CHAPTER 3

VARIOUS INVESTMENT AVENUES

3.1 Introduction:

Though experienced investors can gain more return and reduce risk, yet overall investments have risks. Investors may neglect risks for returns on investment. The public and private organizations invest in capital market through equity, debt and bonds which are marketable. These securities have varying ratios of risk and return. Various internal and external factors are responsible for fluctuations in the share prices. The internal factors are under the control of organizations which include policies, performance and methods. External factors which are beyond the control but influence share prices, they includes social, economic and political. The management is science and art which is essential to be implemented while taking decision for investment in order to get return. The management also helps in forecasting the trend in returns to financial instruments of investment. The result predictions, market fluctuations and factors which are responsible for pricing of securities are identified with the help of management skills that investors need to adopt while investing.

An individual can save in fixed deposits that are relatively give fixed returns and have almost no risk or can invest in gold and land. But individuals may not invest in equity even though relative returns and risks are high. The individuals may have a specific way of looking at investment instruments. An individual who gives importance to risk aversion has negative attitude towards investment in equity and the one who takes risk and invest in equity has a positive attitude like a gambler. Some invest in equity expecting high returns. Perhaps it is universal truth that every investor needs to have additional money and reliable source of information for investment avenues. Preferably investors invest in provident fund and pension funds, insurance and fixed deposits with banks. The reason for this is thought of that investment in stock and capital market is risky. Even though level of risk and possibility of return is high in stock and capital market, investors may earn returns by doing proper management and decisions using relevant information.
3.2 What is Investment?

An investment is an asset purchased expecting income in future or will make profit selling it at higher price. The investments are done for fulfilling our objectives of life. Investment can be short term or long term which is depending upon investors’ needs.

3.2.1 Types of Investments :

There are some sources of investments from where return can be gained after certain period of time. Major are physical and financial investments. Physical investments are made for the acquisition of physical assets, manufacture and use of those. Few are made for getting return by providing services or advantages. And few of physical assets are used for generating income. The investment in gold, silver or consumer durables are not made for generating income but sometimes for getting funds by selling them.

Figure 3.1 Investment Activity Acquisition of Assets

These investments are divided into Marketable and Non Marketable assets. Marketable instruments are the resources of investment which consist of risk. They include equity, debt, bond, etc. Marketable instruments can create more income than non-marketable. The non-marketable instrument includes bank deposit, FD, National Saving Certificate, post deposit, insurance deposit, pension fund, etc., in which risk level is negligible than marketable but rate of return is fixed.

3.3 Motives of Investor:

Most of investors are interested in getting return on investment without risk. But risk-free investments give a fixed amount of return. If some awareness and management are employed for decision making for investment in marketable investment, then investor can create more income than secured instruments.

There are various resources of investments available in the economy for investors to address and choose to get expected return. Time values of money influence much on return. Inflation tends to reduce the value of money and cash reserves or savings does not give return according to the value of money. Investors prefer to invest after analyzing risk level and the probability of return. Liquidity is also important for every investor for transactions.

The inflation rate is responsible for fluctuating the time value of money. If inflation rate is 7 percent, then return should be more than or equal to 7 percent only when the savings can be invested; otherwise, return is negative. During the short term, the level of risk is minimum, which is why banks, government securities, are giving interest near or equal to the inflation rate. These types of returns are known as risk-free return. Most of investment avenues involve risk or uncertainty. The ultimate aim of investors is to get more return on less risk. Other aims of investors are predicted gains, income, and hedge against inflation. Some investors employ methods involving all goals together known as programming investments.

3.4 Characteristics of Investment:

3.4.1 Risk:

More is the maturity period, the interest need to pay is more as risk involved is more. Money held for two years as deposits carry a higher rate. So the creditworthiness of a borrower is inversely proportional to risk. Risk is determined on the basis of type of
instrument. Equity shares involved more risk than preferential shares and convertible shares. Decided interest is paid on debentures are secured. About ownership instruments, risk level is high as number of factors fluctuate rate of these. Ownership instrument equity shares are fluctuated by various internal as well as external factors. That is why risk involved in is high. Debentures or bonds and convertible shares or preferential share are safer investment instruments than equity shares. Convertible debentures are also has less risk than equity shares. Tax liability affects on these instruments so that investors prefer to invest in tax free instruments such as national security certificates etc. Thus tax is considered as important factor while taking decision belongs to investment and management of the same.

3.4.2 Return:
Most key factor is return which is variable by the ways of investments. Capital appreciation is the difference between purchase price and sale price. Yield belongs to dividend interest per its purchase price. If 50 is dividend on share of which 100 Rs. Is the face value and purchased at 175, the return is 50/175=28 percent. And if capital appreciation says in a year is 20 Rs. On price of purchase as 175 Rs. then the return is: (50+20)/175, gives 40 percent per year.

