CHAPTER II

STOK MARKET AND RETAIL INVESTORS

2.1 Introduction:

General public for the major part of their life, they will earn, procure and spend money. Seldom, investors' current money income precisely balances with their utilisation or consumption desires. In some cases, investors may have more money that they need to spend; in some other cases they may need to buy more than they can manage. These imbalances will lead investors either to borrow or to save to augment the long run profits by their income. When current income surpassed current utilisation, individual tend to save the excess. They can do many things with the savings. They can put the money under sleeping pad and pillow or cover it in the lawn until some future time when utilisation desires surpass the current income. When they recover their savings from the sleeping pad and pillow or from the lawn, they have the same amount that they saved. Another possibility is that they can surrender these savings for a future bigger amount of money that will be accessible for future utilisation. This trade off between the present utilisation for a larger amount of future utilisation is the main motto of savings. What investor does with the savings to allow them to increase over a period of time is investment. Interestingly, when the current income not sufficient to meet the current utilisation desires, individual borrows to make up the difference. Those who surrender their prompt ownership of savings (that is defer the utilisation) expect to receive later a greater amount than they surrendered. On the other hand, one who consume more than their current income (that is borrowed) must be willing to pay back in the future more than they obtained.

The rate of exchange between future consumption (future rupee) and current consumption (current rupee) is otherwise known as PURE RATE OF INTEREST. Both individuals’
willingness to pay for borrowed funds and their desire to get a addition on their savings gives rise to an interest rate referred to as the pure time value of money. This interest rate is employed in the capital market by a comparison of the supply of excess income available (savings) to be invested and the demand for excess consumption or utilisation (borrowings) at a given time.

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

(1) The time that funds are dedicated
(2) The rate of inflation during that period
(3) The risk premium or uncertainty of the future payments.

The ‘investor’ can be an individual, a corporation, partners, a government, an institution, or a pension holder. In the same way, the definition includes all types of investments in the stock markets such as equity, bonds, debenture, commodities, and real estates and above to it investment by corporation in equipment and plant and machinery. This study emphasises investment by retail or individual investors. In any case, the investor is trading a known rupee or money amount today for some expected future stream of payments that will be greater than the current outlay.

2.2 Definition of Investor:

"An individual who purchases small amounts of securities for themselves as opposed to an institutional investor. He is also called as Retail investor or Small Investor".

Here at this point after knowing who a Retail investor is the researcher answered the question why people invest and what they want from their investments. They invest to earn from their savings due to their deferred utilisation or consumption. They require a rate of return for the sacrifice of time, the rate of inflation during that time and above all the uncertainty or risk
premium of the return. In the present generation everybody is running for this money by sacrificing their precious time and it is considered that money is the root cause for happiness. In fact, for secured life, future or for any exigencies cropping up in life people start investing. But unfortunately, every time investors confused with investment avenues and risk return inherent profile. So even if the Researcher focus on the past, present and future, investments in such delicate issues need continuous and regular changes. The research study will be helpful for the investors to choose proper investment avenue and to crease profitable investment portfolio.

2.3 Meaning of Investment:

Investment is a work of funds with the principal to get return on it. As a rule, investment implies the utilisation of money with the expectation of making more money. In finance, investment means purchase of financial products such as bonds, equity etc with the desire to get great future returns. Investment of heard earned money is a significant movement of every individual. Investment is the dedication of funds which have been spared or saved from the current utilisation with the hope to earn more in the future. Along these lines, it is a reward for waiting for money. Savings of individuals are put in to resources relying upon their risk and return demands.

Investment alludes to the idea of deferred consumption, which includes acquiring an asset, giving a loan or keeping funds in a bank account with the sole goal of generating future returns. Different investment choices are available, offering risk-reward trade-off. A comprehension of these ideas and concepts and a thorough analysis options can help an investor to create a portfolio that increases the returns while decreasing risk exposure.
2.4 Investment Objectives:

Investment is a boundless practise, and many have made their future in the process. The first stage in this procedure is to determine the qualities of different investments and afterward matching them with people’s needs and preferences. All individual investing is outlined so as to accomplish certain objectives. These objectives may be tangible such as purchasing a car, house etc., and intangibles objectives may be economic wellbeing, security and so on. These objectives may be defined Financial or individual objectives.

Financial objectives result in

- Safety which speaks about the default risk and assurance of return
- Liquidity where assets are saleable immediately in the market
- Growth compounded annual growth rated with high benefits which spin off the money
- Return (profitability) which consist of current income and capital appreciation
- Hedge against inflation is the place where there is growth inherent prevalent, hedge against inflation is also prevalent.

On the other hand, individual objectives may be identified as family responsibilities. Status, dependents, educational requirement, income, consumption or utilisation and arrangement for retirement etc., are some of individual priorities of life.

