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FINANCIAL LITERACY

INITIAL ASPECT FOR BEING A GOOD INVESTOR

DR. NEENA PAREKH
DR. USHMA VALA

FINANCIAL LITERACY: INITIAL ASPECT FOR BEING A GOOD INVESTOR

Parekh • Vala

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PREFACE

The household sector is the major saver in India and contributes to the majority of the entire saving that flows in to financial assets which can take any of the varieties of currency, deposits with banks and firms, PF, insurance and company shares, bonus, etc. additionally to providing liquidity to investments the stock and capital markets promote mobilization of saving and channelize them in to investment. As already mentioned, the key borrowers are government and business in the economy which invest over they save the web saving from the household and foreign sectors. The economic system helps the method of institutionalization of those saving for promoting investment and production in the economy. The financial intermediaries plays an important role in the process in the stock and capital market in India. The importance of underwriting of shares and stock-broking activities of brokers and dealers are financial intermediaries like banks and financial institutions. The concept of investment is expounded with efficient deployment of funds for achieving desired target of returns. Good investment policy always indicates how available fund are often effectively utilizes. It’s essential that each investment must get due returns on the funds he has deployed. The three way of basic investment are safety, security & return unless and until the investment stand to all or any these contribution, it'll not serve a high rate of percent. A decent investment but also insured an honest rate of return, the long run horizon, risk of return thus became a 3 test of investment. This book has been presented in Seven chapters.

First chapter consists of Introduction about Financial Literacy, Existing Level of economic Literacy of Individual Investors, and related matter. The second chapter discusses about saving including Importance of Savings, Reasons to save lots of money, and others. The Third chapter is about Investment Opportunities. The Fourth chapter covers The Concept of Diversification. It gives a short of Introduction to Diversification, Adjustment of Risk and Diversification, and other related matters. The Fifth chapter is about Portfolio Management. This highlights the requirement for Portfolio Management, Role of Portfolio Management. The Sixth chapter is for shares and exchange investments. The Last Chapter presents land investment and therefore the factors to think before investing.

Dr. Neena Parekh
Dr. Ushma Vala

LIST OF ABBREVIATIONS

ABBREVIATION	DESCRIPTION
CEO	Chief Financial Officer
EVA	Economic Value Added
EPS	Earnings Per Share
ETF	Exchange Traded Funds
FMCG	Fast Moving Consumer Goods
FRDI	Financial Resolution and Deposit Insurance
GDP	Gross Domestic Production
IPO	Initial Public Offer
IT	Information Technology
ITA	Income Tax Act
INFE	International Gateway For Financial Education
MF	Mutual Fund
NAV	Net Asset Value
NAV-PS	Net Asset Value per Share
OECD	Organisation for Economic Co-operation and Development
PPM	Project Portfolio Management
PISA	Programme for International Student Assessment
PIP	Percentage Investment Plan
PE	Permanent Establishment
P/E Ratio	Price Earnings Ratio
REIT	Real Estate Investment Trust
RBI	Reserve Bank of India
ROA	Return on Analysis
SEBI	Securities Exchange Board of India
SES	Socio Economic Status
SEC	Securities Exchange Commission
SIP	Systematic Investment Plan
SWP	Systematic Withdrawal Plan
STP	Systematic Transfer Plan
WHT	withholding at source

CONTENTS

S. No.	Chapter	Page No.
	PREFACE	*iv*
	LIST OF ABBREVIATIONS	*v*
1	WHAT IS FINANCIAL LITERACY	*01-23*
2	SAVING – THE BASIC OF INVESTMENT	*24-31*
3	INVESTMENT OPPORTUNITIES: THE GUIDE	*32-43*
4	DIVERSIFICATION: NOT KEEPING ALL THE FRUITS IN ONE BASKET	*44-68*
5	PORTFOLIO MANAGEMENT: HOW TO MANAGE MULTIPLE CLOTHES IN A BAG	*69-95*
6	SHARES AND STOCK MARKET	*96-117*
7	REAL ESTATE INVESTMENTS	*118-132*
	BIBLIOGRAPHY	*133-140*

1

WHAT IS FINANCIAL LITERACY

WHAT IS FINANCIAL LITERACY

Financial literacy encompasses quite just personal finance. To be financially literate, a person must be fluent in personal finance, but also in global economics, entrepreneurship, and investing all on a platform of real-time technology. It's possession of data and skills that enable informed and effective money management. Within the word of Paul Goebel "Financial literacy is the effect of the financial education process. When students are financially literate they'll make informed financial decisions which will aid in improving their well-being."

Financial literacy breaks down into two parts: knowledge and skills. For knowledge, financial literacy is defined by an understanding of the core concepts of non-public finance interest rates, credit scores, and therefore the purpose of an emergency fund, as an example. When put into practice, this data provides the inspiration needed to form informed decisions that contribute to long-term financial health. For skills, knowledge has to be complemented by the flexibility to perform tasks that support robust personal finance. As an example, someone who is financially literate will understand how to use online banking apps, request a credit report, and do something as simple as write a check.

PRESENT LEVEL OF FINANCIAL LITERACY OF INVESTORS

Various Studies throughout the world has shown that retail investors have lack of even the basic financial literacy. The studies revels that investors have a weak command of elementary or kindergarten financial concepts and lacking seriously critical knowledge of various ways to avoid investment fraud. Various Surveys also indicates that various nature of people, including women, even the experienced oldest segment of the elderly population, and including those who poorly educated, have an even greatest lack of investment knowledge compare to average general population. Based on the feedback of various surveys, the researchers have found the most effective existing public and private investor education efforts as including various programs which are research-based, and goal oriented and emphasize important investors education conceptual knowledge, and that are easily accessible, delivered efficiently, and relevant to public at large.

In United Nations under the Dodd-Frank Act a direction was issued to the Commission to conduct a Study to find out the existing score of financial literacy among the individual investors, including various subgroups of investors as identified by the Commission at their own level. In response to that mandate, the Commission has come out with a study to conduct a review of the quantitative studies on the financial literacy level of United Nations retail investors since 2006 and prepare and submit a report which is summarizing the key research findings from above studies. A report was then prepared and delivered to the Commission mentioning out the relevant survey findings on the financial literacy among individual retail investors in the United States.

According to the Report, study has shown consistently that United Nations' investors lacking the basic financial literacy. For example, an investor even does not understand the most basic financial concepts, of compound interest and inflation. Many of the investors do not understand other key financial concepts, for example diversification or the differences between stocks, shares and bonds, and are not aware of the concept of investment costs and how it impacts investment returns. Investors also lack critical knowledge about investment fraud which is too common now days. Various Surveys also indicates that various nature of people, including women, even the experienced oldest segment of the elderly population, and including those who poorly educated, have an even greatest lack of investment knowledge compare to average general population. The above Report also stated that "low levels of investor financial literacy might have a long term serious impact on their retirement plans, particularly in an old age which is dominated by defined-contribution retirement plans." It has also stated that "dedicated efforts to educate investors is very essential," and that investor education programs should be designed to specific subgroups "to maximize their effectiveness." Probably the Most Useful, workable and Understandable Relevant

Information that an individual Investors might need while he is taking Informed Financial Decisions or before taking services of a Financial Intermediary or investing is about fees, the performance of investment, and the investment blueprint. These probable among the all most useful, workable and understandable relevant information that an individual investors need to make informed financial decisions irrespective to the fact that re taking services of a Financial Intermediary or investing. Researchers indicated that the most useful, workable and understandable relevant information that an individual investors need to make informed financial decisions before taking services of a Financial Intermediary, is about

1. The background of financial intermediary and any disciplinary history of him,
2. The Products and Services offered by such financial intermediary;
3. The level of quality of his service provided by the financial intermediary to individual; investors,
4. The charges payable to financial intermediary,
5. The financial intermediary's investment strategy and his past investment performance, and
6. His Conflict of Interests.

Apart from it the most useful, workable and understandable relevant information that am individual investors need to take an informed financial decisions before investing includes information about:

1. Various Investment objectives including strategy such as growth, income or capital preservation,
2. History of investment performance,
3. Various expenses to be incurred such as sales charges, management fees, and operating expenses; and
4. Risks and Return factors involved such as credit risk, liquidity, and inflation.

Instead of finding out the specific information that investors need to make an informed financial decisions, establishing educational programs could also help individual investors in determining what information is most relevant and useful for their specific investment needs.

How Financial Literacy of Individual Investors can be Increased

As a measure to improve financial literacy, a common and collaboratively efforts is require to develop programs for financial literacy of the individual Investors:

1. Targeting specific groups of investors including young age investors, those who receives a lump sum payout as their income, investment trustees, as well as elderly,
2. Educating the people for checking the background of investment professionals,

3. Making available various government websites for providing information about intermediaries and investment opportunities and
4. Promoting awareness about the cost involved in investment decision.

To gain an insight about the Financial Literacy a little bit knowledge about investment is very necessary. The concept investment is referred to as deferment of current consumption, which could be in the form of a capital asset, or deferment of a loan, or keeping the saved funds in a bank account so that it could generate some returns in the future etc. There are various options for investments and probably all of them have different risk and rewards. It is well known fact that financial literacy is undoubtedly plays a significant role in making sound investment decisions. Hence in today's world it is very imperative to be financially literate to ensure financial well-being of individual's investments.

Now the question arises that how an investor may take decision for the investment of his funds. What strategy he shall adopt for following series of rule and principles so that a sound investment decision can be taken with the fast pace. For this purpose budgeting of fund and searching out various options is undoubtedly very important.

MAKING BUDGET AVAILABLE FOR INVESTMENT

Probable establishment of a budget is one of the simplest and efficient ways to control the spending, saving and investing. No one can make investment without saving money which is not possible unless he know where his earned money is going out. For this he has track all his expenses. And for the same a budget is necessary. Not the question is how a budget is created. Budgeting starts with tracking how much money received for a particular period say a month, and than deducting money spend in that period say every month. This can be done in an excel sheet, or in paper form or available applications if any. To Track the budget, following shall be considered:

- **Income:** List out the entire amount of money earned irrespective to the source of income. It shall be the part of the income statement of the budget.
- **Expenses**: List out every purchase or expense made in that period, and is possible than spread it into two categories which is capital expenses and revenue nature expenses. If possible than further divide into compulsory and optional expenses. Use of Bank statement or credit card statements or other source probably will help to trace out the expenses if made only through the bank account.
- **Compulsory expenses:** These are the expenses which has to be made every month or period selected and amount of which generally do not change substantially and are considered essential for example expenses on milk or bread butter, rent expenses, Loan repayment installments.

- **Optional Expenses:** These are the expenses which are not at all necessary or are non-essential, for example payments made in restaurants, shopping, and travel.
- **Savings**: keep a record of the saving made in each month, whether it's in any form cash, cash deposited into a bank account, or mutual fund or otherwise.

Now by having a clear idea and statement of the entire money which is earned, used and saved, it will be easy to identify which expenses can be cut back and be used for saving. The net income that is income earned as reduced by the expenses made out of it, is the net saving at the end of the month. However this amount cannot be used for investment. An emergency fund has to be created for meeting out the unexpected expenses in case of loss of job or temporary shutdown of the business. Don't use this money for discretionary spending. This money shall be kept separate and possibly grow it with some investment source so that it can be used when your income decreases or stops.

Now when we have excess savings after meeting the emergency fund, we shall learn about investments. That means we have to know what to invest and where to invest by obtaining the detailed knowledge of risk and rewards associated with it. Various options for investments are available for making the investments for example Stock Market, Mutual Funds, Bonds etc. even within stock market there are number of options.

The stock market is a place where shares or bonds or debentures or other securities are traded that is buying and selling takes place. The terms stock market and stock exchange are same and can be used at other’s place. By the name although it is stock exchange but in stock market not only stocks are traded rather other financial securities like exchange traded funds (ETF), corporate bonds and derivatives based on stocks, commodities of varied nature, currencies of different countries, and bonds are also traded. In india we have two major stock exchanges which are National Stock Exchange also known as NSE and Bombay Stock Exchange also known as BSE. However no one can trade in stock market directly he need a broker or member of stock exchange through whom he can deal. He handles the transaction for us in an professional manner. These are the members of the stock exchange in which we deal.

Now the question comes that what I should invest or where should I invest. The answer cannot be uniform for all. It depends upon depends on the amount of money we are ready to invest, and just how risky you we are willing to take. However some of the most common securities to invest in, in descending order of risk:

1. **Stocks or Shares:** A stock which is also known as share or equity is a kind of investment that denotes the ownership in the company whose security it is. This entitles the stockholder or shareholder to that proportion of the company’s assets and earnings to which he has the share. It's like owning a small piece of the company. However, if we have say 33% of the shares of a company, it will be stupidity to say that we own one-third

of that company; rather it should be said like we have 100% of one-third of the company's shares. Shareholders cannot do anything as they want with a company or its assets. Having the Shares just gives the right to vote in shareholder meetings, and receive shares in profit in the form of dividends if and when they are distributed, and it also gives the right to sell the shares to anyone. The price of a stock fluctuates many time in a day, and can be dependent on many factors, including the performance of the company, the domicile of company that is whether it is domestic economy, or global economy, news, and more. However Investing in shares is very risky because it is like effectively "putting all your eggs in one basket."

2. **ETFs:** it is called exchange-traded fund which is a type of security that involves a box of securities such as shares or like nature that often tracks an underlying asset called index. Although ETF's can be invest in any number of industry or sectors or in any other way as like. Having ETFs is like having a pie containing various different securities. When we buy shares of an ETF, we actually bought a piece of the pie, which contains various securities inside. This allows us to purchase many shares at once, with the ease of making one purchase the ETF. It will not be wrong to say that ETFs are in many ways almost similar to mutual funds; but they are listed on exchanges unlike Mutual Fund and ETF shares trade throughout the day just like ordinary Shares again unlike Mutual funds. The benefit of Investing in ETFs is considered less risky comparing to investing in stocks because there are many securities inside the ETF or benefit of diversification is obtained. If some of the stock goes down in value, others may maintain or increase in value.

3. **Mutual Funds**: A mutual fund is a type of investment consisting of a portfolio of different Shares or stocks, or bonds, or other similar securities of stock market. Mutual funds give small or individual investors access to diversified nature of investment, with the benefit of professionally managed portfolios at a lowest cost. There are several categories in mutual fund, which represents the kinds of securities mutual fund has invested in, as per their investment objectives, and the type of returns they are expecting. Mutual funds charge annual fees for their services, which is called expense ratios, or commissions. Well in today's scenario most employer-sponsored retirement plans invest their funds in mutual funds. Here it is interesting to know that Investing in a mutual fund is totally different from investing in shares of stock. However like stock, mutual fund units do not give its holders any voting rights in the company in which Mutual Fund has invested rather this right is with the mutual fund, and represents investments in many different stocks or securities, instead of having one holding. Unlike stocks or ETFs that allows trading for throughout the day, mutual fund redemptions take place only at the end of each

trading day which is called bought out day. however one common thing in Mutual Fund and ETF’s is investing in mutual funds also considered less risky than shares because many securities are contained within the mutual fund, hence giving the benefit of Diversification and spreading out the risk across the multiple companies.

4. **Bonds:** Bonds are issued by companies, sometimes by the Government to finance any specific project and operation. It is like making a loan to the company which has issued bond, with the promise of repayment, with interest. A bond is supported with a bond's coupon and the rate mentioned on it known as Bond rate is the interest rate the investor will earn. A bond is a source of fixed income since bonds traditionally paid a fixed interest rate called coupon rate to investors. Bond prices have an inverse relationship or correlated with interest rates. That means when interest rates go up, bond prices fall and vice-versa. Like Fixed Deposits Bonds too have maturity dates at which point the principal amount is compulsorily paid back in full. Bonds are rated on the basis that how likely the issuer is to ready to pay you back. The prime category is higher rated bonds, also known as investment grade bonds, because they are the safest and more stable investments. Such bonds are tied to publicly-traded corporations and government entities especially that gives positive outlooks. Investment bonds category contain “AAA” o “BBB-“ ratings from Standard and Poor's, and "Aaa" to "Baa3" ratings from Moody’s.

RISK TOLERANCE LEVEL OF FINANCIAL MATTERS

Out of various factors affecting the financial investment decisions of individuals and institutional investors, Financial risk tolerance is one of the important as well as crucial factor. It is of prime importance in financial planning as well as financial counseling. Hence it becomes necessary to determine the major components of risk tolerance. Since the discussion is on impact of financial literacy level along with demographic characteristics of area where Individual Investor lives, on the financial Decision making of the Individual Investor, risk tolerance of the individuals becomes prime important. The role of Financial Risk Tolerance level plays a vital role in determining the kind of investment an investor will make because the level of capacity of every investor differes according to his tolerance level. The findings of the whole analysis conducted through various research throughout the world, has revealed that financial literacy and demographic characteristics of Individual investor’s age, his or her gender, educational background, and no doubt income levels are significant factors of financial risk tolerance. Hence the improvements in the financial literacy level of the individuals through various educational programs will probably increase the demand of financial products with different risk levels and in turn contribute to the development of financial sector.

Risk is a significant and essential component of the financial investments. While making real investment decisions by an individual Investor or Institutional Investor, both individual and institutional investors considers the expected rate of return and level of risk of the proposed investment. However, the financial risk tolerance level of individual investors emerges as one of the important factor impacting the choice of financial investments and the probable use of savings in the financial markets. Hence, this factor is also very important for personal financial planning, as well as for making the optimization of the investor's portfolio. Hence, determining the financial risk tolerance level of individuals is important for those companies which provides financial service to individual investors. Financial risk tolerance is a matter of subjectivity that a person a person is ready to bear for maximum level of uncertainty when usually making a financial decision. Sometimes, the concept of being risk averse is also used instead of financial risk tolerance, although it means the reverse of it, just like a person avoids risks, the financial uncertainty and comfort level decreases. The related content has attempted to describe risk tolerance by normative models suggested as per traditional finance such as various descriptive models based on behavioral factors in the context of behavioral finance.

Financial literacy is additionally a crucial factor for financial risk tolerance. It is clear from the related empirical literature that the influence of certain demographic and behavioral variables on financial risk tolerance are the topic of the study since long. However, few studies are dole out to reveal the effect of monetary literacy on financial risk tolerance. The purpose of this text is to fill this gap within the related literature. Hence, in addition to various demographic variables, the effect of financial literacy level on the financial risk tolerance has been studied.

For this purpose, additionally to demographic variables, the effect of monetary literacy level on the financial risk tolerance for sample has been studied. The economy shifted from import-substituting industrialization strategy to export-oriented growth strategies with the Stabilization Decisions. The financial sector synchronously began to develop as of 1990s. during this context. The Securities Exchange Board of India was established in 1992 and along with the Derivatives Exchange. But the Indian economy experienced serious financial crises because of inadequate institutional, regulatory, and legal infrastructure for the financial sector during the late 1990 to 2001. However, financial organisation independence has been strengthened, the Banking Regulation and Supervision Agency was established, and regulatory reforms were implemented after the February 2001 crisis. Therefore, the national economy didn't experience any serious negative impacts resulting from the world financial crisis and recent regulatory and structural reforms. Furthermore, the Indian government tries to lift the amount of domestic savings and improve the financial sector through the private pension system by fiscal incentives in recent years.

Therefore, it had been concluded that the questionnaire was coherent in itself and reliable inferences may well be made up of it. According to the model estimated results,

1. Financial literacy level, educational level, and income level influenced “No financial risk-taking” status negatively; however, the financial market experience, age, number of youngsters, and work experience influenced “No financial risk-taking” status positively.
2. Financial literacy level, financial market experience, age, number of kids, and academic level influenced “Average financial risk-taking by expecting to induce average return” status positively; however, legal status and income level influenced “Average financial risk-taking by expecting to induce average return” status negatively.
3. Financial literacy level, financial market experience, and academic level influenced “Average financial risk-taking by expecting to induce average return” status positively; however, age and number of youngsters influenced “Average financial risk-taking by expecting to urge average return” status negatively.
4. Financial literacy level, educational level, and income level influenced “High financial risk-taking by expecting to urge high return” status positively; however, age and number of kids influenced “High financial risk-taking by expecting to urge high return” status negatively.

TRANSPARENCY IN INVESTMENT EXPENSES

As we discussed to have a great and efficient as well as effective Investment strategy, the first paradigm is to find out the cost or expenses incurred, because only then the probable saving opportunities can be identified and investments can be planned accordingly. For this transparency in expenses has to be increased so that real picture can come out. Various Methods to ensure the Transparency of Expenses are to be exploring out. Various survey indicates that users accepts that they understand existing fee and compensation information, for example, the information disclosed in a Brochure, but the quantitative data suggest otherwise. Many of the online survey depicts that the Investor who claimed to understand fee and compensation actually did not understand the same. Actually they had difficulty in calculating fees which is based on the value of their assets under management. They also had difficulty answering various questions about investment adviser fees or remuneration involving the purchase of a mutual fund and identifying and computing different scales of fees based on the amount of assets under management. Moreover, many of the Individuals on online survey had similar difficulties in identifying and understanding fee and compensation information as described to them at the point of sale and in their account statement that would be provided to them.

There appears to be no consensus among retail investors for the optimal method to have an increase in the transparency of expenses involved in the investment transactions. Based on the various quantitative research, probable methods to increase the transparency of expenses in investment transactions include the following:

1. Provide a proper explanation of fees and compensation along with a fee table,
2. Making available the fee and compensation information along with numerical calculations,
3. Making available the fee and compensation information in a bold and italic Manner,
4. Making available the fee and compensation information in a tabular format if possible,
5. Make sure that the language or wording of the expense disclosure is simplified,
6. Make the expense disclosure less detailed but still in brief
7. For trade investments, disclose the composition of a financial intermediary's remuneration, including types of compensation,
8. Presenting the case studies along with various illustrations to demonstrate the impact of fees and expenses on investment returns.

Generally, individual investors prefer to have disclosure information before making a decision on whether to engage a financial intermediary or purchase an investment product or service. For example, most of the online survey on the prospectus of mutual fund agreed that it was very important to go through the summary prospectus at least prior to make an investment in a mutual fund. Because of this they gave preference for receiving a summary prospectus before making investment in a mutual fund units or, even those investors who uses a financial intermediary, and when their broker or financial advisor recommends them a mutual fund. Indeed, Almost all the investors from whom an online survey has been conducted, has accepted that when they uses services of a financial intermediary indicated that they prefer to receive prior information about the investment services as given by the financial intermediary before. In some of the cases, the timing of this information is was also important and was too pre determined. For example, an investment consultant who is registered with any Investment agency or government agency is required to provide all of its prospective clients with a detailed Brochure before or at least at the time when he enters into an Investment advisory contract with the clients. Same as, intermediary are required to provide a trade investment confirmations to their customers at or at least before the completion of a securities transaction. In addition to that, financial intermediaries shall also furnish to their clients with the detailed account statements on a monthly basis, at least.

An individual investor always values certain kinds of disclosures more highly than others. For example, all the Individuals in all studies indicated that they consider information about an investment adviser's charges, his default and disciplinary background, investment strategy followed, conflicts of interest if any existing, and the adviser's methodology in providing advice to be absolutely essential. However on the contrary, few of those Individuals covered in survey has considered information about an consultants' business and types of clients to be absolutely essential. Various respondent's on the survey has confirmed that they also consider information about the price of investment at which they will acquire or dispose it, the number of shares or units involved, and necessity of acquisition of the security. Same as few of the Individuals has also considered trade confirmation information regarding the commission to be paid to financial intermediary to a third party for sending the order to them, the capacity in which their financial intermediary has acted, and whether a debt security which they are planning to acquire is rated by a ratings agency. Those online survey Individuals also indicated that they also considered certain account statement related information, such as whether they can sell their securities at any time or whether they can sell their securities at market value at particular point of time, to be absolutely essential. On the contrary again, certain Individuals has also considered information regarding the identity of the person or entity that calculates the total market value of their securities to be absolutely essential.

Retail investors' perceptions of the open-end fund summary prospectus tend to enhance after they view a summary prospectus. The quantitative research which has been examined, with other things, the individual investors' perceptions about a summary prospectuses at both the time that is before and after they reviewed an actual summary prospectus. For setting up an example, the perceptions of the various Individuals on the summary prospectus panel generally improved after reviewing an actual summary prospectus. Similarly, before reviewing an actual summary prospectus, a number of the web survey Individuals on the summary prospectus panel perceived that summary prospectuses contain a good deal of legal jargon. After reviewing an actual summary prospectus, however, many of these online survey Individuals acknowledged that the extent of legal jargon within the summary prospectus was but they'd anticipated. Overall, a majority of the web survey Individuals on the fund summary prospectus panel agreed that summary prospectuses contain the "right amount" of data. A majority also agreed that the particular summary prospectus they reviewed highlighted important information, was well-organized, was written during a language that they understood, was clear and concise, and was user friendly.

