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### 1.1 Meaning of Financial Awareness:

Economic planning becomes immense important for every individual, head of the family. Only saving doesn’t serve its own objects until it joins hands with well directed financial planning. Preparing your spending schedule is no longer a smart activity; no one has to be equally smart while taking investment decision too. In fact one should pay more importance to financial planning than saving. Investment planning is completely an object oriented activity. A provision for saving and unseen future expenditure. Financial planning must be like a comprehensive activity which should encompass your entire financial environment like your current liabilities, future liabilities, return on your previous investments etc. Now a day’s one may have various aims like constructing a house, planning for retirement, saving for better higher education for your offspring.

We can witness multiple examples where people suffer due to high risky financial activities like unregulated use of credit card facility, careless investment decision etc. Such decisions cannot be considered as disciplined financial activity. One has to be very careful and vigilant while dealing new and complex investment avenues which require expert advice. Specific condition and ever changing tax structure indicates the importance of financial planning and investment awareness.

Financial planning guides you for both short and long term investment decisions. Investment awareness is not a self originated activity. One has to be very devoted and disciplined. But it is not a rocket science too.

Complete awareness about one’s income, expenditure, and asset, family’s annual budget, risk bearing capacity, insurance cover etc includes financial awareness. To get the solutions of economic problems is the basic object of economic policies of any nation. All economists from Adam Smith to Marks and Kens have thought about economic development.

As an Indian we used to admire ourselves for many of our achievements; still we have to cover major distant in many fields. Financial
awareness is one of the untapped but vital sectors in economic view. Common investor is rarely seen in share market. Common Indian use to carry one type of unconsciousness and less faith in financial or commodity market. Our people use to carry unnecessary pressure about modern investment vehicles.

Share market is equally important for individual investment as well as social and economic development of the country. Capital requirement has been satisfied by number of share holders; many of them belong to average income group. If such shareholders remain away form the share market industries won’t get flourished. Common person will get deprived from employment opportunities. Industrial development of our state will get ceased. In that case whatever the less quantum of economic development our state has achieved will also get vanished.

1.2 Important Definitions:

1) Financial Literacy means “The possession of knowledge and understanding of financial matters. Financial literacy is mainly used in connection with personal finance matters. Financial literacy often entails the knowledge of properly making decisions pertaining to certain personal finance areas like real estate, insurance, investing, saving, tax planning and retirement. It also involves intimate knowledge of financial concepts like compound interest, financial planning, the mechanics of a credit card, advantageous savings methods, consumer rights, time value of money, etc”

2) The President’s Advisory Council on Financial Literacy (PACFL, 2008), convened to “improve financial literacy among all Americans,” defines financial literacy and financial education as follows:

**Financial literacy**: the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being.

**Financial education**: the process by which people improve their understanding of financial products, services and concepts, so they are empowered to make
informed choices, avoid pitfalls, know where to go for help and take other actions to improve their present and long-term financial well-being.\textsuperscript{2}

1.3 Global Scenario for financial awareness:\textsuperscript{3}

The level of financial literacy get varied in the proportion of education and advancement, but there are some incidents which showed that well educated investors can be as unaware and ignorant as less educated. Over confidence and unawareness also plays vital role in the other countries while taking investment decisions.

In a report of the committee constituted for Investors Awareness and Protection headed under Dr. D. Swarup, chairman, PFRDA (Pension Fund Regulatory Development Authority) provided vital information on both Global and Indian degree of Financial Literacy.

The Organization for Economic Co-operation and development (OCED) has taken lead for global financial education programme. The research conducted by OCED to study the financial education level in many countries has thrown light on various concerned facts they are as follows:

1) The level of financial literacy is low in most of the countries including some developed nations.
2) In Japan 71\% of the adults have no knowledge about Investment in Bonds and Equities.
3) High school students from countries like US or Korea cannot choose correct measure for credit cards and retirements options.
4) Investors often overestimate about their knowledge as 39\% of Australian could not found correct answer as they claim they claimed to do so.
5) Education the financial awareness is not an easy task as it requires lot of patience as Canadian respondents accepted that choosing right correct retirement plan is harder than visiting doctor.
6) The OCED suggested that financial education should start at school only to make people educated at early level.
1.4 **Steps taken by other countries for Financial Education:**

Following are some of the common steps taken by other countries to handle financial education programme:

1) The government body has acted as an initiator and core institution for spreading financial literacy in nation.

