3.1 INTRODUCTION

This chapter tries to bring out the various investment channels and avenues that are available to the investors. Each investment has its own characteristic feature and the investor has to align his objectives with them. The features associated with each of the investment may relate to risk-return dynamics, time-period, liquidity, safety, tax-saving, marketability, etc.

A wide range of better-regulated investment options have evolved in the financial world in the recent past. Simultaneously, these options have brought more complexity in terms of risks, benefits and objectives. As such, the present day investor is more confused than ever. On the other hand, the investors today are far more educated and financially literate as compared to a decade age. The high savings rate has been responsible for seeking guidance and investment advice to facilitate investor’s diverse goals. Hence, the financial planning and wealth management solutions have gained importance and investors need to analyze the wide opportunities, compare and contrast and finally take investment decision.

There exists a plethora of investment avenues and the investor can choose the right investment vehicle from the available opportunities. At the same time, the investor’s limited knowledge and inability to understand the financial world acts as a hurdle to the investment decision. Also there are various environmental and psychological factors that affect the investment decision. Hence, investment decision is a function of various other factors and the investor needs to understand these factors before starting to invest.

3.2 KEY TRENDS OF INVESTMENTS IN INDIA

- Total Individual Wealth in India is expected to nearly triple to ₹ 249 lakh crore by FY16 from the current ₹ 86.5 lakh crore
• Fixed deposits have regained popularity in FY11 to become the single-largest investment class. These instruments are expected to continue to be the largest and preferred investment class, at least in the next couple of years

• Indian companies are becoming more mature, and with increasingly greater numbers getting listed, Individual Wealth in equities is expected to reach 37% in India in FY16, against 30% in FY11

• As retirement benefits become more limited for the newer generation of government employees, they will begin to increasingly focus on retirement planning. As awareness increases, more investments will be channelised into pension funds and retirement benefits

• Alternative assets - including structured products, private equity and venture capital funds, gold ETFs, and realty, film and art funds - are expected to grow at a rapid pace of 100% per annum

• Although the average investment size is larger, structured products and high yield debt will remain popular among HNIs as these are relatively safe in terms of principal protection

• Over the next five years, we will also see a rise in insurance investments as private companies become more evolved

(Source: Karvy Private Wealth – India Wealth Report, Volume 2, December 2011, p-6)

3.3 INDIVIDUAL WEALTH FORECAST

There is a considerable increase in the household savings, which contributes to increase in their financial wealth. There are also additional investments flowing into the Indian economy, and as a result, the total individual wealth is set to grow. In addition, the returns generated on the invested wealth will also contribute to the total wealth. As per the study conducted by Karvy Stock Broking Ltd, the individual wealth is expected to grow to more than ₹ 106 lakh crore by FY 12 and will almost triple to ₹ 249 lakh crores by FY16.
Table 3.1 Individual Wealth Forecast

(Amount in ₹ Crore)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Wealth – beginning of the year</td>
<td>86,49,764</td>
<td>1,06,86,786</td>
<td>1,31,99,536</td>
<td>1,63,00,441</td>
<td>2,01,28,839</td>
</tr>
<tr>
<td>Return generated on invested wealth</td>
<td>9,28,274</td>
<td>11,65,620</td>
<td>14,66,762</td>
<td>18,49,022</td>
<td>23,39,396</td>
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<tr>
<td>Household financial savings to be invested</td>
<td>11,08,749</td>
<td>13,47,130</td>
<td>16,34,144</td>
<td>19,79,375</td>
<td>23,94,252</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,06,86,786</strong></td>
<td><strong>1,31,99,536</strong></td>
<td><strong>1,63,00,441</strong></td>
<td><strong>2,01,28,839</strong></td>
<td><strong>2,48,62,487</strong></td>
</tr>
</tbody>
</table>


Investment generally involves real assets and financial assets. Real assets are those which are tangible, material things such as buildings, motor vehicles, gold, precious stones etc. On the other hand, financial assets are pieces of paper or in de-material form representing an indirect claim to real assets held by some other entity. These claims can be broadly classified into debt and equity claims. Equity claims are ownership securities and debt claims are creditor-ship securities.

Today’s investor has a wide array of investment avenues and he can choose the one that suits his preferences. Following are the various asset classes that the investor can choose from,

1. Equity
2. Debentures
3. Bonds or Fixed Income Securities
   - Government Securities
   - Savings bonds
   - Private Sector debentures
4. Money Market Instruments

- Treasury Bills
- Certificate of Deposits
- Commercial Papers
- Repos
- LIQUID BEES

5. Non-marketable Financial Assets

- Bank deposits
- Flexi Deposits
- Post office deposits (POTD)
- Monthly income scheme of the post office (MISPO)
- National Savings Certificate (NSC)
- Company Deposits
- Employees Provident Fund Scheme (EPF)
- Public Provident Fund (PPF)

6. Real Estate

- Residential House
- Commercial Property
- Agricultural Land
- Suburban Land
- Time Share in Holiday Resort
- Real Estate Investment Trust (REIT)
7. Precious Objects

- Gold & Silver
- Gold ETFs

8. Insurance Policies

- Endowment Assurance
- Money Back Plans
- Whole Life Assurance
- ULIP
- Term Assurance
- Immediate Annuity
- Deferred Annuity

9. Mutual Funds

10. Pension Funds

- NPS
- Private Pension Funds

3.4 EQUITY

Equity is the investment media that represent an ownership position, that is, in which the investor in stocks or certain options is an owner of the firm and is thus entitled to a residual share of profits. The equity ownership can be broadly divided into direct equity investment through capital markets and indirect equity investment through institutions.