The objectives can be divided further based on investors approach as follows:

1. **Short term high priority objectives:** Investors have high priority towards certain objectives especially when they are young. For instance, invariable young people give more priority in purchasing a car, super bike etc., thus investors go for high priority objectives and invest their money accordingly.
2. **Long term high priority objectives:** These investors on the other hand look forward for the investment based on long term needs. They need a financial commitment for long period. They purchase a home. Every individual has different perception and different thinking. Again, some investors may save for the children education too. So different investors have different approaches in investment.

3. **Low Priority objectives:** These objectives are not painful. They have low budgets. They include, touring locally, hope appliances etc.

4. **Money making objectives:** This is main objectives where the investors invest their surplus money in shares of the company and expects wealth maximisation objectives. Usually investors invest, not only for the dividend but also for capital appreciation.

Every investor has a common objective about the investment of their capital.

The importance of each objective differs from individual to individual based on the age and the amount of capital they have. The objectives are broadly defined as follows:

a. **Life style:** Investors would like to make it sure that their assets can meet their financial needs over their lifetimes.

b. **Financial Security:** Investors would like to protect their financial needs against financial risk all the times.

c. **Return:** Investors desire a balance of risk and return that is suitable to their personal risk preferences

d. **Time value for money:** Investors would always like to minimise the cost of managing their assets with their financial needs.

e. **Peace of mind:** Above all investors do not want to worry about the day to day movements of markets and their present and future security. Achieving the sum of these objectives depends upon investors having all their assets and needs managed centrally, with portfolio planned to meet lifetime needs, with one overall investment
strategy taking care of all these disposition of assets and coordinates individual needs and risk preferences.

2.5 Types of Investors:

Investors differ in terms of their risk bearing capacity, and are differentiated in the financial market as follows

- Aggressive and moderately aggressive: Those who prefer taking risk comprise of this category. Even though they do not prefer risk, they at least not averse to it. They are referred neutral and at times, they react according to the market risk.

- Conservatively aggressive and conservative: Depending upon the risk bearing capacity an investor could moderately conservative. And again could be purely conservative who has no propensity to take risk.

The risk-taking capacity varies from individual to individual depends upon, age, income, no of family members expenditure and so on. An aggressive investor bears and accepts higher risk with high returns compared to moderate and conservative investors. Apart from these factors, generally it assumed that people with high income have more capacity to bear risk also.

2.6 Investment, speculation and gambling

“Speculation is an activity, quite contrary to its literal meaning, in which a person assumes high risks, often without regard for the safety of their invested principal, to achieve larger gains”. The time span in which the profit received is usually very short.
a. **Investment**:

Investment is employment of funds in securities to earn higher returns. Investment includes placing money into an asset which isn't marketable to enjoy a progression of returns. The investors forego some money today in reckoning of a financial return in future. The two most noteworthy attributes of investment are: (i) time and (ii) risk. He enjoys a touch of speculation. There is a component of speculation involved in all investment decisions. However, it does not mean that all investments are speculative in nature. Genuine investments are carefully thought out decisions. An investor plays rationally by taking comparatively lower risk for the given expected return. On the other hand, speculative investments are not carefully thought out decisions. They are based on tips and rumours, and bits of gossips.

b. **Speculation**:

Though investment and speculation involve in purchase and sale of securities with the objective of making more money and earning return, speculation has a special meaning. The person who speculates is called a speculator. A speculator does not buy goods to own them, but to sell them later. A speculator is a person who makes profit with the changes in the market price. One tries to buy goods when they are at low price and sell them when they are more priced. In the stock market speculators are broadly classified into two categories: bull and bears. A bull buy shares with the expectation of price of stock will increase due to demand. A bear will sell shares at a higher price and buy them when the price is low. Speculation includes the buying, holding, short selling, of stocks bonds, commodities, currencies, real estate collectibles, derivatives or any valuable financial instruments. Investment is opposite of speculation here one buys one wants to keep it to get income from them as dividends or interest.
So speculation should be considered purely a form of gambling, as speculators do make informed decisions to acquire the additional risks. On the top of it, speculation cannot be categorised as a traditional investment as the acquired risk is higher than average. More sophisticated investors will also use a hedging strategy in combination with their speculative investment in order to limit potential loses.

**Gambling:**

Compared to investment and speculation gambling is erratic, haphazard and unscientific event. Gambling consist a very high degree of risk and return as compared to speculation. It also involves element of heightened thrill. Examples are horse race, card games, lotteries etc.

