CHAPTER 2
INVESTMENT ALTERNATIVES

Introduction

An investor as three objectives while investing his money, namely safety of invested money, liquidity position of invested money and return on investment.

Nowadays a wide range of investment opportunities are available to the investor these are primary bank deposits, corporate deposits, bonds, units of mutual funds, instruments under National savings schemes, pension plan, insurance policies, equity shares etc. All these instruments compete with each other for the attraction of investors. Each instrument has its phone return, risk, liquidity and safety profile.

Meaning of Investment Alternative

An alternative investment (also called an alternative asset) is an investment in any asset class excluding stocks, bonds, and cash. The term is a relatively loose one and includes tangible assets such as precious metals, collectibles (art, wine, antiques, cars, coins, musical instruments, or stamps) and some financial assets such as real estate, commodities, private equity, distressed securities, hedge funds, exchange funds, carbon credits, venture capital, film production, financial derivatives, crypto currencies, non-fungible tokens, and tax receivable agreement. Investments in real estate, forestry and shipping are also often termed "alternative" despite the ancient use of such real assets to enhance and preserve wealth.

Features of an Ideal Investment Alternatives:

1) Safety

Every invested wants to be insured of the safety of principal amount which he is investing. Tum minimize the rest and to ensure the safety of principle the investor should diversify his investments. Adequate diversification means assortment of investment commitments in different ways. A proper combination of all diversifications reduces the risk. Diversification must be accomplished reasonable and should not be carried out in extremes because over diversification is also undesirable.

2) Liquidity

A liquid investment is that which can be converted into cash immediately at full market value inany quantity. Every invested must ensure a minimum liquidity in his investment to meet the contingencies and emergencies. To ensure liquidity, the investor should keep a part of a total investment in the form of readily saleable securities.

3) Regularity and Stability of Income

Regularity of income at a stable and consistent rate is essential in any investment. However the stability of income is not consistent with the other investment principle. Monetary stability limitsthe scope for capital growth and diversification.

4) Stability of Purchasing Power

Invested should balance the investment programs to fight against any purchasing power instability full stop any rational investor knows that money is losing its value by the extent of therise in prices. If money lent cannot earn as much as rise in the prices or inflation the real rate of return is negative.

5) Capital Appreciation

Capital appreciation of become a very important principle in the present day volatile markets.The investors should try and forecast which securities will appreciate in future. It is an exceedingly different job and should be done thoughtfully in a scientific manner.

6) Tax Benefits

Every investor must planes investment plan keeping in mind is tax status full stop investor should be concerned about the returns on the investment as well as the burden of tax upon such returns full stop the investor should plan their investment in such a way that the tax liability willbe minimized.

7) Legality

Legal aspect of investment must also be kept in mind. The security is must be legal beyond doubt and must helpful in avoiding many problems.

8) Concealability

Sometimes, the investor as to invest in security which can be concealed and leave no record of income received from them. Gems precious stones, antiques etc have been used for this purpose since ages because they combine high value with a small bulk and are readily transferable. Concealability is done to avoid confiscation or taxation which is not legal but it is still resorted by maturity of investors.

8) Tangibility

Most of the investors prefer to keep a part of their tangible securities like building machinery land etc. Tangible property does not yield any income, the only satisfaction is the pride of ownership.

Factors affecting Investment Decisions

1) Amount of Investment

The amount of funds available for investment will influence the form of investment. There are a number of avenues to invest for different investment requirements, such as- bank deposits and mutual funds for small amount to invest while real estate investments requires huge investment of amount.

2) Purpose of Investment

The purpose of investment must be very clear before making it. It varies from person to person as to save tax, fixed returns, appreciation in the value of securities, etc.

3) Types of Investments

Another important factor which influences investment decision is the selection of avenues. Combination of different types of avenues or differentiation may provide different objectives to achieve.

4) Timing of Purchase

The time of purchasing securities is very important. A proper timing of purchase and sale of securities can bring profits to the investor. For this purpose, a careful analysis of price changes may help the investor to decide the proper timing of purchase and sale of securities.

Meaning of Assets

An asset is a resource with economic value that an individual, corporation, or country owns or controls with the expectation that it will provide a future benefit.

Real Assets and Financial Assets

There are 2 broad types of assets:

1. Real Assets
2. Financial Assets

   1. Real Assets

   Real assets are the assets that a business or investor owns, such as land, building, and more.

   Real assets comprises of 2 parts:

- Physical assets

Physical assets are tangible assets and can be seen, touched and held, with a very identifiable physical existence. Physical assets include land, machinery, buildings, tools, equipment, vehicles, gold, silver, or any other form of material economic resource.

- Intangible assets

An intangible asset is an asset that is not physical in nature. Goodwill, brand recognition and intellectual property, such as patents, trademarks.

2. Financial Assets

A financial asset is a liquid asset that gets its value from a contractual right or ownership claim. Cash, stocks, bonds, mutual funds, and bank deposits are all are examples of financial assets.

Physical assets can be classified into

- Fixed assets

Fixed assets are resources purchased for long term use in the business and are not likely to be sold for cash within 12 months. Fixed assets are typically used by a business to generate income. They may also be referred to as property, plant and equipment and recorded like that on a balance sheet.

- Working capital assets

Working capital is calculated by subtracting current liabilities from current assets, as listed on the company's balance sheet. Current assets include cash, accounts receivable and inventory. Current liabilities include accounts payable, taxes, wages and interest owed.

<u>Non marketable Financial Assets</u>

Non marketable securities are illiquid securities that do not have an active secondary market and may only trade on over-the-counter exchanges if available. Investment in non-marketable securities are ideal for investors with a long-term investment horizon, a guaranteed return and who have disposable income they will not need until the maturity of the investment. A good portion of the financial assets of individual is held in the form of non-marketable financial assets like bank deposits, post office deposits, company deposits and provident fund deposits.

Some of the important Non-marketable securities are:

- Bank Deposits

  Perhaps the simplest of investment avenues is opening a bank account and depositioning money in it one can make a Bank deposit. There are various kinds of bank accounts such as current account, savings account and fixed deposit account. While a deposit in a current account does not earn any interest deposits in other kinds of bank accounts earn interest.

  The important features of bank deposits are as follows

- Deposits in scheduled banks are very safe because of the regulations of the reserve Bankof India and the guarantee provided by the deposit insurance corporation, which guarantees deposits up to rupees 100000 per depositor of a bank.
- There is a ceiling on the interest rate payable on deposits in the savings account.
- The interest rate on fixed deposits varies with the term of the deposit. In general it islower for fixed deposits of shorter term and higher for fixed deposits of longer term.
- Bank deposits enjoy exceptionally high liquidity. They can be in encashed easily.
- Loans can be raised against Bank deposits.

2. Post office time deposits (POTD)

- Similar to Bank fixed deposits if commercial banks, POTDs have some features:
- Deposits can be made in multiples of rupees 50 without any limit
- The interest rates on POTD are in generally slightly higher than those on bank deposits.
- The interest is calculated half yearly and paid annually.
- A POTD account can be pledged.

3. Monthly income scheme of the post office (MISPO)

- A popular scheme of the post office, the MISPO is meant to provide regular monthlyincome to the depositors. The salient features of the scheme are as follows:
- The term of the scheme is 6 years

- The minimum amount of investment is rupees 1000
- The interest rate is around 6.0% payable monthlyThere is no tax deduction at source
- There is a facility of premature withdrawal after 1 year.

- 4. Kisan Vikas Patra (KVP)
- It is the scheme of the post office, the Kisan Vikas Patra as the following features:
- The minimum amount of investment is rupees 1000 there is no maximum limit
- There is no tax deduction at source
- Kisan Vikas Patra can be pledged as a collateral security for raising loans
- There is a withdrawal facility after two and half years.