2) Conducted a national survey to enumerate the problems and evaluate the progress done in the same direction.

3) Constituted and executed multi agency technique for better and effective results.

4) Articulate the financial literacy material in school curriculum.

5) Ground Reach Approach means using the workplace to enter the mindset of the investor.

6) Sought the effective participation of mass media in this regard.

1.5 **Indian Scenario:**

1.5.1 **Introduction:**

Indian economy is one of the most vibrant and fastest growing economies in the world. There are various parameters to measure the growth of economy but the scale is in respective currencies only. One can’t deny the importance of money and its role either in country’s overall economy or in the personal financial planning. In fact one can argue that unless every single individual adopts accurate financial planning measures, over all progress can’t be expected. It is observed that a poor Indian civilian work hard to meet bread and butter. A middle class is striving hard to adjust own income with ever increasing inflation and soaring prices. He has to try hard his level best if want to save for future contingencies. Ignorance and unawareness are two major hurdles in proper selection of savings or investment.

Indian scenario is not at all encouraging. Though we have a strong tradition of saving even by avoiding our necessities, still average Indians can’t
be taken as smart investors. Sixty five percent of the Indians adopted the way of investment in liquid assets like bank; post office deposits etc. and very few in modern instruments. Moreover high earning disparity is one of the major causes behind such deterioration. It is found rural civilian could earn and save as less as 50% as compared to urban counterpart. One research also point out that Indian’s habit of saving is good but the way they save is not good as very small part of the total saving is directed towards investment. Majority of the researchers in the field of saving and investment are of the opinion that urgent steps should be taken for financial literacy and generating an awareness about accurate financial planning in different life stages. Worldwide conducted survey reveals the fact that insufficient funds and lack of understanding the products are two major reasons behind inadequate insurance cover and low financial literacy.

1.5.2 Steps taken in India for Financial Education

Some specific nations of the world have done noticeable work of financial awareness for their investors through various sources. In India though the programme of financial education get started little late now it has started taking roots. Government initiation for it will definitely reap better result. Even though the work is not as per requirement one can except good result in coming future. Following are some of the major players working for financial education in India

1 Reserve Bank of India:

The apex financial institution of our country RBI has initiated a project named “Project Financial Literacy” with an object to spread information about central bank and general banking concepts to specific segment of the society selected as target groups. These groups comprise school and college students, women, self help groups, rural and urban middle class. The project has designed with multi approach encompassing RBI and its activities as well as general banking. The published material is in English and other vernacular language catering the need of common investor. The material is distributed
with the help of banks, local government machinery, schools, and colleges by the way of presentations, broachers and RBI websites etc.

2  Measures taken by SEBI:

Securities Exchange Board of India has adopted financial education campaign throughout the country. SEBI has selected Resource persons throughout India to impart financial education to various target groups like school and college students, middle income groups, retired persons, young investors. These resource persons are trained with knowledge of financial market. So far these resource persons have awakened around two lakh sixty thousand participants with more than 3500 workshops on various aspects ranging from savings, investment, to financial planning, banking, insurance etc. Participation of stakeholders like Stock Exchanges, Depositories, Mutual Funds Association, and Association of Merchant Bankers etc are sought to obtain better results.

3  Measures taken by IRDA:-

Opening insurance sector for private players has a dual impact on Indian financial market. One side the untapped insurance potential get used and other side unit linked policies get infected with misleading sales practices. It pose negative impact on investors. To deal such issues Insurance Regulatory and Development Authority has been followed remarkable measure in the area of financial education throughout the country. Communication media like Television and Radio has been used to deliver massage in simple language regarding rights and duties of policy holders, dispute redressal alternatives etc. Publications are also circulated in English, Hindi and other vernacular languages. It organizes annual seminar to improve policy holders’ protection and welfare. It has conducted whole India survey to check awareness level about insurance to frame nationwide strategy to generate insurance awareness.

IRDA’s Integrated Grievance Management System (IGMS) acts as a central repository of grievances across the country and provides for various
analyses of data for targeted efforts for the betterment of insurance policyholder.

