CHAPTER 4

INVESTMENT DECISION MAKING AND SOURCES OF INVESTMENT INFORMATION

4.1. Introduction:

The investment that involved risk is difficult to make decision. SWOT (strength weakness opportunities threats) and PEST (political economical social technological) analysis is the best procedure through which organization can know about financial strength factors or any other strength factors. Also it is possible to know about market opportunities and risks, this gives details about current situation and future possibilities in terms of growth, share price and result as expected.

4.1.1 Investment Decision:

Investment decision in stock market belongs to purchase and sell of shares. Fund provision and information flow influences the decision of shares to buy or sell. Common investors required to make whether the fundamental or technical analysis depends upon how much period investors wants to return. For the short term it is beneficial to common investors to make technical analysis. Sometimes there may be wrong time to invest because there might be situation that happened Harshad Mehata scam. In such situation there need to make fundamental analysis because it belongs to the company past record, quarter results and expected future performance. In this way risk can be reduced to much extent and investors will not face losses.

A market condition is responsible for investment decision. Extent of 50 percent possibilities of Share prices depends upon fundamentals of company and rest is depends upon the external factors that beyond the control of organization and forecasting on future expected performance for return and growth of organization.

Secondly the past performance, present working and future prediction on performance of the company influence the decision to invest and also affect the share prices.

Thirdly, investor’s psychological factors or perceptions influence their decisions. If share prices satisfactory then investor decides to hold the shares (hold decision), if
share prices is at low level the investor decides to buy shares (Buy decision), and if shares prices are at high level or overvalued then investors decides to sell (Sell decision).

The investor’s psychological factors like his mental situation, mood may reflect in preferences. This gives the investment without technical and fundamental analysis. Some investors may take investment decision considering friends advice or broker’s advice. Sometimes common investors make buy decision looking to 52 week low prices and take sell decision when shares beyond 52 week high. This decision is not scientific as much as it is considered as scientific when it belongs to fundamental or technical analysis. Sometimes, external factors like bad global market situations may affects our market even past, present and future expectations are good.

4.1.2 Risk and Investment :

Investment in shares is risky and it is unsystematic risk, but can be reduced by diversifying investments into different companies. Equity, fixed deposits and debentures are various investments in stock market. Choosing different companies can reduce risk upto some extent as some companies like TATA, Reliance etc. are major one having good records of past, present and future expected performances. Those investors who want risk free investment prefer to invest in high valued stock known as blue chip companies which have good records. Some companies are blue chips, some are emerging blue chips and some are risky ventures. Analysis of these types of companies can made through fundamental analysis, quoted on the exchanges.

4.1.3 What is Fundamental Analysis?

It belongs to the analysis of company performance whether the market price is fair, overvalued or undervalued. Performances of company not depend on the internal factors only but on the external factors which are beyond the control of company but can influence the company performance or growth. So fundamental analyses involve three major steps are:

a) Economic Factors and Their Analysis

b) Industry Analysis

c) Company Analysis.
One-half of total performance of company depends on the internal factors which are under the control and can possible to make improvement in. but some socio-economic factors, industry factors have large impacts on company performance which need to be considered while evaluating company performance. Fundamental analysis involves three major steps above mentioned are involved in analysis of these external factors.

In the economy some companies expand their growth some lacking progress and some contracting based on market conditions and external factors. Investors required investing in the shares of the company which have better performance in the past and expected in future.

4.1.4 Investment Objectives - Goal Programming

1. Ultimate objective of investment is return or yield. Higher the return, higher the risk. Risk is directly proportional to the return or yield. In bank deposit risk is very less and return is fixed.

2. Every investor prefers himself the type of investment. So some investors who want risk free investment invest in the post office deposits, bank FD etc. some investors invest in land, real estates and some invest in gold, silver etc. which are traditional investment pattern.

3. Investors can invest only when he/she satisfy the basic requirements as house, furniture, vehicle and other household requirements. After satisfying these needs investor can think for the allocation of funds in the investments in LIC, shares, FD etc.