5. National savings certificate

- It is issued at post offices, the national saving certificate offers the following features:
- It comes in denominations of rupees 100 rupees 500 rupees 1000 rupees 5000 and rupees 10000
- It has a term of 6 years
- investment in NSC can be deducted before computing the taxable income under section80c
- There is no tax deduction at source
- It can be pledged as a collateral for raising the loans.

<u>Benefits of non marketable securities</u>

- Guaranteed return

Non marketable securities provide guaranteed return the return is generally higher than the marketable securities.

- Low risk

Non marketable securities especially those issued by the government have negligible default and price risk it means the investor rarely stands to lose the money.

- Subject to volatility

They are immune to volatility fluctuations due to changes in the demand in the market as these securities are not traded in the secondary market can be purchased in favor of third party non marketable securities can be purchased by any individual. They can be purchased as a gift for aminor or other people and that person can reap out the benefits post maturity .

- Good returns

Investors are issued non marketable securities at a discount but are redeemed at face value. The differential represents a higher yield or return to the investor with the minimum risk of loss.

Drawbacks of non marketable securities

- Highly illiquid
  They are highly non liquid so an investor with a quick need for cash will find thesesecurities of no use for his circumstances.
- Super normal returns can't be expected
  These securities have guaranteed return which also means an opportunity loss as non marketable securities would not provide higher rate of return in case of good market conditions. on the other hand marketable securities will provide higher return in case of improved market conditions
- Non transferable securities
  Investor should ensure to invest only that the part of disposable income in non marketable securities which is not required sooner, as the securities are non transferable and non market table in nature.

Money market meaning

Money market refers to the market where money and highly liquid marketable securitiesare bought and sold having a maturity period of one or less than 1 year. The money market constitutes a very important segment of the Indian financial system.

Definition of money market

According to the Geoffrey "Money market is the collective name given to the various forms and institutions that deal in the various grades of near money".

According to the reserve Bank of India "Money market is the centre for dealing, mainly of short term character, in money assets; it meets the short term requirements of borrowings and provides liquidity or cash to the lenders. it is the place where short term surplus investable funds at the disposal of financial and other institutions and individualsare bid by the borrowers' agents comprising institutions and individuals and also the government itself".

Objectives of money market

- To provide a parking place to employ short term surplus funds
- To provide the room for overcoming short term deficits
- To enable the central bank to influence and regulate liquidity in the economy through its intervention in this market
- To provide a reasonable access to the users of short term funds to meet the requirements quickly, adequately and at reasonable cost
- To provide an equilibrium mechanism for ironing out short term surplus and deficits to provide a focal point for Central Bank intervention for influencing the liquidity in the economy.

Features of money market

- It is a market purely for short term funds or financial assets called near money .
- It deals with financial assets having a maturity period up to 1 year only .
- It deals with only those assets which can be converted into cash readily without loss andwith minimum transaction cost.
- Generally transactions take place through phone i.e. oral communication. Relevant documents and return communication can be exchanged subsequently there is no formalplace like stock exchange as in the case of a capital market.
- Transactions have to be conducted without the help of the brokers.

- The components of a money market are the central bank, commercial banks, non banking financial companies, discount houses and acceptance house.

The most liquid, short-term debt obligations that are traded in the money market we called money market instruments. Some of these instruments are briefly described below

1. Treasury Bills (T-Bills)

Treasury Bills, one of the safest money market instruments are short term borrowing instruments of the Central Government of the Country issued through the Central Bank (RBI in India). They are zero risk instruments, and hence the returns are not so It is available both in primary market as well as secondary market. It is a pro to pay a said sum after a specified period. T-bills are short-term securities that mature in one year or less from their issue date. They are issued with three-month, six-month and one-year maturity periods. The Central Government issues T- Bills at a price less than their face value (par value). They are issued with a promise to pay full face value on maturity T-Bills are issued through a bidding process at auctions.

At present, the Government of India issues three types of treasury bills through auctions. namely, 91-day, 182-day and 364-day. Treasury bills are available for a minimum amount of 25K and in its multiples.. It is issued in the form of a zero coupon instrument at discount to face value redeemable at par on maturity. The discount earned on T-bills, as well as the profit/ loss on investment is charged under the head "Income from Business and Profession". By virtue of provision (iv) to section 193 of Income Tax Act, no tax is required to be deducted at source on interest payable on any security of Central or State Government (Only for coupon payments). No TDS (Tax deducted at source) is attracted on discount i.e. differential between issue price and face value in case of treasury bills. Due to a large denomination and low rate of return, it has virtually no appeal for individual investors.

2. Commercial Papers (CP)

Commercial paper is a low-cost alternative to bank loans. It is a short term unsecured promissory note issued by corporate and financial institutions at a discounted value on face value. They are usually issued with fixed maturity between one to 360 days and for financing of accounts receivables, inventories and meeting short term liabilities. Commercial paper being an instrument not backed by any collateral, only firms with high quality credit ratings will find buyers easily without offering any substantial discounts. They are issued by corporate to impart flexibility in raising working capital resources at market determined rates. Commercial Papers are actively traded in the secondary market since they are issued in the form of promissory notes and are freely transferable in demat form.

CPs are issued at discount to face value and is redeemable at par on maturity. Typically CPs are issued for a period of 30/45/60/90/120/270/360 days. There are no brokers in the CP market. Trading is done over the counter with the counter parties involved. CP can be issued in denominations of Rs. 5 lakh or multiples thereof. Amount invested by single investor should be less than Rs. 5 lakh (face value). Issue of CP is subject to payment for stamp duty.

The stamp duty on a primary issue of CP 0.25 per cent for all other investors, with a concessional rate of 0,05 for banks. CPs are transferable by endorsement and physical delivery. CP are subject to liquidity risk, credit risk and operational risk. The provisions of the Income Tax Act relating to deduction of tax at source are not applicable in the case of CPs. Typically it is of high denomination and hence bought mainly by institutional investors and companies.

3. Certificate of Deposit

It is a short term borrowing more like a bank term deposit account. It is a promissory note issued by a bank in form of a certificate entitling the bearer s receive interest. A certificate of deposit (CD) represents a title to a negotiable deposit with a commercial It carries a reasonably attractive interest rate, CDs are freely transferable by endorsement and delivery after 15 days of the date of issue. The certificate bears the maturity date, the fixed rate of interest and the value. It can be issued in any denomination They are stamped and transferred by endorsement. Its term generally ranges from three months to five years and restricts the holders to withdraw funds on demand. However, on payment of certain penalty the money can be withdrawn on demand also. The returns on certificate of are higher than T-Bills because it assumes higher level of risk. The minimum size of a CD issue is Rs. 5 lakhs. It involves price risk- as exposed to interest rate risk, liquidity risk, credit risk (counterparty risk is minimal since CD is a secure instrument) and settlement risk The RBI allows CD to be issued upto one year maturity. However the maturity most quoted in the market is 90 days. Being high denomination, it is interest mainly to institutional investors and companies.

4. Repo/Reverse Repo

Repurchase transactions, called Repo or Reverse Repo are transactions or short term loans in which two parties agree to sell and repurchase the same security. They are usually used for overnight borrowing. Repo/Reverse Repo transactions can be done only between the parties approved by RBI and in RBI approved securities viz. GOI and State Govt Securities, T-Bills, PSU Bonds, FI Bonds, Corporate Bonds etc. Under repurchase agreement the seller sells specified securities with an agreement to repurchase the same at a mutually decided future date and price. Similarly, the buyer purchases the securities with an agreement to resell the same to the seller on an agreed date at a predetermined price. Such a transaction is called a Repo when viewed from the perspective of the seller of the securities and Reverse Repo when viewed from the perspective of the buyer of the securities. Thus, whether a given agreement is termed as a Repo or Reverse Repo depends on which party initiated the transaction. The lender or buyer in a Repo is entitled to receive compensation for use of funds provided to the counterparty.

