CHAPTER 3
INVESTMENT OPPORTUNITIES IN MARKET
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STOCK MARKET
Introduction of Stock Market / Industrial Security Market
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- Debentures and Bonds.
- New Issue Market,
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Preference Shares,

- Features of Preference Shares,
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Debentures and Bonds,

- Features of Debentures and Bonds,
**Stock Market**

In the era of globalization, Industrialization is the main requirement and measures your competitiveness, which is difficulty having immense effects on financial as well as moralistic features of any country.

For emergence of industrialization and its development requires cheap easily available with lesser conditions capital generating resources and industrial security market is main source for generating capital/ funds with above stated qualities.

Industrial Security Market is also known as Stock Market, which consists of two complementary parts,

- **New issue Market (NIM), and**
- **Stock Exchange.**

The new issue market deals with those securities which are issued to the public for the first time. The stock exchange is the place for secondary sale of securities. These securities which have already passed through the NIM and are quoted in the Stock Exchange, thus providing a continuing and regular market for buying and selling of securities in India.

- **What is Industrial Securities:-**

The most important component of the industrial securities market comprising the new issue and stock exchange market are the industrial securities themselves. This is the physical or tangible asset through which the market function. The three types of securities through which the corporate sector raises, their capital are:-

Equity Shares, ordinary Shares or common Stock Preference shares, and Debentures or Bonds
• **Equity ordinary Shares of common Stock**:-

These are called variable divided securities. From the point of view of the company it is advantageous to issue these securities as payment of dividend is not mandatory. The investors view is that this is the best type of investment as the share holding can be converted into cash. Further, the investor also participates in the earning and wealth of the company. The value of ordinary share increases during inflation and act as a hedge against it, thus increasing the importance of these shares.

• **Preference Shares**:-

These are called fixed interest bearing securities of several types. The preference share holders are entitled to claims before ordinary shareholders but after fulfillment of creditors share. The operating preference shares are.

1. **Cumulative and Non-Cumulative Preference Shares**:-

Most Indian preference shares have a fixed dividend with cumulative rights.

2. **Redeemable and Irredeemable Preference Shares**:-

Redeemable ‘preference shares with varying maturity periods are the usual form of shares issued in India.

3. **Participating and Non-Participating Preference Shares**:-

Participating Preference Shares are not issued in India, ‘preference shares are also not very popular.
• **Debentures or Bonds:**

In India debentures derived importance only since 1970. There are various kinds of debentures in the market these are:-

• Registered

• Bearer

• Redeemable

• Perpetual

• Convertible And

• Right

In India the pattern of debentures quoted in the stock exchange show that prevalent ones are redeemable and convertible debentures. Normally, the debentures is Rs. 100/-. In India, the convertible debentures have become significant. These debentures can be converted into ordinary shares as the shareholder after a certain number of years. Right debentures are also being issued but generally financial institutions and trusts purchase these debentures.

The bond market in India is not well developed but the bonds issued by public sector financial institutions are becoming quite popular with the public. Since 1985, public sector institutions have been encouraged to borrow directly from the public. This had led to the issue
of bonds by Mutual Funds and financial Institutions. In recent years, the bonds issued by IDBI have received overwhelming support of the public and have been oversubscribed.

- **New Issue Market:-**
  
The new Market according to Henderson has three important functions.
  
  - Origination,
  
  - Underwriting and,
  
  - Distribution.

  The NIM facilitates the capital market to raise long-term funds for industry. New issues are further classified as “initial” issues and “further” issue. Initial issues are capital issues offered for first time by a new company. Initial capital can be raised only through equity or preference shares.

  When existing companies raises issues, it is called “further” capital. Such organizations can raise debentures.

  In India, the New Issue Market is restricted to the function of underwriting. There are various methods of issuing capital. They are,

  - Issue through Prospectus,

  - Offer for Sale,

  - Private Placing

  - Stock market Placing, and

  - Rights Issue.
In India, 80% of the issues are through prospectus and it is here that the function of underwriting takes place. The need for underwriting in India arises from the fact that the promoter prefers to get his issue underwritten for reasons security and surety in case of unsatisfactory public response.

Security and Exchange Board of India has introduced many reforms for regulating pre-issue activities in the New Issue Market. It has also tried to bring reforms to protect the interest of the investors. It has tried to regulate the dealings on the Stock Exchange. SEBI proposes to bring self regulations for crating healthy statutory regulations leading to a healthy environment in the new Issue Market.

**Stock Market / Secondary Market**:-

In India, there are thirteen recognized Stock Exchanges. These are situated Mumbai Kolkata, Chennai, Delhi, Ahmedabad, Bangalore, Hyderabad, Kanpur, Cochin, Pune, Jaipur, and Ludhiana. The Mumbai Stock Exchange has the largest number of companies listed with it.

The main objectives of the Stock Market are to provide ready marketability, liquidity, negotiability, control of dealings and protection of interest to investors. In India, the industrial securities market is small. The movement of the stock exchange is not an indicator of the economies financial condition. The stock market is dominated by speculators who thrive inflationary pressures and scarcities. The stock market is centered on a few industrial units. The public sector organizations have to some extent increase the business in stock exchange.

In the stock exchange, only listed securities are allowed to be auctioned and bought and sold. Listed securities are “cleared” and “No-
cleared”. To get listing arrangements have to be made by observing certain rules. These are (a) memorandum of association which should conform to the requirements of the stock market, (b) Public subscription should be offered through prospectus, (c) Prospectus should conform to the rules, (d) allotment of shares must be fair and unconditional and (e) listing agreement must be executed. Securities after listing can be branded as cleared securities only if they comply with certain requirements. They will be put on the clearing, if they are fully paid up equity shares of non-banking companies, being traded in the stock exchange for at least three years and should not be on the cleared list of any other stock exchange. The subscribed capital of the company should be Rs.25 Lakh and the aggregate market value of the company should be rupees one crore and at least 49% of the capital of the company should be held by the public.

The controller of issue strictly controls the issue on the stock exchange since 1970. All companies which were listed in the stock exchange would make further issues only by observing certain rules and regulations. The further issues had to be issued first existing shareholders unless otherwise specified. If further issues had a convertible clause and shares were allotted to financial institutions on loans, debentures and bonds into equity shares such shares where to qualify for enlistment. A part of the transactions in the stock exchange consist of forward trading. This implies buying or selling of certain goods at some date, on which date the transactions is to be started. Forward trading in India is done in commodities, foreign exchange as well as shares. In this manner, the stock exchange operates in India.
Industrial Securities:-

**Equity Shares:**

Equity shares are also called common shares and are from the point of view of investment more risky than both bonds and preference shares. They, however, afforded greater advantages than both the other securities and in the capital market enjoy a better position as far as the investor’s attraction is concerned. Equity stock gives several rights to the shareholder. He has the right to vote, the right of dividend, the right of being offered right shares, the right to bonus issues and certain tax-benefits.

**Equity Shares as an Investment:**

**Easily Transferable:**

Equity stock may be purchased or sold in the stock market immediately after purchase. The transferability clause gives the shareholder a right of purchasing as well as transferring his shares at will. This means that the assets or investment is highly liquid if it can be sold in the market. This liquidity feature gives the benefit of profitable stock. Investment in these shares becomes wide rather than limited because of easy transfer.

Transferability feature gives the shareholder a right of using the stock as collateral in banks for obtaining loans.

**Liability:**

The liability of the stockholder is limited to the face value or par value of denomination at which the share has been issued. While the shareholder has the right of being the owner of the firm, his liability is limited only to the extent of his investment. If the company has a greater loss, it will meet its losses from other sources. Also, the
shareholders rights of paying are attached only during consequences of
dire urgency. It is very rare that the equity shareholders are called to
pay an amount either during dissolution, reassociation or
reconstruction of a firm. The limited liability makes equity investment a
valuable form of investment.

**Profit Potentiality:-**

An investor can hope for a price appreciation and rise in the
value of his equity stock. There is, however, a risk attached to the price
appreciation, but many stocks do not appreciate at all. It is a risky form
of investment and these risks should be carefully considered before
making an investment. While profit potential is maximum in equity
shares, the risk of loss and the danger of being the red or having a
minus value is even greater. Care should be taken before making an
investment. An analysis of the per share earnings of the firm must be
made before considering its investment potentiality.

**Purchasing Power Risk:-**

Equity share is considered a highly risky investment but it is
considered safe from the point of view of the purchasing power risk.
Purchasing power risk generally more in the case of bonds and
preference shares which offer annual led income. Equity stock not only
provide share growth of the firm but the purchasing power risk is
minimized because these are easily transferable and can be, sold
depending on the market value of the share. Potential risk in price is
accepted and if there is no price appreciation, then they can be sold.
From the point of view of purchasing power risk, it may be considered
safe but it is important to evaluate at alternatively with the feature of
risk.
Preference Shares:-

Preferred stock unlike bonds has an investment value as it resembles both as well as common stock. It is a hybrid between the bonds and common stock. It resembles a bond as it has a prior claim on the assets of the firm at the time of liquidation. Like the common stock, the preference shareholders receive dividend and have similar features as common stock and liabilities at the time of liquidation of a firm.

The preferred Shares / Stock have the following features:-

Dividends:-

A preference shareholder has priority over equity shareholders in the payment of dividends but the rate is fixed unlike the common shareholders which vary. In India, the rate of dividends of preference shares is usually fixed by the Controller of Capital Issues. Preference shareholder usually get cumulative rate of dividends so that if in one year, the company does not pay a dividend, it pays the same in the next year. These dividend also have a priority over equity shares.

Types of Preference Shares:-

Cumulative and Non-Cumulative Preference Shares:-

These shares have the right of dividend of a company even in those years in which it makes no profit. If the company does not make a profit in the year 1981, 1982 and 1983 but makes a profit in 1984, it must satisfy its preference shareholders in the year 1984 and make full payment for the years for which it has not declared and dividend. This maybe paid altogether in 1984 with interest or in installment but before the rights of the common shareholder have been satisfied.

If the preference shares are non-cumulative in nature, they do not have a share in the profits of the company in the year in which the
company does not make profit. The advantage of preference shares is that they are usually issued as cumulative.