**2.7 Difference between investors and speculators:**

**Table 2.1**

<table>
<thead>
<tr>
<th></th>
<th>Investors</th>
<th>Speculators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning Horizon</td>
<td>Investors relatively have a longer time horizon. They hold it at least for one year</td>
<td>Speculators have a very short time horizon. His holding period may last for few days or few months also.</td>
</tr>
<tr>
<td>Risk disposition</td>
<td>Investors may normally willing to accept moderate risk. Rarely he assumes more risk</td>
<td>A speculator willing to assumes high risk</td>
</tr>
<tr>
<td>Return expectation</td>
<td>Expect moderate rate of return which is with commensurate with the limited risk assumed by him</td>
<td>A speculator looks for high risk and high return</td>
</tr>
<tr>
<td>Basis for decisions</td>
<td>An investor attaches greater significance to fundamental factors and attempt careful evaluation of the prospects of the firm.</td>
<td>A speculator relies more on heresy, tips, technical charts and market psychology.</td>
</tr>
<tr>
<td>Leverage</td>
<td>Typically, an investor uses his own funds and eschews borrowed funds</td>
<td>A speculator normally resorts to borrowings, which can be very substantial to supplement his personal resources.</td>
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2.7 Investment Avenues:

There are a plethora of investment avenues available in India. An investor can himself select the best investment which is suitable to him after studying the merits and demerits of it. In fact, now days, even financial advertisements, newspaper supplements on financial matters and investment journals guide the investors in selection of best investment avenues.

Investment alternatives are the outlet of funds. A confusing range of investment alternatives are available in the market. They basically classified into two categories such as financial assets and real assets. Financial assets are in the form of electronic form (DEMAT form) and claim on some issues such as the government or a body. Main financial assets are ordinary or equity shares. Corporate bonds or debentures, government securities, time and demand deposits, post office savings, mutual funds, insurance policies, derivative instruments, real assets are represented by tangible assets like residential house, commercial property, agricultural farm, gold precious stones and art object. As the economy grows, it indicates the increase of importance in financial assets. So, the financial assets and real assets are interconnected and they are not competitive but complementary to each other. Investors allowed selecting any one or more alternative financial instruments based on their needs. By and large, almost all categories of investors interested in safety, liquidity and considerable return on the funds invested by them. In India, investment alternatives are constantly growing as the financial market develops. Investments are plausible even in corporate securities, public provident fund, mutual fund and other sources. However, the investors should be extremely careful about the hard-earned money. An investor can select the best avenue after thoroughly examining the pros and cons of the following investment alternatives:

1. Equity shares
2. Preference shares
3. Debentures and bonds
4. Public deposits
5. Bank Deposits
6. Post office savings
7. Public Provident Fund
8. Money Market Instruments
9. Mutual Fund schemes
10. Life Insurance schemes
11. Real estate
12. Investments in Gold and Silver
13. Derivative instruments
14. Commodity market
15. Foreign Currency Securities.

2.7.1 Equity Shares or Ordinary shares:

Equity shares or ordinary shares are called the variable income securities. They are the real owners or residual owners of the company. The equity shares are known as common stock also. All ordinary shares issued and floated in the market must get approved from Securities Exchange Board of India (SEBI). In early 1990s, investing in equity shares was the best alternative by the retail investors. But after incurring heavy losses in 2000 and in 2008-2009 because of the financial crisis, investors become sceptical about the market.

There is a clear and notable difference between stock and share though they are used interchangeably. Share means a share capital of the company divided into number of smaller units; while stock is referred to in terms of money. Compared to other instruments like bonds and debentures equity shares give high returns with greater risk associated. These Equity shares or other financial instruments are issued in DEMAT form. It means the shares which one purchases, and sells are credited and debited to a separate account called a
depository account. As we save out money in banks are called deposits, the shares and stock we save is called depositories. This is also called paperless security because shares are not issued in physical form. It is in the electronic format. Investment is share is not a tax saving investment.

2.7.2 Preference Shares:

Preference shares are hybrid in nature as some characters of it resembles equity shares and some characters resembles debt. The Companies Act of 1956 section 85(1) defines and describes about the preference shares and their rights. These preferences shares received fixed dividend. These preferences shares are classified into following types

- Redeemable preference shares
- Irredeemable preference shares
- Convertible preference shares
- Non-convertible preference shares

Redeemable preference shares are those preference shares where it be repaid or redeemed after fixed period, as per the terms and conditions at the time of issue.

Irredeemable preference shares are those preference share which cannot be redeemed be paid till the existing of the company.

Convertible preference shareholders have a right to convert their shares into equity shares after a specified period.

Non-convertible preference shareholders do not have such rights.

2.7.3 Debentures and Bonds:

A bond is a debt instrument where the investor lends his money to any corporate or company for a fixed period of time. This fund lent will carry a fixed rate of interest. It is a certificate
issued by a company under its seal, acknowledging a debt due by it to its holders. The
companies Act provides a company can raise capital from the public through issue of bonds
and debentures. The bond and debenture holders are called creditors of the company.
However, credit rating is needed before issue of bonds and debenture. They are rated by the
credit rating agencies like, CRISIL, ICRA, and CARE. They rate like AAA and BBB etc.,
Bonds are issued by the government companies and debentures are issued by the private
sectors companies. So, bonds are tax savings instruments and debentures are not.
Debentures are divided into two types

- Convertible Debentures
- Non-convertible Debenture

Convertible debentures are a type of loan issued by a company which can be converted into
equity after sometimes under certain circumstances. The company may give initially a less
amount of interest as compared to non-convertible debenture holders.