At last investors after satisfying all requirements will think about to plan for investment to get return in as short as possible. Some of the funds would invest for return in short period and some would invest for long period. There are various possible alternatives like shares, FD, post deposits, real estate and gold. One more objective investors want to kept while invest is tax saving.

4.1.5 Cost-Benefit Analysis:

Cost-benefit analysis play vital role while investing in financial assets like deposits, bonds, debentures, shares, etc. Risk and Return are the major factors of as cost and benefits respectively. Degree of risk is based on the certainty or variability or return. Degree of risk is based on the certainty or variability of return. there are various type
of risk such as non-payment of dividend/interest, delay or non-payment of principal, variability of return or market value of investments. Risks may be classified as-

a) Company Risk  
b) Market Risk  
c) Business Risk  
d) Commodity/product Risk  
e) Financial Risk  
f) Economy Risk of the Nation  
g) International Factors  

Economic risk factors are government policies, tax policies, RBI rates, inflations and fiscal policies and international factors are international import and export prices of goods.  

Risk of business belongs to the business of company, product, purchasing or selling etc. Commodity risk belongs to the vis-à-vis competitor’s changes in tastes. External factors like interest rates, inflation effects are financial and market risks which are beyond the control of organization. Company risk is different for every company and is depends upon internal factors which are under the control of organization.  

In the external factors or risks such as socio-economic factors, political and commercial problems etc. the cost is the fund spends on assets purchase, registration, brokerage charges etc. Due to non-payment of interest or dividends or capital losses causes uncertainties and risks which is unexpected and additional risk.  

Investment decision process certain benefits can be made possible or assessed in terms of regular return (interest and dividend) their regularity and certainty belongs certain return of capital, safety and security of funds, marketability and liquidity of investments.  

4.1.6 Environmental Considerations:  

Sometimes investors consider many factors related to investment such as family requirement, economic background, assets of neighbors and the like factor while investment management. Some external factors may influence his investment decision. People who are agriculturists invest in plough and other agriculture
instruments like harvesters, tractor and the like used for the production of food grains. Other than these they invest in gold and silver or real estate because of impact of environment as people are valued in the places by the amount of gold and real estate they own.

Other side, people belongs to urban and metro cities are investing in the different resources for getting return. The funds are invested in the luxurious products and financial instruments. In semi-urban and urban areas NBFCs attracting in investors through better interests and incentives in investments.

4.1.7 Chit Funds and Nidhis :

NBFCs like co-operative banks, chit funds housing financing companies, mutual benefit funds etc. are mostly governed by state acts and partly by RBI in the matter of raising the deposits. Chit funds belongs to the activity of saving and lending return on monthly basis or will give lump sum return in a year depends upon mechanism. It includes lottery chits, price chits, conventional chits etc.

Mutual benefits funds and nidhis are also give fair return on investments to member of these funds. These funds are safe and beneficial so long as the promoters or members are honest and dependable. But there are many cases in which it happens as unscrupulous among members and promoters which cause misuse of funds. Although these things can possible, there are lows and rules to regulate them. These type of investments are risky than others. So, investors need to be careful in taking investment decision in chits, nidhis and even finance companies.

4.2 Tax Planning in Investment Management :

Objective of investment management is getting highest return with tax reduction. Tax planning is done through reducing tax liability. Some elements of tax planning are as follows:

4.2.1 Income Tax :

Income tax rates are different from 10 to 30 percent. 2+1 percent extra charges are on the tax payable. Interest income and dividend income are exempted upto 2500. Under section 80C investments in specified finance or other instruments are exempted from income tax upto one lakh. Return from dividends and mutual funds schemes, bank
deposits etc. exempted up to certain limit under section 88 income tax acts for the contribution to NSS, PF for tax exemption etc.

4.2.2 Wealth Tax:
There is no limit to investment in shares debentures and investments in gold, housing, cars etc. are also exempted from wealth tax upto Rs.15 lakhs.

