FINANCIAL EDUCATION AND INVESTMENT AWARENESS

CHAPTER 01

FOUNDATION FOR FINANCE

INTRODUCTION TO BASIC CONCEPTS OF FINANCE

MEANING OF MONEY

In ordinary conversation, the word money to mean income ("makes a lot of money") or wealth ("has a lot of money").

- Money (or money supply) refers to anything that is generally accepted in payment for goods or services or in the repayment of debts.
- Money is a stock concept.
- It is a certain amount at a given point in time. Money is distinct from wealth or income.

FUNCTIONS OF MONEY

- Money is a medium of exchange; it allows people and businesses to obtain what they need to live and thrive.
- Bartering was one way that people exchanged goods for other goods before money was created.
- Like gold and other precious metals, money has worth because for most people it represents something valuable.
- Fiat money is government-issued currency that is not backed by a physical commodity but by the stability of the issuing government.
- Above all, money is a unit of account - a socially accepted standard unit with which things are priced.

MONEY AND ITS NEED

Money can't buy happiness, but it can buy security and safety for you and your loved ones. Human beings need money to pay for all the things that make your life possible, such as shelter, food, healthcare bills, and a good education.

- Money gives you freedom. When you have enough money, you can live where you want, take care of your needs, and indulge in your hobbies. If you are able to become financially independent and have the financial resources necessary to live on without working, you'll enjoy even more freedom since you will be able to do what you want with your time.
- Money gives you the power to pursue your dreams. Having money makes it possible for you to start a business, build a dream home, pay the costs associated with having a family, or accomplish other goals you believe will help you live a better life.
- Money gives you security. When you have enough money in the bank, you'll never need to worry about having a roof over your head or about having enough to eat or about being able to see a doctor when you're sick. This doesn't mean you'll be able to afford everything you want, but you'll be able to enjoy a stable middle-class life.

FINANCIAL PLANNING

Financial planning is the long-term approach of carefully managing your funds to help you reach your goals and dreams while overcoming the financial obstacles.

Financial planning can assist us in managing our money as well as the resources of an individual or a family. It is critical that we plan for and manage our money at all stages of our lives. Without good planning, we would be enslaved, unsure of how to pay off loans and credit, as well as adequately pay our expenses. While we may have a job that covers our everyday spending, large medical bills or any other disaster can devastate our finances. As a result, financial planning can assist us in managing our money and ensuring a prosperous financial future.

Financial planning is the process of defining different financial goals, quantifying these goals and having an investment plan to meet these goals. In simple, financial planning refers to the process of streamlining the income, expenses, assets and liabilities of the household to take care of both current and future needs for funds.

FINANCIAL GOALS

Specific financial goals are vital to financial planning. Others can suggest financial goals for you; however, you must decide which goals to pursue. Your financial goals can range from spending all your current income to developing an extensive savings and investment program for your future financial security. Such objectives may include short term goals including savings for a deposit on a house or car, or savings for a holiday, and may be for periods of up to three to four years. Longer term goals of beyond four years include mortgage reduction, superannuation savings for retirement and general wealth accumulation.

Financial Goals are generally classified as:

a. Short-Term Financial Goals

Short-term goals are the more immediate expenses. Although timelines vary, these are the things you will spend money on generally within a few months or years.

Short-term goal examples: Emergency fund, Payments toward rent, insurance, or student loans, Credit card debt payments, Personal goods, Travel, Wedding, Minor repairs and home improvements.

b. Long-Term Financial Goals

Long-term goals are usually your big-picture costs. These goals may take several years or even decades to reach. These distant goals typically involve more money and regular attention than short-term goals.

Long-term goal examples: Retirement fund, paying off a mortgage, starting a business, Saving for a child's college tuition.

ESSENTIAL FEATURES OF FINANCIAL GOALS

The first step toward achieving your financial goal is to create a savings plan. The objectives are SMART.

Sl.no	Attribute	Description	Example
1.	Specific	This involves describing exactly what you wish to accomplish. State exactly what is to be done with the money involved.	I want to save Rs. 3 Lakhs to buy a new car.
2.	Measurable	Essentially, you want to decide on a unit of measurement for tracking your progress.	I need to save Rs.5,000 a month for the next 60 months in order to have 3 Lakhs in 5 years.
3.	Achievable	To accomplish your goals, you'll need to plan out specific actions to make them a reality.	This can be accomplished by working overtime at my existing job or starting à side business. Any incentives I receive will be used to buy a new car.
4.	Realistic	You'll also need to set realistic goals depending on aspects such as your income, time, and abilities.	To save money, I'm going to cancel my cable TV subscription, gym membership, and dine out less. I plan to improve my income by Rs.10,000 in a year.
5.	Time-based	Finally, you should set a deadline for when you intend to attain your objectives.	In 3 years, I want to get a new car. I will be able to accumulate 3 Lakhs to buy a new car.

1. PLANNING RESOURCES FOR REACHING FINANCIAL GOALS

Savings are the prime source of reaching financial goals. However, more savings in the bank won't be enough. Savings should be channelized to various avenues of investment in order to achieve majority of the financial goals. To meet your various financial goals, we can invest in mutual funds, stocks, gold, land and other assets. In reality, risk and returns are closely connected; the higher the returns, the greater the risk, and vice versa.

2. REVIEW AND PRIORITIZE

It's critical to examine the budget on a frequent basis to ensure that you're track. Remember that the budget should work for you, not against you. Prioritizing your financial goals can mean the difference between not paying off debt and getting rid of it forever. It can mean the difference between paying off your mortgage or keeping it around forever.

STEPS IN THE FINANCIAL PLANNING

The financial planning process is highly personalized. All psychological and financial aspects that may have an impact on your financial goals and objectives should be included in financial planning. Personal financial planning is a long-term strategy for your financial future that takes into account every aspect of your financial situation and how each influences your capacity to reach your goals and objectives. Financial planning has six separate steps.

STEPS IN FINANCIAL PLANNING

- **Examine your current financial situation:**
  Determine the present financial situation, including your income, expenses, debt, savings, investments, risk attitude, and tolerance capacity. This is the first step in financial planning because it provides you with a good understanding of the condition of your finances and opportunities for improvement.
- **Develop your financial goals:**
  Determine the various financial goals you intend to achieve in your life. Don't be afraid to write down any goal because there is no such thing as a small or big goal. Make sure the goals are clear. The established financial goals should be practical in nature and feasible within the time limit set for each of the goals. It delivers satisfaction and acts as a motivator. It serves as a financial planning directing function.

- **Identify financial gaps:**
  A simple formula can help you figure out how much money you'll need. This is critical since quantifying the income from your investments is required to determine the best investments to offset the shortfall.
- **Draft financial plan:**
  Following goal formulation, plans are developed in such a way that the goals can be met as soon as possible. The financial plan outlines how to attain specific financial goals. Whether to cut needless expenses or allocate savings to various investment avenues. Examine various investment choices such as equities, mutual funds, debt instruments such as PPF, bonds, fixed deposits, gilt funds, and so on, and determine which instrument or mix of instruments best meets your needs. The time span for your investment must match the time frame for your goals.
- **Implement your financial plan:**
  A financial plan is carried out in accordance with the goals established. The plan should be carried out in a systematic and consistent manner. The best investment option based on characteristics such as your goals, age, risk tolerance, and investment amount. Insurance, retirement planning, estate planning, and taxation should all be included in the financial plan. Above all, begin investing and stick to your plan.
- **Periodically review your plan:**
  The execution of a financial plan, the plans should be regularly checked and evaluated against the intended goals to ensure successful financial planning. A successful plan requires considerable dedication and regular assessment (once in six months, or at a major event such as birth, death, inheritance). Based on the performance of your investments, you should be prepared to make small or big changes to your present financial position, goals, and investment time frame.

Thus, Personal Financial Planning is the process of accomplishing life goals through smart financial management. It could be buying a home, saving for higher education, or other ambitious goals set to enjoy a higher standard of living. It is not limited to a specific class, but such behaviour should be adopted by all individuals in order to optimize savings.

IMPORTANCE AND NEED FOR FINANCIAL PLANNING

Financial planning is a systematic strategy to maximizing one's existing financial resources through sound financial planning in order to attain one's financial goals and objectives.

1. Income Management

A set plan can help you manage your income more successfully. This might be as simple as making a budget for planning and monitoring that will assist you in prioritizing spending, identifying wasteful expenditures, adapting quickly as the financial situation changes, and achieving your financial objectives.

2. Wealth creation

The term "wealth creation" refers to the process of accumulating money through investments in a various of ways. You obtain larger returns when you invest in financial products for a long time. As a result, it is an important component of your financial journey in order to fulfil all of your long-term financial goals, such as buying your dream home, funding your child's education, and so on.

3. Retirement planning

Retirement planning involves ensuring a continuous flow of income after retirement. It means putting money away and investing it particularly for that purpose. Your retirement plan will be determined by your long-term objectives, income, and age. You must begin establish a financial plan now if you want to live a happy and comfortable retirement life.

4. Family Security

Financial planning helps to provide peace of mind for you and your family if you have the suitable insurance policy, have invested and save properly.

5. Managing Debts

A financial plan becomes even more important in order to avoid a financial disaster. You will be able to focus on other financial goals once you have paid off your debts. Because a financial plan allows you to track your money it also helps to prioritize your expenses so that you can pay off your debt.

6. Choosing appropriate Investment Avenue

Investing in multiple products is one of the best financial planning ideas for asset allocation. It will assist the individual in achieving his financial objectives while minimizing risk. During times of market volatility, the financial plan will devise a strategy to protect you.

7. Insurance Planning

An appropriate insurance cover proves to be a blessing in the event of a family member's unfortunate death or a health emergency. Your family member will be able to pay off the remaining bills and keep a good standard of living if you have the right life insurance coverage. A health insurance coverage, on the other hand, assures that you can provide necessary treatment to your loved one in the event of an accident or medical emergency.

8. Sound Financial Decision Making

Finding assets that aren't profitable is an important part of financial planning. It's possible that the stock has little prospect of increasing in value. You should ge rid of any assets that are under stress. In other circumstances, consumers end up purchasing multiple insurance plans, none of which are beneficial to the policyholder. It is merely filling up the pockets of the insurance agents. As a result you must exercise caution when choosing a life insurance policy or other investment Plans.

9. Improved Standard of Living

Another benefit of financial planning is that it might assist you in raising your living standards. The more you plan for your finances, the more money you'll save. This means that more money will be conserved instead of going to unanticipated expenses. Higher savings can help you cope with difficult situations when you're facing financial difficulties.

10. Saving tax

Some people end up paying a significant amount of tax each year. However, you can now legally reduce your tax liability. The Indian Income Tax Act contains a number of measures that allow persons to lower their tax liability. You can determine the best ways to invest your money and lower your taxable income by preparing your taxes ahead of time. Mutual funds are a tax-efficient way to invest for your long-term goals. Thus, financial planning helps reduce tax liability.

LIFE GOALS OF AN INDIVIDUAL

Life goals vary from person to person, but some common ones include:

- **Career Success:** Achieving success and satisfaction in one's chosen career or profession.
- **Financial Security:** Building wealth, saving for retirement, and achieving financial stability.
- **Personal Growth:** Continuously learning, improving skills, and becoming a better version of oneself.
- **Health and Wellness:** Maintaining physical and mental health through exercise, a balanced diet, and stress management.
- **Family and Relationships:** Building meaningful connections with family and friends, and perhaps starting a family of one's own.
- **Travel and Adventure:** Exploring new places and having unique experiences.
- **Education:** Pursuing higher education or acquiring new knowledge in a specific field.
- **Community Involvement:** Giving back to the community through volunteer work or philanthropy.
- **Creativity and Hobbies:** Pursuing creative outlets and hobbies that bring joy and fulfillment.
- **Personal Happiness:** Finding happiness and contentment in life, whatever that may mean to the individual.

These goals can change over time and may overlap or evolve as individuals grow and experience different stages of life.

FINANCIAL GOALS OF AN INDIVIDUAL

Financial goals are important for achieving financial stability and fulfilling one's long-term aspirations. Here are some common financial goals individuals might set:

- **Emergency Fund:** Building an emergency fund with enough savings to cover 3-6 months' worth of living expenses in case of unexpected financial setbacks.
- **Debt Repayment:** Paying off high-interest debts such as credit card balances, loans, or mortgages.
- **Savings for Retirement:** Saving for retirement through retirement accounts or pension plans to ensure a comfortable retirement.
- **Homeownership:** Saving for a down payment to purchase a home or paying off a mortgage to become a homeowner.
- **Investment Goals:** Building an investment portfolio to grow wealth over time, whether for short-term or long-term financial objectives.
- **Children's Education:** Saving for children's education expenses, such as college tuition or vocational training.
- **Travel or Lifestyle:** Setting aside funds for travel, a specific lifestyle, or luxury purchases.

- **Financial Independence/Early Retirement (FIRE):** Pursuing a strategy to achieve financial independence and potentially retire early.
- **Charitable Giving:** Allocating a portion of income to charitable donations or philanthropic causes.
- **Tax Planning:** Reducing tax liabilities through strategies like tax-advantaged accounts and deductions.
- **Insurance Coverage:** Ensuring adequate insurance coverage for health, life, disability, and property to protect against unexpected events.
- **Estate Planning:** Planning for the distribution of assets and minimizing estate taxes for the benefit of heirs.
- **Regular Budgeting:** Creating and sticking to a budget to manage day-to-day expenses efficiently.

It's important for individuals to define specific, measurable, and achievable financial goals based on their unique circumstances and priorities. Regularly reviewing and adjusting these goals as circumstances change is also crucial for financial success.

PERSONAL FINANCIAL PLANNING

Financial planning is the process of meeting your life goals through the proper management of your finances. Life goals can include buying a home, saving for your child's education, or planning for retirement.

Personal financial planning is the process of managing your money to achieve personal economic satisfaction. This planning process allows you to control your financial situation. Every person, family, or household has a unique financial position, and any financial activity therefore must also be carefully planned to meet specific needs and goals.

Personal Financial Planning also refers to short- and long-term financial planning by somebody, either independently or with the assistance of a professional adviser.

MEANING OF PERSONAL FINANCIAL PLANNING

Financial planning is the process of developing a personal roadmap for your financial wellbeing. The inputs to the financial planning process are:

(a) your finances, i.e., your income, assets, and liabilities.
(b) your goals, i.e., your current and future financial needs and
(c) your appetite for risk.

The output of the financial planning process is a personal financial plan that tells you how to use your money to achieve your goals, keeping in mind inflation, real returns, and taxes. In short, financial planning is the process of systematically planning your finances towards achieving your short-term and long-term life goals.

SAMPLE FINANCIAL PLAN FOR A YOUNG ADULT

Name: Miss/Mr. _ _ _ _ _ _ _ _ _ _ _ _ (Age 19 Years)

Goals	Goal Type	Name	Target Date	Amount in Rs.	Action plan required
Education (M.COM)	Short Term	Self	2023	3 Lakhs	Financing my fees partly from my parents funds and partly by taking loan.
Car	Medium Term	Self	2027	10 Lakhs	By 2024 it is expected that I will start earning money. So I can save Rs. 1 lakh every year and I will make down payment to buy a car.
Vacation	Medium Term	Parents	2028	1 lakh	Also keeping in mind this goal i can make suitable investments like equity and mutual funds to earn sufficient returns to fund the vacation for my parents.

TIME VALUE OF MONEY

The concept of time value of money is based on the principle that 'a rupee today is more valuable that a rupee receivable in future. This means money available at the present time is worth more than the same amount in the future due to its potential earning capacity. This happens because money received in future involves risk and uncertainty and money available at present provides investment opportunities as it can earn interest; therefore any amount of money is worth more the sooner it is received.

IMPORTANCE OF TIME VALUE OF MONEY

Money today is worth more than money in the future. This is called the time value of money. There are three reasons for the time value of money: inflation, risk and liquidity

CALCULATION OF TIME VALUE OF MONEY

To calculate the time value of money following are the required terms:

- **Present Value:** This is the sum of money you have today.
- **Future Value:** This is the sum of money you will have at some later time.
- **Discount rate** is the percentage rate that is used to determine the present value of the future amount. It can often be approximated at the interest rate.

Formula: Present Value = Future Value / (1+ Discount Rate)

MEANING AND NEED OF TIME VALUE OF MONEY

The time value of money refers to the concept that a dollar received or paid in the future is worth less than a dollar received or paid today. In other words, it recognizes that money has a time-related value due to its potential to earn interest or returns over time.

The need for understanding the time value of money arises from several factors:

- **Opportunity cost:** By choosing to invest or spend money today, you forgo the opportunity to invest or spend it elsewhere. The time value of money helps in evaluating the potential return or benefits of different investment or spending choices.
- **Inflation:** Inflation erodes the purchasing power of money over time. By accounting for the time value of money, you can assess the impact of inflation and make informed financial decisions that preserve or grow your wealth.
- **Risk and uncertainty:** Future cash flows are uncertain, and there is always a level of risk associated with them. The time value of money helps incorporate this risk and uncertainty into financial calculations, such as determining the present value of future cash flows or evaluating the profitability of an investment.
- **Discounting and compounding:** The time value of money allows for the calculation of present value and future value. Present value is the current worth of a future cash flow, while future value is the value of an investment or sum of money at a future point in time, considering compounding returns.
- **Financial planning:** Understanding the time value of money is essential for various financial planning activities, such as retirement planning, budgeting, loan repayments, and investment strategies. It helps individuals and businesses make more informed decisions about saving, investing, and borrowing money.

In summary, the time value of money is a fundamental concept in finance that recognizes the importance of considering the potential growth or decline of money over time. By accounting for this concept, individuals and businesses can make better financial decisions and effectively manage their resources.

CONCEPTS OF COMPOUNDING - SIMPLE AND COMPOUND INTEREST AND DISCOUNTING

Compounding, simple interest, compound interest, and discounting are fundamental financial concepts:

Simple Interest: Simple interest is calculated on the initial principal amount over a defined period. It doesn't take into account interest on previously earned interest. The formula is:

Simple Interest (SI) = Principal (P) × Rate (R) × Time (T) / 100

Compound Interest: Compound interest considers interest on both the initial principal and any previously earned interest. It's typically calculated more frequently (e.g., annually, quarterly, or daily) than simple interest. The formula is:

Future Value (FV) = P(1 + r/n)^(nt)

Where:

P = Principal amount

r = Annual interest rate (decimal)

n = Number of times interest is compounded per year

t = Time in years

Discounting: Discounting is the process of finding the present value (PV) of a future sum of money. It's the reverse of compounding. The formula for discounting is:

Present Value (PV) = Future Value (FV) / (1 + r)^t

Where:

FV = Future value

r = Discount rate (interest rate)

t = Time in years

These concepts are essential in finance to understand the time value of money, investment decisions, loans, and savings. Simple interest is straightforward but less common in practice, while compound interest and discounting play significant roles in various financial calculations.

PRESENT VALUE OF SINGLE CASH INFLOW

SERIES OF CASH INFLOW,ANNUITY,PERPETUITY

The present value (PV) is a financial concept used to determine the current worth of future cash flows, accounting for the time value of money. Here's how it applies to different types of cash flows:

Single Cash Inflow (Lump Sum):

The present value of a single cash inflow is calculated using the formula:

PV = FV / (1 + r)^n

Where:

PV = Present Value

FV = Future Value

r = Discount rate (interest rate)

n = Number of periods (years)

Series of Cash Inflows:

The present value of a series of cash inflows, also known as a stream of cash flows, is calculated by finding the present value of each individual cash flow and then summing them up. The formula for each cash flow is the same as for a single cash inflow.