4 Steps taken by PFRDA:

The pension Fund Regulatory and Development Authority is a recently formed regulatory authority by government of India on August 23, 2003. It is authorized by Finance Ministry, Dept. of financial services. It works to spread social security messages to the public. It promotes old age income security by establishing, developing and regulating pension funds. PFRDA appoint agencies like Central Record Keeping Agency (CRA), National Pension System (NPS) Trustee Bank, and Custodian etc.

It has taken various measures like developing FAQ on pension related issues on its website. It works in association with various non government organizations to facilitate the advantage of pension to the deprived community. It uses print as well as electronic media to awaken the society and generate broad base in order to connect directly to common people.

5 Contribution of other market players:-

Along with government agencies and institutions other stakeholders like commercial banks, private banks, mutual fund agencies and other have started working for spreading financial education to the common public. Many nationalized and private banks have taken initiatives in this regards as they have pointed out that major portion of the potential customer is untapped due to less financial education among these people. So it becomes inevitable for them to work in this regard for the expansion of their business. Some of the credit counselling centres has started training farmers and women to enable them to earning

1.6 Role of teachers in financial awareness:

The very famous Sharda Chit Fund Scam or Koun Banega Karodpati of Maharashtra is self explanatory and state how a hard earned money get loose due to ignorance or unawareness. Government machinery proved insufficient to
provide protection and safeguarding the interest of savers and investors. The Institutions like SEBI, IRDA and many more are working on their battlefield, but it is not sufficient. These institutions also come to the conclusion that providing judicial aid is not sufficient but an environment should be developed to generate the awareness. A young generation taking education in college is our future earners. They are the architectures designing our future economy. If they are well informed and aware we can expect much prominent financial stage of our nation. In short they should be properly informed and importance of financial planning should be inculcated in them. Here a role of teachers begins. From many evidences of the history we have witness the importance of the teachers (GURU) and work as a core of any social transformation. Chanakya, Dronacharya, had created history by nurturing their students in such a way that their pupils had led revolution. This is the time when our teacher community should take initiative to spread the financial literacy in the society. Literacy makes person intelligent/eligible, Computer literacy makes him skilled/knowledgeable but financial literacy makes him risk proof/sensible about financial decisions. If we want to bring any considerable change in society efficient channel is teachers (Guru).

1.7 Savings habits in India:

India has a traditional background for its savings. The thought of saving has been inculcated in the minds of youngsters by their elders’. Still our saving proportion is quite encouraging. But it won’t serve the purpose. Indian household saving has its own features they are as follows

1] Though our saving pattern is similar to other Asian Countries, we prefer safe investment and have less approach towards stock markets. The situation in western market is opposite where stock market flourishes with common investors’ participation

2] Majority of the household savings are parked in bank deposits.

3] Very Negligible proportion of the common investors went to equities.
Most of the common investment is parked in small savings and government deposits.

Considerable amount of investment is done in insurance, pension funds and provident funds but Majority of the pension funds, insurance and bank funds are controlled by government which ceases the capital formation for private industries.

Though Mutual funds have grown in India remarkably its share in overall domestic investment is less than 4 % as still people prefer to invest in PF, Bank deposits, pension funds and small savings.

Glittering of gold- A huge gold stock is dumped in Indian household. It is quite impossible to come up to fix statistical figures about gold holding by domestic investors as no authentic data is available. Again it has zero return on investment potential .No doubt it can be readily used in bad times or during personal financial crises but again with one prime drawback that most of the gold hoarded is in the form of jewellery which is not pure gold.

Fixed deposits are most preferred form of investment in India as the same facility is been provided by all type of banking units under RBI control.

**1.8 Investment Options available in India**: 

Investment options available in India can be broadly divides in two ways on the basis of period of investment i.e. Short term investment and long term investment plans.

**Short Term Investment Options:**

Following are some of the short term investment plans with their prime features –

1) **Saving Account:**

This is the prime banking service that is being utilized by majority of its customers. The most commonly used banking products which offers 4-5% of
interest. It is a firm foundation of the most populous scheme launched by Prime minister ‘JanDhan Yojana’. It is as equal as keeping money aside at home. Rate of return is comparatively negligible than any other deposit service offered by Banks.

