CHAPTER - 1

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Retirement planning is one of the most significant events in an individual's life. It is a state of complete withdrawal from employment along with the entitled benefits related to it. Retirement is transition from work to no work. If the retirement is planned properly, it can be more secured & enjoyable. Retirement planning means saving sufficient funds to provide for a comfortable life style after retirement and psychological preparation for changing the mindset in the positive way the need to plan early for retirement has become very essential. Once such a plan is in place, then an individual can be fairly confident to retire peacefully.

Due to fast changing socio-economic environment the need to plan early for retirement has become the need of the day. A little bit of planning is needed to enable a person to enjoy those golden years. Retirement planning is one of the crucial aspects of one’s all over investment planning. Pensions will become a source of income post retirement.

Retirement planning is a universal term today. The need to accumulate for the future and to make sure that a good life follows after retiring from work is the central reason that gives rise to the entire concept of retirement planning. Though people plan for their retirement by saving some money, it might lead to dearth of funds during the critical years. It is at such a point of time that the advantage of retirement planning becomes obvious. The increasing life span, impact of inflation, falling rate of fixed return, self dependence, break down of joint family system, unintended emergencies, increasing
medical costs and coping with family health problems are the major reasons which add to the magnitude of retirement planning.

Retirement planning and ensuring a perennial flow of income as pension after retirement play a crucial role. The basis of a retirement plan is the accurate determination of the savings goal. To ensure a comfortable retirement an investment strategy is to be framed in order to have sufficient funds to take care of the retired phase of life the individual needs.

The reality is that everyone has to retire one day and proper planning must be done for the years in which a proper planning must be done for the years in which earnings will come down significantly. However, at that point of time everyone would still like to live a comfortable life and enjoy the same kind of benefits that they earned when they were young. Thus in many cases many people fail to realize that there is also a need to build up something for times in the future when they no longer be able to work at the same frenetic pace or do the same kind of things that they are doing now.

Once the need for planning is realized, the actual concept of retirement planning begins. “It is a process of determining the financial goals at the point of one’s retirement”. It involves keeping aside sums to ensure that funds are available and these funds are invested in the appropriate areas to achieve the goals set. Further, the process requires constant monitoring of the progress of the plan and then taking adequate remedial action where required in order to set right any deviations that might seem significant. The basic idea is that an individual has the required funds after retiring from active life to meet a certain standard of living.
The retirement plan is exclusive for each individual and it is not enough that there be a common retirement plan for entire family or for even people who might seem to be similar or part of a certain group. This is because the needs of each individual will be different and hence the need in the retirement plan will also change accordingly. A retirement plan is the best way to set a person on the course for the future benefits years down the line.

The barter system was one of the earliest forms of trading. It facilitated exchange of goods and services as money was not invented in those times. The history of bartering can be traced back to 6000 B.C it is believed that barter system was introduced by the tribes of Mesopotamia. The main drawback of this system was that there was no standard criterion to determine the value of goods and services, and this resulted in disputes and clashes. These problems were sorted out with the invention of money.

In economics, the term currency can refer either to a particular country’s currency or to the coins and bank notes of a particular currency, which comprise the physical aspects of a nation’s money supply. The other part of a nation’s money consists of money deposited in banks, ownership of which can be transferred by means of cheques or other forms of money transfer such as credit and debit cards. Deposit money and currency are ‘money’ in the sense that both are acceptable as a means of exchange.

The origin of currency is the creation of a circulating medium of exchange based on a unit of account which quickly becomes a store of value. At first silver and gold metals were mined, weighed and stamped into coins. This was to assure the individual taking the coin that he was getting a certain known weight of precious metal, coins could be counterfeited, but they also created a new unit of account, which helped lead to banking.
In most major economies using coinage, copper, silver and gold formed three tiers of coins. Gold coins were used for large purchases, payment of the military and backing of state activities, silver coins were used for large, but common transactions and as a unit of account for taxes, dues, contracts, while copper coins represented the coinage of common transactions. This system had been used in ancient India since the time of Mahajanapadas.

In Europe, paper money was first introduced in Sweden in 1661. The advantages of paper currency were numerous. It reduced transport of gold and silver, and thus lowered the risks; with the creation of central banks currency underwent several significant changes. Modern money is essentially a token/ an abstraction. Paper currency is perhaps the most common type of physical money today. However objects of gold and silver present many of money’s essential properties. The history of money and banking are inseparably interlinked. The multiplication of money really took off when banks got into the business.

The concept of savings plays an important role in economy. ‘Saving is the conversation of money for instance, putting money aside in a bank’\(^1\).

Savings also includes reducing expenditures, such as recurring costs.

In economics, personal saving has been defined as “personal disposable income minus personal consumption expenditure”\(^2\). In other words, income that is not consumed by immediately buying goods and service is saved. Other kinds of savings can occur as with corporate retained earnings (profits minus dividend and tax payments) and a government budget surplus.

During independence period in India, people spent most of their income on consumption and only a small amount of income was left in the form of saving. As a result the savings
rate was very low, especially in the rural sector. Since the attainment of Independence in 1947, the major objective of the government policy has been the promotion of saving and capital formation as they are the primary instruments of economic growth.\(^3\)

Increase in the savings, use of increased savings, and use of the increased investment for increasing savings, for further financing the required investment constitute the strategy of economic growth. This process may continue till saving, investment ratio to income would get stabilized and there would be steady and self-sustained increases in national income and economic welfare. And the increase in the rate of investment was made possible by way of an almost proportionate rise in the rate of saving. Saving is therefore, the key factor in achieving a high rate of investment.