5. Call Money: Call money is mainly used by the banks to meet their temporary requirement of cash. They borrow and lend money from each other normally on a daily basis. It is repayable on demand and its maturity period varies in between one day to a fortnight. The rate of interest paid on call money loan is known as call rate.

- Call Money: Money lent for one day.
- Notice Money: Money lent for a period exceeding one day .

- Term Money: Money lend for 15 days or more in Inter-bank market.

Participants in Money Market

A large number of borrowers and lenders make up the money market. Some of the important players are listed below:

1. Central Government Central Government is a borrower in the money market through the issue of Treasury Bills (TBills) The T-Bills are issued through the RBI. The T-Bills represent zero risk instruments. They are issued with tenure of 91 days (3) months), 182 days (6 months) and 364 days (1 year) Due to its risk free nature, banks, corporate and many such institutions buy the T- Bills and lend to the government as a part of it short-term borrowing programme.

2. Public Sector Undertakings Many government companies have their shares listed on stock exchange. As listed companies, they can issue commercial paper in order to obtain its working capital finance The PSUs are only borrowers in the money market. They seldom land their surplus due to the bureaucratic mindset. The treasury operations of the PSUs are very inefficient with huge cash surplus remaining idle for a long period of time.

3. Insurance Companies: Both general and life insurance companies are usual lenders in the money market. Being cash surplus entities, they do not borrow in the money market. With the introduction of CBLO (Collateralized Borrowing and Lending Obligations), become big investors. In between capital market instruments and money market instruments, insurance companies invest more in capital market instruments. As their lending programmes are for very long periods, their role in the money market is a little less.

4. Mutual Funds

Mutual funds offer varieties of schemes for the different investment objectives of the public. There a are many schemes known as Money Market Mutual Fund Schemes or Liquid Schemes. These schemes have the investment objective of investing in money market instruments They ensure highest liquidity to the investors by offering withdrawal by way of a day's notice or encashment of units through Bank ATMs. Naturally, mutual funds invest the corpus of such schemes only in money market. They do not borrow, but only lend or invest in the money market.

5. Banks

Scheduled commercial banks are very big borrowers and lenders in the money market, They borrow and lend in call money market, short-notice market, repo and reverse repo market They borrow in rediscounting market from the RBI and IDBI. They lend in commercial paper market by way of buying the commercial papers issued by corporates and listed public sector units They also borrow through issue of Certificate of Deposits to the corporates.

6.Corporates

Corporates borrow by issuing commercial papers which are nothing but short-term promissory notes. They are issued by listed companies after obtaining the necessary credit rating for the CP They also lend in the CBLO market their temporary surplus, when the interest rate rules very high in the market. They are the lender to the banks when they buy the Certificate of Deposit issued by the banks. In addition, they are the lenders through purchase of Treasury bills. There are many other small players like non-banking finance companies, primary dealers, provident funds and pension funds. They mainly invest and borrow in the CBLO pension funds. They Mainly invest and borrow in the CBLO market in a small way.

Fixed Income Securities

Fixed income securities refer to debt instruments that offer a fixed interest income on your investment. The corpus value that one will get post maturity of the securities is known in advance. Because of this, risk-averse investors prefer fixed income securities over market-linked securities, these securities are apt for such people who want to earn steady returns as well A fixed income security is an investment that provides a return in the form of fixed periodic interest payments and the eventual return of principal at maturity. Unlike variable-income securities, where payments change based on some underlying measure-such as short-term interest rates the payments of a fixed-income security are known in advance/Fixed-Income security provides investors with a stream of fixed periodic interest payments and the eventual return of principal upon its maturity.

- Fixed income securities denote debt of the issuer, i.e., they are an acknowledgment or promissory note of money received by the issuer from theinvestor.
- Fixed maturity period ranging from as low as 91 days to 30 years
- Specified coupon or interest rate.
- Generally issued at a discount to face value and the investor profits from the difference in the issue and redeemed price.

ADVANTAGES OF FIXED INCOME SECURITIES

1.Lower volatility than other asset classes providing stable returns.2.Higher returns than traditional bank fixed deposits.

3. Predictable and stable returns offer hedge against the volatility and risk of equity investments,and thus allow an investor to create a diversified portfolio.

DISADVANTAGES OF FIXED INCOME SECURITIES

1. Low liquidity: investors money is locked for full maturity period unless the security is tradedin the secondary market.

2. Not actively traded: this lack of competition prevents their prices rising very high.

3. Sensitivity to market interest rate: change in market interest rate changes the yield on held securities.

Returns on a fixed income security are calculated differently from other asset classes. With fixed income securities, total return on investment is denoted by its "yield" which depends on:

1. Face Value (how much paid for it initially)

2. Coupon Value (rate of interest receive periodically)

3. Duration (when will the security be redeemed if investor wish to hold it to maturity)4.Market

Price (how much will investor receive for the security if were to sell it) **Types of Fixed Income**

Securities

1. Bonds

Bonds are fixed income securities that are issued by corporations and the government, to raise money for business expansion or financing new projects. They are issued at a discounted price on their face value and can be traded in the secondary market. Thus, an investor earns guaranteed profit, as the bonds are redeemed at the face value upon maturity.

2. Debt Mutual Funds

Debt Mutual funds pool in resources from investors and invest the corpus primarily in various debt instruments such as bonds, fixed income securities, etc. Investment in these instruments ensures fixed returns for the investor. Also, these funds invest in debt securities with good credit ratings. The chances of default of payment on these securities are miniscule. Compared to equity-oriented mutual funds, debt funds are relatively less risky, therefore perfectly suitable for risk averse investors.

3. Bank Fixed Deposits (FD)

Bank fixed deposits are one of the most popular investment options available in India. A fixed deposit account essentially offers fixed interest rate on your principal investment. This fixed-income security is offered by almost every scheduled bank in India. Numerous investors in India have availed the benefits of Bank FD. An investor makes a lump-sum principal investment that earns interest during the deposit period. At maturity, the investor gets the principal and the accrued interest. Different banks provide fixed deposit accounts with different maturities Investors can opt for FD accounts with maturity period ranging from 7 days to 10 years.

5.Treasury Bills

Treasury bills or T-Bills are issued by the Central Government for raising money. They have short term maturities with the highest upto one year. Currently. T-Bills are issued with 3 different maturity periods, which are, 91 days T-Bills, 182 days T-Bills, 1 year T-Bills. T-Bills are issued at a discount to the face value. At maturity, the investor gets the face value amount. This difference between the initial value and face value is the return earned by the investor. They are the safest short term fixed income investments as they are backed by the Government of India.

5.Recurring Deposits

Recurring deposits are similar to SIP Investment in Mutual funds. An individual deposits a small amount of money as a monthly installment for a fixed duration that ranges from 1 year to 10 years in a recurring deposit. The interest rate is the same as that of fixed deposits. This enables retail investors with small amounts of money to generate a good corpus of wealth in the long run.

6. Repurchase Agreements

Also known as repos or buybacks, Repurchase Agreements are a formal agreement between two parties, where one party sells a security to another, with the promise of buying it back at a later date from the buyer. It is also called a Sell-Buy transaction. The seller buys the security at a predetermined time and amount which also includes the interest rate at which the buyer agreed to buy the security. The interest rate charged by the buyer for agreeing to buy the security is called Repo rate. Repos come in handy when the seller needs funds for short-term she can just sell the securities and get the funds to dispose. The buyer gets an opportunity to earn decent returns on the invested money.

7. Banker's Acceptance

A financial instrument produced by an individual or a corporation, in the name of the bank is known as Banker's Acceptance. It requires the issuer to pay the instrument holder a specified amount on a predetermined date, which ranges from 30 to 180 days, starting from the date of issue of the instrument. It is a secure financial instrument as the payment is guaranteed by a commercial bank. Banker's Acceptance is issued at a discounted price, and the actual price is paid to the holder at maturity. The difference between the two is the profit made by the investor.