Annuity:

An annuity is a series of equal periodic cash flows that occur at regular intervals, such as monthly or annually. The present value of an annuity can be calculated using the formula for the present value of an ordinary annuity:

PV = PMT × [(1 - (1 + r)^-n) / r]

Where:

PV = Present Value

PMT = Payment amount per period

r = Discount rate (interest rate)

n = Number of periods (years)

Perpetuity:

A perpetuity is an infinite series of cash flows that continue indefinitely. The present value of a perpetuity can be calculated using the formula:

PV = PMT / r

Where:

PV = Present Value

PMT = Payment amount per period

r = Discount rate (interest rate)

These formulas are essential in finance for evaluating investment opportunities, determining the value of cash flows, and making financial decisions based on the time value of money.

PRESENT VALUE CALCULATION:

1) To have 2000 today, you would have needed to invest some money a year ago. Your future value is now 2000, and you would use the discount rate of 7% . Calculate present Value

   Sol: Present Value = 2000 / 1.07 = Rs. 1869.16/-

FUTURE VALUE CALCULATION:

1) Mr Gupta deposits 2,000 at the end of every year for 45 years in his saving account, paying 5% interest compounded annually. Determine the sum of money, he will have at the end of the 5 year.

Sol:

End of Year	Amount Deposited	No. of Years Compounded	Compounded Interest Factor From Table 3	Future Sum of Money
1	2000	4	$(1+ 5/100)^4 = 1.216$	2000*1.216 = 2432
2	2000	3	$(1+ 5/100)^3 = 1.158$	2000*1.158 = 2316
3	2000	2	$(1+ 5/100)^2 = 1.103$	2000*1.103 = 2206
4	2000	1	$(1+ 5/100)^1 = 1.050$	2000*1.050 = 2100
5	2000	0	$(1+ 5/100)^0 = 1.000$	2000*1 = 2000

Amount at the end of 5th year = 2432+2316+2206+2100+2000 = Rs. 11054/-

2) What is the compound interest (CI) on Rs.10,000 for 2 Years at 10% p.a compounded annually ?

Sol: Formula : $A = P [1 + (R/100)]^N$

$$=10,000 [1 + (10/100)]^2 = 10,000 *1.21 = \text{Rs. } 12,100/-$$

Compound Interest = 12,100 – 10,000 = Rs. 2,100/-

VALUATION OF SECURITIES

Valuation of securities refers to the process of determining the intrinsic or market value of financial assets such as stocks, bonds, or other investment instruments. It is a crucial aspect of financial analysis and investment decision-making. Here's why it's necessary:

NEED FOR VALUATION OF SECURITIES

- **Investment Decision-Making:** Investors use security valuation to assess whether a particular security is worth investing in. It helps them compare different investment options and make informed decisions.
- **Risk Assessment:** Valuation helps investors evaluate the risk associated with a security. A higher valuation might indicate higher risk, while a lower valuation might suggest a safer investment.
- **Portfolio Management:** Investors and fund managers use security valuations to build and manage investment portfolios. Balancing different assets based on their valuations can help optimize returns while managing risk.

- **Fair Pricing:** For fair and efficient financial markets, securities should be priced accurately. Valuation ensures that securities are traded at prices that reflect their true worth, reducing the likelihood of market bubbles or crashes.
- **Corporate Finance:** Companies need to value their own securities when making financial decisions, such as issuing new shares or bonds, conducting mergers and acquisitions, or assessing the performance of their existing investments.
- **Regulatory Compliance:** Many regulatory authorities require companies to provide fair and accurate valuations of their securities for reporting purposes. This ensures transparency and protects investors.
- **Taxation and Accounting:** Valuation affects tax calculations and financial reporting. Companies need accurate valuations to calculate taxes on capital gains, and investors use valuations for tax planning.

In essence, valuation of securities is essential for making sound investment choices, managing risk, and maintaining the integrity and efficiency of financial markets. It provides a basis for determining whether a security is overvalued, undervalued, or fairly priced in relation to its expected future cash flows, earnings, or market conditions.

VALUATION OF FIXED INCOME SECURITIES-DEBENTURES AND PREFERENCE SHARES

Valuation of fixed income securities like debentures and preference shares involves assessing their worth based on their future cash flows, coupon payments, and other factors. Here's how each is typically valued:

VALUATION OF DEBENTURES:

Discounted Cash Flow (DCF) Method: This method calculates the present value of all future cash flows expected from the debenture. This includes both periodic interest payments and the principal repayment at maturity. The discount rate used is typically the required rate of return for the investor, which factors in the risk associated with the debenture.

Yield to Maturity (YTM): YTM represents the expected total return an investor would receive if they hold the debenture until maturity. It takes into account the current market price, coupon payments, and the face value of the debenture. YTM is the discount rate at which the present value of future cash flows equals the market price.

Market Price: The market price of a debenture can also be used as its valuation. This is the price at which the debenture is currently trading in the market, and it reflects the collective opinion of investors regarding its value.

VALUATION OF PREFERENCE SHARES:

Dividend Discount Model (DDM): Preference shares typically pay fixed dividends. The DDM calculates the present value of these expected future dividend payments. The discount rate used is the required rate of return for the investor, which accounts for the risk associated with the preference shares.

Yield on Preference Shares: Similar to YTM for bonds, this represents the expected annual return an investor would receive from holding preference shares. It takes into account the current market price and the annual dividend payments.

Market Price: As with debentures, the market price of preference shares reflects their current value based on supply and demand in the market.

In both cases, the key factors in valuation are the expected cash flows (interest or dividend payments) and the appropriate discount rate. The choice of discount rate depends on the perceived risk of the investment. Higher-risk securities will have higher discount rates, resulting in lower valuations, while lower-risk securities will have lower discount rates and higher valuations. Additionally, market conditions and investor sentiment also play a role in determining the market price, which may differ from the calculated intrinsic value.

VALUATION OF SECURITIES-VALUATION OF EQUITY SHARES,DIVIDEND CAPITALIZATION APPROACH

Valuation of equity shares, using the Dividend Capitalization Approach, is a common method to estimate the intrinsic value of a company's stock based on its expected future dividends.

Estimate Future Dividends: Begin by estimating the company's future dividend payments. These estimates can be based on historical dividend patterns, earnings projections, or other factors. It's important to consider factors like growth rates and sustainability of dividends.

Determine the Required Rate of Return (Discount Rate): Determine the rate of return that an investor would expect from the company's equity shares. This rate is often referred to as the required rate of return or the discount rate. It reflects the risk associated with the investment and may be influenced by factors like interest rates, market risk, and the company's specific risk.

Apply the Dividend Discount Model (DDM): The Dividend Capitalization Approach uses the Dividend Discount Model (DDM) to calculate the present value of future dividend payments. The formula for this model is:

Intrinsic Value (IV) = D1 / r - g

IV: Intrinsic Value of the equity shares.

D1: Expected dividend in the next period.

r: Required rate of return (discount rate).

g: Expected constant growth rate of dividends (if applicable).

If the company's dividends are expected to grow at a constant rate (g), you can use the Gordon Growth Model, a specific form of the DDM, where:

IV = D0 * (1+g) / r-g

D0: Current dividend.

Calculate Intrinsic Value: Plug the estimated future dividends, discount rate, and growth rate (if applicable) into the DDM formula to calculate the intrinsic value of the equity shares.

Compare Intrinsic Value to Market Price: Finally, compare the calculated intrinsic value to the current market price of the equity shares. If the intrinsic value is higher than the market price, the shares may be undervalued and potentially a good investment. Conversely, if the intrinsic value is lower than the market price, the shares may be overvalued.

It's important to note that the accuracy of this valuation method depends on the accuracy of the dividend and growth rate estimates and the appropriateness of the chosen discount rate. Additionally, this approach assumes that dividends will continue into perpetuity, which may not always be the case for some companies, especially those that reinvest earnings for growth instead of paying dividends.

Valuation of equity shares, dividend capitalization approach,earning capitalization approach

Valuation of equity shares can also be done using the Earnings Capitalization Approach, which is an alternative to the Dividend Capitalization Approach.

1. Dividend Capitalization Approach:

This approach values equity shares based on their expected future dividend payments. It assumes that dividends are the primary source of returns to shareholders.

The formula for this approach is:

Intrinsic Value (IV) = D1/r-g

IV: Intrinsic Value of the equity shares.

D1: Expected dividend in the next period.

r: Required rate of return (discount rate).

g: Expected constant growth rate of dividends (if applicable).

2. Earnings Capitalization Approach:

This approach values equity shares based on the company's expected future earnings rather than dividends. It is especially useful for companies that reinvest a significant portion of their earnings into the business rather than paying dividends.

The formula for this approach is:

Intrinsic Value (IV) = E1 / r

IV: Intrinsic Value of the equity shares.

E1: Expected earnings in the next period.

r: Required rate of return (discount rate).

Key Differences:

Source of Value: The Dividend Capitalization Approach focuses on the value created through dividends, while the Earnings Capitalization Approach focuses on the value created through earnings.

Assumption about Dividends: The Dividend Capitalization Approach assumes a direct relationship between dividends and share value, while the Earnings Capitalization Approach doesn't rely on dividends and is more applicable to companies that reinvest their earnings.

Growth Rate: In the Dividend Capitalization Approach, the growth rate (g) is a critical factor, as it determines the expected growth in dividends. In contrast, the Earnings Capitalization Approach doesn't explicitly include a growth rate; it assumes that earnings will remain constant.

Applicability: The choice between these approaches depends on the company's dividend policy and investor expectations. If a company consistently pays dividends, the Dividend Capitalization Approach might be more appropriate. If a company retains earnings for growth or if investors are more concerned with earnings than dividends, the Earnings Capitalization Approach may be preferred.

Both methods aim to estimate the intrinsic value of equity shares, but the choice between them depends on the specific circumstances and characteristics of the company being valued. Additionally, it's crucial to use reasonable and well-supported assumptions for earnings or dividend growth and the discount rate when applying these valuation approaches.

CHAPTER 02
INVESTMENT AVENUES

INTRODUCTION TO INVESTMENT

INVESTMENT

Meaning and Definition

Investment is an activity that is engaged in by people who have savings. Investment as a generic idea means sacrificing something today in order to generate benefit in future. But as an economic activity investment involves creation of assets or exchange of assets with profit motive.
Thus, investment may be defined as **'a commitment of funds made in the expectation of some positive rate of return '** since the return is expected to realize in future, there is a possibility that the return actually realized is lower than the return expected to be realized. This possibility of variation in the actual return from the expected return is known as investment risk. Thus, every investment involves return and risk.

Aming defines investment as 'purchase of financial assets that produces a yield that is proportionate to the risk assumed over some future investment period'.

According to **Sharpe**, 'Investment is sacrifice of certain present value for some uncertain future value'.

NEED FOR INVESTMENT

- **Wealth Accumulation:** Investment offers the potential to grow your wealth over time, helping you achieve long-term financial goals.
- **Inflation Protection:** Investing helps offset the impact of inflation by generating returns that outpace the rising cost of living.
- **Financial Goals:** Investments can be tailored to specific financial goals, such as buying a home, funding education, or retirement planning.
- **Risk Diversification:** Diversifying investments across different asset classes can reduce risk by spreading exposure.

- **Income Generation:** Some investments, like dividend stocks or bonds, provide regular income in the form of dividends or interest.

ESSENTIALS OF INVESTMENT

- **Clear Objectives:** Define your investment goals, such as capital appreciation, income generation, or wealth preservation, before investing.
- **Risk Tolerance:** Assess your risk tolerance, as different investments carry varying levels of risk, and choose assets that align with your risk tolerance.
- **Diversification:** Spread investments across different asset classes to reduce risk. Diversification can include stocks, bonds, real estate, and more.
- **Research:** Conduct thorough research on potential investments, including financial analysis and market trends.
- **Time Horizon:** Consider your investment time horizon; long-term investments may involve higher risk but potentially higher returns.
- **Monitoring and Review:** Regularly review and adjust your investment portfolio to align with your goals and changing market conditions.
- **Professional Advice:** If needed, seek advice from financial advisors or professionals to make informed investment decisions.

In summary, investment is a crucial financial activity that helps individuals and entities build wealth, protect against inflation, and achieve financial goals. To be successful, it's important to have clear objectives, manage risk, diversify your portfolio, conduct research, and stay informed about your investments.

KEY FACTORS OF INVESTMENT

Investing can be a rewarding activity which can help to meet our financial goals; however, investing can be complex and often comes with risks. With appropriate knowledge, one can choose the level of complexity and risk that are comfortable with Every Investors must know at least three key factors about every investment, which are return, risk and liquidity.

1. Return
Return is the profit that an investor makes on an investment. It can come in two different forms; income or capital gain.

2. Risk
Risk means uncertainty. We are not sure whether our investment will give high returns or could also lose money. Risk and return both go hand-in-hand which means that to get higher return on our investments we will be exposed to more risk. Higher the risk higher the returns. Lower the risk low returns.

3. Liquidity
Liquidity is the ability to cash in or sell an investment quickly at or near the current market price means how quickly we can convert our investment into cash. It affects the value of an investment. Listed stocks and government bonds are liquid because we can usually sell them easily.

4. Safety

Safety refers to the protection of investor principal amount and expected rate of return.

INVESTMENT GOALS / OBJECTIVES

Investment goals depend on which life stage we are in (student, employee, retired, etc.). Investment goals will be different from those of other people, and the goals will change as we go through our life.

While the individual objectives of investment may vary from one investor to another, the overall goals of investing money may be any one of the following reasons.

1. To Keep Money Safe:

Capital preservation is one of the primary objectives of investment for people. Some investments help keep hard-earned money safe from being eroded with time. Fixed deposits, government bonds, and even an ordinary savings account can help keep our money safe.

2. To Help Money Grow:

Another one of the common objectives of investing money is to ensure that it grows into a sizable corpus over time. Capital appreciation is generally a long-term goal that helps people secure their financial future. To make the earned money grow into wealth, we need to consider investment objectives and options that offer a significant return on the initial amount invested.

3. To Earn a Steady Stream of Income:

Investments can also help to earn a steady source of secondary (or primary) Income. Examples of such investments include fixed deposits that pay out regular interest or stocks of companies that pay investors dividends consistently. Income-generating investments can help to pay for our everyday expenses after we have retired.

4. To Minimize the Burden of Tax:

Aside from capital growth or preservation, investors also have other compelling objectives for investment. This motivation comes in the form of tax benefits offered by the Income Tax Act, 1961. Investing in options such as Unit Linked Insurance Plans (ULIPS), Public Provident Fund (PPF), and Equity Linked Savings Schemes (ELSS) can be deducted from total income. This has the effect of reducing total taxable income, thereby bringing down tax liability.

5. To Save up for Retirement:

Saving up for retirement is a necessity. It is essential to have a retirement fund that can fall back on our golden years, because we may not be able to continue working forever. By investing the money earned during our working years in the right investment options, we can allow our funds to grow enough to sustain after retired.

6. To Meet our Financial Goals:

Investing can also help to achieve short- term and long-term financial goals without too much stress or trouble. Some investment options, for instance, come with short lock-in periods and high liquidity. These investments are ideal instruments to park our funds in if we wish to save up for short-term targets like funding home improvements or creating an emergency fund.

DIFFERENCES BETWEEN INVESTMENT AND SPECULATION

Speculation means taking up the business risk with the hope of getting short term gain. Speculation essentially involves buying and selling activities with the expectation of getting profit from the price fluctuations.

The following points will differentiate between investment and speculation:

Basis of comparison	Investment	Speculation
Planning	Investments are carefully thought-out decisions which involve calculated risk	Whereas speculation on the other hand is based on rumours, hearsay, tips etc.
Time Horizon	An investor has a relatively longer time horizon.	An Speculator has a relatively short time horizon.
Risk	An investor is generally risk averse.	Whereas a speculator is generally risk prone.
Consistency of returns	An investors expected return is consistent with underlying risk of the investment. The returns are moderate.	Whereas risk assumed by speculator and his anticipated return is disproportionate. The returns are high.
Leverage	An investor generally uses his own funds eschews borrowing	Whereas a speculator normally goes for borrowed funds.
Volume of trades	The volume of a trade of an investor is generally smaller.	The volume of a trade of a speculator is generally larger.

Basis for decision	Careful evaluation of the prospects of the firm is the bais for decision making.	Hearsay, technical charts, market psychology are the basis for decision making.

FACTORS INFLUENCING INVESTMENT DECISION

Here are a few vital points one must keep in mind before you decide to invest.

1. **Analyzing the Financial Needs**
   Firstly, analyze the financial situation concerning risk tolerance, investment bjectives and other factors like family size, number of earning members and life goals. You may even take help from a financial professional. It will help you to identify the suitable options.
2. **Investment Diversification**
   It is a way to according to your investment objectives by putting your funds in different instruments reduce risk when you are making investments. Build a diversified financial portfolio for maintaining the right balance between risk and returns. Also, when thinking about 'investment' and 'where to invest, consider giving priority to those instruments that offer security to your loved ones. It may include life insurance policies like term plan, ULIP (ULIP full form: Unit Linked Insurance Pla and other such instruments. You may consider the objectives for investment to gener appropriate returns from it.
3. **Time Period**
   You should also know that it is difficult to answer what is investment meaning for a particular individual without considering the time period. That is why, while considering what investment is, know what time you have before turning your investments into cash. This is a crucial element that determines your investment objectives. Depending on your requirements, you may choose short-term or long term funds.
4. **Periodical Reassessment**
   Since funds are influenced by market forces, it is imperative that you closely monitor them periodically. You may also consider readjustment if your portfolio is ma generating good returns.
5. **Risk profile**
   A risk profile is important for determining a proper investment asset allocation for a portfolio. Every single person has a different risk profile as the risk appetite depends on psychological factors, loss bearing capacity, Investor's age, income & expenses and many such other things.A risk profile s an evaluation of an individual's willingness and ability to take risks.

DIVERSIFICATION

It is a technique that reduces risk by allocating investments across various financial instruments, industries and other categories. It aims to minimize losses by investing in different areas that would each react differently to the same event.

NEED FOR SUCCESSFUL DIVERSIFICATION

1. **Understand risk appetite:** Depending on the investor, risk appetite can range from high to low. An investor's risk appetite varies according to several factors, including their income, age, lifestyle, and dependents.
2. **Make an active asset allocation:** Strategic asset allocation is the key to a successful portfolio. To allocate your assets in a well-diversified portfolio, the investor must carefully examine their finances.
3. **Avoid over-diversification:** Diversification is no different. The benefits of portfolio diversification are numerous; however, over diversification can reduce overall returns.

Investing in too many assets can make it difficult to monitor, as well as to know when to exit when necessary.

4. **Research before investing:** Successful investors conduct proper research and gain knowledge about the stock or company before investing. This may include company history, past performance, market reputation, future objectives, etc. If a company has a longstanding track record, its returns are more likely to be stable.
5. **Know when to exit:** In the same way that research is crucial before investing, it is crucial to do the same post-investment. In this way, the investor will know whether to hold or sell a specific stock. Thus, it gives insight into the potential of the stock.
6. **Avoid temptations:** It is important to understand that these volatile instruments fall as rapidly as they rise. Moreover, some popular instruments, while appearing glittery from the outside, can be fraudulent.
7. **Invest in instruments with different liquidity terms:** When investing, it is important to consider the possibility of needing emergency funds if an unfortunate event occurs. Investing in a money market instrument with a maturity of around 3 months can be an example of the same. In addition, they carry low risk.

INVESTMENT AVENUES FOR A COMMON INVESTOR

BANKING IN INDIA

A bank is a type of financial institution that is licensed to accept deposits and provide loans. Financial services such as wealth management, currency exchange, and safe deposit boxes may be offered by banks.

Banking Company: The Banking Regulation Act, 1949 defines "a banking company as a company which transacts the business of banking in India (Section 5 (C)".

Banking: Section 5(b) defines banking "as accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdraw able by cheque, draft, order or otherwise".

The term bank is derived from the French word "BANCO" which means a Bench or Money exchange table.

