CHAPTER I
INTRODUCTION AND RESEARCH DESIGN

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Chapter I
INTRODUCTION AND RESEARCH DESIGN

1.1 Introduction

The role of finance in economic development is well accepted and there is rich body of knowledge which guides for increasing the savings and diverting that saving for investment channels. The economic theories of development have concentrated on the primary aspect of raising the growth rate through higher level of investment both from domestic and international sources. After independence India also embarked on economic planning for its development. The process of economic development in turn resulted into growth financial institutions, an increase in income of the people as well as an increase in avenues for investing the surplus or savings in the hands of people. But the changes in the last two decades are more prominent and decisive in the field of saving and investment. It created challenge as well as an opportunity to the people and this exactly calls for detail analysis of impact of these changes and the strategies required facing these challenges.

The opening of the economy with the policy of Liberalization, Privatization and Globalization resulted in making the Indian economy competitive in various fronts. The reforms were carried out in banking and financial sector in more pronounced manner. The era of controlled, regulated and government dominated came to an end and it replaced by market lead institutions regulated independent institutions. The competition amongst the players in banking and financial sector resulted in various customer friendly products and services. The use of computers with networking through internet offered not only ease in banking services but it also increased the speed of fund transfer. The use of internet banking, credit card, debit card, ATM, and the transaction settlement mechanism like RTGS (Real Time Gross Settlement) have became part and parcel of modern financial life. It saved money, time and labour and offered ease and economy to the customers.

The wave of transformation was also seen in the financial market. The Indian stock in the 90’s then Indian Stock Market was invisible in spite of having a century old presence in this country. If BSE was the club of few greedy Gujaratis &
Parsees then Calcutta SE was the exclusive club of Marwari Gamblers only. But now it is highly competitive and transparent. The changes in last two decades in the security market such as demat account system which reduced the risk and hassle in the purchase and sell of securities, screen based trading with internet and secure trading ports helped large number of investors. The benefits of growth in real terms are transferred to masses effectively only through the peoples’ participation in the share market. The growth in the sensex, the number of listed companies the active turnover the exchanges speaks about the breadth and depth of the share market. The development of equity capital market took a more progressive trajectory than the bond market, largely reflecting the government’s laissez faire approach to the segment. The domestic market boomed over the past seven years, with market capitalization increasing from less than USD 300bn to over USD 1tn during this time frame. The growth in the market was fuelled by both domestic and foreign investors. Domestic investors enjoyed a thriving economy during the last few years, though the majority of the households still interested in keeping their savings in bonds and Fixed Deposits, many turned towards equity investment through mutual funds. Foreign institutional investors (FIIs) and non-resident Indians (NRIs) also increased their levels of investment as liberalisation of investment caps and participation in derivative markets allowed them to hedge risks.\(^{(1)}\)

India’s financial market began its transformation path in the early 1990s. The introduction of Securities and Exchange Board of India (SEBI), repealing of the Controller of Capital Issues (CCI) removed the administrative controls over the pricing of new equity issues. The capital market, consist primarily of debt and equity markets, played a significant role in mobilising funds to meet the public and private entities’ financing requirements. The advent of exchange-traded derivative instruments in 2000, such as options and futures, also enabled investors to better hedge their positions and reduce risks the period 2002-03 to 2007-08, observed a notable transformation in the level and composition of aggregate savings and investment in the economy. The investment rate between early 1990s and the first year of 2000 was about 24 per cent of GDP, in the next five years it rose sharply and increased to 35.5 per cent in 2006-07. The rate then moderated from 37.7 per cent in 2007-08 to 34.9 per cent in 2008-09 mainly on account of a decline in the investment of private corporate sector. Gross domestic savings (GDS) as a proportion to GDP was 23.9 per cent in the 1990s with a simultaneous increase in the rates of financial savings of the household sector and private corporate sector. The
rate continued to improve rising from 26.4 per cent in 2002-03 to 32.42 per cent in 2005-06 with an average of 31.4 per cent during the tenth five year plan. The aggregate savings rate declined from a moderate 36.4 per cent in 2007-08 to 32.5 per cent of GDP during 2008-09, reflecting a sharp fall in public sector savings on account of the fiscal stimulus measures. The net financial savings during 2008-09 was the period 2002-03 to 2007-08, observed a notable transformation in the level and composition of aggregate savings and investment in the economy. The investment rate between early 1990s and the first year of 2000 was about 24 per cent of GDP, in the next five years it rose sharply and increased to 35.5 per cent in 2006-07. The rate then moderated from 37.7 per cent in 2007-08 to 34.9 per cent in 2008-09 mainly on account of a decline in the investment of private corporate sector. Gross domestic savings (GDS) as a proportion to GDP was 23.9 per cent in the 1990s with a simultaneous increase in the rates of financial savings of the household sector and private corporate sector. The rate continued to improve rising from 26.4 per cent in 2002-03 to 32.42 per cent in 2005-06 with an average of 31.4 per cent during the tenth five year plan.