3.4.3 Safety:
Safety of capital refers to getting the return in specified short period and without loss of money. In the matter of fund lent, there is time and some transaction cost while gaining return back. Except all the costs there need to focus time which is important factor. Time can make return less valuable when it passes more. After long period even return is there but time value according to inflation is decreased. Therefore government bonds and the like instruments give higher return in short period than in case of private organizations by their instruments of investments.

3.4.4. Liquidity:
When assets are convertible for the transactions, marketable or other purposes easily then it is termed as liquidity of that asset is more. Liquidity of asset is considered as good when there is less risk and certainty is more. But liquidity is inversely proportional to the return in the matter of bank saving deposits or schemes of mutual funds. Investors mostly prefer to invest more with liquidity for safety and desired return at minimum risk. Investor always tries to minimize risk and maximize return
(dividend plus capital appreciation). Some instruments are bounded by time limit which reduces liquidity. This is in the case of fixed deposit or equity shares.

### 3.5 Risk-Return Relationships:

#### 3.5.1 Risk:

When investors invest assuming return in certain period but it is possible to delay or nonpayment of principal capital he invested which is risk. The government securities and bank FDs or bonds are risk free investments. As return gives more risk is also more in case of private securities.

#### 3.5.2 Return:

Return or yield varies with different instruments by the means of nature of that instrument, time bounds and debtor or creditor characteristics of the instruments. Risk affect more on variations in the return. But in case of instrument which gives more return, risk involved in is also more. In the case of debentures and bonds there is limited return given as interest or yield only whereas in ownership instruments there is capital appreciation and income too.

#### 3.5.3 Tax Benefits:

As the Government has rights which float some instruments by their bodies and tax benefits possible that is why they give higher return. In this way in India the instruments such as post office deposits, bank FDs, Government securities etc are exempted from tax partly or fully. Tax is exempted up to certain limit in the case of above instruments under the section 80L of IT act. Like UTI units are exempted upto 15000 Rs. Also in dividend limits up to 3000 Rs. Under section 80C there is fully exemption from tax in case of PPF, Government securities, NSS etc. there is different exemption on actual investment on certain conditions. All of these tax benefits are changes with the government budget per year. Sometimes budget policies are made considering the tax benefits in these instruments and for other purposes.
3.5.4 Marketability and liquidity:

Liquidity of any instruments depends upon how much it can be traded and converted into cash. It is by buying and selling but it depends upon market conditions. When there are no buyers then liquidity is negligible. Government instruments and risk free instruments like P.O. deposits, NSC, NSS, bank FDs etc. are not traded hence not marketable but risk is less than other marketable instruments. Thus marketability is directly proportional to liquidity.

3.5.5 Safety Vs Riskiness:

Most of the investors are investing considering one of the important factors is safety. It is expectation of every investor. Company deposits which maturity is about three year provides higher return near about 15 percent as risk involved in more whereas debentures of companies of which return is larger than 15 percent and if buys at discount in the market. Because of no ceiling on the rates of debentures it carry coupon rate of 12 percent-15 percent or even more. Equity shares can gives more return depends on market conditions. Equity shares are chosen for capital appreciation instead of the dividend provided on the investment in. time bounded (maturity period), nature of instrument and creditworthiness of all types of instruments are influences the risk and return. Some external factors are beyond the control of any private organization influence return and risk on instruments.

3.5.6 Need for Tradability:

How much the instruments can be traded or marketable tends to relates much with liquidity as it directly proportional to each other. In India however number of instruments is there for investors, few are having marketability which has liquidity. Tradability of the assets in capital and money market set out as mentioned below:

a) Master shares and UTI units.

b) Mutual funds Shares/Units , if they are quoted/listed on the stock markets

c) Preference shares & debentures of companies and bonds of public sector units, in which there is a limited market.

d) Bonus shares, Equity shares and bonus shares of companied listed on the stock market or stock exchanges.
e) Government securities, capital investment bonds, rural investment bonds, shares of PSUs etc.

Some of the investment instruments are interested area of investors but these instruments are not listed, quoted on stock market as these are issued by private limited companies. Public interest in PSU bonds, debentures of companies is less but these are traded by financial institutions and banks. Some risk free assets which are not quoted and not marketable or traded are bank FDs, Post office deposits, national saving certificates, provident fund and pension funds, insurance policies etc.

Some risk free instruments can be used for securing loans from banks, when in need of liquidity. Most of investors involved in investing in contractual forms which is used as future security, after retirement and in accident or sudden undesired possibilities. All contractual investments are not voluntary investment resources but are traded on different footing. Some assets like insurance policies, post offices deposits, national security certificates and FDs which are voluntary in nature but can not be traded. These instruments can have liquidity up to some extent on the conditions which can reduce return.

Marketability and tradability are influenced by one another cause interrelated. Similarly, safety and liquidity are depends on each other. The basic requirements to be examined for investment are risk and return.

3.6 Classes of Instruments :

Criteria for classification of Marketable Instruments traded:

1) By ownership or debt nature of instruments

2) By term period to maturity-short-term, medium-term and long-term

3) By the issuer’s creditworthiness, say, government securities or private securities or PO certificates, etc.