FUNCTIONS OF BANKS

- **Acceptance of Deposit:** A bank accepts money from the people in the form of deposits which are usually repayable on demand or after the expiry of a fixed period. It gives safety to the deposits of its customers. It also acts as a custodian of funds of its customers.

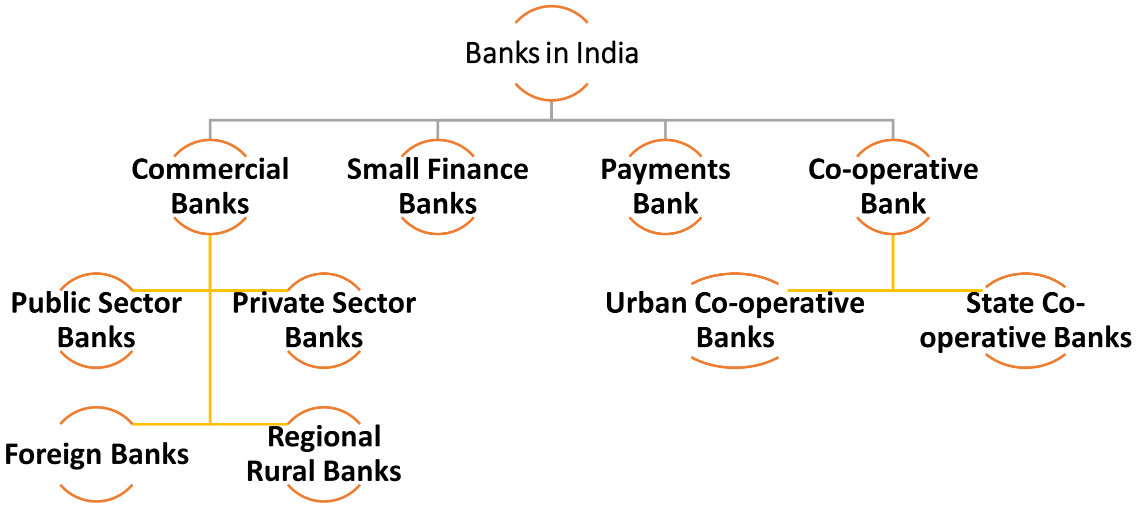
- **Giving Advances/Loans:** A bank lends out money in the form of loans to those who require it for different purposes. These loans can be in the form of retail loans (loans given to individuals) or corporate loans (loans given to businesses).
- **Payment and Withdrawal:** A bank provides easy payment and withdrawal facility to its customers in the form of cheques, drafts, debit cards, Automated Teller Machines (ATMs), etc. It also brings bank money in circulation. The new age banking focusses on providing payment services using mobile technology to enable faster transfers, using Unified Payment Interface (UPI), etc.
- **Ever increasing Functions including agency and utility services:** Banking is an evolutionary concept. There is continuous expansion and diversification as regards the functions, services and activities of a bank, which includes wealth portfolio management services, utility services, agency services, insurance/mutual fund advisory services, etc.

NEED FOR BANKING

A sound banking system is necessary to achieve the following objectives:

- **Savings and Capital Formation:** Banks play a vital role in mobilizing the savings of the people and promoting the capital formation for the economic development of a country.
- **Channelization of Savings:** The mobilized savings are allocated by the banks for the development of various fields such as agriculture, industry, communication, transport, etc.
- **Implementation of Monetary Policy:** A structured banking system can easily implement the monetary policy because development of the economy depends upon the control of credit given by the banks. So, banks are necessary for the effective implementation of monetary policies.
- **Encouragement of Industries:** Banks provide various types of financial services such as granting cash credit loans, issuing letter of credit, bill discounting, etc., which encourages the development of various industries in the country.
- **Regional Development:** By transferring surplus money from the developed regions to the less developed regions, banks reduce regional imbalances.
- **Development of Agriculture and Other Neglected Sectors:** Banks are necessary for the farmers. It also encourages the development of small-scale and cottage industries in rural areas.

TYPES OF BANKS IN INDIA



1. Commercial Banks:

A commercial bank is a financial institution which accepts deposits from the public and gives loans for the purposes of consumption and investment to make profit. Commercial banks are governed by the Banking Regulation Act of 1949, and their business model is profit oriented. Their primary function is to receive deposits and lending to individuals, businesses, and governments. Commercial banks have typically maintained physical locations, but a growing number now operate exclusively online. Commercial banks are vital to the economy because they provide the market with capital, credit, and liquidity. Commercial b can be divided into:

➢ **Public Sector Banks:**

These are the nationalized banks, which account for more than 75% of the country's overall banking industry. Public Sector Undertakings (Banks) are a major type of government owned banks in India, where a majority stake (i.e., more than 50%) is held by the Ministry of Finance of the Government of India or State Ministry of Finance of various State Governments of India. The main goals of public sector banks are to ensure accessibility of banking and financial services, to ensure regulatory compliance to promote the needs of the underprivileged and weaker sections of society to cater to the needs of agriculture and other priority sectors, and to prevent the concentration of wealth and economic power. The number of public sector bank has been reduced to 12 from 27.

➢ **Private Sector Banks:**

Private-sector banks are those in which private shareholders own the majority of the company rather than the government. Private promoters own, manage, and govern private sector banks, which are free to operate in accordance with market forces. Apart from the shareholding structure, both public sector and private sector banks offer the same set of services. To ensure their safety and smooth operation, entry hurdles and regulatory criteria such as the minimum net worth are normally in place. This assures the protection of public deposits entrusted to such organizations and they are also governed by rules provided from time to time by Reserve Bank of India. At present, there are 21 private banks in India, as on 2021.

- **Foreign Banks:**

A Foreign Bank is a financial institution that provides financial services to international consumers from outside of its native country. Foreign banks are registered and have their headquarters in another country, yet they have branches in India. These banks can operate of Finance through branches or wholly-owned subsidiaries, according to the RBI Most foreign banks' primary business in India has been in the corporate sector.

- **Regional Rural Banks:**

On October 2, 1975, the Indian government established Regional Rural Banks (RRBs). They were established to provide banking and financial services to remote communities and therefore operate in several states in India. These banks help small and marginal farmers in rural areas by providing finance. They help small and marginal farmers, agricultural labourers, artists, and small business owners get finance. Scheduled banks, often a nationalized commercial bank, sponsor RRBs.

2. Small Finance Bank:

Small financing banks were established with the goal of reaching out to the unbanked population in distant and underdeveloped locations. Small Finance Banks (SFBs) became public in India on September 16, 2015, when the Reserve Bank of India authorized the establishment of small financial institutions known as small finance banks in accordance with the Union Budget of 2014-2015. The goal of India's Small Finance Banks is to give financial inclusion to the less privileged sectors of the economy, who may be unable to access financial institutions. Small Finance Banks serve small and micro businesses, marginal and small farmers and the unorganized sector.

3. Payments Bank:

The Reserve Bank of India conceptualized Payments Banks as a new type of bank in India (RBI). These banks can accept a limited deposit, which is now capped at 200,000 per person but could be raised in the future. These banks are unable to provide loans or credit cards. Banks of this type can handle both current and savings accounts. Payments banks can provide online and mobile banking as well as ATM and debit cards. Bharti Airtel established Airtel Payments Bank, India's first payments bank.

Examples of Payments bank in India are as follows: Airtel Payments Bank Ltd, India Post Payments Bank Ltd, Paytm Payments Bank Ltd, Jio Payments Bank Ltd, NSDL Payments Bank Ltd.

4. Co-operative Banks:

Cooperative banks are governed by an elected managing committee and are governed by the Cooperative Societies Act of 1912. A cooperative bank is a voluntary that caters to its members' financial requirements on a mutual basis. They take deposits and lend money to their members in the form of mortgages and other sorts of loans. The Reserve Bank of India regulates and inspects these banks as well, but they are normally governed by a distinct statute that is more flexible and easier to comply with than central bank legislation. Cooperative banks are further divided into the following categories:

➢ **Urban Co-operative Banks:**

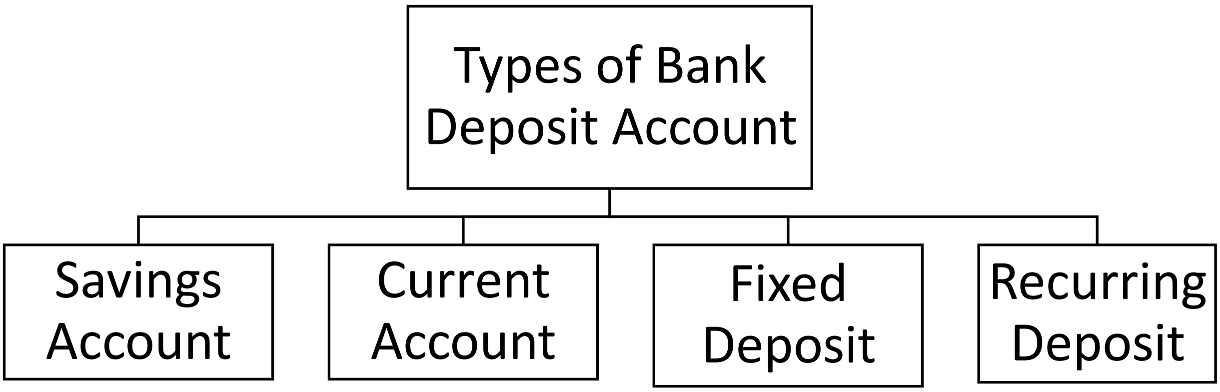
The primary cooperative banks in urban and semi-urban areas are referred to as urban co-operative banks. Small borrowers and enterprises oriented around towns, neighborhoods, and workplace groupings were primarily lent to by these banks.

➢ **State Co-operative Banks:**

The short-term cooperative credit framework includes state co-operative banks. State governments register and regulate these organizations under the relevant state co-operative societies acts. They are also under the authority of the RBI because they are subject to the rules of the Banking Regulation Act, 1949.

TYPES OF BANK DEPOSITS

A commercial bank's most significant activity is to collect deposits from the general public. People who have extra money and savings find it convenient to deposit it in a bank, Funds deposited with a bank receive interest depending on the nature of the deposit. Banks typically accept the following types of deposits:



I. SAVINGS ACCOUNT

Individuals who want to deposit small sums of money from their present income should open a savings account. It assists them in securing their future while also collecting income on their investments. A savings account can be opened with or without the ability to use a cheque book. Savings account customers can also deposit checks, draft, dividend warrants, and other instruments made in their favour with the bank for collection.

Types of Savings Accounts

a) Basic Savings Account:

A basic savings account is a simple account that can be open with a bank or financial institution. Its sole goal is to save your money in a safely manner. In exchange, you will receive interest on the amount you have deposited. The interest rate varies from one bank to another. Basic Savings Accounts often have a minimum balance requirement, and you must ensure that your account balance does not go below a certain level.

b) Instant Savings Account:

An Instant Savings Account is quite similar to a Basic Savings Account in many ways. The main distinction is that, regular savings account may need you to physically visit the bank to open it, an Instant Savings Account may be started fast online with only a few clicks. Only your Aadhaar details can be used to start an Instant Savings Account. It also has a variety of other benefits, including as app-based access to banking services 24 hours a day, seven days a week.

c) Zero Balance Savings Account:

A zero balance savings account is one in which account holders are not required to maintain any monthly average amount (AMB).

d) Family Savings Account:

Family Savings Accounts are accounts that allow all members of your family to manage their varied financial needs on a single platform. It has a numerous benefit over a conventional Individual Savings

Account, including lower minimum balance requirements, expanded banking privileges, and superior features such as Wealth Management and Private Banking.

II. CURRENT ACCOUNT

Current bank account is opened by businessmen who have a higher number of regular transactions with the bank. It includes deposits, withdrawals, and contra transactions. It is also known as Demand Deposit Account. The depositor can withdraw the balance of his or her current account at any time using cheques. Business organisations or businessmen are allowed to open current accounts. Current accounts do not pay interest because the money put in them is repayable without restriction on demand.

FEATURES OF A CURRENT ACCOUNT

- A current account requires a higher minimum balance than a savings account.
- Designed to make frequent transactions easier - such as transferring funds, receiving cheques & cash.
- Individuals, proprietary businesses, public and private companies, association, trusts, and so on can generally operate current accounts.
- The primary goal of current account is to foster business transactions.
- Current accounts charge interest on short-term cash borrowed from the bank by the account holder.

I. FIXED DEPOSIT

The word "fixed deposit" refers to a deposit that is repayable after a set duration of time. It is also known as a time deposit since it is repayable only after a set duration of time, which is chosen at the time the account is opened. Fixed deposits are the most beneficial to a banking institution. Because they are only repayable after a set period of time, the back can invest these funds more profitable by lending at higher interest rates and for longer periods.

II. RECURRING DEPOSIT

Recurring deposit (RD) are a type of account in which the depositor is required to deposit money at regular intervals such as monthly, quarterly, or weekly for a set duration of time. Most banks and NBFCs in India offer recurring deposit accounts with terms ranging from 6 months to 10 years. The interest rate typically fluctuates between 5.00 percent and 7.85 percent. After the prescribed period has expired, the customer receives all of his deposits, as well as the cumulative interest accrued on the deposit.

FD Vs. RD

Difference	Fixed Deposit	Recurring Deposit

Deposit Frequency	Only once	Periodically
Tenure	7 days to 10 years	6 months to 10 years
Interest Pay-out	Perodically or on maturity	On maturity along with the capital amount
Minimum deposit	Rs. 100	Rs. 1,000
Tax saving option	Available with 5 years maturity	Not available

DEPOSIT INSURANCE (PMJDY)

Pradhan Mantri Jan-Dhan Yojana (PMJDY) is National Mission for Financial Inclusion to ensure access to financial services, namely, a basic savings & deposit accounts, remittance, credit, insurance, pension in an affordable manner. Under the scheme, a basic savings bank deposit (BSBD) account can be opened in any bank branch or Business Correspondent (Bank Mitra) outlet, by persons not having any other account.

Benefits under PMJDY

- One basic savings bank account is opened for unbanked person.
- There is no requirement to maintain any minimum balance in PMJDY accounts.
- Interest is earned on the deposit in PMJDY accounts.
- Rupay Debit card is provided to PMJDY account holder.
- Accident Insurance Cover of 1 lakh (enhanced to 2 lakh to new PMJDY accounts opened after 28.8.2018) is available with RuPay card issued to the PMJDY account holders.
- An overdraft (OD) facility up to 10,000 to eligible account holders is available.
- PMJDY accounts are eligible for Direct Benefit Transfer (DBT), Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY), Atal Pension Yojana (APY), Micro Units Development & Refinance Agency Bank (MUDRA) scheme.

TRADITIONAL AND NEW BANKING MODELS

India has traditionally been a cash-based economy. The government's decision to implement demonetisation, as well as the recent Covid epidemic, has mandated contactless payments and increased cashless banking. Demonetization may have failed to attain its stated goals like seizing all black money and undeclared assets, but it did disrupt life and economic activity. The positive side of demonetization is that compelled people to conduct cashless transactions because there was very little liquid currency available to the public as the government had banned old currency notes. Many digital payment services emerged, assisting people to transition to cashless purchases. The imposition of demonetisation in 2016 paved the way for a cashless banking.

METHODS OF NEW BANKING MODELS BANKING CARDS

A) BANKING CARDS

Banking cards, such as debit and credit cards, are among the most widely used cashless payment systems worldwide. Banking cards provide numerous benefits such as secure payments, convenience, and many others. One of the most significant benefits of banking cards is that they may also be used to make digital payments. To perform cashless payments, a user can store his card information in mobile wallets or digital payment apps. The types of bank cards and their characteristics:

i.Debit card:

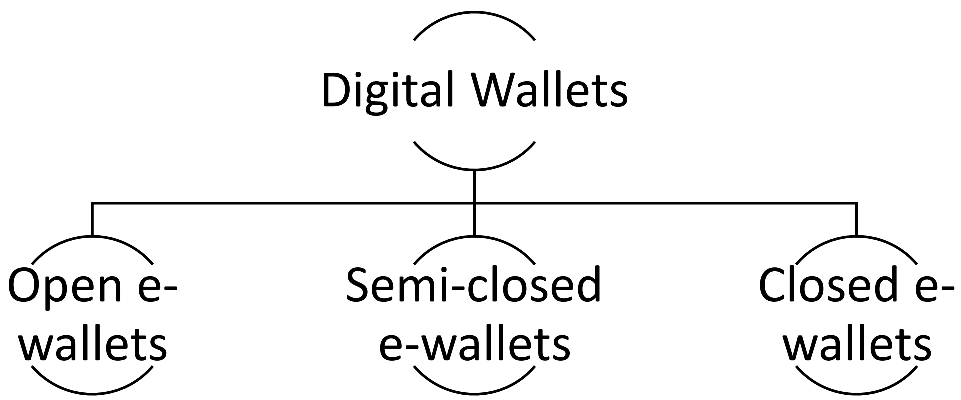
Debit cards are provided when an account is opened at a bank. Debit cards are linked to a bank account and enable you to pay at both physical and online stores, as well as withdraw cash from branches or ATMs. Upon using debit card the amount will be debited from your savings or current account. As a result, if there were insufficient funds in the the transaction could not be completed. The debit card normally has a daily limit connected with it for security concerns, especially when withdrawing cash from an ATM.

ii.Credit card:

The primary distinction between a debit card and a credit card is that when we use the debit card, the amount is deducted from the bank account. When we use a credit card, the amount is deducted from the pre-approved credit limit rather than the bank account. The card's limit is determined by the issuing institution based on the credit score and history. In general, a higher credit score results in a greater credit limit.

B) MOBILE APPLICATION-BASED PAYMENT SYSTEM

Because of the rapid, safe, and easy payment options, mobile wallet applications are increasingly gaining popularity. Mobile apps enable users to transfer, receive, and store money. By simply integrating the bank account, a user can add or save money in his wallet. The following are the types of Mobile Payment Apps [e-Wallets]



1. **Open e-wallets:**

Banks are the only institutions authorised to issue & operate open wallets. Users with open wallets can use them for any transactions, including the purchase of products and services, as well as financial services such as money transfer at merchant locations or point-of-sale terminals that accept cards, and cash withdrawal at ATMs . RBI authorization or Pre-paid Payment Instruments (PPIs) license is not required for Banks for operating open-eWallets.

Examples: Yono – State Bank

Lime – Axis Bank

Pockets – ICICI Bank.

2. Semi closed e-wallets:

A semi-closed wallet is issued by a fintech or by any payments company (non-bank entity). Using this type of app, a user can also transact with merchants that have a contract with the app company. Merchants need to sign contracts with the app company for accepting payment from the mobile wallets. Semi-closed wallets also do not permit cash withdrawal. Since semi closed wallets are administered by non-bank entities, they are mandated to keep money in the escrow account with a partner bank. RBI authorization or Pre-paid Payment Instruments (PPIs) license is required for closed wallet companies.

Examples: Paytm, Phonepe, Google Pay.

3. Closed e-wallets:

A closed e-wallet is issued by a merchant to a consumer for buying goods and services exclusively on its platform. Cash withdrawal or redemption are not possible with these wallets. Typically, merchants create these wallets account for customer to refind money in the event cancellation or return of a product or service RBI authorization or Pre-paid Payment Instruments (PPIs) license is not a compulsion for closed wallet companies.

Examples: Flipkart, Makemytrip.

A) BHIM/UPI

Based on the Unified Payments Interface, BHIM is an Indian mobile payment app developed by the National Payments Corporation of India BHIM (Bharat Interface for Money) is a UPI-based platform that allows users to make secure, simple, and instant digital paymen using your phone.

The Unified Payments Interface (UPI) is a real-time payment system designed by the National Payments Corporation of India (NPCI) that allows for inter-bank peer-to-peer (P2P) and person-to-merchant (P2M) transactions. The Reserve Bank of India (RBI) regulates the interface, which works by immediately transferring payments between two bank accounts on a mobile platform.