Savings is closely related to investment. Savings generate investments. Investment in turn creates capital. Capital can be used by the same person, who has accumulated and created it or it can be hired/let to others.

The savings in India in recent years originate from the three principal sectors namely:

1. House hold sector
2. The private corporate sector
3. Public sector

The proportion of these three components of National savings throws more light on the structure of savings in India. The table given below provides the figure of sector-wise saving in India in the year 1980-81 to 1998-99.
Table No: 1.1: **Volume of Savings in India (at Current Price) Amount in Crores**

<table>
<thead>
<tr>
<th>Sector</th>
<th>1980-81</th>
<th>%</th>
<th>1990-91</th>
<th>%</th>
<th>1998-99</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>House hold saving</td>
<td>21848</td>
<td>75.9</td>
<td>109623</td>
<td>84.4</td>
<td>325456</td>
<td>82.7</td>
</tr>
<tr>
<td>Private savings</td>
<td>2284</td>
<td>8.0</td>
<td>14940</td>
<td>11.5</td>
<td>67573</td>
<td>17.2</td>
</tr>
<tr>
<td>Public savings</td>
<td>4654</td>
<td>16.2</td>
<td>5436</td>
<td>4.2</td>
<td>572</td>
<td>0.15</td>
</tr>
<tr>
<td>Total savings</td>
<td>28786</td>
<td>100.0</td>
<td>129999</td>
<td>100.0</td>
<td>393601</td>
<td>100.0</td>
</tr>
</tbody>
</table>


The above table reveals that house hold sector saving provides the bulk of national saving. The share of total house hold saving to total national saving is more than three quarters.

Savings leads to investment. By not using income to buy consumer goods and services, it is possible for resources to instead be invested by being used to earn returns. With in personal finance, the act of saving corresponds to nominal preservation of money for future use. A deposit account paying interest is typically used to hold money for future needs i.e., an emergency fund, to make a capital purchase (car, house, vacation etc) or to give to someone else (children, tax bill etc.)

With in personal finance, money used to purchase shares; put in a collective investment scheme or used to buy any asset where there is an element of capital risk is deemed on investment. In many instances the term saving and investment are used interchangeably.

For example, many deposit accounts are labelled an investment accounts by banks for marketing purposes. To distinguish whether an asset is saving or an investment, If the answer is cash then it is savings, if it is a type of asset which can fluctuate in nominal value then it is investment.
Investing is the active redirection of resources: form being consumed today, to creating benefits in the future; the use of assets to earn income or profit. (An investment is a choice by an individual or an organization such as a pension fund. After at least some careful analysis or thought, to place or lend money in a vehicle (e.g. property, stock, securities, bonds) that has sufficiently low risk and provides the possibility of generating returns over a period of time. Placing or lending money in a vehicle that risks the loss of the principal sum or that has not been thoroughly analyzed is called as speculation but not investment. The term "investment" is used differently in economics and in finance, Economists refer to a real investment (such as a machine or a house), while financial economists refer to a financial asset, such as money that is put into bank or the market, which may then be used to buy a real asset. The investment decision (also known as capital budgeting) is one of the fundamental decisions of business management. Managers determine the investment value of the assets that a business enterprise has within its control or possession. These assets may be physical (such as buildings or machinery), intangible (such as patents, software, and goodwill) or financial assets. Financial asset are often marketable securities such as a company stock (an equity investment) or bond (a debt instrument). At times the goal of the investment is for producing future cash flows;

In economics, investment is the production per unit time of goods which are not consumed but are to be used for future production. Investment is often modeled as a function of income and interest rate. An increase in income encourages higher investment, where as a higher interest rate may discourage investment as it becomes more costly to borrow money. Even if a firm chooses to use its own funds in an investment, the
interest rate represents an opportunity cost of investing those funds rather than lending out that amount of money for interest.

In Finance, Investment is the commitment of funds by buying securities or other monetary (financial) assets in the money markets or capital markets, or in fairly liquid real assets such as gold, real estate. Valuation is the method for assessing whether a potential investment is worth its price. Return on investments will follow the risk—return spectrum. Types of financial investments include shares, other equity investment and bonds (including bonds denominated in foreign currencies). These financial assets are expected to provide income or positive future cash flows and may increase or decrease in value giving the investor capital gains or losses. Investments are often made indirectly through intermediaries such as banks, mutual funds, pension funds, insurance companies, collective investment schemes and investment clubs. Though their legal and procedural details differ, an intermediary generally makes an investment using money from many individual each of whom receives a claim on the intermediary.

Saving with in personal finance refers to money put aside, normally on a regular basis. The distinction is important; an investment risk can cause a capital loss when an investment is realized. Savings are with the more limited risk in cash devaluing due to inflation.