**Redeemable and Irredeemable Preference Share:-**

All Preference Shares are non-redeemable in nature. Non-redeemable means like the common stock, its existence is permanent in nature and its shareholding is continuous till the liquidation of the company. In this sense, it resembles the equity shares but non-redeemable preference shares do not have an investable value in the market so far as the investments are concerned.

To attract the investor, clause is inserted for redeeming the preference shares after a certain number of years. This redeemable quality integrate its rate in the market because it is considered a stable form of return and also hedge against inflation and purchasing power risk avoided because of the nature of return of the preference shares. Usually, these preference shares are redeemed between 10 to 15 years from the time of issue. This makes excellent investment for those who wish to get a stable rate of return and also fight the risk of purchasing power as in the case of deposits in banks or provident funds.

**Participating and Non-Participating Preference Shares:-**

Participating Preference Shares are not issued in India. In India Preference Shares are also not very popular.

**Convertible and Non-Convertible Preference Shares:-**

A convertible preference share is to be evaluated both as a preference share as well as an equity stock. It has the advantage of receiving a stable income in the initial few years and then the conversion into equity stocks. This gives it stability of income plus
appreciation plus premium plus constant rate of growth. In the initial few years, it is a safe investment because the dividend will be continuous and it will be safe also. The investor receives a continuous stream of payments and it will be evaluated with similar preference share in the market.

But those which do not have a convertibility clause. In this sense, the preference share will have an investment value or floor value. It will evaluate at a later date.

As stated above each preference share may be individually described or certain features may be added to it. A preference share with all the features would be a favorable investment but it is important to note that an investor should not purchase only preference shares because it suffers from the drawbacks of purchasing power risk and there is less appreciation of price unless it is converted into equity stocks.

In India, preference shares are not considered a useful medium for investment. Up to 1980, equity stock have been the best form of savings for an investor. But with the introduction of convertible debentures, new policies of Life Insurance, Unit Trust and Post Office Savings, the investor finds an array of investment outlets. Now he may choose any investment from the point of view of security, safety, price appreciation, share in growth and most important in a country like India, tax benefits.

An investor in a higher income group must be careful to invest in those outlets when the maximum tax benefits can be taken care of. To a small investor, stability of income is more important than risky investments and tax benefits. Whomsoever be the investor, a balanced portfolio should be desired so that he should hedge against all possible unfortunate circumstances and for an immediate and safe investment.
Corporate Debentures or Bonds:-

In India, debentures derived importance only since 1970. There are various kinds of debentures in the market. These are

- Registered,
- Bearer,
- Redeemable,
- Perpetual,
- Convertible and Right.

In India, the pattern of debenture quoted in the stock exchange show that the prevalent ones are redeemable and convertible debentures. Normally, the face value of a debenture is Rs.100/-. In India, the convertible debentures have become significant these debentures can be converted into ordinary shares at the option of the shareholders after a certain number of years. Right debentures are also being issued but generally financial institutions and trusts purchase these debentures.

The bond market in India is not well developed but the bonds issued by public sector financial institutions are becoming quite popular with the public. Since 1985, public sector institutions have been encouraged to borrow directly from the public. This had led to the issue of bonds by mutual funds and financial institutions. In recent years, the bonds issued by IDBI have received overwhelming support of the public and have been oversubscribed.

Corporate Bonds or Debentures:-

Bonds are senior securities in a firm. They represent a promise by a company to the bondholder to pay a specified rate of interest during a
stated time period annually and the return of the principle sum on the
date of maturity. Date of maturity is called the date of retirement of a
bond. Bond are of many kinds. The difference in bonds is due to the
terms and conditions and features each bond bears. Bonds may be
distinguished according to their repayment provisions, types of security
pledged, time of maturity and technical factors.

**Repayment of Principle:-**
1. Repayment of Principle
2. Specified Time Period,
3. Call,
4. Pledge of Security,
5. Fixed and right of preference in receiving interest,
6. Protective Clauses in Debentures.

**Advantages of Investing in Bonds and Debentures:-**

**Minimizing Risk:-**

Bonds are considered to be less profitable than stocks and they
are usually expected to provide a lower return than stocks. Bonds are,
however, purchased as they are supposed to be “Less Risky than stocks.
Bonds are exposed to some risk, purchasing power risk, investment risk
and price risk. These risks are minimized as there is a promise to pay
the principle sum at the end of the maturity period coupled with fixed
income return in the form of interest it therefore, gives an element of
stability of return which is not promised in the case of equity shares.

**Tax Savings:-**

Bond is one of the unique methods of savings in tax for business
firms. While income in the form of dividends is not deductible, interest
on bonds can be deducted. The earnings per share of the shareholder are also increase. This is also the cheapest form of financing for the firm. This form of finance in terms of interest is lower than the rate of interest at which loan will be obtained couple with deduction of interest for finding out the tax to be paid by the firm. Also, the company has the benefit of using financing leverage.

**Bonds and Debentures:-**

Corporate bonds must be carefully analyzed before investing in them. The consideration before an investor should be,

- To find out the Quality of the Bond,
- Credit Position of the issuing company,
- Regular Payment of Interest and Risk and Return on Bonds.

**Quality of Bond:-**

The quality of bonds is judged by profitability of a firm. Profitability of the firm is found out by finding out the earning power of a firm, the return on total assets and the return on net worth. The financial leverage should also be found out by debt ratios and interest coverage ratios. Finally, an analysis into working capital ratios will also determine the investment grade of bonds. These financial ratios predict the future as well as the present quality of the issue. The quality of bond has also to be found out by the type of industry, location, grants, received by it, government subsidies allowed, the size of the company, its rating in the market and record of dividend paid to its shareholder.

**Position of Issuing Firm:-**

Before investment in a bond, the financial position of a company may be assessed. While it is difficult to find out the repayment of loan
position of a company through its Balance Sheet or Profit and Loss Account, the market reputation of a company can be assessed through its dealings with a bank and its Dealings with other business organizations. Apart from this, if loan has been taken from financial institutions, an assessment of the firm’s credit positions is available from the credit ratings of these institutions.

**Repayment Facility of Payment of Principle:-**

A good indication of the quality of a bond is the future ratings of a company from its assets and the security offered to the bondholders. If a first charge of property is issued in favor of bondholders and the value of property is likely to rise, the bondholders are amply secured.

The company’s debt position should also be analyzed. If it has taken small amount of loans in comparison to the market value of assets, the bondholder is adequately protected. Finally, the future of the company must be ascertained in terms of the product it manufacturers and distributors, the expected growth and potential demand for the product these factors will determine the type of quality of the firm and its ability to repay the principle amount to the bondholders.

**Regular Payment of Interest:-**

The firm’s capacity to pay interest regularly should be measured through an analysis of its cash flow and earnings power. The ratio of debt to net worth and other debt to fixed assets should be assessed. The total debt employed by the firm should not exceed the net worth. It may also be worthwhile to find out if there is adequate coverage of interest the net income of a company should be at least three times of the interest payment.
Risk and Return on Bonds:

Every security is faced by systematic and unsystematic risk forces, within the framework of risk; return in the form of yields can be calculated. The yield of a firm, its stability and creditworthiness are indicators for the quality of bond investments.
Mutual Fund

- What is Mutual Fund?
- Definition of Mutual Fund,
- Function of Mutual Fund,
- Advantages of Investing in Mutual Funds,
- Objectives of Mutual Funds,
- Organizations of Mutual Fund,
- SEBI’S CODE OF CONDUCT FOR INTERMEDIARIES OF MUTUAL FUNDS,
- Types of Mutual Fund Schemes,
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**Mutual Fund**

**What is Mutual Fund?**

The dictionary meaning of mutual fund is “Unit Trust”. It should be taken as “trustees” or the fund left with them by the subscribers and partnership firms. Mutual Fund (MF) is a company that invests the pooled funds of many shareholders to create diversified portfolio of securities. “Pooling” is the key to mutual fund. Each mutual fund has a specific investment objective and tries to meet those objectives through active portfolio management. It is non-banking, non-depository intermediary, which brings together the investors who have surplus funds (money) to invest in corporate units and who need the money for their industrial projects.

In other words the Mutual Funds are financial intermediaries that pool the financial resources of investors and invest those resources in (diversified) portfolios of assets. Open-end mutual funds (the majority of mutual funds) sell new shares to investors and redeem outstanding shares on demand at their fair market values. Thus, they provide opportunities for small investors to invest in a diversified portfolio of financial securities. Mutual funds are also able to enjoy the economies of scale by incurring lower transaction costs and commissions. The first mutual fund was established in Boston in 1924. The industry grew very slowly at first, so that by 1970, 360 funds held about $50 billion in assets in U.S.A. since then the number of funds and asset size of the industry have increased dramatically.

In India, there are a large number of mutual funds which are under the regulatory framework of Securities Exchange Board of India (SEBI) with the exception of Unit Trust of India (UTI). All Mutual Funds should have a net worth of Rs.5 crore each, they have set up a board of
trustees and appoint directors. The Mutual Fund concept is based on sharing of risks and rewards. The income and capital appreciation arising out of investments are shared among the investors. Their securities are subject to market risk. Share prices can move up and down. The Mutual Funds are able to perform better than an individual because a careful selection of securities over a diversified portfolio covering large number of companies and industries is made and the portfolio is constantly reviewed. Mutual Funds select a large share of equities in case of growth although this has a great risk, the potential for capital appreciation higher in growth schemes.

Besides growth schemes mutual funds also have income schemes. When they have income schemes, they invest in securities of a guaranteed return. They generally select a large share of fixed income securities like debentures, and bonds. All growth schemes are closed ended and income schemes are either closed ended or open ended.

Stock market is an economic barometer of a country. It facilitates flow of funds from those who have excess funds to those who are in need of funds. It is the lifeblood of a financial system of a nation.

With progressive liberalization of economic policies, there has been a rapid growth of capital market, money market and financial services industry including merchant Banking, leasing, leasing and venture capital. Consistent with this evolution of the financial sector, the mutual fund industry has also come to occupy an important place. The Indian mutual funds industry is witnessing a rapid growth as a result of infrastructural development, increase in personal financial assets, and rise in foreign participation. With the growing risk appetite, rising income, and increasing awareness, mutual funds in India are becoming a preferred investment option compared to other investment
vehicles like Fixed Deposits (FDs) and postal savings that are considered safe, but give comparatively low returns.