The aggregate savings rate declined from a moderate 36.4 per cent in 2007-08 to 32.5 per cent of GDP during 2008-09, reflecting a sharp fall in public sector savings on account of the fiscal stimulus measures. The net financial savings during 2008-09 was 10.4 per cent of GDP at current market price, higher than 9.8 per cent during 2004-05. Despite a slower growth in bank deposit interest rates, a turnaround in the household financial savings during 2009-10 was possible due to revival in the other components. Sharp recovery was noted in the household savings in life insurance, public provident fund, small savings, senior citizen deposit schemes and mutual funds. The private corporate sector savings, as a ratio of GDP, increased from about 6.6 per cent in 2002-03 to 8.4 per cent in 2008-09 and the public sector savings which was negative in 2002-03 increased steadily to 5.0 per cent in 2007-08 and again reduced to 4.4 per cent in 2008-09. The private sector investment showed a sharp increase from 23.8 per cent of GDP in 2004-05 to 25.0 per cent in 2008-09. The savings-investment gap in the public sector stood at (-) 5.1 per cent in 2004-05 that increased to (-) 8.0 per cent in 2008-09.

In India, foreign direct investment (FIXED DEPOSIT) inflows amplified significantly in the post reform era with streamlining of regulations, radical changes
in the policies, astounding corporate performance and increased confidence of the investors. The rapid growth of the economy made India as one of the most attractive destinations for foreign capital inflows. The net capital inflows that were 1.9 per cent of GDP in 2000-01 increased to 9.2 per cent in 2007-08. It again decreased in 2008 due to the global financial crisis. Foreign portfolio investment (FPI) also added buoyancy to the Indian capital markets. From a meager USD 4bn during 1991-92, the amount rose to USD 124.92bn during 2007-08.

Increased volatility in financial asset prices, growing integration of national financial markets with international markets, development of more sophisticated risk management tools, wider choices of risk management strategies to economic agents and innovations in financial engineering helped the growth of financial derivatives worldwide and in India, one of the most successful developing countries in terms of a vibrant market for exchange-traded derivatives. Since its inception in June 2000, derivatives market exhibited exponential growth both in terms of volume and number of traded contracts. The market turnover had grown from Rs.2365cr in 2000-2001 to Rs. 11010482.20cr in 2008-2009. The growth of equity market is observed during 2001 to 2012 where the no sub brokers have increased 5675 to 77163, the DP (Depository Participants) from 191 to 823, the FII number went from 506 to 1767 while the number of Portfolio managers has increase from 23 to 243. (14)

Along with spread of the market in terms of its growth the investor in the financial market was taken for ride by fly by night operators and ponzy scheme. The myopic approach of the investor and ignorance on financial matters landed by gullible investors into heavy losses. The Harshad Mehata scam which eroded 10000 cr. of investors followed by other scams like Ketan Parekh scam to the recent National Spot Exchange Scam of 5400 cr has duped the investor’s money and confidence. Considering the need to create the awareness amongst the general investors SEBI has taken program of financial literacy of various groups. It includes investment planning for executives, Financial Planning for young investors, Financial Education for School children, and Financial education for Home makers. For this purpose SEBI conducted training program for resource persons and created pool of SEBI Empanelled Resource persons which includes professors of commerce, economics and interested scholars with financial understanding.