B) QR CODES

QR is an abbreviation for Quick Response. It is a two-dimensional code that consists of a pattern of black squares grouped on a square grid. Imaging devices, such as smartphone cameras, can scan QR codes. QR codes are extensively used for conducting cashless payments, in which a user just scans the merchant service QR code to complete the transaction.

C) CONTACTLESS PAYMENTS

Contactless payment is a simple and safe technology that allows users to buy products by just tapping a card near a point-of-sale terminal. The card can simply be a debit, credit, or smart card based on NFC (near field communication) or RFID technology. Because contactless payments do not require a signature or a PIN, they are highly convenient. Furthermore, contactless payments can be made using NFC-enabled phones that are directly linked to a mobile wallet. To make the payment, the user merely needs to keep his NFC-enabled phone close to the reader.

D) ECS

Electronic clearance service is extensively used for making bulk payments, equating monthly instalments, paying off utility bills, and disbursing payments such as dividends, pensions, and salaries. ECS can be used for credit as well as debit services. To begin the ECS, the bank must obtain authorization to make periodic credits and debits. ECS is a secure technique since you may specify the maximum amount of debit, the validity time, and the purpose of the transaction.

E) ONLINE FUND TRANSFER

There are several methods for transferring funds from one bank account to another With the advancement of technology, online money transfer has become the most convenient method of sending funds from one bank to another. Here are the three most common methods of money transfer:

1. NEFT:

The National Electronic Fund Transfer, or NEFT, is the most basic and widely used method of transferring money from one bank to another. To complete a NEFT transaction, you just need two pieces of information: the account number and the IFSC code of the destination account. There is no limit to the amount of money that can be transmitted via NEFT Individual banks, on the other hand, may impose a limit.

2. RTGS:

RTGS is an abbreviation for Real-Time Gross Settlement. RTGS is a real- time funds transfer system based on the gross settlement principle, in which money is sent from one bank to another in real time. RTGS is primarily intended for high-value As a result, while there is no maximum transfer amount, you must send a minimum of INR 2 lakhs at a time. When the transaction amount is high and payment must be processed instantly, RTGS is extremely important. A typical RTGS transfer, like NEFT, requires the beneficiary's name, account number and type, the name of the bank, and the Indian Financial System Code (IFSC) of the bank.

3. IMPS:

Immediate Payment Service (IMP) is a service that allows for instant financial transfers and can be used at any time. IMPS is simply the combination of NEFT and RTGS. The transaction limit is set quite low in order to avoid fraud complaints. You only need the destination account holder's IMPS id (MMID) and mobile number to make an IMPS transfer.

F) GIFT CARDS OR VOUCHERS

Gift cards are also a convenient option to go cashless. It allows the recipient to use a voucher to purchase anything. There are also a number of stores that provide discounts on gift cards.

G)ATM

ATMs, or Automated Teller Machines, are one of the most useful innovations in the banking industry. ATMs enable banking customers to do self-service activities such as cash withdrawal, deposit, and fund transfers in a timely manner. In 1967, ATMs were first used in London. HSBC opened the first ATM in India in Mumbai in 1987. ATMs can be on-site or off-site. ATMs on-site are found at banks. By using ATMs customers benefit from increased choice, convenience, and availability, while banks increase transaction income, reduce operating and maximise staff resources.

H)AEPS (Aadhar Enabled Payment System)

Aadhaar Enabled Payment System (AEPS) is a type of payment system that is based on the Unique Identification Number and allows Aadhaar card holders to seamlessly make financial transactions through Aadhaar-based authentication. The AEPS system aims to empower all sections of the society by making financial and banking services available to all through Aadhaar. AEPS is nothing but an Aadhaar- enabled payment system through which you can transfer funds, make payments, deposit cash, make withdrawals, make enquiry about bank balance, etc.

This is a simple, secure and user-friendly platform for financial transactions. This is another initiative taken by the National Payments Corporation of India (NPCI) to encourage cashless transactions in India.

Services Offered by AEPS: Cash Deposit, Payment Transactions (C2B, C2G Transactions), Balance Enquiry, Cash Withdrawal, Aadhaar to Aadhaar funds transfer.

CORPORATE SECURITIES

STOCKS

A stock is a general term used to describe the ownership certificates of any company. A share, on the other hand, refers to the stock certificate of a particular company. Holding a particular company's share makes a shareholder. Stocks are of two types - Equity shares and preference shares.

Equity shares - A company issues equity shares to raise capital at the cost of diluting its ownership. Investors can purchase units of equity shares to get part ownership of the firm. By purchasing the equity shares, investors will be contributing towards the total capital of the company and becoming its shareholder.

Equity shareholders are the owners of the company to the tune of the shares held by them. Through equity investing, investors benefit from capital appreciation and dividends. In addition to the monetary benefits, equity holders also enjoy voting nights in critical matters of the company

Preference shares - Preference shares or preferred stock represent ownership in a company. Preference shareholders enjoy the preference over common shareholders on the assets and earnings. Also, in case of bankruptcy, preferred shareholders enjoy the priority to receive the company's assets before common shareholders.

A company issues preference shares to raise capital. This becomes part of the preference share capital. Preference shareholders receive dividends before the equity shareholders. A specific type of preference share is eligible to receive arrears dividends.

DEBT SECURITIES

Debt Securities are those instruments such as bond, debenture, promissory note etc. with a fixed amount, a maturity date and usually with a specific rate of interest. These are often less risky than equities. When a company or government agency decides to take out a loan.

Bonds and debentures are the major debt securities which are explained here under:

BONDS

Bonds are debt financial instruments that both public and private sector companies use to raise funds for their operations. The government agencies, financial institutions as well as private enterprises issue these instruments to investors. Bonds are secured by their physical assets. The holder of these bonds is the lender, while the issuer of these bonds is the borrower. The borrower can issue these bonds to the lender, only by promising to pay back the loan at a specific maturity date with a fixed interest rate.

This interest rate is generally lower than debentures because the physical assets of a company secure bonds whereas the debentures are unsecured Instruments.

Important Features of a Bond for Investor

When an Investor is buying bonds, there are a few things which may be given consideration before investing in them. Given below are such important points to remember while investing in any bond:

- **Secured & Unsecured Bonds:** Unsecured Bonds, also known as debentures are mostly the bonds issued by companies with a good reputation, high credit rating and the credibility of the company. The secured bonds offer some kind of security to the investor. These bonds are mostly considered to be Government bonds.
- **Taxation:** Looks for bonds which exempt tax. Few corporate bonds levy tax on their bonds and bonds issued by Government, municipality bonds and few other do not impose a tax on the profit earned.
- **Preference of Liquidation:** In case a Company gets in loss and is in debt, the money gained by selling the assets of the company is given in a certain order of preference. This is called preference of liquidation.
- **Date of Maturity:** Ensure that you check the maturity period of the bond and invest in something where you can earn more with a shorter time duration.
- **Coupon Rate:** The rate of interest at which a bond is issued, and the Company is liable to pay the Investor is called the coupon rate. Research and look for Bond options which offer high coupon rate.

DIFFERENT TYPES OF BONDS

1. Traditional Bond: A bond in which the entire principal can be with drawn at a single time after the bond's maturity date is over is called a Traditional Bond.

2. Callable Bond: When the issuer of the bond calls out his right to redeem the bond even before it reaches its maturity is called a Callable Bond. Through this type of bonds, the issuer can convert a high debt bond into a low debt bond.

3. Fixed-Rate Bonds: When the coupon rate remains the same through the course of the investment, it is called Fixed-rate bonds. Floating Rate Bonds: When the coupon rate keeps fluctuating during the course of an investment, it is called a floating rate bond.

4. Puttable Bond: When the investor decides to sell their bond and get their money back before the maturity date, such type of bond is called a Puttable bond.

5. Mortgage Bond: The bonds which are backed up by the real estate companies and equipment are called mortgage bonds.

6. Zero-Coupon Bond: When the coupon rate is zero and the issuer is only applicable to repay the principal amount to the investor, such type of bonds are called zero-coupon bonds.

7. Serial Bond: When the issuer continues to pay back the loan amount to the investor every year in small instalments to reduce the final debt, such type of bond is called a Serial Bond.

8.Extendable Bonds: The bonds which allow the Investor to extend the maturity period of the bond are called Extendable Bonds.

9. Climate Bonds: Climate Bonds are issued by any government to raise funds when the country concerned faces any adverse changes in climatic conditions.

10. War Bonds: War Bonds are issued by any government to raise funds in cases of war.

11. Inflation-Linked Bonds: Bonds linked to inflation are called inflation linked bonds. The interest rate of Inflation linked bonds is generally lower than fixed rate bonds.

DEBENTURES

Debentures are also debt financial instruments like bonds. Organizations use these instruments to get funding for their daily needs. They are generally not secured by any physical assets of the issuers, which makes them riskier than bonds. They also carry a fixed or floating interest rate.

The debenture holders get first preference over shareholders of a company when it comes to the payment of interests/dividends.

The interest rate on debentures is generally higher than bonds because they are not secured by the physical assets of a company.

Types of Debentures

1. Types of Debentures on the basis of Security:

a. Secured Debentures: These debentures carry a charge on some assets of the issuing company. In case the company fails to repay the debt, its assets will be sold off to pay creditors.

b. Unsecured Debentures: These debentures are very risky for investors. This is because they do not carry any security or charge on the company's assets.

2. Types of Debentures on the basis of Convertibility

a. Convertible Debentures: These debentures can be converted into equity or preference shares after a specific period of time. This conversion may be either compulsory or optional at the debenture holder's discretion. Further, it may be either fully convertible or partly convertible.

b. Non-convertible Debentures: Non-convertible debentures are the debentures which cannot be converted into equity or preference shares. In other words, they are not convertible into shares.

3. Types of Debentures on the basis of Permanence

a. Redeemable Debentures: These debentures are redeemable on a specified date.

b. Irredeemable Debentures: Irredeemable debentures do not have a specific maturity date. They last throughout a company's lifetime. Thus, the company redeems them only when it faces liquidation.

4. Types of Debentures on the basis of Negotiability

a. Registered Debentures: As the name suggests, the details of these debenture holders are registered in the company's records. Only the debenture holders can redeem these debentures. Hence, they are not freely transferable.

b. Bearer Debentures: Companies do not register details of debenture in this case. They can be redeemed by the person owning them, with out their identity being checked. This happens because these debentures are freely transferable.

5. Types of Debentures on the basis of their Priority

a) First Mortgage Debentures: As the name suggests, companies repay these debentures first. Debenture-holders get their money before all others their category.

b) **Second Mortgage Debentures**: These debentures are repaid only after the first mortgage debentures are satisfied.

COMPANY DEPOSITS

The deposit placed by investors with companies for a fixed term carrying a prescribed rate of interest is called company deposit. These are governed by Companies Act.

Features of Company Deposits

- The capital in a company fixed deposit is not protected if the company is unable to meet its financial obligation.
- Deposit earns no real returns when inflation is above the guaranteed interest rate offered by deposit.
- The main objective of investing in this is to earn higher rate of interest compared to hank deposit.
- It is suitable for conservative investors seeking assured returns from a lump sum investment for goals upto 5 years.
- Interest depend on tenure of the deposit and the issuer.

POST OFFICE SAVINGS SCHEME

a) Post office saving account:

❖ One account can be opened with one post office and can be transferred from one post office to other.
❖ It can be opened in the name of minor.
❖ Minimum balance required to be maintained is Rs 50.
❖ Interest rate of 4% p.a. is applicable on the deposits

b) Post office Recurring Deposits

Post office Recurring Deposits have become the most preferred Instruments when compared to banks. One of the reasons behind its popularity is the attractive interest rate one can earn on them and a great profit upon maturity.

The post office RD interest rates are revised in a proper interval and a usual interest rate is 5.80% p.a. The interest is compounded quarterly which enables the money deposited to multiply till the maturity time.

Features of Post Office RD Scheme

- The interest rate provided by the Post Office on RD is 5.80% p.a. compounded quarterly.
- The tenure of a post office RD is 5 years.
- The minimum deposit to be made in an RD account is 10 per month.
- There is a rebate provided on advanced deposits of at least 6 months.
- There is no cap on the upper limit, provided it should be in multiples of 5.
- The Post Office RD account can be transferred from one post office to another.

- A joint account can be opened by two persons.
- The penalty for missing a deposit is charged as 5 paise for every Rs. 5.

c) Post office monthly income scheme:

- ❖ It offers guaranteed fixed monthly income on investment.
- ❖ Accounts are transferrable from one post office to other.
- ❖ Investors can hold multiple accounts with maximum investment of Rs. 4.5 lakh by combining all account.
- ❖ Account cannot be closed before completing one year.

d) Senior citizen saving schemes:

- ❖ The minimum age of entry is 60 years to open this account.
- ❖ It is government backed retirement scheme which allow to make lump sum deposit.
- ❖ It can be opened individually or jointly.
- ❖ It offers interest arte of 7.4% p.a.
- ❖ It qualifies for deduction under section 80c of Income Tax Act.

GOVERNMENT SECURITIES

Government securities, also known as government bonds or sovereign bonds, are debt instruments issued by a government to raise funds for various purposes. Investors who buy these securities essentially lend money to the government in exchange for regular interest payments and the return of the principal amount upon maturity. They are considered relatively safe investments because they are backed by the full faith and credit of the government. These securities play a crucial role in a country's financial markets and are often used as a benchmark for interest rates.

Some examples of government securities include:

- **Treasury Bonds:** These are long-term securities issued by the government with maturities typically ranging from 10 to 30 years. They pay a fixed interest rate every six months until maturity, at which point the investor receives the face value of the bond.
- **Treasury Bills (T-Bills):** These are short-term securities with maturities of one year or less. T-Bills are sold at a discount to their face value and do not pay periodic interest. Instead, investors receive the face value when the T-Bill matures.
- **Government Savings Bonds:** These are typically small-denomination bonds aimed at individual investors. They offer a fixed interest rate and can have various maturity periods.
- **Treasury Notes:** These are medium-term securities with maturities ranging from 2 to 10 years. Like treasury bonds, they pay interest every six months and return the principal at maturity.
- **Municipal Bonds:** Although not issued by the federal government, municipal bonds are issued by state or local governments to fund public projects. They offer tax advantages and come in different types, such as general obligation bonds and revenue bonds.
- **International Government Bonds:** These are bonds issued by foreign governments in their own currencies. They can provide diversification opportunities for investors.

REAL ESTATE

This investment option involves buying and selling immovable property, such as land and buildings. This investment yields rental income as well as capital appreciation. The Indian real estate sector is one of the fastest growing and globally recognized sectors. It comprises four sub sectors-housing, retail, hospitality, and commercial. The real estate industry's growth is linked to developments in the retail, hospitality and entertainment (hotels, resorts, cinema theatres) industries, economic services (hospitals, schools) and information technology (IT)-enabled services (like call centers) etc and vice versa.

Real estate sector is one of the most globally recognized sectors. It comprises of four sub sectors housing, retail, hospitality, and commercial. The growth of this sector is well complemented by the growth in the corporate environment and the demand for office space as well as urban and semi-urban accommodations.

CHARACTERISTICS OF REAL ESTATE INVESTMENTS

a) Patience: An investor should be patient in choosing the property and the agent, to ensure that one doesn't pay too much for a property and that the returns are as per the expectations and dreams.

b) Document verification is necessary: An investor should verify the documents relating to real estate property. They should buy a property with clear title otherwise, there are chases of some legal issues and loss of money invested.

c) Calculated Risk: Investment in real estate is never risk-free. However, it is a calculated risk that will offer great returns to investors, unlike other investment options.

d) Limited Liquidity: Real estate is an asset form with limited liquidity relative to other investments such as stocks or bonds that openly trade in financial markets.

e) Tangible: Real estate or properties are one of those investments which have a physical existence and can be touched and seen.

f) Universally Acceptable as Collateral: Financing the properties by taking them as collateral is very common among the banks and other financial institutions.

g) Profitable Even During Recession: Real estate investments have been considered as one of the safest investments. If done wisely, they yield profit or generate income even at the time of recession.

h) Allows Use of Leverages: The financial institutions are attracted towards funding for real estate because of its real or physical existence.

i) Maturity Period: Real estate investment does not have any fixed maturity period like in other investments such as fixed deposits and bonds. It is the owner who decides whether to hold the property or sell it.

j) Value Enhancement: Investing in properties can provide dual benefit to the investors. On the one hand, real estate generates rental income and on the other hand, its value keeps on increasing in the long run.

k) Needs Management: Real estate investment is buying a physical asset which involves the expenditure on its maintenance. The investor also needs to manage the source of income so generated.

GOLD

Gold is a luxury item with practical applications It's part of almost every electronic device. including personal computers, cell phones and televisions. The uses of gold make the price of investing in gold a bit steep for many investors Gold is one of the most common commodities in which consumers put their money for a higher return than they would get from a bank. The investment in gold offers better liquidity and it can be in any of the following forms:

1. Bullion: The value of gold bullion is determined by the market price of gold at the time of purchase. Gold bullion comes in one of the following two forms:

2. Bars: These are larger pieces of gold that are generally not kept in the physical possession of investor and are usually purchased by larger companies and organizations as opposed to individual. There are several variations of smaller sized bars that are kept in by individuals that possession.

3. Coins: Gold coins can range from several grams to kg. It is very convenient even for the small investors to invest in gold and also get physical possession of it. Thus, investors buy gold coins instead of buying gold bars.

4. Jewelry and Numismatic Coins: In addition to being made of gold, jewelry and numismatic coins are purchased for both their gold value and their cultural, historical or aesthetic appeal. In a bull market this means that the value of these items will typically increase faster and often surpass the market price of gold. In a bear market the opposite is true and the same items will tend to decrease at a faster rate than their bullion counterparts.

5. Digital Gold: Investors can purchase gold coins, bars and jewellery online. Digital gold is a new age investment instrument that allows investors to invest in 24 Karat purest gold, which then stored in MMTC-PAMP's secure vaults of investors. The investors can redeem digital gold for 24 Karat 999.9 purest gold coins and ingots from MMTC-PAMP Digital Gold a offered on the mobile wallet platform of Paytm and GoldRush is offered by the Stock Holding Corporation of India on their website.

6. Gold ETF: Investing in gold ETFs (Exchange Traded Funds) is another form of investing in gold. The advantage of investing in gold ETFs is security and cost-efficiency. Unlike physical gold, it nullifies the storage and making charges. Gold ETFs are also the underlying of open- ended Gold Mutual Funds that help investors to invest their money in gold. Gold ETFs often investors a secure way to access the gold market.

7. Gold in Electronic Form: E-Gold is a unique gold investment product launched by the National Spot Exchange Limited (NSEL). This product enables investors to Buy Gold in a electronic form on the NSE's trading platform and the gold bought by an individual will be reflected in the Demat account.

8. Sovereign Gold Bonds (SGR): These are government securities denominated in grams of gold. They are substitutes for holding physical gold. Investors have to pay the issue price is cash and the bonds will be redeemed in cash on maturity. The Bond is issued by Reserve Bank on behalf of Government of India. SGB are denominated in grams of gold.

CHIT AND NIDHI COMPANIES

Chit and Nidhi companies are two distinct types of financial entities, often found in India, each with its own purpose and regulatory framework:

CHIT FUND COMPANIES (CHIT FUNDS):

Chit funds are a traditional form of savings and borrowing in India.

They operate as a group savings scheme where a fixed number of individuals, often friends or family, come together and contribute a fixed sum of money periodically.

The total contributions are pooled and given to one member as a lump sum, through an auction process, with each member getting a chance to receive the funds.

Chit funds are regulated by state governments in India.

NIDHI COMPANIES:

Nidhi companies are a type of non-banking financial institution (NBFC) in India.

They are primarily involved in borrowing and lending money among their members.