2] **Money market Funds (Liquid Funds):**

Money Market funds are special form of mutual funds suitable to invest for very short term of period. Market funds also give first preference to protection of your capital and then work for its higher returns as like mutual funds. The essence of liquidity can be maintained just like saving account with better return on investments. Money market fund account has a facility to issue cheques. Therefore it is advised that savers should check out this option before opening new saving bank account.

3] **Fixed Deposit (Bank FDs):**

It is the most commonly used form of investment as it most remunerative form with the angle of high safety. As most of the individual investors want maximum possible return on their investment but with low risk contain. It is suitable for 6 to 12 months period where bank can offer high interest as compare to saving account which is normally higher than Money market funds returns. But one should choose this product only if the period of investment is fixed as determined, because early withdrawal from such investment may result penalty.

**Long Term Investment options:**

1] **Post Office Savings Schemes (POSS):**

The post office provides multiple schemes matching the needs of every kind of investors i.e. retired individual or salaried person. National Saving Scheme (NSS), Kisan Vikas Patra (KVP), National Saving Certificates (NSC) as well as Monthly Income Scheme and Recurring Deposit Scheme (RD) are some of the prominent investment products offered by post office.
Post office schemes are being mostly adopted as contain less risk and no tax deduction regulation like TDS is attached here. It has high return on investment return than bank FDs.

2] **Public Provident Fund (PPF):**

PPF is basically a fixed income investment option with minimum risk contained. It is suitable for high tax payers due to the tax rebate facility (Maximum on Rs.60000/- investment annually). The less liquidity is the prime drawback of the option as you can’t withdraw before seven years (??) though there is some loan facility attached with it. If one can bear the less liquidity for own investment it is best form of investment as compare to other fixed investment options.

3] **Company Fixed Deposits. (FDs):**

Unlike Bank FDs, Company Fixed Deposits possess high risk but offers high rate of return too. This is an arrangement for companies to borrow money from small investors. One should invest in these options only if you have investable amount for more than one year as the same can’t be disinvested before its maturity period. Option of Company FD should be selected with prior refining process by financial expert of skilled persons only as one may loss their investment if get invest in improper company.

4] **Bonds and Debentures:**

Just like company Fixed Deposits Company can cover its capital requirements through bonds and debentures. It is suitable for fix income investor. The proportions of risk as well as return, both are high in this type of investment. One should take curious decisions in this case.

5] **Mutual Funds:**

It is boon like financial product for developing country or emerging economic super power. Less capital formation can be deal efficiently by pooling together funds of small investors and minimize the risk with highest possible return. These multiple requirements can be tied together with mutual
funds investment options. If a new investor with less market knowledge want to invest in commodity, should go for Mutual funds as he cab access to a diversified portfolio with limited investment quantum and risk due to expert facility of expert knowledge and skill involved in it.

6] Life Insurance Policies:

This forms of investment dose not actually serve the basic propose of investment as it involve high cost of investment. If one selects a specific insurance policy as investment, the cost of death benefit, specific overhead cost like commission and many more charges has to bear which are normally not in other investment options .In short if you buy insurance purely as an investment you have to incur some extra cost attached with it.

7] Equity Shares:

Investment in equity shares yield high return but over long term .Therefore this option is suitable in investor can wait for at least 5 years if you expect high returns of your invested fund. The proportion of risk is also high so expert advice should be sought before decision. There are two way to invest in equity shares  (I) By buying shares listed in stock exchange  (II) By applying for shares which are offered to public. It requires either perfect knowledge or expert advice to avoid risk and reap high return.
1.9 Features of Investment Avenues:

Table 1.1

<table>
<thead>
<tr>
<th>Investment Avenues</th>
<th>Risk</th>
<th>Return/Current Yield</th>
<th>Capital Appreciation</th>
<th>Liquidity Marketability</th>
<th>Tax Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Shares</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Debentures</td>
<td>Low</td>
<td>High</td>
<td>Very Low</td>
<td>Very Low</td>
<td>Nil</td>
</tr>
<tr>
<td>Bank Deposits</td>
<td>Low</td>
<td>Low</td>
<td>Nil</td>
<td>High</td>
<td>Nil</td>
</tr>
<tr>
<td>Public Provident Fund</td>
<td>Nil</td>
<td>Nil</td>
<td>Low</td>
<td>Low</td>
<td>Moderate</td>
</tr>
<tr>
<td>Life Insurance Policies</td>
<td>Nil</td>
<td>Nil</td>
<td>Low</td>
<td>Low</td>
<td>Moderate</td>
</tr>
<tr>
<td>Real Estate</td>
<td>Low</td>
<td>Low</td>
<td>High in Long term</td>
<td>Moderate</td>
<td>Changes according to rule</td>
</tr>
<tr>
<td>Gold and Silver</td>
<td>Low</td>
<td>Nil</td>
<td>High in Long term</td>
<td>Moderate</td>
<td>Nil</td>
</tr>
</tbody>
</table>

Source: - Investment Management-Preeti Singh-Himalaya Publication-17th edition- [PAGE-12]

1.10 Selection of suitable investment option:

Today’s Indian market is full of investment avenues and financial products. One has to select it in keeping in mind own goal and object. Investment options always vary in accordance with market conditions. Investment objects also vary person to person. Option suitable for one can’t be proved beneficial for other. Selection of suitable investment option is mainly depends on three concepts namely Liquidity, Security and Profitability.
1] **Liquidity:** Liquidity means easy convertibility of investment in currency for our consumption. One should maintain some part of investment in it so that situations of emergencies can be deled promptly.

2] **Security:** Security deals with content of risk involved in investment. Loss of entire investment is one type of the extreme situation where as low appropriation of investment as compared to inflation is another risk involved in every option. Inflation is major risks as it reduces the purchasing power of money and ultimately weakens your investment expectations.

3] **Profitability:** Income generated through investment is completely a separate phenomenon as the risk factor decides the same. The lower the risk involved in investment less the income and profitability and vice versa. Safe investment generates less but stable return (income)

1.11 **Benefits of Financial Education:**

Financial education can produce long term benefits not only for individual but for the society at whole. Extravagant spending by young earners, risky and improper investment has made essential to have financial literacy. Financial market is over flooded with new and complex products. But only a small segment of the investor has shifted towards new form of investment and gives up traditional investment practices. Following are some of the benefits of financial education.

1] **Inculcates saving habits:** Every single individual investor become alert and developed disciplined view which regulates unnecessary expenses and encourages saving and investment habits.

2] **Disciplined and fruitful investment decisions:** Individual becomes competent for every financial responsibility. Possible risks and contingent liabilities can also be deal in a smart way by proper financial planning.

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3] **Act as protective shell:** With the help of financial education an investor can make arrangements for sound financial future and protection against acute financial crisis.

4] **Recognize own financial wellbeing:** Financially educated investor can opt for various financial alternatives matching own financial condition and goal and obtain desired results as per his/her own requirement. He need not follow his friends or relatives’ investment method blindly.

5] **Practical applicability:** One can become aware about other financial services like bank loan, interest rates overdraft etc. which will make every single investor well informed and independent decision making can be obtain.

6] **Sustainable Prosperity:** With the help of financial education programme, a nation can achieve inclusive growth and sustainable prosperity. Financial education plays crucial role in overall monetary transactions in nation. Well aware investor follows accurate investment method and contributes in fruitful monetary transactions resulted in overall prosperity of the nation.

7] **Removing Exploitation:** Financial literacy help to cease exploitation of common investors and individuals. Glossy and fraud investment schemes exploit common individual at the same time high rate of interest charged by private money lenders has also pose acute financial crises in front of common man. Financial education can deal such problems very effectively.

8] **Encourage Entrepreneurship:** Financial education encourages small businessmen to adopt proper financial decisions to grow their business. Knowledge about new financial products help them to understand the dynamics of market mechanism and improve business conditions.

9] **Reduction in governments’ responsibility:** Financially aware person can himself arrange own pension requirement by adopting proper
investment vehicles and get prepared for any financial contingency. It reduces burden of social welfare programme run by government. Investors can adopt proper saving and investment options which ensure their better retirement possibilities.

10] Higher Public Participation in Financial market: India has an age-old tradition of savings but weak investment record. Common Indian saver is still not completely transformed into a smart investor. Financial education of common people is the only remedy for it. High participation of common public in securities and modern financial products will definitely bring better results.

