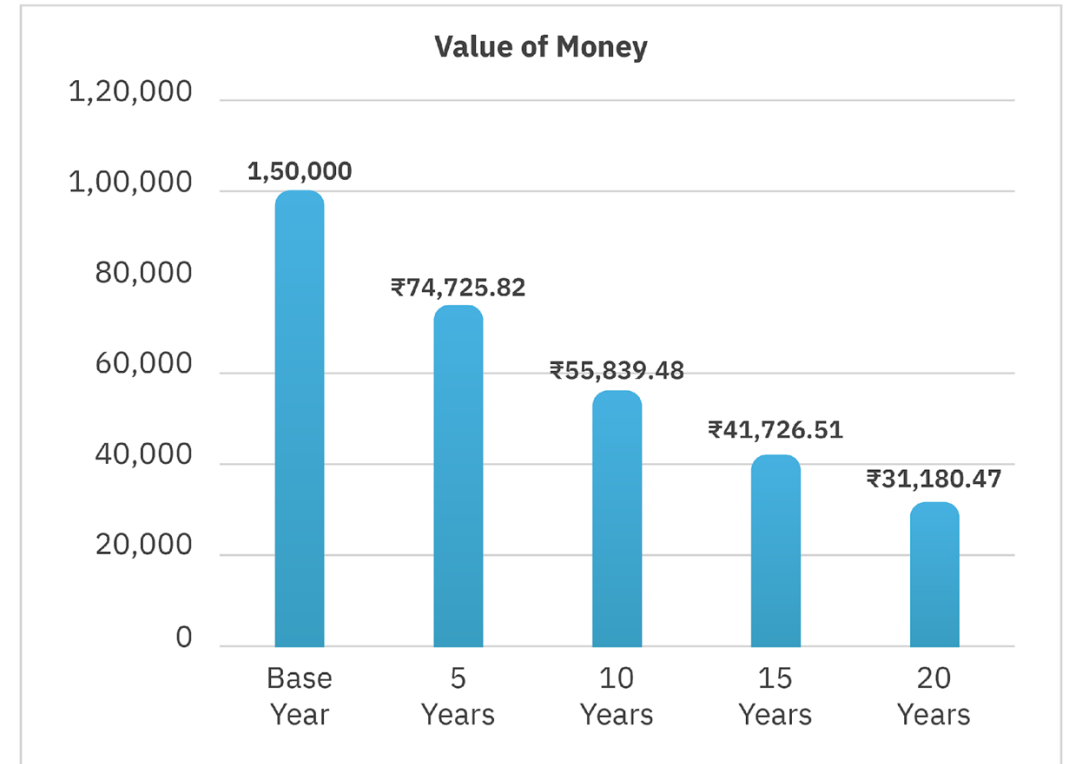
It can also affect our savings. If inflation is 7%, but your savings account only pays you an interest of 3%, is your money growing to meet the prices of things you buy?



Inflation & Its Impact On Savings



Inflation assumed @ 6% p.a.



Cost of living increases year on year due to inflation. Money value reduces due to the same impact

How Does One Beat Inflation?

Invest!

- ▶ Invest in assets that appreciate over time e.g. equity, fixed-income securities, gold, etc.
- ▶ Diversify investments to hedge against inflation.

Year wise Outperformance of Nifty 50 TRI vs Inflation (2000 to 2023)