The Indian mutual funds retail market is growing at CAGR of about 30% and it is forecasted to reach US$300 Billion by 2015. Small investors face a lot of problems in the share market, limited resources, lack of professional advice, lack of information etc. Mutual funds have come as much as needed help to these investors. It is a special type of institutional device or an investment vehicle through which the investor pool their savings, which are to be invested under the guidance of a team of experts in wide variety of portfolios of corporate securities in such a way, so as to minimize risk, while ensuring safety and steady return on investment.

**Definition of Mutual Fund by securities and Exchange Board of India (SEBI)**

“Mutual Fund is a fund established in the form of trust by a sponsor, to raise money by the trustees through the sale of units to the public, under one or more schemes for investing in securities in accordance with these regulations”.

Whenever we come across names such as unit trusts, investment companies, mutual funds, mutual banks or mutual saving banks, investment trusts, trusts companies and personal trust funds, we may be confused. All these names all have certain common words, do not refer to the type of institution.

**Mutual Fund Concept:-**

A Mutual Fund is trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares,
debentures and other securities. The income earned through these investments and the capital appreciation realized is shared by its unit holders in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

Advantages of Investing in Mutual Funds are:-

- Economy of scale of operations,
- Spread of risk,
- Expert and professional management,
- Diversification of portfolio,
- Freedom from housekeeping,
- Tax Benefit
- Low brokerage and transaction costs, and
- Good portfolio performance.

1. **Professional Management**: - The basic advantage of funds is that, they are professionally managed, by well qualified professionals. Investors purchase funds because they do not have the time or the expertise to manage their own portfolio. A mutual fund is considered to be relatively less expensive way to make and monitor their investment.

2. **Diversification**: - Purchasing units in a mutual fund instead of buying individual stocks or bonds, the investors risk is spread out and minimized up to certain extent. The idea behind
diversification is to invest in a large number of assets so that a loss in any particular investment is minimized by gains in others.

3. **Economies of Scale:** Mutual fund buy and sell large amounts of securities at a time, thus help to reducing transaction costs, and help to bring down the average cost of the unit for their investors.

4. **Liquidity:** Just like an individual stock, mutual fund also allows investors to liquidate their holdings as and when they want.

5. **Simplicity:** Investments in mutual fund is considered to be easy, compare to other available instruments in the market, and the minimum investment is small. Most AMC also have automatic purchase plans whereby as little as Rs.2000, where systematic investment plan (SIP) start with just Rs.50 per month basis.

**Disadvantages of Investing in Mutual Funds:**

1. **Professional Management:** Some funds doesn’t perform in neither the market, as their management is not dynamic enough to explore the available opportunity in the market, thus many investors debate over whether or not the so-called professionals are any better than mutual fund or investor himself, for picking up stocks.

2. **Costs:** The biggest source of AMC income is generally from the entry & exit load which they charge from investors, at the time of purchase. The mutual fund industries are thus charging extra cost under layers of jargon.
3. **Dilution**: Because funds have small holdings across different companies, high returns from a few investments often don’t make much difference on the overall return. Dilution is also the result of a successful fund getting too big. When money pours into funds that have had strong success, the manager often trouble finding a good investment for all the new money.

4. **Taxes**: When making decisions about your money, fund managers don’t consider your personal tax situation. For example, when a fund manager sells a security, a capital-gain tax is triggered, which affects how profitable the individual is from the sale. It might have been more advantageous for therefore individual to defer the capital gains liability.

Many Mutual Funds/Unit Trusts also offer Ancillary Services such as.

1. Saving schemes for regular monthly investment in units,
2. Some life insurance schemes whereby investment in units is linked to the regular, monthly or quarterly payment of premiums on a life policy,
3. A Share exchange schemes,
4. A personal loans schemes, and
5. An automatic reinvestment of income distribution.

Financial institutions such as unit trusts and contractual savings organizations have a special place in the financial system for certain reasons. First, there existence provides a substantial demand for stock which helps for stock priced to rise over long periods of time. Second, if corporations have to attract individual investors in larger numbers, they might have to pay more funds in dividends. But purchase of stocks by
institutions like unit trusts which seek both dividends and capital gains permit corporations to retain large proportion of their earnings.

Since there in flows of funds usually exceed their out payment because they continue to grow they do not have to think about selling their assets, to meet temporary needs for funds. This enables them to overlook temporary fluctuations in stock prizes and to concentrate on long-run prospects of stock values but this may not always be the outcome of the operations of unit trusts.

Their emphasis on capital gains and the fact that they tend to concentrate their attention on a limited number of favorite stocks often caused the prices of stock to raise more than they would otherwise have done. What effect unit trusts have on the volatility of stock prizes is a controversial matter.

In earlier days all mutual funds by definition, were supposed to be open ended organizations. However in practice, open ended ness is no longer a distinguishing characteristic of mutual funds now. Unit trusts now have some schemes which are open-ended, and some other which are closed ended. Similarly, sometimes, although certain schemes are closed ended, and some other which are closed ended, they are offered again to the investors in order to give them an opportunity to invest continuously, which tends to make such schemes virtually open-ended.

**Objectives of Mutual Funds.**

“The size of the market is very large. Competition is nothing as compared to the size of the market and if all of us cooperate and grow the market will still be large enough to accommodate all of us and many more”.
Mutual Fund is one of the major instruments of service sector of economy, which is pooling down saving from the small investors, and invests those savings in more profitable manner, and gives fair rewards for that to the principle investor’s unit holders.

**Organization of Mutual Funds:-**

Vigil funds have a typical organization in which five key parties or players or special bodies or constituents are involved. They are:

a. The Sponsor, the Board of Trustees (DOT) Or Trust company (TC),
b. The Asset Management Company of (AMC),
c. The Custodian, and
d. The Unit holder.

Though the Mutual Fund industry in India has registered a healthy growth over the last 15 years, it still is very small in relation to other intermediaries like banks and insurance companies. The Mutual Funds are usually formed by an “Investment Adviser or Managers of Sponsor” who actually select and appoint a board of trustees, which, in turn, hires or contracts a separate “Asset Management Company” which in run by Professional Managers. The Asset Management Company conducts the necessary research for, and based on it, manages the fund or portfolio. It is responsible for floating, managing redeeming the schemes; it also handles the administrative chores. It receives the fees for the services rendered by it. The custodian is responsible for coordination with brokers, the actual transfer and storage of stock, and handling the property of trust. He is answerable to the asset management company.

Mutual Funds can sell their units directly to the investors or they may employ the sales force of brokers and agents for that purpose. Some mutual funds in the United States of America charge their
investor a sales fee for the costs involved in selling the fund, and they are known as “load funds”. Those who do not charge such a fee are known as “no-load fund”. All funds charge their five years shareholder a management fee which is paid out of the funds income. Templeton International (Sponsor) set up the Templeton Mutual Fund which has been constituted as a trust under the Indian Trust Act, 1882 and registered with SEBI. The mutual fund is, in a way an umbrella organization that floats various schemes in which investors participate. The asset management Company organized as a separate joint stock company manages the funds under its various schemes.

**ORGANISATION OF A MUTUAL FUND:-**

There are many entities involved and the diagram below illustrates the organization set up of a mutual fund

**Mutual Fund Industry History:-**

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank of India. The history of mutual funds in India can be broadly divided into four distinct phases.

**First Phase – 1964-87:-**

Unit Trust of India (UTI) was established on 1963 by an Act of Parliament. It was set up by the Reserve Bank of India and functioned under the Regulatory and administrative control of the Reserve Bank of India. In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI
was Unit Scheme 1964. At the end of 1988 UTI had Rs.6,700 crores of assets under management.

**Second Phase-1987-1993 (Entry of Public Sector Funds):-**

1987 market the entry of non-UTI, public sector mutual funds set up by public sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first non-UTI Mutual Fund established in June 1987 followed by Can bank Mutual Fund (Dec 87), Punjab National Bank Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund (Oct 92), LIC established its mutual fund in June 1989 while GIC had set up its mutual fund in December 1990.

At the end of 1993, the mutual fund industry had assets under management of Rs.47,000 crores.

**Third Phase-1993-2003 (Entry of Private Sector Funds):-**

With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investment a wider choice of fund families. Also 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993.

The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. the industry now functions under the SEBI (Mutual Fund) Regulations 1996.

The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry
has witnessed several mergers and acquisitions. As at the end of January 2003, there were 33 mutual funds with total assets of Rs.1,21,805 crores. The Unit Trust of India with Rs.44,541 crores of assets under management was ahead of other mutual funds.

**Fourth Phase—since February 2003:-**

In February 2003, following the repeal of the Unit Trust of India act 1963 UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs.29,835 crores as at the end of January 2003, representing broadly, the assets of US 64 scheme, assured return and certain other schemes. The Specified Undertaking of Unit Trust of India, functioning under an administrator and under the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations.

The second is the UTI Mutual Fund, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. With the bifurcation of the erstwhile UTI which had in March 2000 more than 76,000 crores of assets under management and with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth.

**Mutual Funds Service System at NSE:-**

In November 2009, SEBI allowed transaction in Mutual Fund schemes through the stock Exchange infrastructure. Consequent to this market development NSE launched India’s first Mutual fund service System (MFSS) on November 30, 2009 through which an investor can
subscribe or redeem units of a mutual fund scheme. Mutual fund service system (MFSS) is an online order collection system provided by NSE to its eligible members for placing subscription or redemption order on the MFSS based on orders received from the investors. This has made buying and selling of mutual funds easier for investors. The subscription/redemption request would thereafter get processed and investor would know about status of the request only in the form of direct communication from Mutual Fund/AMC/RTA. The NSE MFSS facilitates entry of both buy and sell orders. With the 57 MFSS, investors can place an order through a registered NSE member who is eligible to participate in MFSS for subscription/redemption of units. In order to subscribe units, members are required to place buy orders. A member who wishes to redeem units of mutual fund scheme will be required to place sell orders in the system. Participants can choose between physical mode and depository mode while putting their subscription/redemption requests on the

`MFS. All orders are settled on order to order basis, on T+1 (working days). As many as 17 fund houses have joined the NSE MFSS Platform and as on March 31, 2010 and there were 908 sub schemes available for trading. During November 2009 to March 2010, there were 2,392 orders placed for subscription worth 91,932,291 and 274 orders worth 26,217,352 was redeemed.