The growth of financial instruments with high level of sophistication no doubt helped the growth of financial market. But the instruments such as forward and future
markets basically designed for hedging have became favourite tools in the hands of the speculators. The undue advantage taken by these Smart cheaters are yet remained a scary picture of investment horizon. The common investors remains always in state of confusion.

The economic scenario in the country and even at the global level offered not only better and greater opportunities and risk in the financial market but the structural changes in job market added fuel in the fire. The process of privatization failed to create sufficient jobs for the labour force. The hire and fire method and contractual jobs without safety net created income insecurity not only for the new job seekers but even for those who are on the job too. The role government as a ultimate resort is also reshaped and the government is now withdrawing its helping hands through making pension scheme linking to the savings of the workers. Moreover the common investors are brought into financial break down through inflationary situation. The inflationary situation calls for managing the savings and investment in such a way that the real returns remain positive.

Inflationary trend in India shows that it has eroded the value of savings in real terms. The inflation rate on average annual basis observed from 2001 to 2013 shows following trend.
Table No 1.1

Inflation in India

<table>
<thead>
<tr>
<th>YEAR</th>
<th>CPI BASED INFLATION RATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>4.02</td>
</tr>
<tr>
<td>2001</td>
<td>3.77</td>
</tr>
<tr>
<td>2002</td>
<td>4.31</td>
</tr>
<tr>
<td>2003</td>
<td>3.81</td>
</tr>
<tr>
<td>2004</td>
<td>3.77</td>
</tr>
<tr>
<td>2005</td>
<td>4.25</td>
</tr>
<tr>
<td>2006</td>
<td>5.79</td>
</tr>
<tr>
<td>2007</td>
<td>6.39</td>
</tr>
<tr>
<td>2008</td>
<td>8.32</td>
</tr>
<tr>
<td>2009</td>
<td>10.83</td>
</tr>
<tr>
<td>2010</td>
<td>12.11</td>
</tr>
<tr>
<td>2011</td>
<td>8.87</td>
</tr>
<tr>
<td>2012</td>
<td>9.23</td>
</tr>
<tr>
<td>2013</td>
<td>11.09</td>
</tr>
</tbody>
</table>


The inflation in India has reached in double digit phase which creates a pressure on real rate of return from investment. The need for financial education emerges on the background of plethora of investment avenues on one hand and income insecurity coupled with inflationary trend and increasing life expectancy on the other. Financial planning envisages both short term and long term savings. A portion of the savings is invested in certain assets. There are various investment options in the form of assets: bank deposits, government saving schemes, shares, mutual funds, insurance, commodities, bonds, debentures, company Fixed Deposits etc. The Reserve Bank of India has undertaken a project titled Project Financial
The Objective of the project is to disseminate information regarding the central bank and general banking concepts to various target groups, including, school and college going children, women, rural and urban poor defence personnel and senior citizens. RBI in its Financial Inclusion program booklet defined financial planning as, “Financial planning is a process of planning managing your money (current finances) to meet your life goals. Your current finances would mean everything that constitutes your money today—income, expenses, savings, assets and liabilities. Your life goals could be higher education, buying a house, planning for retirement, saving for marriage/child’s education. Proper and timely planning of your personal finance is important to achieve financial security throughout your life cycle, and to build wealth.”

The important steps involved in financial planning are as below:
1. Cash flow planning or money management.
2. Tax planning.
3. Investment planning.
4. Insurance planning.
5. Retirement planning.
6. Debt planning and management.

There are certain pitfalls or common mistakes to which everyone may face at least in part. These mistakes are listed in the RBI booklet as:
1. Spending frivolously
2. Mindless use of credit cards
3. Caring little for regular savings
4. Investing based on half knowledge or imitation

The task of managing the portfolio becomes a Herculean task on the background of higher and better access to invest on one hand and to create a portfolio with safe and sufficient returns to safeguard the economic future. The present study tries to understand the present status of knowledge and action of the college teachers and supportive staff as this class stands to be more careful and informed about new trends in different sectors.