Equity stock or equity shares represent an ownership position and the equity shareholders are the owners of the firm having the voting power. The equity shares enables the investors the right to the earnings of the firm and also run the risk of receiving nothing if earnings are insufficient to cover the obligations of the firm.
Equity shares earn a return based on two sources – dividends and capital gains. Dividends are received only if the company earns sufficient money and the board of directors deems it proper to declare a dividend. Capital Gains arise from an increase in the market price of the equity, which is generally associated with a growth in earnings per share. The share prices have been quite volatile due to various factors that are external and internal. Hence there is a need for careful analysis in the selection of securities for purchase and sale, and also in the timing of these investment decisions, since equity shares do not have maturity date at which a fixed value will be realized.

3.5 DEBENTURES

Investors look forward for secured returns on a regular basis and such instruments are in great demand. One such option is the Non-Convertible Debentures. There has been a series of NCD issues recently and many more are in pipeline.

A NCD is a fixed income debt paper issued by a Company. The issuer agrees to pay a fixed interest on the investment.

The NCDs are for a long term generally ranging from 5 to 15 years. These instruments have to be normally rated by the credit rating agencies. A good rating indicates reasonable assurance of safety and return of principal as well as interest. The risk element shall be high if the rating is not so good.

These NCDs may be either secured or unsecured. The secured debentures are backed by assets; in case the issuer is not able to fulfil his obligations, the assets are liquidated in order to repay the investors holding the debentures. The secured NCDs offer lower interests as compared to that of unsecured ones, due to risk differential. The interest earned on these instruments are taxable and is also liable for tax-deducted at source.

It is also to be noted that there is a very poor secondary market for NCDs in India, thereby making these instruments illiquid.
3.6 BONDS OR FIXED INCOME SECURITIES

Bonds refer to a long-term investment avenue which has a specified amount or rate of interest and specified maturity date. It is a marketable legal contract that promises to pay its investors a stated rate of interest and to repay the principal at the maturity date. Bonds differ according to their provisions for repayment, security pledged, and other technical aspects.

3.6.1 Government Bonds

Government bonds are the tradable instrument issued either by Central Government or State Government to finance their activities. The State Government issues these bonds as State Development Loans (SDLs). Bonds issued by municipalities and public institutions are also deemed as Government bonds. Investors can choose this as an investment avenue, which provides returns in terms of coupons. These can be held in dematerialized form and has a very secondary market, thereby providing high liquidity. These instruments are fully free of default risk. However, the returns earned thereof is relatively low.

3.6.2 Savings Bonds

Savings bonds are the bonds issued by RBI, which are available for investment at various banks, designated by RBI. These bonds have the feature of both cumulative and non-cumulative interest payments. Generally these bonds earn a coupon rate of interest at 8% per annum. The minimum investment is Rs. 1,000 and in multiples of Rs. 1,000 thereof. Generally these bonds have a maturity period of 6 years. These bonds are taxable, that is, the interests earned from these are liable to income tax. However, these investments are not subject to wealth tax. These bonds are not transferable, although, nomination facility is available for individual investors.

3.6.3 Private Sector bonds

Private sector bonds or corporate bonds are the means by which the private firms borrow money directly from the public. The investors can invest in these bonds and they generally pay semi-annual coupons over the entire term of the bond and also return the face value to the
The investor upon maturity. These bonds carry a higher rate of interest over the Government bonds, since the inherent default risk is higher.

The private sector bonds include all listed debt securities issued by institutions such as banks, bodies corporate and companies. In order to issue these bonds, they have to be credit rated. The credit rating helps the investor to assess the credit worthiness of the issuer and to decide accordingly.

The corporate bonds are either,

- interest-bearing or
- issued at a discount and redeemed at face value

The investor of these bonds does not have a claim on the ownership to the company, but they have only creditorship claim.

3.6.4 PSU bonds

PSU bonds are the bonds issued by Public Sector Undertakings in which the government shareholding is generally more than 51%, wherein these agencies tend to channelize the credit to finance their needs. These bonds provide an investment opportunity, wherein the interest payments are made at pre-determined intervals and the principal is repaid upon maturity. The returns on these bonds are relatively higher that Government bonds and lesser than corporate bonds.

Mostly, these PSU bonds are issued by the way of private placements, and hence there is a little room for individual investors. However, it does not completely deprive the individual or retail participation. There is also a secondary market, through which these instruments can be purchased.