Group of Ownership instruments consist of preference shares, equity, deferred shares, cumulative preferred shares, non-cumulative preferred shares etc. Debt type assets are bonds, debentures, deposits with banks and companies, etc., The term period of a security or the maturity period also changes from security to security and with the purchase time. Instead of the equity shares, other securities have some redemption and maturity period. So, the debentures have term period up to seven years and preference
shares up to twelve years. Fixed deposits can change from one to five years. Maturity period is given to all debt instruments. The creditworthiness of the issuer of securities will find the risk consists in the payment of interest and repayment of principal. If the issuer is the government the risk is the negligible as the government does not default. There is certainty in the case of these instruments.

Table shown below belongs to the categorized securities and their return-tax properties. Return is no same from these securities, also the tax treated is different security wise.

**Table 3.1 Various Investment Avenues**

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Name of Security</th>
<th>Rate of interest Per Annum</th>
<th>Income-tax Concession</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Post Office Saving Bank Accounts</td>
<td>3.5 percent</td>
<td>Exempt under Sec. 10(15) (ii)</td>
</tr>
<tr>
<td>2.</td>
<td>Saving deposits of Banks</td>
<td>3.5 percent</td>
<td>Exempt under Sec. 10(15) (ii)</td>
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<tr>
<td>3.</td>
<td>Public provident Fund (15 years)</td>
<td>8 percent</td>
<td>Exempt under Sec. 80 C.</td>
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<td>4.</td>
<td>Post office Time deposits</td>
<td>6-7.5 percent</td>
<td>Qualifying under Sec. 80 C.</td>
</tr>
<tr>
<td>5.</td>
<td>Bank Fixed deposits</td>
<td>4 to 8 percent</td>
<td>Qualifying under Sec. 80 C.</td>
</tr>
<tr>
<td>6.</td>
<td>Post office recurring deposits (5 years)</td>
<td>7.5 percent</td>
<td>Qualifying under Sec. 80 C.</td>
</tr>
<tr>
<td>7.</td>
<td>National Saving Scheme (NSS)</td>
<td>8 percent</td>
<td>Investment and income completely exempt.</td>
</tr>
<tr>
<td>8.</td>
<td>6-year post office monthly income scheme (6 years)</td>
<td>8 percent (Payable Monthly)</td>
<td>Qualifying for deduction under Sec, 80L within limit of 12,000/-Rs.</td>
</tr>
<tr>
<td>9.</td>
<td>Kisan Vikas Patra</td>
<td>10.9 percent</td>
<td>No</td>
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<td>10.</td>
<td>NSC VII issue</td>
<td>8 percent</td>
<td>No</td>
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<tr>
<td>11.</td>
<td>Units of UTI/Scheme of Mutual fund</td>
<td>Variable</td>
<td>Separate limit of 3,000 for UTI</td>
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</table>
Equity shares of companies  |
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<tr>
<th></th>
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<tbody>
<tr>
<td>Variable</td>
<td>1. Divided deductible up to 12,000 (Sec.80L) along with other.</td>
<td></td>
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<td></td>
<td>2. Provision for a tax rebate at 20 percent on an investment in eligible equity linked schemes of 10,000 maximum a rebate on 2,000</td>
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Convertible Debentures  |
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<tbody>
<tr>
<td>Variable</td>
<td>Taxable</td>
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Non-convertible Debentures  |
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<tbody>
<tr>
<td>Variable</td>
<td>Taxable</td>
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Fixed deposits of companies  |
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<tr>
<td>Variable depending on credit rating</td>
<td>Taxable</td>
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Preference shares (cumulative)  |
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<tr>
<td>14 percent</td>
<td>Dividend deductible up to 12,000 under Sec. 80L</td>
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Cumulative Convertible Preference Shares (CCP)  |
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<tr>
<td>10 percent</td>
<td>Dividend deductible up to 12,000 under Sec. 80L</td>
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Bonds of Public Sector Companies  |
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<tbody>
<tr>
<td>9-10.5 percent</td>
<td>Interest is tax-free without any limit</td>
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Senior citizens deposits  |
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<tbody>
<tr>
<td>9 percent</td>
<td>Interest is deductible above under Sec.80L Taxable</td>
</tr>
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3.7 Financial Investment Avenues:

Money is the major factors in our life. The three basic needs and other needs of us can’t be completed without money. Even people earn money, they don’t spend sufficient time for financial management or budgeting and investment planning which gives them return. Most of people who earn money but due to lack of financial literacy they are not able to create income as well. Various investment avenues are available in the market which gives return as well. Investment instruments are differs by their nature which influences risk and return. Proper study on these instruments and planning accordingly can gives profitable investment avenues for investors. The tax benefits are also in need while investing in the financial instruments.
Types of Investment Avenues: household investment is considered in two types namely:

1) Financial investment: investment in saving account, fixed deposits with bank, post office, insurance, PPF, bond, securities, share, debentures etc, is known as financial investment.

2) Physical investment: investment in real estate, gold, commodities etc., are known as physical investment.