Non-convertible debenture is type where the NCD holders expect as the equity dividend
holders return is increasing, the interest rate should also increase. But they do not demand so.

As far as the debentures are concerned the return are stable and reasonable. They are also
listed in the stock exchanges. But their prices are not as volatile as equity shares. Since the
debenture holders are the creditors of the company they do not have the right to participate in
the management of company affairs. In India, Convertible debentures gained its momentum
in the recent past years.

2.7.4 Public Deposits:

The Companies Act of 1956 provides that companies can accept deposits from the public.
This mode of raising funds has become popular in the 1990 as the bank credit has costlier.
As per the provisions of the Companies Act, a company cannot accept deposits for a period
less than 6 months and more than 36 months. However, deposits up to 10% of the paid up
capital and free reserves can be accepted for a minimum period of three months for meeting
short term. Again, a company cannot accept or renew deposits in excess of 35% of its paid
up capital and free reserves.

2.7.5 Bank Deposits:

The most popular financial instruments among the salaried class people is bank deposits.
Banks functions with the working capital for their business only through bank deposits. It
can be in the form of

- Current account

- Savings account

- Fixed Deposit account

- Recurring Deposit account

- NRI account

- Pension account

- Salary account


Generally, banks accept deposits by offering interest. These deposits can be from individual,
institutions and business enterprises. It lends like wise to the individuals, institutions and
business enterprises and collects interest on it. Bank deposits have highest safety and
liquidity. The rate of return is less compared to the financial instruments like bonds and
debentures. The risks inherent in bank deposits are also low. It helps the economy in capital
formation. It is one of the best intermediaries for the growth and development of a nation.
But capital appreciation is not happening fast in bank deposits.
2.7.6 Post office schemes:

A post office usually accepts small savings from the public and designed to provide safe and attractive investment options. Through this small savings also government can inculcate the habit of thrift and savings and it is also useful for capital mobilisation. There are nearly 1.54 lakhs of post offices in India. Certain government schemes such as KisanVikas Patras, National savings schemes, National savings certificates are sold only through post offices. Apart from these monthly income schemes, postal savings scheme for long term like banking PPF are available. Postal savings is now reducing due to the growth in banking sectors. They were very popular in 1950s. They are also as good as bank deposits in terms of risk, return and liquidity. Even the tax benefit is one of the attraction of postal savings.

2.7.7 Public Provident Fund:

Public provident fund is the instrument which has tax saving option along with the savings. It is considered one of the attractive schemes for the salaried middle class. It also serves as a retirement benefit tool for several people for those who do not have structured pension plan. It stared in the year 1969. PPF account may be opened at any branch of SBI or its subsidiaries and nationalised banks. PPF account can be opened at post offices too. Only one account can be opened for one individual. Generally, PPF account is opened for a minimum of 15 years and it can be extended later for every next 5 years. A minimum deposit of Rs.500 in a year and multiples of Rs.500 up to Rs.1, 00,000 is permissible. Tax benefit under 80C is applicable for the amount invested and interest is tax free under 80L. It has the advantage of low defaulter risk and tax rebate on the money invested and a good return of 8.8 p.a. It has wealth tax benefit too.
2.7.8 Money Market Instruments:

Money market is a platform where financial institutions provide to a wide range of borrowers and investors opportunity to buy and sell variety of short term securities ranging from one day to one year. Though we call money market, there is no physical market existing. It is an informal network of banks and traders with the links either by phone or fax machines. The short-term debts and securities

- Treasury bills
- Federal Agency Note
- Certificate of Deposits
- Commercial Paper
- Banks acceptances
- Repo rate
- Reverse Repo Rate

These are some examples of such instruments. The money market instruments have the advantage of highest liquidity with lowest risk. The money market very important for any businesses because it allows the corporation with the temporary excess to park or invest in short term securities likewise helps those corporate where they fall short or cash to borrow funds in short term basis. Money is repository of short-term funds which is managed professionally.

Types of Money Market instruments

1. Treasury Bills

The main difference between treasury bonds and treasury bills is, that bonds are long termed, and bills are short termed. So, a treasury bill is a short term note for a period of 90 days, 180
days and 360 days. They can be purchased through the auction which happens weekly for 90 days bill and 180 days bill whereas monthly auction for 360 days bills. It is directly available in the secondary market.

2. Federal Agency Notes:

Agencies of Federal Government like Fannie Mae and Sallie Mae issue both long term and short-term obligations. These obligations are not backed by government, so they are sold at a higher yield than T-bills, but the risk of default is very small only. They are also traded fast though as not fast as T-Bills. Corporations are the most regular purchases of this type of money instrument.