Equity Shares

Equity shares are considered to be the most attractive investment alternative available to investors. Equity shares, commonly referred to as ordinary share also represents the form of fractional ownership in which a shareholder, as a fractional owner, undertakes the maximum entrepreneurial risk associated with a business venture. The holder of such shares is the member of the company and has voting rights. Equity shares, other than non-voting shares, have voting rights at all general meetings of the company. These votes have the affect on the controlling of the company. Equity shares have the right to share the profits of the company in the form of dividend (cash) and bonus shares. However even equity shareholders cannot demand declaration of dividend by the company which is left to the discretion of the Board of Directors. When the company is wound up, payment towards the equity share capital will be made to the respective shareholders only after payment of the claims of all the creditors and the preference share capital.

Equity shares are the main source of finance of a firm. It is issued to the general public. Equity shareholders do not enjoy any preferential rights with regard to repayment of capital and dividend. They are entitled to residual income of the company, but they enjoy the right to control the affairs of the business and all the shareholders collectively are the owners of the company.

CHARACTERISTICS OF EQUITY SHARES

Equity shares have a number of features which distinguish them from other shares and securities. These features generally relate to the rights and position of equity shareholders.

- Maturity

  Equity shares provide permanent capital to the company and cannot be redeemed during the lifetime of the company. Under the Companies Act, 1956, a company cannot purchase its own shares. Equity shareholders can demand refund of their capital only at the time of liquidation of a company. Even at the time of liquidation, equity capital is paid back after meeting all other prior claims including that of preference shareholders.

- Claim on the income

  Equity share holders have a residual claim on the income of a company. They have a claim on the income left after paying dividend to preference shareholders. The percentage of dividends to equity shareholders depend on the earnings of the company.

- Claim on assets

  When the company goes into liquidation, they will get their investment back only after all the company's obligations are paid such as payments to creditors, debenture holders and preference shareholders.

- Voting rights

  Equity shareholders are the real owners of the company, they have the voting rights in the meetings of the company and have a control over the working of the company

- Pre-emptive rights

  Whenever the public limited company proposes to increase its subscribed capital by the allotment of further shares, such shares should be offered to existing shareholders. This is called as Pre-emptive rights

- Limited Liability

  The liability of equity shareholders is limited to the face value of shares held by them and on the event of liquidation they are not liable for any losses of the company.

<u>ADVANTAGES OF EQUITY SHARES</u>

Equity shares are amongst the most important sources of capital and have certain advantages which are mentioned below:

1. Advantages to the Shareholders:

(a) Equity shares are very liquid and can be easily sold in the capital market.

(b) In case of high profit, they get dividend at higher rate.

(c) Equity shareholders have the right to control the management of the company.

(d)The equity shareholders get benefit in two ways, yearly dividend and appreciation in the valueof their investment.

2. Advantages to the Issuing Company:

(a) They are a permanent source of capital and as such; do not involve any repayment liability.

(b) They do not have any obligation regarding payment of dividend.

(c) Larger equity capital base increases the creditworthiness of the company among the creditorsand investors.

DISADVANTAGES OF EQUITY SHARES:

Despite their many advantages, equity shares suffer from certain limitations. These are:

1.Disadvantages to the Shareholders:

a) Equity shareholders get dividend only if there remains any profit after paying debenture interest, tax and preference dividend. Thus, getting dividend on equity shares is uncertain every year.

(b) Equity shareholders are scattered and unorganized, and hence they are unable to exercise any effective control over the affairs of the company.

(c) Equity shareholders bear the highest degree of risk of the company.

(d) Market price of equity shares fluctuate very widely which, in most occasions, erode the value of investment.

(e) Issue of fresh shares reduces the earnings of existing shareholders.

2. Disadvantage to the Issuing Company:

(a) Cost of equity is the highest among all the sources of finance.

(b) Payment of dividend on equity shares is not tax deductible expenditure.

(c) As compared to other sources of finance, issue of equity shares involves higher floatation expenses of brokerage, underwriting commission, etc.

CLASSIFICATION OF ISSUES

(a) Public issue

- Initial Public Offer (IPO)
- Follow on Public Offer (FPO)b)Rights issue

(c) Bonus issue

(d) Private placement

- Preferential issue
- Qualified institutional placement

(A) Public Issue: When an issue/offer of securities made to the public for subscription/ph purchase, it is called a public issue. Public issue can be further classified into Initial Public Offer (IPO) and Follow on Public Offer (FPO).

Initial Public Offer (IPO): When an unlisted company makes a fresh issue/first time issue of securities to the public, it is called an IPO.

Follow on Public Offer (FPO): When an already listed company makes further issue of securities to the public, it is called a Follow on Public Offer (FPO). Thus, the process of EPO starts after anIPO.

(B) Right Issue: When an issue of securities is made by an issuer to its present/existing shareholders, it is called a right issue. The rights are offered in a particular ratio to the number of securities held as on the record date.

(C) Bonus Issue: When an issuer makes an additional issue of securities to its existing shareholders free of cost, it is called a bonus issue.

(D) Private Placement: A private placement is the sale of securities to a relatively small number of select investors as a way of raising capital. Investors involved in private placements are usually large banks, mutual funds, insurance companies and pension funds. A private placement is different from a public issue. In public issue, securities are made available for sale on the open market to any type of investor.

Private placement of shares or convertible securities by listed issuer can be of two types:

Preferential Allotment: When a listed issuer issues shares to a selected group of persons as per SEBI guidelines, it is called a preferential allotment. The issuer is required to comply with various provisions which inter-alia include pricing, disclosures in the notice, lock-in etc., in addition to the requirements specified in the Companies Act.

Qualified Institutions Placement (QIP): When a listed issuer issues equity shares to qualified institutions buyers only in terms of provisions as per SEBI guidelines, it is called a QIP. Qualified Institutional Buyers are those institutional investors who are generally possess expertise and the financial strength to invest in the capital markets.

'Qualified Institutional Buyer' include:

- Scheduled commercial banks;
- Mutual funds;
- Foreign institutional investor registered with SEBI;
- Multilateral and bilateral development financial institutions;
- Venture capital funds registered with SEBI.
- Foreign Venture capital investors registered with SEBI.
- State Industrial Development Corporations.
- Insurance Companies registered with the Insurance Regulatory and Development Authority (IRDA).
- Provident Funds with stipulated minimum corpus
- Pension Funds with stipulated minimum corpus

- Public financial institution as defined in Companies Act, 2013

METHODS OF PRICING PUBLIC ISSUE

There are two methodsa.Fixed Price Method

In an Initial public offering (IPO), if the shares are offered at a fixed price, such is issue is known as Fixed price issue. This is the second most preferred way of Initial public offering. In the offer document, the issuer has to give the reasoning and proper justification for the price fixed. Generally, companies go for fixed price issue only when the management is of the opinion that a fair price can be decided among them without having tested in the market like in the case of bookbuilding.

b. Book Building Method

It is a process used in IPOs for efficient price discovery and determination of quantity of shares to be issued. The price at which securities would be offered is not known initially. It is known only after the closure of the book building process. It is a common method of marketing of new issues in several developed countries. In book building method, the market discovers the price instead of the company determining the price.

Various Prices of Equity Shares

- Par or Face Value

Par or face value represents the value of shares recorded in the books of accounts.

- Issue Price

The price at which the shares of the company are offered to the investors is called the issue price.In most of the new companies, the face value and the issue price of a share is the same.

- Share at Discount and Share at Premium

When the company issues its shares at a price which is lower than its face value, the deficit amount is termed as a discount. On the other hand, when the company issues its shares at a price which is higher than its face value, the excess amount is termed as premium.