Types of Mutual Fund Schemes:-

The schemes (funds) floated by Mutual Funds can be classified into different types on the basis of location duration of operation or life-span major objectives major financial instruments used for investment and so on.
One of the two major types of funds is the Open-Ended Funds (OEFs) and Closed-Ended Schemes (CEO), they are having features as follows

**Open-Ended Funds Schemes (OEFs):**

When the units are sold and redeemed everyday or an on-going basis at the price determined by the funds Net Asset Value (NAV), they are called as Open-Ended Schemes. These funds are announced to their sale and repurchase prices time to time and these prices an NAV’s normally remain close to each other, capital appreciation safety and liquidity. They are, therefore quite popular with the investors.

**Closed-Ended Funds Schemes (CEFs):**

In the contrary of the open-ended funds schemes these schemes are in these MFs do not sell any additional units after the sale of a fixed number of units at the initial or inception stage during a fixed period of time when the issue is open for subscription. The closed ended funds have time duration for their operation.

**Mutual Fund Industry in India:**

The mutual fund industry in India has come a long way since the formation of unit trust of India way back in 1963. During these past 40 years the industry has seen many significant structural changes. It has gone through testing times as its largest player UTI had to be bailed out the government twice. It has also seen bifurcation of UTI, entry of private sector players which helped expand the market further, period of outstanding performance aided by strong bull Runs in the late 1990’s, which saw stock prices shooting as well as the current bullish fervor, which has helped equity-oriented funds deliver substantial returns. Debt funds too have been benefited by the soft bias in the interest rates.
The volatility in the bond prices has helped debt-oriented funds deliver handsome returns. However, this is not to take credit away from the fund manager’s investment management skill, which played a major role in the funds performance.

However, with the industry moving up the learning curve, significant changes in the investment environment such as increased competition, ongoing reforms which allow mutual funds to invest abroad as well as in derivative instruments and increased integration of global financial market pose significant challenges to the industry in the country. Also, the funds needs to be investor-friendly and would have to significantly improve their portfolio discloser practices. The key to success would be size, geographic reach, product innovation, better investment management skills, and last but not the least, customer service.

**TYPES OF MUTUAL FUND SCHEMES:-**
Wide variety of Mutual Fund schemes exist to cater to the need such as financial position, risk tolerance and return expectations etc.

- **By Structure**
  - Open- Ended Schemes
  - Close – Ended Schemes
  - Interval Schemes

- **By Investment Objective**
  - Growth Schemes
  - Income Schemes
  - Balance Schemes
  - Money Market Schemes
• **Other Schemes**
  
  o Tax Saving Schemes
  o Special Schemes
    ▪ Index Schemes
    ▪ Sector Specific Schemes
    ▪ Exchange Traded Schemes

**Schemes by Structure:**

1. **Open-Ended Schemes:**

   An open-end fund is one that is available for subscription all through the year. These do not have a fixed maturity. Investors can conveniently buy and sell units at Net Asset Value ("NAV") related prices. The key feature of open-end schemes is liquidity.

2. **Close-Ended Schemes:**

   These schemes have a pre-specified maturity period. One can invest directly in the scheme at the time of the initial issue. Depending on the structure of the scheme there are two exit options available to an investor after the initial offer period closes. Investors can transact (buy or sell) the units of the scheme on the stock exchanges where they are listed. The market price at the stock exchanges could vary from the net asset value (NAV) of the scheme on account of demand and supply situation, expectations of unit holder and other market factors. Alternatively some close-ended schemes provide an additional option of selling the units directly to the Mutual Fund through periodic repurchase at the schemes NAV; however one cannot buy units and can only sell units during the liquidity window. SEBI Regulations ensure that at least one of the two exit routes is provided to the investor.
3. **Interval Schemes:-**

Interval Schemes are that scheme, which combines the features of open-ended and close-ended schemes. The units may be traded on the stock exchange or may be open for sale or redemption during pre-determined intervals at NAV related prices.

**Overview of existing schemes existed in mutual fund category: BY NATURE:-**

1. **Equity Fund:-**

These funds invest a maximum part of their corpus equities holdings. The structure of the fund may vary different for different schemes and the fund manager’s outlook on different stocks. The Equity Funds are sub-classified depending upon their investment objective, as follows:

   1. Diversified Equity Funds
   2. Mid-Cap Funds
   3. Sector Specific Funds
   4. Tax Saving Funds (ELSS)

   Equity investments are meant for a longer time horizon, thus Equity funds rank high on the risk-return matrix.

1. **Debt funds:-**

The objective of these funds is to invest in debt papers. Government authorities, private companies, banks and financial institutions are some of the major issuers of debt papers. By investing in debt instruments, these funds ensure low risk and provide stable income to the investors. Debt funds are further classified as:

- **Gilt Funds:-** Invest their corpus in securities issued by Government, popularly known as Government of India debt paper. These Funds carry zero Default risk but are associated
with interest Rate risk. These schemes are safer as they invest in papers backed by Government.

- **Income Funds**: Invest a major portion into various debt instruments such as bonds, corporate debentures and Government securities.

- **MIPs**: Invests maximum of their total corpus in debt instruments while they take minimum exposure in equities. It gets benefit of both equity and debt market. These scheme ranks slightly high on the risk-return matrix when compared with other debt schemes.

- **Short Term Plans (STPs)**: Meant for investment horizon for three to six months. These funds primarily invest in short term papers like Certificate of Deposits (CDs) and Commercial Papers (CPs). Some portion of the corpus is also invested in corporate debentures.

- **Liquid Funds**: Also known as Money Market Scheme, these funds provides easy liquidity and preservation of capital. These schemes invest in short-term instruments like Treasury Bills, inter-bank call money market, CPs and CDs. These funds are meant for short-term cash management of corporate houses and are mean for an investment horizon of 1day to 3 months. These schemes rank low on risk-return matrix and are considered to be the safest amongst all categories of mutual funds.

2. **Balanced funds**

As the name suggest they, are a mix of both equity and debt funds. They invest in both equities and fixed income securities, which are in line pre-defined investment objective of the scheme. These schemes aim to provide investors with the best of both the worlds.
Equity part provides growth and the debt part provides stability in returns.

Further the mutual funds can be broadly classified on the basis of investment parameter viz, each category of funds is backed by an investment philosophy, which is pre-defined in the objectives of the funds. The investor can align his own investment needs with the funds objective and invest accordingly.

By investment objective:-

- **Growth Schemes:-** Growth schemes are also known as equity schemes. The aim of these schemes is to provide capital appreciation over medium to long term. These schemes normally invest a major part of their fund in equities and are willing to bear short-term decline in value for possible future appreciation.

- **Income Schemes:-** Income schemes are also known as debt schemes. The aim of these schemes is to provide regular and steady income to investors. These schemes generally invest in fixed income securities such as bonds and corporate debentures. Capital appreciation in such schemes may be limited.

- **Balance Schemes:-** Balanced schemes aim to provide both growth and income by periodically distributing a part of the income and capital gains they earn. These schemes invest in both shares and fixed income securities, in the proportion indicated in their offer documents (normally 50:50).

- **Money Market Schemes:-** Money market schemes aim to provide easy liquidity, preservation of capital and moderate income. These schemes generally invest in safer, short-term instruments, such as treasury bills, certificates of deposit, commercial paper and inter-bank call money.
Other schemes:-

- **Tax Saving Schemes**: Tax-saving schemes offer tax rebates to the investors under tax laws prescribed from time to time. Under sec.88 of the income tax act, contributions made to any equity linked savings scheme (ELSS) are eligible for rebate.

- **Index Schemes**: Index schemes attempt to replicate the performance of a particular index such as the BSE Sensex or the NSE 50. The portfolio of these schemes will consist of only those stocks that constitute the index. The percentage of each stock to the total holding will be identical to the stocks index weightage. And hence, the return from such schemes would be more or less equivalent to those of the index.

- **Sector Specific Schemes**: These are the funds/schemes which invest in the securities of only those sectors or industries as specified in the offer documents. E.g. pharmaceuticals, Software, fast moving consumer goods (FMCG), petroleum stocks, etc. the returns in these funds are dependent on the performance of the respective sectors/industries. While these funds may give higher returns, they are more risky compared to diversified funds. Investors need to keep a watch on the performance of those sectors/industries and must exit at an appropriate time.

**Exchange Traded Funds**

Exchange traded funds (ETFs) are mutual fund units which investors buy/sell from the stock exchange, as against a normal mutual fund unit, where the investor buys/sells through a distributor or directly from the AMC.
• **Equity ETF’s**

Equity ETF is a basket of stocks that reflects the composition of an index, like S&P CNX nifty or BSE Sensex. The ETFs trading value is based on the net asset value of the underlying stocks that it represents. Think of it as a mutual fund that you can buy and sell in real-time at a price that changes throughout the day.

• **Liquid ETF’s**

Liquid ETF’s are the money market ETF’s the investment objective of which is to provide money market returns. Liquid BeES launched by benchmark mutual fund is the first money market ETF in the world. Liquid BeES will invest in a basket of call money, short-term government securities and money market instrument of short and medium maturities.

• **Gold ETF’s**

Gold ETF is a special type of Exchange traded fund that tracks the price of gold

**Pros & cons of investing in mutual funds:-**

For investment in mutual fund, one must keep in mind about the pros and cons of investment in mutual fund.

**The Ground Rules of Mutual Fund Investing:-**

Moses gave to his followers 10 commandments that were to be followed till eternity. The world of investments too has several ground rules meant for investors who are novices in their own right and wish to enter the myriad world of investments. These come in handy for there is every possibility of losing what one has if due care is not taken.
Assess Yourself:-

Self-assessment of one’s needs; expectations and risk profile is of prime importance failing which; one will make more mistakes in putting money in right places than otherwise. One should identify the degree of risk bearing capacity one has and also clearly state the expectations from the investments. Irrational expectations will only bring pain.

Try to Understand Where the Money is Going:-

It is important to identify the nature of investment and to know if one is compatible with the investment. One can lose substantially if one picks the wrong kind of mutual fund. In order to avoid any confusion it is better to go through the literature such as offer document and fact sheets that mutual fund companies provide on their funds.