The growth of nation as well as of an individual depends on efficient use of resources. The judicious use of resources over the period needs more careful attention and planning to maintain the growth. At individual level the level of income, savings and its deployment in various options plays a significant role.
In the wake of ICT revolution along with privatization, globalization and liberalization the new avenues for investment are now available. It offers new opportunity as well as risk also. The response of the investor depends largely on awareness, access and experience about the investment opportunities. In the present study an attempt is made to analyze the investment portfolio of college employees in the jurisdiction of Shivaji University Kolhapur.

The portfolio selection by the individual affects the prosperity both at family level as well as at national level. This in turn depends on level of income, need of saving, psychology of the person on demand side and availability of channels for savings. The process of economic development in our country has resulted into growth income, spread of financial institutions which made our economy with one of highest saving rate economy in the world. The recent developments in the last two decades of privatization, liberalization and globalization further deepened the process of growth, income and savings. Despite this growth story the institutional penetration in the rural area as well as the awareness about productive opportunities remains far from satisfactory. The insurance sector could not tap the rural sector with lowest penetration in terms of population covered and products offered. The plan of financial inclusion launched by RBI manifests the same malady of economy. On this background it is significant to study the decision making factors affecting the portfolio selection by individual members both theoretically as well as practically.

The study is focused on present allocation pattern of savings of the employees in colleges and the risk return ratio for them is helped to understand the preferences for investment options. The insurance companies, the managers of mutual funds, tax savings schemes can design appropriate strategy to tap the savings of this class which in turn benefits the saving community.

1.2 Statement of problem

Present study deals with, a study of,“Portfolio Management of college employees under jurisdiction of Shivaji University, Kolhapur”

The study is focused on the middle income and higher middle income class of society working in colleges. The financial planning and awareness about different avenues of investment remains silent for large number of people. The awareness about investment and timely action in that direction along with its time to time evaluation is
need of the time. Hence the study is focused on present portfolio of the employees, the reason for selecting such portfolio and evaluation of the portfolio for suggesting appropriate portfolio mix to attain their financial goals.

1.3 Objectives
Following are the objectives of the study
1. To study the investment pattern of college employees
2. To study the variation in portfolio across different income levels
3. To study the financial literacy of the investors under study
4. To analyze the risk and return of investors under study
5. To suggest appropriate portfolio to investors

1.4 Hypothesis
The study is based on following hypothesis
1. The respondents are making choice of portfolio on the basis of risk and return
2. The financial literacy is low amongst the college employees
3. The portfolio returns are low in terms of nominal and real rate of return
4. The college employee’s portfolio is risk averse in nature.

1.5 Research Methodology
The explorative type of research is done by adopting survey method.

a) Sampling Design: For the detail analysis of the portfolio pattern of employees in College the researcher followed the method of stratified sampling. In the population of total colleges affiliated to Shivaji university the colleges with 2 b and 12 f criteria was considered first. On the basis of it the list of Arts Science and Commerce colleges under Shivaji university jurisdiction with 2 f and 12 b criteria is prepared. The total number of such colleges was 99 in three districts. After this sample of 10% colleges is selected with appropriate weighting for each district. As the Kolhapur district is having 40 colleges the researcher has selected a sample of 4 colleges from this district. As Satara district and Sangli district have 28 and 31 colleges the selected sample is of 3 colleges from Satara and 3 from Sangli district. The next step for selecting the colleges from each district were the researcher used lottery method. The list of colleges from each district was
prepared and by lottery method the colleges were selected at random. The researcher has taken care to select 60 % colleges form urban area and remaining 40% from rural area. The period for data collection is of 6 years i.e. from financial year 2005-06 to 2010-11.

b) **Collection of Data and Analysis** : In the present study secondary data available through books, journals as well as from websites is used for getting macro framework of analysis and the contribution made by earlier researchers. For detail study of the selected sample units primary data collection tools such as schedule, interview, questionnaire, and observation is used. The hypothesis is proved with suitable statistical tools such as average, standard deviation, correlation, and ratios and indices.

Following table shows the list of Arts, Science & Commerce colleges under Shivaji University, Kolhapur jurisdiction in three districts having 2 (f) 12 (B) gradation.