VARIOUS EFFORTS MADE TO COACH THE INVESTORS FOR FINANCIAL LITERACY

Various studies has been conducted through interviews and questionnaire to seek out out what may well be possible ways to in a good manner to coach the investors regarding financial literacy. Supported over 200 suggestions, from various investors, financial professionals, industry experts, various academicians, not-for-profit organizations, and other Government bodies, following characteristics of effective investor education schemes has been identified:

1. **Use of research and evaluation Techniques for creating the programme effective**: a good investor education schemes should be supported research and evaluation to possess an improved current material affairs and guide the event of latest educational materials. Additionally, those organizations which develop investor awareness and education schemes should also conduct evaluations to live the effectiveness of those programs.
2. **Clear goals should be focus area:** Efficient investor education and awareness programs have clearly-defined and measurable goals.
3. **The Timing of Programme shall be perfect and relevant:** Effective investor teaching programs should have relevant and timely content. This content should be made or develop tailored to a specific target market and shall be presented in a very such manner that's engaging and interactive.
4. **Include various investor education paradigms:** Effective investor education schemes should: (i) teach basic financial concepts, including risk, diversification, and compound interest; (ii) explain specific investment products and techniques.
5. **Be easily accessible:** Effective investor education schemes should be accessible to their target audiences, by being easy to use, easy to search out, and simple to know through the employment of plain language.
6. **Promoted with strategic concern:** Effective investor teaching programs utilize strategic partnerships by leveraging the support of public, private, and not-for-profit organizations.
7. **Effectively communicated:** Effective investor teaching programs should efficiently deliver information to the general public supported the wants of their target market. a number of the samples of effective delivery methods may include: (i) Person to person methods as an example classroom training and presentations to large groups (ii) various online delivery channels including websites, webinars, podcasts, and videos or (iii) a mixture of online and in-person methods.
8. **Shall be at large level:** Effective investor teaching programs should be esigned during a way so on reach a high volume of investors.

THE GOOD STRATEGY FOR INVESTOR

To spot a method to extend financial literacy among investors various interviews has been taken to analyse the direction of mind of investors. These Participants discussed using the National Strategy for Financial Literacy 2011 and financial education core competencies for saving and investing to assist implement the strategy. Key Content Areas that shall be adopted for Improving the level of Financial Literacy among the individual Investors, these Participants have identified four different content or areas that they believe should be promoted through the manner of strategic goals so as to boost the financial literacy of investors and to possess a positive impact on investing behavior.

The four content areas are: (i) differing kinds of risk; (ii) the fees and costs related to investing; (iii) proactive steps for avoiding fraud; and (iv) general investment knowledge, including topics like interest. These Participants also agreed that these content areas should be highlighted in financial education and capability efforts generally, especially at schools, within the workplace, within communities, and by families. Goals for Improving the Financial Literacy of Investors, these Participants identified four goals for the strategy:

1. **Develop joint investor education schemes that focus on specific groups:** Participants discussed the chance of working together to form, support, or augment joint investor teaching programs specializing in the subsequent groups: young investors; payment payout recipients; investment trustees; members of the military; underserved populations; and older investors.
2. **Increase the amount of investors who research investments and investment professionals before investing:** Participants agreed to figure together on an “ask and check” campaign that may encourage individuals to test the background of investment professionals before investing with them. The campaign would also encourage individuals to verify that a possible investment is legitimate before choosing to take a position.
3. **Promote Investor.gov because the primary national resource for investing information:** These Participants agreed to figure together to feature relevant content to the SEC’s Investor.gov website and promote Investor.gov because the “first stop” for investing information. Participants also agreed to push Investor.gov as an initial point of contact for questions and complaints regarding investing.
4. **Promote awareness of the fees and costs of investing:** Participants agreed to figure together on a campaign to assist individuals understand the fees and costs related to buying, owning, and selling investments and dealing with investment professionals. A component of the campaign would encourage individuals to contemplate available investment options and make informed decisions.

METHODS AND MEANS FOR ECONOMIC LITERACY

No doubt the financial literacy is quite important for the purpose of making the sound investment decisions. However having only Financial Literacy is absolutely not enough. The reason being, without having the sound economic knowledge of managing the budgets and funds saving is not possible. Without saving thinking of investment is useless to talk. For managing the budgets the sound economic literacy is very important. Hence an individual investor shall also understand how economic literacy can be developed or increased.

1. **The fundamentals of having a Budgeting:** Creating and maintaining a budget is one in all the foremost basic aspects of staying on top of your finances. During this modern-day, it's easier than ever to make a budget with the assistance of internet sites and apps, like Mint.com. It doesn't matter if math isn't your strong suit - because of these user-friendly tools, everyone can get help with keeping their finances not off course. And, when utilized properly, they'll keep you within the understand where your money is really going. Without following a budget, it's difficult to carry yourself accountable on where your money is coming from and what it's going toward, so mastering the fundamentals of budgeting is where any financial novice should begin.

   (a) **Start an emergency fund:** Begin by saving up $1,000. This is often to stay you from being thrown off course when those inevitable, tough financial events hit you. (You'll be making this emergency fund even bigger in a while.)

   (b) **Clean out the debts:** You've seen for yourself what quantity debt slows down financial progress. To come out from the trap of debt mark them as smallest to highest and start making payment from smallest debt to largest debt. As you pay off the littlest debt, roll what you accustomed pay toward it onto the following largest debt.

   (c) **Make use of emergency fund:** This is another area where taking a category on good money habits helps, and plenty of of these who do so save a median of 3,000 annually in personal earnings. However to complete this step, use all the amount gained while paying off debt by keeping a saving portion for three to six months living expenses.

2. **Be aware of Interest Rates:** While you will subsume the concepts within a mathematics course, it's important to know different aspects, like interest. Why? Not only can it facilitate your save even more, but it can make the difference between borrowing atiny low amount and group action rather more than you wish to for years to return. Understanding the ins and outs of interest can impact your finances over you likely realize, so it's a vital concept to achieve a stronger understand of ahead of time in life.

3. **Make priority in Savings:** Obviously, saving is a vital aspects of maintaining a healthy financial situation. But, the bulk of scholars don't prioritize this aspect the maximum amount as they must. It's easy to ignore things like retirement since it seems thus far off within the future. Learning to save lots of too soon can facilitate your gain the knowledge, practice and set of skills you'll utilize throughout your entire life. Beginners can start engaged on this idea within the simplest sense, like saving money for a higher-ticket item they desire.
4. **The trap of Credit-Debt:** it's much easier to lose credit than gain it and plenty of investors don't realize how easy it's to ruin their credit and the way and will be very difficult to regain it. That's why it's crucial to supply knowledge on debt before later. Credit may be a particularly useful gizmo if it's managed correctly. Making rash decisions when you're young can find yourself costing you throughout adulthood so it's important to know the concepts and tools behind responsible credit practices as too soon as possible.
5. **Fraud Issues & Safety:** In this modern-day and age, fraud is more prevalent than ever. Understanding this idea, together with preventative measures, like password protection and limiting the quantity of knowledge shared online is the key to maintaining safe accounts or, inversely, can cause economic ruin. While it's not a fool proof science (people is safe and things do still happen) it's important to safeguard your finances as best as possible to avoid the threats that exist.

By now, we got a reasonably judgement of where you fill in terms of your own financial literacy. Maybe you've got lots to be told, but it's encouraging to grasp that increasing financial literacy could transform whole families, communities and even the nation!

Many analyst and researchers are already working hard to bring this sort of understanding to many investors nationwide. Every year, thousands of investors personal finance curriculum, Foundations in Personal Finance, and gain financial literacy skills that empower them for a lifetime of cash success. An investor should try finance Education to find out more about how we equip ourselves with financial understanding. Consider about our life-changing Foundations in Personal Finance curriculum.

As such, financial education may be a process that covers and takes under consideration the varying needs of people in numerous socio-economic contexts. Financial literacy that's the end result of this process is defined as a mixture of economic awareness, knowledge, skills, attitude and behaviours necessary to form sound financial decisions and ultimately achieve financial well-being. Financial literacy is often described through several stages looking on individual/household, financial, economic and social contexts. It can start

with very basic notions, like awareness of the characteristics and use of obtainable financial products, aiming to more advanced ones, which handle the knowledge of economic concepts and of the event of skills and attitudes for the management of non-public finance within the short and long run. Ultimately, all stages of economic literacy encompass positive behavioural change for people and households.

Effective financial education will be beneficial for people, but also for policy and for personal stakeholders. Financial education can support financial inclusion policies by making consumers more 18 tuned in to available financial services and more confident about using them. It's also instrumental in enabling consumers to match financial products and make effective use and choices of those products, but also in promoting long-term saving and sound planning for retirement likewise as for wiser use of credit. As such, financial education can contribute to the event of economic systems and markets moreover on the promotion of more transparent competition amongst financial providers. In most of the countries, including developing one, the financial education is considered as an additional education, the reason being the first line of defence and protection for consumers for all or few economic products just as part of the government regulatory bodies. Considering these potential benefits, financial education is identified as a key pillar of economic reform and a complement to promote conduct and prudential regulation. Such kind of recognition has led to a kind of event for monetary education initiatives as taken by various public authorities, regulators and Government, suomoto by various stakeholders over the past years. However, because the level of attention and resources spent on increasing the financial education has increased drastically, so it has the importance of ensuring the efficiency and relevance of these programmes along with their long-term impact. At the identical time, governments have realised that given the long-term nature of economic education policies and their cross-sectoral nature involving governments, financial and academic authorities, it had been necessary to determine frameworks for effective design and delivery. Thus countries have started establishing co-ordinate and tailored strategies to attain these efficiency goals and to avoid duplication of resources and efforts while ensuring the participation of all relevant stakeholders.

A Financial strategy at national level for financial education is co-ordinate approach at national level to financial education that consists of an adapted framework or programme, which shall include:

1. Recognises the importance of economic education -- including possibly through legislation -- and defines its meaning and scope at the national level in reference to identified national needs and gaps;

2. Involves the co-operation of various stakeholders similarly because the identification of a politician or co-ordinating body/council;
3. Establishes a roadmap to realize specific and predetermined objectives within a group period of time; and
4. Provides guidance to be applied by individual programmes so as to efficiently and appropriately contribute to the national strategy."

There's no one-size-fits-all model or process for the event of a national strategy. Countries might begin the planning of a national strategy when relevant programmes are already implemented, or might design a method with the requirement to handle specific policy priorities or as a complement to existing government initiatives. It is, however, possible to spot the most components of those strategies and therefore the steps that almost all governments have addressed in their design, development, and implementation. Beyond the explanations cited above, countries have adopted financial education policies for nation specific reasons and desires. These include in particular:

(a) Addressing specific policy priorities, like credit, debt and/or pensions/saving issues. This generally follows various evidence obtained from various financial literacy measurement exercises running out throughout the world or through periodic household surveys, of tension full figures like alarming household savings rates and savings/debt ratios or excessive credit exposure (South Africa, Spain). Specific policy priorities may also be identified following major reforms of the financial sector or of the general public welfare system, as is usually the case with pensions and retirement benefits (the Netherlands).

(b) Complementing financial inclusion policies. Financial inclusion policies that focus solely on the availability side (increased availability of access points and range of products) cannot guarantee effective use of monetary services and per se can hinder the impact of monetary inclusion policies. Governments that place financial inclusion among the highest policy priorities have often complemented supply side policies with demand side policies including financial education measures (India, Indonesia and Mexico).

NATIONAL STRATEGY FOR FINANCIAL LITERACY

Collect evidence and identify available resources establishing the inspiration of the national strategy is crucial to robustly prepare its development and implementation. The strategy is usually aimed toward providing evidence on the population's needs and at securing public stakeholders' support for the initiatives. It also can help identifying relevant non-public sector partners which will assist public authorities within the implementation of parts of the strategy. This phase also serves to extend the degree of collaboration between

concerned stakeholders, from both the general public and personal sectors, and may be wont to achieve buy-in and commitment. The event of national strategies therefore usually involves the assessment of the population's financial literacy level, the mapping of existing initiatives, the consultation with relevant stakeholders and appropriate communication.

Assessing the population's level of monetary literacy serves different purposes. It has created initially a baseline which was set out to live future progress, and it has helped to find out specific gaps in financial literacy levels existing and required. It's also a great tool to define specific target groups. Such assessment is usually performed through the national measurement of economic literacy. But it may also draw information from consumer complaints filed with financial ombudsmen, surveys of providers of economic education programmes, or opinion polls and financial market surveys. A major number of nations covered during this report have used combinations of those methods to spot the financial literacy levels of their population. The amount of nations that national data on financial literacy is offered has risen in recent years. In total, dedicated national measurement of economic literacy has been undertaken (in some cases over once) in a minimum of 15 countries covered during this publication and 14 G20 countries: Australia, Brazil, Canada, Indonesia, Japan, Korea, Mexico, European nation, Russia, Asian nation, Singapore, African country, Turkey, the UK and therefore the U.S.

In addition, notably because of the international tools to live financial literacy developed in the context of the Russian monetary fund on Financial Literacy and Education, these data are increasingly cross-comparable. With relevance countries covered during this publication, data are available or are available for:

1. Indonesia, Japan, Korea, South Africa and also the UK, which have employed in full or in part, the OECD/INFE survey instrument; also because the Netherlands, which is going to use it in future iteration of its national survey;
2. Mexico and Russia, which have used a mix of the globe Bank and OECD/INFE methodology; and
3. Turkey, which has used both methodologies separately.

The introduction of a financial literacy option within the OECD Programme for International Student Assessment (PISA) in 2012 will allow volunteering countries to determine a baseline survey of the financial literacy levels of 15-year-old students for his or her country. The results of this assessment, to be released in June 2014, also will provide a primary international overview of the financial literacy needs of adolescents as they're getting ready to reach at investment age and probably will make their first Investment and financial decisions soon. Amongst the countries covered during this publication. In 2012,

Australia, China (Shanghai), France, Italy, Russia, Spain, and also the us participated within the PISA Financial literacy option. Same as in 2015, Brazil, Canada, Netherlands and after that, England has joined the second PISA financial literacy exercise.

These all developments were found to be unique, as evidence collected has given unique insights which allows a transparent manner of identification of financial information, and behavior of investors and intrinsically can better set priority areas for public action. The provision of cross-comparable data for adults and adolescents (although still fairly limited) will allow the identification of refined effective practices that may be replicated in other settings.

SCOPE OF THE NATIONAL STRATEGY

Three themes of consumer financial education policy to attain its consumer financial education mission and objectives, India's national policy are predicated on four key themes:

1. **Basic Financial Education:** The basic financial education consists of fundamental tenets of financial well-being. They also require financial education so that they can take full benefits from these schemes. These basic concepts need to be communicated to everyone by adopting different modes of delivery, suitable to the target audience. Special emphasis shall be laid on the financially excluded and those newly included but not operating their accounts.
2. **Sector Specific Financial Education:** Sector specific financial education is being imparted by the Financial Sector Regulators and focuses on "What" of the financial services and the contents cover awareness on 'Dos & Don'ts', 'Rights & Responsibilities', 'Safe usage of digital financial services' and approaching 'Grievance Redressal' Authority. Basic and Sector specific education will empower a person to be more prudent and make informed decisions while choosing appropriate financial products as per his/ her requirements from the available alternatives.
3. **Process Education:** Process education is crucial to ensure that the knowledge translates into behavior. As an illustration, some of the aspects to be covered include:
   - How to use an ATM card?
   - How to do an UPI Transaction?
   - How to deposit money with a Bank Card?
   - How to fill a loan application form?
   - How to compare and select an appropriate loan product?
   - How to purchase an insurance cover?
   - How to do various transactions in securities markets?

- How to allocate funds in a pension plan?
- How to lodge a complaint with the financial service provider?
- How to approach an Ombudsman/Grievance Redressal Authority, etc.

These contents are to be developed in the form of easy to understand Audio/ Video, Animated Posters to help the consumers understand the processes to be adopted for various transactions.

BUILDING FINANCIAL CAPABILITY

It sets out the 2 general models for population-wide behaviour change that have emerged in recent years:

1. The primary intervention that aims to alter behaviour is that the provision of knowledge, education and tangible incentives, alongside regulation and legislation. These factors works as to make alteration in behaviour by 'changing the thoughts' through putting effect on skills, knowledge, and motivation. This can be the normal route of public policy and also the standard economic model. The presumption is that citizens and consumers will analyse the varied pieces of data from politicians, governments and markets, the many incentives offered to them and act in ways in which reflect their best interests.
2. The second kind of intervention to vary behaviour is by changing the environment within which the person acts and where information, or education, has little to no impact. This model reflects the truth that individuals can act irrationally against their best interests.

Building on these two interventions the MIND SPACE framework captures the broader influences on people's behaviour and divulges that the strongest influences on people's behaviour are largely situational and contextual.

A growing body of evidence indicates that to own the best impact on financial capability we need to combine more traditional interventions – regulation, information and education – with the creation of atmosphere which support change in behaviour. To understand better how behaviours are established the money Advice Service commissioned a review of evidence of habit forming and learning in teens. The review looked specifically at pre-school age children and concluded that key habits and behaviours generally are largely fixed by the age of seven. Specifically in reference to money management, the review concluded that seven-year-olds are able to understand the terms 'saving,' 'earnings' and 'income.' this implies that there could also be scope to assist children learn positive behaviours in reference to money - as an example, the power to defer gratification - at an earlier age than is common practice now, and points to the importance of engaging

parents, and first school teachers within the process. Financial education should also look to be told from successful behavioural interventions from other areas of educational practice. A review of best practice in educational behaviour change interventions published proposed that lessons are often learnt from 'what works' in effective youth behavioural change interventions like Gender, habits of smoking or alcohol and awareness regarding them and building up the findings into financial capability programmes and concerned evaluation approach. Against this, in terms of the impact of current financial education interventions, the review concluded that, while there's strong support for these programmes, the evidence of impact is predominantly anecdotal.

The best practice review also revealed that there's an absence of coherent evaluation measures across the programmes to completely understand what the general success or impact of those interventions were. There's a desire to ascertain within the United Kingdom best practice for the evaluation of education programmes so as to maximise impact on future behaviour and achieve the best value from resources.

1. **Financial Planning:** People who manage a household budget, board rural areas, and/or belong to the very best or lowest SES groups are more likely to plan a way to spend their money, depend upon an in depth plan and follow it on regularly. After they do, they're more likely to form a rough, flexible plan, which can be followed from time to time. The Individuals, particularly rural ones and people who manage personal finances, are mostly ill-equipped to hide expected expenses promptly without borrowing money. Rural Individuals are more likely to require precautions to alter this case. The majority of Individuals make only short-term plans. People who manage personal finances and/or sleep in cities are more disposed to saving money regularly, but are slightly less inclined to avoid wasting for the long run compared with those that manage household expenses. Among Individuals less than 60 years old, having a government pension and continuing to figure are the 2 most often cited strategies for covering personal and household expenses in adulthood. Those that manage personal finances and people who sleep in rural areas less often have any strategy compared with people who manage household finances and people who live urban locations. Individuals tend to supply their children with an education as how of investing in their future. Saving money to pass away to children may be a more common practice in urban than in rural areas.

2. **Financial Decision-Making:** Individuals use informal financial products more often than formal ones at the instant. The foremost widely used informal products are informal loans, particularly among those that manage household finances and people in lower SES groups. On the opposite hand, deposit accounts and bank loans are the 2 most

often used formal products, particularly among people who manage personal finances, furthermore as those in higher and middle SES groups. Individuals don't obtain financial products mostly because they believe they are doing not need these. This is often because of a perceived inability to satisfy the wants of the merchandise and a scarcity of data about a way to obtain or use it, especially within the case of complex financial products. The majority of Individuals get information or advice when faced with a vital financial decision, and that they tend to travel, first, to their social network and second, to financial professionals for such advice. People seem rather reluctant to find out more about various aspects of cash management. Yet, among the Individuals who are willing to be told, seeking information on a way to use money and financial products is more strongly desired by those that manage their personal finances.

3. **Money Management:** The majority of the Individuals haven't any money left over on an everyday basis after paying for food and other necessary items. after they do have some money left, their decisions and practices on the way to use it are closely related to whether or not they manage household or personal finances and on urban vs. rural residence. Those that manage household finances are likely to save lots of left-over money for unforeseeable expenditures additionally as for known ones, whereas people who manage personal finances are more likely to expend that money on themselves and that too on non-essential items. The bulk of Individuals, particularly those in higher socio-economic status (SES) groups, can give accurate answers to simple division problems and straightforward interest-rate calculations. They find it harder, however, to calculate interest. Most of the respondent in the interview was not remembering the cash they spent, and a portion of total minority, specially that one which has managed household finances and/or those in higher SES groups, are conscious of the precise amount of cash they spent. Social networks, including members of the family, friends and colleagues, are the foremost frequently mentioned source the bulk of Individuals communicate after they run out of cash. Overall, Individuals have greater awareness of the number of their currently available money as compared therewith of the money spent.

GOVERNANCE MECHANISMS AND THE ROLE OF STAKEHOLDERS

As mentioned above, public institutions are liable for the event and implementation of the national strategy. The SEBI ensures the final co-ordination, while each institution is answerable for executing various activities stated within the action plan. The leading authority is that the SEBI, which is chargeable for the regulation and supervision of the capital markets. This mandate is going to be further clarified and given increased relevance after the official announcement of the joint strategy through a circular of the Prime Minister.

The financial regulators/supervisors are mainly to blame for the event and implementation of the strategy. On the opposite hand, the co-ordination of some activities is meant to be handled by different authorities. specifically, in step with the draft strategy, the Ministry of Education is chargeable for enhancing financial literacy subjects within the school curriculum and therefore the Ministry of Family and Social Policies is that the co-ordinator of activities targeting families, women and elderly people. Moreover, the private sector and NGOs contributed to the event of the national strategy by giving their opinions on its draft. They're expected to require an energetic role within the implementation phase, as well.

2

SAVING – THE BASIC OF INVESTMENT

INTRODUCTION

Day to day increasing population is a huge problem in the world. India has second rank in the world population. Today in India 65% people are living in rural areas. Maximum people are illiterate and unskilled who lives in rural areas. Government plays an important role to develop villages in the state and to eradicate the poverty, increase literacy rate and provide various facilities to the people. In state government, many department are operating ,such as public health department, energy department, revenue and police department, social justice and assistance department, general administration department, agriculture and finance department, industry department, school education and sports department, rural development and Panchayat Raj department, tribal development department etc. these departments have perform important role in development of Maharashtra state. Savings plays an important role in the capital formation and hence is the major contributor in the overall economic development of the country.

Employees have been providing services to the public. Before 21th century, employees were facing different problems to earn income from their salary besides, very low salary, no chance to self-development, not availability of good health and education facilities for their children. But now a day, employees are becoming aware about the importance of saving and its future benefit. The term ‘saving’ represents the surplus of income after

incurring the expenses an assumption and livelihood. The saving of class IV employees is low because their income is less as compared to class I employees. Saving determinants are the expenses incurred on food, clothes, shelter, daily needs, education and health care etc. After meeting these expenses many employees accumulate their saving at their home, bank mutual fund, fixed deposit account, LIC, jewellery, post office accounts etc. So, the proposed research will be conducted to know income and saving pattern and its determinants, which leads to improve a financial position in different areas. In modern age, the income is increasing from class-IV employees to class-I employees. So, employees are moving towards saving money after meeting their daily requirements. They are using different saving pattern to improve financial strength and to collect money for future necessities. Many class I employees have better income as compared to other employees. They have good opportunity to saving in various patterns. According to this situation many employees are going approaching towards saving due to increased saving of employees. They are becoming economical sound and they have habit of saving which is good for the future wants like education of children, purchase of physical assets, construction of house etc. In proposed research work, an attempt will be made to analyze this entire problem.