The funds are utilized for the mutual benefit of their members, promoting thrift and savings.

Nidhi companies are regulated by the Ministry of Corporate Affairs, Government of India.

Both Chit and Nidhi companies serve as avenues for group savings and lending, but they have different structures, purposes, and regulatory authorities. It's essential to understand these differences and the regulations governing them before participating in or dealing with such entities.

INSURANCE

Insurance is defined as a contract, known as a policy, in which an individual or organisation receives financial protection and compensation from the insurer or insurance company for the loss suffered due to uncertain event, in return for payment of a specified premium.

TYPES OF INSURANCE COMPANIES IN INDIA

1. **Life insurance companies:**

Life insurance companies offer policies that protect you from the risk of death. Life insurance policies are available in a variety of forms, including term plans, endowment plans, whole life insurance plans, money back plans, and unit-linked investment plans, among others. Many life insurance plans can also be a helpful tool for long-term savings because they combine protection with savings.

2. **General insurance companies:**

General insurance companies offer productsthat protect financial losses caused by a variety of risks excluding death Health insurance, motor insurance, marine insurance, liability insurance, travel insurance, and commercial insurance are all examples of general insurance products that cover a wide range of risks.

KEY COMPONENTS AND CONTENTS OF A LIFE INSURANCE POLICY:

Policyholder: The person who owns the life insurance policy and pays the premiums.

Premiums: Regular payments made by the policyholder to the insurance company in exchange for coverage.

Beneficiary: The person or entity (e.g., family member, spouse, or trust) designated to receive the death benefit when the policyholder passes away.

Death Benefit: The amount of money paid out to the beneficiary upon the policyholder's death. This is usually tax-free and can be a lump sum or paid in installments.

Policy Term: The period during which the life insurance policy is in force. If the policyholder passes away during this term, the death benefit is paid out. If the policy expires and the policyholder is still alive, there is typically no payout.

TYPES OF LIFE INSURANCE:

Term Life Insurance: Provides coverage for a specific term (e.g., 10, 20, or 30 years). It offers a death benefit but does not build cash value.

Whole Life Insurance: Provides lifelong coverage and includes an investment component that accumulates cash value over time.

Universal Life Insurance: Offers flexibility in premium payments and death benefit amounts while also accumulating cash value.

Variable Life Insurance: Combines a death benefit with investment options, allowing the policyholder to invest in various funds, but with associated risks.

Riders: Optional additions to the policy that can customize coverage, such as adding disability or critical illness coverage.

Grace Period: A period after the due date of a premium payment during which the policy remains in force, even if the premium is not paid on time.

Cash Value: Found in permanent life insurance policies (e.g., whole life or universal life), this is the savings or investment component that grows over time. Policyholders can sometimes borrow against or withdraw from this cash value.

Policy Exclusions: Certain circumstances or events, such as suicide within the first two years of the policy, may not be covered.

Contestability Period: A period, usually the first two years of the policy, during which the insurance company can investigate and potentially deny a claim based on misrepresentation or non-disclosure by the policyholder.

Premium Mode: The frequency of premium payments, which can be monthly, quarterly, semi-annually, or annually.

It's important to carefully review and understand the terms and conditions of a life insurance policy before purchasing one, as they can vary significantly between different policies and insurance providers. Life insurance can play a crucial role in providing financial security for loved ones in times of need.

OTHER INSURANCES

Examples of Insurance schemes of Government of India

1. Pradhan Mantri Suraksha Bima Yojana (PMSBY)

- Provides accidental insurance cover of upto 2 Lakh to bank in the age of 18 to 70 years account holders.
- A fixed annual premium of 12/- is deducted from the bank account through auto-debit facility.
- Person would be eligible to join the scheme through one savings bank account only.
- Insurance covers permanent and partial disability due to accident.
- Pradhan Mantri Jan Arogya Yojana (PMJAY) - Ayushman Bharat.
- Provides health care facilities targeting poor, deprived rural families and identified occupational category of urban worker's families.
- There is no restriction on family size, age or gender.
- No money needs to be paid by the family for treatment in case of hospitalization.

2. Pradhan Mantri Fasal Bima Yojana (PMFBY)

- Crop insurance scheme aimed at shielding farmers from the crop failure through insurance.
- The scheme insures farmers against a wide range of external risks - droughts, dry spells, floods, inundation, pests and diseases, landslides, natural fire and lightning, hailstorms, cyclones, typhoons etc.
- Scheme covers post-harvest losses up to a period of 14 days.

3. Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)

- Crops Provides life insurance cover of 2 Lakh to bank account holders (Savings Bank A/c) in the age of 18 to 50 years.
- A fixed annual premium of 330/- is deducted from the bank account through auto-debit facility.

4. Group Insurance

It covers a defined group of people, for example the members of a society or professional association, or the employees of a particular employer.

5. Crop Insurance

It provides insurance cover to farmers in the event loss or damage to crops due to drought, flood, other natural disasters and infestation of pests etc.

6. Making a claim

When a disaster happens, such as your bike is stolen or you have met with an accident, it's time to make a claim. When you make a claim, you are officially asking the insurance company to pay you for the loss you have suffered under the terms of your insurance policy.

Contact your Insurance broker, agent or company as soon as possible. Because most companies have time limits within which you must submit your claim. Also remember to provide all supporting documents needed when submitting your claim.

RETIREMENT AND PENSION PLANS

Retirement Planning

The transition into retirement is a very unique and dramatic step in life. Yet, the transition into retirement is rarely given the planning or thought it deserves. Everyone wants to lead a comfortable retirement life. Without adequate planning it probably won't happen.

Key Features of Retirement Planning

a. Start early and retire with financial security: If you start saving for retirement at age 25, so that you wish to retire by 60, you can invest over 35 years.

b. Plan wisely: Set aside some money for medical expenditure and emergency needs after retirement. Allocate your savings towards important financial goals such as children's education and marriage.

c. Track and review your plan: The financial plan has to be reviewed at regular intervals to make sure that the plan meets its objectives. Also, you need to understand and get comfortable with the risks, costs and liquidity of your investments.

d. Don't dip into your retirement savings: Don't touch this pool of savings pre- retirement. If you spend money from your retirement kitty to fulfil your present needs, you will lose out big in the long run. The corpus for your retirement will be inadequate.

Pension Plans

Pension may be described as a regular payment which one aspires to receive regularly, once the person retires from his regular occupation/ job or attain a certain age from which he/ she does not want to work.

Pension plans provide financial security and stability during old age when people don't have a regular source of income. Retirement planning ensures that people live with pride and without compromising on their standard of living, during later part of their life. Pension schemes give an opportunity to invest and accumulate savings and get lump sum amount as regular 53 income through annuity plan on retirement.

Being a Pensioner

- No need to open separate account for pension.
- Existing account can be used for receiving pension.
- Pension account can be transferred to another branch or different bank.
- Need to submit 'Life Certificate' to bank branch in November, every year.
- "Jeevan Pramaan" - Digital Life Certificate using Aadhaar and mobile at: www.jeevanpramaan.gov.in.

NATIONAL PENSION SYSTEM (NPS)

NPS aims to institute pension reforms and to inculcate the habit of saving for retirement amongst the citizens. With effect from 1st May, 2009, NPS has been provided for all citizens of the country including the unorganized sector workers on voluntary basis. The subscriber will be allotted a unique Permanent Retirement Account Number (PRAN). This unique account number will remain the same for the rest of the subscriber's life. This unique PRAN can be used from any location in India. NPS is a government approved pension scheme for Indian citizens in the 18-60 age groups.

Investment Options under the NPS

The subscribers to the NPS choose the investment options in which their contributions have to be invested. Following options are offered by the NPS:

- **E (Equity):** High Return, High Risk option- Fund invests predominantly in equity- oriented investments.
- **C (Corporate Bonds):** Medium Return, Medium Risk option- Fund invests predominantly in fixed income bearing securities other than government securities.
- **G (Government Securities)**: Low Return, Low Risk option- Fund invests predominantly in pure low risk government fixed income securities.
- **A (Alternative Investments):** High risk and High return option- Fund invests in Alternative Investment Schemes including instruments like CMBS (Commercial Mortgage-Backed Securities), MBS (Mortgage Backed Security), REITS (Real Estate Investment Trusts), AIFS (Alternative Investment Funds), InvITs (Infrastructure Investment Trusts), etc. This asset class is not available for investment of contribution made under Tier II account.
- **Active Choice Option** - Subscriber can choose the proportion of their funds that may be invested in each of the investment option. This is called the Active Choice. The only restriction is that the

proportion invested in asset class E cannot exceed 75 percent and that in asset class A is restricted to 5 percent.

- **Auto Choice Option** - Under this choice the subscriber's contribution will be invested in the lifecycle fund. The lifecycle fund is a dynamic allocation of the subscriber's wealth to the different asset classes in a defined proportion determined by the age of the subscriber, with the exposure to equity decreasing and that to the safer corporate bonds and government securities increasing with the age of the subscriber.

PENSION SCHEMES FOR VARIOUS TARGET GROUPS

Government of India has started pension schemes for various target groups such as Unorganised Workers, Retailers and Traders (self-employed workers) and Land Holding Small and Marginal farmers.

I. PRADHAN MANTRI SHRAM YOGI MAAN-DHAN (PM-SYM) YOJANA

- This is a voluntary and contributory pension scheme to ensure old age protection for Unorganised Workers.
- The unorganised workers mostly engaged as home based workers, street vendors, mid-day meal workers, head loaders, brick kiln workers, cobblers, rag pickers, domestic workers, washer men, rickshaw pullers, landless labourers, own account workers, agricultural workers, construction workers, beedi workers, handloom workers, leather workers, audio- visual workers and similar other occupations whose monthly income is 15,000/- per month or less and belong to the entry age group of 18-40 years.

Benefits to subscriber of PM-SYM are:

- **Minimum Assured Pension:** Each subscriber under the PM-SYM, shall receive minimum assured pension of Rs 3000/- per month after attaining the age of 60 years.
- **Family Pension:** During the receipt of pension, if the subscriber dies, the spouse of the beneficiary shall be entitled to receive 50% of the pension received by the beneficiary as family pension. Family pension is applicable only to spouse.
- **Exit and withdrawal:** If a beneficiary has given regular contribution and 55 died due to any cause (before age of 60 years), his/her spouse will be entitled to join and continue the scheme subsequently by payment of regular contribution or exit the scheme as per provisions of exit and withdrawal.

II. PMLVMY (PRADHAN MANTRI LAGHUVYAPARIMAAN-DHAN, YOJANA)

- This is pension scheme to ensure old age protection for retailers and traders (self-employed workers).
- All shopkeepers and self-employed persons, as well as retail traders with GST turnover below Rs 1.5 crore and aged between 18-40 years, can enroll for the scheme. Under the scheme, 50% monthly contribution is payable by the beneficiary and equal matching contribution is paid by the Central

Government. Subscribers, after attaining the age of 60 years, are eligible for a monthly minimum assured pension of Rs. 3,000/-

III. PRADHAN MANTRI KISANMAANDHAN YOJANA (PMKMDY)

This is pension scheme to ensure old age protection for all land holding Small and Marginal Farmers (SMFS) in the country. The scheme aims at providing a minimum assured pension of Rs 3000, to Small and Marginal Farmers (SMFs) in the country after attaining the age of 60 Years.

IV. ATAL PENSION YOJANA (APY)

- The Atal Pension Yojana (APY) was launched on 09.05.2015 to create a universal social security system for all Indians, especially the poor, the under-privileged and the workers in the unorganised sector. APY is administered by Pension Fund Regulatory and Development Authority (PFRDA).
- APY is open to all bank account holders in the age group of 18 to 40 years and the contributions differ, based on pension amount chosen.
- Provided that from 1st October, 2022, any citizen who is or has been an income-tax payer, shall not be eligible to join APY.
- Subscribers would receive the guaranteed minimum monthly pension of 1000 or 2000 or 3000 or 4000 or 5000 at the age of 60 years.
- The monthly pension would be available to the subscriber, and after him to his spouse and after their death, the pension corpus, as accumulated at age 60 of the subscriber, would be returned to the nominee of the subscriber.
- In case of premature death of subscriber (death before 60 years of age),spouse of the subscriber can continue contribution to APY account of the subscriber, for the remaining vesting period, till the original subscriber would have attained the age of 60 years.
- The minimum pension would be guaranteed by the Government; l.e., if the accumulated corpus based on contributions earns a lower than estimated return on investment and is inadequate to provide the minimum guaranteed pension, the Central Government would fund such inadequacy. Alternatively, if the returns on investment are higher, the subscribers would get enhanced pensionary benefits.
- Subscribers can make contributions to APY on monthly/quarterly / half- yearly basis.
- Subscribers can voluntarily exit from APY subject to certain conditions, on deduction of Government co-contribution and return/interest thereon.

Other Pension Plans

In India, apart from the Government promoted pension schemes, there are pension plans offered by some public sector and private sector entities as well. These pension plans along with the retirement planning, provide investment opportunities and other additional benefits. Some of these pension plans are as under:

I. Pension Plans with Life Insurance Cover like the ULIP (unit Linked Insurance Plan) are a combination of life insurance and pension.

II. Penion Fund Oriented Hybrid Mutual Funds.

III. Immediate Annuity Plans provide annuity payment of a stated amount through out the life time immediately after depositing the amount towards the annuity fund.

Role of PFRDA in Pension Segment

Pension Fund Regulatory and Development Authority (PFRDA) is a statutory regulatory body established by an Act of Parliament of India with the charter to promote, develop and regulate pension sector in India.

STOCK MARKET

INVESTMENT IN SECURITIES MARKET

A security, in a financial context, **is a certificate or other financial instrument that has monetary value and can be traded.** Securities are generally classified as either equity securities, such as stocks or debt securities, such as bonds and debentures. Securities are sold in the securities market or stock market.

A stock market, also known as a stock exchange, is a venue to trade securities, such as bonds and shares. Sellers of securities are matched with their buyers in a stock market and they trade with each other using rules imposed by the market's governing authority.

Financial Markets are of two types; namely, Capital Market and. Money Market.

Capital Market

A marketer including all institutions, organisations, and instruments providing medium and long-term funds is known as a Capital Market. A capital market does include institutions and instruments providing finance for a short term; i.e., up to one year.

Some of the common instruments of a capital market are debentures, shares, bonds, public deposits, mutual funds, etc.

A capital market is of two types; namely, Primary Market and Secondary Market.

Money market

Money market It is a market for the lending and borrowing of short-term funds. It deals with trade bills, promissory notes and government papers drawn for a short period not exceeding one year.

Primary Market

A market in which the securities are sold for the first time is known as a Primary Market. It means that under the primary market, new securities are issued from the company. Another name for the primary market is New Issue Market. This market contributes directly to the capital formation of a company, as the company directly goes to investors and uses the funds for investment in machines, land, building, equipment, etc.

Secondary market

Secondary market is a market for secondary sale of securities. In other words, securities which have already passed through the new issue market are traded in this market. In this market, a company does not directly issue its securities to the investors. Instead, the existing investors of the company sell the securities to other investors. The investor who wants to sell the securities and the one who wants to purchase meet each other in the secondary market and exchange the securities for cash with the help of an intermediary, a broker, is done.

DIFFERENCE BETWEEN PRIMARY MARKET AND SECONDARY MARKET

BASIS	PRIMARY MARKET	SECONDARY MARKET
Meaning	A market in which the securities are sold for the first time is known as a Primary Market.	A market in which the sale and purchase of newly issued securities and second-hand securities are made is known as a Secondary Market.
Types of Securities	In the primary market, the sale of new securities takes place.	In the secondary market, the sale and purchase of existing or second-hand securities take place.
Issued by	In the primary market, the securities are directly issued by companies.	In the secondary market, the securities are transferred between the investors only.
Capital Formation	A primary market directly contributes to the capital of a company as it involves the transfer of funds from surplus units to deficit units.	A secondary market Indirectly contributes to the capital of a company as it involves an exchange of funds between surplus units only.
Entry	The companies enter a primary market for raising capital for their operations.	The securities of listed companies only are bought and sold in this market.
Geographical Location	There is no fixed geographical location of a primary market. Every bank, institution, foreign investor, etc., contribute to this market.	There is a fixed geographical location of a secondary market, and it also has fixed working hours.
Price	The price of securities in a primary market is fixed by the	The price of securities in a secondary market is fixed by

	management of the company issuing them.	the demand and supply of the stock exchange market.

What are the pre-requisites to invest in securities?

In order to invest in equity shares, an investor should have three accounts:

- **Savings Account** - Saving bank account with a commercial bank.
- **Trading Account** - Trading account with a SEBI registered stockbroker of a recognized stock exchange to buy or sell securities on the Stock Exchange.
- **Demat Account** - Demat account with a SEBI recognized Depository Participant (DP) of Depository for holding securities in dematerialized/electronic form.

The Demat account can be opened with depository participant (DP) of any of the Depository. National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Ltd. (CDSL) are two SEBI registered depositories in India.

The list of SEBI registered stockbrokers and depository participants may be obtained from SEBI's official website (www.sebi.gov.in) or from the websites of the respective stock exchanges & depositories.

STOCK MARKET / STOCK EXCHANGE

A stock exchange is an important factor in the capital market. It is a secure place where trading is done in a systematic way. Here, the securities are bought and sold as per well-structured rules and regulations. Securities mentioned here includes debenture and share issued by a public company that is correctly listed at the stock exchange, debenture and bonds issued by the government bodies, municipal and public bodies.

Functions of Stock Exchange

Following are some of the most important functions that are performed by stock exchange:

1. Role of an Economic Barometer: Stock exchange serves as an economic barometer that is indicative of the state of the economy. It records all the major and minor changes in the share prices. It is rightly said to be the pulse of the economy, which reflects the state of the economy.

2. Valuation of Securities: Stock market helps in the valuation of securities based on the factors of supply and demand. The securities offered by companies that are profitable and growth-oriented tend to be valued higher.

3. Transactional Safety: Transactional safety is ensured as the securities that are traded in the stock exchange are listed, and the listing of securities is done after verifying the company's position.

4. Contributor to Economic Growth: Stock exchange offers a platform for trading of securities of the various companies. This process of trading involves continuous disinvestment and reinvestment, which offers opportunities for capital formation and subsequently, growth of the economy.

5. Making the public aware of equity investment: Stock exchange helps in providing information about investing in equity markets and by rolling out new issues to encourage people to invest in securities.

6. Offers scope for speculation: By permitting healthy speculation of the traded securities, the stock exchange ensures demand and supply of securities and liquidity.

7. Facilitates liquidity: The most important role of the stock exchange is in ensuring a ready platform for the sale and purchase of securities. This gives investors the confidence that the existing Investments can be converted into cash.

8. Better Capital Allocation: Profit-making companies will have their shares traded actively, and so such companies are able to raise fresh capital from the equity market. Stock market helps in better allocation of capital for the investors so that maximum profit can be earned.

9. Encourages investment and savings: Stock market serves as an important Source of investment in various securities which offer greater returns. Investing in the stock market makes for a better investment option than gold and silver.

Features of Stock Exchange

- **A market for securities -** It is a wholesome market where securities of government, corporate companies, semi-government companies are bought and sold.
- **Second-hand securities -** It associates with bonds, shares that have already been announced by the company once previously.
- **Regulate trade in securities -** The exchange does not sell and buy bonds and shares on its own account. The broker or exchange members do the trade on the company's behalf.
- **Dealings only in registered securities -** Only listed securities recorded in the exchange office can be traded.
- **Transaction -** Only through authorised brokers and members the transaction for securities can be made. Recognition- It requires to be recognised by the central government.
- **Measuring device -** It develops and indicates the growth and security of a business in the index of a stock exchange. Operates as per rules- All the security dealings at the stock exchange are controlled by exchange rules and regulations and SEBI guidelines.