- Book Value

Book value is the balance sheet value of shares. The formula to calculate the book value is as follows; Paid Up Capital + Reserves and Surplus - Any Loss/Total Number of Equity Shares of the Company

- Market Value

When the company is listed on the stock exchange, the price at which the shares of the company are traded is termed as the market value of the shares. The stock market value would differ with the fundamental value of shares because in both the cases different sentiments affect the stock value.

- Fundamental Value

Fundamental value or intrinsic value of the shares is determined on the basis of the Fundamentals of the company. This value is mostly required during mergers and acquisitions.

Preference Shares

It is an unique type of long term financing instrument which combines some of the characteristics of equity shares as well as debentures. It is similar to debenture because, It carries fixed dividend, It is ranked higher than equity on the basis of claim and It does not have any voting rights. It is similar to equity capital because Not obligatory to pay dividend and Irredeemable type does not have any maturity. Preference share can be Redeemable and irredeemable preference shares, Convertible and non convertible preference shares Participative and non-participative preference shares.

The investors who want a regular income even though the rate may be less will prefer such shares.

Types OR Classes of Preference Shares

A)With Reference to Dividend

(i) Cumulative Preference shares: Cumulative preference shares are the preference shares, the holders of which are entitled to receive arrears of dividend before any dividend is paid on equity shares.

(i) Non-cumulative Preference shares: Non-cumulative preference shares are those preference share, the holders of which do not have the right to receive arrear of divided. If no dividend is declared in any year due to any reason, Such shareholders. get nothing, nor they can claim unpaid dividend in any subsequent years.

(b) With Reference to Participation

(i) Participating preference shares: such shares, in addition to the fixed preference dividend, carry a right to participate in the surplus profit, if any, after providing dividend at a stipulated rate to equity shareholders,

(i) Non-Participating preference shares: Such shares get only a fixed rate of dividend every year and do not have a right to participate in the surplus profit.

C)With Reference to Convertibility

(i) Convertible preference shares: are those preference shares which have the right/ option to be converted into equity shares.

(ii) Non-convertible preference shares are those preference shares which do nothave the right/option to be converted into Equity shares.

(D) With Reference to Redemption

(i) Redeemable preference shares: are those preference shares the amount of which can be redeemed by the company at the time specified for their repayment or earlier.

(ii) Irredeemable preference shares are those preference shares the amount of which cannot be refunded by the company unless the company is wound up. Now a company cannot issue irredeemable preference shares.

Distinction between Equity Share and Preference Share

Basis	Equity Share	Preference Share
1.Refund of Capital	On Winding up, the equity O share capital is paid after th preference share capital is paid c equity shareholders	On winding up. the preferenc Share capital is paid before th Equity share capital is paid c preference shareholder hav preference to get refund c capital over Equity shareholders.
2.Right of Dividend	Dividend is paid on Equity shares after payment of dividend on preference shares.	Dividend is paid on preference shares before payment of dividend on equity shares.
3. Right of Dividend	No fixed rate of dividend. Fixed is decided by board c directors every year and var periodically.	Fixed rate of dividend prescribe on the face of preference share e.g. 9% Preference same in thi case rate of dividend is 9%.

4.Right to Vote	Equity shareholder have th right to vote in meeting o shareholders and they elec director for managing the company.	In normal course of busines preference shareholders do no enjoy the right to vote in th meetings of shareholders. But they have it only in special

		circumstances.
5.Redemption	Equity share are not redeemable, however, a company may buy back its equity shares as condition prescribed in section 68 of the Companies Act, 2013.	Preference share are always redeemable, now a company cannot issue irredeemable preference shares.

Mutual Funds

A mutual fund is a collective investment vehicle that collects & pools money from a number of investors and invests the same in equities, bonds, government securities, money market instruments. The money collected in mutual fund scheme is invested by professional fund managers in stocks and bonds etc. in line with a scheme's investment objective. The income/ gains generated from this collective investment scheme are distributed proportionately amongst the investors, after deducting applicable expenses and levies, by calculating a scheme's "Net Asset Value" or NAV. In return, mutual fund charges a small fee In short, mutual fund is a collective pool of money contributed by several investors and managed by a professional Fund Manager Mutual Funds in India are established in the form of a Trust under Indian Trust Act, 1882, in accordance with SEBI (Mutual Funds) Regulations, 1996. The fees and expenses charged by the mutual funds to manage a scheme are regulated and are subject to the limits specified by SEBI.

As investment goals vary from person to person-post-retirement expenses, money for children's education or marriage, house purchase, etc. -the investment products required to achieve these goals too vary. Mutual funds provide certain distinct advantages over investing in individual securities. Mutual funds offer multiple choices for investment across equity shares, corporate bonds, government securities, and money market instruments, providing an excellent avenue for retail investors to participate and benefit from the uptrends in capital markets. The main advantages are that you can invest in a variety of securities for a relatively low cost and leave the investment decisions to a professional manager.

Classification of Mutual Fund

Classification on the basis of Operations/ Structure

(a) Open ended Scheme: In an open-ended mutual fund there are no limits on the total size of the corpus(Fund raised). Investors are permitted to enter (Buy) and exit (Sell) the open-ended mutual fund at any point of time at net asset value (NAV). These schemes are opened throughout the year with no definite closing period. It provides, excellent liquidity, although the units are not listed. Axis Triple Advantage Fund, Birla Sun Life Basic Industries Fund, IDBI India Top 100 Equity Fund, L&T Contra Fund, Taurus Tax Shield, Templeton Floating Rate Income Fund, UTI-G-Sec Fund are some of the open ended mutual funds.

(b) Close ended Schemes: Here the duration and amount to be raised from the funds is pre-fixed schemes are opened for specific time period. Once the subscription reaches the pre-determined level, the entry of investors is closed. After the expiry of the fixed period, the entire corpus is disinvested and the proceeds are distributed to the various unit holders in proportion to their holding. Investors can transact (buy or sell) the unit of the scheme on the stock exchanges where they are listed. The market price at the stock exchanges could vary from the net asset value (NAV) of the scheme on account of demand and supply situation, expectations of unit holder and other market factors. Canara Robeco Equity Tax Saver-93, DSP Merrill Lynch Tax Saver Fund, Tata Life Sciences and Technology Fund, JM Arbitrage Advantage Fund, Kotak Gold ETF are some of the close ended funds in India.

(c) Interval Schemes: Basically it is a close ended scheme with a peculiar feature that every year for a specified period (interval) it is made open. Prior to and after such interval the schemes operates as closed ended schemes. During the said period, mutual fund is ready to buy or sell the units directly from or to the investor. Reliance interval fund, Taurus quarterly interval fund- series 1, ICICI-Pru's Interval Fund II are some of the intervals funds in India.

2. Classification by Investment Objectives

(a) Income Schemes: To maximize the current income is the objective of this scheme. Periodical income distribution is the feature. Investment in low risk securities is made in these schemes. Predominantly funds are invested in debt instruments. Scheme offers maximum current income, where by the income earned by units is distributed to unit holders periodically. Some of the examples of Indian income mutual funds are IDFC Capital Protection Oriented Fund, Kotak Hybrid Fixed Term Plan, Reliance Fixed Horizon Fund, SBI Capital Protection Oriented Fund etc.

(b) Growth Schemes: To achieve capital appreciation is the objective of this scheme. Investment is made in growth oriented securities like equity shares. They concentrate mainly on long run gains i.e., capital appreciation. They do not offer regular income and they aim at capital appreciation in the long run. BNP PARIBAS Equity Fund, Canara Robeco emerging equities, DWS Investment Opportunity Fund, Fidelity Equity Fund, HSBCDynamic Fund, Quantum Long-Term Equity Fund are some examples of growth mutual funds in India.

(c) Balanced Schemes: To provide current income as well as capital appreciation is the objective. Investment in Equity and Fixed income securities as per the offer document. HDFC Balanced Fund, UTI Balanced Fund, Tata Balanced Funds are some of the examples of these funds in India.