3.7.1 Saving Account:

Saving account provides people the safest place where they not only keep the money but can make transactions from anywhere anytime and for any purposes through which it is beneficial. Saving account cannot be considered as Investment Avenue because of less interest in given. Even small amount of interest is given on savings investors don’t consider this as investment avenue. Even though investor are investing in other avenue, they require to have saving account in concerned and any can be beneficial while making transaction and investing more. Government deposit salary is kept in saving account. Saving account helps economy also to gather money in record which has not yet been deposited may be termed as the black money.

3.7.2 Fixed Deposit:

Specific amount deposited in bank for specific period of time for getting certain rate of interest is known as fixed deposit (FD).interest rate is varies depends upon maturity period and the amount deposited as fixed deposit. People can take this instrument as risk free instrument as risk is negligible.

Various banks provide various schemes regarding interest and savings. Saver can deposit for longer period of time to take more interest as return after maturity period. Depends upon banks policy it is vary but all banks provide good interest on savings for longer period of time. Most of nationalized banks and private banks are ready to provide advanced services to customers through advanced technology. It is very beneficial to investors who are ready to invest more than 5 years.

Currently, interest rates provided starting from 2.50 percent to 9.50 percent for domestic deposit and more than these additional interest rates of 0.50 percent to 1 percent given to senior citizen. Various banks provide various interests. It can also
varies depends on category of bank whether it is in the public sector/private sector or is a foreign bank. Repo rate and reverse repo rate imposed by RBI on banks influences the interest rates of bank given to their customers.

3.7.3 Recurring Deposit :
Many investors are in need to adopt habit of saving in order to achieve for their future objectives such as pension, future child etc. that is why investors regularly deposit a sum for fixed period of time. The installments are paid after certain period of time and amount depends upon scheme and number of years. Minimum amount is fixed or limited but there is no maximum limit. The time period, interest rate and amount of minimum installments are varies with bank to bank. Daily after 1st April the interest is computed. Customers/investors require setting his duration for that period he desire to invest and how much benefit, installments interest he desire after that duration. Time, benefits and interest are varies but where these suits to investors wants, he invest for that period. For short duration, investors would have returns which are less than normal saving interest so it may be termed as no sense to go for short duration deposits. Near about 1.5 percent to 3.5 percent interest given on short duration which is very less than that of normal saving account interest.

3.7.4 Flexi Deposits :
Almost all banks are looking for customer satisfaction by providing bank services with liquidity as possible as with good return. Above the minimum savings the amount of customer is converted into fixed account. Compound interest is not given on saving account or fixed deposits but simple interest is given on. Some or most of the banks are providing return as interest on deposit for the period till withdraw amount. This is varies bank to bank.

3.7.5 Public Provident Fund (PPF) :
PPF is becoming the base of government securities because it is the major resource of fund which can be invested to create more return and tax benefits possible from this instrument are more than other. Some of important features are mentioned as such:

The PPF is for every Indian whether he/she is rich or poor, employed or unemployed it is very beneficial for securing future through pension fund for retirement etc. there may be purpose of income tax and wealth tax benefits that can be possible through this investment instrument. As it is for all Indians the minimum subscription is 100
every month. In a year it is minimum 500 Rs. And maximum is up to 70 000 per year. The minimum term period for this investment is fifteen years which after then increased for set of duration of five years and then till death of investor. After the death it is transferred or paid to nominee. These facilities are provided through post office, state bank of India and nationalized banks.

It is possible to investors to open account without himself by the wife name and children. There is tax exemption provided on these investments. Minimum amount is five hundred where as maximum limit is seventy thousand rupees. Even more amount is deposited it will be paid after one year with interest. The penalty of fifty rupees if charged when not deposited in one year period. After two year PPF account holder can get the loan. The interest of PPF varies when government change and when every year in budgeting some changes made as economic policy. PPF is one of the instruments which make people habitual of saving money for longer period of time. This instrument for deposit is available at post office and state bank of India.

3.7.6 National Savings Certificate:

In order to promote saver Government of India issued National Saving Certificate which is safer than any instrument which is issued by private organization. NSC is available at post office. NSC is designed by Government of India for Govt. employee, businessman and other who has monthly income and are come under tax payer. Rs.100, Rs.500, Rs. 1,000 and Rs. 10,000. Is denomination in which NSC is available? Eight percent interest is given on this certificate and tax is applied in interest of matured amount. This instrument is exempted from wealth tax under 80C. The term period for maturity is up to six years. 8 percent interest paid is computed half yearly.