Don’t Rush Picking Funds, Think First:-

First one has to decide what he wants the money for and it is this investment goal that should be the guiding light for all investments done. It is thus important to know the risks associated with the fund and align it with the quantum of risk one is willing to take. One should take a look at the portfolio of the funds for the purpose. Excessive exposure to any specific sector should be avoided, as it will only add to the risk of the entire portfolio. Mutual funds invest with a certain ideology such as the “value Principle” or “Growth Philosophy”. Both have their share of critics but both philosophy work for investors of different kinds. Identifying the proposed investment philosophy of the fund will give an insight into the kind of risks that it shall be taking in future.
Investment Don’t Speculate:-

A common investor is limited in the degree of risk that he is willing to take. It is thus of key importance that there is thought given to the process of investment and to the time horizon of the intended investment one should abstain from speculating which in other words would mean getting out of one fund and investing in another with the intention of making quick money. One would do well to remember that nobody can perfectly time the market so staying invested is the best option unless there are compelling reasons to exit.

Don’t Put All the Eggs One Basket:-

This old age saying is of utmost importance. No matter what the risk profile of a person is, it is always advisable to diversify the risks associated. So putting one’s money in different asset classes is generally the best option as it averages the risks in each category. Thus, even investors of equity should be judicious and invest some portion of the investment in debt. Diversification even in any particular asset class (such as equity, debt) is good. Not all fund managers have the same acumen of fund management and with identification of the best man being a tough task; it is good to place money in the hands of several fund managers. This might reduce the maximum return possible, but will also reduce the risks.

Be Regular:-

Investing should be a habit and not an exercise undertaken at one’s wishes, if one has to really benefit from them. As we said earlier, since it is extremely difficult to know when to enter or exit the market, it is important to beat the market by being systematic. The basic philosophy of Rupee cost averaging would suggest that if one invests
regularly through the ups and downs of the market, he would stand a better chance of generating more returns than the market for the entire duration. The SIPs (Systematic Investment Plans) offered by all funds helps in being systematic. All that one needs to do is to give post-dated cheques to the fund and thereafter one will not be harried later. The Automatic investment Plans offered by some funds goes a step further, as the amount can be directly electronically transferred from the account of the investor.

**Do Your Homework:-**

It is important for all investors research the avenues available to them irrespective of the investor category they belong to. This is important because an informed investor is in a better position to make right decision. Having identified the risks associated with the investment is important and so one should try to know all aspects associated with it. Asking the intermediaries is one of the ways to take care of die problem.

**Find the Right Funds:-**

Finding funds that do not charge many fees is of importance, as the fee charged ultimately goes from the pocket of the investor. This is even more important for debt funds as the returns from these funds are not much. Funds that charge more will reduce the yield to the investor. Finding the right funds is important and one should also use these funds for tax efficiency. Investors of equity should keep in mind that all dividend payout option is used, Investors of debt will be charged a tax on dividend distribution and so can easily avoid the payout options.
Keep Track of Your Investments:-

Finding the right fund is important but even more important is to keep track of the way they are performing in the market if the market is beginning to enter a bearish phase, then investors of equity too will benefit by switching to debt funds as the losses can be minimized. One can always switch back to equity if the equity market starts to show some buoyancy.

Know When to Sell Your Mutual Funds:-

Knowing when to exit a fund too is of utmost importance. One should book profit immediately when enough has been earned i.e. initial expectation from the fund has been met with. Other factors like non-performance hike in fee charged and change in any basic attribute of the fund etc. are some of the reasons for to exit for more on it read to say goodbye to fund”

Investment in mutual funds too are not risk-free so investments warrant some caution and careful attention of the investor. Investing in mutual funds can be a dicey business for people who do not remember to follow these miles diligently, as people are likely to commit mistakes by being ignorant or adventurous enough to take risks more than what they can absorb. This is the reason why people would do well to remember these rules before they set out to their hard-earned money.

Performance Measurement For Mutual Funds:-

Risk:- Any rational investor invests in various investment vehicles expecting some amount of return from these avenues. The investment risk refers to the probability of actually not earning the desired or expected return and may be a lower or negative return. A particular investment is considered riskier if the chances of lower than expected...
returns or negative returns are higher. Risk consists of two components, the systematic risk and unsystematic risk.

**Systematic Risk:** The systematic risk affects the market as a whole. In case of unsystematic risk the factors are specific, unique and related to the particular industry or company. The systematic risk is caused by factors external to the particular company and uncontrollable by the company. The examples of systematic Risks are inflation Risk, interest Rate risk, political risk, market risk, risk due to government policies, natural calamities, scams/malpractices, monsoon, industrial growth or output, international events, war-like situation/internal peace. This component of the risk can never be eliminated; therefore it is called non-diversified risk. This is measured in terms of Beta.

**Unsystematic Risk:** The unsystematic risk have factors which are specific, unique and related to the particular industry or company. It is on account of the performance of individual companies, in which investment has been made and the strategies of mutual fund/AMC for the investment activities. This can be eliminated or minimized by adopting risk management techniques. It is identified as Alpha of the risk component. Non-systematic can arise on account of the Business risk of companies, Financial risk of companies, Risk due to industry-specific policies, Disputes in the companies, Portfolio management strategies of mutual fund/AMC.

Risk and investing go hand. To know your funds performance, apart from comparing the performance vi-a-vis the benchmarks, an investor should also make use of certain statistical measures that make evaluation of a mutual fund even more precise. Among the most commonly used ration, there are six ratios, which we come across very
often but fail to understand their utility. They are Standard Deviation, Beta, Sharpe, Alpha, Treynor and R-Squared.

**Standard deviation:** Standard deviation is a statistical measure of the range of a fund’s performance, and is reported as an annual number. When a fund has a high standard deviation, its range of performance has been very wide, indicating that there is a greater potential for volatility.

**Beta:** Another way to assess the Fund’s up and down movement is its Beta measure. Beta measures the volatility of a fund relative to a particular market benchmark i.e. how sensitive the fund is to market movements.

1. **Negative beta value:** Indicated that the stock return moves in the opposite direction to the market return. A stock with a negative beta of -1 would provide a return of 10 per cent, if the market return declines by 10 per cent and vice versa

2. **Beta= +1.0:** One per cent change in market index return causes exactly one per cent changes in the stock return. It indicates that the stock moves in tandem with the market.

3. **Beta= +1.0:** One per cent change in market index return causes 0.5 per cent changes in the stock return. It indicates that the stock is less volatile compared to the market.

4. **Beta= +2.0:** One per cent change in market index return causes 2 per cent changes in the stock return. It indicates that the stock return is more volatile compared to the market. The stocks with more than 1 beta value is considered to be risky

**Sharpe:** The most common measure that combines both risk and reward into a single indicator is the Sharpe Ratio. A Sharpe Ratio is
computed by dividing a fund’s return in excess of a risk-free return (usually a 90-day Treasury Bill of SBI fixed deposit rate) by its standard deviation. This measures the amount of return over and above a risk-free rate against the amount of risk taken to achieve the return.

Generally, there is no right or wrong Sharpe Ratio. The measure is best used to compare one fund’s ratio with another, or to its peer group average. For similar funds, the higher the Sharpe Ratio, the better a fund’s historical risk-adjusted performance.

\[
\text{Sharpe ratio} = \frac{\text{Fund Average Return} - \text{Risk Free Return}}{\text{Standard Deviation of The Fund}}
\]

**R-Squared (R2):** The R-Squared measure reveals what percentage of a fund’s movements can be related to movements in its benchmark index. An R-Squared of 100 would mean that all of the fund’s movements are perfectly explained by its benchmark; Index funds normally achieve this ideal. A high R-squared means the beta on a fund is actually a useful measurement. A low R-squared means ignore the beta.

**Alpha:** The Alpha measure is less about risk that it is about “value added.” Alpha represents the difference between the performance you would expect from a fund, given its Beta, and the actual returns it generates. A high alpha (more than 1) means that the fund has performed well. A negative alpha means the fund under performed. Mathematically,
Alpha = fund return - \{Risk free rate + Beta of fund \ (Benchmark return - Risk free return)\} :-

**Treynor:** The Treynor ratio is similar to the Sharpe ratio. Instead of comparing the fund’s risk adjusted performance to the risk free return, it compares the fund’s risk adjusted performance of the relative index.

**Type of returns:**

There are three ways, where the total returns provided by mutual funds can be enjoyed by investors:

Income is earned for dividends on stocks and interest on bonds. A fund pays out nearly all income it receive over the year to fund owners in the form of a distribution.

If the fund sells securities that have increased in price, the fund has a capital gain. Most funds also pass on these gains to investors in a distribution.

If fund holding increase in price but are not sold by the fund manager, the fund’s shares in price. You can then sell your mutual fund shares for a profit. Funds will also usually give you a choice either to receive a check for distributions or to reinvest the earning get more shares.

**ETF’s Strategy For Portfolio Management:**

An investment strategy should satisfy two important tests to be considered attractive for self-managed portfolios. One, the strategy should be easy to implement; and, two, it would provide attractive risk-adjusted return.
Simply ETFs:-

ETFs are good investment vehicles for individual investors for two reasons. One, ETF is a passive structure. So, individuals need not worry about evaluating portfolio managers. That is, all ETFs on the Nifty, for instance will generate same returns, if they have the same management expense ratio (MER). Buying active funds, on the other hand, requires clinical evaluation of portfolios to identify sustainable alpha-generating managers, which is not easy.

Two, ETFs are listed on the stock exchanges. This provides opportunities for individuals to buy-sell ETFs and profit from short-term market movements far more efficiently than they can with index funds.

Next, consider how ETFs offer attractive risk-adjusted return. ETFs capture style trends and, hence, can generate handsome returns. That is, if large-caps perform better than mid-caps, Nifty ETFs ought to do better than active large-cap funds because the latter will also have some exposure to mid-caps. In other words, ETFs provides pure exposure to an investment style and, hence, offers attractive returns.