3. Classification by Nature of Investment

(a) Equity fund: These funds invest a maximum part of their corpus into equities holdings ne The structure of the fund may vary different for different schemes and the fund manager's outlook on different stocks.

(b) Debt funds: The objective of these Funds is to invest in debt papers. Government authorities, private companies, banks and financial institutions are some of the major issuers of debt papers. By investing in debt instruments, these funds ensure low risk and provide stable income to the investors.

(c) Balanced funds: As the name suggest they, are a mix of both equity and debt funds. They invest in both equities and fixed income securities, which are in line with pre defined investment objective of the scheme. These schemes aim to provide investors with the best of both the worlds. Equity part provides growth and the debt part provides stability in returns.

(4) Other Classifications

(a) Tax Saving Schemes: These schemes provide tax incentives to Individual tax payers under section 80C of Income Tax Act. By investing in these scheme the taxpayer can reduce his tax liability. These funds have minimum lock in period of three years.

(b) Sector Funds: These funds Invest the funds in securities (equity shares) of certain sector of the economy like, IT, Pharma, Automobile etc. The risk is confined to one particular sector.

(c) Index Funds: These funds invest the money in equity shares of those companies which are part of indices such as Sensex, Nifty, etc. The objective is to match the performance of the stock market by tracking an index that represents the overall market.

(d) Money Market Funds: Investment of these funds is in securities of short-term nature, which generally means securities of less than one-year maturity. The major advantages are the Liquidity and safety.

(e) Exchange Traded Fund (ETF): An exchange traded fund is an open ended fund that tracks an index like an index fund, but trades like a stock on an exchange just like the shares of an individual company. Unlike the share of a company, each unit of an ETF represents a portfolio ofstocks.

<u>Derivatives</u>

Derivatives are financial contracts whose value is dependent on an underlying asset er group of assets. The commonly used assets are stocks, bonds, currencies, commodities and market indices. The value of the underlying assets keeps changing according to market conditions. The basic principle behind entering into derivative contracts is to earn profits by speculating on the value of the underlying asset in future.

<u>CHARACTERISTICS OF DERIVATIVES</u>

A derivative has following salient features:

i.It has one or more underlying assets

ii. The value derivatives depends on their underlying assets price movements iii It is a hedging device which reduces the risk involved in the transaction.

iv. It requires negligible initial investment compared to other types of financial contracts.

v. It should provide for net settlement i.e. offsetting of initial contract position.

vi. The contracts are fulfilled or transacted through a recognized exchange (futures) or through a clearing house (forwards /swaps) or over the counter contracts (options). (vii) Derivative can be used as leverage instrument. The value of the derivative can move exponentially when compared to the underlying asset value.

viii. Derivative market is liquid hence transactions can be easily executed.

ix. All the derivatives are headed with a future date. This makes the participate to have control over the market by choosing, long or short position to take advantage of the market.

Objectives of Investing in Derivatives:

Apart from making profits, there are various other reasons behind the use of derivative contracts. Some of other objectives are:

- Arbitrage: Arbitrage trading involves buying a commodity or security at a low price in one market and selling it at a high price in the other market. In this way, investors are benefited by the differences in prices of the commodity in the two different markets.
- Protection against price fluctuation: A price fluctuation of an asset may increase probability of losses. Investor can look for products in the derivatives market which will help to shield against a reduction in the price of stocks that investor own.
- Parking of additional funds: Additionally, investor buy products to safeguard against a price rise in the case of stocks that you he is planning to buy. Some individuals use derivatives as a means of transferring risk. However, others use it for speculation and making profits. Here, Investor can take advantage of the price fluctuations without actually selling the underlying shares.

Participants in Derivative Market:

- Hedgers: They neutralize perceived risk of stock market, primarily to offset losses in portfolio by taking opposite positions in the Derivative market.
- Speculators: They buy & sell based on price movement & benefit from either side Market moves.
- Arbitrageurs: They take advantage of price differential between the cash & the derivative market. The spread between the two markets enables them to make a return with no risk & deploy cash.

Types of Derivatives

1.Forwards

A forward contract is a contract between two parties who agree to buy sell a specified y of a financial instrument/commodity at a certain price at a certain date in future. A and contract amounts to setting price today for a trade that will occur in the future. Ferwand contract is a non- standardized contract between two parties to buy or sell an asset at a pfied time at an agreed price.

Features or Characteristics of Forwards

The salient features of forward contracts are:

1. Counter party risk
   The parties to contract bear counter party risk/default risk. For example: Trade takes place between party A (buyer) and party B (seller). The pre-specified delivery price is 100 per kg and the nanny is one month. After one month, the commodity is trading at 120 per kg. A would 20 and B would suffer a loss of 20. In case B defaults (refuses to sell at 100 per kg d), party A is exposed to counter party risk i.e. risk of foregoing the deserving gain ofRs.20 per kg.
2. Underlying assets
   The underlying assets could be stock, bonds, foreign exchange, commodities.
3. Flexibility

Forward contracts offer flexibility to parties to design the contract in terms of price, quantity, quality, delivery time and place.

4. Settlement

A contract has to be settled in delivery or cash on expiry date.

5. Contract price

The contract price is generally not available in public domain.

<u>Advantages of Forward Contract</u>

1.Hedge risk: Forward contracts can be used to hedge or lock in the price of purchase or sale of commodity or financial asset on the future commitment date.

2. No margin required: Forward contracts does not require any margin (collateral).

3.No Initial cost: In forward contracts generally margins are not paid. So it does not involve initial cost.

4. Negotiability: The terms and conditions of the forward contract are negotiable. Forwards are tailor made and can be written for any amount and term.

<u>Disadvantages of Forward Contract</u>

Following are the disadvantages of forward contracts:

1.Counter party risk: Counter party risk is very much present in a forward contract since the is no performance guarantee

2.Not traded in stock exchange: Since forward contract are not traded in stock exchange, they have ready liquidity

3.Transparency of prices: The contract price is generally not available in public domain there by there is no transparency in prices. It requires tying up capital. There are no intermediate cash flows before settlement Contracts may be difficult to cancel.

Futures

A futures contract is an agreement between two parties - a buyer and a seller - to buy or sell something at a future date at a certain price. Futures contracts are more standardized exchange traded contracts and are subject to a daily settlement procedure. Futures contracts, unlike forwards are traded on organized exchanges. They are traded in three primary areas:

- Agricultural commodities.
- Metals and petroleum.
- Financial assets such as shares, currency, interest rate etc.

Characteristics of Futures Contract

The salient features of futures contracts are:

1.Highly standardized: Futures are highly standardized contracts that provide for performance of contracts through either deferred delivery of asset or final cash settlement.

2.Futures exchanges: These contracts trade on organized futures exchanges with a clearing association that acts as a middleman between contracting parties.

3. Margin: Contract seller is called 'short' and purchaser 'long'. Both parties pay margin to the clearing association. This is used as performance bond by contracting parties.

4.Fluctuations in the prices: Price of the contract changes everyday.

5. Mark to market: Margins paid are generally marked to market price every day.

6. No counter party risk: There is no question of counter party risk.

7.Transaction cost: Transaction cost includes brokerage fees for buying and selling orders.8.Number of contracts: The number of contracts in a year is fixed.

Advantages of Futures Contract

The following are the advantages of futures contract:

1) Helps in risk management.

2) Facilitates lengthy and complex production and manufacturing activities.

3) Guarantees performance of the contract as there is requirement of margin amount

4) Limits on price fluctuation prevents speculation.

5) There is no counter party risk.

Disadvantages of Futures Contract

The disadvantages of trading futures contracts:

1) Leverage can make trading in futures contracts highly risky for a particular strategy.

2) Futures contract is standardized product and written for fixed amounts and terms.

3) Lower commission costs can encourage a trader to take additional trades and lead to over trading.

4) It offers only a partial hedge.

5) It is subject to basis risk which is associated with imperfect hedging using futures.