3.7.7 Post office Savings:

Post office in India is the oldest system that has been using by the Indian people since there were no sources of sending letters along long distances. After independence, the Indian postal system has grown at high speed with adopting advanced technology as the completion increases. Post office is under-developed institution. It is the only financial institution which reached many years ago to rural and semi urban people. Post office fails to provide variety of financial instruments because of lack of skills in financial services and limitations of government to make ahead with financial
services. Though number of financial instruments are available with different financial institutions, most of rural people prefer to deposit saving in POS of post office. Post office generated a good habit saving in people. Post office saving provide good interest even on short duration. PO MIS providing 8.2 percent interest per year. It was 8 percent when with interest rate government was giving 5 percent bonus on maturity. Now interest increased to 8.2 percent but bonus is not provided. 4.5 Rs. is the upper limit and 1500 Rs. Is lower limit for this saving? TDS and wealth tax is exempted from this saving. When account is closed before the maturity period, deposited amount (2 percent) is charged as penalty which is deducted from saving. The duration of six year is changed to five year from 1st December 2011. 4.5 lakhs is the upper limit with single account if you want to increase limit then it would be possible when account is joint. Saving habit of people specifically rural people is made possible by post office. Since many years this saving is becoming preferable choice of rural people for saving because it gives good interest rate monthly basis.

Post Office Savings Schemes:

1) 5 years post office recurring deposit account
2) Post office time deposit accounts
3) Post office savings account
4) Senior citizen saving scheme 2004
5) Post office monthly income account (6 years)
6) National Savings Certificates VIII issues
7) Kisan vikas Patra

3.7.8 Equity Share Market:

People/investor/individual is always in need to invest through financial instrument which gives good return. Financial market is place where people buys and sell to generate income. This system effectively gives platform to people where they can have variety of financial products as follows:

1) Financial market:
2) Capital market: (Equity and Long term debts instruments)
3) Money Markets: (short-term Debt Securities)
4) Derivatives Markets: (Financial Products for management of Financial Risks)

5) Commodities Markers: (Trading of Commodities)

6) Future Markets: (Forward Contract)

7) Insurance Market: (Products to Transfer the Risks)

8) Foreign Exchange Market: (Trading of Foreign Currencies and to International Trade)

Money market and capital market are two broad classification of Indian Financial market. Capital market facilitates Investment for longer period of time and to get more return. It becomes the prime factors for the economic indicator, financial system GDP growth and key factor for Indian Economic growth. New India is the known as fastest growing economy in the world; capital market is big contribution for this.

SEBI (security exchange board of India) is regulating capital market which is again classified into two classes one in secondary termed as stock market and other is primary market which belongs to issue of new shares/IPO. Key fact we are discussing is stock market. Let us see briefly the primary market.

Every investor is desire to get more return on his investment. Variety of investment avenues is available in market but in short period more return can be possible through stock market. Equity shares gives more return but risk involved is also more. Let us see concept of equity.

Equity: share of particular company is smallest part or unit of that organization. When you own shares of a company means you are part or owner of that company except rights because rights are with owner who own more than 50 percent shares of company. Many researchers have found that equity shares is the only instrument which can gives high return in short period of time. To get more return on investment it is essential to have knowledge of particular company, industry the company belongs and environmental (internal and external) factor.

NIFTY & SENSEX are two indexes where trading made. NIFTY is of national stock exchange i.e. NSE and SENSEX is of Bombay stock exchange i.e. BSE. These index shows flow of market positive or negative which are drawn on major companies listed on NSE & BSE. Generally share prices are increased by growth, profit or expansion of particular company. Company’s growth and good result responsible for increase in
share price. Some government policies also influences these depends upon relationships. Recently due to GST (goods and service tax) bill passed, most of logistics and consumer durable industries will have tax benefits which tends to increase profit. That is why their share prices can raises. Having focused and knowledge of all these things gives right choice to invest in share market.

Demat account need to open for trading in share market. Investment in shares is made by two ways, short term investment and long term investment.

- **Short Term Investment:** investors invest in shares for short period one month to six months. During this period on the basis of knowledge of company information regarding growth, profit, quarter result, announcements and some external factors which influences company such as government tax policies, investors take decision regarding buy and sell of shares. Those who invest for getting return in short term known as ‘traders’ Through proper knowledge investor can create more return in short period. News, current market situations, foreign market conditions etc. are the major factors which fluctuate share price. Without analysis of all related factors, investor can not gain more return in short term.

- **Long term investment:** shares are held for the duration of more than one year are considered long term investment. This is the safe investment than in short term because during this period investor can analyze company and by other side company can improve its condition. Those who are investing for longer period known as ‘investors’. In span of more than one year most of company can improve their business using different policies. Investors can take more benefits holding long term such as dividends, bonus shares, share splits, tax benefits etc.

- **SEBI’s Role:**

  Primary Market: while issuing shares which value more than fifty lakhs, company needs to file draft offer document with SEBI. Observation which is given by SEBI, It is valid up to one year. These requirements are not applicable in case of QIP (qualified Institution Placement. As per rules and regulations of SEBI the company has to comply with all criteria and requirements of SEBI(investor protection and disclosure) guidelines-2000. SEBI rules and regulations are In order to avoid malpractices.
Secondary Market: By investors side SEBI play greater role. The fundamental or primary objective of SEBI to secondary market is to protect the interest of investors towards investment as much as possible & to promote development. To achieve objective SEBI involved in registration, supervision & inspection, monitoring of intermediaries. SEBI formulates policies for development and promotion in investment. SEBI make provision for the excellence in the execution of all operations and functions.