PSU bonds are of two types, namely, taxable bonds and tax-free bonds. Tax-free bonds are bonds where the interest earned thereon is exempted from tax. These bonds are issued with prior approval from the Government through the Central Board for Direct Taxes (CBDT).
3.6.5 Infrastructure Bonds

Infrastructure bonds are long-term bonds notified by the Central Government which are eligible for a deduction under section 80CCF. Only the bonds issued by IFCI, LIC, IDFC, NBFCs which are classified as ‘Infrastructure Finance Companies’ by the RBI are eligible for the aforesaid deduction. The investor may invest in these bonds, but have a minimum tenure of 10 years and a lock-in period of 5 years. After the lock-in period of 5 years, the investor may, exit in the secondary market. The investment in these bonds up to Rs. 20,000 is eligible for deduction u/s 80 CCF.

However, the deduction u/s 80 CCF is disallowed with effect from FY 2012-13. Yet, this remains as one of the investment avenue for a long-term horizon.

3.7 MONEY MARKET INSTRUMENTS

Money market instruments are the investment avenues which have high liquidity and short-term maturity, generally less than a year. These instruments provide an opportunity for the investor to park his/her money for a short-term varying from few days to few weeks to few months.

3.7.1 Treasury Bills

Treasury bills are another investment vehicle available for the investors who can invest for a period of less than a year. These are issued by Government of India and currently three variants of treasury bills are issued, namely, 91-day treasury bills, 182-day treasury bills and 364-day treasury bills.

The subscriptions can be made for a minimum of ₹ 10,000 and in multiples of ₹ 10,000. Treasury bills are issued based on auction and these auctions are held on Negotiated Dealing System (NDS). The bidders can submit their bids electronically. The successful bidders need to pay the bid amount on the next working day of the auction date.
3.7.2 Certificate of Deposits

Commercial deposits are short-term instruments issued by schedule banks, having a maturity ranging from 7 days to a year. These are similar to promissory notes and are issued in demat form. CDs are issued in denominations of ₹ 1,00,000 and in multiples of ₹ 1,00,000, thereon. The interest rate on these are market driven.

Commercial deposits are like bank term deposits, except for the fact that they are freely negotiable and transferable. Commercial deposits normally earn relatively higher return as compared to bank term deposits. There can be traded in secondary market and there is no lock-in-period.

These instruments can be purchased by individuals, corporate, trusts and even NRIs. They have to be compulsorily credit rated by credit rating agencies. SBI DFHI is the most active player in secondary market of CDs.

3.7.3 Commercial Papers

Commercial papers are another investment vehicle in money-market asset class. Indian money market reforms were responsible for introduction of commercial papers. These are short-term monetary funds, issued in the form of promissory notes by large corporations. They are not backed by any form of collaterals and hence are unsecured. The corporations issuing these papers must be compulsorily credit rated.

The issuers of commercial paper create supply while the subscribers or investors create demand for these papers. The main issuers of commercial papers are large corporations and subscribers are majorly the banking companies. The other subscribers are individuals, NRIs and FIIs.

Commercial papers are generally issued at a discount to face value and redeemed at par value. The face value of these papers are in denominations of ₹ 5,00,000 and in multiples thereof. The maturity period of these papers, range between 7 days and a year.
3.7.4 Liquid Bees

Liquid Bees is a peculiar investment vehicle which are listed and traded on a recognized stock exchange, wherein the investment is made in a basket of money-market instruments like call-money, short-term government securities or treasury bills, commercial paper, certificate of deposits and other money-market instruments of short maturities. Safety and liquidity are the two most important factors considered in Liquid Bees. The unique feature of Liquid Bees is that the price risk would be minimized. These need to be credit rated and can be traded only in electronic mode (demat).

Liquid Bees is the alternate mode for managing cash-in-hand for the short-term, instead of it lying idle in the bank. The income received from these investments is exempt from tax.

3.8 NON-MARKETABLE FINANCIAL ASSETS

A significant portion of the investment in financial assets by an individual or a household is parked in non-marketable financial assets such as, bank deposits, post-office deposits, PPF, NSC, etc. The unique feature of these assets is that there is a prevalence of personal relationship between the investor and the issuer. This personal transaction touch makes the investor comfortable and moreover these investments are quite safe. Though these investments cannot be traded, it ensures high degree of safety and reasonable liquidity.

The purpose of these assets is to provide a good savings plan to individuals for future purposes or a regular stream of income. The risks in these investments result from two major economic factors, namely, inflation and interest rates. A relatively high inflation shall reduce the real returns and a higher interest rates shall increase the opportunity cost thereby reduce the flair for these investments.

3.8.1 Bank deposits

Bank deposits are most popular and the simplest investment avenue for an individual investors, where he opens an account with a bank and parks his money. There are basically four types of bank deposits, namely,
The current a/c deposits do not earn any interest, while the other three deposits earn interest on the deposited amount that is payable by the bank to the depositor.