3. Certificate of Deposit:

Certificate of deposits are bearer instruments and are negotiable too. Generally, it is issued by the commercials banks and financial institutions. These are like fixed deposits, but fixed deposits are non-transferrable and non-tradable too. It was into existence June 1989. Primarily only regional rural banks were the participants and later from 1992 even the financial institutions were allowed with a capping. These were issued at faced value as well as with discount. The maturity rates change from 30 days to 6 months. For the pre term withdrawal penalty is imposed. So, people transfer it or sell it to the other party. Large denomination CD fetch higher interest rates. Minimum size is Rs.1 lakh and are available in multiples of Rs.1,00,000. It can be issued to individuals, companies, trust, fund associations, corporations. NRI can also subscribe to it but on non-repatriable basis which mention in the certificate of deposit.

4. Commercial paper:

Commercial paper is another short-term money market instrument available in India since 1990. It started in other developed countries early 1985. Commercial paper is issued like a
promissory note. It is used by the large corporate houses for their short-term debt borrowing from money market. The ratings by CRISIL, ICRA, CARE and FITCH are done. It is issued for 7 days to 1 year. It is traded in OTC market (over the counter). Transactions take place in the FIMMDA transaction reporting platforms.

In the Indian money market, the commercial papers are issued by

- Leasing and finance companies
- Manufacturing companies
- Financial institutions

The term financial companies mean the companies which give loans to its clients. The difference between financial companies and banks are, the banks accept the deposits too whereas the finance companies only extend loan and do not accept deposits.

Financial institution provides services to its clients and is regulated by government. The main services include depositary institutions, contractual institution and investment institutions.

5. Bankers' Acceptance

A bill of exchange accepted by a bank usually for the purpose of financing a sale of goods to or by the bank's customer. The bill may be drawn by an exported on the importers banks and be sold on the open market at a discount.

6. Repurchase Agreement: (Repo rate)

It is known as Report rate and Reverse Repo Rate. Repo rate is the benchmark interest rate at which Reserve Bank of India lends money to the banks for a short term. In other words when the repo rate goes up, the borrowing from RBI become costly and when repo rate comes down, the borrowing from RBI become cheap. Current repo rate is 6.25%
7. **Reverse Repo Rate**: Reverse repo rate is the short term borrowing rate at which RBI borrows money from banks. RBI borrows money when it feels too much of money is floating in the banking system. A raise in the reverse repo rate means that the banks will get a higher rate of interest from RBI. In this case every bank would like to lend it RBI. RBI in turn would like to keep it when too much of money is floating in the economy. Reporate signifies the rate at which liquidity is injected into the banking system by RBI, whereas Reverse Repo rate signifies the rate at which the central banks absorbs liquidity.

2.7. 9. **Mutual funds**: 

Mutual fund is a financial intermediary which collects savings of the people for secure and profitable investments. The main function of mutual fund it to pool the savings of the public and invest them in stock market securities with a common financial goal. The money pooled from the investors are invested in bonds, securities, debentures, shares. The income from the investment and capital realized from it shared by the unit holders in proportions to the units held by them. Expenses for managing the fund is charged to fund. Through mutual funds, investors can invest in a capital market in a professionally manged diversified basket of securities at relatively lower cost. Therefore, it is boon to small investors. UTI had virtual monopoly in the field of mutual fund from 1964 to 1987. After 1987 SBI and other banks started their mutual funds. At present there is diversion of savings in the middle class from banks to mutual funds.

Mutual funds have brought upon many schemes which are helpful to investors in many ways. They are open ended schemes which are open to investors for enter and exit at any time, which means buy and sell the units whenever they desire. Above than this Regular Income Schemes, cumulative growth schemes, etc. are there which is much useful for the investors. There are closed ended schemes in which there is a lock in period. There are other types of
four schemes by which mutual funds collect from the investors such as growth schemes, income schemes, balanced schemes, tax savings schemes. Mutual funds are popular and attractive because of low risk and high returns. Mutual funds are run by asset management companies. (AMC)

2.7.10 Life Insurance policies:

Nothing is more important to a person than life. But if the family is financially secure after the eventuality of death they that is all. To define Life insurance “the life insurance is a contract whereby the insurer in consideration of a premium paid either in a lump sum or in periodical instalments undertakes to pay annuity or certain sum of money either on the death of the insurer or the expiry of a certain number of years, whichever is earlier”. So, it is long term in nature. Life is the largest insurance group and investment company in India, with 100% stake of government of India. There are 23 private players in the insurance sector and most of them have joint venture with foreign players. The insurance sector witnessed a lot of action in the recent decades after 2006 with a lot of new players entering into the market. The different distribution channels used by insurance companies are agents, brokers, corporate agents, bancassurance. Insurance Regulatory and Development Authority (IRDA) is the regulatory arm of the government of India which look after the functioning of insurance sector. The premium paid on a life insurance is exempted from taxable income under section 80 C of the Income tax act. Since the maturity period is longer, once can avail loan out of the policy also. The amount invested here is a risk free one. The risks may be due to accidents, illness or natural caused like fire, flood, earth quack.