3.7.9 Commodity Market:

Commodity market involve in nonfinancial products. It includes retail & wholesale market. Commodity market consists of trading of number of food grains, metal like gold, silver, platinum etc. According to FCRM (foreign currency regulation act) commodity refers to any movable property except automatable claims, money & securities. Organized future market belongs to the Indian commodity trading which was created in 1975 through aegis which is of Bombay Cotton Trade Association for trading in cotton contracts.

Globalization & liberalization are the major factors to stimulate change in Indian commodity market. Due to globalization & trade blocs every country are interdependent on each other. Therefore fluctuation in one major economy such as in USA, CHINA influences the commodity market of interconnected countries like India. In recent our share in global market is not as much as other economies like china USA’s share. But we are now at express way towards growth through innovative products like mutual fund and other risk free instruments and Government policies.

Indian Commodity Trading

After the break of thirty years due to ban, the Indian Government has permitted trader for trading in 54 commodities. India is beginning economy which has taken initiatives in commodity trading earlier than many countries. Though India is not contributing as major economy in commodity trading, yet it’s potential towards becoming major economy has proved by recent achievements.

Commodity Exchanges in India:

1) Multi commodity exchanges (MCX)- Mumbai
2) National Multi-commodity exchange (NMCE)-Ahmadabad

3) Indian commodity exchange Ltd (ICEX)- Delhi

4) National commodity and derivatives exchanges 9NCDEX)-Mumbai

The timing of exchange for trading is 10.00 am to 05.00 pm and at evening starting from 05.00pm to 11.00 pm except trading holidays.

Vision of the commodity Exchanges:

1) To facilitate an effective & efficient platform of trading to all investors.

2) To belongs global benchmarks for market standard

3) To adopt advanced technology for efficient & effective mode of communication for investors

4) To make our commodity market as world’s bigger & efficient trading platform.

Regulatory Body of the commodity market

Forwards market commission (FMC) regulates commodity market in India. FMO is established in 1953 under the forward contracts act, 1952. Head office is at Mumbai. The framework of rules and regulation which drives commodity market, are passed by FMC. Like SEBI, FMC deals in achieving its objectives of avoiding malpractices from intermediaries and protecting & promotion of investment. In involves from registration and certifications to investigation supervision and inspection in order to make excellence in the execution of all operations in forward market.

Demand and supply are two major factors which influences price of commodity. Sometimes due to excess production, supply increases which tend to reduce prices or goods and when due to scarcity of goods prices increases. This fundamental of demand and supply can be applied while investing in commodity market. Derivative contract is used for investing in commodity in which risk is involved.

Agro-Based Products: Cotton, Oils, Wheat, Corn etc.

Soft Commodities: sugar, Coffee, cocoa etc.

Energy: Natural Gas, Gasoline, Crude Oil,

Precious Metals: Gold, Silver, Platinum etc.
Other metals: Copper, Nickel, Aluminum etc.

The main commodity exchanges in India are MCX, NCDEX and NMCE. Through DMAT account investors can trade in equity as well as commodities. The fluctuations in prices of commodity are due to demand and supply. These fluctuations are not only due to national but also influences by demand and supply in global market. For example the demand and price for cereals was high due to less supply during the year 2015 but this demand might reduce in 2017 due to importing of cereals in the year 2016 and excess production which might possible in the year 2016.

3.7.10 Forex Market:

People who are aware about foreign exchange, are minimum than the people aware about equity and commodity market. Currency value varies country wise. It fluctuates due to interdependence among the countries. All trading or business transactions which done internationally that requires to convert currency according to concerned country. The trade of one currency for another currency is done through forex exchange market. The largest liquid financial market in the world is forex market.

Important terms belong to Forex:

**Spot:** The name itself means the term. Spot trading of foreign exchange is generally termed as spot, in which there is buying of one currency with the other currency for spot delivery. The settlement of trade plus two days are standard to all spot trade. In this period both the parties need to confirm transaction and payment clearance to each other.

**Forward Outright:** A forward transaction of foreign exchange generally known as forward outright. It is deals with contract of the exchange one currency for another between two counter parties wherein on a certain future date the actual settlement takes place which is more than two working days after the date of deal. Forward outright give protection to importer and exporter from change in currency rate.

**Swaps:** Financial derivatives can be exchanged through swaps. It involve to exchange sequence of cash flows between two parties. When buying and selling or vice versa done at a time of similar amount of on currency for another with two different value dates is termed as foreign exchange swaps.
3.7.11 Mutual Fund:

A mutual fund is collective investment system where investment is pooled from many investors for securities purchasing. Due to huge collection of investment it can be collectively invested in different securities in order to create income regularly. This system is known as asset management company i.e. AMC which then appoint a professional fund manager who involve in the scheme management in achieving the goal of getting substantial returns.