**Table 1.2:**

**Number of colleges District wise under Shivaji University Kolhapur**

<table>
<thead>
<tr>
<th>Sr No</th>
<th>Name of District</th>
<th>Number of Arts, Science &amp; Commerce Colleges under 2F &amp; 12B</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kolhapur</td>
<td>40</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>Sangli</td>
<td>31</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>Satara</td>
<td>28</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL =</strong></td>
<td><strong>99</strong></td>
<td><strong>10</strong></td>
</tr>
</tbody>
</table>

*Source: Website of Shivaji University Kolhapur (www.unishivaji.ac.in)*

From the total population of 99 colleges we selected 10 % colleges from each.
Table no 1.3  
List of Selected Sample College

<table>
<thead>
<tr>
<th>Sr No</th>
<th>College Name</th>
<th>Teaching Staff Sr.and Jr.College</th>
<th>Administrative Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Tararani Vidyapith’s Kamala College, Kolhapur</td>
<td>61</td>
<td>43</td>
</tr>
<tr>
<td>2</td>
<td>Deshbhakt Ratnappa Kumbhar Commerce College, Kolhapur</td>
<td>40</td>
<td>30</td>
</tr>
<tr>
<td>3</td>
<td>S.K. Patil College Kurundwad, Kolhapur</td>
<td>41</td>
<td>16</td>
</tr>
<tr>
<td>4</td>
<td>Bhogawati Shikshan Mandal’s Bhaogawati College Kurukali, Kolhapur</td>
<td>50</td>
<td>35</td>
</tr>
<tr>
<td>5</td>
<td>Ganpatrao Arwade College of Commerce,Sangli</td>
<td>36</td>
<td>16</td>
</tr>
<tr>
<td>6</td>
<td>Abhinav Shikshan Mandal’s Kanya Mahavidyalaya. Shri Balwantrao MaratheVidyalaya, Miraj</td>
<td>27</td>
<td>23</td>
</tr>
<tr>
<td>7</td>
<td>Vishwasrao Naik College, Shirala</td>
<td>46</td>
<td>26</td>
</tr>
<tr>
<td>8</td>
<td>Shri Swami Vivekanand Sanstha’s Lal Bahadur Shastri College, Satara</td>
<td>40</td>
<td>34</td>
</tr>
<tr>
<td>9</td>
<td>Rayat Shikshan Sanstha’s Sant Guru Gadge Maharaj College,Karad.</td>
<td>35</td>
<td>16</td>
</tr>
<tr>
<td>10</td>
<td>Jaywant Pratishtan, Amdar Shinde Arts&amp; Commerce College,Medha</td>
<td>29</td>
<td>21</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>405</td>
<td><strong>260</strong></td>
<td><strong>255</strong></td>
</tr>
</tbody>
</table>

Source: Website of Shivaji University Kolhapur (www.unishivaji.ac.in)

For the purpose of detail study 50% of the college staff including teaching as well as administrative staff of the above colleges is selected. It is shown in the following table.
c) **Sample Respondents of Study:** The sample respondents are shown in the following table

**Table no 1.4**

**Sample Respondents of Study**

<table>
<thead>
<tr>
<th>Sr No</th>
<th>College Name</th>
<th>Teaching Staff Sr.</th>
<th>Administrative Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Tararani Vidyapith’s Kamala College, Kolhapur</td>
<td>41</td>
<td>28</td>
</tr>
<tr>
<td>2</td>
<td>Deshbhakt Ratnappa Kumbhar Commerce College, Kolhapur</td>
<td>25</td>
<td>18</td>
</tr>
<tr>
<td>3</td>
<td>S.K. Patil College, Kurundwad, Kolhapur</td>
<td>21</td>
<td>11</td>
</tr>
<tr>
<td>4</td>
<td>Bhogawati Shikshan Mandal’s Bhaogawati College Kurukali, Kolhapur</td>
<td>25</td>
<td>19</td>
</tr>
<tr>
<td>5</td>
<td>Ganpatrao Arwade College of Commerce, Sangli</td>
<td>18</td>
<td>7</td>
</tr>
<tr>
<td>6</td>
<td>Abhinav Shikshan Mandal’s Kanya Mahavidyala., Miraj</td>
<td>25</td>
<td>10</td>
</tr>
<tr>
<td>7</td>
<td>Vishwasrao Naik College, Shirala</td>
<td>23</td>
<td>10</td>
</tr>
<tr>
<td>8</td>
<td>Shri Swami Vivekanand Sanstha’s Lal Bahadur Shastri College, Satara</td>
<td>40</td>
<td>29</td>
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<td>26</td>
<td>16</td>
</tr>
<tr>
<td>10</td>
<td>Jaywant Pratishtan, Arts&amp; Commerce College, Medha</td>
<td>21</td>
<td>10</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>265</strong></td>
<td><strong>148</strong></td>
</tr>
</tbody>
</table>