MAJOR STOCK EXCHANGES IN INDIA

National Stock Exchange

The National Stock Exchange was founded in 1992. It was recognized as a stock exchange by SEBI under the Securities Contracts (Regulation) Act, 1956 and the operation commenced in 1994. VikramLimaye is the Managing Director & Chief Executive Officer of National Stock Exchange of India Ltd (NSE).

It was the first exchange in India to provide fully computerized electronic trading. NSE is one of the pioneers in technology and innovation which ensured the high- end performance of its systems. The exchange supports more than 3,000 VSAT terminals, making the NSE the largest private wide-area network in the country. Its automated system makes it more reliable and efficient in comparison to the Bombay Stock Exchange(BSE), Bombay Stock Exchange.

Bombay Stock Exchange

The Bombay Stock Exchange was founded on July 9, 1875. It is Asia's first stock exchange. In 1875, eminent businessman PremchandRoychand officially founded the Native Share and Stock Brokers Association which was later renamed the Bombay Stock Exchange.

It is also the world's fastest exchange with a median trade speed of six microseconds.

The Indian government recognized it officially as per the Securities Contracts Regulation Act in August 1957.

The BSE joined the United Nations Sustainable Stock Exchange initiative in 2012 Shri Ashishkumar Chauhan is the MD & CEO of BSE (Bombay Stock Exchange).

Approximately 5000 companies are listed in BSE. Further information on the Bombay Stock Exchange BSE is available on the linked page.

Important Indices

Sensex (Based on 30 companies)

BSE-100 (Based on 100 companies)

BSE-200 (Based on 200 companies)

Dollex (Based on the dollar value of BSE-200 companies)

Bankex (Based on shares of banks only)

Reality Index (Based on shares of real estate companies)

Sensex (Sensitive Index) - Most important index of BSE - Index of a stock exchange measures change in market capitalization

STOCK EXCHANGE OPERATIONS - TRADING AND SETTLEMENT

Before the companies start selling the securities through the stock exchange, they have to first get their securities listed on the stock exchange. The name of the company is included in listed securities only when the authorities of the stock exchange are satisfied with the financial soundness and various other aspects of the company.

Earlier, the buying and selling of securities were done on the trading floor of the stock exchange. However, in present times, it is done through computers and consists of the following steps:

1. Selection of Broker

One can buy and sell securities only through the brokers registered under SEBI and who are members of the stock exchange. A broker can be a partnership firm, an individual, or a corporate body. Hence, the first step of the trading procedure is the selection of a broker who will buy/sell securities on the behalf of a speculator or investor.

Before placing an order to the registered broker, the investor has to provide some information, including PAN Number, Date of Birth and Address, Educational Qualification and Occupation, Residential Status (Indian/NRI), Bank Account Details, Depository A/c details, Name of any other brokers with whom they have registered, and Client code number in the client registration form.

After getting information regarding all the said things, the broker opens a trading account in the name of the investor.

2. Opening Demat Account with Depository

An account that must be opened with the Depository Participant (including stock brokers or banks) by an Indian citizen for trading in the listed securities in electronic forms known as Demat (Dematerialised) Account or Beneficial Owner (BO)

The second step of the trading procedure is the opening of a Demat Account. The Depository holds the securities in electronic form. A Depository is an organisation or institution, which holds securities like bonds, shares, debentures, etc. At present there are two depositories: namely, NSDL (National Securities Depository Ltd.) and CDSL (Central Depository Securities Ltd.).

3. Placing the Order

The next step after the opening of a Demat Account is the placing of an order by the investor. The investor can place the order to the broker either personally or through email, phone, etc. The investor must make sure that the order placed clearly specifies the range or price at which the securities can be sold or bought.

4. Match the Share and Best Price

The broker after receiving an order from the Investor will have to then go online and connect to the main stock exchange to match the share and best price available.

5. Executing Order

When the shares can be bought or sold at the price mentioned by the investor, it will be communicated to the broker terminal, and then the order will be executed electronically. Once the order has been executed, the broker will issue a trade confirmation slip to the investors.

6. Issue of Contract Note

Once the trade has been executed within 24 hours, the broker will issue a contract note. A contract note consists of the details of the number of shares bought or sold, the date, time of the deal, price of securities, and brokerage charges. A contract note is an essential legal document.

7. Delivery of Share and making Payment

In the next step, the investor has to deliver the shares sold or has to pay cash for the shares bought. The investor has to do so immediately after receiving the contract note or before the day when the broker shall make delivery of shares to the exchange or make payment. This is known as **Pay in Day.**

8. Settlement Cycle

The payment of securities in cash or delivery of securities is done on Pay in Day, which is before T+2 Day. It is because the settlement cycle is T+2 days on w.e.f April 2003 rolling settlement basis.

9. Delivery of Shares or Making Payment

On the T+2 Day, the Stock Exchange will then deliver the share or make payment the other broker. This is known as Pay out Day. Once the shares have been delivered of payment has been made, the broker has to make payment to the investo within 24 hours of the pay out day, as he/she has already received payment from the exchange.

10. Delivery of Shares in Demat Form

The last step of the trading procedure is making delivery or shares in Demat form by the broker directly to the Demat Account of the investor. The investor obligated to give details of his Demat Account and instruct his Depository Participart (DP) for taking delivery of securities directly in his beneficial owner account.

DEMAT ACCOUNT

Demat account is also known as a Dematerialized account. The primary use of Demat account is to hold shares and securities in an electronic format. It helps you in online trading like buying or selling shares, or converting physical shares into electronic form. All the shares, mutual funds, bonds, government securities, and other investments are saved in a dematerialized account.

Dematerialization is the term used to define the process of transferring physical certificates into electronic ones. The main motto of dematerialization is to avoid holding physical shares and help you with seamless tracking and monitoring. It helps convert physical shares to electronic form.

Importance of Demat Account

1. Digitally secure way of holding shares and securities

2. Eliminates theft, forgery, loss and damage to the physical certificates

3. Quick transfer of shares

Advantages of Demat Account

Here are some advantages of opening a Demat account:

- When the securities are being transferred, there is no stamp duty.
- There is a faster and more immediate transfer of securities
- The elimination of wrong deliveries is seen
- The elimination of risk by loss, theft, damage, mutilation, etc. is seen
- They benefit us with the disbursement of corporate benefits like rights, dividends, bonuses, etc. and faster settlement .
- Elimination of personal information mismatches like bank accounts and addresses.

- The nomination facilities are more convenient
- In the case of the death of a Demat account holder, the transmission formalities are done more conveniently

Opening a Demat Account

Demat Account cannot open directly with the Central Depository Services Ltd (CDSL). Need to approach an authorized Depository Participant (DP), who will open the account, and facilitate further transactions.

- Firstly, choose a DP you want to open the Demat account with. You can find many financial Institutions and brokerages offering this service.
- Fill up the account opening form and submit it along with the copies of all the necessary documents and a passport size photo.
- Have original documents handy for verification.
- You will receive a copy of the terms and conditions agreement. Go through it.
- A member of DP will get in touch with you and verify the details you have submitted.
- If the application is processed, you will get a Demat account number along with a client ID which you can use for the account online.
- You need to pay some account opening charges such as annual maintenance charge and the transaction fee (monthly basis).
- There is no limit on the minimum number of securities to keep your account active.
- You don't need to compulsorily have shares to open a Demat Account. In fact, you can have zero balance in the account.
- As there is no restriction on the number of Demat Accounts which can be opened by any investor, you can have multiple Demat Accounts.

Know Your Client (KYC)

SEBI has prescribed KYC (Know Your Client) requirements for all security market investors. SEBI has allowed the use of technological innovations which can facilitate KYC (e-KYC). The use of technology would facilitate the investors to complete KYC without the requirement of physically visiting the office of the intermediary.

Depositories and Depository Participants

A depository is an entity responsible for the maintenance of securities electronically and the facilitation of trading of these securities. They empower investors to own, maintain and exchange securities online.

Depository participants are the agents of depositories such as The National Securities Depository Limited (NSDL) and The Central Depository Services Limited (CDSL). DP are given license to operate by a tory, under the provisions of Depositories Act, 1996

Depository Participants (DP), on the other hand, act as a link between depositories the investors who hold securities.

DP earn income by charging fees to their clients for services such as account opening, transfer of shares and pledging of shares. Some may also charge an annual maintenance charge.

Role of a Depository Participant

- DPs convert physical shares into electronic format.
- DPS monitor and track trade transactions linked to securities.
- Act as a link between the Depositories and investors.
- Ensure Investments held electronically are safe and secure.
- Securely facilitate transactions and trade transfers.
- Maintain the record related to ownership and pledging of shares.

INVESTORS PROTECTION AND GRIEVANCE REDRESSAL

In India investment risks are very high due to dishonest practices, frauds and unethical investment culture. Investors experience a sense of helplessness and insecurity they have hardly any confidence in financial markets. Investors are cheated by companies, by lead managers, by brokers and by everybody, who is capable of cheating them. The Government, the Company Law Board and the SEBI, in recent years have made efforts to protect the investors. "Investors protection is a wide term, it encompasses all the measures designed to protect investors from malpractices of brokers, companies managers to issue, merchant bankers, registrar to issues etc. The main complaints are against brokers of stock exchanges, against listed companies and mutual funds.

Usual grievances of investors

1. Usual grievances against companies

a. Delay in registering transfer of securities: Registration of transfers should be done by the companies within 30 days of receipt of share transfer Instrument but usually it takes many months.

b. Non-payment or delay in payment of dividend: Dividends should be distributed within 30 days from the date of declaration but by manipulation of procedures dividends may not be received for months.

c. Non-repayment or delayed repayment of public deposits: Thousands of depositors are involved in litigation to get back their deposits from companies.

d. Non-receipt of rights issue offer: The letter of offer of rights shares should be sent to all eligible shareholders by registered post but Shareholders quite often are not informed of rights issue.

e. Non-receipt of duplicate share certificate: A company is bound to issue duplicate share certificates if the shares are lost or misplaced by the shareholder, after receiving a request along with the requisite fee and on completion of formalities.

f. Transmission of shares: After the death of a shareholder the ownership of shares passes to his legal heirs which is called transmission of shares. The company is bound to transfer the shares in the name of legal heir of the deceased.

g. Non-receipt of notice of meeting: Every shareholder whose name e appears in the register of members is entitled to receive 21 days advance notice of meeting of shareholders. Non-dispatch of notice of meeting to shareholder is common but serious lapse.

2. Usual grievances against brokers

a. Delay or default in payment of securities sold: A broker has to make payment to client who has sold securities through him within in 48 hours of payout of funds by clearing house of stock exchange or the Clearing Corporation. But brokers, as a rule, retain the sale proceed as long as they can.

b. Delay or default in delivery of purchased security to the client: A broker has to deliver the purchased securities to his client within 48 hours of payout of securities by the stock exchange. It never happens so, in practice.

c. Non-Issue of contract note: Brokers have to issue a contract note in prescribed form to all their clients within 24 hours of the transaction but they avoid doing so to earn secret profits.

d. Excess brokerage: Brokers Charge excess brokerage from clients.

e. Non-passing of corporate benefits: A broker is duty bound to pass all the corporate benefits like rights shares, bonus shares, dividends etc. to the client he is dealing with but, many a times brokers play tricks in this regard.

f. Overcharging: The broker should charge or pay only that amount of sale or purchase of securities. He should not overcharge for purchases or pay less for the sales. In practice, most brokers play tricks about it.

3. Grievances against Depository Participant

Depository Participant is an institution which holds securities either in certificated or uncertificated form, help in dematerialization of securities etc. of the holder. Various banks and other institutions are doing this work. Every depository participant must forward all the dematerialization or materialization requests of his clients to the concerned company within 7 days of the receipt of the request but delays are quite common.

Main Depositories are:

NSDL: National Securities Depositories Limited (1996)

CDSL: Central Depositories Services Limited (1999)

METHODS OF REDRESSAL OF INVESTOR'S GRIEVANCES

An Investor can seek redressal of his grievances from, the following agencies:

1. Grievance cell/ investor service cell in stock exchanges

All the recognised stock exchanges have established Investors services cells to redress the grievances of investors. These cells have played an important role in settlement of grievances and have infused confidence among investor. approach these investors grievance cells to lodge complaints against companies and members of the stock exchange acting as brokers. Both BSE and NSE too have their grievance cells.

A. Method of redressal of grievance against companies in investor service cell.

B.Method of redressal investors grievances against stock broker by investor service cell.

C. Other measures taken by investor service cell

2. Redressal of grievances through SEBI

Complaints arising out of activities that are covered under SEBI Act, 1992; Securities Contract Regulation Act, 1956; Depositories Act, 1996 and Rules and Regulations made thereunder and provisions that are covered under Section 55A of Companies Act, 1956 are handled by SEBI.

SEBI has a dedicated department viz., Office of Investor Assistance and Education (OIAE) to receive investor grievances and to provide assistance to investors by way of education.

3. Redressal By Company Law Board

Company law Board which was constituted in May 1991 has been entrusted with many powers which were previously exercised by high courts. Every bench of company Law Board is deemed to be a civil court and every proceeding before is deemed as judicial proceeding. To protect the interests of investors it has the power of inspection of records and documents and enforcing attendance of witnesses. An aggrieved investor can apply to the Company Law Board

a. To investigate the affairs of the company.

b. For relief in case of oppression of management and/or mismanagement.

Investors can also lodge complaints about delay and non-payment of fixed deposits and interest thereon with the Company Law Board. Representations about desired changes in the Companies Act for investors protection can also be made to the Company Law Board.

4. Redressal of investors grievances through courts

When an investor has tried all other ways of getting his grievance settled there no other way left with him except to proceed against the company or the intermediary by way of civil and criminal proceedings.

Suits against companies can be filed in the high courts of the states. Every high court has special designated benches about company affairs and all complaints against companies in breach of Companies Act are heard there.

An aggrieved party can file cases in high courts against the companies to get Justice but the process of law is quite time-consuming and costly and hence beyond the reach of small investors.

5. Redressal of investors grievances through press

If an investor fails to get his grievance remedied from concerned company or authorities, he thinks of bringing bad publicity to the company or to the authorities not listening to him, by reporting the matter to the press.

Investors form unfavourable opinion about such company and think that this may happen to them also. So, they avoid investing in this company. Such a situation can prove suicidal for the company.

To avoid bad publicity, the concerned company or the stock exchange management or the government agency like SEBI settle his grievance and report back to the newspaper as to what they have done about the complaint.

MAJOR STOCK MARKET PARTICIPANTS

1. Stock Brokers

Stock brokers are licensed by the Securities and Exchange Board of India and are entitled to trade at the stock exchange. They act as the middlemen or agents between the sellers and the buyers of stocks in the stock market. For providing these broking services, they receive buying or selling commission from their clients.

2. Investors

Investors are also called stockholders or shareholders. These are the people who own the shares of companies that are listed on the stock exchange. They are entitled to receive dividends and other benefits due to shareholders.

3. Depository

A depository refers to an organization or an institution that assists in the trading of securities. This institution also holds securities in electronic form or in dematerialized form. One of the major functions of the depositories is to transfer the ownership of shares from one investor's account to another when a trade takes place.

4. Clearing House

Clearing Houses are wholly owned subsidiaries of Securities and Exchange Board of India. They are formed to ensure the orderly settlement of trades executed on various stock exchanges. Clearing Houses settle the funds and transfer shares based on everyday transactions between sellers and buyers.

5. Stock Exchange

A stock exchange is an organized marketplace that brings all the investors or traders together. It facilitates the sale and purchase of stocks by different buyers and sellers. Most of the trading in Indian stock market takes place on BSE and NSE. These stock exchanges enforce strict rules and regulations that listed companies and trading participants must follow.

6. Listed Companies

Also known as issuers, these are the companies whose shares are traded on the stock exchange. All the listed companies go through Initial Public Offering (IPO) and register themselves with the stock exchange after abiding by all the prescribed regulations.

7. Transfer Agents

Transfer Agents record changes of ownership of shares. They provide the listed companies with a list of its security holders. Transfer agents are also responsible for cancelling or issuing of certificates and distribute dividends.

8. Settlement Banks

The settlement banks perform the function of accepting the deposit of funds for payment of stocks bought by an investor or confirm payment of funds when due. These banks debit or credit the investor's account during settlement and also report balances and other information as may be required.

RISK AND RETURN RELATIONSHIP

The relationship between risk and return in investments is a fundamental concept in finance. Generally, it can be summarized as follows:

Higher Risk, Higher Potential Return: Investments with higher inherent risk tend to have the potential for higher returns. For example, stocks are typically riskier than bonds, but they have historically offered greater returns over the long term.

Lower Risk, Lower Potential Return: Investments with lower risk profiles usually offer lower potential returns. Government bonds and savings accounts, for instance, are considered less risky but offer relatively lower returns compared to riskier assets.

Diversification: Investors often mitigate risk by diversifying their portfolios. Spreading investments across various asset classes can reduce the overall risk while still aiming for a reasonable return.

Risk Tolerance: An individual's risk tolerance plays a crucial role. It's important to align your investment choices with your risk tolerance and financial goals. Taking on too much risk for your comfort level can lead to emotional stress during market fluctuations.

Time Horizon: The time you plan to invest also affects the risk-return relationship. Longer investment horizons can tolerate more risk because there's more time to ride out market fluctuations.

Market Conditions: Economic and market conditions can influence the risk-return relationship. During economic downturns or crises, even typically low-risk investments may experience higher volatility.

Individual Investment Choices: Specific investments within an asset class can have varying risk-return profiles. For example, within stocks, some companies may be riskier but offer higher potential returns compared to more established, lower-risk companies.

It's essential to assess your financial situation, goals, and risk tolerance carefully before making investment decisions. Diversification and a long-term perspective are often recommended strategies to balance risk and return in a portfolio. Additionally, consulting with a financial advisor can provide personalized guidance based on your unique circumstances.

CHAPTER 03

MUTUAL FUNDS AND FINANCIAL PLANNING

INTRODUCTION TO MUTUAL FUNDS

Mutual fund is a mechanism for pooling the resources by issuing units to the investors and investing funds in securities in accordance with objectives as disclosed in offer document. Investments in securities are spread across a wide cross-section of industries and sectors and thus the risk is reduced. Diversification reduces the risk because all stocks may not move in the same direction in the same proportion at the same time.

Mutual fund issues units to the investors in accordance with quantum of money invested by them. Investors of mutual funds are known as unitholders.

The profits or losses are shared by the investors in proportion to their investments.The mutual funds normally come out with a number of schemes with different investment objectives which are launched from time to time. A mutual fund is required to be registered with Securities and Exchange Board of India (SEBI) which regulates securities the money in securities such as stocks, bonds, and short-term debt. The combined markets before it can collect funds from the public.

A Mutual Fund is a company that pools money from many investors and invests holdings of the mutual fund are known as its portfolio. Investors buy shares in mutual funds. Each share represents an investor's part ownership in the fund and the income it generates.

A Mutual Fund is a professionally-managed investment scheme, usually run by an asset management company that brings together a group of people and invests their money in stocks, bonds and other securities.

Hence,

- A mutual fund is a professionally-managed investment scheme, made up of a pool of money collected from many investors to invest in securities like stocks, bonds, money market instruments, and other assets.
- Mutual funds are operated by professional money managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors.
- A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.
- Mutual funds give small or individual investors access to professionally managed portfolios of equities, bonds, and other securities.

FEATURES OF MUTUAL FUNDS

1. Liquidity

You can easily redeem the units of your mutual funds to meet any kind of financial emergency. Based on the type of scheme, the redemption amount is usually credited to your bank account within 3-4 business days from the date of redemption. In the case of liquid funds, the amount is credited on the next business day.

2. Professional Management

Mutual funds are managed by professional fund managers who closely watch the markets and make constant investment decisions based on the fund's stated objective. Therefore, you don't have to worry about researching and individual stock picking once you invest in mutual funds.