1. Why We Need Saving?

One of the most elementary expeditions of our life is that how we can protect our lives from its uncertainties. When we stay upon this question, the importance of saving money for future comes to the front position. However, if you observe around and find out, one fact comes out really strong, that is, one who is financially strong and secure can enjoy the life and can live a fulfilling life. That itself speaks why it is important to save money for the future. There are people who want to save the money for future. It is the support to live a fulfilling life which inspires them to save money. After all, money is the biggest and most crucial asset that can buy you all comforts and luxuries. It is money that enables you to meet your financial goals for yourself as well as for your family. So securing our lives through financial planning becomes the internal core on which our lives rotate. It is extremely important if you want to lead a quality life. Any financial planning cannot start without the required input i.e. Savings. Saving is your valuable earnings for a better tomorrow, is thus enormously desired. Saving money for future is of great importance as virtually there is nothing tangible that you can have without the exchange of currency. Savings always gives you a way out from the uncertainties of life and gives you an opportunity to enjoy a quality life. Here are listed down some of the prime reasons of why you should go for saving your money. Though the motives we give are not exhaustive in any way, certainly they clearly bring out the importance of savings money for future.

(a) **Saving Money for Future Provides you Harmony:** Everyone wishes peace of mind, but getting peace of mind does not occur automatically. It is a result of your efforts to save money for future. When you have adequate money in your bank account, you will get a better sleep. This is because you know that you can afford your children higher education, buy a new car, a new house, and meet any eventuality, medical expenses, retirement planning, so on. When you start to save money, you are making efforts to secure your future. When you’re saving amount is enough to meet your aspirations and responsibilities, you get peace of mind. Without saving money, you cannot have funds for leaving a quality life. That it gives you sleepless nights, and you do not have peace of mind.

(b) **Saves Money Starts Work for You**: It’s a great feeling to come to know that when you save money, money starts working for you. That means, when you save money, money starts earning interest. So, you don’t only save money, but your money begins to earn interest. In other words, your saved money starts to earn for you. It is a way to expand your savings and build a gigantic corpus.

(c) **Savings Help to Dream Big:** Everybody has goals to achieve in life, but there are few who achieve them. A successful person is the one who continually works hard to make his dreams come true. All of us can also be among the list of successful persons who can achieve their dreams. Your may have any dream, but it is important how you can make them come true e.g. you may have the dream of purchasing a big bungalow, a grand wedding or traveling around the world or something else. But these dreams can’t be fulfilled in a day as they require a large amount of money. It requires that you start to save money for future. Regular savings can give you the means to fulfilling your dreams.

(d) **Saving Helps to Feel Good Factor:** You perpetually require a feel good factor in your life to lead a healthy life not only on the physical plane but the Psychological plane as well Feeling of self-sufficiency is very important as there is nobody but only you who have to take care of yourself. You are better prepared to face any kind of situation and this itself gives you positive attitude towards life.

(e) **Savings for Emergency:** The emergency or unexpected expenditures can come in many ways in one’s life. A sudden hospitalization, lost of job, an accident, a car breakdown or any other crisis. Financial crisis can arise at anytime. Saving is the solution for any such type of emergency; this can give the much needed and required help to overcome such crises in your life. Most importantly you don’t need and search for the support of others, which may at times does not turn up when you require the most.

(f) **Savings Give you the Real Independence:** Universal truth is that the real independence comes only with financial independence and saving your money on regular basis gives you the power of living a life of freedom. With savings, you can be in the right place at the right time and you will be able to take hold of any advantage that life puts across to you. With sufficient savings, you can make opportunities into realities for you. There are situations in life when one is required to invest a sum of money in becoming part of big project. Having enough money through the savings gives you the chance to grab that life turning opportunity.

(g) **Savings for Happy Retirement:** If anyone wants to live a happy retirement life then saving is required during your working period. It is essential to save money for your retirement period. In the current time, you have to put aside some amount of money as savings in the form of investment for future. Early start to save for retirement can give you a chance to build up healthy corpus of funds needed for your retired life. With funds in place with you during that time, you can easily fulfill your plans and escort a secured and multidimensional life even at a higher age.

(h) **Savings for Family Responsibilities and Aspirations:** If you are not single and have a family to support them, then invariably you are required not only to take care of your aspirations but also to meet out various responsibilities of your family at different stages of life. It may be your dream of buying a luxury car. It may be the desire to buy jewelry for your loved one wife or want to go out on vacation with family. It could be the expenses on your child's higher education. The list may be long, but each will require a good amount of money and saving is a must in such scenarios.

(i) **Savings for Development:** At times you may need a fund that will take care of your regular need for improvements on various kinds of tangible assets. Savings can help to do all this. You can timely have improvements done for your home repair and upgrade your car.

(j) **Savings is a Good Habit:** If you can inculcate in yourself a tendency of saving, it will pay a long way throughout your life. Saving teach you to be self-disciplined in your life. Only a self disciplined person can live an all round beautiful and fulfilled life. If you waste the money today, then how you will realize your materialistic dreams. Saving gives security in life and thus is a healthy habit. So there may be different causes for you to save but it is clear from the above discussion that saving money for future is very important for living a secure, happy and quality life.

2. Reasons to Save Money

(a) **Become Financially Independent:** The one thing that the notion of being rich means for the most of people is having financial independence and savings to depend on. Having savings that you can depend upon is what it takes to become rich, no matter how you define it.

(b) **Buy a Home:** The bank won't provide loan to you for buying a house unless you have a down payment, and you are not allowed to borrow a down payment. The down payment must be at least 5% of the price of the house, and then the bank will consider lending the other 95%. There are includes all sorts of other costs and fees that needs to pay when you buy a home, so you will need an additional 5% just for those costs. Savings is what will open the door to owning a house.

(c) **Buy a Car:** When anyone wants to buy a new car then you will need to have a down payment in order to get a car loan. You could of course "borrow" the money from your credit card, but at 20+%, how is that getting you ahead, Zero percent financing is reserved for great customers, so a car loan is bound to cost you something and it could be too much. The good thing you can do is to save up as large a down payment as you can afford, and then consider your options. Maybe buying a quality used car rather than a new car will be what it takes to get you the vehicle you want.

(d) **Get Out of Debt:** If anyone wants to get out of debt, then it is necessary to have some money saved. However, the credit cards are not at all going to get paid off if you have to keep using them for every emergency that comes along. Even if you are a good planner, data show that half of us experience at least one totally unexpected expense each year and half of those will be unexpected car trouble.

(e) **Annual Expenses:** If you want to have a stress-free financial life, you need to save for annual expenses. These may include money for gifts, vacations, vehicle maintenance, home repairs, fixing home appliances, property taxes and possibly income tax. It can be tempting to refinance a mortgage to pay off debt or to use a line of credit to pay off high interest credit cards, but it is hazardous to endlessly put expenses on credit without actually paying them off. The best way to manage these expenses is to save for them in advance.

(f) **Unforeseen Expenses:** If your car needs some major repairs, then you have Rs.5000 to Rs.30,000 in hand what if your house needs some repairs, or if it is discovered that you are living in a building that leaks, You can't always count on the bank to lend you money for all of these things.

(g) **Emergencies:** As much as we hope that emergencies won't happen, we all know that they do. A family member may have a health issue, you might need to make an

emergency trip, you may have a car accident or breakdown, severe weather could flood your basement or crack your pipes, or you may have to fly to a loved one's funeral. Any of these emergencies may be expensive, and we all know that we will likely encounter some sort of emergency from time to time.

(h) **Could Lose the Job:** In good times, everyone thinks that their job is secure, but in worst times, many begin to realize that bad things can happen with anyone. You may suddenly lose your job, your business could face heavy losses, you might get injured, either physically or psychologically or become too sick to work. Any of these things can happen to you. Employment Insurance doesn't kick in until you have been unemployed for 6 weeks. Then when you lastly do get some income, what used to be enough doesn't get you by because you have all these new debt payments to make every month. So now you actually require more income than before because you'll need to pay these debts and eventually work to get them paid off.

(i) **To Have a Good Life:** There are giant emotional, psychological and physical consequences to always living stressfully, from hand to mouth. People who have not plan for their future looks to run from crisis to crisis. There is a little recognized truth that happiness can come from being organized. Being organized is not going to make you happy all by itself, but it definite help. There is so much in your future that you don't have control over, so putting behind some money to spend when you need it is actually organizing and taking control of your future and financial affairs. You have nothing to lose by saving - and only may happier future to gain.

3. Income

In a simple words income means a regular or fixed income within a specific period of time, it may come from salary, wages, profession, business, farming etc., and additional income means the person who has a one regular or fixed source of income excluding that the person is earning from other sources like, gain on investment, rent on land and building, interest on bank deposit etc. all these types of income will be called additional income. Income is money that an individual or business receives in return for providing a good or service or through investing capital. Income is used to furnish day to-day expenditures. People aged of sixty five and under typically receive the majority of their income from a salary or wages earned from a job. In businesses, income can be referring to a company's remaining revenues after paying all expenses and taxes. Most forms of income are subject matter to taxation. As per oxford dictionary income means money received, especially on a regular basis, for work or through investments.

4. Trends in Income and Saving

The concept of saving and investment plays a very important role in economic analysis. As a result, the saving percentage was low, especially in the rural areas. Since after the freedom, the major motive of the government policy has been the encouragement of savings and capital formation as they are the primary tools of economic growth. Increase in savings, use of increased saving for financing the increasing requirement of investment, use of the increased investment for increasing savings, and use of the increased savings for additional financing the required investment constitute the strategy of economic growth of the country. This process may continue till the saving, investment ratio to income would get stabilized and there would be steady and self-sustained increases in national income and economic welfare. Several studies have find out that the rapid development of the western economies was the result of an increasing percentage of investment and the increase in the rate of investment was made possible by the way of an almost proportionate rise in the rate of saving. Saving is therefore, the main factor in achieving a high rate of investment and also forms an important component of a family's budget. Most people use the words saving and investment as synonyms. Yet, there is a substantial distinction between the two. On the other hand, there are indeed a number of resemblances too. Saving is the simple process of putting aside a part of your earnings/income, frequently in the form of cash in hand or a saving account or in the form of some highly liquid and safe instruments such as government issued treasury bills. In order to live a happy and comfortable life, saving is an important part of the family budget. Saving of little amounts done regularly is always better than a large one done at irregular intervals. Savings are compulsory to meet emergencies in the uncertain future when earnings may not happen, during the retirement period, to help family for education and career, future business, purchase of property in due course, for marriage or for any other eventualities. The savings rate in India is comparatively higher than other countries. Interestingly, India's saving rate has gone through an uneven and substantial increase in the last four decades. In the previous years, it was household savings in the physical assets that used to control the domestic saving in the country. But the saving tendency in India is different now. The recent increase in the saving rate in India is primarily determined by the savings made by the household sectors. Over past thirty years, the major two instruments for household long term saving like pension saving and life insurance have come to an idle state. On the other hand, the mutual funds have become most successful in the recent years. Considering these two factors, two weaknesses of the saving market in India can be concluded. First, public sector controls the markets. Second, the distribution of portfolio is under control that makes the low returns from the market developments. Some of the most common investment options include; Bank deposits, life insurance, real estate, post office savings schemes, gold, silver, shares and mutual funds, bonds etc. Bank Fixed Deposit is a very common investment method in which risk is very low compared to other type of investments but return is also not high. Interest rate are differs

from bank to bank. Almost all the nationalized, private and co-operative banks offer fixed deposits. Different banks have different schemes and features like easy fixed deposits, cash certificate, auto renewal, free credit card with fixed deposit etc. Life insurance Corporation of India, a Government of India's undertaking is the market leader followed by private companies like ICICI Prudential Life Insurance, Bajaj Alliance Life Insurance, HDFC Standard Life, Birla Sun life, Kotak Mahindra, Reliance Life Insurance, Tata AIG Life, Aviva Life Insurance etc.

According to the survey study " How India Earns, spends and saves" jointly conducted by Max New York Life and National Council of Applied Economic Research in 2008, Indians gives preference to save money in in-house savings rather than in banks or investment. The reason being there is no social security in our country for the citizens unlike that of western and developed nations which have the system of social security that stops the poor households from starvation by the way of giving social protection and economic support. Moreover, there is large disparity between urban and rural people. Eighty one percent of Indians save and Seventy eight percent of households are aware of life insurance and only thirty percent households own a life insurance policy. According to this study, eighty percent of the households save for emergency and eighty percent for the children's education while only seventy percent households save for old age financial security and sixty percent households set aside their money to gather future expenses like marriage, births and other social ceremonies. Nearly forty five percent households save to buy or build a house and twenty percent households save to buy consumer durables and 18 percent for meeting expenses towards gifts, donations or pilgrimage. Famous lifecycle model of Nobel laureate Franco Modigliani asserts that people keep accumulate assets to finance their retirement, and they spend their assets during retirement. The more young savers there are relative to old dissevers, the greater will be a nation's saving rate. The precautionary object that is, the purpose to save in order to be prepared for various future risks is one of the key reasons people save. Besides the menace of living longer than expected, people save against more mundane risks, such as losing their job or incurring big uninsured medical expenses. The uncertainty of market also encourages savings, as individuals are not sure about bank rates and variation of stock market ultimately inducing a fear of loss on expected returns. On account of spiky deterioration in the savings of the Government administration, the percentage of savings of the public sector, which witnessed an increasing trend till the 1970s, started decreasing thereafter, and turned negative since 1998-99. However, from 2003-04 onwards savings of public sector turned positive, reflecting mainly the outcome of the implementation of Fiscal Responsibility and Budget Management Act 2003. Public sector savings rate are increased over last 2 decades, resulting from lower dissavings by public authorities as well as improvement in non-departmental enterprises savings. Savings of public non-departmental undertakings is a major constituent of public sector savings.

3

INVESTMENT OPPORTUNITIES: THE GUIDE

INTRODUCTION

Investment is the employment of funds with an aim of getting return on it. In general, investment means the use of money in the hope of multiplying more money. In finance, Investment is the commitment of funds, which have been saved from current consumption with in this hope that some benefits will be received in future. It is a real challenging for the Investors to select the investment avenues, the reasons behind of challenging for select the investment avenues is to determine the characteristics of the various investment avenue and then matching them with the individuals need and preferences. Investor differs from one another others in all aspects based on the various factors like demographic factors, socio-economic background, life style, etc., even though investor investing design in order to achieve certain objectives. These objectives may be tangible such as buying a car, purchase or construct the house, etc., and intangible objectives such as social status, security etc. Financial objectives are safety, profitability, and liquidity. Personal or individual objectives may be related to personal characteristics of individuals such as family commitments, status, dependants, educational and marriage requirements, income, consumption and provision for retirement etc., further perceive of the investors related to the elements of investments like Risk and Return relationship, Time, Liquidity, Tax savings, etc,. Investment behaviour is the study of the Investors' Investment decision making

and its attempts to explain and understanding of the reasoning patterns of Investors' rational and emotional processes involves and influences to the decision making process. Basically, the researchers have been some hypothetical statements regarding the Investors behaviour in various investment avenues, like an educated person's decisions towards investment may differ from an uneducated. By the way, the young bachelor prefers to invest their money in risky avenues comparatively the family man, they always prefer the less risky and stable income avenues, not only the above reasons for the invest but also the inducing factors are, rural and urban survivors, information source, avenues accessibility, colleagues, friends and relatives in the society.

It also studies the psychological and sociological factors that influence the financial decision-making process of individuals, and groups. The human decisions are subject to several cognitive illusions, the Cognitive Psychology is the study of all knowledge related (mental) behaviours i.e., Attention, Perception, Memory/ Comprehension, and Decision Making; it is playing an important role in investment behaviour of investors, then it also explain the individuals' personality, attitudes, motivations, and behaviours of the individual influence and influences by social groups. It can be grouped into two theories i.e., Heuristics Theory and Prospect Theory. Heuristics Theory refers to rules of thumb which investor's exercise to make decisions in complex, uncertain environments. The certainty, the investor's decision-making processes are not strictly rational one. It is very difficult to split. Sometimes it may be good, but many times, it may result in inferior decision outcomes. It includes: Representativeness, Over Confidence, Anchoring, Gamblers Fallacy etc. Prospect Theory refers to Loss Aversion, Regret Aversion, Mental Accounting, and Self Control etc. In this study finds to the Investors' Investment Behaviour in primary and popular investment avenues like Bank & Post Office Investment, Insurance Investment, Shares Investment, Mutual Funds Investment, Bonds Investment, Gold & Silver Investment and Real Estates Investment. Furthermore, the study finds to the Investors' decision-making behaviours in their investment avenues. This study suggests Flinder's Decision Making Questionnaire to find the Investors' decision-making behaviours. The Flinder's Decision Making Questionnaire is based on the decisional conflict model, it has proposed by Irving Janis and Leon Mann in 1979. The Flinder's Decision Making Questionnaire has 31 Questions, its consisting of Vigilance scale six Questions, Hyper Vigilance scale five Questions, Defensive Avoidance scale five Questions Procrastination or Postponement five Questions, Buck-Passing five Questions and Rationalisation five Questions. In this study enrol, the above said six decision behavioural dimensions are relate to Investors' investment decision of their investment preference.

INVESTMENT OPTIONS

There is a large number of investment instruments are available today; an investor

has invested different avenues to park their savings. The investor chooses the investment avenue that maximizes their utility. Some of them are marketable and liquid, while others are non- marketable and some of them take high risk while others are almost less risk. So, the study make understand the merits and demerits of different investment avenues through financial advertising, newspaper, investment journals, research review and guidance from experts and investors to select the popular and best avenues for the study. The Investment avenues can broadly categories under the following heads like Bank and Post Office Avenue, Insurance Avenue, Shares Market Avenue, Mutual Fund Avenue, Bonds Avenue, Gold & Silver Avenue and Real Estate Avenue.

(A) Bank and Post Office Investment Avenue

Bank deposits are very popular and safe investment avenue. They offer various types of deposits, depending on the need of the customers. Bank deposits are preferred more for their liquidity and safety than for the returns there on. It is possible to get loans up to 75- 90 % of the deposit amount from banks against fixed deposit receipts. The commercial banks are introduced different types of deposit accounts to attract the public. Bank deposits are liquid in nature. They are non-marketable financial assets. Different types of bank deposits are maintained by commercial banks are; a) Current Account; b) Savings Deposit Account; and c) Fixed Deposit Account. Fixed Deposits with Banks also are mentioned as term deposits. Bank FDs is probably going to be under securities industry fund returns. Deposits in banks are very safe thanks to the regulations of RBI and therefore the guarantee provided by the deposit insurance corporation. The charge per unit on fixed deposits varies with term of the deposits; Bank deposits enjoy exceptionally high liquidity. Loans will be raised against bank deposits. Recurring time deposit account may be a systematic way of saving money. The scheme is supposed for those investors who want to deposit a hard and fast amount regularly or periodical basis.

Type of Deposits and Key Features

(i) **Savings Bank Account**

- Often the first banking product people use
- Low interest however, highly liquid
- Suitable for inculcate the habit of saving among the customers

(ii) **Bank fixed Deposit (Bank FDs)**

- Involve to put funds with the banks for a fixed term (not less than 30 days) for a certain stipulated amount of interest
- The ideal investment time for bank FDs is 6 to 12 months as normally interest on bank less than 6 months bank FDs is likely to be low

- The time frame assumes importance an early withdrawal may carry penalty.

(iii) **Recurring Deposit Account**

- Some fixed amount is deposited at monthly intervals for a pre-fixed term
- Earns higher interest than Saving Bank Account
- Help within the savings of a fixed amount every month

(iv) **Special Bank Term Deposit Scheme**

- This is the Tax Saving Scheme available with bank
- Relief under Section 80C of the income Tax, Act available
- Term deposit of five years maturity in a scheduled bank is mandatory.

Over time, its role has changed and it's grown to become one amongst the most effective avenues to channel investment from even the rich investor and use them fruitfully in nation buildings activities. There has been introduction of several varieties of deposit schemes that cater to the differing needs of various classes of investors within which person has a choice to invest even a minimal amount. Post office small savings schemes are just like the banking concern schemes. Because the term indicates these schemes are operated through post offices. The term post office savings schemes include Post Office Monthly Income Scheme (POMIS), Kisan Vikas Patra (KVP), National Savings Certificate (NSC), Public Provident Fund (PPF), Post Office Recurring Deposit (PORD), Post Office Term Deposits (POTD) and Deposit Schemes for Retired Government Employees or Public Sector Undertakings (DSRGE/DSRPSU). Government of India has been mobilizing crores of Rupees from the members of the general public through these schemes.

Tax Savings Schemes

Various Tax Saving Schemes includes

- National Savings Certificate (NSC)
- Public Provident Fund (PPF)
- Post office Scheme (POS)

The incomes from the investment are exempt from taxation and also the investments in these schemes are deductible subject to certain limits from the taxable income.

(i) National Savings Certificate (NSC)

- Popular Income tax Savings scheme, available throughout the year
- Interest rate of 8%
- Minimum investment is Rs100/-and with no upper limit
- Maturity period of 6 years

- Transferable and a provision of loan on the basis of this scheme

(ii) Public Provident fund (PPF)

- Interest rate of 8.6% p.a
- Minimum investment limit is Rs. 500/- and maximum is Rs. 100,000
- Maturity period of 15 years
- The first loan may be taken within the third yr from the date of opening of the account, or up to 25% of the number at credit at the top of the primary year. Loan amount may be returned in maximum of 36 installments
- A person can withdraw an amount (not quite 50% of the balance per annum from the 7th year onwards

(iii) Post office Scheme (POS)

- It is one amongst the most effective revenue enhancement Saving Schemes
- It is out there throughout the year
- Post office schemes depends upon the sort of investment and maturity period, which may be divided into Monthly Deposit, Saving Deposit, Time Deposit, Recurring Deposit.

(iv) Equity Linked Savings Schemes (ELSS)

- Mirror image of a diversified equity fund, however, with tax benefit U/S 80 C
- Lock in period of three years
- Dividends are also tax-free
- On sale of these units, benefit are obtained of long term capital gains, on which no capital gains tax is to be paid
- Minimum investment is Rs. 500 and then multiples thereof
- Investor can opt for systematic investment plan

(v) Infrastructure Bonds

- Lock in period of three years
- Tax benefit U/S 88 on investment up to Rs. 20,000
- Any redemption prior to maturity nullifies tax exemption.

(B) Life Insurance Investment Avenue

Life Insurance is that the key to good financial future planning. On one hand, it safeguards our money and on the opposite, ensures its growth, thus providing us with complete financial well being. life assurance is termed as an agreement between the policy

owner and also the insurer, where the insurer for a consideration agrees to pay a sum of cash upon the occurrence of the insured individual's or individuals' death or other event, like terminal illness, critical illness or maturity of the policy. Insurance is viewed as an investment; Generally policy is purchased to hide risk and Income-Tax benefits. The important styles of insurance policies in India are: (a) Endowment assurance policy (b) a refund policy (c) Whole life policy (d) Term assurance policy. In law and economics, insurance could be a style of risk management primarily wont to hedge against the danger of a contingent, uncertain loss. An insurer may be a company, selling the insurance; an insured, or policyholder, is the person or entity buying the contract. Till date, only 20% of the entire insurable population of India is roofed under various life assurance scheme (Source: Center for Insurance Training, Research and Development), the penetration rates of health and other non-life insurances in India is additionally well below the international level. Nowadays there are 24 insurance companies offering different products to suit the various needs of the shoppers. In India, Insurance Regulatory and Development Authority (IRDA) is that the regulator for insurance industry, which is responsible to produce guidelines for the protection of the interest of the policyholders.

(i) **Insurance Polices:** Insurance, as the name suggests is an insurance against future loss. However, although life assurance is most typical, there are other schemes that generate regular income and canopy other varieties of losses.

(ii) **Term Life Insurance**

- Gaining popularity in India
- Lump sum is paid to the designated beneficiary in case of the death of the insured
- Policies are usually for 5,10,15,20 or 30 years
- Low premium compared to other insurance policies
- Does not carry any cash value

(iii) **Endowment Policies:** Provide for periodic payment of premiums and a payment amount either within the event of death of the insured or on the date of expiry of the policy, whichever occurs earlier.

(iv) **Annuity /Pension Polices /Funds**

- No insurance cover but only a guaranteed income either for all times or a particular period
- To take income after the retirement
- Premium are often paid as one payment or through installments paid over a

particular number of years

- The insured receives back a selected sum periodically from a specified date onwards (can be monthly, half yearly or annual)
- In case of the death, it also offers residual benefit to the nominee.

(v) United Linked Insurance Policy (ULIP)

- A ULIP may be a life assurance policy, which provides a mixture of risk cover and investment.
- The dynamics of the capital market have an on the spot pertaining to the performance of the ULIPs.
- The investment risk is usually borne by the investor
- Most insurers offer a large range of funds to suit one's investment objectives, risk profile and time horizons. Different funds have different risk profiles.
- ULIPs offered by different insurers have varying charge structures. Broadly the various fees and charges include –Premium allocation charges, Mortality charges, fund management fees, policy/ administration charges and fund switching charges.