Fixed deposits are the popular scheme for investment purpose available for households and individual investors, where safety is assured. The deposit of a certain amount is made for a fixed period at the pre-determined market rate of interest. The interest is payable on a periodic basis and also reinvestment of interest type of fixed deposits are available. At the end of fixed period, the amount with accrued interest is paid back to the depositor.

Recurring deposits are also quite popular means of investment by the households, where the depositor makes periodical investment for a fixed duration. This enables the individual investor to build a corpus amount with small deposits on a regular basis. Recurring deposits are very popular among salaried class, especially for those who can save few hundreds to few thousands per month. This scheme is quite useful to people who cannot afford to have a large amount of savings and thus cannot use fixed deposit scheme of the bank. The depositor deposits the amount periodically, generally every month, and the banks promise to pay the interest at the pre-determined rates on these deposits. Upon maturity, the investor is paid the maturity value, which denotes principal coupled with interest accrued.

### 3.8.2 Flexi Deposits

Flexi deposits are unique type of savings deposit account, which is a blend the characteristics of both savings account and the fixed deposit account. In this deposit scheme, the balance in excess of a stipulated amount is automatically converted to fixed deposit for a default term of one year. This is a savings-cum-fixed deposit account, where the cash limit of the savings deposit is fixed and the balance of the idle cash in the savings account is converted into earning mode of fixed deposits.
These flexi deposits provide the liquidity associated with the savings deposit as well as the higher returns by investing the surplus cash into fixed deposits.

3.8.3 Post office term deposits (POTD)

Post office deposits are very popular means of investment by individuals and households in India, since it is one of the safest and easiest modes of investments. The investment in post office term deposit is quite similar to that of fixed deposits offered by the bank, but with additional features. POTD has the maturity periods ranging from 1 year, 2 years, 3 years and 5 years. The POTD can be opened with a very small amount of ₹ 200 and in its multiples; however, there is no upper limit. The rates offered by POTD are slightly higher than the bank deposits and very safe mode of investment, since government backing is available.

3.8.4 Monthly income scheme of the post office (MISPO)

POMIS is one of the most popular investment avenue among rural investors and not that well-known amongst urban population. It is the scheme where there is a defined return on the investment. The interest is calculated on a yearly basis, but payable every month. The interest is payable from the date of making the investment and not from the start of the month. The maturity period is five years.

The unique feature of this scheme is that the investor is also eligible for a 5% bonus if he retains the scheme for entire tenure, in addition to the regular interest. However, w.e.f. 1st January 2011, this bonus is not applicable.

The minimum amount eligible for investment is ₹ 1,500 and the maximum amount is ₹ 4,50,000 in case of individuals and ₹ 9,00,000 in case of joint account holders.

The drawback of this scheme is that this investment is not eligible for deduction u/s 80C, which explain the fact that it is not popular amongst urban investors.
3.8.5 National Savings Certificate (NSC)

National Savings Certificate is another opportunity for investors, wherein, they can keep their money invested for a slightly long period and want this amount to compound. The investment in NSC is eligible for deduction u/s 80C. However, the interest earned thereon is taxable. This is an excellent avenue for those who want to stay invested and allow the investment to grow over a period of time.

NSCs are available in the denominations of ₹ 100, ₹ 500, ₹ 1000, ₹ 5,000 and ₹ 10,000. NSCs can be also purchased in demat form. The NSC VIII issue have a maturity period of 5 years and NSC IX issue has a maturity of 10 years. This scheme is best suitable to government employees, businessmen and other salaried class, who are income tax assessees.

3.8.6 Company Deposits

Company deposits are very similar to bank fixed deposits that are made by the investors with Financial Institutions and NBFCs for a fixed period at a pre-determined fixed rate of interest. The interest paid on these deposits is relatively higher than the bank deposits, since there is a higher degree of risk associated.

The risks associated with these company deposits are credit risk and interest rate risk. Although, there is a higher risk involved, the investors are motivated to invest in these instruments due to higher returns earned thereof.

3.8.7 Employees Provident Fund Scheme (EPF)

Employee Provident Fund is a prominent platform of savings in India amongst the organized workforce. Employee Provident Fund Scheme is an investment avenue, wherein, the employees from both the private sectors and public sectors can invest a portion of their salary every month and build a corpus for future.

Generally, the contribution is made by both the employee and the employer. The contribution made by the employee is eligible for deduction u/s 80C of Indian Income Tax Act of 1961.
Interest is paid on amount deposited and it is accumulated with the fund. The fund gets built and the investor can use it for his retirement or future plans.

Employee Provident Fund Organization, a statutory body of the Government of India, established under the Ministry of Labour and Employment oversees the functioning of EPF.

3.8.8 Public Provident Fund (PPF)

Public Provident Fund is a long-term debt scheme of Government of India, wherein, any individual in India can invest in this scheme and can earn a decent tax-free return on the same. The interest rate on PPF is generally slightly higher than that of interest rates offered by Bank Fixed Deposits.

PPF account can be opened in any post office or designated bank branches. The PPF investors prefer to maintain their PPF account with banks rather than Post office, since banks facilitate online transfer of funds and online deposits.