True, active funds can do better than ETFs when large-caps and mid-caps move together. But active funds carry active risk. This risk arises because such funds deviate from the benchmark index in the hope of generating higher returns. Sometimes, the active risk pays rich returns. Often, however, it leads to underperformance, as active funds do not continually generate alpha. This leads to large volatility in year-on-year returns, lowering risk-adjusted returns. ETFs offer handsome returns without active risk, as they simply hold securities in the same weight as those in the underlying index.
Core-satellite ETFs:

Our strategy uses ETFs on Nifty, Junior Nifty, mind-cap and gold. The core portfolio provides passive exposure to preferably a broad-market index or alternatively to a large-cap index. The satellite portfolio provides active exposure to assets that strive to beat the benchmark index.

The strategy requires investors to use systematic investment plans (SIPs) on the core-satellite portfolio. SIPs are optimal for two reasons. One, it eliminates the need to time the market and, hence, moderates portfolio losses; tow, it provides a disciplined approach to savings. Our strategy on the core portfolio requires the investor to set-up an SIP on Nifty ETF. This requires the investor to choose the time horizon and dates during which the ETFs will be bought each month.

An individual can, for instance, set-up an SIP for 36 months to be executed on the first Wednesday of every month. The time horizon should necessarily coincide with the investment objective. That is, if the investor creates a portfolio to fund her child’s education 5 years hence, the SIP should be set-up for 5 years.

The strategy on the satellite portfolio requires the investors to set-up SIPs on Nifty, Junior Nifty and mid-cap indices and gold.

Besides providing dates and time horizon, investors should also have pre-defined rules to unemotionally take profits or cut losses on the satellite portfolio. The profit rule, for instance, can require the investor to sell 50 per cent of Nifty ETF holdings if the unrealized gain is 10 per cent or more. Likewise, the risk management rule could require the investor to cut losses if the downside amounts to 5 per cent or more.
Government security

Introduction to Government securities:-

- Characteristics of Government Securities,
- Operations of Government Securities Market,
- Price and Yields on Government Securities,

Types of Government Securities

- Promissory Notes,
- Stock Certificates.
- Post Office Deposits,
- Government Bonds,
Government Securities

Government is an organization set up by the people of such country with help of specific existing set of rules and regulations of constitution. This is an organization which runs on the mutual understanding among the ruling party and common people of nation, they have predetermined plans and policies fair and equitable rate of development is one of the basic aims of any government’s operational activities this needs bulk size of amount, which is generated by the revenue departments of government. India is having huge geographical area, its total population is around 120 crore. The geographical area of India is of varied kinds there are deserts, sea cost, cold area like Kashmir, area of high mountains like Himalaya, Sahyadri, Arwali, etc. the fertility of the soil, availability of the water, density of population is also differ according to different parts of India.

All this points causes the hurdles in the way of total development of the nation. Therefore achieving the equitable rate of development government needs constant flow of revenue generation. Therefore government always issues some kind of securities which are offering more security to its investors. Those investors who want more and more security of his funds may invest in government securities.

In India, there are many kinds of government securities. These are issued by the Central Government, State Government and Semi-Government authorities including City Corporation Municipalities. Port Trusts, Improvement Trusts, State Electricity Boards, Metropolitan Authorities and Public Sector Corporations. The development banks and agencies are also engaged in the issue of these securities. Included in this category are the IDBI, IFCI, SFC’s SIDC’s, ARC, LDB’s, and Housing Boards.
Government securities are issued in denomination of Rs. 100/- Interest is payable half yearly. Financial institutions and commercial banks maintain their secondary reserves requirements in the form of these securities. A gains collateral of these securities, commercial banks obtain accommodation from the Reserve Bank of India, since it is the most secure financial instrument guaranteed by the government, it is called a “Gilt Edged Security”, “Near Gold” or “Ultimate Liquidity”.

Government securities are in many forms. These are (a) Stock Certificate (SC) or inscribed stock, (b) Promissory Notes, (c) Governmental Bonds, (d) Post Office, Deposits.

Promissory notes, of any loan can be converted into stock certificates of any other loan or vice versa. These are, therefore, most popular. Government issues are sold through the RBI’s Public Debt Office (PDO) while Treasury Bills are sold through auctions. The method of selling government securities is through notification before the date of subscription. Subscription is kept open for two or three days. The RBI makes an announcement after which it suspends the sale of existing loans till the closure of subscriptions to new loans. Government can retain up to 10% in excess of notified amounts. Applications are received by the RBI and in states by the State Banks. Over-Subscriptions to loans of one state are transferable to another state government whose loan is open for subscription at the option of the subscriber.

Government securities obtained through subscription help the exchequer to obtain inexpensive finance. The RBI (Being the Central Bank of the country) is able to fix interest rates on government borrowing and selling and able to influence the behavior of prices and yields in the gilt-edged market. Thus, RBI can execute its interest rate policy through changes in the bank rate and control the advances policy and liquidity of commercial banks. The government gilt-edged
securities market is, therefore, considered important from the point of view of monetary management.

**Characteristics of Government Securities:**

Government Securities have the following basic characteristic / features

**Issuing Authority:**


Government Securities are also categorized by issues made by local Government Authorities, City Corporations, Municipalities, Port Trusts, Improvement Trusts, State Electricity Boards, Public Sector Undertakings and Metropolitan Authorities. These authorities usually issue bonds.

The third form of Government securities are issued by the financial institutions like IDBI, IFCI, State Financial Corporations, SID’s ARC, Land Development Banks and Housing Boards. These authorities issue bonds and debentures.

**Government Securities and Stock Market:**

The stock market is to a large extent influenced by the government securities in India. The government securities are controlled by the Reserve Bank of India, which maintains the statutory liquidity ratio and uses open market operations for control. In India,
government securities do not affect the interest rates to any great extent in the private corporate sectors and industrial securities. Government securities operate basically for creating funds for development and priority programs of the five year plans as well as for meeting deficit budgets for central and state plans.

Government Securities and Commercial Banks:-

In India, all commercial banks have to maintain secondary resources through government securities. The government securities also help them to get accommodation from the Reserve Bank of India whenever the need arises. Government Securities are also excellent means to obtain loans. These securities are kept as collateral.

Issue Price:-

Government Securities are issued in denomination of Rs.100/-. It has been noticed that these securities have usually been issued at a discount but not at a premium.

Government Securities and Rate of Interest:-

Rate of interest on government securities is low. In fact, is lower than any other form of investment. This is because government securities are considered to be the safest because at the time of maturity, the government always meets its commitments and is never at default.

Tax Exemption:-

Government Securities offer certain exemptions.

Government Securities and Financial Institution:-

Financial institutions have legal constraints to invest certain proportions of their investable surplus every year in government
securities. This amount is usually held by them till maturity because financial institutions find it difficult to switch from one security to another. Also, they are not in any particular need or requirements of funds. Due these reasons, they usually take their funds only after the maturity of the security.

**Government Securities and Underwriting:-**

Government securities are not underwritten. In fact, brokers also do not like to deal with these securities. They issued by the Debt Office of the Reserve Bank of India. This office notifies all issues and subscriptions which can be open for two to three days. The issues are subscribed during the year and are concentrated during the slack season. Usually, Public Debt Office (PDO) tries to have a small portion of issues evenly spaced in the year according to the needs of the government’s budget these securities are usually sold in “over the counter market” and each sale is separately negotiated. Government securities thus have certain peculiar characteristics relating to mode of issue, price of issue and the issuing authority. They also have a relationship with the commercial banks and security market. Government Securities offer tax exemptions also.

**Operations of Government Securities Market:-**

Government Securities market in India is narrow and unlike other countries inactive. The general investors do not buy these securities. The reserve bank of India and financial institutions are the main investors of government securities. The government securities market in India supports the capital market and has no negative effect on it. The funds that is collects it mainly for minimizing the cost of servicing and for planned priorities of the economy. They have been
employed by the reserve bank of India in such a way that is able to maintain some clear pattern of yield and a proper maturity distribution policy. It has also been considered safe by the Apex Bank to purchase securities before maturity in order to maintain stability. It has used open market operations to provide inexpensive finance for the government and has tried to maintain funds with the view of achieving stability in future. It has also used the techniques of maintaining the reserve ratio and the statutory liquid ratio. This includes the techniques of suasion for controlling bank liquidity and for achieving the objectives of debt management.

**Price and Yields on Government Securities:**

The prices of government securities remain stable although the bank rate has been increasing. In India, usually the bank rate influencing the security prices inversely and in the opposite direction. But the Reserve Bank of India has tried to stabilize the prices of government securities. This it is has been able to do by refraining from making any change in the purchasing and selling of treasury bills of the government the Apex Banks has many times mopped up the surplus funds by lowering the rate of sale by Treasury Bills. This is an indication that it was concerned with the rate of term loans and wanted to continue with its stability.

The yield on security can be studied if the investor holds the security continuously. An investor can then observe year to year changes in the coupon rate, running yield and redemption yield. It is common practice in India that the government securities are sold far below the face value. This it shows that the redemption yield higher than the bond rate because the redemption yield is equal to the face value when the bond is purchased at the face value or par value. In
India, government securities have continuously increased the rate of return. Also, there has been no ceiling rate on government securities. Whereas the controller of Capital Issues has constantly ceiling the rates of industrial securities.

However, government securities show that even with the continuous increase in interest over the years, coupled with price stability, the rate given by the government are far below than what the investor would hope to gain if he invested his funds in industrial securities. The government securities, therefore, are not an attractive form of investment.

In India government securities have been an important or useful part of the monetary management and fiscal policy. The Reserve Bank of India has executed the interest rate of government selling, borrowing, purchasing and lending and has also influenced the prices and yields. It has also played an important role in maintaining a statutory liquidity ratio with the commercial banks in the country. This has the effect of reducing or improving the liquidity position of the bank because, as we know the government securities does not make a market for themselves, they have generally been issued for the reason of monetary, fiscal and debt management and for using the funds for the planned priorities of the country.

Government Securities in India by financial institution and commercial banks. Although it composes a larger segment than the industrial securities market in India, very little knowledge is presently available about its operations to the common man. As a measure of operation, it does not influence the capital market rates but it operates mainly to be able to gate financial at lower rates from the market for achieving the planned economic development of the country.
Types of Government Securities:-

Promissory Notes:-

Section 4 of the Negotiable Instrument Act has defined the term Promissory Note as

“An instrument in writing (not being a bank note or a currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to or the order of certain person, or to the bearer of the instrument”.