(vi) New Pension Scheme

- Defined contribution scheme receptive any Indian Citizen between the age of 18 and 55
- The individual invests a specific amount in a very pension scheme till the retirements
- At retirement, he's allowed to either withdraw the cash that has accumulated or buy an on the spot annuity from an insurance underwriter to come up with a daily income or do both. A minimum of 40% must be accustomed buy a direct annuity; a maximum of 60% of the cash accumulated are often withdrawn.
- Buying an annuity assures a daily payment from the underwriter. This payment is monthly, quarterly, half yearly or once a year
- The minimum amount that require to be invested per contribution is Rs. 500. A minimum of 4 contributions must be made p.a. apart from this, a minimum of Rs. 6,000 has to be invested annually
- There aren't any upper limits on the quantity of cash which will be invested also because the number of contributions that may be made
- The money you invest in NPS are going to be managed by professional managers

- You can switch fund managers if you're not satisfied with the performance of your fund manager
- This is non-withdrawable account and investment during this keep accumulating till you switch 60. Withdrawal is allowed only just in case of death, critical illness or if you're building or buying your first house.
- Under Section 80 CCD of the taxation act investments up to Rs. 1 lacs within the NPS are often claimed as tax deductions. Remember that this Rs. 1 lacs limit isn't over and above the Rs. 1 lacs limit available under section 80C
- Also no return is guaranteed because it is just in case of PPF, the cash you create depends on how well the fund managers chosen by you perform.

(vii) **Health Insurance:** Health Insurance policies insure you against several illness and guarantee you stay financially secure do you have to ever require treatment. They safeguard your peace of mind, eliminate all worries about treatment expenses, and permit you to focus your energy on more important things. There are several insurance or medical insurance plans in India. These are divided in to the subsequent categories based within the coverage offered.

(viii) **Comprehensive health insurance coverage:** These plans provide you complete health coverage through a hospitalisation cover while at the identical time also creating a health fund to hide the other health care expenses.

(ix) **Hospitalisation Plan:** These insurance plans cover your expenses just in case you wish to be hospitalised. Within this category, products may have different payout structures and limits for various head of expenditure. The hospitalisation coverage could also be reimbursement based plans or fixed benefit plans. These plans aim to hide the more frequent medical expenses.

(x) **Critical Illness Plans:** These insurance plans provide you coverage against critical illness like attack, surgical process, stroke, and kidney disease among others. These plans aim to hide infrequent and better ticket size medical expenses.

(xi) **Specific Conditions Coverage:** These plans are designed specifically to supply insurance against certain complications because of diabetes or cancer. They will also include features like disease management programs that are specific to the condition covered.

Reason for Buying Life Insurance Products

Insurance is intended to safeguard an individual and also the family from disasters and financial burdens. There are some important reasons, which play a really vital role in purchase decisions and buying of insurance products, are as follows: insurance provide funds

to the family, leaves behind a one's and is a cash resource, on premature death. It can have a savings or pension component that has during the retirement. Some policies have riders like coverage of critical illness or insurance for the kids or spouse. Having a legitimate insurance is taken into account as financial assets which improves the credit rating when one's need insurance or a home or bank loan. Term life assurance has double benefits, it protects and one can get their reimbursement during strategic points in their life.

(C) Share Market Investment Avenue

A stock exchange may be a public marketplace for the trading of company shares at an agreed price; these are securities listed on exchange. The shares are listed and traded on stock exchanges which facilitate the buying and selling of stocks within the secondary market. The prime stock exchanges in India are the Stock Exchange Mumbai, referred to as BSE and therefore the national securities market called NSE. The aim of a securities market is to facilitate the trading of securities between buyers and sellers, thus providing a marketplace. Investing in equities is riskier and definitely demands longer than other investments. Investment in equities may be made through the first market (by applying for shares that are offered to the public)

Having first understood the markets, it's important to grasp the way to move selecting a corporation, a stock and also the right price. A touch little bit of research, some diversification and proper monitoring will make sure that the investor earns good returns.

A share of stock is smallest unit of ownership in a very company. If you own a share of company's stock, you own share, you considered because the part owner of the corporate. Exchange is best known for being the foremost effective channel for company's capital raise. People have an interest available due to "long-term growth of capital, dividends, and also the other feature that creates the securities market more attractive than other varieties of investment is its liquidity. Most of the people invest in stocks because they need they benefit when the corporate pay dividends or when stock price increases however, many people buy stocks for the aim of control over the firms. Regularly, shareholders must own certain quantity of shares to be within the board of directors who can make strategic decisions and set directions for the firms. It's possible to think about securities market because the yardstick for economic strength and development. Thus, the movement of securities market trend represents the economic health of an economy. The increase in share price tends to be related to the rise in investment, which results in the upper rate of an organization in specific and an economy normally. Furthermore, through risk diversification, securities market may influence economic process by shifting investments into higher-return projects. Besides, stock

exchange promotes the acquisition of firms' information, from which investors may benefit before the data is spread widely and costs change.

(D) Mutual Funds Investment Avenue

An investment trust (henceforth MF) pools money from many investors and invests the money available, bonds, short-term money-market instruments, other securities or assets, or some combination of those investments. The combined holdings the fund owns are referred to as its portfolio. Each unit represents an investor's proportionate ownership of the fund's holdings and also the income those holdings generate. Mutual Funds are one amongst the foremost preferred investment alternatives for tiny investors as they provide a chance to take a position in diversified, professionally managed portfolios at a comparatively low cost. In recent times, a very important trend within the open-end fund industry is that the aggressive expansion of foreign owned open-end investment company companies and also the decline of the businesses floated by nationalized banks and smaller private sector players. A investment company is an investment tool that enables small investors access to a well- diversified portfolio of equities, bonds and other securities. Each shareholder participates within the gain or loss of the fund. Units are issued and might be redeemed pro re nata. MF could be a trust that pools the savings of variety of investors who share a standard financial goal. the money thus collected is then invested in capital market instruments like shares, Debentures and other securities. The income earned through these investments and therefore the capital appreciation realized is shared by its unit holders in proportion to the amount of units owned by them. Thus, MF is that the best suited investment for the commoner because it offers a chance to take a position in an exceedingly diversified, professionally managed basket of securities at a comparatively low cost. Each fund incorporates a predetermined investment objective that tailors the fund's assets, regions of investments and investment strategies. At the the elemental level, there are three sort of mutual funds:

- Equity funds (Stocks)
- Fixed – income funds (Bonds)
- Money market funds

All mutual funds are variations of those three asset classes. For instance, while equity funds that invest in fast-growing companies are called growth funds, equity funds that invest only in companies of the identical sector or region are called specialty funds. Mutual funds may be classified as open- ended or closed-end, counting on the due date of the fund.

Small investors face lots of problems within the share market, limited resources, lack of professional advice, lack of knowledge etc. Mutual funds have come as a much-needed help to those investors. it's a special style of institutional device or an investment vehicle

through which the investors pool their savings which are to be invested under the guidance of a team of experts in wide selection of portfolios of corporate securities in such the way, so on minimize risk, while ensuring safety and steady return on investment. It forms a crucial a part of the capital market, providing the advantages of a diversified portfolio and expert fund management to an oversized number particularly small investors. Now a day, investment trust is gaining its popularity.

(E) Bonds Investment Avenue

A bond may be a loan given by the client to the issuer of the instrument, reciprocally for interest. Bonds may be issued by companies, financial institutions, or maybe the government the client receives interest income from the vendor and therefore the value of the bond is receivable by the client on the due date which is specified. Bonds are senior securities in an exceedingly firm. They represent a promise by a corporation to the bondholder to pay a specified rate of interest during a stated period annually and therefore the return of the principal on the date of maturity. Date of maturity is additionally called the date of retirement of a bond. Bonds are the important sources of funds to the company sectors. They're usually a difficulty of long-term debt of the company organizations. Key Features of Bond includes

- Rated by specialised credit rating agencies like, CRISIL, ICRA, CARE, Fitch etc, the yield on a bond varies inversely with its credit (Safety) rating.
- Suitable for normal income, interest received semi-annually, quarterly or monthly looking on form of bond.
- Bond available in both primary and secondary markets.
- Market price depends on yield at maturity, prevailing interest rates, and rating of the issuer.
- One can borrow against bonds by pledging the identical with a bank.
- Minimum investment ranges from Rs. 5,000 to 10,000.
- Duration usually varies between 5 and seven years.
- Can be held in demat form.

(F) Gold and Silver Investment Avenue

In India, real assets like gold and silver find an area within the portfolio of the investors in rural and semi-urban areas. Generally, gold is that the primary type of savings to housewives. These real assets enable the investors to satisfy any emergent needs since they'll be easily converted into cash without monetary loss. The bullion offers investment opportunity within the variety of gold, silver, art objects (paintings, antiques),

precious stones and other metals (precious objects), specific categories of metals are traded within the metal exchange. The bullion market presents a chance for an investor by offering returns and also the end value of future. It's been absurd that on several occasions, when exchange failed, the gold market provided a return on investments. In Bullion markets, the valuable metals like gold and silver had been a secure heave for Indian Investors since ages. Since last 10 year, both Gold and Silver have highly appreciated in value both within the domestic further as within the international markets. Additionally to its attributes as a store of import, the case for investing in gold revolves round the role it pays as a portfolio diversifier.

(G) Real Estate Investment Avenue

Real estate has also become a sexy kind of investment. Like international investment, land plays a crucial role in diversified portfolios. The term property includes agricultural land, semi-urban land, commercial property, a resort home and a second house. Land also made when the expected returns are very attractive. Property investment is commonly linked with the long run development plans of the situation. At the moment investment in real assets is booming there are various investment source are available for investment which are directly or indirectly investing realty. Assets Returns are almost guaranteed because property values are always on the increase because of a growing world population. Residential assets is over just an investment. There are more ways than ever before to benefit from land investment. As per Amarjit Gill (2012) positively influence the propensity of Indian investors to take a position within the property market. India is second largest country within the world after China in terms of population. By 2030, the population of India is predicted to be largest within the world estimated to be around 1.53 billion. Due to the big size of population and economic process, the Indian land sector is booming and also the annual demand for residential buildings within the country is anticipated to grow at a compound annual rate of growth of 52.5 percent.

4

DIVERSIFICATION: NOT KEEPING ALL THE FRUITS IN ONE BASKET

INTRODUCTION

Diversification could be a technique of allocating portfolio resources or capital to a combination of various investments. The final word goal of diversification is to cut back the volatility of the portfolio by offsetting losses in one asset class with gains in another asset class. A very common saying regarding investment is fit to understand the Diversification. It is like do not put all the eggs of yours into one basket. Diversification is based on this philosophy perhaps. It is a technique in which risk is reduced by diverting the total amount of fund to be invested into number of different categories of investments. It aims to maximise returns by investing in numerous areas that may each react differently to the identical event. Most of the investment managers do agree that there is however no guarantee regarding the non occurrence of the loss in case of diversification even, but it helps in reducing the loss with the minimum amount of investment and helps in achieving the goals. Here, we glance at why this is often true and the way to accomplish diversification in your portfolio. In practical terms, diversification is holding investments which are able to react differently to the identical market or economic event. For example in the times of high raise in the economy, the shares gives better return compare to Debentures or Bonds but contrary in case of decrease or under performance of the economy the bonds gives better return. By making a combination of both of it the risk is balanced totally.

An authorized financial manager and director of an advisory service have well explained the diversification by story of fruit seller. He said think simply that if some would have selling the fruit of one nature only say Oranges, and increase any unforeseen circumstance like hurricane or other arises in the area or city from where he use to get his supply that what will happen. He will left with no oranges and will not able to sale anything and naturally he would be facing unemployment for that season or period. But if he would have dealing in all kind of fruits he perhaps not left with any such situation as even though he is not able to get oranges but he can make money by selling the other fruits too. That is the true meaning of diversification that instead of getting dependent on one kind be assured with many one so that you do not face any difficulty in encountering any adverse circumstance. This is the power of diversification.

MANAGEMENT BETWEEN RISK AND DIVERSIFICATION

1. Systematic Risk

Systematic risk is a kind of risk which is directly related to the market returns. This is often related to or attributed to various broad factors. This is a kind of risk which cannot be related or connected to the precise risk of any kind of individual investments. The systematic risk could be a result of various macro level economics factors such as inflation or interest rate of banks or currency fluctuations or say recession in the market or wars even or pandemic like corona. This macro factor which is having the impact of direction or volatility of the entire market is actually called the systematic risk. Any organisation at private level actually cannot control or eliminate the Systematic risk at its own but it can be partially adjusted or recovered by making the best asset diversification or what we called asset allocation. Having more than one asset with less correlation with each other could make the whole portfolio better or rather to say smooth portfolio volatility because the asset class of every kind reacts differently to each macroeconomics factor. When some of the asset category for example domestic or international shares of different companies are increasing the others could be decreasing. To further reduce risk, asset allocation investment decisions should be supported valuation. We need to regulate my asset allocation target in step with valuations. This should be plan in such a way that those investments which are overweight that is which are aver priced shall be avoided but those which are only over weight shall be included in the portfolio for mitigating the risk or diversifying the whole investment portfolio. However the cash shall also be given appropriate place as it will fulfill the purpose of Liquidity.

2. Types of Systematic Risks

(a) **Rate of interest Risk:** Such reasonably risk is that the results of a change within the market rate of interest. It mainly impacts the fixed income securities as bond prices are inversely associated with the rate of interest.

(b) **Market Risk:** it's the results of the final tendency of the investors to maneuver with the market. So, it's basically the tendency of security prices to maneuver collectively. As an example, within the falling market, the stock price of even the most effective performing company's drop. Generally the market risk covers around 2/3 of the total systematic risk of the whole market.

(c) **Purchasing capacity risk:** it is also known as inflation risk which arises because it erodes the total purchase value of the cash. Inflation is that the rise within the general indicant, meaning the identical amount of cash buys fewer goods and services. So, if the income of the investor fails to stay pace with the rising inflation, then within the real term, he's earning but before. Just like the charge per unit risk, purchasing power risk also mainly affects the fixed income securities because the income from such securities is fixed.

(d) **Rate of exchange Risk:** This risk stems from the uncertainty within the changes within the value of the currencies. So, it affects only the businesses doing interchange transactions, like export and import companies.

(e) **Political Risk:** Such sort of risk occurs primarily because of political instability in a very country or vicinity. For example, if a rustic is at war, then the businesses operating there would be considered risky.

3. Unsystematic Risk

Unsystematic risk is corporate specific or industry specific risk. This is often risk attributable or specific to the individual investment or small group of investments. It's uncorrelated with securities market returns. Other names wont to describe unsystematic risk are specific risk, diversifiable risk, idiosyncratic risk, and residual risk. Some of the risk which is specific to any category of individual or a company or companies or industry could include the finance risk or credit risk or product risk or market risk or legal risk or liquidity risk etc. Unsystematic risks are considered governable by the corporate or industry. Proper diversification can nearly eliminate unsystematic risk. If an investor owns only one stock or bond and something negative happens to it company the investor suffers great harm. However if the portfolio of an investor consist of say thirty or fifty separate investments than the loss occurring to him would definitely will be lower that non portfolio risk. The basis philosophy behind the systematic risk that it is not at all related to promotion risk and can be easily eliminated by the diversification.

4. Difference between Systematic And Unsystematic Risk

To get a more thorough understanding, we want to know the difference between systematic and unsystematic risk. Like, if workers of a producing company persist a strike leading to the call in the stock price of that company. Following are the differences between the two:

- Unsystematic risk is said to the precise industry, segment or security, while the Systematic risk is that the loss related to the complete market or the segment.
- Unsystematic risk is because of the interior factors, and hence, will be controlled or reduced. Systematic risk, on the opposite hand, is uncontrollable.
- Unsystematic risk affects the stock of a particular company, while systematic risks impact most securities within the market.
- We can remove unsystematic risk using diversification. However the systemic risk can be controlled using various methods such as Hedging or say asset allocation or some other similar methods.

5. Probability and Expectation

The expectation or return of a portfolio is that the sum of all the possible returns multiplied by the probability of every possible return. One kind of risk is that the amount of deviation and therefore the probability of that deviation from the expected return. Risk of Portfolio is adjusted or mitigated by mitigating or managing the systematic risk with making the asset combination at par and using diversification to mitigate the unsystematic Risk. Managing the both risk that is systematic as well unsystematic permits a fund manager to include a higher risk asset into the portfolio without accepting the extra risk but with the acceptance of higher return. It is generally known as portfolio optimization. In other sense in case a portfolio manager is ready to accept a specific amount of risk, then he shall manage or leverage the entire portfolio to be lowered by making proper combination of difference assets and investments using diversification technique. Hence the Investor or his investment manager can make more aggressive investments and still can earn higher amount or return.

6. Diversification and Unsystematic Risk

Investors confront two main varieties of risk when investing. The primary is undiversifiable, which is additionally referred to as systematic or market risk. This kind of risk is related to every company. Thus, the aim is to take a position in various assets in order that they won't all be affected the identical way by market events. Diversification is primarily accustomed eliminate or smooth unsystematic risk. Unsystematic risk may be a firm-specific risk that affects just one company or atiny low group of companies. Therefore, when a portfolio is well-diversified, investments with a powerful performance catch up on the negative results from poorly performing investments. However, diversification doesn't usually affect the inherent, or systematic, risk that applies to the financial markets as an entire. A way to consider the 2 basic sorts of risk is that one refers to the precise risks of an industry or individual firm, while the opposite refers to risk factors within the overall economy.

In fact, there's an honest chance the railway stock prices would climb, as passengers communicate trains as an alternate sort of transportation. But, you may diversify even further because there are many risks that affect both rail and air because each is involved in transportation. An occurrence that reduces any kind of travel hurts both varieties of companies. Statisticians, as an example, would say that rail and air stocks have a robust correlation.

After all, volatility within the U.S. might not affect stocks and bonds in Europe, so investing therein a part of the planet may minimize and offset the risks of investing reception. Obviously, owning five stocks is best than owning one, but there comes some extent when adding more stocks to your portfolio ceases to create a difference. There's a debate over what number stocks are needed to scale back risk while maintaining a high return. The foremost conventional view argues that an investor are able to do optimal diversification with only 15 to twenty stocks spread across various industries.

PORTFOLIO DIVERSIFICATION

Portfolio diversification concerns the inclusion of various investment vehicles with a range of features. The strategy of diversification requires balancing various investments that have only a small direct correlation with one another or better yet, actual indirect correlation. Low correlation usually means the costs of the investments aren't likely to maneuver within the same direction. There is no consensus regarding the right amount of diversification. In theory, an investor may continue diversifying his/her portfolio virtually infinitely, as long as there are available investments within the market that don't seem to be correlated with other investments within the portfolio. An investor should consider diversifying his/her portfolio supported the subsequent specifications:

- **Types of investments:** Include different asset classes, like cash, stocks, bonds, ETFs, options, etc.
- **Risk levels:** Investments with dissimilar levels of risk allow the smoothing of gains and losses.
- **Industries:** Invest in companies from distinct industries. The stocks of companies operating in numerous industries tend to indicate a lower correlation with one another.
- **Foreign markets:** An investor shouldn't invest only in domestic markets.

Nowadays, index and mutual funds, still as ETFs, provide individual investors with a straightforward and cheap instrument for creating a diversified investment portfolio.

Diversification in Investment

1. **The Balancing Act:** Different themes, offered as schemes by fund houses, outperform during different periods. Mid-caps tend to fall over the large-caps during a downturn due to their high beta levels, a measure of volatility of a stock compared to it of the securities market as an entire. Also, since these stocks are less liquid than large-caps, they're inherently more volatile. Financial planners say mid-caps shouldn't be a part of your core portfolio at any point of your time. Beta may be a measure of the volatility, or systematic risk, of a security compared to the market as a full. A beta of 1, as an example, indicates that the security's price will move with the market. A beta of but 1 means the securities are going to be less volatile than the market. A beta of greater than 1 indicates that the security's price is more volatile than the market and can move quite the market.

2. **Spreading Risks:** These funds provide wealth creation by investing across various themes and are underweight or overweight on sectors supported their outlook. Over a five to 10 year period they might perform better than the Nifty. Although it's difficult to get down rules for allocation across investment themes, certain sorts of funds can facilitate your achieve certain goals you will have in mind. Gold funds, for example, may be accustomed plan for your child's marriage. Mid-caps or small caps should be used for near- term goals like buying a vehicle or spending on a vacation due to their potential upside. If you're a low-risk investor, increase the proportion of defensives in your portfolio like FMCG, pharma or dividend yield stocks or funds; these will cushion your portfolio during market falls. But you ought to study a two to a few year time-frame for investing in such funds. The FMCG segment, as an example, continues to be laid low with margin pressures as input costs are spiraling. Further, thematic or sectorial funds may be used for taking advantage of market opportunities, but one must clearly identify a sector. It reduced excise duties and interest rates, increased salaries through the Seventh Pay Commission and put money within the hands of the consumers. This benefitted the consumption-led sectors. However, with the economy back on course, the main target has yet again shifted back to infrastructure furthermore as commodities like metals and cement.

3. **Need for Attention:** Investments in any particular sector as a subject matter in your portfolio should be done on one's own on condition that you have got the research expertise and conviction about the arena. You'll be able to study investing 15-20% into sectorial funds, cautions. Further, increase within the number of stocks beyond 30 will only dilute the performance of the simplest ideas. Some call this

'Diversification' of the portfolio. And as you approach retirement don't forget to redesign your portfolio to scale back the amount of high-risk investments. Legendary investor Warren Buffett, who doesn't recognise volatility as a risk and advocates a concentrated portfolio, qualifies that his approach isn't suitable for everybody, definitely not for relatively inexperienced investors. Funds Tiger can arrange loans from the majority the banks. You'll apply for a pretty offer with very best rate of interest and terms for private Loan, commercial loan, loan and Car Refinance Loan.

WHAT ARE THE ADVANTAGE OF DIVERSIFICATION

1. **Reduces the impact of market volatility:** A diversified portfolio minimizes the general risk related to the portfolio. Since investment is created across different asset classes and sectors, the general impact of market volatility comes down.
2. **Reduces the time spent in monitoring the portfolio:** A diversified portfolio is more stable because not all investments will perform badly at the identical time. If you have got invested only in equity shares, you'll be spending plenty of your time studying the market movement and analyzing your next step. Similarly, if you've got invested solely into low-risk mutual funds, your all-time worry is going to be to search out avenues to extend returns. With diversification, you'll must spend lesser time on the identical and therefore the portfolio won't require plenty of maintenance.
3. **Helps seek advantage of various investment instruments:** By selecting mutual funds, investors may gain the good thing about investing during a mixture of debt and equity. Similarly, by investing in fixed deposits, investors enjoy a hard and fast return and a coffee risk. Hence, diversification of the portfolio will balance the danger and return related to different funds. Whether or not one fund doesn't perform well, the loss is also compensated by the profits made up of other funds.
4. **Helps achieve long-term investment plans:** it's important for the investor to speculate indifferent high-performing sectors. If the market volatility encompasses a positive impact on stocks, the investors are ready to generate higher returns on them. If it's a positive impact on debt, the investors are going to be ready to make the foremost out of mutual funds.
5. **Helps avail of good thing about compounding of interest:** Selecting a investment company as an investment option allows investors to avail of the good thing about compounding interest. This suggests that each investment made will generate interest on the principal amount in addition as on the accumulated interest over the previous invested years. It's important to stay in mind that if you're investing in two different funds, the fund holding for both the schemes should be different; otherwise, diversification doesn't make any sense.

6. **Helps keep the capital safe:** Not every investor is prepared to play a risky game. Investors who are on the verge of retirement or have just started investing prefer stability in their portfolio and diversification ensures the protection of their savings. Diversification allows investors to realize their investment plans while maintaining the investment risk at a minimum. It's also a technique of playing safe within the volatile market.
7. **Helps you to shuffle amongst investments:** Diversification may be a practical approach that each investor should cash in of. It allows investors to shuffle their investments and profit of the market movement.

This increases the chance and therefore the sources of earnings while keeping risks at a minimum. So as to assist you create the correct financial decisions, various mobile application with a singular feature are available. The app offers personalized investment recommendations to users and allows them to speculate anytime, anywhere.