In many instances the term saving and investment are used interchangeably, which confuses this distinction. For example, many deposit accounts are labelled as investment accounts by banks for marketing purposes. Whether an asset is a saving(s) or an investment depends on where the money is invested: if it is cash then it is savings, if its value can fluctuate then it is investment.
When current income exceeds current consumption desires people tend to save the excess. If a person gives up the immediate possession of the savings for a future, larger amount of money will be available for future consumption. This trade-off of present consumption for a higher level of future consumption is the reason for saving.

An investment is the current commitment of money for a period of time in order to derive future payments that will compensate the investor for

1) The time the funds are committed.
2) The expected rate of inflation and
3) The uncertainty of the future payments.

The investor can be an individual, a government, a pension fund, or a corporation. Similarly, this includes all types of investments including investments by corporations in plant and equipment and investments by individuals in stocks, bonds, commodities or real estate. An individual invests to earn a return from savings due to one's deferred consumption with the expectation of a rate of return that compensates from time to time the expected rate of inflation and the uncertainty of the return. The practice of investing funds and managing portfolios should focus primarily on managing risk rather than on managing returns.

Asset allocation is the process of deciding how to distribute an investor's wealth among different asset classes for investment purposes. Asset allocation is comprised of securities that have similar characteristics, attributes, and risk/return relationships. A broad asset such as "bonds" can be divided into smaller asset classes such as treasury bonds, corporate bonds and high yield bonds. The asset allocation decision is
not an isolated choice; rather it is a component of a structured four-step portfolio management process.

As investor have a wide array of investment alternatives. The classification is shown below.

Exhibit: 1.1 Investment Alternatives


Non-marketable financial assets can be classified into the following categories:

i) Bank deposits

ii) Post office deposits
Equity shares represent ownership capital. The following are the broad categories:

i) Blue chip shares
ii) Growth shares
iii) Income shares
iv) Cyclical shares
v) Speculative shares

Bonds: bonds or debentures represent long term debt instruments. The issuer of a bond promises to pay a stipulated term of cash flow. Bonds may be classified into the following categories:

i) Government securities
ii) Savings bonds
iii) Government agency securities
iv) PSU bonds
v) Debentures of private sector companies
vi) Preference shares.

Money market instruments: debt instruments which have a maturity of less than one year at the time of issue are called money market instruments. The important money market instruments are:

i) Treasury bills
ii) Commercial paper
iii) Certificates of deposit

Mutual funds: instead of directly buying equity shares and / or fixed income instruments one can participate in various schemes floated by mutual funds which in turn, invest in equity shares and fixed income securities. There are 3 broad types of mutual fund schemes:

i) Equity schemes

ii) Debt schemes

iii) Balanced schemes

Life insurance: life insurance policies are also non-marketable financial assets. Life insurance may be viewed as investment. Insurance premiums represent the sacrifice, and the assured sum the benefit. The important types of insurance policies in India are:

i) Endowment assurance policy

ii) Money back policy

iii) Whole life policy

iv) Term assurance policy

Real State: for the bulk of the investors the most important asset in their portfolio is a residential house. In addition to a residential house, the more affluent investors are likely to be interested in the following types of real estate:

i) Agricultural land

ii) Semi-urban land

iii) Commercial property
Precious objects: precious objects are items that are generally small in size but highly valuable in monetary terms. Some important precious objects are:

i) Gold and silver

ii) Precious stones

iii) Art objects

Financial derivatives: a financial derivative is an instrument whose value is derived from the value of an underlying asset. It may be viewed as a side bet on the asset. The most important financial derivatives form the point of view of investor are:

i) Options

ii) Futures

For evaluating an investment avenue, the following attributes are relevant.

i) Rate of return

ii) Risk

iii) Marketability

iv) Tax shelter

v) Convenience

The return from the stock includes both current income and capital gain by the appreciation of the price. The income and capital gain are expressed as a percentage of money invested in the beginning.

Rate of return on investment\(^{14}\) = \(\frac{\text{Annual Income} + (\text{Ending price} - \text{Beginning price})}{\text{Beginning price}}\)
The risk of an investment refers to the variability of its rate of return. Risk is the possibility of loss; the degree or probability of loss. When an investor could able to assign some subjective probability to the returns it is termed as risk. If the possible events and probabilities of their occurrence are not known then it is termed as uncertainty. Risk contains of two components, the systematic risk and unsystematic risk. The systematic risk is caused by factors external to the particular company and uncontrollable by the company. 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.

Marketability: an investment is said to be highly liquid or marketable

i) If it can be transacted quickly.

ii) If the transaction cost is low and

iii) If the prices change between two successive transactions is negligible.

Tax shelter: some investments provide tax benefits. Some of the kinds are:

i) Initial tax benefit which refers to the tax relief enjoyed at the time of making investment.

ii) The second one is continuing tax benefit which represents the tax shield associated with the periodic returns from the investment.

iii) Another one is a terminal tax benefit which refers to relief from taxation when an investment is realized or liquidated.
The last attribute is convenience which refers to the ease with which the investment can be made and looked after the degree of convenience associated with investments varies widely\(^19\).

Investors have different motives of investing. Leaving aside a few who love the power and prestige of holding a major share or a minor share in a company, the majority of the investors have one of the following motives or a combination of them:

i) Regular income either in the form of dividend or interest.

ii) Capital gains or capital appreciation

iii) Hedge against inflation, a positive real rate of return.

iv) Safety of funds and regularity of payment of interest and principal.

v) Liquidity and marketability in the sense that investor can convert the investments into cash or liquidity and back again into investments when cash is not needed \(^20\).