Meaning:

It is association of all investors who make collective investment which are handed over to Asset Management Company. This collective investment employed for generating income through securities. Hence, it is also termed as collective investment vehicle. In Mutual Fund Company there are fundamental analysts and technical analysts who are involved in analyzing the companies or industries fundamentally and technically so that the mutual company can predict the company or industry in about sales, growth, profit and expansion which are the major factors of business to influence share prices.

Many investors who are not have sufficient knowledge about share market, they invest in mutual fund which is the safer than any other. Mutual fund scheme are chosen by investors but do not initiate. Professional fund manager deals in formulating various schemes which gives good return on investment in securities like bonds, metals, gold, debt instrument and the like various financial instruments. Innovative and creative products and schemes are formulated by mutual fund Company through which they can get more return on investment of which they distribute among small investors as dividend. Investors can diversify his fund across various industries like in pharma fund, banking etc. Objectives of fund are sets by fund manager for example objective of growth stock fund which belongs to equity market. Fund is invested considering long term financial needs such as retirements, education of child etc.

It is need to keep in mind that mutual fund schemes have influences of fluctuations in financial market as like other financial instruments. Investors is not capable to practice diversify fund in different sectors. But they can do so effectively through mutual fund schemes. Mutual fund companies have expert team who involved in
making diversified investment through which return can be possible regularly. Mutual fund is the collective investment of many small investors. Net asset value i.e. NAV of mutual fund’s scheme is changes with changes in value of investment in market. Net Asset Value is calculated by division of market value of assets of scheme by the number of units issued. Mutual fund benefit is the investment made is diversified. It is invested in set if different sectors and instruments through which risk level can be reduced. Mutual fund comply all the rules and regulations of SEBI. It addresses and drives towards achieving SEBI’s objective of avoiding malpractices and protecting investors. Mutual fund scheme can also be categorized on the basis of investment objective, structure, and nature. They are as follows”

A) By structure:

1) Open ended Funds: this fund belongs to the set of investment products. Mutual fund is open end fund which deals in diversified investment. This fund is invested to repurchase of shares based on the value of fund or net asset value NAV.

2) Close Ended Funds: though it looks like open end fund, yet it is very different. Shares are issued at beginning through IPOs to generate funds than traded in open market. There are 650 closed end funds which are currently trading on the market exchanges. Few of these are like HYT corporate high yield fund providing dividend higher than 8 percent.

B) By nature :

1) Equity fund: equity fund can be categorized as bond funds and money funds. Equity fund can also be subdivided using objectives of investment. Some of them are Large-cap funds, tax saving funds, large cap funds, diversified equity funds etc.

2) Debt Fund: aim of this fund is to invest in debt instruments which are issued by private and government authorities, banks and financial institutions. These funds can also be categorized as short term plans, monthly income plan, income fund, liquid fund.

3) Balanced Fund:

By Investment objective:
1) Balanced Schemes
2) Income Schemes
3) Money Market Schemes
4) Growth Scheme

Other Schemes:
1) Sector Specific schemes
2) Tax saving schemes
3) Index schemes

3.7.12 Insurance:

Many insurance products are designed considering long term perspective. Insurance is a mechanism or system which manages risk. Now day’s investor does not require only life insurance policy which gives benefits only after death or injury. Investor desires to get return after certain period of time with security till that date.

In most developed countries near about all people are insured. In India more than half of populations are not covered by insurance security. Some of good policies and plans of government is being gradually going towards achievement of insurance security of all country providing with very affordable insurance policies. Though insurance and investment is two different thing, yet people desires to get insurance as instrument of security and investment too.

Life Insurance:

Life insurance is an agreement between insurer and insurance policy holder. In life insurance policy holder will take benefits upon sudden death or critical illness in exchange of premium. Most of life insurance policy provides returns as retirement on maturity. The life insurance policy is not investment instrument. Benefits are given future of child education, marriage etc.

Since many years life insurance is favorite and reliable security to cover life security of insured. Primary responsibility of any family head is to provide security to his family, to secure education, marriage of child. Uncertainty is more in today’s life for that it is needed to complete responsibilities by investing in insurance. Short term benefits can’t possible through insurance policy. It provides financial protection to
insured from unexpected death, critical illness and the like incident in our life. In case of sudden death, the sum of money designated as benefits given to the nominee.

**Type of Insurance:**

1) Life Insurance: Insurance policies provide security to the life of insured person of family.

2) Health/medial, critical illness insurance: with exchange of premium paid by policy holder, insurance company pays a specific amount or amount required for medical expenses upon an accident or critical illness.

3) General insurance:

A) Auto or Motor Insurance: probably it may happens that any vehicle can be damaged by an accident. In order to provide security from the losses due to such damages the insurance company provides recovery amount to the insured. In India all people are not insured by life insurance policy but almost all vehicles are insured by general insurance policy.

B) Property insurance or Home insurance: it provides security to the property of insured from natural calamity or from burglary, theft and the like incidents.

C) Personal accident insurance: in this insurance policy compensations are given upon death, total or partial disability.