3. Portfolio Diversification

One of the key features of investing in mutual funds is that you get a diversified portfolio containing different types of equities and other options. Based on the scheme's objective, a mutual fund can have proportionate exposure to various financial instruments like equities, debts, or other asset classes such as gold, real estate, etc.

Therefore, the risk is spread out over different asset classes. So, even if one asset class performs poorly in adverse market conditions, the other classes can still aim to balance your investment portfolio balance.

4. Income Tax Benefits

Both equity and debt funds carry their own unique tax benefits. For instance, while debt fund investors benefit from indexation on long-term capital gains, equity funds allow you to earn exempted returns up to Rs. 100,000 in a financial year as long as you stay invested for 12 months or more.

Apart from this, there are ELSS (Equity Linked Savings Scheme) funds, which allow you to invest up to Rs 1,50,000 in a year and deduce the same from your taxable income.

5. Investment Flexibility

One of the key features of mutual funds is the flexibility they offer. You can either invest a large lump sum amount in the beginning or regularly invest small amounts (as low as Rs 500 per month) in the form of a SIP (Systematic Investment Plan).

6. Low Cost

Mutual funds charge a small amount known as the expense ratio from investors. The expense ratio is charged to cover operating expenses such as management, administration, etc., and other charges.

7. Properly Regulated

The Securities and Exchange Board of India (SEBI) regulates the mutual fund market. Mutual funds have to strictly comply with SEBI (Mutual Funds) Regulations, 1996, to ensure transparency and protection of investors' wealth.

8. Ease of Purchasing

While you can invest easily through offline modes, online buying and selling of mutual funds has made the lives of investors much easier. You don't need to visit a mutual fund house's office. Just visit the official website of the asset management company. Compare various mutual fund products offered by the fund house and invest online. The entire process is easy. convenient, and fast.

OBJECTIVES OF MUTUAL FUNDS

The objectives of mutual funds vary based on their type. Different funds have different objectives. Here, we will look at some of the common kinds of mutual funds and their objectives.

1. Growth Funds

As the term suggests, growth funds aim to achieve growth. All growth funds have the same primary objective, which is to achieve capital appreciation between the medium and long term. The corpus of these funds is usually invested in small to large-cap stocks.

2. Income Funds

Income funds aim at generating income at regular Intervals of time. They do not seek capital appreciation in the long run, and are ideal for those who seek regular cash flow to meet their financial requirements. The corpus of these funds is invested mainly in income instruments such as bonds, fixed interest debentures, dividend paying stocks, preference stocks, etc.

3. Value Funds

The main objective of value funds is to make investments in undervalued stocks and achieve profits when the inefficiencies are corrected.

BENEFITS OF MUTUAL FUNDS

1. Liquidity: Open-ended mutual funds are highly liquid. Units in these funds are easy to purchase and it is equally easy to exit from the scheme.

2. Managed by experts: Investors require minimal knowledge about mutual funds to invest in them. Professional fund managers do all the work on behalf of investors, and make decisions regarding the kind of funds to invest in, how long to hold them, etc.

3. Diversification: Market movements determine the performance of mutual funds and the risks associated with them. Therefore, investments are almost usually made in multiple asset classes such as equities, money market securities, debt instruments, etc. so that the risk is spread out. Doing this ensures that when one of the asset classes performs poorly, returns can be generated from the other classes and compensate for the losses.

4. Meeting your financial targets: Investors have access to a wide variety of mutual funds and can therefore, find schemes that are ideal to meet their financial targets, be it in the long run or in the short term.

5. Low cost for bulk purchases: The higher the number of mutual fund units purchased, the lower the cost as there will be lower commission charges and processing fees.

6. Systematic Investment Plans: The average transactional costs that you funds. SIPs are also a great option because most people may not have incur are lower if you choose the SIP route to make investments in mutual a lump sum amount to invest in mutual funds.

7. Easy investment process: Investment in mutual funds is a very easy process. All you have to do is identify your financial goals and decide how much money you want to invest in order to achieve them and the fund manager will take care of the rest.

8. Tax-efficiency: Investment in tax-saving mutual funds such as Equity. Linked Savings Scheme can help you avail tax benefits to the extent of 1.5 lakh. Although you will have to pay tax on Long Term Capital Gains if the investment is held for more than a year, you can still save a lot of money on tax under Section 80C of the Income Tax Act.

9. Safety: One of the most common things you hear about mutual funds is that they are unsafe in comparison with bank products. However, if you assess the fund house from which you purchase units of mutual funds in addition to an assessment of the fund manager, your capital will be safe.

10. Automated payments: Sometimes, you may forget to pay your SIP amount on time, and this would mean that you will have to pay two instalments in the following month. However, fund houses encourage automated payments and you can have the SIP amount paid directly on a certain date each month, thereby avoiding the failure to make timely payments.

Investing in mutual funds offers several benefits and drawbacks, and these can vary depending on your financial goals, risk tolerance, and investment horizon.

BENEFITS OF INVESTING IN MUTUAL FUNDS

Diversification: Mutual funds pool money from multiple investors to invest in a diversified portfolio of stocks, bonds, or other securities. This diversification helps spread risk and reduce the impact of poor-performing assets.

Professional Management: Mutual funds are managed by professional fund managers who make investment decisions on behalf of investors. Their expertise can potentially lead to better investment choices.

Liquidity: Mutual fund shares can typically be bought or sold on any business day at the fund's net asset value (NAV), providing liquidity for investors.

Affordability: Most mutual funds have relatively low minimum investment requirements, making them accessible to a wide range of investors.

Variety of Options: Mutual funds come in various categories, such as equity funds, bond funds, money market funds, and hybrid funds, allowing investors to choose funds that align with their investment objectives and risk tolerance.

Automatic Investment: Many mutual funds offer automatic investment plans, allowing investors to make regular contributions, which can be a disciplined way to save and invest over time.

DRAWBACKS OF INVESTING IN MUTUAL FUNDS

Fees and Expenses: Mutual funds typically charge fees, including expense ratios and, in some cases, front-end or back-end loads. These fees can reduce your overall returns.

Lack of Control: When you invest in a mutual fund, you delegate investment decisions to the fund manager, which means you have limited control over the specific assets in the portfolio.

Tax Considerations: Gains from mutual fund investments may be subject to capital gains taxes, which can affect your after-tax returns. Some funds are more tax-efficient than others.

Market Risk: Mutual funds are subject to market fluctuations, and the value of your investment can go up or down depending on the performance of the underlying assets.

Lack of Customization: Mutual funds have predefined investment strategies, so they may not align perfectly with your individual financial goals or risk tolerance.

Overtrading: Because mutual funds allow frequent buying and selling, some investors may be tempted to engage in excessive trading, which can lead to higher costs and tax consequences.

Tracking Error: The performance of a mutual fund may not perfectly match the performance of its benchmark index due to tracking error, which can result from various factors, including fees and portfolio management decisions.

In summary, mutual funds can be a convenient way to invest in a diversified portfolio managed by professionals, making them suitable for many investors. However, it's essential to carefully consider the fees, tax implications, and your investment goals before choosing mutual funds as part of your investment strategy. Additionally, you may want to explore other investment options, such as individual stocks or bonds, to complement your portfolio and achieve your financial objectives.

HISTORY OF MUTUAL FUNDS IN INDIA

A strong financial market with broad participation is essential for a developed economy. With this broad objective India's first mutual fund was establishment in 1963, namely, **Unit Trust of India (UTI)**, at the initiative of the **Government of India** and **Reserve Bank of India 'with a view to encouraging saving and investment and participation in the income, profits and gains accruing to the Corporation from the acquisition, holding, management and disposal of securities'**.

In the last few years the MF Industry has grown significantly. The history of Mutual Funds in India can be broadly divided into five distinct phases as follows:

First Phase - 1964-1987

The Mutual Fund industry in India started in 1963 with formation of UTI in 1963 by an Act of Parliament and functioned under the Regulatory and administrative control of the Reserve Bank of India (RBI). In 1978, UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. Unit Scheme 1964 (US '64) was the first scheme launched by UTI. At the end of 1988, UTI had 6,700 crores of Assets Under Management (AUM).

Second Phase - 1987-1993 - Entry of Public Sector Mutual Funds

The year 1987 marked the entry of public sector mutual funds set up by Public Sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first 'non-UTI' mutual fund established in June 1987, followed by Canbank Mutual Fund (Dec. 1987), Punjab National Bank Mutual Fund (Aug. 1989) Indian Bank Mutual Fund (Nov 1989), Bank of India (Jun 1990), Bank of Baroda Mutual Fund (Oct. 1992). LIC established its mutual fund in June 1989, while GIC had set up its mutual fund in December 1990. At the end of 1993, the MF industry had assets under management of 47,004 crores.

Third Phase - 1993-2003 Entry of Private Sector Mutual Funds

The Indian securities market gained greater importance with the establishment of SEBI in April 1992 to protect the interests of the investors in securities market and to promote the development of, and to regulate, the securities market.

In the year 1993, the first set of SEBI Mutual Fund Regulations came into being for all mutual funds, except UTI. The erstwhile Kothari Pioneer (now merged with Franklin Templeton MF) was the first private sector MF registered in July 1993.

With the entry of private sector funds in 1993, a new era began in the Indian MF industry, giving the Indian investors a wider choice of MF products.

The initial SEBI MF Regulations were revised and replaced in 1996 with a comprehensive set of regulations, viz., SEBI (Mutual Fund) Regulations, 1996 which is currently applicable.

The number of MFS increased over the years, with many foreign sponsors setting up mutual funds in India. Also the MF industry witnessed several mergers and acquisitions during this phase. As at the end of January 2003, there were 33 MFS with total AUM of 1,21,805 crores, out of which UTI alone had AUM of 44,541 crores.

Fourth Phase since February 2003 April 2014

In February 2003, following the repeal of the Unit Trust of India Act 1963, UTI was bifurcated into two separate entities, viz., the Specified Undertaking of the Unit Trust of India (SUUTI) and UTI Mutual Fund which functions under the SEBI MF Regulations.

With the bifurcation of the erstwhile UTI and several mergers taking place among different private sector funds, the MF industry entered its fourth phase of consolidation.

Fifth (Current) Phase - since May 2014

SEBI introduced several progressive measures in September 2012 to "re-energize" the Indian Mutual Fund industry and increase MFS' penetration.

In due course, the measures did succeed in reversing the negative trend that had set in after the global melt-down and improved significantly after the new Government was formed at the Center.

Since May 2014, the Industry has witnessed steady inflows and increase in the AUM as well as the number of investor folios (accounts).

The Industry's AUM crossed the milestone of 10 Trillion (10 Lakh crore) for the first time as on 31st May 2014 and in a short span of about three years the AUM size had increased more than two folds and crossed trillion (20 Lakh Crore) for the first time in August 2017. The AUM size crossed 30 trillion (30 Lakh Crore) for the first time in November 2020.

The overall size of the Indian MF Industry has grown from 7.20 trillion as on 30th September 2012 to 38.42 trillion as on 30th September 2022, more than 5 fold increase in a span of 10 years.

The MF Industry's AUM has grown from 20.40 trillion as on September 30, 2017 to 38.42 trillion as on September 30, 2022, around 2 fold increase in a span of 5 years.

The no. of investor folios has gone up from 6.20 crore folios as on 30- Sep-2017 to 13.81 crore as on 30-Sep-2022, more than 2 fold increase in a span of 5 years.

On an average 12.67 lakh new folios are added every month in the last 5 years since September 2017.

MUTUAL FUND HOUSES IN INDIA

Mutual Funds have been gaining a lot of popularity in India since past few years. Its profitable returns and affordability are attracting many people to invest. But, when planning to invest in Mutual Funds, most people think that a good Mutual Fund company can give a guaranteed return. This is not actually the fact. While a good brand name can be one of the parameters to invest, but there are many other various factors that decide the Best Performing Mutual Funds to invest in.

Keeping such parameters in mind, the following Mutual Fund houses in India have been the best Mutual Fund schemes by the respective AMCs.

1. SBI Mutual Fund

SBI Mutual Fund is one of the well-recognised company in India. The company is present in the Indian Mutual Fund industry for more than three decades now. The AMC offers schemes across various categories of funds to cater the diverse requirements of the individuals.

SBI Mutual Fund was established on 29 June 1987 as a Trust with State Bank of India (SBI) as the sponsor and SBI Mutual Fund Trustee Company Private Limited as the Trustee. It was registered with SEBI on 23 December 1993. On 13 April 2011, an agreement was signed between SBI and AMUNDI Asset Management, making the fund house a joint venture.

Today, the fund house offers a wide range of mutual fund schemes across equity, debt, hybrid, and other categories. SBI Mutual Fund has 6,47,602 crore assets under management (AUM) as of 31 May 2022. It holds 16.82% of the industry AUM.

SBI Mutual Fund offers 142 primary schemes.

Out of these, the AMC offers 36 equity funds, 81 debt schemes, 14 hybrid schemes, and 11 others, including Exchange Traded-Funds (ETFs), index funds, and gold funds.

2. SBI Equity Mutual Funds

The SBI Equity Mutual fund has various schemes in terms of equity, debt, and short-term mutual funds. The names of best performing schemes are:

- SBI Small Cap Fund
- SBI Contra Fund
- SBI Technology Opportunities Fund
- SBI Magnum Midcap Fund
- SBI Consumption Opportunities Fund
- SBI Large & Midcap Fund

3. ICICI Prudential Mutual Fund House in India

This mutual fund was founded in 1993 and has its headquarters in Mumbai.

ICICI Prudential Asset Management Company Limited is the 2nd largest AMCS in the country.

They worked an instrumental part in introducing Indian investors with mutual funds in the last 25 years.

Many investors have chosen their products to be safe and advanced.

There is a slew of products that cater to investors from different socioeconomic settings. For example, one can begin investing with a SIP (Systematic Investment Plan) amount' as small as 100 with no upper limit.

The ICICI Prudential Mutual fund has various schemes in terms of equity, debt, and short-term mutual funds. The names of best performing schemes are:

ICICI Prudential Mutual Fund Schemes

- ICICI Prudential Midcap Fund
- ICICI Prudential Dividend Yield Equity Fund
- ICICI Prudential Banking and Financial Services Fund
- ICICI Prudential Multi-Asset Fund

4. HDFC Mutual Fund

One of India's largest mutual fund houses, HDFC Mutual Fund, has Rs 4,23,716 crore assets under management. The company was started in 1999 as a joint venture between HDFC Limited and Investment Management Limited and became a publicly listed entity in August 2018.

The fund house has a strong position in equity investments and holds 11% of the industry AUM. It has a retail and institutional customer base of 9.9 million live accounts as of 31st March 2022.

HDFC Mutual fund has various schemes in terms of equity, debt, and short- term mutual funds.

HDFC Mutual Fund Schemes

- HDFC Small Cap Fund
- HDFC Retirement Savings Fund Equity
- HDFC Flexi Cap Fund
- HDFC Large and Mid Cap Fund
- HDFC Focused 30 Fund

5. Reliance Mutual Fund

The rellance Mutual has been set up on June-30 1995.

It gives a big 1033 funds. Reliance Mutual Fund as an AMC has a good amount of popularity in India. They are one of India's leading mutual funds,with Average Assets Under Management (AAUM) of Rs 2,33,628.56 Crores.

Reliance Small Cap Fund started in 2010 has returned a very high since the beginning.

Being a small-cap fund, it is considered as a high-risk fund.

Additional notice worthy funds by this AMC are Reliance Index Fund - Nifty Plan, Reliance Regular Savings Fund Balanced and many more.

It has a presence in 300 cities over the country.

The Reliance Prudential Mutual fund has various schemes in terms of equity, debt, and short-term mutual funds. The names best performing schemes are:

Reliance Mutual Fund schemes

- Reliance Banking Fund
- Reliance Large Cap Fund
- Reliance Multi-Cap Fund
- Reliance Floating Rate Fund Reliance Growth Fund
- Reliance Vision
- Reliance Pharma Fund

6. Franklin Templeton Mutual Fund Houses in India

Franklin Templeton is really an American financial services company that was founded in 1947.

Its Indian office was established in 1996.

The company has been a general in the mutual fund domain ever since

The rate is viewed as very good as this fund is a large-cap fund.

Added very remarkable fund with others is Franklin India High Growth Companies Fund. This multi-cap fund begun in 2007 has returned a rate not withstanding exposing the market crash of 2008

The Franklin Templeton Mutual Fund has various schemes in terms of equity,debt, large-cap funds and short-term mutual funds. The name of best performing schemes are:

Franklin Templeton Mutual Fund

- Franklin India Feeder Franklin U.S. Opportunities Fund
- FT India Feeder Franklin European Growth Fund
- Franklin India Taxshield
- Franklin India Banking & PSU Debt Fund
- Franklin India Feeder - Franklin U.S. Opportunities Fund
- Franklin India Corporate Debt Fund
- Franklin India Dynamic Accrual Fund
- Franklin India Debt Hybrid Fund

7. Birla Sun Life Mutual Fund

This AMC is a joint venture among Birla Group of India and Sun Life Financial Inc. of Canada.

Birla Sun Life Mutual Fund was begun in 1994.

Birla Sun Life Frontline Equity Fund has returned a striking since in 2002.

This rate of performance is really great for a large-cap mutual fund.

Added very useful fund by this AMC is Birla Sun Life Tax Relief 96.

This fund is an ELSS (Equity Linked Savings Schemes) fund and assists people to save tax under Section 80C.

The Birla Sun Life Mutual Fund has various schemes in terms of equity, debt, large-cap and short-term mutual funds. The name of best performing schemes are:

Birla Sun Life Mutual Fund

- Aditya Birla Sun Life Equity Fund
- Aditya Birla Sun Life Frontline Equity Fund
- Aditya Birla Sun Life Corporate Bond Fund
- Aditya Birla Sun Life Balanced 95 Fund
- Aditya Birla Sun Life Credit Risk Fund
- Aditya Birla Sun Life Balanced Advantage Fund
- Aditya Birla Sun Life Low Duration
- Aditya Birla Sun Life Medium Term Plan
- Aditya Birla Sun Life Arbitrage Fund

8. UTI Mutual Fund

UTI Mutual Fund was created out of the former Unit Trust of India as a SEBI listed mutual fund from 1 February 2003.

The comes in at 6th position as mutual fund houses in India with an AU.

UTI was established in 1963 and was India's 1st asset management company.

This AMC offers a very great 1399 mutual funds As an AMC, UTI Mutual Fund has returned a price great over 15% over to pick from the 3 decades it has been in continuation.

It is very good for a large-cap fund.

The UTI Mutual Fund has various schemes in terms of equity, debt, large-cap and short-term mutual funds. The name of best performing schemes are:

UT Mutual Fund

- UTI Mastershare Unit Scheme
- UTI Banking & Financial Services Fund
- UTI Hybrid Equity Fund
- UTI Bond Fund
- UTI Credit Risk Fund

9. Kotak Mahindra Mutual Fund

Kotak Mutual Fund is a wholly owned subsidiary of Kotak Mahindra Bank Limited. It was registered with SEBI in June 1998. The fund house has a large investor base of over 8.1 million. Based on its quarterly AUM as of Mar 2022, the fund house ranked the 5th largest amongst all fund houses.

Kotak Mutual Fund has over 101 mutual fund schemes for investors to choose from.

Out of these, 26 are equity schemes, 63 are debt schemes, and 5 are hybrid schemes. The others, including commodity schemes, account for the remaining 7.

Kotak Mutual Fund holds 7.33% of the industry AUM.

Some of the schemes with the highest AUM from Kotak Mutual Fund are Kotak Liquid fund, Kotak Flexicap fund and Kotak Equity Arbitrage fund of June 2022.

Kotak Mahindra Mutual Fund has various schemes in terms of equity, debt, large - cap and short-term mutual funds. The names of best performing schemes are:

Equity Funds invest your money in Equity and Equity related instruments.