The minimum amount to be deposited in a PPF account is ₹ 500 and the maximum is ₹ 1,00,000 per annum. PPF account can be closed after a period of fifteen years from the date of opening the account. However, the investor can extend for a further period of five years. There is also a lock-in-period of initial five years.

Another unique feature of PPF account is that the account holder can avail loan from the third year onwards. He can get a loan up to 25% of the amount outstanding at the end of immediately preceding the year in which the loan is applied for.

Investment in PPF is eligible for deduction u/s 80C of Income Tax Act of 1961 and also, the tax earned thereon is tax-free.
3.9 REAL ESTATE

Real estate is one of the most sought after investments, which the investors are excited about. The rapid rise in real estate prices is very attractive and the investor looks forward this as both an investment avenue and a basic shelter to live in.

The real estate investors think it is wise decision to invest in a real estate, since there are numerous advantages of investing in real estate. There is an ever growing capital appreciation, rental income, real and tangible asset, safety, etc.

The real estate has emerged as an asset class and increasingly becoming a global asset class. India’s large market, favourable demographics, higher disposable income and rising domestic demand are key ingredients for the growth in real estate sector in India.

The investment in real estate may take any of the following form, namely,

- Residential House
- Commercial Property
- Agricultural Land
- Suburban Land
- Time Share in Holiday Resort

3.10 PRECIOUS OBJECTS

Precious objects are those items that are generally small in size, but highly valuable in monetary terms. These are normal physical product or metals that are used as traditional store of wealth. The most important precious objects are gold, silver, precious stones and art objects. There is an increased use of precious objects as an investment vehicle, since the returns from these are quite outstanding, where as the risks are comparatively lower. Investment in these precious objects can be made directly in the product or through derivative instruments like futures or through mutual funds with a directive of investing in the specified commodities.
3.10.1 Gold & Silver

Gold has been an important part of diversified investment portfolio. It is being respected throughout the world for its value and rich history. It is also considered as a way to pass on and preserve wealth from one generation to the next.

There has been a paradigm shift in the gold’s preference, as consumers are turning into investors. Gold, as an investment option is gaining momentum and popularity as compared to ornamental value. Around 40% of the gold buying in India is for investment purpose. (Source: Business Standard, 15th December 2002). Gold, despite the surge in price has lead to spurt in demand. Gold has been used as a hedge against other investment options.

Gold ensures that there is the most enduring benefit and has the ability to stabilize a portfolio and protect it against market fluctuations.

Silver, in the recent times, has gained sheen as an investment avenue. It has been viewed as safe haven and regarded as a form of money and store of value. Besides investing in physical silver, investors have shown keen interest in exchange traded funds. Analysts have predicted silver to rise faster than gold in the next decade.

Silver is relatively volatile than gold and silver is positively correlated to industrial demand.

3.10.2 Gold ETFs

Gold exchange traded funds refer to buying gold in electronic form. Gold ETFs are units representing physical gold in demat form. Gold ETF is much easier form of investing in gold. The Gold ETF shall ensure to provide the returns that closely correspond with the real price of gold. The investor can buy a gram at a time and hence has the avenue to build a good gold portfolio, by accumulating gold over a period of time.

The Gold ETFs are open-ended funds that can be traded on the stock exchange, thereby providing high liquidity. The Gold ETFs aims to provide the investors to participate in the gold market and to offer the investors a simple and cost-efficient way to access the gold market by providing a return equivalent to movement in the gold spot prices.
Gold ETFs have quite a lot of benefits than actual gold, like there are not premium charges, making charges, wastage charges, delivery charges, no worries of theft and quite easy to sell.

The best part of Gold ETF is that there is no need to pay sales tax, securities transaction tax, VAT or wealth tax.

Following are few of the Gold ETFs currently available in India,

<table>
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<tr>
<th>Sl. No</th>
<th>Name of the Gold ETF</th>
<th>Asset Management Company</th>
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<tbody>
<tr>
<td>1.</td>
<td>AXIS GOLD</td>
<td>Axis Mutual Fund</td>
</tr>
<tr>
<td>2.</td>
<td>BSL GOLD ETF</td>
<td>Birla Sunlife Mutual Fund</td>
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<tr>
<td>3.</td>
<td>CANARA ROBECO</td>
<td>Canara Robeco Mutual Fund</td>
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<tr>
<td>4.</td>
<td>GOLDBEES</td>
<td>Goldman Sachs Asset Management</td>
</tr>
<tr>
<td>5.</td>
<td>GOLD SHARE UTI MUTUAL FUND</td>
<td>UTI Mutual Fund</td>
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<tr>
<td>6.</td>
<td>HDFC MGETF</td>
<td>HDFC Mutual Fund</td>
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<td>7.</td>
<td>IDBI GOLD</td>
<td>IDBI Mutual Fund</td>
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<td>8.</td>
<td>IPGETF</td>
<td>ICICI Prudential Mutual Fund</td>
</tr>
<tr>
<td>9.</td>
<td>KOTAK GOLD</td>
<td>Kotak Mutual Fund</td>
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<tr>
<td>10.</td>
<td>MGOLD</td>
<td>Motilal Oswal Mutual Fund</td>
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<td>11.</td>
<td>QGOLDHALF</td>
<td>– Quantum Mutual Fund</td>
</tr>
<tr>
<td>12.</td>
<td>RELGOLD</td>
<td>Reliance Mutual Fund</td>
</tr>
<tr>
<td>13.</td>
<td>RELIGAREGO</td>
<td>Religare Mutual Fund</td>
</tr>
<tr>
<td>14.</td>
<td>SBIGETF</td>
<td>SBI Mutual Fund</td>
</tr>
</tbody>
</table>