4.2.3 Corporate Taxation:
Corporate tax is fixed to 30 percent from 1995-96 for the widely held or closely held business organization. Corporate tax to foreign companies is somewhat different and it is 33 percent as in 2009-10.

4.2.4 TDS:
Ten percent for interest income and twenty percent for dividend income is tax deduction in recent. Mutual funds and banks were exempted from TDS but from 1995 onwards on these also TDS enforced.
Specific instruments like approved securities or PO certificates are exempted from income tax upto Rs. 60000 and twenty percent of investment for rebate. Also investment in infrastructure bonds government approved are also exempted upto 1 lakh only. Mutual fund schemes which are linked to equity are upto Rs.10000 investment and rebate upto rupees one lakh are exempted under section 80C of IT Act.

4.2.5 Capital Gains Tax:
Twenty percent for individual and thirty percent for corporate units are taxable for long-term capital gains. Long term capital gains are taxable those which are gotten after 12 months in the matters of shares, UTI and mutual fund schemes. In real estate, after 36 months to be made in focus as capital gains. Transaction tax is applied on buying or selling stock on stock exchange.

4.2.5 Gift Tax:
Gift that is given be NRI to resident are exempted from gift tax but gift that given to other residents are exempted from gift tax up to one lakh. P.A. Exemption limit of gifts that are given to marriages of relatives are raised from Rs.30000 to one lakh in
budget plan of 1994-95. From 1998 onwards gift tax is completely exempted and it is considered as income of the donors to be taxed.

4.3 Execution of Investment Decisions:

When investor decodes to invest in corporate securities and have selected the scripts to buy or sell he give order to broker or sub-broker. By the laws of exchange, the broker or sub-broker has to issue order in his inward as in form of written or telex or telephone etc. broker or sub-broker has to issue contract note to client within one or two days. If order of buying or selling the stock is executed on own account vis-à-vis client then consent of client is mandatory and trade should be made at market rate.

Broker can issue contract note but sub-broker cannot. Incase sub broker can take contract not from broker and confirmation to client. The client has to verify the contract note and the order given or executed by himself or through broker. There are some variations possible while order is given by client within the range of minute to minute. In such cases some of fluctuation are need to be considered fair within that certain range otherwise complaint can be with the exchange.

According to the directives of the SEBI, the contract note consisting of the price or stock, brokerage charged and service tax payable to broker which the pay to government, this gives the transparency but at present day sub-brokers registered from SEBI can issue contract note about trade made by or from client. Broker charges the surcharges and brokerage income at 5 percent of that income.

The client has to pay on buy or sell the stock according to pay in or pay out depends upon he is seller or buyer. These pay-in and pay-out dates are decided in advance and brokers need to convey about to clients. A trade cycle of 10 to 15 days for each settlement are of some exchanges which are following from the date of trading. SEBI directed the stock exchanges to have constant period of five days of trading. Few exchanges follow trade cycle of 5 days when they have cash scrips or ‘B’ group shares pay-in-day comes during the range of 10 to 15 days from trading day. Few days after the pay-in-day, pay-out is decided. The client needs to wait for these (15-20) days but this period is reduced to two to seven days after Demat form of trading. These information regarding pay-in-days and pay-out-days with delivery of shares and amount receipt, the client can aware about trading rules and SEBI rules. If rules of SEBI about trading and payment are not followed by broker, trade is not
considered as fair trade and if they do not respond promptly with SEBI then client can complaint made to stock exchange in which they are member.

4.4 Sources of Investment Information:

The source of information is the first step of security analysis. The forces and variations on demands and supply determine the price. This forces or pressures are in perfect auction market termed as the securities market. The information passes and fund availability influences the pressures on demand/supply.

The types of information, which are relevant for our purposes, are of the following categories:

4.4.1 World Affairs:

There are various international factors which influences domestic income, output and employment. For example stock market of the major economies like china, USA effects on our stock market. Global external factors like recession may influences our economy a lot. In 2008-09 there was a recession which affected number of factors with stock market.