A summary evaluation of the various investment avenues in terms of key attributes is given in Table: 1.2 it must be emphasized that within each investment category individual assets display some variations.
<table>
<thead>
<tr>
<th>Investment alternatives</th>
<th>Return Current yield</th>
<th>Return Capital appreciation</th>
<th>risk</th>
<th>Marketability/liquidity</th>
<th>Tax</th>
<th>convenience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity shares</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>Fairly high</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Non-convertible shares</td>
<td>High</td>
<td>Negligible</td>
<td>Low</td>
<td>Average</td>
<td>Nil</td>
</tr>
<tr>
<td>Equity schemes</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Very high</td>
</tr>
<tr>
<td>Debt schemes</td>
<td>Moderate</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
<td>No tax on dividends</td>
<td>Very high</td>
</tr>
<tr>
<td>Bank deposits</td>
<td>Moderate</td>
<td>Nil</td>
<td>Negligible</td>
<td>High</td>
<td>Nil</td>
<td>Very high</td>
</tr>
<tr>
<td>Public provident fund</td>
<td>Nil</td>
<td>Moderate</td>
<td>Nil</td>
<td>Average</td>
<td>Section 80 c benefit</td>
<td>Very high</td>
</tr>
<tr>
<td>Life insurance polices</td>
<td>Nil</td>
<td>Moderate</td>
<td>Nil</td>
<td>Average</td>
<td>Section 80 c benefit</td>
<td>Very high</td>
</tr>
<tr>
<td>Residential house</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Negligible</td>
<td>Low</td>
<td>High</td>
<td>Fair</td>
</tr>
<tr>
<td>Gold and Sliver</td>
<td>Nil</td>
<td>moderate</td>
<td>Average</td>
<td>Average</td>
<td>nil</td>
<td>Average</td>
</tr>
</tbody>
</table>


The investor takes a number of decisions in the process of investment. The investor has to decide about the risk tolerance level and the nature of assets to be bought whether they
are stocks or bonds or real estates. Once an investor decides the nature of the asset, the next step is to select it from the different alternatives. For example: if the common stock is chosen by the investor, the decision regarding which company's stock to be bought is to be decided. Stocks are selected on the basis of return and risk. The investor analyses stock, say five years or ten years. The risk and return analyses of the securities are known as security analyses.

Equity shares can be described more easily than fixed income securities. However, they are more difficult to analyze. Fixed income securities typically have a limited life and a well-defined cash flow stream. The basic principles of valuation are the same for fixed income securities as well as equity shares, the factors of growth and risk create complexity in the case of equity shares.

Security analysis is built around the idea that investors are concerned with two principal properties inherent in securities. The return that can be expected from holding a security, and the risk of the return that was expected.

Security analysis involves an examination of expected return and accompanying risks. The first three motives of income, capital appreciation and a positive hedge against inflation refer to the expected return. The last two motives of investor lead to the risks involved in the investments. These risks are due to the uncertainty of returns, regularity of returns, safety of funds, marketability or lack of it etc.

Investors generally desire to have the maximum return possible, as they like returns, but they dislike the risk, and the extent of risk aversion varies from investor to investor. But the return depends on the extent of risk that the investor takes. The return composes of a
risk less return (normally paid on a treasury bill or a bank deposit) plus a risk premium depending on the risk taken by the investor.

Investments are made based on security analysis and decisions involved are what securities to be bought or sold and the extent or proportion of funds to be invested in each\textsuperscript{24}. Equity analysts employ two kinds of analysis, Viz.,

i) Fundamental analysis

ii) Technical analysis

Fundamental analysts assess the fair market value of equity shares by examining the assets, earnings prospectus, cash flow projections and dividend potential. Fundamental analysts differ from technical analyst who essentially relies on price and volume trend and other market indicators to identify trading opportunities\textsuperscript{25}.

Investments are made based on security analysis and decisions involved are what securities to be brought or sold and the extent or proportion of funds to be invested in each\textsuperscript{26}.

i) First, estimates are prepared of the return and risk associated with available securities over a forward holding period.

ii) Second return-risk estimates must be compared in order to decide how to allocate available funds among these securities on a continuing basis. This step comprises of portfolio analysis, selection and management.

The primary motive for buying a stock is to sell it subsequently at a higher price. In many cases, dividends will be expected also. Dividends and price changes are the principal ingredients with regard to return or yield to an investor.
If investors had impeccable information and insight about dividends and stock prices over subsequent periods, investors would be well on their way to great riches. But the real world of investing is full of political, economic, social and other forces/factors which may difficult to understand sufficiently and predict anything with absolute certainty. Forces intermix and flow at cross currents. Nothing is static. For the security analyst, what primary influences will determine the dividends to be paid on a stock in the future and what the stock price will be in the future are the ultimate questions to be answered. A logic systematic approach to estimating future dividends and stock price is indispensable. The frame work will be Economic-Industry-company approach, or the EIC frame work. This approach is sometimes referred to as ‘top-down’ method of analysis27.