11] Improve knowledge: Complicated nature of modern financial products has kept common investor away from these investment avenues. Financial education has potential to improve degree of knowledge, confidence and awareness to take informed decision and manage their present as well as future financial wellbeing.

12] Eliminate Financial crises: Financial education assists to avoid acute financial crises like extravagant interest rate, risky and misleading investment options, unauthorized investment schemes which may generate high financial emergencies. Financial education helps to remove such emergencies.

13] Positive impact on economy: Financial education has multiple positive impacts on the economic conditions of nation. Due to financial education individual investor adopt informed saving and investment habits which avail abundant capital supply for business and industries. Increased industrialization can deal socioeconomic issues like unemployment, disguised employment, low salary, poor standard of living etc.

14] Change Behavioural Pattern: Aggressive advertisement campaign and escalation of standard of living encourage consumerism. Unregulated financial activities like excessive shopping, extravagant spending results
into intense financial crises. All these issues can be dealt with the help of financial education and desired change in behavioral pattern can be obtained.

1.12 Institutions/Individuals with potential to play major role in the field of Financial Education:

1] SEBI’s Resource Persons
2] Financial Market players
3] Non Banking Financial companies
4] Mutual Funds companies
5] Insurance Companies
6] Persons acting as insurance Brokers, corporate agents
7] Educational institutions
8] Non government organizations
9] Financial sector regulators
10] Central and State Government
11] International players like OCED

1.13 Budget and Financial Planning:

Preparing budget is the initial step in the process of financial planning. Budget means a process which clearly presents various income sources, their ways, its utilization and expenditure both present and future. Budget clearly defines every individual how his/her investment goal can be achieved and up to what extent.
Table 1.2

Steps for Budgeting

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Steps to follow while preparing budget.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Calculate total income; include all your income sources, income from investments too.</td>
</tr>
<tr>
<td>2</td>
<td>Calculate your fixed expenditure and get compulsory expenditure</td>
</tr>
<tr>
<td>3</td>
<td>Mention your loan and instalments amount</td>
</tr>
<tr>
<td>4</td>
<td>Fix your unimportant expenditure and calculate the expenditure spent on them. Like hotels, gifts and picnic etc.</td>
</tr>
<tr>
<td>5</td>
<td>You will get an idea about your saving and extravagant expenditure. Some time one has to be flexible while adopting but try to be loyal to your budget.</td>
</tr>
</tbody>
</table>

Benefits of Budget

1] Provide hedge against unwanted and extravagant expenditure.

2] Planning for unexpected expenditure can be done in advance.

3] Disciplined financial behaviour can be adopted

4] Maintain standard of living of individual even after retirement.

Impact of inflation on your investment:

At the time of preparing financial plan one has to consider inflation level. Inflation means price rise various goods and services over the period of time. Same amount assigned for specific good can’t be sufficient every year. We have to spend some extra which means purchasing power of money kept on diminishing. One has to prepare extra for purchasing the same commodity as compared to last year. Essential commodities like milk, glossary and clothes and services like medical, education has shown a remarkable growth as compare to interest on deposit or other investment returns. If suppose one is
getting 6% per annum on own investment the inflation rate goes up till 7 to 8% high which clearly indicates that mare safe investment will not serve the purpose it should accompanied with high return contain too.

Therefore inflation index or inflation rate has to be considered to grab the real profit of your investment. If you adopted any term deposit option, rarely you may be benefited as the same has optimum effect of inflation. As the inflation grow rapidly than return on term deposit. Hence so called attractive investment at its initial stage may result below expected returns over the year.

**Risk and Returns on investment:**

Here the risk factor plays vital role as risk and investment goes hand in hand. Risk taking is such a game of chance which may results in the form of both extreme situations. High profit possibility or loss of entire invested amount. Higher the risk higher the profit as well as loss possibilities. Non Risky options like saving account or government bonds does not yield more returns than the inflation rate which cannot serve the purpose of investment in real sense. Other forms of investment may prove beneficial in such cases.

One has to place a vigilant eye on vibrant markets updates and risk included in your investment vehicles. An attractive return always comes in pair with risk elements.
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