4.4.2 Domestic Economic and Political Factors:

Various factors are responsible for our market get affected. Those factors are gross domestic products, agricultural output, monsoon, inflation, taxation, money supply, government policies etc. Agricultural growth rate affected the GDP growth in the years 2008 and 2009-10.

4.4.3 Industry Information:

In the decision making of investment various factors are need to be considered. These factors are market demand, competing units, installed capacity, import competing products, input and capital goods abroad, international demand for exports, capacity utilization, market share of the major units, market leaders, prospects of the industry, labor problems and government policy towards the industry.

4.4.4 Company Information:

Security price analysis required various relevant factors which are industry chambers or associations of industries, press releases on corporate affairs by government, Dept.
of company affairs and their circulars, stock exchanges publications, annual reports, corporate data etc.

Security Market Information: Investment management requires data from various resources. It requires data from market trends, data from the credit rating of companies, security market analysis and market reports, equity research reports, trade and settlement data, record dates and book closures, listing of companies and delisting etc. BETA factors require as necessary information.

A. Security Price Quotations: Technical analysis play vital role for investment decision. It requires range and rate of changes in variables, price indices, price and volume data, breath, daily volatility.

B. Data on Related Markets: Forex market, money market, commodity market, government securities, gold market etc. are important for making decision belongs to alternative avenues of investment.

C. Data on Mutual Funds: Due to investment avenues they require their schemes and their performance, NAV and repurchase prices etc.

D. Data on primary markets/new issues, etc.

4.5 Need for Information:

Proper and on time information is needed for market analysts and for investors to take investment decision. Without information investors and analysts depends on hearsay and hunches. However economy and uncertainties are increases tends to increase in complexities in market. That is why investors and analysts need information flow accordingly and properly which help to take right investment decision. To gather information and its analysis are expensive and require expertise which all investors not have Information from books is different than practical analysis. These types of investors are required to take decisions by hunches and intuition and not on scientific analysis of the data. Sometimes information is available before it reach to public and it is used which tends to take malpractices known as insider trading. For such type of practices SEBI has power to control insider trading, rigging up or prices and malpractices in the secondary market in India and provision for the punishments.
4.5.1 World Affairs:

There are various financial foreign journals and national which focuses on the global financial matters, may be belongs to economic situations, fiscal deficit, factors affects GDP etc. Some these foreign journals are London Economist, Far East Economic Review and Indian Journals like, fortune India etc. Business India focuses on economic growth and situation, financial nature in India and abroad. World Bank and IMF Quarterly Journal and IMF News Survey focuses on global developmental factors.

4.5.2 National Economic Affairs:

National information regarding financial nature, economic growth may be found in daily news papers particularly financial papers. Information of wealth, economy of country available in the journals like Economic and political Weekly, business today, business India, Fortune India, RBI Annual Reports, CMIE reports, reports on currency and finance. Government of India conduct survey for the economic planning and reports of C.S.O., D.G.T.D. and Dept. of Companies etc. explore the information on Indian economy, industry, trade sectors. Various reports like reports of various ministries, planning commission provide valuable and more information related to wealth and economy.

4.5.3 Industry Information:

There are Associations which publish information related to industry growth, industry economic situation likewise planning commission, government in India, publication from Industry and Commerce Ministries also have lot of information. Time to time updated information belongs to industries and companies are provided by BSE. There are many financial journals like Southern Economist publishes information of economy of industry, government and private organizations. At micro level information among industry matters is published by government publications. But government publications are not providing or publishing up to date information but it is provided by monthly reports of various associations up to date.