2.7.11 Real Estate:

In India real estate industry has opened its gate even for the foreign investors too, and it is the high time it has huge demand from all corners such as retail, manufacturing, educational,
housing, health care etc. Real estate consists of properties like buildings, industrial land, plantations, farm houses, agricultural land near cities and flats or houses. Those properties draw the attention of affluent investors. In the today’s world this is the most attractive investment of the people who have money today. The real estate price is increasing as the demand and supply of land is limited. Real estate investment is a long-term investment. Indeed, the government gives tax incentives to those people who purchase a residential house. The repayment of borrowings for the purchase of house is exempted from income tax. The repayment up to Rs. 1 lakh of principal is also exempted from the income tax. Thus, investment in residential house is also treated as tax saving investment. Investment in real estate has low risk and low liquidity.

2.7.12 Investments in gold and silver.

Demand of gold for investment, has surpassed its demand for jewellery since 2004. Gold has been proven at the best avenue of investment. It is one of the recommended investments in one’s portfolio that around 20 -25% can be kept in the form of jewellery, coins, bars gold exchanged traded funds. Gold has negative correlation with most other classes of assets. Gold and silver are the precious objects. All people like gold or silver as far as India is concerned. Gold and silver has deep rooted mythology, religious rites and psychological too. In every middle-class families according to their capacity a little of gold and silver is kept and purchased also an investment. The price of gold and silver is increasing because of various reasons. In marriages, festivals etc. gold, silver diamond, rubies and navratans are used as a symbol of status identification too. Gold, silver diamonds are used as storage of wealth too. As an investment it has the feature of high liquidity and low risk and can be sold at any place too.
2.7.13 Derivative instruments:

A derivative is a product whose value is derived from the underlying asset. The underlying asset can be equity, forex, commodity, weather or any such assets. Basically, derivatives are of 4 types 1. Forward 2. Future 3. Options and 4 swaps. From the perceptions of investors futures and options are two important financial derivatives. They are used in hedging and speculations. The main difference between share and a derivative is that shares/securities are assets and derivative instrument is a contract.

2.7.14 Commodities:

Commodities may be defined as a product or material substance like food grains, processed products and agro-based products, metal or currencies, which investors can trade in the country market. The main characteristic of a commodity is that the price is fixed as a function of the entire market. Commodity provides great amount of potentiality in becoming a separate asset class for market savvy investors, arbitrager and speculators.

2.7.15 Foreign currency securities:

There are quite few securities which deal in foreign currencies. An indirect way of raising capital from the capital market ins through issuance of deposit receipts like American Depository Receipts (ADR) and Global Depository Receipt (GDR). Deposit receipts are kind of negotiable securities that represent securities of companies, which enables the domestic investors to buy securities of foreign companies without the accompanying risk if inconveniences of cross border and cross currency transactions.

2.8 Capital market

As it is discussed earlier Financial Market plays a significant role in a country’s capital formation and development of capital market. When one speaks about capital market it is divided into equity market, debt market and derivatives market. Capital market is further
classified into primary market and secondary market. Primary market is also called as new issues market which deals with IPO (initial public offer). When any issue by a new entrant company into the capital market is called IPO. Through IPO investors are enabled to acquire shares directly from the issuer and through intermediaries such as brokers. IPO are often issued by smaller or younger companies to get capital from the public for expansion, modernisation, and diversification.

The investment banker is involved from this stage. This IPO requires a Pre-issue and post-issue formalities to be complied with SEBI guidelines. Now-a-days shares are issued in dematerialised form. Shares issued through IPO are to be listed in the stock exchange. Listed stocks can be traded in secondary market which is stock exchange. Trading in shares is subject to the rules and regulations issued by stock exchanges.

Issue by the company whose shares are already listed on a stock exchange or a share market is called as follow on public offer or FPO. As far as FPO are concerned, it can follow a fast tract issue (FTI). It is for the established and complaint listed companies. These companies and companies going for right issues need to make only rationalisation disclosures, rather than comprehensive one.

According to capital market the investors are broadly classified into qualified institutional buyer (QIB), non-institutional buyers, and retail investors. The investment bankers act as lead managers in the issue. The issue can be oversubscribed or are undersubscribed. When it is over subscribed there is no problem. It is taken and accepted in the pro rata basis. But if the issue is undersubscribed the underwriter who promised earlier should subscribe to the portion of the issued as per agreement. The investors are to be vigilant about the IPO. Because it may be a poor public issue, average public issue, above average public issue and strong public issue.
2.9 Basic concepts of Stock Market

A stock market is a common platform where people buy and sell stock. It is stock, share or equity all are one and the same. As one goes to vegetable market to buy vegetables one can enter into stock market to buy and sell stock by adhering to rules and regulation laid by SEBI. However, he must undergo some legal procedures. It is highly regulated market. In India, stock exchanges operate with due recognition from the government, under Securities contracts Regulation Act of 1956. The SCRA defines a stock exchange as "an association, organisation or body of individuals, whether incorporated or not, established for the purpose of assisting regulating and controlling business in buying, selling and dealing in securities."