Average	11%	9%	9%	10%	9%	9%	8%	8%	7%	7%	7%	7%	7%	7%	7%	8%	8%	9%	9%	9%	8%	8%	7%	
Max	75%	41%	39%	38%	39%	32%	23%	21%	19%	14%	12%	13%	12%	10%	12%	11%	11%	11%	11%	11%	10%	9%	7%	
Min	-58%	-21%	-14%	-14%	-10%	-8%	-3%	-5%	-4%	0%	0%	0%	1%	2%	3%	4%	5%	6%	7%	7%	7%	7%	7%	
Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
Jan-00	-24%	-21%	-14%	4%	5%	10%	13%	17%	4%	10%	10%	6%	6%	6%	7%	6%	6%	7%	7%	7%	7%	7%	7%	7%
Jan-01	-20%	-9%	13%	13%	17%	20%	23%	9%	15%	14%	8%	9%	8%	9%	8%	8%	9%	8%	8%	8%	9%	8%	9%	
Jan-02	2%	34%	26%	28%	30%	32%	13%	20%	19%	12%	12%	11%	12%	10%	10%	11%	10%	10%	10%	11%	10%	10%		
Jan-03	75%	39%	38%	38%	39%	15%	23%	21%	13%	13%	12%	13%	11%	10%	12%	11%	11%	11%	11%	11%	11%	11%		
Jan-04	11%	22%	27%	31%	5%	15%	14%	7%	7%	6%	8%	7%	6%	7%	8%	8%	8%	8%	8%	8%				
Jan-05	35%	36%	39%	4%	16%	14%	6%	6%	6%	8%	6%	6%	8%	7%	7%	7%	8%	8%	9%					
Jan-06	38%	41%	-4%	12%	11%	2%	4%	3%	5%	4%	3%	5%	5%	5%	6%	6%	6%	6%						
Jan-07	45%	-21%	4%	5%	-5%	-2%	-2%	1%	0%	1%	2%	3%	3%	4%	5%	4%	5%							
Jan-08	-58%	-11%	-6%	-14%	-10%	-8%	-3%	-5%	-4%	0%	0%	0%	1%	2%	3%	4%								
Jan-09	73%	38%	8%	10%	7%	11%	7%	7%	9%	8%	8%	8%	10%	9%	9%									
Jan-10	6%	-17%	-8%	-7%	0%	-1%	-1%	2%	2%	3%	4%	5%	4%	5%										
Jan-11	-34%	-15%	-11%	-2%	-3%	-2%	1%	2%	2%	3%	5%	5%	6%											
Jan-12	10%	4%	12%	7%	6%	9%	7%	8%	9%	10%	9%	9%												
Jan-13	-2%	12%	5%	5%	8%	7%	7%	8%	9%	8%	9%													
Jan-14	27%	9%	7%	11%	9%	9%	9%	11%	10%	11%														
Jan-15	-7%	-1%	6%	6%	6%	7%	9%	8%	9%															
Jan-16	4%	13%	10%	10%	9%	11%	10%	11%																
Jan-17	23%	12%	12%	11%	13%	11%	11%																	
Jan-18	3%	6%	8%	11%	9%	9%																		
Jan-19	9%	10%	13%	10%	11%																			
Jan-20	11%	16%	10%	12%																				
Jan-21	21%	10%	12%																					
Jan-22	1%	8%																						
Jan-23	16%																							

Historically, Equities have outperformed Inflation by 7-9%.

Outperformance >=0%

Outperformance < 0%





Investing Can Beat Inflation, But What Else?

Investing can:

- Achieve goals like buying a home, funding education, or saving for retirement.
- Be prepared for emergencies.
- Provide liquidity.
- Offer tax benefits to save on taxes.



A Comparison Of Some Investment Products

Product	 Liquidity	 Risk	 Returns	 Entry/Storage Costs
Bank Fixed Deposit	High (Premature withdrawal allowed)	Low	Moderate (fixed interest rate)	No entry cost, no storage costs
Post Office Deposit	Moderate (Limited premature withdrawal)	Very Low	Low to moderate (fixed rate)	No entry cost, no storage costs
Gold	Moderate (depends on form, digital is higher)	Moderate (market fluctuations)	Moderate (market-linked)	High (for physical storage), low for digital
Real Estate	Low (illiquid, takes time to sell)	High (market and property-specific risks)	Potentially high (location and market dependent)	High entry cost, maintenance/storage costs
Equities	High (can be sold quickly in markets)	High (market volatility)	Potentially high (market-linked)	Low to moderate (brokerage fees)