   a) **Company Information:** information regarding quarter result, financial news and the like new related to various companies which are listed on Stock Exchange is provided by daily financial papers, business journals, Dalal Street, The Economic Times newspaper. In some business related newspaper
quarter result, balance sheet or the company is provided but on specific day like economic times show updated quarter result on Saturday per week. BSE(Mumbai Stock Exchange) publishes detail information about companies and industries. NSE and BSE publishes and provide online information about industry or company quarterly, weekly, monthly and yearly. NSE and BSE online provide graphical form and statistical form of detailed company information.

b) **Security Market Information:** Many Broker firms which are having lots of clientsand high turnover are sending newsletters related to market information with technical and fundamental analysis. Details information about security market is available in the Business India, Dalal Street, Fortune India etc. management institute ICFAI also publishes economic data, company information regarding quarter result, financial nature and growth through their chartered financial analyst. Information regarding trade cycles and settlements, dates of records, etc are provided in financial news papers like business line, economic times, financial express etc. which is after released from the stock exchanges and companies. Some of information booklets like investment analysts, newsletter of broker firms, merchant bankers are provided to client as subscribers. All of above information resources and their collection is time consuming and expensive.

c) **Security Price Quotations:** Stock exchanges like NSE are publishing details of trade as day high, day low, graphical representation monthly, yearly, two yearly and five yearly which gives a brief summary/history of company. It also gives information about total volume of stock on daily basis in traded volume and trade value. The financial dailies and journals provide information regarding EPS, GPM, fundamentals of company etc. they also provide information of daily volume, high and low, yearly high and low with price data. Industry wise, region wise and for all securities the price indices are provided or published by RBI, BSE and major Stock exchanges in our nation.

The information required as technical analysis is provided in software. This software is available in CDs and sold by software companies for technical analysis. The share holding pattern, schedule of distribution, price data history are also available in software which published by BSE as in information.
required for technical analysis. All of this information can be gathered from weekly, daily papers and fortnightly journals on stock markets.

d) **Data on Related Markets**: RBI and DFHI, publishes the information belongs to money market, government securities markets. This information is also published by Indian bank association, Securities Trading Corporation and NSE. This information by publishers on stock market is more on money and government securities market. Information regarding Forex market is provided by RBI publications, FEDAI (Foreign Exchange Dealers Association of India) in the form of cross currency rates and exchange rates on daily basis in financial dailies. Fortnightly and weekly journals publish the information regarding growth of these markets. Also RBI bulletins and CMIE reports publish this information. Foreign journals like Far Eastern Economic, London Economist and Wall Street Journal are providing the details information about forex markets.

e) **Data on Mutual Funds, UTI**: information regarding current schemes, NAV of each scheme on the basis of market price and repurchase price, redemption rate etc. is published through daily financial papers. NAV on each scheme is in respect of sale price for open ended funds purchase price for close ended funds. Information on mutual funds are also available on Google websites. These information is published in various daily papers, journals like the capital market dalal street and business India.

f) **Data on Primary Markets**: The magazine “PRIME” publication is playing vital role to provide information required for draft prospectus. The information regarding issues in pipeline industry-wise and size-wise analysis is provided through prim magazine. The performance of merchant banker, company and brokers also new issue market information, geographical and centre-wise collection of new issues and other the like information are provided through prime. Information regarding Forthcoming new issues can be provided through financial journalists. All of these information and related data are published time to time quarterly, yearly and half yearly by RBI and Dept. of Company Affairs and SEBI.
4.6 Uses of these Data:

The broker firms, investment consultancy firms, portfolio requires all the investment information on companies, industries and economy.

Research & Analysis

1) Market Analysis: Liquidity in the Market Floating Stock Volume Turnover, Price Trends R.O.C., etc.

2) Economy: Indicators like GDP growth rate, Inflation rate, Money Supply etc.

3) Industry: Capacity installed, utilized, position, govt. policy changes etc.


4.7 Methods of Analysis:

1) Fundamental Analysis: Analysis of the Economy, Industry and Company, Selection of a Diversified, Portfolio of Companies

2) Technical Analysis: Market Data on Prices, Volume Rate of Changes Moving Average etc, Selection of Timing.

4.8 References