Return Expectations while Diversifying

If the prior expectations of the returns on all assets within the portfolio are identical, the expected returns on a diversified portfolio are going to be the image of that on an undiversified portfolio. Some assets will do better than others; but since one doesn't know beforeh and which assets will perform better, this fact cannot be exploited beforehand. The return on a diversified portfolio can never exceed that of the top-performing investment, and indeed will always be not up to the best return (unless all returns are identical). That comes out worst. That's the role of diversification: it narrows the range of possible outcomes. Diversification needs not either help or hurt expected returns, unless the choice non-diversified portfolio features a higher expected return.

1. **Amount of Diversification**: There is no atomic number of stocks that's diversified versus not. Sometimes quoted is 30, although it is as low as 10, provided they're carefully chosen. This is often supported a result from John Evans and Stephen Archer. More stocks give cheaper price volatility. Given the benefits of diversification, many experts. Recommend maximum diversification, also referred to as "buying the market portfolio". Unfortunately, identifying that portfolio isn't straightforward. This can be the concept underlying index funds. Diversification has no maximum see you later as more assets are available. "Risk parity" is an alternate idea. This weights assets in inverse proportion to risk, that the portfolio has equal risk all told asset classes. "Correlation parity" is an extension of risk parity, and is that the solution whereby each asset during a portfolio has an equal correlation with the portfolio, and is therefore the "most diversified portfolio". Risk parity is that the special case of correlation parity when all pair-wise correlations are equal.

2. **Diversifiable and non Diversifiable risk:** The capital asset pricing model introduced the concepts of diversifiable and non-diversifiable risk. The second risk is named "diversifiable", because it is often reduced by diversifying among stocks.
3. In the presence of per-asset investment fees, there's also the likelihood of over diversifying to the purpose that the portfolio's performance will suffer because the fees outweigh the gains from diversification. Other financial models give multiple sources of non-diversifiable risk, but also insist that diversifiable risk mustn't carry any extra expected return. Still other models don't accept this contention.

How to Diversify

- **Types of Investment, or Asset Classes**: cash, bonds, funds, shares and property are the most ones, and they'll all have different risk levels. The concept is that they need different drivers of returns each will perform differently at different times. As your age, goals and risk appetite change, then you'll probably want to alter the quantity you have got in each asset class.
- **Geography:** why continue one country, after you can have the world? Similar to asset classes, different stock markets round the world are driven by various things. And often, the most effective performing exchange will change from year to year. It might feel uncomfortable to place your money into areas which aren't doing well but when the tide turns, and it always does, you're more likely to be within the right place at the proper time.

When you're clearer on your attitude to risk, understand the fundamentals of diversifying your portfolio examine the facility of compounding.

Consideration in making Diversification

If you're unsure exactly what diversification is, or the way to make it work for you, you're within the right place. Here are 10 belongings you should know.

1. **What exactly is diversification:** consider the concept of variety. If you're an investor, diversification is that the act of and also the results of achieving variety within the things that conjure your portfolio. Holding a spread of assets reduces your portfolio's overall level of risk.
2. **The stocks you decide on are unlikely to beat the market:** the lecturers tell us the theoretical expected return of 1 stock is that the same because the average returns of all stocks within the same asset class. It's true that one stock can return 10 times the maximum amount as its peers. On the opposite hand, any stock can lose most of its value for a spread of reasons. By and huge, investors believe the stocks they own are worth way more than average; that's why they own them. Those

that own stock usually have much higher opinions of that company than those that don't own the stock. Try as they could, and despite enormous financial incentives for cracking this particular nut, the world's best investors, managers and researchers haven't found any reliable thanks to identify the long-term winners. Therefore, if the typical return of all stocks will meet your needs, the smart money will own them by the hundreds (or even thousands) through mutual funds or ETFs.

3. **Fuel for Investing Smarter:** Make the smartest investment decisions with access to Barron's in-depth analysis and unrivaled market predictions. Your chances of picking the winners are much slimmer than you think a recent study addressed a question that would seem to have an obvious answer: Do stocks outperform Treasury bills? The answer was a shock to many people: From a vast database of the common stocks available since 1926, the study found that the majority roughly four of every seven had lifetime buy-and-hold returns less than one-month T-bills. The researchers found they could attribute almost the entire net gain in the stock market since 1926 to only 4% of individual stocks. Collectively, the other 96% matched the gains of Treasury bills. That means roughly one of every 25 stocks was a long-term winner. Everybody wants to identify that one in 25, but the odds against that are pretty overwhelming. That helps explain why so many stock portfolios deliver below-average returns. Unless you are willing to bet your financial future that you or your manager can pick the 4% of stocks that will be winners, I suggest you plan to own them all, through index funds.

4. Understand the stakes means what quantity risk may be accepted: Risk is that the uncertainty that's attached to outcomes. Once you don't seem to be so sure about the end result of a particular action, you call it risky? Within the domain of investments, risk means the flexibility to determine erosion of your investment value, especially people who are invested in market linked securities like stocks (or mutual funds). However, the chance is more so present briefly term, say in 5 years. If you're willing to be invested in market linked securities for over 5 years, the possibilities of losing money are far less. Sometimes, you will have an attitude to require on risk, but your capacity might not allow you. You'll have more immediate needs of funds otherwise you have a loan to retire and hence the capacity is low. The contrariwise is equally true. You will be financially wealthy but you will not want to risk your money at any cost. Either ways, you have got to assess where one sub terms of your risk taking capacity does.

5. **You ought to diversify among asset classes:** whether or not you own 1,000 stocks, you're still exposed to the chance that nearly all similar stocks will decline

significantly during a securities industry (defined as a drop of 20% from a high point). This is often called market risk. You'll mitigate that risk by diversifying among asset classes. As an example, you'll be able to own small-cap stocks still as large-cap ones, value stocks additionally as growth stocks, international stocks similarly as U.S. stocks. within the 2000-2002 securities industry when the S&P 500 index SPX, -0.81% had a compound annual loss of 14.6%, U.S. small-cap value stocks had a positive compound return of 12.2%, enough to offset most of the loss within the S&P 500. Any of those other asset classes would have improved a portfolio supported only the S&P 500.

6. **Even the most effective equity diversification won't necessarily protect you from a bear market:** In 2008, virtually all equity asset classes were badly impacted. My recommended Ultimate Buy-and Hold Strategy portfolio (all equity) lost a whopping 41.2%, and also the S&P 500 was down 37%. But long-term government bonds were up 25.9% that year, rewarding investors who diversified by holding bonds still as stocks. In an equity catastrophe like that (an event that after all is normal every once during a while), U.S. government bonds are a safer shark repellent than corporate bonds.
7. **You'll get plenty of diversification during a single package:** Target-date retirement funds can manage your lifetime diversification with one decision: the approximate year you propose to retire. The fund will provide many stocks and a spread of asset classes (points 1, 2, 3 and 4 above) and supply an age-based growing exposure to bonds (point 5) in an exceedingly single package. At Morningstar.com, you'll be able to compare the portfolios of target-date funds offered by Fidelity, Vanguard and Black Rock. You'll see their somewhat different approaches to managing the combination of asset classes and therefore the timing of how they add bonds.
8. **You'll be able to diversify time itself:** Although you can't control time, you'll use the calendar to a minimum of partially control the costs you acquire investments. If you're regularly adding money to your portfolio or if you've got a considerable payment of money and don't want to take a position it all at the worst possible time, communicate dollar-cost averaging. This low-tech technique will make sure that you get at a spread of costs, memorizing more shares when those prices are lower and fewer shares when prices are higher.
9. **You'll be able to even diversify your tax obligations:** You can't get obviate taxes, but smart diversification can facilitate you're manage them. You are doing this by being attentive to how you utilize tax-deferred account like IRAs and 401(k)s and fully taxable accounts. In 401(k) plans and IRAs, there also are important tax differences

between regular and Roth accounts. In retirement, you will want to withdraw money from your taxable accounts first, leaving money in your tax-deferred accounts to grow without the burden of taxes. A decent accountant is also ready to facilitate your manage distributions during a way that avoids pushing you into the next bracket. These are custom solutions that rely upon individual circumstances, and that i can't provide you with any great rule of thumb except to consider carefully about taxes.

10. **There are many levels of diversification:** There are around 20 variations, each of which may help protect you from some variety of financial risk.

IS DIVERSIFICATION EASY?

While there are many benefits to diversification, there could also be some downsides likewise. It should be somewhat cumbersome to manage a various portfolio, especially if you've got multiple holdings and investments. Secondly, it can put a dent in your bottom line. Not all investment vehicles cost the identical, so buying and selling is also expensive from transaction fees to brokerage charges. And since higher risk comes with higher rewards, you will find yourself limiting what you start with. There are additional styles of diversification, and plenty of synthetic investment products are created to accommodate investors' risk tolerance levels. However, these products will be very complicated and don't seem to be meant to be created by beginner or small investors. For those that have less investment experience, and don't have the funding to enter into hedging activities, bonds are the foremost popular thanks to diversify against the exchange.

They've all concluded that the simplest thanks to do that is by diversifying holdings into different asset classes, like stocks, bonds, gold, hedge funds and other strategies meant to smooth returns. But does it work? No. What diversification does is reduce volatility. Diversification does indeed rid investment returns, but that's a psychological decision, not an investment decision. As a result, asset allocation diversification doesn't help investment performance, it hurts it. For both professional investors and novices, your single biggest fear is being caught in an exceedingly major stock exchange decline of 40% or more, which is why portfolio managers and advisers diversify into bonds and other assets to scale back the volatility of the portfolio.

Based on a fresh analysis my colleagues and that I have made, diversification hurts your long run investment performance success. Surprisingly, they need occurred only 3 times within the last 100 years. Is it smart to tailor a portfolio to shield against an occurrence this rare? Some are quick to signify that since the timing of those major declines is unknown, what happens if they occur near one another? a good point since two of the three major meltdowns of the century occurred but 10 years apart, 2000-2001 and 2008-2009. The third was much earlier, in 1973-1974, so many time to live through that one if you

stayed invested. We decided to check the hypothesis of staying invested through thick or thin. Let’s agree on when the worst possible time might need been to speculate within the U.S. exchange in recent times. The apparent conclusion was to speculate just before the 2 major crashes in 2000-2001 and 2008-2009 and stay invested through both crashes. What quantity would you have got lost if you stayed invested until now? Few investors can endure that level of pain. History suggests that the one best thanks to make an excellent deal of cash is to speculate within the stock exchange for the long run. We’ve all heard that said for many years but whether or not I can demonstrate convincingly that for an investor under 40 years old a portfolio invested 100% within the S&P 500 index will serve alright, nobody believes it and nobody follows that advice.

WHAT MAKES AN HONEST ADVISOR

There are decades when the market returned little or nothing, and decades when the annual returns were within the teens. To cite some examples, if you invested within the index within the decade 2010-2019, your total return would be a gain of 256%, or 13.5% annualized. This can be the type of return most investors would dream of. That’s “happy dance” time. It isn’t always this rosy, of course. Within the not-so-distant past, 2000-2009, your decade long investment resulted during a loss of -9%, or a loss of -0.9% a year on the average for ten years. Enduring a painful period like that needs Zen-like patience.

As such, the role of the consultant is far more equivalent to that of a psychological or spiritual advisor than an investment expert, which they sometimes are anyway. The simplest investment advisors don't seem to be those with the most effective performance. Indeed, to urge high returns you need to assume high risks, which isn't within the clients’ best interests. Successful advisors are people who can convince their clients to remain invested through feast or famine, reducing the danger that the client will divest holdings entirely out of sheer fear of the market. The takeaway is that the only best investment strategy to form a fortune is to beat the emotional side of investing. Buy the S&P 500 index, boost it periodically, and don’t observe it for several decades. If you'll try this, an extended history of exchange performance says that your success is assured.

EXCESS DIVERSIFICATION: GOOD OR BAD FOR AN INVESTOR

The term Diversification has morphed into a buzzword accustomed describes inefficient diversification because it relates to a complete investment portfolio. rather like a lumbering corporate conglomerate, owning too many investments can confuse you, increase your investment cost, add layers of required due diligence and result in below-average risk-adjusted returns. Read on to find out why financial advisors may have an interest in over diversifying your investment portfolio and a few of the signs that your portfolio could also be diversified.

Why Some Advisors Choose Over Diversification

Most financial advisors are honest and hard-working professionals who have an obligation to try to to what's best for his or her clients. However, job security and private gain are two factors that might motivate a financial advisor to over diversify your investments. When giving investment advice for a living, being average can give more job security than attempting to face out from the group. Fear of losing accounts over unexpected investment outcomes could motivate an advisor to diversify your investments to the purpose of mediocrity. Last but not least, the "money in motion" involved over diversification can create revenues.

Top Signs of Over Diversification

Now that you just understand the motives behind the madness, here are some signs that you just is also undercutting your investment performance by over diversifying your portfolio:

1. Owning too many mutual funds within any single investment style category: Some mutual funds with very different names are quite similar with respect to their investment holdings and overall investment strategy. These categories group together mutual funds with fundamentally similar investment holdings and methods. Investing in additional than one fund within any style category adds investment costs, increases required investment due diligence and customarily reduces the speed of diversification achieved by holding multiple positions. Cross-referencing Morningstar's investment trust style categories with the various mutual funds in your portfolio may be a simple due to identify whether you own too many investments with similar risks.
2. Excessive use of multimanager investments: Multimanager investment products, like funds of funds, are often an easy way for little investors to achieve instant diversification. If you're near retirement and have a bigger investment portfolio, you're probably more contented diversifying among investment managers in an exceedingly more direct manner. When considering multimanager investment products, you must weigh their diversification benefits against their lack of customization, high costs and layers of diluted due diligence. Is it really to your benefit to own a financial advisor monitoring an investment manager that's, in turn, monitoring other investment managers? It’s worth noting that a minimum of half the cash involved in Bernard Mad off's infamous investment fraud came to him indirectly through multimanager investments, like funds of funds or feeder funds. Before the fraud, many of the investors within these funds had no concept that an investment with Mad off would be buried in the labyrinth of a multimanager diversification strategy.

3. Owning an excessive number of individual stock positions: Too many individual stock positions can result in enormous amounts of required due diligence, a sophisticated tax situation and performance that simply mimic a index, albeit at a better cost. stated, "today's optimal level of diversification, measured by the foundations of mean-variance portfolio theory, exceeds 300 stocks." irrespective of an investor's atomic number of stocks, a diversified portfolio should be invested in companies across different industry groups and will match the investor's overall investment philosophy. For instance, it'd be difficult for an investment manager claiming to feature value through a bottom-up stock-picking process to justify having 300 great individual stock ideas at only once.

4. Owning privately held 'non-traded' investments that don't seem to be fundamentally different from the publicly traded ones you already own: Non-publicly traded investment products are often promoted for his or her price stability and diversification benefits relative to their publicly traded peers. While these "alternative investments" can provide you with diversification, their investment risks could also be understated by the complex and irregular methods accustomed value them. The worth of the many alternative investments, like private equity and non-publicly traded assets, are supported estimates and appraisal values rather than daily public market transactions.

Non-publicly traded investments is riskier than they appear and need specialized expertise to research. Before purchasing a non-publicly traded investment, ask the person recommending it to demonstrate how its risk/reward is fundamentally different from the publicly traded investments that you just already own.

USING A MATRIX STATISTICIANS

Use price data to search out how the costs of two assets have moved within the past in reference to one another. Each pair of assets is assigned variety that represents the degree of correlation in their price movements. This number will be used for constructing what's called a "correlation matrix" for various assets. A matrix makes the task of selecting different assets easier by presenting their correlation with one another in a very tabular form. Once you've got the matrix, you'll use it for selecting a large type of assets having different correlations with one another. While choosing assets for your portfolio, you've got to settle on from a good range of permutations and combinations. irrespective of how you play your hand in a very portfolio of the many assets, a number of the assets would be positively correlated, some would be negatively correlated, and therefore the correlation of the remainder may be scattered around zero. Start with broad categories (like stocks, bonds, government securities, realty, etc.) so narrow all the way down to subcategories (consumer

goods, pharmaceuticals, energy, technology and then on). Finally, choose the particular asset that you just want to possess. The aim of selecting uncorrelated assets is to diversify your risks. Keeping uncorrelated assets ensures that your entire portfolio isn't killed by only 1 stray bullet. Making Uncorrelated Assets Correlated One stray bullet might not be enough to kill a portfolio of uncorrelated assets, but when the complete financial market is facing an assault by weapons of economic mass destruction, and then even totally uncorrelated assets may perish together. Big financial downfalls caused by an unholy alliance of economic innovations and leverage may bring assets of every kind under the identical hammer.

This is often what happened during the near-collapse of the hedge fund Long-Term Capital Management in 1998. it is also what happened during the subprime mortgage meltdown in 2007–08. The lesson from those affairs now seems to be taken: leverage the quantity of borrowed money accustomed make an investment cuts both ways. By using leverage, you'll tackle the exposure that's over and over your capital. The strategy of taking high exposure by using borrowed money works perfectly well once you are on a run. you are taking home greater profit even after group action the money that you simply owe. But the matter with leverage is that it also enhances the potential of loss from an investment gone wrong. You’ve got to pay back the money that you just owe from another source. When the worth of 1 asset is collapsing, the amount of leverage may force a trader to liquidate even his good assets. When a trader is selling his good assets to hide his losses, he hardly has time to tell apart between correlated and uncorrelated assets. He sells whatever is there in his hands. During the cry of "sell, sell, sell," even the worth of excellent assets may decline. The case becomes complicated when everybody is holding a similarly diversified portfolio. The autumn of 1 diversified portfolio could o.k. result in the autumn of another diversified portfolio. So, big financial downfalls can put all assets within the same boat. Situation normal has been turned on its head because the lockdown forces us to behave differently in our shopping, exercising and dealing habits. The way we invest has not been exempt. Investors must adapt, check their portfolios and alter their investments, experts have warned, to stop market shocks causing steep losses in future.

The normal rules that govern markets have gone out of the window in these stressful times, with different assets rising and falling sharply in tandem. Investors have always been told to diversify: to possess different stocks, sectors, markets and assets to avoid the complete portfolio stepping into the identical direction at the identical time. But correlation, a measure of how closely different investments move within the same direction, has rocketed, meaning that after seemingly diversified portfolios now pose more risk. Plenty of diversification has not worked this point, said David Coombs of Rath bones, the non depository financial institution. Funds that own a large number of assets often boast that they're safer than straight equity or bond funds during a market downturn because they

spread themselves across differing types of investment. The correlation between the most important 500 companies within the American market, which act as a gauge for world stocks, rose from 0.21 at the top of December 2019 to 0.68 at the tip of last month. This is often a big increase and one that's substantially on the size seen in 2008. When stocks move by precisely the same amount at the identical time, diversifying your investments achieves nothing.

Even gold, which typically has a negative correlation to shares, shocked investors as it broke that trend and fell in value at the same time as stocks in March. The precious metal has since regained its “safe haven” status, however. “Old fashioned” diversification is no longer enough, said Mr. Coombs. Part of the problem is the popularity of tracker funds and “passive” investing, he added. These funds track an index or basket of companies. However, experts have long warned that any panic selling of these funds could speed up a crash and increase correlations. Low share prices among companies seen as “defensive” thanks to their predictable revenues and ability to weather routs may tempt investors but Mr. Coombs said there was “no point” buying them now. Even the most defensive investments will fall if markets start to slide again, he said.

“Investors should split their portfolios in two,” he said. A big chunk should be kept in cash for the time being and the rest should be invested in very large companies of high quality, which you can expect to come out of this in good shape. “It is time to buy the Amazons and Adobes of the world,” he said. It’s easy to see why some investors are losing their nerve. Some are selling out of stock markets altogether, either by fleeing to ‘safe havens’ or by holding cash until markets stabilize. These moves can do more harm than good, she warned, as they lock in losses at the wrong time.

WHAT IS RIGHT CHOICE OF DIVERSIFICATION STRATEGY?

1. The Objective of the Diversification Strategy

In the economic system, the most reasons for enterprises to decide on a diversification strategy are as follows: Firstly, to reinforce competitiveness, through diversified operations, enterprises can obtain economies of scale, scope and market influence; secondly, diversify risks. Regarding the explanations for diversification, it's been summarized it into four categories: First, when the corporate cannot achieve its intended goal by virtue of its expansion strategy; second, the corporate has an excessive amount of surplus, far exceeding the expansion needs; Third, the corporate has quite expansion strategy, when there are more profitable new market opportunities; Fourth, within the specific case, the prospects for expansion and diversification are uncertain. In explaining the “diversity premium”, Montgomery also made a distinction between the three major motivations for diversification strategies in 1994.

First, the economic process view that companies are diversified not because they're more efficient but because they need acquired “group power”. Diversification plays a vital role in capturing market power. Adopted by growth-oriented managers may make significant use of the scope economy while increasing the market power of the corporate. An efficient thanks to increase the market power of the enterprise is Scott’s multi-market linkage hypothesis. Companies that compete in several markets have greater incentive to make networks to keep up their collective strength. In turn, multi-product companies can generate positive spillover effects through cross-subsidy activities, which means that the market strength and value of an industry’s resources may increase because of investment in another industry. Diversified companies like multiple sorts of coordination effects, like the economies of scale and economies of scale formed by companies implementing diversification strategies, the prevalence of access to information from multiple product markets, and also the achievement of stable market returns, moreover because the effective use of internal resources, and sharing of data and skills between pathways and business units.

According to the resource point of view, there'll always be underutilized resources within the daily business activities of enterprises, that is, excess production factors, and therefore the diversification strategy can help enterprises develop this a part of redundant resources and realize the scope of economic effects through the sharing and transfer of resources. So as to cut back production and operation costs. Therefore, the allocation of surplus resources and free income are one among the most motives for diversification. However, the asset characteristics of corporate resources create the sustainable competitiveness of the owner on the one hand, and also the challenge on the opposite, hindering the company’s ability to transfer resources to new applications or transplant them into a brand new environment. Therefore, the worth of diversification depends on the complementarily between the company’s entry into internal resources and also the company/industry, and also the diversified model chosen. In explaining the “diversity discount”, the institutional perspective emphasizes, the benefits that the corporate manager may sacrifice the interests of shareholders to urge the advantages. The essence of diversification is that the decision-making behavior of managers so as to hunt their own hidden benefits and reduce their income risks, which is able to definitely damage corporate performance and company value. Considering that the diversification of huge companies is thanks to the separation between ownership and control, the agency approach predicts a correlation between diversification and firm performance. In summary, scholars supported different interests, the interpretation of diversification motivation are different, mainly to reinforce competitiveness, reduce risks, optimize resource utilization, operators’ own interests and appeals. However, the prevailing ideas are mainly derived from cases or theories. Future research can try and further explore the explanations for diversification from data analysis or rooted methods.

2. The Classification of Diversification Strategies

In the study of diversification strategy, the way to divide the sort of diversification strategy could be a fundamental issue within the research of diversification strategy. Many researchers reception and abroad have made many alternative categories of classification, such as: Wrigley category method, Rumelt category method, Ansoff category method so on. One is said to diversity and also the other is irrelevant. Related diversification may be called concentric diversification, which refers to the selection of a replacement product or market area of an enterprise supported its existing business or market. Non-related diversification, also referred to as centrifugal diversification, refers to the very fact that the newly entered products or markets don't have any obvious strategic adaptability to existing businesses or markets.

The added products are new products, and also the market entering could be a new market. It is seen that the adoption of non-relevant diversification strategies by enterprises isn't supported the common considerations of the company’s original expertise, know-how, marketing channels, etc. the most motivation is to balance income or obtain new profit growth points. The implementation of non-related diversification strategies is mostly amid the expansion of business scope and also the increase of business areas. Management risks those are difficult to manage. Enterprises must invest hugely within the process of developing new fields. The human and material resources will inevitably affect the cultivation and development of the first core competitiveness, and produce the danger of the decline of core competitiveness. Additionally, the implementation of the non-related diversification strategy is in the midst of the likelihood of accelerating financial risks.

Kelly Halliam has proposed the measurement method and kind division of the degree of diversification, which took a vital step within the research of corporate diversification. Diversification could be a concept like specialization. From the angle of business conditions, the quality for distinguishing between the 2 is “the proportion of sales of certain products to the entire sales of enterprises”, and therefore the product categories of certain products are classified in keeping with the international standards, which calls Four-digit industry standard within the Industry Classification (ISIC).