(Source: http://www.nsegold.com/know-gold-etf.php)

The investor can choose any of the above Gold ETFs, depending on his preference and the choice of the Asset Management Company (AMC).
3.11 INSURANCE POLICIES

Insurance is a contract, wherein the individual or an entity gets the protection against the losses resulting from some unexpected or uncertain event. The concept of insurance is that a group of people exposed to similar risk come together and make contributions towards formation of a pool of funds. A person, suffering an actual loss on account of such risk, is compensated out of the same pool of funds.

The interesting aspect of insurance is that it serves the twin-objective of protection as well as investment. The investor has to primarily separate the insurance portion from the investment portion of the premium that he pays, so that he knows, the quantum of each portion. The total premium paid minus the amount evaluated as the cost of insurance must be considered as the amount invested. The yield must be calculated based on this amount to evaluate the investment.

Though insurance is not the best available investment avenue, there are sufficient reasons for the investor to believe that it can be highly lucrative avenue to facilitate savings. The very essence of insurance is to enable protection to the family coupled with returns on the investment.

3.11.1 Endowment Assurance

Endowment assurance is a policy which not only provides protection to the family of the life assured in case of early death, but also assures a lumpsum at a desired age.

The premiums are generally paid for a fixed term or until death whichever is earlier. The lumpsum received at the end of the term can be reinvested to provide an annuity during the remainder of the life.
The salient features of endowment assurance are,

- Moderate premium
- High bonus
- High liquidity
- Savings oriented

LIC’s Jeevan Saral and Jeevan Anand are the two popular endowment policies in India.

### 3.11.2 Money Back Plans

In case of money back policy, the insured gets periodic receipt of partial survival benefits during the term of the policy. Money back policy protects the family’s financial interests from unforeseen situation like death or critical illness of the policy holder. In this case, the periodic payouts ensure wealth creation for meeting financial commitments at important phases in life.

A good money back policy has lower risk, assured returns and also gives tax benefits. At the time of maturity, the policyholder gets the remaining amount of the survival benefits plus the accrued bonus.

In case of death of the life assured within the term, the total sum insured is paid to the nominee, irrespective of earlier survival benefits.

Money back policy can be availed for either 20 years or 25 years. Generally, periodic payments are made every 5 years. At the end of the period, the remaining amount plus bonus is paid to the insured.

The amount invested in the money back policy is eligible for deduction u/s 80C of Income Tax Act of 1961.
3.11.3 Whole Life Assurance

A whole life assurance is a policy where premium is for a term and this premium has two components. The first component is the insurance component and the second component is the investment component. The insurance component pays an assured amount upon death of the insured and the investment component the wealth that the policyholder can withdraw or borrow against.

The whole life insurance is different from term assurance. In case of term assurance, the amount is paid only in case of death during the term of the policy, but the whole life assurance always pays out eventually. Hence, whole life assurance is comparatively expensive than term assurance.

This policy is mainly devised to create a wealth for legal heirs of the policyholders. The premium under this policy are payable up to the age of 80 years of the policyholder or for a term of 35 years whichever is later.

3.11.4 ULIP

ULIP is a unique investment avenue which blends the benefits of both insurance and investment under a single integrated plan. ULIP is an avenue that focuses on safety on insurance as well as wealth creation opportunities. In case of ULIPs, a portion of investment is apportioned towards providing life cover and the residual portion is invested in a fund to be invested in equity or bonds. The investment value is market driven.

ULIPs are gaining popularity since they offer dual role of protection for life and investment plan simultaneously. The amount invested in ULIP is eligible for deduction u/s 80 C of Income Tax Act of 1961. There is however a lock-in-period of 5 years for these ULIPs.

ULIP returns are directly linked to market performance and investment risk in investment portfolio is entirely borne by the policyholders. The invested portions of the premium after deducting for all the charges and premium for risk cover under all policies in a particular fund. The value of the fund units with accrued bonus is payable on maturity of the policy.
3.11.5 Term Assurance

Term assurance is the purest and the simplest form of the life insurance providing coverage for a defined period of time, at a fixed rate of payment. In case of death of the insured during the relevant term, the benefit is payable to the nominee. There is no survival benefit payable to the insured. Further, if the coverage has to be extended beyond the term, he has to pay generally a higher premium for the continual.