A promissory note is drawn and signed by the debtor, who promises to pay the creditor a certain sum of money. The person who promises to pay is called “maker”, the person who is promised to pay is called as “payee”

Promissory notes are the usual form of government securities. They are purchased by banks and are highly liquid in nature. The promissory notes can be transferred by transfer or endorsement. Transfer can also be by delivery to the transferee. They are registered promises of the government and are usually entered in a register especially made for entering promissory notes. Government provide to the investors a half-yearly interest which is given only on presentation of the promissory note at the office of purchase. This is the most popular government security and finds favor with investors.

Stock Certificate:-

A stock certificate is not a popular investment outlet for investors. It is transferable like the promissory note and the banks prefers notes to stock certificate. The stock certificate suffers from the defect of illiquidity and on-marketability. The investors usually keep it till the time of maturity. The life insurance corporation of India and provident funds are the biggest purchasers of stock certificates and holds it till
maturity. They purchase it partly because of legal restraints on them to invest in government securities out of their investable surplus for the year and partly because they have large resources available with them and after fulfilling the maximum limits permissible for investment in the private sector, they invest their funds in government securities. Also, this form of purchases helps the national economic policies for further development of the country in consonance with planned priorities of the governments.

**Post Office Deposits:-**

Post office schemes are generally like the commercial bank schemes. They have a saving account, a recurring account, and Ten-year cumulative time deposits (CTD) account which are also recurring in nature. The savings account operates in the same way as commercial banks through cheques and there is no restriction on withdrawals. Those accounts which have a minimum balance of Rs.200/- in the months of April, September, October and March have an additional benefit. They qualify for a prize on draw schemes which will operate in next June and July.

**National Savings Schemes:-**

National saving schemes have been started by the government of India mainly to financial its economic development plans through the mobilization of saving of smaller income groups. This scheme is operated mainly through the post offices. Because of the tax free nature of the scheme, its main purpose is to attract higher income group of people also. These schemes resemble that of the commercial banks. The mode of arrangements is basically the payments of a lump sum amount to be received at the end of a certain period, the interest being paid
annually or to be paid altogether with the principle at the time of termination of the contract period. These schemes are uniform throughout the country. The investor has an exact picture of the amount that he will receive at the time of encashment of security. The rate of interest on National Saving Schemes is usually higher than commercial banks. These schemes can also be transferred from one post office to another if the investor so desire. The certificates have another advantage. They can be used as collateral at the time of taking a loan from the bank.

**a) Saving Deposits:-**

The public is encouraged to deposit their money in post office schemes. A maximum amount of Rs.50,000/- can be deposited in an individual account and Rs.1 lakhs in a joint account the interest provided in these deposits is 15% and it is tax free.

**Fixed Deposits:-**

Fixed deposits can be made for a fixed period between 1 to 5 years. The interest given by the post office on this fixed deposit between 7.5%. post offices make it convenient for the investors by giving half yearly interest. Interest is exempt up to Rs.11000/- limit per annum.

**Recurring Deposits:-**

The post office allows an individual to open an account up to 60 months. It provides an interest of 9.5%. This is compounded quarterly and paid at maturity. The individual pays a fixed amount every month till maturity.
Monthly Income with Fixed Investment:-
An individual can invest between Rs.5000/- and Rs.1 lakhs as fixed amount for 741 months. Interest paid at 9.5% monthly. It also provides a bonus of 10% at the time of maturity.

National savings Certificates:-
The investor of national savings certificate receives an interest of 9.5% compounded half yearly. The principle plus interest is payable at maturity.

Savings Certificates:-
The rate of interest in this instrument is 12% and it is compounded half yearly, but it is payable at maturity. The interest accrued is reinvested but has the eligibility of receiving a rebate in tax under section – 88.

Indira Vikas Patra (IVS):-
Post offices also sell India Vikas Patra. These securities are freely transferable and are like bearer bonds. They are sold at the face value of Rs.100/-, 200/-, 500/-, 1000/- and 5000/-. In India, these are very popular. They carry compound interest of 9.5% and have a maturity value of 7 years.

Kisan Vikas Patra (KVP):-
Post office also popularizing kisan Vikas Patra. This has a face value of Rs.1000/-, 5000/-, 10000 and give a compound interest of 9.5%. This investment doubles in 7 years. The encashment of these certificates is possible after the holding period of 2.5 years. These instruments cannot be transferred easily from one person to another. KVP is
popularizing this scheme. Wherein the investor can nominate any person who can avail of this scheme in the event of the death of the investor.

Post office schemes have been prepared carefully with the view that the small investor will take advantage of easy accessibility due to the fact that post offices exist in every locality. Moreover, it was also to encourage the savings habits of the uneducated class and small savers. These resources of the small savers help in mobilization of savings in the economy.

**Government Bonds:**

Bonds represent a promise by issuing party of government to the bondholder to pay a specified rate of interest during a stated time period annually and the return of the principle sum on the date of maturity. Date of maturity is also called the date of retirement of a bond. Bonds are of many kinds. The difference in bonds is due to the terms and conditions and features each bond bears. Bonds may be distinguished according to their repayment provisions, types of security pledged, time of maturity and technical factors.

Government has the responsibility to bring the pace of development activities in country; equal distribution of developmental projects is also one of the main tasks of government. The developmental projects require huge size of amount’s to get fulfilled, and raising fund for this purposes through revenue departments is not an easy task. So, government’s tries to raise the funds on the basis of its credit potentials, and bonds are one of the main instruments used by government to raise funds. Bonds usually issued by government authorities.
The Bond Indenture:-

The bond indenture is a legal instrument incorporating an agreement between the government authority which issues the bonds, the bondholder who lend money and the trustees which is either the commercial bank or trust company and represents the bondholder. Thus, three parties are involved – the company, bondholder and the trustee.

The bondholder acquires their bonds and automatically accepts the indenture. The role of trustee is mainly co-ordination between the government authorities and the bondholders.

A single trustee represents all the bondholder and gives information on legal and financial problems. He is also a link between the government authority and bondholders. The government does not directly enter into an agreement with each of the bondholders.
Insurance Companies

- Introduction and Meaning of Insurance,
- Definitions of Insurance,
- How insurance Works,
- A Brief History of Insurance Sector in India,
- Organization of Insurance Industry
- Life Insurance Business,
- General Insurance Business,
- Marine Insurance Business,
- Fire Insurance Business,
- Miscellaneous Insurance Business.
- Insurance Sector Reforms,
- The Insurance Regulatory and Development Authority,
- Recent Changes in Indian Insurance Industry
Insurance

Insurance companies are financial intermediaries as they collect and invest large amounts of premiums. They offer protection to the investors, provide means for accumulating savings, and channelize funds to the government and other sectors. They are contractual saving agencies which receive, mostly without fail, a steady inflow of funds in the form of premiums or regular contributions to pension plans. They are also in a position to predict, relatively accurately when and what amount of insurance or pension benefits have to be paid. Further, their liabilities in most cases are long term liabilities, for many life policies are held for 30 to 40 or 50 or even more years. As a result, liquidity is not a problem for them, and their major activity is in the field of long-term investments. Since they offer life-cover to the investors, the guaranteed rate of return specified in insurance policies is relatively low. Therefore, they do not need to seek high rates of return on their investments. As a combined results of all this, investment of insurance companies have been largely in government bonds, mortgages, state and local (municipal) government claims and corporate bonds.

Insurance companies are active in the following field among others-life health and general and they have begun to operate the pension schemes and Mutual Funds also. Insurance business consists of spreading risks over time and sharing them between persons and organizations. The major part of insurance business is life insurance, the operations of which depend on the law of mortality. The distinction between life and general insurance business is that with regard to the former, the claim is fixed and certain, but in the case of the latter, the claim is uncertain, i.e. amount is variable and it is as certain able only sometime after the event.
Introduction and Meaning of Insurance:

Introduction:

Insurance business has emerged as one of the prominent areas of financial services during recent time particularly in developing countries where it could not grow before globalization. The pace of growth of insurance sector has accelerated with the process of opening up of such economies to outside world Under WTO regime. Insurance performs remarkable functions by insuring the durable public and property located at different places. In view its great significance in economic operations it comprehensively networked itself in almost all parts of the society today.

Meaning of Insurance:

Insurance is a social device providing financial compensation for the effects of misfortune, the payment being made from the accumulated contributions of all parties participating in the scheme. Thus it may be seen as a kind of fund, into which all who are insured will pay an assured contribution called premium, in return those insured will have the right to call on the fund for any appropriate payment if the insured event occurs.

According Encyclopedia Britannica:

Insurance may defined as a social device whereby a large group of individual, through a system of equitable contribution, may reduce or eliminated measurable risks of economic loss common to all members the group.
Conclusion:-

Form the above definitions it is clear that insurance is a contract in which insurer assumes the risk of insured and promise to pay specified sum on the happening of a specific event, in consideration of the premium paid by insured.

How Insurance Works:-

People facing common risks come together and make their small contributions to a common fund. The contribution to be made by each person is determined on the assumption that while it may not be possible to tell beforehand, which person will suffer, it is possible to tell, on the basis of past experiences, how many persons, on an average may suffer losses.

A Brief History of Insurance Sector in India:-

It is difficult to say exactly when insurance did originated; however there is evidence, which suggests that devices resembling insurance existed in old times in Babylonia and India. Manu recognized the usefulness of making provision for sharing future losses. The Rig Veda refers to ‘Yogakshema’, which means insurance. This suggests that insurance in some form existed more than a 1000 years ago. However the evidence suggests that present form of insurance originated only in 12th century.

Origin and Growth of General and Life Insurance:-

The business of life insurance in India in its existing form started in India in the year, 1818 with the establishment of the Oriental Life Insurance Company in Calcutta. The General insurance business in India, on the other hand, can trace its roots to the Triton Insurance
Company Ltd., the first general insurance company established in the year 1850 in Calcutta by the British.

**Organization of Insurance Industry:-**

**A. Life Insurance Business:-**

The first insurers of life were the marine insurance underwriters who started issuing life insurance policies on the life of master and crew of the ship and the merchants. These policies were issued only for short periods. The first life insurance policy was issued on 18th June 1586, on the life of William gibbons for a period of 12 months.