The share price movement is analyzed broadly with two approaches, namely, fundamental approach and the technical approach. Fundamental approach analyses the share prices on the basis of economic industry and company statistics. If the price of the share is lower than its intrinsic value, investor buys it. But if he finds the price of the share higher than the intrinsic value he sells and gets profit. The technical analyst mainly studies the stock price movement in the security market. If there is an uptrend in the price movement investor may purchase the scrip. With the onset of fall in price he may sell and move from the scrip. Basically, technical analysts and the fundamental analysts aim at good return on investment.

The intrinsic value of an equity share depends on a multitude of factors. The earnings of the company, the growth rate and the risk exposure of the company have a direct bearing on the price of the share. The factors in turn rely on the host of other factors like economic environment in which they function, the industry they belong to and finally
companies own performance. The fundamental school of thought appraised the intrinsic value of shares through economic analysis, industry analysis and company analysis

**ECONOMIC ANALYSIS:** The analysis of macroeconomic environment is essential to understand the behaviour of the stock prices. The some of the common factors are- gross domestic product, savings and investment, inflation, interest rates, budget, the tax structure, the balance of payment, monsoon and agriculture, infrastructure facilities, demographic factors etc.

**INDUSTRY ANALYSIS:** An industry is a group of firms that have similar technological structure of production and produce similar products. Some of the various industry groups are food products, textiles, metals, transport etc. these classified industries can be classified on the basis of the business cycle. Some of the factors to be considered apart from the industry lifecycle are – growth of the industry, cost structure and profitability, nature of the product, competition, govt policy, labour, R&D.

**COMPANY ANALYSIS:** In the company analysis the investor assimilates the several bits of information related to the company and evaluates the present and future values of the stock. The risk and return associated with the purchase of the stock is analyzed to take better investment decisions. The valuation process depends upon the investors’ ability to elicit information from the relationship and inter-relationship among the company related variables.
**TECHNICAL ANALYSIS:**

It is a process of identifying trend reversals at an earlier stage to formulate the buying and selling strategy with the help of several indicators to analyze the relationship between price-volume and supply-demand for the overall market and the individual stock.

Technical analysis is used to mean fairly wide range of techniques, all based on the concept that past information on prices and trading volume of stocks gives the enlightened investor a picture of what lies ahead. It attempts to explain and forecast changes in security prices by studying only the market data rather than information about a company or its prospectus as is done by fundamental analysis.

The technical analysis believes that the price of a stock depends on supply. The technician thinks that the only important information to work from is the picture given by the price and volume statistics. The direction of price change is an important as the relative size of the change. The technical analysis is based on the doctrine given by...
Charles H. Dow in 1984, in the Wall Street Journal. The analysts used charts of individual stocks and moving averages in the early 1920's. Later on with the aid of calculators and computers, sophisticated techniques came into vogue.

**ASSUMPTIONS:**

1. The market stocks acts as a barometer rather than a thermometer.

2. Smaller phase of stock price consolidation followed by the short-term movement (up /down). Larger consolidation phase can lead to a greater potential stock price move.

**DOW THEORY:**

This is proposed by Charles Dow. According to this theory there are three types of market movements. They are:

1. Major market trend  
2. Intermediate market trend  
3. Minor movements.

The Dow Theory employs two of the Dow Jones averages- industrial average and transportation average. The Dow Theory says that the measures of stock prices tend to move together. If the Dow Jones industrial average is rising then the transportation averages should also be rising. Such simultaneously price movements suggest a strong bull market and vice versa. If both averages are moving in opposite directions, the market is uncertain as to the direction of future stock prices. If one of the transport averages starts to decline then suggest that industrials may not continue to rise but may soon start to fall. If industrial average is declining and transport average rising suggests that the market is going through an unsettled period and until they start moving together again,
there is uncertainty as to the future direction of stock prices. If investors believe in this theory, they will try to liquidate when a sell signal becomes apparent which in turn will drive down prices. Buy signals have the opposite effect; investors will try to purchase securities which will drive up their prices.

**Problems in Dow Theory:**

1. This is not a theory but an interpretation of known data.
2. It does not explain why the two averages should be able to forecast future stock prices. In addition there may be a considerable lag between actual turning points and those indicated by the forecast.
3. It predictive power has been the subject of much criticism. Dow Theory made only 9 correct predictions out of 24 buy and sell signals.
4. Dow Theory might work only a long, wide upward and downward movement in registered in the market.
5. It is mostly unsuitable predictor when market trend frequently reverses itself in the short or the intermediate term.
6. The theory does not attempt to explain a consistent pattern of the stock price movements.

**CHARTS:**

Most technicians rely on charts of prices and trading volume for the analysis of the market and individual stocks. It determines the probable strength of demand versus pressure of supply at various price levels and thus to predict the probable direction in which a stock will move and where it will probably stop. The clues are provided by the
history of a stock’s price movements as recorded on a chart. Certain patterns of formation levels or areas appear on the charts which have a meaning that can be interpreted in terms of probable future trend development. The charts system tries to correlate relationship between market price action and the volume of trading. It contains a study of a stock’s behaviour not only tells where a stock has been but also where it is going.

**TYPES OF CHARTS:**

1. **Line chart**
   - the closing prices of successive time periods are connected by straight lines with no notice taken on the highs and lows of stock prices for each period.

2. **Bar chart**
   - most investors interested in these charts. Easy to draw and understand. The vertical dimension of the line represent price and the horizontal dimension represent the time involved by the chart.