Their classification relies on two indicators: specialization rate (SR) and correlation rate (RR). The specialization rate refers to the proportion of the sales of the biggest business project of the enterprise to the whole sales of the enterprise. The correlation rate refers to the ratio of the sales of the biggest group of business projects related to the corporate to the entire sales of the corporate. This can be the classification of the famous American scholar Riley Rummett. He proposes four styles of diversification in Corporate Strategy. Horizontal diversification (pointing to develop new products for patrons with similar customers); vertical

integration; Concentric diversification (Diversification supported the initial capabilities of the corporate is subdivided into three categories. He had believes that concentricity is more profitable and fewer risky than hybrid diversification.

In summary, the above three classification methods are widely known and applied by the educational community. We are able to see that the Wrigley category method and also the Ansoff class method are different, but the kernel is consistent. The upper the degree of diversification, the more unfavorable to the advance of company performance; third, and the degree of diversification has little effect on company performance; fourth, there's a non-linear “U” relationship between diversification and company performance. In a study the researcher used the Fortune 500 companies because the research objects. First, they classified these companies. The study found that those diversified companies were higher in economic performance than other companies, and that they showed a return on net assets, earnings per share rate and sales rate of growth indicators. The study found that the upper the degree of diversification, the higher the company’s performance. Diversified firms had higher excess returns. Few Authors conducted an empirical study of this relationship in 1988. The results show that diversification of purely financial purposes will reduce income volatility and reduce operational risk.

The research concluded that the Tobin’Q value of diversified companies is under that of specialised enterprises, and also the value created is comparatively low. An author use the effect of diversification on stock price returns as an exploration method, and find that the upper the degree of diversification, the lower the return rate of stock prices. Within the same year, in an study the researcher selected 3,659 companies from 1986 to 1991 within the U.S. for research. Diversified operations had a “discount effect” and therefore the effect of unrelated diversification was the best. In 2002, it was discovered through research on 101 companies in Sweden that mergers and acquisitions of companies that don't seem to be associated with the initial industry will lead to a decline within the business performance of the acquirer, and mergers and acquisitions.

Industries that are consistent or associated with the first industry will increase the advantages of the acquirer. And within the research, it's concluded that investing in unrelated industries will increase agency costs and reduce operational efficiency, exceeding the advantages of diversification. The Herfindahl index is also used by various researchers as a measure of the degree of diversification, and concluded that the connection between the Herfindahl index and therefore the company’s marginal net margin isn't obvious. However, under the control of business factors, this relationship isn't obviously, the diversification factor has not had a bearing. Diversified companies should develop diversified operations supported different resources and growth opportunities. Therefore, the impact of

diversification on company performance isn't absolute. The conclusions of domestic research are roughly love those of foreign countries, and that they are mainly divided into the above four viewpoints. In 2005, it was observed that the listed companies in China from 2001 to 2002, and located that the inner market of listed companies in China, especially the capital market, is more practical than the external market, and diversified enterprises. Contains a higher excess value and Tobin'Q. The identical result table diversified to form value from the upper asset- liability ratio of diversified enterprises and increased corporate value.

Diversification is always favored because it is believed that diversification and diversification risk and customary corporate debt were incomparable. Different researchers has analyzed this from different perspectives and thought that the phenomenon of diversification discount is also from the full market, but the conclusion isn't necessarily established in a very specific industry, like computer application industry. Second is that the research aspect of diversification negatively affecting company performance. A research using multivariate analysis in found that the improvement of diversification did reduce the performance of enterprises. Researchers also achieved the identical results, and acknowledged that it's necessary to follow the relevant diversification path, appropriately establish an organizational structure that adapts to the company's strategic adjustment, and alter the diversified businesses in an exceedingly timely manner. The impact of diversification on company performance is considerable from the angle of company endogenous, and have a bearing on diversification in corporate endogenous issues, and diversification will further damage corporate performance, even within the control of the corporate. Within the case of problems, diversification has further weakened the company's performance.

The degree of diversification of enterprises had no correlation with corporate performance, which the diversification of economic performance and therefore the ability to enhance corporate debt weren't verified. In a research it was observed that the connection between diversification and sales profit rate and total return on assets wasn't obvious. The results show that there's a "U" relationship between the degree of diversification and company performance, that is, when the diversification reaches a specific point, the enterprise has the best performance, either side Corporate performance declines.

In summary, scholars use data from different countries and data from different industries to conduct research on the connection between diversification and company performance. This helps us understand the differences between the degree of diversification and firm performance in a very different economic and cultural context. However, these scholars didn't entails the precise reasons for such differential results, nor did they explore the influencing factors, which are vital in our process of defining the link between diversification and firm performance.

A RELATIONSHIP BETWEEN DIVERSIFIED TYPES AND FIRM PERFORMANCE

Looking at domestic and foreign research data on the impact of diversification types on company performance, we will find that there are few research ends up in this area, and the study concluded that the performance of non-related diversified businesses is over that of related diversified businesses. The M-form is an organizational structure suitable for diversified strategic development, and most foreign studies confirm that diversified businesses that implement business divisions are associated with performance. In case of some companies it is observed that there is a correlation between M-form structure and ROE within the transition to M-form. In a research a statistic analysis of six companies in three industries, and concluded that the adoption of M-form is positively correlated with performance. They used the info of the capital market to judge the applying effect of M-form on diversified enterprises. The adoption of M-form by investors is for certain, that is, M-form can improve the performance of diversified enterprises.

In domestic research, AL-Ajmi, Jasim Y. used the idea of enterprise growth in 1998 to conduct inquiry on diversified types and company performance, and reached several conclusions:

1. From the attitude of the degree of diversified business operations in China and abroad, the degree of diversification in China but foreign companies;
2. Unrelated diversified enterprises can weaken the chance of market return rate weakly, but the intensity is small;
3. Relevant diversified enterprises can increase the sales rate of growth of enterprises;
4. Unrelated diversified enterprises will increase corporate liabilities. Diversification will reduce the company's economic performance, and therefore the performance of implementing unrelated diversified enterprises is significantly not up to that of specialised enterprises and related diversification enterprises, and this is often in step with Yin's research conclusions.

This shows that Chinese enterprises haven't learned from the experience of foreign countries within the choice of organizational structure, and have reservations about the departmental system. An oversized number of foreign empirical studies have proved that U-form and H-form aren't suitable for diversified organizational structure. Varieties of enterprises and countries. However, these studies are more simply to check the differences between differing types of diversified and different organizational structures, and haven't studied the causes and influencing factors, which deserves further supplement and improvement.

DIVERSIFICATION STRATEGY, CORE COMPETENCE OF ENTERPRISES AND PERFORMANCE OF ENTERPRISES

The core competence of the enterprise is "the accumulation of data within the organization, especially the knowledge about the way to coordinate different production skills and organically combine multiple technical flows". It's a process of continuous

accumulation, the core of the enterprise. Capability isn't one ability, but an organic combination of multiple capabilities. Its growth could be a process of mutual synergy and integration between multiple capabilities. At the identical time, the success of the diversification strategy depends on the core competence and also the diversified business matching mismatch, and also the core competence is immature.

It is a mix of core competences, not products and undertakings within the traditional sense. The mixture, from the angle of the company's development strategy, the so-called "diversification" or "centralization" is simply a proper problem, in essence, it's the core competence of the enterprise. That is, when the core competence of the enterprise is powerful and therefore the elasticity is poor, the enterprise should adopt specialization or related diversity strategies. When the core competence of the enterprise is powerful and its elasticity is nice, the enterprise can choose one amongst the specialization strategies, related diversification strategies and non-related diversification strategies. This also affirms the guiding position of the core competence of enterprises within the choice of diversified strategies.

The diversified development of the enterprise must be centered on the core competitiveness to achieve success, and also the core competitiveness of the enterprise is studied as a mediator of diversification and company performance. The adjustment effect within the process of enterprise competitiveness, the connection between the three is studied from the technical level of core competence. Additionally, many scholars have studied the link between diversification strategy and core competence of enterprises in specific industries like tourism, land, and medicine, additionally as private enterprises and little and medium-sized enterprises. In summary, we are able to conclude that the core competence of an enterprise is that the fundamental support of diversified business, the premise of the success of diversified business, and a very important factor affecting the link between diversification and company performance.

However, most of the research focuses on the only relationship between diversification and core competencies, diversification and company performance, or core competencies and company performance. Some articles on the connection between the three are only started from a little scope, or only theoretical derivation and elaboration, which provide us with an ideal space. Based on the above research, there's no unified consensus on the link between diversification strategy and company performance. There are five main viewpoints:

1. The degree of diversification encompasses a "premium effect" on corporate performance. The upper the degree of diversification, the more favorable it's.
2. The degree of diversification contains a "discount effect" on corporate performance. The upper the degree of diversification, the more unfavorable it's to the advance of corporate performance.

3. The degree of diversification includes a nonlinear relationship with corporate performance.
4. The economic performance of related diversified enterprises is best than that of unrelated diversified enterprises. Diversification may be a strategic choice made by an enterprise after comprehensively measuring its resources and capabilities.

Therefore, how strong or weak the core competence of the enterprise can play a central role within the diversified field will inevitably affect the decision-making and company performance of the corporate. The core competence of an enterprise is that the organic integration of the multi-faceted skills of the enterprise and also the operational mechanism of the enterprise, and is that the synergy of the competitiveness and competitive advantage of the enterprise in a very specific business environment. What are the precise aspects of the core competencies of the enterprise, what impact they need on the link between diversification and company performance, and the way the corporate can make strategic choices supported the core competencies of the enterprise to confirm the performance of the corporate, have yet to be explored.

BUSINESS DIVERSIFICATION

When it is a robust and well-known name which can be transferred to the merchandise of other business. Judgments about the timing of a company's diversification effort are best made instance by instance, in line with company's own unique situation. Once the selection is made to pursue diversification, the firm must choose whether to diversify into related business, unrelated business. Business are said to be unrelated when the activities comprising their respective value chains are so dissimilar that no competitively valuable cross relationship are present. However, some companies opted to try and do to form shareholder value with unrelated diversification strategies. Related diversification thus incorporates a strategic appeal from several angles. Companies that pursue a technique of unrelated diversification generally exhibit a willingness to diversify into any industry where there's potential marketplace for a company to grasp consistently good financial results. Whether the business would require substantial infusions of capital to modify out-of-date plants and equipment, fund expansion etc.

STOCK DIVERSIFICATION

Each strategy has advantages and drawbacks, and selecting the proper one for you ought to involve careful planning along with your financial, tax, and legal advisors. Many corporate executives, directors, and officers, especially those of fast-growing companies, find themselves during a quandary nowadays. If they own countless shares in those companies, their net worth will be substantial. So what's the downside?

A portfolio that's top-heavy in one security poses tremendous downside risk. How, then, can an executive diversify his or her portfolio within the best, tax efficient manner? Here could be a brief observe some single-stock diversification strategies to assist an investor achieve three goals – to hedge, monetize, and diversify out of a concentrated equity position while deferring capital gains tax.

Collars are forms of hedging strategies wont to limit the value risk of a stock and permit the investor to participate in further appreciation, up to a selected price. A collar also allows an investor to monetize that's, borrowing against a concentrated equity position. One well-known sort of collar is that the zero-premium collar, or zero-cost collar. A "put" could be a contract that provides an investor the proper, but not the duty, to sell a particular number of shares at a specified price until a specific date. A "call" gives its holder the correct, but not the requirement, to shop for a selected number of shares of stock at a predetermined price, until a particular date.

The decision strike price is about in order that the premium received for the decision option will match and, therefore, cover, the price of the premium that the investor must pay to get the put option; hence the term "zero-premium collar." In this scenario, if the collar were to expire, say, after three years, the investor would have a floor price of INR90, while enjoying a possible price rise to INR125 during a 36-month period. Another reasonably collar is that the "income-producing collar." it's kind of like the zero-premium collar, except that it generates income to defray the value of borrowing against the worth of the stock. With an income-producing collar, the web premium received from the sale of a call option after covering the price of the put option is on the market for payment to the investor.

PRE-PAID FORWARD SALE

A pre-paid forward sale could also be helpful for investors who wish to form tax-deferred liquidity from a concentrated stock position. Like collars, pre-paid forward sales involve the acquisition of a put and therefore the sale of a call. The difference, however, is that the put option is sometimes set at a better level to permit for greater monetization of an equity position and, thus, to maximise liquidity. A pre-paid forward sale is sometimes a privately negotiated contract with a counter-party within which an investor receives a tax-deferred, interest-free, up-front payment of up to 90 percent of the worth of his or her stock, in exchange for selling forward variety of his or her shares. At maturity, the investor will have the choice of settling the contract by delivering stock or cash. Additionally to those already mentioned, investors also retain control of their shares, receive dividends, and have the likelihood of deferring taxes.

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PORTFOLIO MANAGEMENT: HOW TO MANAGE MULTIPLE CLOTHES IN A BAG

INTRODUCTION

All the possible investments like stocks, mutual funds, bonds, commodities, land, bank fixed deposits, etc. by all classes of investors like individuals, institutions, governments, etc. are available within the market. All told these investments, the trade-off is between a known amount that's invested today, reciprocally for an expected amount in future. While the number being invested is for certain, because it is now in our hands or rather goes out of our hands, the expected future inflow carries with it uncertainties regarding its realization; and its real worth are going to be known only it's due for realization. In essence, an investment policy may be a policy statement that assists the portfolio manager in managing an investor's portfolio in accordance with investment goals, constraints and objectives. the requirement for the policy statement arises out of the necessity to manage the portfolio in an exceedingly disciplined manner, in order that at the top of the investment horizon, the returns on the portfolio matches the investor's expectations. Thus, an investment policy acts as a customary by which the performance of a portfolio manager is compared.

Much of the first work on Project Portfolio Management targeting the management of Information Technology projects, largely from the attitude of the management of resources and risk. Many of the recent articles are by vendors of the software, promoting the

worth of the Project Portfolio Management process. During this paper, we assess whether there's a correspondence between the employment of Project Portfolio Management processes and techniques, and enhancements within the performance of projects and portfolios of projects. supported our findings, we introduce a three-stage classification scheme of Project Portfolio Management adoption, and present a robust correlation between increasing adoption of Project Portfolio Management processes and a discount in project related problems,

Though it's not certain that following an investment plan will lead successful investment all the time, it'll however make the portfolio management process more disciplined. If the investor is susceptible to risk taking abilities, the portfolio manager will construct his portfolio with more risky stocks in accordance to his risk tolerance level. Absence of a policy statement may end in poor performance of a portfolio and should not meet investor‘s expectations. This might result in investor dissatisfaction. So, policy statement acts as a tool in helping the individual investors to appreciate their real goals, to grasp the constraints and risks in investing.

It also helps preventing investors from making inappropriate investment decisions. Thus, a policy statement acts as a typical for evaluating portfolio performance. an everyday monitoring on how consistent the portfolio manager is, in managing his funds may be through with the assistance of policy statement. other than providing a way to appreciate the investor‘s real investment needs, the investment policy will act as a parameter in judging the performance of a portfolio manager. A successful portfolio manager will carefully analyze the policy statement and can construct the portfolio accordingly. The policy statement should include a benchmark portfolio, or a customary of comparison. The manager should take into consideration the ratio between the danger of the benchmark, and also the assets included within the benchmark therewith of the investor‘s risk preference and investment needs. Further, existence of a policy statement acts as a guard against any unethical practices adopted by the investment manager. And moreover, the policy statement acts as an objective measure for evaluating the portfolio performance.

The two main ingredients of an investment policy statement are: 1. Investment objectives of an investor 2. Investment constraints of an investor. The investment objectives of an investor not only specify the investor‘s need for returns but also the amount of risk he's willing to require so as to own such returns. The extent of return are often expressed not only in terms of percentages but also can be stated in subjective terms like capital preservation, capital appreciation, current income and total returns. Just in case of capital preservation, the investor wants to take care of his real rate of return; i.e. he seeks to attenuate the loss and seek return which is a minimum of up to the prevailing rate of

inflation and not but that. When the investor is more concerned about capital appreciation, he takes an aggressive investment strategy and needs his portfolio to grow in real terms. When the investor‘s return objective is current income, he focuses on generating income instead of capital gains. Finally, when the investment objective is total returns, the investors seek to earn a return through capital gains likewise as through reinvesting this income. The investment objective isn't the identical for all investors, it depends on the people to whom they belong and henceforth, the chance taking ability also differs. Considering the volatility of markets, the question that arises is Will capital appreciation still be the first goal of investors? Or, Is it the capital preservation that must be considered because the primary goal of the investment? Another question arises Will the investor still be able to achieve his investment goal without losing his capital?

The primary goal of capital appreciation doesn't arise if the capital isn't preserved by the investor. So, it's very obvious that capital preservation must be the first goal of any investor compared to capital appreciation. An investor considering investment in securities is faced with the matter of selecting from among an outsized number of securities. The investor tries to decide on the optimal portfolio taking into consideration the risk-return characteristics of all possible portfolios. Because the economic and financial environment keeps changing, the risk-return characteristics of the individual securities furthermore as portfolios also change. This involves periodic review and revision of investment portfolios of investors. An investor invests his funds in a very portfolio expecting to urge an honest return in step with the danger that he needs to bear. The return realized from the portfolio has got to be measured and therefore the performance of the portfolio has got to be evaluated.

According to Maginn and Tuttle, portfolio management may be described as a scientific, continuous, dynamic and versatile process which involves:

1. Identifying and specifying an investor‘s objectives, preferences and constraints to develop clear investment policies.
2. Developing strategies by choosing optimal combinations of monetary and real assets available within the market and implementing the strategies.
3. Monitoring the market conditions, relative asset values, and therefore the investor‘s circumstances.
4. Making adjustments within the portfolio to reflect significant changes in one or more relevant variables.

NEED FOR PORTFOLIO MANAGEMENT

The straightforward undeniable fact that investment carry differing degrees of expected risk leads most investors to the notion of holding over one style of investment option at a time, thus, diversification will be done through creating portfolios i.e. a group of assets.

Designing portfolios to suit investor requirements often involve making several projections regarding the longer term, supported this information. When the particular situation is discrepant from the projections, portfolio composition has to be changed. One in all the key inputs in portfolio building is that the risk-bearing ability of the investor. Change in it also concerns a change within the portfolio composition to match to the current risk-bearing ability. Investment presupposes some future needs; changes within the needs will demand changes within the portfolio composition. The returns and therefore the risk characteristics of the assets which form up the portfolio may undergo a change, warranting changes within the composition of the portfolio. When such a big amount of factors are likely to influence the changes within the portfolio composition, it becomes a necessity to stay a detailed watch on the portfolio and manage answer the changes carefully. This may only be done through portfolio management which may be referred because the art and science of constructing decisions about investment mix and policy, matching investments to objectives, allocation or distribution of various Assets for different man power and institutions with the object of balancing the risk for the performance.

Portfolio management is nothing but only the combination of various strengths, the weakness along with opportunities and various threats for and between choice of a debt and equity, domestic vs. international, growth vs. safety, and plenty of other tradeoffs encountered within the try and maximize return at a given appetite for risk. It comprises all the processes involved within the creation and maintenance of an investment portfolio. Thus, portfolio management may be a complex process which tries to form investment activity more rewarding and fewer risky. Portfolios are built to suit the return expectations and risk appetite of the investor i.e. a mix of assets or securities is formulated which meets the extent of return investor expects provided he's willing to satisfy the associated risk, or the possible return at the amount of risk he's willing involved.

SCOPE OF PORTFOLIO MANAGEMENT

Portfolio management is now a well-recognized term and is widely practiced in India. The theories and ideas regarding portfolio management now find their thanks to the front pages of monetary newspapers and also the cover pages of investment journals in India. Within the beginning of the nineties India began a program of economic liberalization and globalization. This reform process has made the New Delhi markets active. The Indian stock markets are steadily moving towards higher efficiency, with rapid computerization, increasing market transparency, better infrastructure, better customer service, closer integration and better volumes. An outsized number of mutual funds are founded within the country since 1987. Diversification has become international. During this context, financial investments cannot be conceived of without portfolio management has broadened

the scope of investment management. It requires knowledge base, a scientific approach and also professional expertise. Portfolio management which mixes of these elements is that the method of achieving efficiency in investment.

THE NEED OF STUDY OF PORTFOLIO MANAGEMENT

The scenario has changed drastically. Portfolio management is now a well-known term and is widely practiced in India. The theories and ideas regarding portfolio management now find their thanks to the minds of investors in India. Within the beginning of the nineties, India began a programme of economic liberalization and globalization. This reform process has made the capital of India markets active. The Indian stock markets are steadily moving towards higher efficiency, with rapid computerization, increasing market transparency, better infrastructure, better customer service, closer integration and better volumes. The markets are dominated by large institutional investors with their diversified portfolios. An outsized number of mutual funds are founded within the country since 1987. Diversification has become international. During this context, financial investments can't be conceived of without portfolio management.

The selection of 1 or more of those depends on the investor's personal preference.

- Capital Growth
- Security of Principal Amount Invested
- Liquidity
- Marketability of Securities Invested in
- Diversification of Risk
- Consistent Returns
- Tax Planning

Allow us to understanding who may be a portfolio manager and tasks involved within the management of a portfolio it's important thanks to the subsequent reasons:

1. PM could be a perfect thanks to select the "Best Investment Strategy" supported age, income, risk taking the capacity of the individual and investment budget.
2. It helps to stay a gauge on the chance taken because the process of Portfolio Management keeps "Risk Minimization" because the focus.
3. "Customization" is feasible because an individual's needs and choices are kept in mind i.e. when the person needs the return, what quantity return expectation someone has and the way much investment period a personal selects.
4. Taking into consideration changes in tax laws, investments may be made.
5. When investment is formed in fixed income security like preference share or debenture or the other such security, then in this case investor is exposed to rate risk and price risk of security.

PORTFOLIO MANAGER

A portfolio manager is to blame for continuing oversight of the contents within a portfolio. If investor has several portfolios within his portfolio structure, then he would likely need a portfolio manager for every one. The fundamental responsibilities of a portfolio manager are as follows:

1. The portfolio manager provides day-to-day oversight of the investors 'funds and investment avenues.
2. The portfolio manager periodically reviews the performance of, and conformance to expectations for, within the portfolio.
3. The portfolio manager ensures that data is collected and analyzed for every of the investment avenue within the portfolio.
4. The portfolio manager enables periodic deciding about the longer term direction of shopping for / selling and henceforth, building a fruitful diversified portfolio.

PROJECT PORTFOLIO MANAGEMENT

Contrary to Project Management, which focuses on single project, and Programme Management, which concerns the management of a set of projects that are related by sharing a customary objective or client, or that are related through interdependencies or common resources, Project Portfolio Management considers the whole portfolio of projects a corporation is engaged in, so on form decisions in terms of which projects are to be priority, and which projects are to be added to or aloof from the portfolio.

Project Portfolio Management has largely developed around the following elements: providing a centralized view of all the projects in an organisation, enabling a financial and risk analysis of projects, modeling interdependencies it's unclear whether there are specific Project Portfolio Management elements that add more value than others or indeed, whether or not they add value within the slightest degree. It's for these reasons that we decided to investigate the potential for increasing business value through the appliance of Project Portfolio Management techniques thereto projects. The first contribution of this paper is that the event of a classification scheme for the adoption level of Project Portfolio Management across a diversity of organizations.

Key Elements in Project Portfolio Management

1. **Project Portfolio a centralized structure:** Widely emphasised within the literature is that the necessity for a centralised view of the organisation's projects. The consideration is also be given on distributing project information during a quite common format. The overwhelming majority of the respondents have a centralised view of its projects and have a central point in charge for collecting, analysing and distributing information. Around 82% have a listing of current and proposed

significant projects and 100% of the organisations that do not have it attempt to have it within the longer term. 71% claim that they have a central point chargeable for collecting, analysing and distributing information regarding the portfolio of projects and 79% of the organisations that do not have one arrange to have within the longer term.

2. **Financial Analysis:** While finance professionals have worked for several years with metrics to capture return and risk of assets, the use of these methods for Information Technology projects still seems uncommon for several organisations. Nonetheless, several techniques are created to properly measure the financial value of projects. Most importantly, however, one should choose a valuation methodology, be it Return on Investment, Internal Rate of Return, Net Present Value or amount Added, and consistently apply it. All investors use a minimum of 1 technique to calculate the financial worth of its projects, with Payback being the foremost common around 86% and Economic Value Added the tiniest amount common 27%.