**Life Insurance in India:-**

Life insurance in its current form come in India from united kingdom with the establishment of a British firm, ORIENTAL LIFE INSURANCE company in 1818, followed by BOMBAY LIFE ASSURANCE COMPANY in! 1823, THE MADRAS EQUITABLE LIFE INSURANCE SOCIETY in 1829 and ORIENTAL LIFE ASSURANCE COMPANY in 1874.

THE INDIAN LIFE ASSURANCE COMPANIES ACT-1923 was the first statutory measure to regulate life insurance business. Later in 1928 INDIAN INSURANCE COMPANIES ACT was enacted to enable the government to collect statistical data on life and non-life business in India by Indians and foreigners.

In order to protect the interest of insuring public, earlier legislation was consolidated and amended by INSURANCE ACT-1938. with comprehensive provisions for detailed and effective control over the activities of insurers. The act was amended in 1950 making changes determining requirement of equity capital for companies, ceiling on
shareholding, control on investment, submission of returns relating to investment to controller etc.

As life insurance business was conformed mainly to and better off segments of society, with a view to spread LIC to rural areas to operate it systematically, the government of India decided to nationalize the life insurance business. In 1956, president of India declared an ordinance for nationalization.

B. General Insurance Business:-

The general insurance business is also completely owned by government, and it is controlled by a single organization with four subsidiaries. Earlier, a number of Indian and many foreign companies did general business in India and abroad. In addition, LIC and come Mutual Fund companies and cooperative societies also conducted general assurance. On the eve of nationalization, 68 Indian insurers (Including LIC) and 45 non-Indian insurers did business in this field. In November 1972, the business of these organizations was nationalized and vested in the hands of the General Insurance Company (GIC) and its four subsidiaries viz., National Insurance Co. Limited., New India Assurance Co, Limited. Oriental Fire and General Insurance Co. Limited. And United India Insurance Co. Limited. The GIC was given charge of the overall control, superintendence and policy making for smooth operations of general insurance business. At the present the direct general insurance business is done mostly by the subsidiaries of GIC. The premium income of the GIC itself is obtained mainly through the obligatory reinsurance premium on a quota share basis from subsidiaries on their direct business in India.

The general insurance business is classified marine, fire, and miscellaneous.
**C. Marine Insurance Business:-**

In 1556, Philip II made marine insurance regulations for Spain and in 1563, for America insured three ships on one voyage.

**Marine Insurance Business in India:-**

About India there are evidences that marine insurance was practiced here about 300 years ago. In earlier days travelers by sea and land were exposed to many risks like losing of vessels, sea hazards-sea storms etc, because of which practice of marine insurance started in India. Moreland has maintained that the practice of insurance was quite common during the rule of Akbar to Aurangzeb, but the nature and scope of insurance in that period is not well known. It was the British insurers who introduced general insurance in India, in modern form, the first company, and known as the SUN INSURANCE OFFICE LIMITED, was set up in Calcutta in 1710, in the field of marine insurance.

**D. Miscellaneous Insurance Business:-**

Owing to the increasing demand, different forms of insurance have been developed. Industrial revolution of 19th century had facilitated the development of accidental insurance, theft, dacoit, fidelity insurance etc. In 20th century, many types of social insurance started operating viz. unemployment insurance, medical insurance, crop insurance, and cattle insurance etc. This way the business of insurance developed simultaneously with human and social development.
Real Estate

What is Real Estate?

- Introduction and Types of Real Estate,

- Principles of Investing in Real Estate,

- Determinants of the Present Value of Real Estate,

- How Land be purchased?
Real Estate

Food, clothing, water and shelter are the basic needs of any human being, and today the fourth need of human being a shelter, has gained immense importance, because of increased population, even nature has the limitations of capacity to take care of specific number of population.

The above reason makes man to think about it, which in result show him the way of investment in Shelter, because the investment in shelter (Land, Building or Property) gives him safer, easy and nice opportunity to earn more money in short period of time.

In other words Land and Property is also called as “Real Estate”. This investment is taken by a large number of people for hedging the inflation rates; this feature of “Real Estate” makes it different from other investment avenues.

- Types of Real Estate:

1. Agricultural Land,

2. Residential House,

3. Commercial Property,

4. Suburban Land,

1. Agricultural Land:-

India is a country of villages, agriculture is a backbone of Indian economy, and 60% of total GDP of Indian economy comes through Agriculture. No one could deny the importance of agriculture in respect of India. Therefore investment in agricultural land could also be major
investment alternative for investors of India. The appreciation in the value of agricultural land makes it an attractive investment proposition. Its appeal is further enhanced by the following factors:

Agricultural income per se is not taxable. However, it is included in the total income for determining the tax rate applicable to the non-agricultural income of the assesses,

Agricultural land is exempt from wealth tax,

Loans are available for agricultural operations at a concessional rate

Capital gains arising from the sale of agricultural land may be tax-exempt in some cases (as certain types of agricultural land are not regarded as capital assets) or may be taxed at a concessional rate,

2. Residential House:-

The most important asset for individual investors generally is a residential house, a residential house could represent an attractive proposition for the following reasons:-

The total return (rental savings plus capital appreciation) from a residential house is satisfactory,

Loans are available from various quarters for buying and constructing a residential property,

For wealth tax purposes, the value of a residential property is reckoned at its historical cost and not at its present market place,

Interest on loan taken for buying / constructing a residential house is tax deductible within certain limits,

Ownership of a residential property is providing psychological satisfaction.
3. **Commercial Property:**

The more rich persons / investors can be interested in investing in commercial property. This may take the form of constructing a commercial complex or buying office or shop space in a commercial complex.

The appeal of such an investment lies mainly in the form of regular rental income which can be revised upward periodically. Further, the commercial property may enjoy some capital appreciation over a period of time. The disadvantage of such an investment is that it requires a large outlay may require time and effort on managing it.

4. **Suburban Land:**

Land within the city limits is often very costly. However, you can buy residential land (converted land) in private layouts in subscription areas at affordable prices. Such an investment offers scope for capital Appreciation. Further, it gives you an opportunity to move to a quieter location that may not be very far from the city as the city expands.

If you are considering buying suburban land, you must have to make sure that the developer satisfies all zonal requirements and has a clear title. Many people have been cheated by fly-by-night land developers,

Aurangabad is consider as the capital of Maharashtra, as well as industrial sector, most of the financial dealings in Marathwada economy are done here in this city, therefore the availability of proper infrastructures and opportunities of employment and earnings attracting most of the people of Maharashtra towards this city.

City like Aurangabad, which was ranked as the fastest developing city of Asia in the last decade. Though the process is in continuation but the speed has slowed down, every day Hundreds of
people come here for different purposes, basically Aurangabad is a historical city and an industrial hub. Therefore, demand and supply position of land has become totally negative here; the land rate here in Aurangabad is so costly, nearly Rs.1000/- 1500/- per square feet.

So that investment in real estate could be the best alternative form of investment for people of Aurangabad It’s not necessary that they have to invest in land or property belongs to Aurangabad city or district only; they may invest in some other cities, districts, regions or states, according to their perceptions, availability of resources, because it affecting the financial, cultural, and social needs of investors similar is the case for Beed and Osmanabad Districts where the growth is faster as compared to other parts of Maharashtra due to MIDC and road connectivity i.e. Solpur- Nagpur & Solapur Dhulia Highway making it a profitable destination in investment for real estate.

Principles of investing in Real Estate:-

1. **Price:** The price of property is most valuable for the determination of real estate. The property must be evaluated with regard to its price in relation to its position and its use. Regarding position, it should be situated in a place where higher rent is available.

   If the land is acquired for a price which gives a less profitable return, the price at which the investor purchases it will not be suitable for him. Therefore, when an investor buys and sells property he would need to evaluate to its most productive use.

2. **Supply of Land:** Land as an asset is fixed but its demand keeps on increasing ever time. The land should be evaluated only in terms of what it actually is in terms of supply. The increasing
population and affluence will increase the rate and value of land. Land from the point of view of long term investment can be expected to be a good proposal because it is expected to cover purchasing power risk with the prices of land which keep on increasing. On short-term basis, property cannot be called as a good investment.

3. **Land as Collateral**: Land is accepted as collateral by banks and other financial institutions. In India, it is found that almost all banks consider land as good collateral but lending on property is restricted by the banks to the market price as collateral value, if an investor can purchase land and borrow money on such an investment at a lower rate of interest, it is a good form of investment.

4. **Tax**: The purchase of land must always be determined after carefully examining the payment of tax on property. Tax must be paid on property well as after property is sold under the capital gains Act.

**Determinants of Present Value of Real Estate**:

(1) The present value of real estate should be determined by an investor at the time of purchasing a real estate. The investor should examine the following areas:

- He should find out the cost on the funds which he borrows to buy property,
- He should add a risk premium at the rate of 2% to the cost of borrowing fund,
(2) An investor is advised to estimate both the current rent and the future rate of rent on the property that he is purchasing. If it is currently on rent then the present rates are easy to determine. If a future rent is expected, then similar units must be evaluated. Past rates can be used to give a rough idea of anticipated future prices.

(3) Besides income, the investor should also find out to some extent the cost of maintaining the property. The cost should include repairs, renovations, taxes and cost of managing the property. To the total cost mortgaged payments and income tax should also be added. The current expenses should also be projected to find out the added expenses with rise in inflation and some unknown expenses.

(4) The investor should also have some idea of the time period for which he expects to hold the property and make a calculation of the future price which he may receive when he wishes to sell. It is very difficult to estimate the future price of an estate because as has been seen from experience, price of land is extremely sensitive. It increases continuously but the political, instability and changes in economic conditions sometimes also depress its prices.

(5) The investor should take all the expenses as above and add them to find out the value of the property.
- Determine the present value each year expected net income for the selected rate or value,
- Deduct the expected cost from expected income for each year to obtain an expected cash flow,
To find out the present value of future sale price of the property, add the present value of expected net income and the sale price to get a total of the present value.

How Land be Purchased?

Land or Property can be purchased,

1. Directly from the seller/

2. From the Property Agents,

3. From Special Development Companies and

4. Contractors who are building Apartment and Offices.