3. **Point-and-figure chart**
   - bar chartists count on discovering certain buying and selling forces in the market on the basis of which they predict trend. these forces consists of 3 factors – time, volume and price. The first step in drawing a point-and-figure chart is to put an x in the appropriate price column of a graph. Then enter successive price increases in an upward column as long as up trend continues. If the price drops by one point, move the figures another column and the 0’s are entered in a down ward then down trend is reversed. A reasonable period of time gives a king-size tit-toe game.
4. **Candlestick chart**: it is enhanced version of a bar chart. These charts began to appear in U.S in mid 1980's. Stock’s open close high and low in a modified three-dimensional format. On vertical dimension stock prices and passage of time on horizontal dimension. The difference in bar chart and candlestick chart is white and black candles are put as the daily trading range/lines.

**LIMITATIONS OF CHARTS:**

- The most of the chart patterns may cause their followers to change their opinion so frequently.
- Relying on chart alone may not lead to correct decision.

**INDICATORS:**

The technical indicators helps when examined individual (method) than collectively (more than one method). If more than one followed creates confusion. Some of the indicators are:

1. The short interest ratio theory: it is derived by dividing the reported no of shares sold short by the average volume for about 30 days. When short sale increases relative to total volume the indicator rises.

2. Confidence index: it is the ratio of a group of lower-grade bonds to a group of higher-grade bonds. According to it when ratio is high, investors’ confidence is likely to high as reflected by their purchase of lower-grade bonds. if they buy high-grade bonds it means confidence is low as they do not what to take low grade bonds.
3. The odd-lot ratio: the stock transactions of less than 100 shares are called odd lot. It is a yardstick to know uniform sentiments of the investors.

4. Insiders' transactions: insiders know exact picture of an organization. Their activities may be good indicators.

5. Moving average: it is a smoothened presentation of historical data. It is arithmetic average of a portion of the previous data. A ten-day moving average measures the average over the previous ten trading days.

EVALUATION OF TECHNICAL ANALYSIS:

It is believed that averages are useful and interested in showing a course of the market and for measuring changes but not for forecasting the future. It is only a tool which should be used with fundamental analysis and with common sense.

DISADVANTAGES OF TECHNICAL ANALYSIS:

- It is based on past data.
- False signals can cause sudden deep decline and it may change interpretation.

TECHNICAL AND FUNDAMENTAL ANALYSIS:

Fundamental analyst analyses the stock based on the specific goals of the investors. They study the financial strength of corporate, growth of sales, earnings and profitability. They also take into account the general industry and economic conditions.

The technical analysts mainly focus the attention on the past history of prices. Generally technical analysts choose the study two basic market data-price and volume.
The fundamental analysts estimate the intrinsic value of the shares and purchase them when they are undervalued. They dispose the shares when they are overpriced and earn profits. They try to find out the long-term value of shares. Compare to fundamental analysts, technical analysts mainly predict the short-term price movement rather than long term movement. They are not committed to buy and hold policy.

Fundamentalists are of the opinion that supply and demand for stocks depends on the underlying factors. The factors are supply and demand depends on various factors. Technicians opine that they can forecast supply and demand by studying the prices and volume of trading.

In both the approaches supply and demand factors are considered to be critical. Business, economic, social and political concern affects the supply and demand for the securities. These underlying factors in the form of supply and demand come together in the securities market to determine securities market.

The significance seems to be that in order to estimate stock price changes, an analyst must spend more than a little time probing the forces operating in the overall economy as well as influences peculiar to industries to which an investor is concerned with. A failure to examine overall economic and industry influences is a naive error, that of assuming that individual companies follow their own private paths in a vacuum. It is important to predict the course of the national economy because economic activity affects corporate profits, investor attitudes and expectations and ultimately security prices. An outlook of sagging economic growth can lead to lower corporate profits, a prospect that can engender investor pessimism and lower security prices. Same industries might be
expected to hold up better, and stock prices of companies in these industries may not decline as much as securities in general. The key for the analyst is that overall economic activity manifests itself in the behaviour of stock in general. The linkage between economic activity and the stock market is critical. Before an investor commits funds in the market, an investor must decide if the time is right to invest in securities at all; and if so, an investor should then decide which type of securities to purchase under the circumstances. Thus an investor has to decide whether to purchase common stocks, options, preferred stocks, bonds or some combination thereof. Timing is of critical importance not only in a purchase decision but also in the sell decision\textsuperscript{28}.

Investing is a business of relative changes. When the economic outlook is assessed along with the direction of changes in the overall market for stocks, the analyst must realize that industry groups and/or individual companies may not necessarily respond to the same degree. For example, it is widely assumed that heavy goods industries fare worse in economic recessions than do consumer goods industries. Heavy-good industries include automobiles (and related industries such as rubber, steel, and glass) and machinery. Consumer goods and service industries include utilities (telephone, power) food and banks. Recessions and expansions in economic activity may translate into falling or rising stock markets with different relative price changes among industry groups. For the analyst, industry analysis demands insight into

i) The key sectors, or subdivisions of overall economic activity that influence particular industries and

ii) The relative strength and weakness of particular industry or other groupings under specific sets of assumptions about economic activity. The economic forecasts or set of
figures/information which are developed by an investor can be applied to an appropriate industry. Various techniques of economic forecasting could be brought to bear upon the investment decision. For the investment decision it is often as significant to predict the direction of any change in the industry sectors.