Term assurance is the least expensive mode of substantial life cover over a particular period of time. The term assurance just provides a specific amount of coverage for a specified period of time, but does not involve any investment component. However, the premium paid for term assurance is eligible for deduction u/s 80C of Income Tax Act of 1961.

3.11.6 Immediate Annuity

Immediate annuity is an investment avenue, wherein a single lumpsum premium is paid and in return a guaranteed income starts flowing almost immediately to the insured. In this case, the insured receives a guaranteed gross income throughout his life time or over a fixed period.

In addition to the regular income upon the death of the insured, the family shall receive the death benefits. However, there is also an option, wherein the nominee shall receive regular income upon death of the insured.

The immediate annuity plan is best suited for retired personnel, who anticipate a regular and a guaranteed amount in place of pension. The regular stream of income can be chosen at the option of the insured either monthly, quarterly, half-yearly or annually.

3.11.7 Deferred Annuity

Deferred annuity is an investment vehicle, wherein the investor starts savings his money by paying regular premium and builds a corpus. Later, the insured can elect to receive income from the corpus that has been built over a period of time.
Typically, this plan has two phases, namely, savings phase and income phase. In the savings phase, the investor invests money into the account on a periodical basis. The income phase is a period, where the investor converts the amount invested into an annuity and receives periodical income.

The deferred annuity also consists of death benefit to the nominee upon death of the insured. Deferred annuities are designed primarily as retirement savings accounts. The amount invested into this account is eligible for deduction u/s 80C of the Income Tax Act of 1961.

### 3.12 PENSION FUNDS

Pension fund is a qualified retirement plan set up by an entity – a corporation, labour union, government or other organization. Pension fund is a retirement plan, in which an investor makes a contribution into an account periodically. In other words, pension funds are type of retirement plan, wherein an investor pays part of his current income towards retirement income. These contributions are invested on behalf of the investor, who may withdraw after retirement.

There are two types of pension plans, namely, defined-benefit plan and defined-contribution plan. In case of defined-benefit plan, the investor is guaranteed to receive a fixed amount upon retirement, irrespective of the performance of the underlying investment. On the contrary, in case of defined-contribution plan, the investor makes pre-defined contribution, but the benefit is market-driven or underlying investment’s performance driven.

### 3.12.1 NPS

Government of India has constantly been searching for a solution to the problem of providing adequate retirement income and in the effort of doing so, NPS has been designed. Government had a huge responsibility of single-handedly contributing towards the pension fund for its employees till 2003. The huge pension obligations for the government prompted a rethink of this scheme. Thus, the shift was being made from defined benefit system to defined contribution system by introducing NPS.
Government of India, Ministry of Finance, Department of Economic Affairs Notification, and dated 22\textsuperscript{nd} December 2003 has notified NPS. The NPS came into operation with effect from 1st January 2004 and was made applicable to all new employees to Central Government service, except to Armed Forces, joining Government service on or after 1st January 2004. The State Governments and Union Territories have also notified the NPS for their new employees.

During 2004 to 2009, NPS was open only to Government employees and from 1st April, 2009 it was made available to every citizen of India between the age group of 18 and 55 on a voluntary basis. The New Pension System has been designed to enable the subscribers to make optimum decisions regarding their future and provide for their old-age through systemic savings from the day they start their employment.

Under the scheme of NPS, the government employees are required to make a contribution at par with the employer i.e. 10 per cent of basic pay plus DA to the pension fund. Another major change that took place in 2008 was to allow the private pension fund managers to manage the NPS.

### 3.12.2 Private Pension Funds

Apart from NPS, there are several private pension funds offering pension income to the retired personnel. The private pension schemes provided by insurance companies are gaining importance with an improvement in cost and quality of the living of the people. These private pension schemes offer competitive benefits, returns and better services. People consider this option to be a part of this investment needs wherein it allows them to participate and purchase units. The investors are mostly benefitted through tax exemptions that are possible through these plans. It is an avenue to plan the retirement and lead a secured life.

### 3.13 MUTUAL FUNDS

Mutual Fund refers to the trust that pools the savings of investors and forms a common fund. The fund thus created is then invested in financial market instruments like shares, debentures and other securities which also include government securities. The income earned through
these investments and the capital appreciation realized are shared among the unit holders in proportion of the units held by them. Investments in securities are spread over a wide cross-section of industries and sectors, thus allowing risk reduction to take place. Diversification reduces the risk because all stocks and instruments may not move in the same direction and in the same proportion and at the same time.

3.13.1 Open ended scheme

When a fund is accepted and liquidated on a continuous basis by a mutual fund manager, it is called ‘open ended scheme’. These schemes do not have a fixed maturity and entry to fund is always open to investors who can subscribe it at any time. Similarly, the investors have an option to get their holdings redeemed at any time. Under this scheme the capitalization of the fund will constantly change, since it is always open for the investors to sell or buy the units. The scheme provides an excellent liquidity facility to investors. The value of the unit is based upon the net asset value of the unit.