SWAPS

A swap is a method for reducing financial risks. Generally, one party in the swap deal has a fixed rate and the other party in the same deal has a floating rate obligation. A swaps any agreement to a future exchange of one asset for another, one liability for another, or more specifically, one stream of cash flows for another. A swap is a private agreement between two parties in which both parties are 'obligated' to exchange some specified cash flows at periodic intervals for a fixedperiod of time.

TYPES OF SWAPS

The two commonly used swaps are interest rate swaps and currency swaps.

1. Interest rate swaps

These involve swapping only the interest related cash flows between the parties in the same currency.

2. Currency swaps

Currency swaps include current swaps, in which one currency is exchanged for another at specified terms on one or more pre-specified dates.

OPTIONS

Option is an agreement that gives the owner the right, but not the obligation, to buy or sell a specific asset at a specified price for a set period of time.

Features of Options

- The buyer has the right to buy or sell the asset
- To acquire the right of an option, the buyer of the option must pay a price to the seller. This is called the option price or the premium.
- The exercise price is also called the fixed price, strike price or just the strike and is determined at the beginning of the transaction. It is the fixed price at which the holder of the call or put can buy or sell the underlying asset.
- The expiration date is the final date that the option holder has to exercise her right to buy or sell the underlying asset.
- Time to expiration is the amount of time from the purchase of the option until the expiration date. At expiration, the call holder will pay the exercise price and receive the underlying securities (or an equivalent cash settlement) if the option expires in the money. The call seller will deliver the securities at the exercise price and receive the cash value of those securities on receive equivalent cash settlement in lieu of delivering the securities.
- Defaults on options work the same way as they do with forward contracts. Defaults on over the counter option transactions are based on counterparties, while exchange-traded option use a clearing house.

Advantages of Options

- An investor can gain leverage in a stock without committing to a trade .
- Option premiums are significantly cheaper on a per-share basis than the full price of the underlying stock.
- Risk is limited to the option premium (except when writing options for a security that isnot already owned).
- Options allow investors to protect their positions against price fluctuations

Disadvantages of Options

- The costs of trading options is significantly higher on a percentage basis than trading the underlying stock, and these costs can drastically eat into any profits.
- Options are very complex and require a great deal of observation and maintenance
- The time-sensitive nature of options leads to the result that most options expire worthless. Making money by trading options is extremely difficult, and the average investor will fail.
- Some option positions, such as writing uncovered options, are accompanied by unlimited risk.

Basic Types of Option

1. Call option

A call option gives the holder the right but not the obligation to buy an asset by a certain date fora certain price.

2. Put option

A put option gives the holder the right but not the obligation to sell an asset by a certain date fora certain price.

3. Real options

A real option is a choice that an investor has when investing in the real economy (i.e., in the production of goods or services, rather than in financial contracts). This option may be something as simple as the opportunity to expand production, or to change production inputs. Real options are an increasingly influential tool in corporate finance. The liquidity of this kind of exchange-trade options is relatively lower.

4. Traded options (Exchange-Traded Options)

Traded options are, exchange-traded derivatives, as the name implies. As for other classes of exchange traded derivatives, they have: standardized contracts, quick systematic pricing and are settled through a clearing house (ensuring fulfillment).

5. Vanilla and exotic options

Generally speaking, a vanilla option is a 'simple or well understood option, whereas an exotic option is more complex, or less easily understood (hybrid options). European options and American options on stock and bonds are usually considered to be "plain vanilla". Asian options, lookback options, barrier options are often considered to be exotic, especially if the underlying instrument is more complex than simple equity or debt.

6. American options

American options are options that can be exercised at any time upon the expiration date. Most exchange-traded options are American.

7. European options

European options are options that can be exercised only on the expiration date itself. European options are easier to analyze than American options, and properties of an American option are frequently deduced from those of its European counterpart.

8. Index options

These options have the index as the underlying asset. Some options are European while others are American. Like index futures contracts, index options contracts are also cash settled.

9. Stock options

Stock options are options on individual stocks. Options currently trade on over 500 stocks in the United States. A contract gives the holder the right to buy or sell shares at the specified price.

LIFE INSURANCE

Life insurance is a way of providing income replacement for financial dependents (the beneficiaries) after the insured person dies. It is intended to replace lost income and pay for any additional expenses that are experienced by those left behind when a family member who contributes income or services to a household is lost. It can also be used for final expenses like medical bills or funeral costs that survivors would have to pay when a death occurs. Life insurance is an important part of financial planning for families and individuals,

A life insurance policy is a legal contract between the insured person and the life insurance company, and like all contracts, it is enforceable by law and shouldn't be entered into lightly.

Both parties have certain rights and obligations which are explained in the policy, so it is critical that anyone buying protection read the contract and its fine print before signing it There may be exclusions in the contract for certain cases of death, such as suicide, where the company can legally refuse to pay the death benefit. Additionally, deaths occurring within 2 years of purchasing coverage, also known as the "exclusionary period", may not be eligible for s death benefit payout and may result in your carrier returning your premiums instead.

There are different types of life insurance which meet the needs of different people at various stages of their lives. The major types are term, whole, universal and variable life insurance; but there are different kinds of plans within each category as well. Each plan offers specific benefits for different families. All contracts have a death benefit which is payable if an insured person dies while the policy is in effect, but the terms and conditions differ.

Term life insurance requires regular, fixed premium payments and provides coverage for a certain, predetermined period of time outlined by the initial contract. Policies last anywhere from 1 to 30 years, and, in most cases, the policy only pays a death benefit if the insured individual dies before expiration. Term life insurance is the cheapest and most popular.

Whole life insurance, a form of permanent protection, requires regular, fixed premium payments which are higher and more expensive than term life insurance. Whole life policies guarantee coverage for life and guarantee the payout of a death benefit at some point. Whole life also includes a cash value, meaning the equity portion can be liquidated, used as collateral for a low- interest loan from the insurance company, or serve as a nest egg for retirement. The rate of return on the cash value is fixed when the policy is purchased, and usually hovers around 4%

Universal life insurance, another kind of permanent coverage, offers you the flexibility of paying between a minimum and maximum premium payment. Minimum payments maintain the insurance portion of the policy, and premiums above that amount get directed to the investment component. The investment component, also known as the cash value, is then invested in stocks and bonds listed on the investment menu the insurance company provides. Similar to whole life, the cash value can be paid out or borrowed against.

MEANING OF LIFE INSURANCE

Life insurance is a contractual agreement between a policyholder and a life insurance company. Policyholders agree to make premium payments to the company and the company agrees to pay the beneficiaries a sum of money if he/she dies. A life insurance policy provides a stated benefit upon the holder's death, provided that the death occurs within a certain specified time period.

Some of the life insurance policies which are attractive investment alternatives are briefly described below.

1. Term Life Insurance or Term Plan

Term insurance is widely considered to be the simplest form of life insurance. It is a pure cover plan which offers protection for a specified time period. If the life insured passes away during that period, the nominee receives the predetermined death benefit. The most distinctive feature of a term insurance plan is the high amount of coverage offered at extremely nominal premium rates. Certain term plans also offer maturity benefits, i.e. the return of premiums if the policyholder outlives the policy term. One can also increase the amount of coverage offered by a term plan by opting for additional riders, such as Accidental Death Benefit or Child Support riders.

2. Whole-Life Insurance Plan

Unlike term insurance, wherein the insured has coverage only for a specified period of time, whole life insurance offers coverage right until the death of the policyholder. You can opt for either a participating or non-participating policy, as per your financial needs and risk appetite. Though the premiums for participating whole life insurance are higher in comparison, dividend are paid out at regular intervals to the policyholders. The prefatum rates for at non-participating policy are lower, but the policyholder generally cannot avail the benefits of regular dividend.