In an industry analysis, many no. of key characteristics should be considered like past sales and earnings performance, the performance of the industry, the attitude of government toward the industry, labour conditions within the industry, the competitive conditions as reflected in any barriers to entry that might exist and stock prices of firms in the industry relative to their earnings.

The most immediately recognizable effect of economic and industry influences on a specific company is probably the impact on revenues. The sales of some industries (steel, auto) tend to move in tandem with the business cycle; others (food, telephone, utilities) are relatively immune from the cycle; still others (such as housing) move counter cyclically. Form the viewpoint of the individual company, adjustments to changes in the general business cycle can be different from those of the industry in general. Product mix and pricing peculiar to specific firms can cause total revenues to respond more or less to broad economic and industry impact diversified product lines. For example allow a company to spread cyclical effects.

The relationship of revenues and expenses to economic and industry changes, and the resulting earnings is the focus point of the company analysis. Many pieces of information influence investment decisions. Investment need to know the characteristics of various investment alternatives and must keep informed on the institutions and markets where they are available. Up-to-date information is required on the status of and trends in the
economy, particular industries and firms. Success in investing will be largely dependent on

i) Discovering new and credible information rapidly and in more detail than others do and

ii) Applying superior judgment to ascertain the relevance of the information to the decision at hand.

The true test of an analyst's worth lies on one's ability to develop a system of security analysis that couples original insight and unique ways of forming expectations about the prospects for individual companies. Varied public and private sources of information must be analyzed. Superior judgment comes from the capacity to take information and

i) See given relationships more clearly or

ii) Perceive much upon one's store of knowledge and experiences.

The task of security analysis is largely a matter of shifting; sorting and rearranging data on markets, the economy, industries data, and the investor formulates expectations and judgments about alternatives open and available. Fundamentalists forecast stock prices on the basis of economic, industry and company statistics. The principal decision variables ultimately take the form of earnings and dividends. The fundamentalists make judgments of the stock's value with a risk-return framework based upon earning power and the economic environment. An alternative approach to predicting stock price behavior is called technical analysis. Technical analysis is frequently used as a supplement to fundamental analysis rather than as a substitute for it. The technician believes the forces of supply and demand are reflected in patterns of price and volume of trading. Technical analysts believe that important information about future stock price movements can be obtained by studying the historical price movement of stock prices. Financial data
are recorded on graph paper and the data are scrutinized in search of repetitive patterns. Technical analysts base their buy and sell decisions on the charts they prepare.

1. Market value is determined by the interaction of supply and demand.

2. Supply and demand are governed by numerous factors both rational and irrational.

3. Security prices tend to move in trends that persist for an appreciable length of time, despite minor fluctuations in the market.

4. Changes in trend are caused by shifts in supply and demand.

5. Shifts in supply and demand no matter why they occur, can be detected sooner or later in chart of market transactions.

6. Some charts patterns trend to repeat them.

A fundamental analyst believes that the true intrinsic value of a security can be ascertained by studying such items as the company's earnings, its products, its management, the company's financial statements and other fundamental facts. Technical analysts do not accuse fundamentalists of being wrong. However they believe fundamental analysis takes too long and is difficult to use. Technicians believe they can use various technical tools such as charts to identify underpriced securities. Technical analysts use 3 basic types of charts – bar line and point and figure charts (PFC). Bar charts have a series of vertical bars representing each day's price movement. Each bar has a range from the day's lowest price to the day's highest price. A small cross on each bar signifies the day's closing price. Point and figure charts are a third and more complex type of chart. Technical analysts use PFC's to predict not only reversal in price trends for
common stocks but to forecast future price movement. By studying PFC's, technicians determine when to buy and sell. Security analysis involves estimating the merits of individual investments, where as portfolio management concerns the construction and maintenance of a collection of investments. Classic security analysis is often described as a three step process. First, the analyst considers prospects for the economy given the stage of the business cycle. Second, the analyst determines which industry is likely to fare well in the forecasted economic conditions. Finally, the analyst selects for investment one company with the favoured industry. This form of security analysis is often called EIC analysis. Portfolio management primarily involves reducing risk rather than increasing return. Return is obviously important though, and the ultimate objective of the portfolio manager is to achieve a chosen level of return by incurring the least possible risk.

Portfolio is a combination of securities such as stocks, bonds and money market instruments. The process of blending together the broad asset classes so as to obtain optimum return with minimum risk is called portfolio construction. Diversification of investments helps to spread risk over many assets. A diversification security gives the assurance of obtaining the anticipated return on the portfolio. In a diversified portfolio some securities may not perform as expected, but others may exceed the expectation and making the actual return of the portfolio reasonably close to the anticipated one. Keeping a portfolio of single security may lead to a greater likelihood of the actual return somewhat different form that of the expected return. Hence it is a common practice to diversify securities.
Investment management, also referred to as portfolio management, is a complex process or activity that may be divided into seven broad phases:

2. Choice of asset mix
3. Formulation of portfolio strategy
4. Selection of securities
5. Portfolio execution
6. Portfolio rebalancing
7. Performance evaluation
NEED FOR THE STUDY:

This study describes the various investment strategies to be adopted for different individuals according to different needs for the retirement. The present study attempts to identify the various factors and facts related to individuals which affect the needs for retirement income. One of the aims of the study is to develop a portfolio plan suitable for various age groups and as well as income groups. It is proposed in the study to identify and develop the model portfolio for retirement planning.