3.13.2 Close ended scheme

A close ended scheme means any scheme of mutual fund in which the period of maturity of the scheme is specified. Unlike open ended funds, the corpus of the close ended scheme is fixed and an investor can subscribe directly to the scheme only at the time of initial issue. After the initial issue is closed, a person can buy or sell the units of the scheme in the secondary market i.e. the stock exchanges where they are listed. The price in the secondary market is determined on the basis of demand and supply and hence could be different from the net asset value.

3.13.3 Interval schemes

It is a kind of close ended scheme with a peculiar feature that it remains open during a particular part of a year for the benefit of the investors, either to offload their holdings or to undertake purchase of units at their NAV. An interval scheme is a scheme of mutual fund which is kept open for a specific interval and after that it operates as a closed scheme. Thus, it combines the features of both open ended as well as close ended schemes. Interval schemes
have been permitted by the SEBI in recent years only. The scheme is open for sale or repurchase at a fixed pre-determined intervals which are disclosed in the offer document. The units of this scheme are also traded in the stock exchanges.

3.13.4 Income Fund Scheme

The scheme that is tailored to suit the needs of investors who are particular about regular returns is known as income fund scheme. The scheme offers maximum current income, whereby the income earned by the units is distributed periodically. Such funds are offered in two forms. The first scheme earns a target constant income at a relatively low risk. While the second scheme offers the maximum possible income. This obviously implies that the higher expected returns come with the higher potential risks of the investment.

3.13.5 Growth Fund Scheme

It is a mutual fund scheme that offers the advantage of capital appreciation of the underlying investment. For such funds investment is made in growth oriented securities that are capable of appreciating in the long run. In proportion to such capital appreciation the amount of risk to be assumed would be far greater.

3.13.6 Conservative Fund Scheme

A scheme that aims at providing a reasonable rate of return, protecting the value of the investment and achieving capital appreciation may be designated as conservative fund scheme. These are also known as middle of the road funds, since such funds offer a blend of all these features. Further such funds divide their portfolio in common stocks and bonds in such a way as to achieve the desired objectives.

3.13.7 Equity Fund Scheme

A kind of mutual whose strength is derived from equity-based investment is called ‘equity fund scheme’. They carry a very high degree of risk. Such funds do well in periods of favourable capital market trends. A variation of the equity fund scheme is the ‘index fund
scheme’, which is involved in transacting only on those scrips which are included in any specific index.

3.13.8 Bond Scheme Fund

It is a type of mutual fund whose strength is derived from bond based investments. The portfolio of such funds comprises bonds, debentures, etc. This type of fund carries advantage of secure and steady income. However, such shares have very little or no capital appreciation, but carry low risk. A variant of this scheme is ‘Liquid funds’, which specializes in investing in short term money market instruments. The focus is mainly on low risk and low, but steady income.

3.13.9 Balanced Fund Scheme

A scheme of mutual fund that has a mix of debt and equity in the portfolio of investments of may be referred to as a ‘balanced fund scheme’. The portfolio of such scheme will be often shifted between debt and equity, depending upon the prevailing market trends.

3.13.10 Sectoral Fund Schemes

When the managers of the mutual funds invest the amount collected from a wide variety of small investors directly in various specific sectors of the economy, such funds are called as Sectoral Mutual Funds. The specialized sectors may include gold and silver, real estate, specific industry, etc.

3.13.11 Fund of Fund Schemes

There can be Fund of Funds, where funds of one mutual fund are invested in the units of the other mutual funds. There are a number of other mutual funds that direct investment into a specified sector of the economy. This makes diversified and yet intensive investment of funds possible.
3.13.12 Leverage Funds Schemes

The funds that are created out of investments, with not only the amount mobilized from small savers but also the fund managers who borrow money from the capital market, are known as ‘leveraged-fund scheme’. This way, fund managers pass on the benefit of leverage to the mutual fund investors. In order to operate such schemes, there must be provisions available.

3.13.13 Gilt Funds

These funds seek to generate returns through investment in gilts. Under this scheme, funds are invested only in Central and State Government securities and repos/reverse repos. A portion of the corpus may be invested in the call money market or RBI to meet liquidity requirements. Government securities carry zero credit risk or default risks. Their prices are influenced only by movement of interest rates in the financial system.

3.13.14 Index Funds

These funds are also known as growth funds, but they are linked to a specific index of share prices. It means that the funds mobilized under such scheme are invested principally in the securities of companies whose securities are included in the index concerned and in the same weightage. Thus, the funds progress is linked to the growth in the concerned index.

3.13.15 Tax Savings Scheme

Certain mutual fund schemes offer tax benefits on investment made in mutual funds. This helps the Assessee to save tax. He can plan his investment in such a way that the tax payment is minimized, but within the legal framework.

3.13.16 Money Market Mutual Funds

Money Market Mutual Fund refers to a scheme of mutual fund which has been set up with the objective of investing exclusively in money market instruments. These instruments include treasury bills, call and notice money, commercial papers, commercial bills, certificate of deposits etc.