3. **Analysis of Risk:** Two of the foremost reasons for project failure were "the failure to assess individual project risk and thus the failure to consider the mix risk of the portfolio of projects". Additionally, as observed by Markowitz, a portfolio should not be chosen considering only individual characteristics of the investments, but it should be built supported the overall risk and reward of the portfolio. When investment interactions are considered, one can create portfolios with the identical expected return but lower risk than when not taking into account the interactions. The results of various researches indicates that the complexity of projects and technological risks are the foremost sorts of risks monitored by most organisations: Approximately 92% evaluate the complexity of projects, including technology risks, income and organisational changes; Approximately 80% evaluate team expertise, market and environmental risks and management commitment; 83% who don't evaluate team expertise shall do so within the longer term and 80% who don't evaluate environmental risks shall do so within the future;

4. **Interdependencies:** One advantage of Project Portfolio Management is its ability to chop back inter-program competition for resources and to indicate program overlaps into productive interdependencies. He identified the following varieties of interdependencies: sequential dependencies, overlapping outcomes, competition for scarce resources, and alter bottlenecks.

5. **Priority, streamlining and selection:** the selection of projects to compose a portfolio should ensure that every one areas of the organisation's strategy are properly addressed which the portfolio is well balanced. When properly combining portfolio

alignment and balance, organisations should come up with lawfully clear picture of which projects should be bring round an end and which of them should be funded. The various researches show that the categorization of projects doesn't seem to be a customary practice among respondents; 50% use categorization to balance project mix. On the other hand, accountability and strategic alignment seems to be high and increasing; about 65% align the project portfolio with the organisation's strategy and Information Technology architecture, and consider the customer impact of project portfolio results.

6. **Obstacles:** Incorporating constraints may be a key step within the portfolio alignment process. Four forms of constraints should be managed: scarce human resources, staff capabilities, budgets and infrastructure. Among the firms surveyed, budget and financial constraints are widely and often taken under consideration, 75% of the Investors consider them, including 85% who observe them frequently or always. We also noted that 98% of the Investors, who don't yet consider these constraints, conceive to do so within the future.

7. **Digitized Re-assessment of the portfolio:** Only 26% of the Investors in their survey track financial measures after an investment are formed. As a result, managers ignore options embedded within the portfolio, which might have allowed them either to abandon unprofitable projects before further investments are made, or to expand successful investments.

8. **Need for specialised software:** the requirement for specialised software for Project Portfolio Management could be a controversial issue within the literature. Some believe that there's no need in any respect, whereas others claim that besides working as process change catalyst, specialised software is indispensable thanks to the time consuming process of updating all information needed for the choice making process. Because of the growing number of accessible software tools, several reports are issued that evaluate the most effective software available within the market in keeping with several dimensions.

THE IMPACT OF PROJECT PORTFOLIO MANAGEMENT

1. **Adoption vs. Organisational Impact:** It is clearly demonstrates through a study that a major positive relationship between the amount of adoption and also the impact generated. Four aspects looked as if it would most organisations as factors of greatest positive impact. First, the return of what should be the primary step of any Project Portfolio Management implementation was extremely valued by the majority respondents: 90% of the managers who maintain a list of projects claimed that the practice has been to blame for a positive impact. Second, 88% of the

respondents who align the project portfolio to a transparent statement of the organisation's objective said that this process has positively impacted their organisation. Among those 52% noted a major positive impact. Third and eventually, among the organisations that explicitly considered project interdependencies, 86% of them stressed the positive return obtained by the method, with 43% claiming significant success.

2. **Adoption vs. problems with projects:** We also identified the link between the employment of Project Portfolio Management processes and also the level of problems related to the dearth of Project Portfolio Management approaches in organisations. Section 3 of the survey was accustomed calculate the groups' averages level of problems and again a robust relationship, this point negative, between the utilization of Project Portfolio Management techniques and level of problems was identified.

PHASES OF PORTFOLIO MANAGEMENT

Each phase is an integral a part of the entire process and therefore the success of portfolio management depends upon the efficiency in closing each of the phases.

1. **Security Analysis:** Security analysis is that the initial phase of portfolio management process. There are numerous and various forms of securities available to an investor for investment. Traditionally, the securities were classified into ownership securities like equity shares and preferred stock and creditor ship securities like debentures and bonds. Recently variety of latest securities are being issued by the businesses to boost funds for his or her projects like convertible debentures, deep discount bonds, zero coupon bonds, flexi bonds, floating rate bonds, global depository receipts, euro currency bonds, etc. An investor must select from among this vast range of securities which he consider worthwhile to be included in his investment portfolio. This generates a necessity for an in depth study of the securities available within the market. Security analysis consists of examining the risk-return characteristics of individual securities. A basic strategy in securities investment is to shop for underpriced securities and sell overpriced securities. But the matter is a way to identify underpriced and overpriced securities? The solution to the present is security analysis. Two kind of analysis are done in this case

    (a) **Fundamental analysis:** This concentrates on the basic factors affecting the corporate like the Earning Per Share of the corporate, the dividend pay-out ratio, the competition faced by the corporate, the market share, quality of management, etc. A fundamental analyst studies not only the basic factors affecting the corporate, but also the basic factors affecting the industry to

which the corporate belongs as also the economy fundamentals. The basic analyst works out actuality worth or intrinsic value of a security supported its fundamentals; then compares the intrinsic value with the present market value. If this value is more than the intrinsic value, the share is claimed to be overpriced and vice-versa. The mispricing of securities provides a chance to the investor to amass the share or lose the share profitably. Thus, fundamental analysis helps to spot fundamentally strong companies whose shares are worthy to be included within the investor's portfolio.

(b) **Technical analysis:** Technical analysis believes that share price movements are systematic and exhibit certain consistent patterns. Thus, it studies past movements within the prices of shares to spot trends and patterns so predict the longer term price movements. This value is compared with the long run predicted price to work out the extent of mispricing. Technical analysis is an approach which concentrates on price movements and ignores the basics of the shares. A recent approach to security analysis is that the efficient market hypothesis. This hypothesis states that market prices instantaneously and fully reflect all relevant available information. It means the market prices of securities will always equal their intrinsic values. As a result, fundamental analysis which tries to spot undervalued or overvalued securities is alleged to be a futile exercise. The efficient market hypothesis also states that share price movements are random and not systematic. Thus, technical analysis which tries to review price movements and identify patterns in them is of little use Thus, efficient market hypothesis may be a direct repudiation of both fundamental analysis and technical analysis. Accordingly, an investor can earn normal returns by randomly choosing securities of a given risk level.

We would have a detailed discussion about these two approaches separately in chapter four

2. **Portfolio Analysis:** The next step is to combine the selected stocks in proper combination and create a portfolio. Various portfolios may be created each having different risk return criterion. At this stage the main point to consideration is the selection of stocks and their proportions. In the portfolio analysis, the return as well as risk of a portfolio is calculated mathematically and statistically, and accordingly best one is selected. The risk can be measured by calculating standard deviation and variance of security/portfolio, while return can be measured by current return or capital return or by computation of actual yield using cash income divided by amount invested, and by measuring holding period return taken into account of time value of money.

A portfolio may be a group of securities held together as investment. Investors invest their funds in an exceedingly portfolio of securities instead of in a very single security because they're risk averse. By constructing a portfolio, investors try and spread risk by not putting all his funds into one basket. Thus, diversification of one‘s holdings is meant to cut back risk in investment. Thus, portfolio analysis phase of portfolio management consists of identifying the range of possible portfolios that may be constituted from a given set of securities and calculating their return and risk for further analysis. In other word, portfolio analysis considers the determination of future risk and return in holding various blends of individual securities.

3. **Portfolio Selection:** In this stage the issues of selectivity, timing and diversification need to be analysed by the investor. Timing involves forecasting of price movements of particular stocks, relative to fixed-income securities in general. Mainly two techniques of diversification are used random diversification and objective diversification. When different types of securities are included in the portfolio at random it is called as random diversification. When securities are selected in the portfolio according to investment objectives by using appropriate techniques for analysis and evaluation of security, it is known as objective diversification. Professional investors follow settled investment objectives when constructing and managing their portfolios. Portfolio construction is based on the concept of asset allocation. Determining the proper mix of asset allocation is most important as each asset have different risk return profile.

Portfolio analysis provides the input for the subsequent innovate portfolio management which is thought as portfolio selection. The goal of portfolio construction is to get a portfolio that gives the very best returns at a given level of risk. A portfolio having this characteristic is thought as an efficient portfolio. The inputs from portfolio analysis may be wont to identify the set of efficient portfolios. From this set of efficient portfolios, the optimal portfolio has got to be selected for investment. Harry Markowitz‘s portfolio theory provides both the conceptual framework and therefore the analytical tools for determining the optimal portfolio in an exceedingly disciplined and objective way.

4. **Portfolio Revision:** Financial market continuously changes due to one or more reasons this in turn creates the need for portfolio revision. This step of the portfolio management process focuses on the periodic revision of the earlier steps. This is important because even in the long term investor with long-term investment horizon may change his/her investment objectives, and this in turn means that currently held investor's portfolio may no longer be optimal and even contradict with the revised investment objectives. To attain the desired return investor should form the new

portfolio by selling son, assets of his portfolio and buying the others that are not currently held. The other reason for revising given portfolio over time is the prices fluctuation of the assets due to that some assets that were attractive at one time may be no longer are so. Thus investor should sell one asset and buy the other more attractive assets according to his/ her evaluation. The decisions to perform changes in portfolio revision depend, upon transaction cost and taxation issues also, because every buy and sell transaction attracts transaction cost and taxation effect. For institutional investors portfolio revision is very important part of their activity'. Individual investor must also perform portfolio revision periodically.

Based on the various factors of portfolio revision there are different strategies of portfolio revision. Followers of active portfolio management strategy believe that there are mispriced securities in the market hence they believe beating the market by their anticipation or reacting on the available information, event or news and revise their portfolio. However, followers of passive portfolio management investors hold securities for the relatively long periods. They do not revise their portfolio with small changes and consider that securities markets are relatively efficient. In active strategy, frequency of transaction is more compared to passive strategy. For the portfolio revision various formula plans also used, such as:

- Constant Rupee/Dollar Value Plan
- Constant Ratio Plan
- Variable Ratio Plan, etc.

Constructing a portfolio is analogous to constructing a house both require determination of the requirements and therefore the available resources and matching the available resources with the wants. But, there are some basic differences while a building may require little changes as frequent changes aren't feasible, a portfolio imply frequent changes supported changes in various factors. For portfolios change is inevitable. Having constructed the optimal portfolio, the investor needs to constantly monitor the portfolio to make sure that it continues to be optimal. Because the economy and financial markets are dynamic, changes happen almost daily. The combo of securities and their proportion within the portfolio changes as results of the revision.

5. **Portfolio Evaluation:** This is the final step in portfolio management process which involves evaluating periodically the portfolio performance. Performance evaluation gives the answer that present performance was superior or inferior compared to past performance, it was due to skill or luck and future performance will be similar or not. The return from portfolio calculation is similar to return on individual stock.

The target of constructing a portfolio and revising it periodically is to earn maximum returns with minimum risk. Portfolio evaluation is that the process which is anxious with assessing the performance of the portfolio over a specific period of your time in terms of returns and risk. This involves quantitative measurement of actual return realized and therefore the risk born by the portfolio over the amount of investment. These must be compared with objective norms to assess the relative performance of the portfolio. Portfolio evaluation also provides a mechanism for identifying weaknesses within the investment process and for improving these deficient areas. Thus, the evaluation of a portfolio is crucial to verify whether the fund manager has achieved the investment objectives and also helps in facilitating a mid-course correction where necessary. The evaluation will be done at the portfolio level in an aggregated manner since the key objectives to be achieved in terms of risk and return are viewed at the portfolio level.

The return calculations are simple when there is no addition or deletion from the corpus during the evaluation period. In event of deposit or withdrawal, following methods are used for return calculation:

- Dollar weighted rate of return
- Time weighted rate of return
- Risk adjusted rate of return

If the performance of the fund is being evaluated than dollar weighted model is appropriate as it provides the return from the perspective of client. If the investment manager decisions are being evaluated than time weighted rate of return model is appropriate while investors performance evaluation is evaluated by risk adjusted rate of return. Performance evaluation is not only in terms the return earned from the portfolio, but also risk of the portfolio. For portfolio performance evaluation appropriate measures of risk, return and benchmarks are needed.

The benchmarks are widely used by institutional investors for evaluating the performance of their portfolios. As the economy moves, certain industries and companies become either less or more attractive as investment. Such comparisons of portfolios are often referred to as benchmark portfolios. In selecting portfolios investor should be certain that they are relevant, feasible and known in advance. Risk adjusted measure of performance evaluation is known as risk adjusted rate of return. Risk adjusted performance evaluation is done by following

- Sharpe ratio
- Treynor ratio
- Jensen ratio

EVOLUTION OF PORTFOLIO MANAGEMENT

Portfolio management is basically a scientific method of managing one's investments efficiently. Many factors have contributed to the event and growth of this systematic approach to investment management. The evolution of portfolio management through the years is traced as under: within the early years of this century analysts used budget data for evaluating the value of securities of companies. This started with the railroad securities in U.S.A. They typically advocated the calculation and use of certain financial ratios for the aim. John Moody in his book The Art of Wall Street Investing, published in 1906, strongly supported plan analysis for investment purposes.

During the first a part of this century another group of analysts concentrated their attention on the behaviour of the securities market. Their investment strategy consisted in studying the stock price movements with the assistance of price charts. This method came to be called technical analysis. It evolved during 1900-1902 when Charles H. Dow, the founding father of the Dow Jones and Co., presented his views in an exceedingly series of editorials within the Wall Street journal in U.S.A. The advocates of technical analysis believed that stock price movement was orderly and systematic which definite patterns can be identified in these movements. Their investment strategies were built round the identification of trends and patterns available price movements. His theory has come to be called the Elliot wave theory of light. After the primary United States regulations governing investment trading were passed in 1933-34, the investment industry began the method of upgrading its ethics, establishing standard practices and generating a decent public image. As a result the investment markets became safer places and ordinary people began to speculate. During this era the research work of Benjamin Graham and David L. Dodd was widely publicized and publicly acclaimed. They published the results of their research during a book titled Security Analysis in 1934. This was considered the primary major add the sphere of security analysis and laid the bottom work for the protection analysis profession. They're considered pioneers of security analysis as a discipline.

PORTFOLIO MANAGEMENT IN INDIA WITH RELATION TO RETAIL INVESTORS AND INVESTMENTS

A well developed national economy is indispensable for the event of an economy because it will channelize funds from the excess sector to the deficit sectors thereby ensuring effective utilization of funds. However, so as to effectively mobilize funds the existence of economic institutions and financial markets providing a spread of investment alternatives as per the wants of the investors is extremely essential. Within the Indian financial market, there is variety of investment alternatives. The Economic Survey Report reveals that household savings accounted for 3/4th of the gross savings with major

proportion of savings being made in physical assets over financial assets. Further, the report states that amongst the financial assets, the foremost preferred investment option is deposit while the smallest amount preferred being shares and debentures. This means that investors in India like better to invest in less risky and safe investment options for investing their funds. Additionally to the current, the SEBI-NCAER (Securities Exchange Board of India-National Council of Applied Economic Research) survey report on "How Households Save and Invest: Evidence from NCAER Household Survey (2011)" indicates the same view. It's during this back drop, it becomes very pertinent to analyse the varied behavioural traits that influences the individual investors‟ investment and disinvestment decisions and the way it differs. While completing this study the researcher has stumble upon several literatures associated with this study which are included during this chapter.

(A) Characteristic of Investment

Investors invest in various alternative investment avenues by keeping in mind the subsequent traits of a perfect investment:

1. **Earn Return on investment:** Return is that the reward for undertaking risk. Investors invest so as to come up with return to realize future goals. Generally, higher the chance, higher is that the return.
2. **Risk with return:** it's the element of uncertainty related to earning of return through an investment opportunity. Some element of risk is related to all types of investments and it increases with the fundamental measure that investments are made and varies with the character of investment.
3. **Carefulness:** While investing, every investor looks for the security of his investment in terms of principal similarly as return. Safety of an investment option is ensured through credit rating of the choice and legal and regulatory framework related to the investment option.
4. **Liquidity:** it's one amongst the foremost essential criteria related to investment because it enables an investor to convert it into cash as and when required.
5. **Hedging:** The return generated from investments should be more than the rate of inflation so on gain in real terms.
6. **Growth:** Capital appreciation takes place with increase within the value of investment.

There is variety of different investment avenues available for the investors to take a position within the market. Each of those alternatives has their inherent features as well as its advantages and drawbacks. The investor while making his investment decisions considers these characteristics, advantages and drawbacks together with the subsequent objectives in mind.

(a) To encash the vantage

(b) To optimize the return

(c) To balance inflation with Hedging

(d) To minimise risk

(e) To handle all the contingencies

(f) To purchase any quite physical assets in future like Car

(g) For specific purposes like children education, marriage, etc.

(h) To make ones net worth heavy and more worthy

(i) To form more meaningful and systematic decision with relevancy investment.

(B) Investment Process

While arriving at an investment decision, an investor needs to consider variety of things. The steps involved within the investment decision process are as follows

(1) **Investment policy:** The investor before investing formulates the policy for systematic functioning. The essential ingredients for this purpose includes-investible funds available, objective for investing and knowledge about investment alternatives and market.

(2) **Investment analysis and selection of the investment alternative:** within the next stage, the varied investment alternatives should be analysed considering its characteristic features, market conditions, government policies (both economic and political), risk-return analysis, etc. with relation to the aim and fundamental quantity that investments are made. Each investment options being given some amount of weightage and therefore the highest weightage bearing investment option are selected for the aim of investment.

(3) **Construction of portfolio:** Investments made should be diversified so as to diversify the chance inherent so on minimise the danger and maximise the return. iv. Evaluation of portfolio: The portfolio so constructed should be evaluated to test whether the returns generated from different investment avenues are satisfactory in terms of investment objectives or not. Just in case it's not satisfactory, modifications should be made within the portfolio so constructed so on meet the investment goals.

(4) **Investment Environment:** An investor while making an investment decision has got to consider variety of things before selecting a selected avenue for investment. These factors which affect the investors‟ investment decision will be both internal and external factors. The interior factors are inherent within

the investor himself which incorporates the danger bearing capability of the individual, quantum of funds available with the investor, knowledge about the investment alternatives, etc. The external factors which influences an investor's‟ investment decisions includes- market conditions, marketability of securities, macro and micro economic environment, functioning of the corporate, etc

PORTFOLIO CONSTRUCTION OR MANAGEMENT PROCESS

Construction of portfolio means investment in numerous investment alternatives at a selected point of your time. While managing or constructing the portfolio, the subsequent steps are taken into consideration:

1. **Searching for the aim of Investments:** Before investing an investor has got to identify the objectives behind his investment. Basically the objectives behind investment includes safety of the principal, regularity of income, hedge against inflation, capital gains, tax savings, liquidity and speculation.
2. **Searching for the obstacles in Making Investments:** After ascertaining the investment objectives the investor also should identify the constraints under which he needs to take the investment decisions. This constraint is also in terms of risk tolerance level, time horizon that funds are available or are going to be required, quite shelter and any special preference which has an impression on the portfolio decision of the investor.
3. **Search of alternatives for investment:** There are varieties of investment alternatives available for creating investment. The investor should select from amongst them those which suit his requirements supported his investment objectives and investment constraints.
4. **Formulation of portfolio strategy:** An investor may either adopt an energetic or a passive investment strategy. Under active investment strategy, an investor will constantly revise his portfolio of investment by taking into consideration the market situation. While, under passive investment strategy the investor don't make his investment until the review time as decided earlier.
5. **Investing within the investment alternatives selected**: After selecting the investment alternatives for the aim of investing, the investor should invest within the options so selected.
6. **Evaluating the performance of the portfolio constructed:** The investor has got to constantly monitor his investments so on check whether his investments are performing as per the objectives set or not. This has got to be done so timely actions will be taken to create necessary modifications if required.

FINANCIAL SYSTEM AND PORTFOLIO MANAGEMENT

Following are the four constituents of financial system which act collectively and their interaction ends up in the event of a smoothly functioning economic system.

1. **Financial Institutions:** Financial institutions are the intermediaries facilitating the mobilization of funds from areas where there's far more than funds and allocating the funds so mobilised in an efficient manner amongst the users of funds. The establishments include banking and non-banking financial institution.
2. **Financial Services:** Financial Services are rendered by the financial intermediaries to eradicate financial untouchability amongst prospective investors and thereby bridge the gap between lack of information on a part of investor and to extend the sophistication of monetary instruments and markets.
3. **Financial Instruments:** Financial instruments are strategic device to channelize present day savings for future premium encashment which are usually within the variety of a claim against someone or an establishment for the payment at a future date a sum of cash and/or a periodic payment within the style of interest or dividend. Financial instruments may be classified into two categories: primary securities and secondary securities. Primary securities are issued by the last word borrowers to the final word investors, for example- shares and debentures. Here investors exercise their specialised skill to settle on respective shares/debentures. Whereas, secondary securities or indirect securities are issued by the financial intermediary to the final word savers or investors for example: bank deposits, mutual funds, etc. Here, investors depend upon portfolio managers‟ skill for growth of their investment. Financial instruments are instrumental in mobilization of funds from the sectors where there's surplus of funds i.e., the savers to the deficit sectors i.e., the users of funds. The financial instruments differ in terms of marketability, liquidity, reversibility, styles of option, return, risk and transaction cost.
4. **Financial Market:** Financial markets are the medium through which buying and selling of economic instruments and financial services are handled. There are variety of participants within the financial market and their interaction sets the worth of the instruments available within the financial market.

   On the idea of reasonably Security, the financial market is categorised as:

   (i) **Debt Market:** it's a marketplace for raising future funds with an obligation on the a part of the issuer to repay the funds raised after the stipulated period together with an agreed rate of interest once a year. The debt market are often categorised as treasury notes and bonds, municipal bonds and company bonds.

(ii) **Mortgage Market:** during this market funds are provided to the users which can be individuals, governments and business establishments against mortgage of certain assets.

(iii) **Stock Market:** exchange may be a market whereby securities which have already being traded within the primary market are traded to confirm liquidity within the investments made by the investors.

(iv) **Derivative Securities Market:** The securities which derive their value from some underlying assets are traded during this market saving and Investment Scenario in India. Economic process of a nation depends on its saving and investment.

The term saving and investment are interrelated. Saving means the surplus of income over expenditure. Savings are essential for ending investment activities as without savings no investment activities may be administrated. Investment refers to the sacrifice of current consumption and parking the identical within the various financial avenues available within the market to make sure ones future financial security. It's significantly regarding study the saving and investment activity of the household sector of the economy because it plays a lawfully important role in capital formation and hence on the economic development of an economy. The participation of the individual investors within the financial market provides liquidity to the financial instrument thereby helping in pooling the financial resources from the savers to the investors. However, as there is variety of economic instruments available within the Indian financial marketplace for making investments, so, it's worthwhile to check the investment behaviour of the investors within the financial market so the method of economic activity is accelerated. The domestic savings of the Indian economy has been divided into three broad categories- household sector, private corporate sector and public sector.

The household sector savings are further classified into two categories- financial savings and physical savings. The savings of the household sector in financial assets is financial savings. Financial savings includes investment in currency, bank deposits, non-banking deposits, life assurance, provident fund and pension fund, government securities, shares and debentures, mutual funds, and trade debts. When the savings of the household sector are invested in physical assets like gold, silver, house property, land, etc. it's referred to as physical savings. For the event of the economy it's very essential to avoid wasting within the style of financial savings aside from in currency as money within the style of currency generates no return. So it becomes very essential to review the assorted modes of monetary savings and also the proportion of savings amongst the varied alternatives of economic savings.

A strong national economy is that the backbone for the economic development whereby resource mobilisation takes place from one sector to the opposite. The Indian national economy comprise of the formal (organized) and informal (unorganised) sector. The formal system constitutes of economic institutes, financial services, financial instruments and financial markets.

In the Indian investment scenario it's been observed that the quantum of savings of the household sector is over the general public sector and personal corporate sector. The household sector savings comprises of physical and financial savings. Savings within the physical form is more within the household sector over the financial form and also the proportion of economic savings isn't uniform amongst the various investment alternatives.

REGULATORY DIRECTIVES FOR INVESTMENT PORTFOLIO SYSTEM

As such there's no administrative unit in India which controls of governs the system of Portfolio management in India. It simply controlled by the professionals using their expertise and knowledge yet because the current economic circumstances and investment environment of the people of the country. However various Regulations or regulatory authorities are designated for controlling the investments and safeguarding the investors. The Portfolio managers need to make sure the compliance of guidelines issued by them.