Returns From Various Financial Products

Index (as on 30 Nov 2024)	Compound Annualized Returns (%)						No Of Times Your Money Multiplied					
	1Y	3Y	5Y	10Y	15Y	20Y	1Y	3Y	5Y	10Y	15Y	20Y
India-Equity (Nifty 50 TRI)	21.3	13.8	16.2	12.2	12.4	14.8	1.2x	1.5x	2.1x	3.2x	5.7x	15.8x
US-Equity (S&P 500 TRI in INR)	35.8	15.9	19.6	16.9	18.8	14.3	1.4x	1.6x	2.5x	4.8x	13.3x	14.4x
Gold (In INR)	32.0	18.2	16.4	11.8	9.9	12.8	1.3x	1.7x	2.1x	3.1x	4.1x	11.1x
Real Estate	6.2	6.6	5.3	4.8	6.7	8.6	1.1x	1.2x	1.3x	1.6x	2.6x	5.2x
Debt*	7.9	6.2	6.4	7.2	7.5	7.5	1.1x	1.2x	1.4x	2.0x	3.0x	4.2x

Indian Equities have given
15% returns over 20 years

Indian Equities multiplied
16 times in 20 years

Diversification

- Amit invests all his money in equity;
- Rohit invests 60% in equity and 40% in a bank deposit.
- Last year the equity market gave a return of 18%, while a bank deposit gave 9%.
- This year the equity markets have corrected to give only 10%, while the bank deposit continues to return 9%.

How does this market correction impact the two investors?

Portfolio Return = Weighted Average return of the investments in the portfolio

The table below shows the return earned by Amit and Rohit:

Years	Amit: 100% Equity	Rohit: 60% Equity + 40% Bank Deposit
1	18%	$(0.6 \times 18\% + 0.4 \times 9\%) = 14.4\%$
2	10%	$(0.6 \times 10\% + 0.4 \times 9\%) = 9.6\%$

The Power Of Compounding

"Compound interest is the eighth wonder of the world."

– Albert Einstein.

What is compounding?

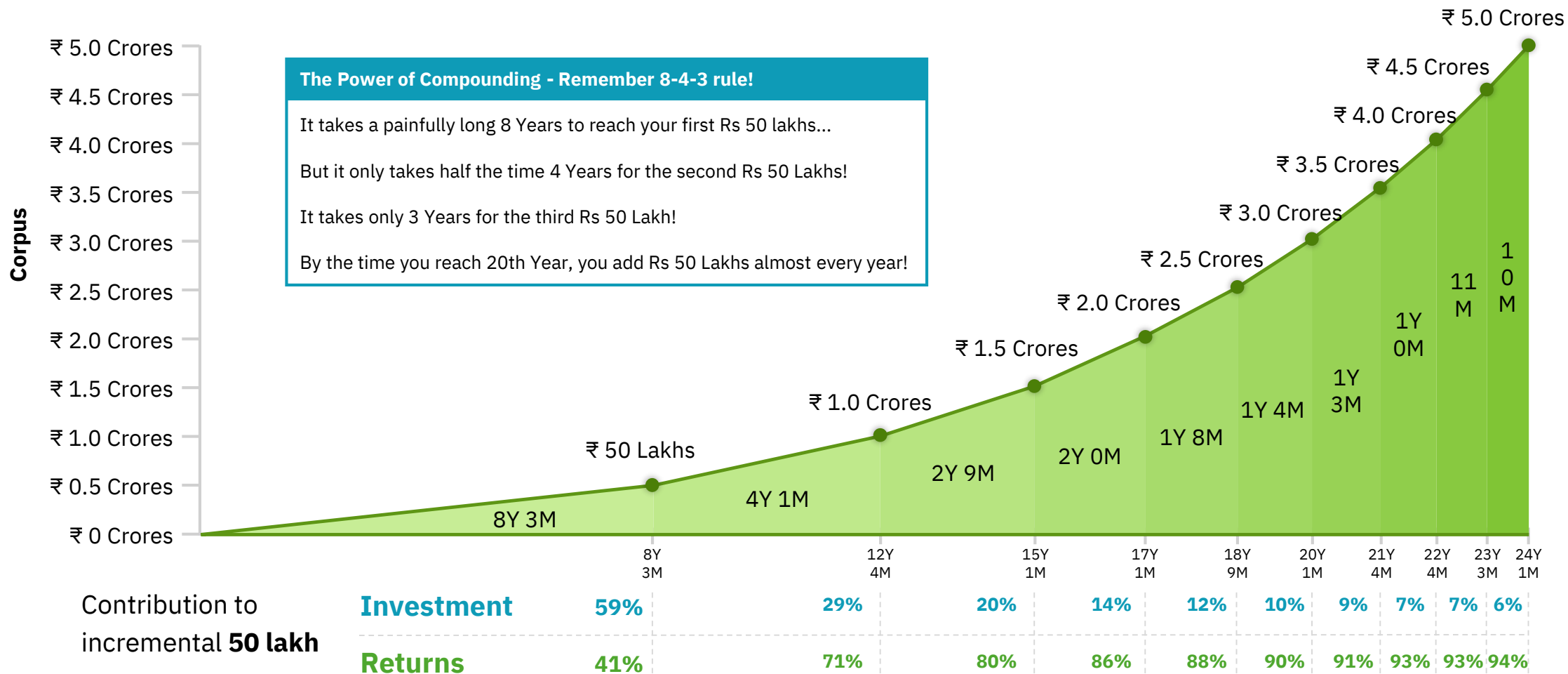
Earning returns on reinvested earnings i.e. you earn an interest on your principal amount and earn an interest on the interest accumulated too!