Stock market as far as some people are considered it a place earn quick money, some people consider this as gambling. But it is market where business of business is carried on. In other words, it is place where business of securities and enterprise takes place. Here if a person buys a stock at a lower price and sells it at a higher price, then that person makes profit. At the same time, if a person buys a stock at a higher price and sells at a lower price, then that person makes loss. The buying and selling is called transaction. The price at which buying and selling transaction is determined by market forces (i.e. demand and supply of particular stock)

With an example, the market mechanism can be understood better. XYZ co is selling its share at a good price as the investors have confidence of this stock and people want to buy this more and more. So XYZ co has higher demand. And very few people are interested in selling this at current market price. Therefore, whoever is willing to buy will offer more price or higher price for this stock. Likewise if there are more sellers than buyers for the same stock the prices will come down. The purpose of a stock market is to bring the two parties together by reducing the risk of investing. The main functions of stock market are listed below.
1. **Spot Market**: It is market where the shares, debentures are sold and bought readily and continuously. It is market for existing securities. Here people convert cash into stock and stock into cash.

2. **Dissemination of price information**: The stock exchanges disclosed the fairest and most accurate prices shares to the investors. This is one of the most important services required for the public.

3. **Capital mobilisation**: Stock exchanges mobilises the surplus funds of the society or economy to the business houses where it is essential. So, it facilitates development of nation by providing financial support through adequate capital support.

4. **Offers Liquidity**: Other market like real estate, machinery, land building the capital or money is blocked as it is fixed in nature and it will take long time convert into cash. On the contrary if one invests in stock market, one can convert the stock into cash immediately within 2 days.

5. **Barometer of business progress**: Since the macro economic changes like prosperity, boom and depression reflect in the indices, it is barometer of business.

6. **Better corporate governance practices**: Since it has comply with the rules and regulations of SEBI, Corporate social responsibility is also taken care of.

The common question we often come across is “How is the market today? And what is likely to happen in near future”. This question is quite natural. For all these question, let us seek the answer one by one. There two major national stock exchanges.

1. **BSE (Bombay Stock Exchange)**

2. **NSE (National Stock Exchange)**

And apart from these two stock exchanges, there are 24 other regional stock exchanges. The market opens at 9 am and closes at 4 pm. Both the exchanges are open from Monday to Friday excluding public holidays and Saturdays and Sundays.
(a) Direct Stock Broking. It is otherwise known as OTCEI. Over the counter Exchange is carried out in on the trading floor. It was started in the year 1992. It was modelled after NASDAQ (National Association of Securities Dealers Automated Quotation) and JASDAQ (Japanese Association of Securities Dealers Automated Quotation). OCTEI main objective is to provide a market for smaller companies. The OCTEI is incorporated as a company under Section 25 of Indian companies Act and promoted by UTI (Unit Trust of India), ICICI (Industrial Credit and Investment Corporation of India), IDBI (Industrial Development Bank of India), GIC (General Insurance Corporation), IFCI (Industrial Finance Corporation of India), LIC (Life Insurance Corporations), SBI Capital markets. Here the traders are widely throwing their arms up, waving, yelling and signalling to each other. Behind these frenzied spectacles, however, there is a methodical and organised system of trading that prevails. The other type of exchange is virtual composed of a network of computer where trading is done electronically. This is known as online trading.

Brokerages come in two different ways, i.e. MI service brokerage and discount brokerage. Full service brokerages offer expert advice and personal attention but again their transaction charges are quite high.

2.10 Depository:

A depository is an organisation that maintains investors’ securities in electronic form. In simple terms it is a bank for securities. In banks we keep money as deposit. Here in depository we keep securities. The National Securities Depository Limited (NSDL) and Central Depository Services (India) Ltd (CDSL) function as depositories in India. The NSDL was set up by NSE with UTI and IDBI. The CDSL is a depository managed by professionals. And it was promoted by the BSE along with a cross section of several leading Indian and foreign banks.
The principal function of a depository is to dematerialise the securities and enable their transactions in the book entry form. Dematerialisation of securities occurs when securities issued in physical form is destroyed and an equivalent number of securities are credited into the beneficiary owners account. In a depository system, the investors stand to gain by way of lower costs and lower risks of theft, forgery etc.

A depository established under depositories act can provide any service related to recording of allotment of securities or transfer of ownership of securities in the record of a depository.

A depository cannot directly open accounts and services to clients. Any person who is willing to avail of the services of depository can do so by entering into an agreement with the depository through any of its depository participants. Depository participants are the intermediaries between investors and depository. Generally, all the banks and financial institutions are depository participant. A depository participant should be registered entity under SEBI act.