*Source: Compiled by the researcher*

The total sample is of 413 respondents

**1.6 Scope of the Study**

Present study deals with jurisdiction of Shivaji University Kolhapur with 2 (f) 12 (b) colleges of Arts, Commerce and Science college staff. The study focuses on income, expenditure, saving and borrowings of the respondents. It deals with the portfolio selection and returns on it both in real and nominal terms. The analysis is based on the data provided by the respondent.
1.7 Limitations of study:
The study is based on sample of the 10 college staff selected on the basis of stratified random sampling. The period of the data collection is for 6 years only hence the results have limitation with small data base and short duration.

1.8 Chapter Scheme:
The thesis consisted the following Chapters-
I  Introduction and Research Methodology
II  Review of Literature
III  Profile of University, Colleges and Respondents
IV  Analysis of Portfolio of Respondents
V  Analysis of Risk and Return of Portfolio of Respondents
VI  Summery and Suggestions

1.9 Terms in the thesis
Following are important terms, concepts and formulas used in the thesis
1. Aggressive stock: Aggressive stocks are those stocks which generates higher returns than market and their betas exceed 1.0
2. Asset allocation is an investment strategy that attempts to balance risk versus reward by adjusting the percentage of each asset in an investment portfolio according to the investors risk tolerance, goals and investment time frame
3. Balanced funds: A balanced fund is geared toward investors who are looking for a mixture of safety, income and modest capital appreciation. The amounts that such a mutual fund invests into each asset class usually must remain within a set minimum and maximum.
4. Beta: A measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. Beta is used in the capital asset pricing model (CAPM), a model that calculates the expected return of an asset based on its beta and expected market returns.
5. Blue chip: A nationally recognized, well-established and financially sound company. Blue chips generally sell high-quality, widely accepted products and services. Blue chip companies are known to weather downturns and operate
profitably in the face of adverse economic conditions, which helps to contribute to their long record of stable and reliable growth.

6. Diversification: A risk management technique that mixes a wide variety of investments within a portfolio. The rationale behind this technique contends that a portfolio of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio.

7. Efficient frontier: A set of optimal portfolios that offers the highest expected return for a defined level of risk or the lowest risk for a given level of expected return. Portfolios that lie below the efficient frontier are sub-optimal, because they do not provide enough return for the level of risk. Portfolios that cluster to the right of the efficient frontier are also sub-optimal, because they have a higher level of risk for the defined rate of return.

8. Efficient portfolio: A portfolio that provides the greatest expected returns for a given level of risk, or equivalently, the lowest risk for a given expected return. Also called optimal portfolio.

9. Fundamental analysis is the method of evaluating a security that entails attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (like the overall economy and industry conditions) and company-specific factors (like financial condition and management). This method of security analysis is considered to be the opposite of technical analysis.

10. Gilt edged Securities: High-grade bonds that are issued by a government or firm. This type of security originally boasted gilded edges, thus the name. In the case of a firm, a gilt-edged security is a stock or bond issued by a company that has a strong record of consistent earnings and can be relied on to cover dividends and interest.

11. Government securities: A bond (or debt obligation) issued by a government authority, with a promise of repayment upon maturity that is backed by said government. A government security may be issued by the government itself or by one of the government agencies. These securities are considered low-risk, since they are backed by the taxing power of the government.