Years	Value
1	₹ 1,12,682.50
3	₹ 1,43,076.88
5	₹ 1,81,669.67
7	₹ 2,30,672.27
10	₹ 3,30,038.69
15	₹ 5,99,580.20
20	₹ 10,89,255.37

**The longer you stay invested,
the more your money can grow!**

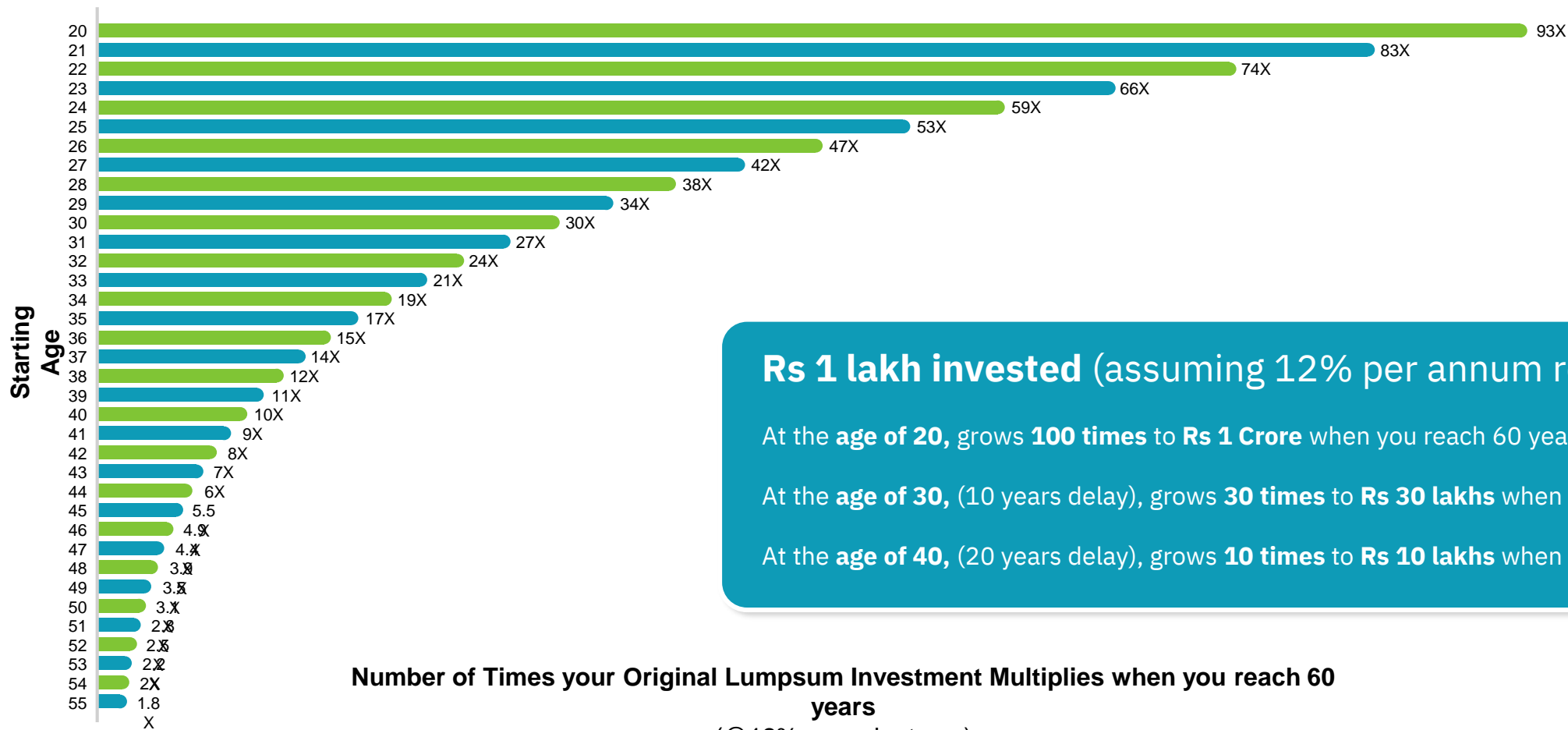
The Power Of Compounding - Slowly & Then Suddenly