D) Travel insurance: any goods or assets like gold, jewelry etc can be lost due to theft or the like incidents while in travelling to a specific destination. For such losses during domestic and international travel, the recovery amount or specific amount is paid by insurance company to the insured.

General insurance can’t be used as investment instrument which gives return but it provides the security to the property or assets of insured from natural incidents like floods, earthquakes or manmade incidents like theft, burglary etc.

**3.7.13 Debentures :**

Debenture is debt instrument which is used to raise fund with fixed and floated interest rate. Government and Private Companies issue this type of instrument for fund generation.
3.7.14 Bond:

Bond is a debt instrument which is issued by state and central government. In this instrument, the investor loans fund to a corporate entity or government entity that borrows fund for a certain period of time at a fixed or variable interest rate. Simply, it is defined as a signed promise that a specific amount is to be paid on a specific date on certain conditions.

3.7.15 Government Bond:

Government bond is issued by the national government as a written promise of interest payment periodically and repayment of face value at the time of maturity. Sovereign bond is similar to this bond. This product is considered as the most preferable instrument at a time when tax exemption was there.

Features:

1) NRI can’t buy this bond but any Indian individual can buy this bond.

2) The bonds can be purchased or owned or held in the name of individually or by jointly as joint holder or in case of minor on behalf of parents/legal guardian.

3) This bond can be held by a nuclear family.

4) Investment limit is not bounded by limit. There is no limit on the investment.

5) The minimum subscription of this bond is 1000 & for more investment it is multiple of one thousand. Even though the bonds are issued at par 100.

6) Even though return on bond is exempted from wealth tax, income tax is imposed for interest exceeding ten thousand rupees under the income tax act 1961.

7) Payment of interest can be made in every six months on non-cumulative basis or at the time of term end on cumulative basis.

8) Ownership transfer is not in case of the bonds except as gift given to relatives under the section 6 on Indian companies act 1656.

9) The term period or maturity period of this instrument is six years from the issue date. Redemption is not possible before 6 years.
10) Banks, financial institutions & NBFC i.e. nonbanking financial corporation can’t lend loan using bonds as collateral.

3.7.16 Real Estate:

Real estate belongs to the fixed assets includes land, building and building material. As investment perspective real estate is the traditional investment resource which always have been given more return than any other investment instruments. There are many financial instruments available in market which gives more return in short period of time but risk involved is more than traditional investment. In real estate level of risk is negligible as there is boom since many years. Real estate is booming back again due to current economic growth. FDI is one of the major factor to bounce back of Indian economy. Through FDI many real estate companies enters Indian economy which are driving our real estate at fast growth. India is now boosted its economic growth through various trade bloc and government policies.

In order to have watch on new real estate projects in 31 specific major cities and to ensure the completion of these projects legally, the Reserve Bank of India taking initiatives through set up housing start up index. The initiative of RBI ensures progress in real estate. Real estate sector is called wealth creating sector across the world. The most expensive basic need of people is shelter which belongs to residential projects. Now every cities across the world involved in construction of residential projects through which it made possible not only the expansion of city but fulfillment of need of people. Though the houses under these residential projects are costly, yet people are ready to buy through financial assistances facilitated by banks and NBFCs.

Ample of opportunities are possible in real estate through variety of residential projects which demand has been increased since many years across the world. Specifically in metropolitan cities are acquired large areas with increase in population. Most of rural people have preferred to stay in cities instead villages because of facilities like education; hospital and sources of income are more. As government is providing tax benefits in case of house buying and residential projects, real estate sector have cluster of opportunities to expand and wealth creation.

Investing in real estate is not possible be lower and middle class people as it is not affordable to them even though real estate is worth creating. But it is very effective
source of income for upper middle class people. Instead of investing with risk it is always better to invest in real estate with lowest risk and higher return.

**Types of Real Estate:**

1) Residential plots/lease-hold land/farm house/semi urban & urban-rural land
2) Bungalows/villa/row houses/twin bungalows
3) Commercial office/shops
4) Apartment/flats/condominiums/penthouses/duplex

3.7.17 **Gold/Silver:**

Precious metals which are traded include gold, silver, platinum & palladium. Liquidity of these assets is higher than that of other metals. Inflation is directly proportional to price of these metals. So these metals are used as a tool of hedge against inflation. Gold and silver is traditional investment avenue which has been using preferable investment source. Most of Indian people preferably have been investing in physical metal gold. Investment in gold gives dual benefits; one is consumption this metal as necklace and other this product can easily converted into money due to its higher liquidity. Gold is the only metal which retains value at any period of time.

3.7.18 **Chit Funds:**

Periodically saving of fund can be done through chit fund. It may be daily, monthly, or weekly basis and which gives easy access at the time urgently needed. In chit fund group of people as investors invest fixed amount periodically and lend to the person on auction basis. Chit fund system is executed by a financial institution or unorganized system which managed among friends or relatives. Kerala, Gujarat these are the state where chit funds are used as the major resource of generating return.

3.8 **References:**