12. Hedging: Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related...
security, such as a futures contract. Investors use this strategy when they are unsure of what the market will do. A perfect hedge reduces your risk to nothing (except for the cost of the hedge).

13. Index fund: A type of mutual fund with a portfolio constructed to match or track the components of a market index, such as the Standard & Poor's 500 Index (S&P 500). An index mutual fund is said to provide broad market exposure, low operating expenses and low portfolio turnover. Investing in an index fund is a form of passive investing. The primary advantage to such a strategy is the lower management expense ratio on an index fund. Also, a majority of mutual funds fail to beat broad indexes, such as the S&P 500.

14. Mutual fund: A mutual fund is a type of professionally managed collective investment vehicle that pools money from many investors to purchase securities. While there is no legal definition of the term "mutual fund", it is most commonly applied only to those collective investment vehicles that are regulated and sold to the general public. They are sometimes referred to as "investment companies".

15. NIFTY: The NSE's key index is the S&P CNX Nifty, known as the NSE NIFTY (National Stock Exchange Fifty), an index of fifty major stocks weighted by market capitalisation.

16. Risk Premium: The return in excess of the risk-free rate of return that an investment is expected to yield. An asset's risk premium is a form of compensation for investors who tolerate the extra risk - compared to that of a risk-free asset - in a given investment.

17. Risk Free Rate of Return: The theoretical rate of return of an investment with zero risk. The risk-free rate represents the interest an investor would expect from an absolutely risk-free investment over a specified period of time.

18. Sensitive index: An abbreviation of the Bombay Exchange Sensitive Index (Sensex) - the benchmark index of the Bombay Stock Exchange (BSE). It is composed of 30 of the largest and most actively-traded stocks on the BSE. Initially compiled in 1986, the Sensex is the oldest stock index in India.

19. Systematic Risk: The risk inherent to the entire market or entire market segment. Also known as "un-diversifiable risk" or "market risk." Interest rates, recession and wars all represent sources of systematic risk because they affect the entire market and cannot be avoided through diversification. Whereas this type of risk
affects a broad range of securities, unsystematic risk affects a very specific group of securities or an individual security. Systematic risk can be mitigated only by being hedged. Even a portfolio of well-diversified assets cannot escape all risk.

20. Technical Analysis: In finance, technical analysis is a security analysis methodology for forecasting the direction of prices through the study of past market data, primarily price and volume. Behavioural economics and quantitative analysis use many of the same tools of technical analysis, which, being an aspect of active management, stands in contradiction to much of modern portfolio theory. The efficacy of both technical and fundamental analysis is disputed by the hypothesis which states that stock market prices are essentially unpredictable.

21. Treasury Bills: A short-term debt obligation backed by the U.S. government with a maturity of less than one year. T-bills are sold in denominations of $1,000 up to a maximum purchase of $5 million and commonly have maturities of one month (four weeks), three months (13 weeks) or six months (26 weeks). T-bills are issued through a competitive bidding process at a discount from par, which means that rather than paying fixed interest payments like conventional bonds, the appreciation of the bond provides the return to the holder.

22. Unsystematic Risk: Company or industry specific risk that is inherent in each investment. The amount of unsystematic risk can be reduced through appropriate diversification. Also known as "specific risk," "diversifiable risk" or "residual risk." For example, news that is specific to a small number of stocks, such as a sudden strike by the employees of a company you have shares in, is considered to be unsystematic risk.

23. Risk Tolerance: Risk tolerance is a measure of your willingness to accept higher risk or volatility in exchange for higher potential returns. Those with high tolerance are aggressive investors, willing to accept losing their capital in search for higher returns. Those with a low tolerance, also called risk-averse, are more conservative investors who are more concerned with capital.

24. Sensex: BSE’s flagship product – SENSEX is India's first stock market index launched in 1986 is regarded as the barometer of the Indian capital markets and is widely tracked worldwide.
25. **Financial literacy** is the ability to understand how money works in the world: how someone manages to earn or make it, how that person manages it, how he/she invests it (turn it into more) and how that person donates it to help others.\(^{14}\)
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