Portfolio Value when investing Rs. 30,000 every month @12% per annum returns



Assuming CAGR at 12%

Even a small amount invested early, makes a huge difference over a long time frame



Rs 1 lakh invested (assuming 12% per annum returns)

At the **age of 20**, grows **100 times** to **Rs 1 Crore** when you reach 60 years.

At the **age of 30**, (10 years delay), grows **30 times** to **Rs 30 lakhs** when you reach 60 years.

At the **age of 40**, (20 years delay), grows **10 times** to **Rs 10 lakhs** when you reach 60 years.

Number of Times your Original Lumpsum Investment Multiplies when you reach 60 years
(@12% annual returns)

Assuming CAGR at 12%

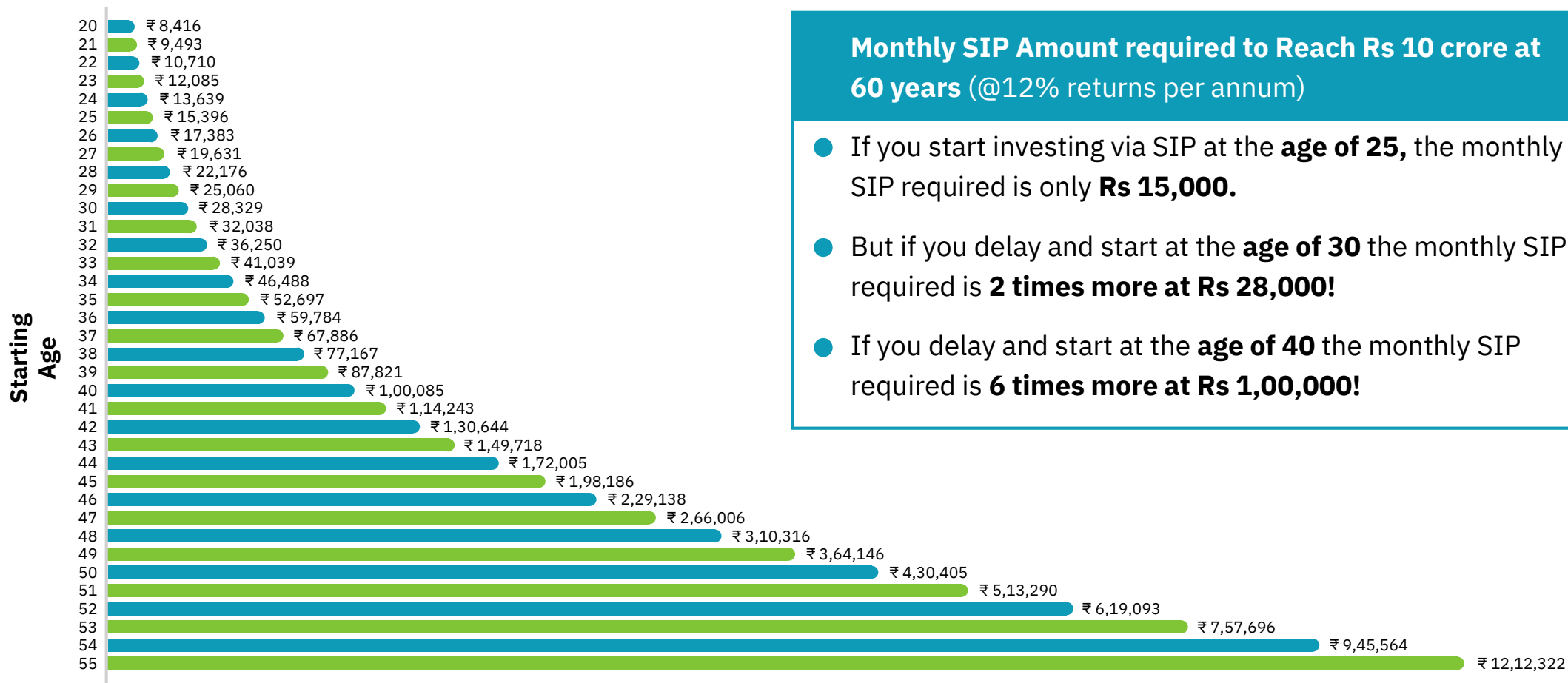
The Power Of Systematic Investments

- Encourages disciplined, consistent investing.
- Buy more units during market dips, fewer during rises.
- Reduces risk through long-term investments at different market levels.
- Lowers average cost of investment.

Here's how an SIP of ₹5000 a month grows over time, at assumed returns of 12% compounded annually.

Years	Invested	Value	Difference
1	₹ 60,000.00	₹ 64,046.64	₹ 4,046.64
3	₹ 1,80,000.00	₹ 2,17,538.24	₹ 37,538.24
5	₹ 3,00,000.00	₹ 4,12,431.83	₹ 1,12,431.83
7	₹ 4,20,000.00	₹ 6,59,894.99	₹ 2,39,894.99
10	₹ 6,00,000.00	₹ 11,61,695.38	₹ 5,61,695.38
15	₹ 9,00,000.00	₹ 25,22,880.00	₹ 16,22,880.00
20	₹ 12,00,000.00	₹ 49,95,739.60	₹ 37,95,739.60

Start Investing Early



Assuming CAGR at 12%

The process of creating a strategy to manage your finances and achieve your financial goals.

How do you create your Financial Strategy? It's easy!

- Identify your Financial Goals, Investment Horizon and Evaluate your Risk Appetite
- Assess your Assets and Liabilities
- Fund your Financial Goal
- Review and Rebalance your portfolio periodically.



Quiz Time!

01

What is the primary benefit of compounding?

- A. It guarantees fixed returns.
- B. It allows you to earn interest on both your initial investment and the interest accrued over time.
- C. It eliminates all investment risks.
- D. It provides immediate liquidity.

02

What is the main purpose of diversification in an investment portfolio?

- A. To maximize short-term gains.
- B. To spread investments across different assets to reduce risk.
- C. To concentrate investments in a single high-performing sector.
- D. To avoid paying taxes on capital gains.

03

What does the risk-reward relationship in investing imply?

- A. Higher risk typically leads to higher potential returns.
- B. Lower risk always guarantees higher returns.
- C. Risk and reward are unrelated in investing.
- D. Lower risk leads to higher potential returns.

Question 01 **Correct Answer: B**

Question 02 **Correct Answer: B**

Question 03 **Correct Answer: A**

**THANK
YOU**