- Kotak Small Cap Fund
- Kotak Emerging Equity Fund
- Kotak Infrastructure and Economic Reform Fund
- Kotak Tax Saver Fund
- Kotak Equity Opportunities Fund
- Kotak India EQ Contra Fund
- Kotak Bluechip Fund
- Kotak Flexicap Fund

DIFFERENT TYPES OF MUTUAL FUND SCHEMES

The different types of Mutual Fund Schemes are studied as follows:

Mutual funds come in many varieties, designed to meet different investor goals. Mutual funds can be broadly classified based on:

1. Organisation Structure - Open ended, Close ended, Interval

2. Management of Portfolio - Actively or Passively

3. Investment Objective - Growth, Income, Liquidity

4. Underlying Portfolio Equity, Debt, Hybrid, Money market instruments, Multi Asset

5. Thematic / solution oriented - Tax saving, Retirement benefit, Child welfare, Arbitrage

6. Exchange Traded Funds

7. Overseas funds

8. Fund of funds

1. Scheme Classification by Organization Structure

Open-ended schemes are perpetual, and open for subscription and repurchase on a continuous basis on all business days at the current NAV.

Close-ended schemes have a fixed maturity date. The units are issued at the time of the initial offer and redeemed only on maturity. The units of close-ended schemes are mandatorily listed to provide exit route before maturity and can be sold/traded on the stock exchanges.

Interval schemes allow purchase and redemption during specified transaction periods (intervals). The transaction period has to be for a minimum of 2 days and there should be at least a 15-day gap between two transaction periods. The units of interval schemes are also mandatorily listed on the stock exchanges.

2. Scheme Classification by Portfolio Management

Active Funds

In an Active Fund, the Fund Manager is 'Active' in deciding whether to Buy, Hold, or Sell the underlying securities and in stock selection. Active funds adopt different strategies and styles to create and manage the portfolio.

The investment strategy and style are described upfront in the Scheme Information document (offer document)

Active funds expect to generate better returns (alpha) than the benchmark index.

The risk and return in the fund will depend upon the strategy adopted.

Active funds implement strategies to 'select' the stocks for the portfolio.

Passive Funds

Passive Funds hold a portfolio that replicates a stated Index or Benchmark

e.g. Index Funds, Exchange Traded Funds (ETFs)

In a Passive Fund, the fund manager has a passive role, as the stock selection / Buy, Hold, Sell decision is driven by the Benchmark Index and the fund manager / dealer merely needs to replicate the same with minimal tracking error.

3. Classification by Investment Objectives

Mutual funds offer products that cater to the different investment objectives of the investors such as - Capital Appreciation (Growth), Capital Preservation, Regular Income, Liquidity and Tax-Saving

Mutual funds also offer investment plans, such as Growth and Dividend options, to help tailor the investment to the investors' needs.

- **Growth funds**

Growth Funds are schemes that are designed to provide capital appreciation.

Primarily invest in growth oriented assets, such as equity

Investment in growth-oriented funds requires a medium to long-term investment horizon.

Historically, Equity as an asset class has outperformed most other kind of investments held over the long term. However, returns from Growth funds tend to be volatile over the short-term since the prices of the underlying equity shares may change.

Hence investors must be able to take volatility in the returns in the short-term.

- **Income funds**

The objective of Income Funds is to provide regular and steady income to investors.

Income funds invest in fixed income securities such as Corporate Bonds, Debentures and Government securities.

The fund's return is from the interest income earned on these investments as well as capital gains from any change in the value of the securities.

The fund will distribute the income provided the portfolio generates the required returns. There is no guarantee of income. The returns will depend upon the tenor and credit quality of the securities held.

- **Liquid/ Overnight /Money Market Mutual Funds**

Liquid Schemes, Overnight Funds and Money market mutual fund are investment options for investors seeking liquidity and principal protection, with commensurate returns.

The funds invest in money market instruments* with maturities not exceeding 91 days.

The return from the funds will depend upon the short-term interest rate prevalent in the market.

4. Classification by Investment Portfolio

Mutual fund products can be classified based on their underlying portfolio composition

The first level of categorization will be on the basis of the asset class the fund invests in, such as equity / debt / money market instruments or gold..

The second level of categorization is on the basis of strategies and styles used to create the portfolio, such as, Income fund, Dynamic Bond Fund, Infrastructure fund, Large-cap/Mid-cap/Small- cap Equity fund, Value fund, etc. The portfolio composition flows out of the investment objectives of the scheme.

5. Solution Oriented Mutual Funds

Solution Oriented Fund is a recently introduced category of mutual funds by SEBI. It has created an easy path for the financial planning of complex long term objectives which may or may not need alteration in the strategy with respect to time. The schemes under this category have been operating long before the formation of the category.

The fund manager of a solution-oriented fund is free to furbish the portfolio with equity or debt tools and can also change the strategy for investors of different age groups. Some of the solution oriented mutual funds also provide tax deductions.

Types of Solution Oriented Funds

Based on the investment objective, SEBI has divided solution oriented funds into two sub-categories:

A. Tax Saving Mutual Funds

Tax saving mutual funds is just like any other mutual funds with an added tax saving benefit. The special feature of this type of mutual fund is that the investments made in the tax-saving mutual funds are eligible for tax benefits under section 80C of the Indian Income Tax Act. Most of the tax saving mutual funds are ELSS schemes and make investments in the growth-oriented equity market. The investments made in these types of funds are eligible for tax benefits of up to 1.5 lakh.

B. Retirement Funds

Retirement mutual funds aim to provide financial assistance to the retirees by gathering the capital during the earning age of the investor. These funds follow an aggressive style of investment by selecting high-risk stocks in the portfolio when the investor is in the young and earning stage. As it retirement is mostly more than 15 years away from such investors, high- yarisk stocks add significant value to the investment allowing more capital to be built for retirement planning.

C. Children's Funds

The children's fund aims for the financial assistance of the young ones until their education is completed.

D. Arbitrage Funds

Arbitrage funds are hybrid mutual fund schemes which aim to generate arbitrage profits by exploiting price differences of the same underlying assets in different capital market segments. These funds can also invest in debt and money market instruments.

Arbitrage is simultaneous buying and selling the same underlying security in different market segments to make risk free profits.

6. Exchange-Traded Fund (ETF)

An exchange-traded fund (ETF) is a type of pooled investment security that operates much like a mutual fund. Typically, ETFS will track a particular index, sector, commodity, or other assets, but unlike mutual funds, ETFs can be purchased or sold on a stock exchange the same way that a regular stock can. An ETF can be structured to track anything from the price of an Individual commodity to a large and diverse collection of securities. ETFs can even be structured to track specific investment strategies.

7. Overseas or Foreign Fund

A foreign fund refers to a fund that invests in businesses outside the country of origin of the investor. They can be exchange-traded funds, closed- end funds, or mutual funds. They are sometimes referred to as international funds.

Foreign funds provide private investors with access to overseas markets. Foreign Investment introduces risks, but it may also help investors to diversify their investment portfolios. Foreign funds are higher-risk investments, which are typically used as a substitute for central investments of long-term portfolios.

8. Fund Of Funds (FOF)

A 'Fund Of Funds' (FOF) is an investment strategy of holding a portfolio of other investment funds rather than investing directly in stocks, bonds or other securities. An FOF Scheme of a primarily invests in the units of another Mutual Fund scheme. This type of investing is often referred to as multi-manager investment.

TYPES OF MUTUAL FUND PLANS

Mutual funds are gaining popularity among Indian investors. The reason is that these investment avenues provide a range of benefits to investors. Such benefits include a diversified portfolio, expert portfolio management, flexibility in investments through SIPs, and lump sum among others.

The mutual fund industry in India is regulated by the Securities and Exchange Board of India (SEBI). Although SEBI has categorized mutual funds based on where they invest, there are other ways mutual funds can be classified. The different types of mutual funds in India are:

1. Types of mutual funds based on their Structure

a. Open-ended mutual funds schemes

In open-ended mutual fund schemes, you can invest and redeem your Investments whenever you want. There is no maturity tenure or a specific time for investment into the scheme. Open-ended mutual funds are, therefore, liquid in nature.

b. Close-ended mutual fund schemes

Close-ended mutual fund schemes have a stipulated investment period and a specified maturity period.

c. Interval Mutual Funds schemes

Interval Mutual Funds allow you to invest or redeem from them at intervals.

2. Types of mutual funds based on Asset Classes

a. Equity mutual funds

Equity mutual funds are those that invest at least 65% of their portfolio in equity stocks or equity-related securities. These funds have high market risks as well as the potential to generate high returns.

b. Equity Fund Taxation

Equity/Hybrid Mutual Funds with a minimum of 65% exposure in any of the equity instruments at all points of time qualify for equity taxation. Long Term Capital Gains for Equity Mutual Funds are tax-free up to INR 1 lakh of capital gains in one financial year, after which it is taxed at 10%.

c. Debt mutual funds

Debt mutual funds are those that invest their portfolio primarily in fixed income instruments, l.e. avenues which offer a fixed rate of interest. Debt funds, therefore, are immune to stock market risks and offer relatively stable returns when compared to equity funds.

d. Debt mutual funds taxation:

Debt/hybrid mutual funds with less than 65% of equity exposure at any point in time qualify for debt taxation. Debt Mutual Funds with a holding period of minimum 36 months qualify for indexation benefit.

e. Hybrid mutual funds:

Hybrid mutual funds are those that invest their portfolio in a mix of different asset classes like equity, debt, etc. Hybrid funds, therefore, give you diversified exposure to different classes of assets.

f. Hybrid fund taxation:

The taxation of hybrid mutual funds depends on the asset allocation of the fund. If the fund has at least 65% equity exposure, it would be taxed as equity mutual funds. If equity exposure is not a minimum of 65%, the fund would be taxed as debt mutual funds.

g. Solution-oriented Mutual Fund Schemes:

Solution-oriented mutual fund schemes are those that invest to create funds for a specific financial need like planning for a child's education or retirement.

h. Solutions-oriented mutual fund taxation:

Taxation of solutions-oriented mutual funds depends on the asset allocation of the fund. If the fund has at least 65% equity exposure, it would be taxed as equity mutual funds. If equity exposure is not a minimum of 65%, the fund would be taxed as debt mutual funds.

i. Other funds:

FoFs are mutual fund schemes that invest in another fund. These are open-ended funds that invest at least 95% of their portfolio in the chosen underlying fund. FoFs can invest in domestic funds or international funds.

3. Type of Mutual Fund based on Investment Objectives

There are two options of mutual funds which you can choose, namely:

a. Growth Option: If you choose the Growth Option of any mutual fund scheme, the profits made by the scheme would be invested back into the scheme for which the NAV (net asset value) or the price of each mutual fund unit goes up. Similarly, if there is a loss, the NAV goes down. Thus, in order to get any profit from the growth option of any mutual fund scheme. you would need to redeem the units.

b. Dividend Option: If you choose the Dividend Option of any mutual fund scheme, the profits made by the scheme would be distributed to the investors at regular intervals (monthly, quarterly, or annually). The profit is deducted from the NAV (net asset value), from the price of each mutual fund unit.

4. Type of Mutual Fund based on Portfolio Management

Mutual Funds can be categorized based on how the portfolio is managed. The two types are active and passive mutual fund schemes.

a. Active Mutual Funds or actively managed mutual funds are those wherein the fund manager continuously keeps looking for ways to generate better returns. The fund manager sells and buys stocks whenever he sees an opportunity.

b. Passive Mutual Funds or passively managed funds are those wherein the fund manager does not actively manage the portfolio. The portfolio reflects a specific Index, l.e., the money is allocated in the exact same way as It is done in the underlying index. Any change in the portfolio is done only if there is a change in the index composition.

NET ASSET VALUE (NAV)

NAV stands for 'Net Asset Value.' NAV represents the price at which a mutual fund may be bought by an investor or sold back to a fund house.

A mutual fund's NAV is an indicator of its market value. Therefore, NAV can be viewed to assess the current performance of a mutual fund.

By determining the percentage increase or decrease in the NAV of a mutual fund, an investor can calculate the increase or decrease in its value over time.

A mutual fund's NAV is usually calculated by a fund accounting firm hired by the mutual fund or the mutual fund house itself.

It is mandatory, as per SEBI guidelines, that all mutual funds publicly display their NAV by updating it on the AMC & AMFI website on every business day.

Calculation of NAV

Net Asset Value = [Total Asset Value - Expense Ratio] / Number of Outstanding units

NAV = Market Price of Securities + Other Assets - Total Liabilities + Units Outstanding as at the NAV date

NAV = Net Assets of the Scheme + Number of units outstanding, that is, Market value of investments + Receivables + Other Accrued Income +Other Assets - Accrued Expenses - Other Payables - Other Liabilities + No. of units outstanding as at the NAV date

CRITERIA FOR SELECTION OF MUTUAL FUNDS

(FACTORS FOR SELECTING A MUTUAL FUND CATEGORY)

Mutual funds are a preferred choice among investors today owing to their attractive returns and diversified portfolio. However, as an investor one must remember that no single scheme or set of schemes is suitable for everyone. A suitable mutual fund scheme for an investor is the one which suits his/her investment objective and risk appetite among other factors.

Selecting a mutual fund is a 2-step process: Selection of the mutual fund category and selection of a scheme in that category.

The following are the factors which an investor should consider while selecting a mutual fund scheme:

1) Investment Objective:

Investment objective refers to an investor's financial goal which he/she aims to accomplish with the mutual fund investment. The investment objective can be any short-term or long-term financial aspiration of the investor - buying a house/car, financing children's higher education, going on a vacation, retirement, etc.

2) Time Horizon:

Time horizon refers to the time period for which an investor wishes to keep his/her money invested in a mutual fund scheme. It can be either as short as 1 day or as long as more than 5 years. Different fund categories work best for different time horizons. This is because some funds invest in shorter dated debt and others invest in longer dated debt. Equity funds should ideally be chosen if the investment horizon is more than 5 years.

3) Risk tolerance:

Risk tolerance refers to the amount of risk an investor is willing to take with his/her invested money. SEBI in 2015 made it mandatory for all mutual fund houses to display a riskometer which consists of 5 levels of risk associated with the invested principal amount. The 5 risk levels are low, moderately low, moderate, moderately high, and high.

SIP, STP, and SWP are three common investment strategies associated with mutual funds.

SIP - SYSTEMATIC INVESTMENT PLAN

SIP is a method of investing in mutual funds in a systematic and disciplined manner. Instead of making a lump-sum investment, investors commit to investing a fixed amount of money at regular intervals (usually monthly).

BENEFITS:

- Encourages regular saving and investing.
- Reduces the impact of market volatility through cost averaging.
- Allows investors to benefit from the power of compounding.

STP - SYSTEMATIC TRANSFER PLAN

STP involves transferring a fixed amount of money from one mutual fund scheme to another within the same fund house at regular intervals. Typically, investors move money from a debt or money market fund to an equity fund, or vice versa.

BENEFITS:

- Helps manage risk by reallocating funds between asset classes.
- Allows investors to capture potential returns from different asset classes.
- Useful for investors looking to switch gradually from one fund to another.

SWP - SYSTEMATIC WITHDRAWAL PLAN

SWP is a strategy for regular withdrawals from a mutual fund investment. Instead of redeeming the entire investment in one go, investors can set up periodic withdrawals, typically on a monthly, quarterly, or annual basis.

BENEFITS

- Provides a steady stream of income from your mutual fund investment.
- Can be useful for retirees or those seeking regular cash flows.
- Allows investors to maintain their investment in the fund while accessing cash.

It's important to note that the success of these strategies depends on your financial goals, risk tolerance, and investment horizon. SIP is a popular choice for long-term wealth accumulation, while STP and SWP are often used for managing portfolio risk and generating income, respectively.

When considering any of these strategies, it's crucial to understand the associated costs, tax implications, and the specific mutual funds you're investing in. Additionally, consulting with a financial advisor or investment professional can help you determine which strategy aligns best with your financial objectives.

A. Two Marks Questions

1. What is Finance?
2. What is planning?
3. What are your life goals?
4. What are your financial goals?
5. Define Economics
6. What do you mean by the term Income?
7. What is meant by Bank?
8. State any two types of Bank Deposits?
9. What are the Primary functions of Bank?
10. Expand PMUDY& RTGS
11. What is meant by a Debit Card?
12. Give the meaning of Credit Card
13. What is Digital Payment?
14. What is Internet banking?
15. Expand NEFT & IMPS
16. Expand UPI & AEPS.
17. What is meant by Mobile Banking?
18. Give the meaning of Mobile Wallet
19. What do you mean by Present Value of Money?
20. What do you mean by EPS?
21. What is P/E Ratio?
22. State any two differences between Compounding and Discounting

B. Six Marks Questions

1. Briefly explain the need for financial planning.
2. Give a brief account of life goals and financial goals
3. Chart down a format a sample financial plan for a young adult.
4. What is the scope of Economics?
5. Explain the types of Bank Deposits.

6. Give a brief note on PMIDY
7. Differentiate between traditional and new banking models.
8. Differentiate between Debit and Credit Cards
9. Distinguish between Internet Banking and Mobile Banking
10. Explain the model for reading financial statements
11. Explain the Concepts of Compounding and Discounting.

C. Ten Marks Questions

1. Explain the key influencing factors for decision making both micro & macro environment.
2. Explain a) NEFT, b) RTGC c) IMPS, d) UPI and e) AEPS.
3. Explain in brief the basic ratios for evaluating companies while investing.

INVESTMENT AVENUES QUESTIONS

A. Two Marks Questions

1. Define the term Investment.
2. What is the meaning of Investment?
3. What do you mean by Liquidity?
4. Give the meaning of Risk Profile?
5. What is Insurance?
6. What is Life Insurance?
7. What is General Insurance?
8. Expand PMLVMY & PMKMDY.
9. What do you mean by Share?
10. What is Share Market?
11. What is equity?
12. What is debt security?
13. Give the meaning of Mutual Funds.
14. What is Stock Exchange?
15. What is Primary Market?
16. What is Secondary Market?

17. What is Bond?

18. What is a Demat Account?

19. What do you mean by Depository Participant?

20. What do you mean by Risk and Return?

B. Six Marks Questions

1. Briefly explain goals of Investment.

2. Briefly explain the factors that influences the investors risk profile.

3.Explain in brief risk measurement tools.

4. Write a note on retirement planning.

5. Write a note on NPS.

6. Explain PMSYM.

7. Explain PMLVMY.

8. Explain in brief Atal Pension Yojana.

9. What are the features of Stock Exchange?

10. Write a note on NSE and BSE.

11. Differentiate between primary and secondary market.

12. Briefly explain the stock exchange operations.

C. Ten Marks Questions

1. Explain the factors influencing the investment decision.

2. What is Insurance? Explain the Various of Types of Insurance.

3. Explain the various investment options available for investors in securities market

4. Explain the functions of Stock Exchange.

5. Explain the Redressal Mechanism of Investors Grievances.

6. Explain the stock selection analysis.

MUTUAL FUNDS AND FINANCIAL PLANNING QUESTIONS

A. Two Marks Questions

1. What is the meaning of Mutual Fund?
2. What do you mean by NPV?
3. Give the Mutual Fund Performance Measure indicators
4. What is Alpha measurement in Mutual Fund?
5. Give the meaning of R-squared measurement in Mutual Fund
6. What is a Financial Plan?
7. What is the meaning of Crowd Sourcing?

B. Six Marks Questions

1. Briefly explain features of Mutual Fund
2. Briefly explain Criteria for Selection of Mutual Funds
3. Briefly explain Steps in Financial Planning

C. Ten Marks Questions

1. Explain the History of Mutual Funds in India
2. Explain the Mutual Fund Houses in India
3. Briefly explain different types of Mutual Fund Schemes