3.Unit Linked Insurance Plan (ULIP)

Among the different types of life insurance policies available, ULIPS enjoy a high amou of popularity owing to their versatile nature. ULIPS come with the two-pronged benefits both investment and insurance. A portion of the premiums paid towards ULIPS is directed towards ensuring insurance coverage, while the rest of the premium is invested into a bouque of investment instruments, which can include market-backed equity funds, debt funds and other securities. ULIPs are extremely flexible instruments since investors can easily switch or redire their premiums between the different funds available. ULIPS are also touted as having an edge over other market instruments in terms of tax-saving benefits, since their proceeds are exempted from LTCG (Long Term Capital Gains).

4. Endowment Plan

This is another type of life insurance policy which acts as, both, an instrument for insurance and saving. Endowment plans aim to provide maturity benefits to the life insured, in the form of a lump sum payment at the end of the policy tenure, even if a claim hasn't been made. Endowmen plans are ideal for people looking to get maximum coverage alongside having a sizable savings component. They help the policyholder inculcate the habit of savings, even while providing financial security to their family. Endowment plans can broadly be classified into two types: with profit and without profit. Policyholders can choose from these two types based on their risk appetite.

5. Money Back Plan

Being one of the best types of life insurance policies, a money-back policy offers policyholders a percentage of the total sum assured at periodic intervals in the form of Survival Benefits. Once the policy reaches maturity, the remaining amount of the Sum Assured is handed over to the policyholder. However, if the policyholder dies while the term is ongoing, their dependents are given the entire Sum Assured without any deductions.

6. Retirement Plan

A retirement plan is a type of life insurance that focuses on providing you financial stability and security post your retirement. After you retire, you lose your regular income from employment. Investing in retirement plans can help you create a stable regular income stream If you continue to invest until retirement, the plan will help you take care of your expenses after retirement. A retirement plan requires you to invest a certain part of your income regularly during your working life. At the time you retire, the amount that you create over the years will be converted into a regular income stream.

Retirement plans also involve death benefits. Thus, if the policyholder passes away during the course of the policy, their beneficiaries will be provided with an assured sum.

7. Child Insurance Plan

A child insurance plan is one of the different types of life insurance available. Such a plan is tailored to fulfill one specific goal: to ensure financial protection for the policyholder's child upon the unfortunate demise of the policyholder. It is ideal for ensuring the future needs of the child are well taken care of, even in the absence of the life insured. Parents can invest in the best child insurance plans, in order to meet the financial requirements for their child's education, marriage or to fulfill a multitude of other financial goals their child might have

8. Group Insurance Plan

A group life insurance policy covers a group of people inside a single plan. Unlike individual life insurance policies, which cover one person for a period, group insurance covers a minimum of 10 members.

Employers, banks, corporates, and other homogeneous groups of persons can buy group Life Insurance policies for their employees and customers. While employers would want to offer financial protection to their employees' families banks and lending institutions aim to keep the debt off the borrowers' family after their death.

Precious Metals

Gold and Silver

For ages gold and silver have been considered as a form of investment. They are considered as best hedge against inflation. This is a favorite amongst the rural and semi-urban population. Besides, investors tend to invest in jewelry instead of pure gold. This trend is increasing and with it the import of gold in India is increasing also. India's domestic production of gold is very limited; the rising demand has to be sourced from outside the country. Moreover, Gold as a commodity on its own does not add much to the productive capacity of the economy. When one buys gold, it either is stored in lockers or gets converted into jewelry. In both the cases, money spent on purchasing gold gets blocked since gold is not a productive asset. India imports most of its gold requirement. Gold as a commodity on its own does not add much to the productive capacity of the economy. Moreover, the foreign exchange reserve that is used to import gold reduces the availability of this resource to finance the import of other commodities. Such high value of gold imports has now started hurting India's current account position. Gold investing involves the buying and selling of gold mainly for the purpose of hedging against any economic, political, social or currency related crisis. Such crises may include a stock market crash, high inflation, war or any social unrest. Moreover, since gold is the most popular precious metal, gold investments are made for financial gain when the market is bullish.

There are certain qualities of gold that make it a desirable investment option. Some of these being:

- The ability of gold is to insure against instability and protect against risk.
- Has universal acceptance.
- Provides liquidity.
- Deep cultural affinity with gold purchase

Gold Investing Process

The two main methods of gold investing are:

Direct investment: One can directly invest in gold by owning bullion or coins

Indirect investment: This method of gold investing includes gold certificates, spread betting, accounts and derivatives. Gold Exchange Traded Funds (ETFs) and shares of companies that are engaged in the mining of gold are some of the other gold investment options.

The two main techniques of identifying good gold investments are:

- Fundamental analysis: Investment managers study macroeconomic conditions. This study includes international economic indicators, such as GDP growth rates, inflation, interest rates and productivity. An important aspect of gold fundamentals is the assessment of total gold supply and gold demand.
- Technical analysis: This includes the analysis of chart patterns, market trends and moving averages. Through such analysis, investors will be equipped to speculate in the gold futures market. Benefits One can benefit in the following ways by opting for gold investments: Gold investing helps bullish investors leverage their position as they have the option to borrow money against their existing gold assets.

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. The construction industry ranks third among the 14 major sectors in terms of direct, indirect and induced effects in all sectors of the economy. By 2040, real estate market will grow to Rs. 65,000 crore (US$ 9.30 billion) from Rs. 12,000 store (USS 1.72 billion) in 2019. Real estate sector in India is expected to reach USS I trillion in market size by 2030, up from US$ 200 billion in 2021 and contribute 13% to the country's GDP by 2025. Retail, hospitality, and commercial real estate are also growing significantly, providing the much- needed infrastructure for India's growing needs.

BENEFITS OF REAL ESTATES ARE:

- Provides Great Returns: Risk is a very important factor when we talk about good returns and that is minimized when real estate is held for a lengthy period of time. However, in other options like the stock market, the risk factor never goes away.
- Better Asset Value: With increases and decreases in the market, there can be no value left in other investments, but the real estate investment will always offer tangible asset value. Home owner's insurance also protects such investment.
- Provides Tax Benefits: One can get deductions in tax on various things such as mortgage interest, operating expenses and costs, cash flow from other investments and so on. It is always beneficial to contact a firm that deals in real estate to get more information on this, subject to the area where investor want to invest. Accounts of rental repairs, utilities, maintenance etc should be maintained to make this job easier.
- Steady Passive Income: Other than renting a property, profits can be generated by buying. selling and the ability to build equity on the property. It ensures that investors get a passive income on the side, apart from the primary income.
- Provides Hedge Against Inflation: With increase in inflation, prices of rent can al with time. However, such a benefit is not necessarily offered with stocks investment options.
- Risk Management is Easier: Investing in real estate makes one their own boss and therefore risk management is easier since the control is in the hand of the investment maker. Other factors will affect and cause changes in the investment.

DRAWBACKS OF INVESTING IN REAL ESTATE

Though real estate is a profitable investment, it has some limitations which are discussed below:

- High Maintenance Cost: Real estate investment involves buying physical asset which involves the expenditure on its maintenance. The investor also needs to manage the source of income so generated.
- Huge Transaction Cost: Buying and selling of properties is a costly affair. The transaction cost, including registry charges, legal expenses, diversion, etc. are high which increases the cost of investment.
- Creates Financial and Legal Liability: The investor may become overburdened by the financial liability if he or she buys a property on loan. Even the transfer of ownership at the time of property purchase creates a legal obligation on the part ofinvestor.
- Less Liquid: Unlike other investments like stocks, real estate cannot be easily bought and sold regularly. Therefore, it may not prove to be a suitable investment option for investors seeking short term profits.
- Dealing with Market Inefficiencies: Sometimes, the investors who lack the necessary information about the prospective real estate project, pool in their money at not so profitable projects.
- No Fixed Maturity Rate: Real estate appraisal does not take place at a fixed rate in a defined period. The capital appreciation in case of properties is a long-term process, it is not pre defined.