OBJECTIVES OF THE STUDY:

1. To study the various factors that influence investment pattern of individuals for retirement.

2. To study various pension plans schemes offered by leading companies for retirement planning in India.

3. To make a comparative analysis among various retirement benefit schemes offered by various companies (both public and private).

4. To develop an investment portfolio model that can generate wealth and income for individuals with a view to use it as a retirement benefit plan.

5. To develop an investment strategy that will be useful for tax saving as well as retirement planning.

6. To develop retirement plan module considering variables like age, income, need priorities and goals of various individuals.
Presentation plan of the Thesis:

1. The first chapter an Introduction to the study, the need for the study, objectives, scope and methodology of the study is presented.

2. The second chapter contains the Literature survey.

3. Third chapter is devoted to the Data analysis related to Individual.

4. The fourth chapter contains the Data Analysis related to Institutions.

5. The fifth chapter showcases the Findings.

6. The sixth chapter contains the Suggestions and conclusions.

Appendix:  i) Bibliography

ii) Questionnaire

Hypothesis:

Mutual funds are better managed and safer vehicles for retirement planning.
**Scope of the study:**

The study covers the information obtained through questionnaires and it is confined to the twin cities of Hyderabad and Secunderabad of Andhra Pradesh state.

The study is descriptive in nature where in-depth portrayals of the profile of various leading companies retirement planning schemes, mutual funds are studied. The study also covers the views of individuals of different age group and from different income levels, a portfolio model suitable for different age groups.

**Methodology:**

A detailed picture of methodology adopted for conducting the study, the methodology adopted was for conducting the study in Hyderabad and Secunderabad of Andhra Pradesh. As it forms the scientific basis of the study, various issues in a systematic order have been dealt with. Aspects like research design, study area, sampling, conceptualization, method and tools of data collection, data processing and analysis, statistical tests, limitation, chapterization have been elaborated in order to ensure the research rigor that was followed while conducting the study.

Exploratory research design is adopted in order to find out what are the various forms and modes of savings and investments have been adopted by various individuals, pension plans offered by the companies and financial institutions for the retirement planning. The study area is confined to Hyderabad and Secunderabad of Andhra Pradesh. Non-probability sampling technique was used to select the individuals in order to collect the
data. 250 individuals were considered for data collection. Stratified form of questionnaire was prepared for data collection along with the interviews. The total sample consists of 250 individuals. Cross tabulations were made to distinguish the independent and dependent variables for the sake of presenting the results. Portfolio evaluation methods were applied to the investment plans and mutual funds schemes offered by various companies in order to rank and to suggest the best fund for investment purpose. A portfolio module was suggested based on various factors like income, age, dependants etc.

Sample design:

The population consists of respondents living in twin cities of Hyderabad and Secunderabad in Andhra Pradesh with the following profile. The respondents are selected from various Government organizations, public and private organizations. The age groups of the respondents are considered into five categories which are 25-35, 36-45, 46-55, and 56-65 and above 65 years of age.

Area: Hyderabad and Secunderabad, Andhra Pradesh.


Sampling technique:

Non-probabilistic random sampling has been employed for the purpose of data collection.

Approach: stratified
Sample size:

250 individual respondents

Sources of data:

The study uses both primary and secondary sources of data.

Methods: interviews, questionnaire etc.

The primary sources being individuals, managers of brokerage house, mutual fund companies, insurance companies and banks offering various schemes and services for retirement planning. Questionnaire has been prepared and administered for individuals.

The secondary sources being journals, magazines, newspapers, websites, company brochures, books and the internet.

For the purpose of collecting data through primary source structured questionnaire was drafted.

Period of the study:

The study period is from 2008 - 2011 FEB.

Method of analysis:

The data collected through primary source was entered into a statistical analysis package SPSS 17.0 for coding, tabulating and analyzing for interpretation. Cross tabulations is
used to know the relation of various variables and to test the significance of the 
hypothesis. Various mutual funds ranking methods has been used like Sharpe’s index 
(Sharpe’s measure) and Treynor’s measure (Treynor’s index of performance for 
portfolio) for ranking various schemes offered by companies. Portfolio module has been 
developed considering various factors like age, income etc.

Limitations of the study:

• The study is confined to the area of Hyderabad and Secunderabad.

• Due to the nature of the research being related to the financial domain, there may 
be lesser disclosure from the part of the investor.

• Chances of deficiency on the part of investor to judge and comment on their own 
pattern of investment.

• As the sample is confined to the area of Hyderabad and Secunderabad, findings 
cannot be generalized.

• The analysis is done on the basis of past performance of the funds. Past 
performance may not be an indicator of future performance.

• The sample portfolio and mutual funds used for hypothesis testing have been 
tested based on past performance the same may or may not maintained in the 
future.

• Performance of mutual funds is largely affected by environmental factors, which 
are beyond the control of investors.
References:

27. Donald E. Fischer Ronald J. Jordan SAPM - 6th Edition PHI.