2.11 Stock exchange indices:

Stock Exchange indices are helpful to recognise the broad trends in the market. They are useful in recognising the benchmark for evaluating the investor's portfolio. The investors use these indices to divide and allocate funds rationally among different stock. Since it is a status report of the economy it helps in formulation of economic policies with the impact on the stock market. Index fund and future funds are created and formulated with the indices. Technical analysis studies the past performance and predicts the future of the stock market. It also helps in finding the connection between individual stock movements with index movement.
2.11.1 Stock index computation:

The share market index may be price index or wealth index. The weighted price index is a simple arithmetical calculation of average price and with a base date. With this price one gets idea above the movement of price in the stock market. In a wealth index the price is calculated by weight of the stock with market capitalisation. The weight could be trading volume for a specific stock. When indices use trading volume as weights it shows the depth of the market as trading volumes. The indices differ from one to another like Sensex may move up by 100 points whereas Nifty move up to 40 points only, the reason being the number of component stock, composition of stock, weights and base year. The number of components of stock influences the behaviour of stock. The Sensex has 30 stocks, BSE 100, BSE 200, the Dollar index. Sensex is calculated based on “Free Float capitalisation “methodology. According to this method 30 components of stocks is taken with the base period as 1978-79 to BSE by multiplying the price of the stock by number of shares issued by a company. Free float market capitalisation is described as the proportion of total shares issued by the company that are readily available for trading in the market. It does not include the promoters stocks, government stock, strategic stocks and other lock-in shares too. The composition of the stocks in the indices should reflect market movement as well as the macroeconomic changes. If the number is high it is a representative sample capable of reflecting the market movement.

In case of rising marking whatever may be the stock exchange it is called “Bull Market”. Likewise, in case of falling market it is called the “Bear Market”. A bull market is when the economy is doing well, people get jobs and they invest their extra money into stocks. As there is demand for the stocks the price goes up. Secondly, the in the bull market investors optimistic too. The market is called as bull market as the investors feel the price of major stocks rising up. That outlook is called “Bullish Outlook”. Whereas bear market is market
when the economy is going under depression stage, the people lose jobs and share prices start falling. The investors become pessimistic. Apart from these the other animals in the stock market are chickens and pigs. Chicken are those investors who are afraid of losses. For these investors the fear overrides the need to make profits. Pigs are those investors who take high risk looking for one big deal in a shorter period. They invest in stock without the deep knowledge. These investors get impatient, greedy and emotional about their investment. They are the people who make noise in the stock market about the losses. Professional traders and experts loves these types of investors as only from these types of investors the bears and bulls earn profits. There are plenty of investment avenues available for any type of investors. But generally, bulls and bears are constantly at odds on each other.

2.11.2 The difference between Stock and Stock price:

The word stock, share and equity all means the same. The small medium and large companies need money at different part time either to expand or to modernise their company. That time the organisation raises the fund either through the equity or through bonds. The raising of capital through the stock is known as issuing of stock. A company can also borrow capital by issuing bonds and debentures. The disadvantage of it is the company must give interest so long as they hold it. Since the bonds are issued for a specific period at the time of redemption a huge capital is required to repay it. The other form of raising capital through equity is beneficial to the company as they need not repay them. All the shareholders of the hope that someday their shares would be worthier than what they have paid. Apart from that they expect a minimum amount of dividend as return to their investment. When stock or equity is issued the equity owners are called the real owners or the residual owners of the company. So, the company need not pay interest. Only when the profit is earned they need to pay dividend to them. The company issued stocks are listed in any of the stock exchange and it is called the listed company. Here the stocks which are issued are traded. The word
trade means buying and selling of the stocks. A company can be listed in Bombay stock exchange or National Stock Exchange. So, holding the plain simple ordinary share is called the shareholder and simple stock is known as share in the ownership of a company. The shareholder however small share he holds he is called shareholder of the company. Fully paid shares are called stock. And stock holder is also referred to share holder. A shareholder has benefit when the company is doing well and when the company does not do well the shareholders suffers for the good market price for the company. A shareholder for every share he holds, he is given one vote to elect board of directors. The management of company is expected to increase the value of the firm for shareholders by running the company profitably. If the shareholders feel the management is not running the company properly, then they can remove those directors and appoint new directors. But the above said things are theoretical, and in practical substantial amount of share are being held by large institutions and big entrepreneurs or high net worth individuals (HNI) who influence the decisions. Some of the examples of institutional investors are pension funds and insurance companies. The importance of being a shareholder is not just able to manage the company, but also entitled to get a portion of profit and claim on assets. This is otherwise known as dividend which is fixed in Board of directors meeting and it is distributed among the shareholders. Every public limited and private limited company must have board of directors. In general, the board makes decision on behalf of the shareholders. Board of directors should be impartial, and they must be a fair representative of both the management and shareholders’ interest.

2.12 Conclusion:

In this chapter one could understand the definitions of investors, investment and types and avenues of investment and its objectives are well understood.