1. **Securities Exchange Board of India (SEBI) Act:** SEBI was established within the year 1988 with a view to manage and supervise the activities of the capital market. Statutory powers were conferred to that in 1992 with the enactment of SEBI Act, 1992 and it operates within the framework of SEBI Act, 1992. Before the formation of SEBI, RBI was taking care of the capital market activities also. However, with the rise in share market activities a necessity was felt to make a statutory body for taking care of the capital market activities. Further, variety of stock market scam passed off in early 1990s within the capital market which proved that the regulations prevalent at that time of your time wasn't appropriate to manage the capital market transactions. Thus, SEBI was formed to specifically regulate the stock market transactions. The objectives of SEBI is to safeguard investors interest associated with various exchange operations, so on build up confidence of the investors' in it. SEBI also takes sufficient measures for the event and regulation of the stock market with regard to all matters connected with the stock exchange.

2. **Companies Act, 2013:** an organization is an association of one that contributes money or money's worth to a standard stock distributable into variety of shares and who agrees to share the profit or losses arising thereof. in an exceedingly company, ownership and management are in two different hands. As such, it becomes very essential to safeguard and safeguard the interest of the owners or investors in

companies so on incorporate investor confidence. the businesses Act has been framed to manage the functioning of the businesses, issue of shares of the businesses, mode of disclosure of companies performance, mentioning the rules during which companies performance should be disclosed, framing the rules within which the corporate must operate i.e. memorandum of association and articles of association, procedure for raising funds for its operations, mode within which funds should be raised in an organisations and procedure for raising funds, it also contains provisions for sophistication action suits. The Act regulates the incorporation of responsibilities of a company's directors, and dissolution of a corporation. The businesses Act, 2013 came into force on 12th Sept., 2013, and relies on Companies Act, 1956, which has been modified to include the changes going down within the business environment.

3. **The Securities Contracts (Regulation) Act, 1956:** The capital market both primary and secondary has been regulated by government of India through the provisions of Securities Contracts (Regulation) Act, 1956. However, SEBI was empowered to manage the functioning of the stock market from the year 1992. So as to safeguard investors interest the Securities Contracts (Regulation) Act has been enacted which empowers the central government to control the dealings of the stock market.

4. **Pension Fund Regulatory and Development Authority Act:** so as to secure ones future, especially for the financial security always after retirement people invest in pension funds which is essentially an investment for long period of your time. Because the investments in these funds are for long period of your time in and of itself it becomes very essential to confirm the security of investors' funds. For this purpose the Pension Fund Regulatory and Development Authority Act has been passed to guard the interest of investors who invest in pension fund schemes. Supported the Act, Pension Fund Regulatory and Development Authority was founded. The Pension Fund Regulatory and Development Authority operate as per the provisions of the Act. It consists of a chairperson, 3 whole-time members and three part-time members which are to be appointed by the central government. The Act is applicable to National system and the other pension scheme which isn't regulated by the other act.

PORTFOLIO MANAGEMENT FOR MICRO AND SMALL INVESTORS-RETAIL INVESTORS SPECIALLY FOR SHARES

The intrinsic value of any Stock depends on several factors. Within the fundamental analysis the worth of Stock is evaluated by considering its financial strength. At the foremost basic level, a fundamental analyst starts with the financial statements. By gazing the

record, income statement and earnings report, a fundamental analyst tries to work out a company's value. In financial terms, an analyst attempts to live a company’s intrinsic value. During this approach, investment decisions are fairly easy to form if the value of a Stock trades below its intrinsic value, it is a good investment. Fundamental analysis is predicated on EIC analysis i.e. Economic Analysis, Industry Analysis, Company Analysis.

- Economic Analysis
- Industry Analysis
- Company Analysis

Technical Analysis

Technical analysis could be a method of evaluating price of securities by analyzing the statistics generated by market activity, like past prices, volume, etc. Technicians believe that each one the knowledge they have a couple of Stock are often found in its charts. a number of them purely depend upon the chart patterns; others use technical indicators and oscillators, and most use some combination of the 2. The sphere of technical analysis is predicated on three main assumptions:

- The market discounts everything
- Price moves in trends
- History tends to repeat itself

In Technical analysis, it's believed that market timing is that the key factor. Technicians utilize charts and modelling techniques to spot trends in price and volume. They depend on historical data so as to predict future outcome. Technical analysis could be a methodology used for analysis of stock prices to predict the direction and price within the stock exchange. The charting techniques used for the prediction of costs are most typically used tools within the stock markets. For a general investor, it's not very easy to grasp the intricacies of those kinds of analyses. Investors usually invest on the recommendations from various sources like TV shows, financial dailies, tips by brokers or friends etc. What so ever could also be the trading philosophy, it's always problematic to earn out of the investment from the exchange. People generally lose money and eventually end with blank hands and broken heart.

Indian Securities Market

Stocks are traded at places called exchanges. Generally, the worth of a stock is decided by supply and demand. for instance, if there are more people available to shop for a stock than to sell it, the value are move up because number of shares are less and other people can pay a better price for them. On the opposite hand, if there are plenty of shares for selling and nobody is fascinated by buying them, the worth will quickly fall. Due to this, the markets have wide fluctuations.

Indian securities market is touching a brand new horizon with time. The Indian securities market has grown leaps and bounds, and has become a significant stock exchange within the world. It's capable any international market within the world. It's the identical level of efficiency and organizational ability. The market caters to the massive population of India and offers them investment opportunities. Each day new investors are going in the market with a hope to earn money whereas the veterans are involved in working with their time-tested methods of investment. Investors are mainly classified into three main categories: Day traders. Short-term Investors and Long-term Investors. Day traders are very actively involved during the trading hours; Short-term investors inspect the market frequently whereas Long-term investors have a protracted vision in mind. Usually the those that don't seem to be much awake to stock exchange or have less time for active participation on daily/weekly basis, are guided by their financial advisors for the investments. The proposed work is a trial to understand about the intricacies of stocks, various portfolio management techniques and development of recent investment strategy useful in portfolio management which is expected to be proven very effective in earning hefty return on the investment.

Indian exchange is one in all the oldest markets in Asia. Its history dates back to almost 200 years ago. The archipelago Company was the most institution in those days. There have been only six brokers recognized by banks and merchants during 1840 and 1850. Subsequently thanks to rapid development of business enterprise and brokerage business attracted many men into the sphere and by 1860 the amount of brokers increased up to 60. In 1860-61 the American war broke out and cotton supply from us to Europe was stopped; thus, the Share business in India began. The quantity of brokers increased to about 200 to 250. At the top of the American war, the brokers who thrive out of warfare in 1874, found an area in an exceedingly street (now appropriately called as Dalai Street) where they'd conveniently assemble and transact business. In 1895, the securities market acquired a premise within the same street and it had been inaugurated in 1899. Thus, the stock market at Bombay was consolidated.

During past few decades, the stock market has been encountered with many ups and downs due to various factors / events, for example political uncertainties, assassination of Late PM Mrs. Indira Gandhi, Over the years, so many strategies had been used at different point of time and for research purpose. This is an attempt to study and analyse some of the investment strategies, and to develop new investment technique for portfolio management. Various strategies with consideration to the following Objectives has been highlighted

1. To develop a new strategy for portfolio management of Small cap and Midcap stock investors and analyse it.

2. To analyse the developed strategy for some of the Small cap and Midcap stocks of respective Indices.
3. To compare the performance of all these strategies with Benchmark Index on the basis of IRR (Internal Rate of Return) and Sharpe ratio.
4. To compare the performance of all these strategies on the basis of Average cost/share for all the selected stocks.

It involves risk factor associated with it and it is a general saying that "higher the risk, higher is the return". Particularly when there are so many options or choices available, then it becomes difficult to decide how to proceed for a correct decision. Share investment is one of the options available among so many avenues viz. Fixed Deposit, Debenture, Real Estate, Gold, Commodity, Insurance etc. Share investments are very risky, the research data and various articles available cites that most of the people loses their money in the share market. But it is still very lucrative alternative, in the manner that it seems to be easy money growing avenue. The hunger for money making is so great that even after losing a lot of capital in share market, the people are into such business. Most of these get out after a great loss and some new entrants always come into the field to test their luck.

PORTFOLIO MANAGEMENT IN INDIA STOCK MARKET

In India approximately one fourth of population belong to below poverty line but still our saving rate is very high compared to other developing country. But the return m the form of output growth rate is very low, the basic reason behind that is poor investment strategy. Thus the portfolio manager in India needs expertise and experience to properly managing the investor's portfolio.

The portfolio management of stocks is a great deal of problem, from the selection of the stocks, tracking its performance, continuous revision and finally evaluation needs a lot of understanding of the stock trading in the stock market by any investor. The portfolio can be of various types. Various options available for the inclusion of portfolio such as stocks, bonds, debentures, gold, silver, government securities, currencies, real estate and others. The stocks are divided into Large cap, Midcap and Small cap. Here “cap” means market capitalization, which is used to classify different company on the basis of market capitalization. Market capitalization of stock is an important factor on deciding in which stock one has to invest. Because investors put hard earned money for investment assuming earning return, hence selecting the stock on the basis of market capitalization and risk profile, reduce the risk of loss. Large cap are assumed to have very low risk compared to Midcap and Small cap. At the same time probability of earning exceptionally high return is also less in Large cap. Small cap have high probability of earning exceptionally high return with high risk.

In India, BSE classify the company according to their market capitalization by using the 80-15-5 method. As per this method, if all the companies are arranged in decreasing order of market capitalization then the top companies which together contribute more than 80% of the total market capitalization are known as large cap. The next group formed on the basis of contributing 15% of total market capitalization are known as Midcap. Remaining companies which contribute 5% of market capitalizations are called as Small cap. In the present work, Small cap and Midcap stocks have been considered for the portfolio management by using various developed and existing strategies.

SECURITY ANALYSIS

After the investment policy decisions, different options of security for inclusion in the investment portfolio is identified. This step involves examining several, relevant types of security alternative available. The main purpose of such analysis is to identify those securities that currently appear to be under-priced. There are various types of security available for investment such as equity shares, preference share, debentures, bonds etc. Namely fundamental analysis and technical analysis. As already said, fundamental analysis is based on the analysis of mainly three ingredients such as economy, industry, and company. Fundamental analysis in its simplest form is focused on the estimation of intrinsic value of the security. This is based on the assumption that intrinsic value is the present value of future flows from particular investment. By comparison of the intrinsic value and current market value of the securities which are under-priced or overpriced can be identified. Accordingly investments are made and also the proportions of these securities in the investment portfolio is determined. Technical analysis focuses on the market timing. As discussed earlier there are various techniques of technical analysis. As per technical analysis, it is assumed that stock market follows a pattern, and market price is determined by demand and supply force of security. Technical analysts believe that market discount everything and past price trend help in predicting future price. By using these two approaches security is analysed for investment purpose and finally security is selected for investment.

VARIOUS MODELS OF PORTFOLIO MANAGEMENT

1. **Capital Asset Pricing Model for Portfolio Management:** Capital Asset Pricing Model (CAPM) was developed by W. F. Sharpe (Sharpe, 1964). CAPM is the simplified form of Markowitz's Modern Portfolio theory. CAPM theory predicts what shall be the-expected rate of return for the investor, given the other information i.e., the expected rate of return m the market, risk free rate of return and market risk. This is measured by coefficient Beta. Coefficient Beta (P) indicates how the price of

security/return on security depend upon the market forces. As pa- CAPM, more is the systematic risk of investors, the greater is the expected return. The basic assumptions of CAPM are:

- Generally investor gives a look to only for a particular period assumptions for the future
- Since investor is only price acceptor and hence cannot impact the market
- Investors are risk-averse
- It is assumed on the behalf of the investor that cost of Taxes and transaction is irrelevant

2. **Sharpe Index Model:** William Sharpe developed a simple variant of Markowitz model to remove the shortcoming of that model and reduce the data computational requirement, it is also known as Single Index Model or One Factor Analysis. As per this model, movement in stock price is due to change in the respective market index. By observing the stock price of past period it can easily be noted that most of the time stock prices move in accordance with the direction of market movement. When the Sensex increases, the stock price increases and when Sensex decreases then the stock price also decreases. Accordingly the stock prices are related to market index, this model measures risk and return of the stock. In Sharpe model, return on stock depends on coefficient alpha, coefficient beta and a random component. As per this model, desirability of any stock m the portfolio is directly related to its excess return over beta ratio. Ranking is done for all the stocks in order of their index value and accordingly portfolio is formed.

3. **Arbitrage Pricing Theory**: Arbitrage pricing theory was developed by Stephen A. Ross in 1976. This theory is based on the fact that the market return is determined by a number of different factors. These can be fundamental or statistical factors. If these factors are essential then there exists no arbitrage opportunities, hence investment is restricted. Arbitrage pricing theory states that the expected rate of return of security is the linear function from the complex economic factors common to all securities. There can be infinite number effectors. Four factors has been identified which are inflation, industrial production, risk premium and slope of the term structure in interest rate. For a practical consideration, the examples of possible macroeconomic factors may be taken as GDP growth, interest rate, exchange rate, a default spread on corporate bonds, etc.

HOW TO MAKE AND SELECT STRATEGIES

There are many popular strategies or techniques used by different investors. In the present research, a new strategy has been developed which is named as “Percentage Investment Plan (PIP)"'. In this strategy after stock selection, a fixed rule is used for buying

and selling of the shares. The rule is very simple and may be used practically without any complications. In the present work, an in-depth analysis of Value Averaging is carried out with and without sell option for different return targets, SIP and LSJP are also used, mainly for the comparison purpose. The theories are briefly described here to demonstrate their working.

1. **Percentage Investment Plan:** It is a kind of formula investment plan, because it follows a rule for investment and disinvestments (buy and sell). For any investment, the first step is to select the stock for investment. There are many popular techniques for finding good stocks or at least avoiding bad ones. After that the stock is to be purchased at a particular price on the basis of different moving averages and hold till it achieves the selling price. In case the price goes down, then at certain price one shall re-enter into it. The system is briefly described below.
2. Stock Selection Stock selection is very important issue in investment. There are number of criteria on the basis of which the investors select one or many stocks for his investment. The basis may be backed by fundamental or technical analysis. Sometimes a stock is picked up because of certain tips from the market. The fundamental criteria may be PE ratio, profit, total turnover, dividend, turn around case, etc. Some of the technical criteria may include moving averages, upward trend, break out using certain indicators, etc. Certain other factors may include news or information about certain stock, tips from the experts. Some of the criteria may include

   (a) 52 week high or low price
   (b) Good quarterly, annual results
   (c) Crossing all time high or low
   (d) Moving averages
   (e) Flashing of some news item
   (f) Specific industry or area stock
   (g) Market capitalization
   (h) Top ten lists from various indexes and many other.

In present research, a very simple criterion is used to pick the stock and that is to select the stock from the top ten lists on the basis of weight age as on 31 -Dec-14 from CNX Midcap Index / Nifty Midcap 50 Index, and CNX Small cap Index only. This is done because; the stocks included in these lists are filtered out from a very rigorous analysis by the regulatory authority and stock exchanges.

6

SHARES AND STOCK MARKET

REGULATION OF STOCK EXCHANGES

Securities Exchange Board of India is the apex, statutory regulatory body for the securities market with the object of investor protection and development and regulation of market. Securities Exchange Board of India's main function is to regulate the business in securities market. Securities Exchange Board of India, for the purposes of regulation of securities market, it can issue directions to stock exchanges, companies, stock brokers or to any other person.

Apart from Securities Exchange Board of India, Followings Acts also have a substantial bearing on the working of the securities market

(a) Securities Contracts (Regulation) Act, 1956 which provides for regulation of transactions in securities through control over stock exchanges,

(b) Depositories Act, 1996 which provides for electronic maintenance and transfer of ownership of demat securities,

(c) Public Debt Act, 1942,

(d) Companies Act, 2013,

(e) Banking Regulation Act, 1949 and

(f) Income Tax Act, 1961.

1. Membership

Business at a stock exchange can only be transacted by a member (stock broker or share brokers) of the stock exchange. The members enter into transactions either on their own behalf or on account of their clients (non-members) including sub-brokers and Authorised Persons.

The Securities Contracts (Regulation) Act, 1956, the Securities Exchange Board Of India Act, 1992 and various rules, regulations, notifications, etc., lay down the requirements for becoming a member of a stock exchange, such as -

(a) Must be eligible to be admitted as a member

(b) Must have necessary Infrastructure and financially sound

(c) Must have past Experience in the business of Dealing in Securities

(d) Should not be subject to any Disciplinary proceeding under the Rules, Regulations and Bye-laws of the Stock Exchange involving, himself or any Partner, Director or Employees.

Each stock exchange has its own Securities Exchange Board of India approved rules and regulations regarding the admission of members. A stock exchange can have membership in multiple trading segments such as Capital Market Segment, Wholesale Debt Market Segment and Derivatives Segment

2. Application for Recognition of Stock Exchanges

Any stock exchange which is desirous of being recognised, shall make an application to Central Government for getting recognition. Such Application shall be filed in Form A and shall be filed with fees Rs. 500. Application shall Accompanied with following documents –

(1) 4 copies of the bye-laws of the stock exchange for the regulation and control of contracts and

(2) 4 copies of the rules relating to the constitution and Management of the stock exchange and in particular, related to

   (i) The Constitution and powers of governing body of that stock exchange, Powers of the management of Stick Exchange and the way in which their business is to be done,

   (ii) The Role and right along with Duties of the officers of the stock exchange,

   (iii) The Method of admission of any new member into the stock exchange, required qualifications for being a member, and the rules relating to exclusion, or suspension, expulsion as well as readmission of members,

(iv) The process of registration of any partnerships as members of that stock exchange if the rules of Stock Exchange provides for membership of Partnership and the procedure for appointing their nomination and appointment of authorised representatives.

(v) A Copy of Memorandum of Association and Article of Association of Stock Exchange.

3. Procedure of Granting Recognition to Stock Exchanges

(1) **Recognition process by Central Government:** If in opinion of Central Government based on its inquiry, and obtaining following information, it may give recognition to the stock exchange -

(a) That the whatever rules and bye-laws it made are in accordance with such Terms and conditions prescribed to ensure fair dealing and to protect investors,

(b) Said stock exchange is ready to follow with any various conditions (including conditions for number of members) which the Central Government will impose, (after having consultation with the governing body of said stock exchange and considering the area served by the said stock exchange and the standing and the nature of the securities it dealt), may impose for carrying out the objects of this Act and

(c) Granting recognition would be in the interest of the trade and business and in the public interest.

(2) **Condition to be imposed for Recognition:** The Central Government may put conditions which relates to various following at the time of granting the recognition -

(d) Rule for Qualifications for membership of stock exchanges,

(e) The way in which contracts shall be taken and processed between Members,

(f) Representatives of the Central Government on every of the stock exchange for that number of persons which shall be maximum three as the Central Government will nominate in this behalf, and

(g) The preparation of accounts of members of stock exchange and their audit by chartered accountants.

(3) **Refusal of Application:** Here it is worth noting that none of the application can be refused if an opportunity of being heard has not been given and reasons for such refusal has been properly communicated.

(4) **Amendment in the Rules:** Not any of the rules of stock exchange can be amended unless approved by the Central Government.

(5) **Publication of information of Recognition:** Once Grant of recognition to stock exchange is done, it shall be published in gazette of India as well as in the official gazette of State where principle office of Stock Exchange is situated. Such recognition will be effective from the date of its publication in the Gazette.

4. Withdrawal of Recognition

(1) Grounds of Withdrawal of Recognition

(i) If the Central Government is of opinion that the recognition granted to a stock exchange should be withdrawn, in the interest of the trade or in the public interest, or

(ii) Where

(a) The Recognised Stock Exchange has not been Corporatised or Demutualised or

(b) The Recognised Stock Exchange fails to submit the scheme under section 4B within the specified time therefore or

(c) The scheme has been rejected by the SECURITIES EXCHANGE BOARD OF INDIA.

(2) **Process of Cancellation:** Central Government may after giving an opportunity to the governing body of Stock Exchange, withdraw by notification in the Official Gazette, the recognition granted to the stock exchange. However no Opportunity will be given in case of point (ii) of 1 above.

(3) **Effect on previous contracts:** No such withdrawal shall affect the validity of any contract entered into or made before the date of the notification, and the Securities Exchange Board of India may, after consultation with the stock exchange, make such provisions as it deems fit.

5. Power of Central Government to Call for Periodical Returns or Direct Inquiries to be Made

(1) **Duties of RECOGNISED STOCK EXCHANGE:** Every RECOGNISED STOCK EXCHANGE shall

(i) Furnish Periodical Returns relating to Affairs of Exchange to Securities Exchange Board of India, and

(ii) prepare such books of account as prescribed by the Central Government (after considering interest of Public and trade and consulting with Stock Exchange), for

a period not exceeding five years. Such books of accounts may be inspected by the Securities Exchange Board of India, without prior notice and without disclosing the reasons for the same.

(iii) The stock exchange shall comply the direction issued by SECURITIES EXCHANGE BOARD OF INDIA which includes suspension of membership, imposition of fine etc. **(Rule No 11 of Securities Contract (Regulation) Rules, 1957)**

(2) **Rights of Securities Exchange Board of India:** c may have following powers to be exercise in Public Interest or in Interest of Trade -

(i) To call such Information or Explanation relating to the affairs of stock exchange or of members as may be required,

(ii) To Appoint one or more persons for making an enquiry in relation to affairs of stock exchange or any of its Members, and require such person to submit a report on such Inquiry to Central Government.

(iii) To require Governing Body of Exchange to inquire and submit a report on affairs of any of Members of Exchange.

(iv) Central Government A is empowered to take an appropriate action according to results of enquiry.

(3) **Duties of Officers etc. when an Inquiry is ordered:** Where enquiry of any Exchange or any of its Member has been undertaken then, following persons shall be bound to produce before the authority making the inquiry all such books of account, and other documents in his custody relating to such inquiry and also to furnish the authorities such statement or information as may be required of him.

(i) Every director, manager, secretary or other officer of such stock exchange,

(ii) Every member of such stock exchange,

(iii) If the member of the stock exchange is a firm, every partner, manager, secretary or

(iv) Every other person or body of persons who has had dealings in the Recognised Stock Exchange of business with any of the persons mentioned in clauses (a), (b) and (c), whether directly or indirectly.

6. Powers of Recognised Stock Exchange to Establish their Rules for Restricting Voting Rights, etc.

(1) **Matters for which Recognised Stock Exchange may make Rules:** Any Stock Exchange may make or amend its rules in regard to following matters:

(i) Putting restriction on Voting Rights to Members of Stock Exchange for any matter put before the Stock Exchange at any meeting,

(ii) The management of voting rights for any matter put before the stock exchange meeting so that every member can be entitled to one vote only, irrespective of his share of the issued and paid-up capital of the stock exchange,

(iii) The restriction to appoint proxy by a member, to another person to attend and vote at a meeting of the stock exchange,

(iv) Such incidental, consequential and supplementary matters as may be necessary to give effect to any of the matters specified in clauses (a), (b) and (c).

(2) **Condition for Making or Amending Rules:** The rules made or amended by a stock exchange shall require the approval of Central Government. While granting approval, Central Government may make modifications as it thinks fit. No rules shall have effect until they have been published in official gazette.

7. Power of Central Government to Make or Amend the Rules of a Stock Exchange

(1) **Power of Central Government to make Rules:** The Central Government has power to direct the Recognised Stock Exchange generally or in particular, to make rules or to amend any rules already made, if in the Opinion of Central Government it is necessary to make such an order. Such order can be made only when -

- The Central Government has specified the reasons for making such an order,
- The Central Government has consulted with the governing bodies of stock exchange
- Such Rule shall be made by Recognised Stock Exchange within a period of 2 months from the date of order of Central Government.

(2) **Failure of Compliance or Central Government Order:** If stock exchange fails to comply with the order of Central Government within a period of 2 months the Central Government may make or amend rules in the form as may be prescribed by the Central Government along with consultation of Stock Exchange.

(3) **Publication in Official Gazette:** Any rules made or amended, shall be published in the Gazette of India and also in the Official Gazette or Gazettes of the State or States in which the principal office or offices of the recognised stock exchange or exchanges is or are situate.

(4) **Effect of Amendment to Rules:** Rules so amended shall have effect as if they had been made by stock exchange notwithstanding anything to the contrary contained in the Companies act 1956.

8. Power of Central Government to Make an Order of Supercede Governing Body of the Recognized Stock Exchange

(1) **Conditions required for Suspension:** below conditions shall be fulfilled for giving order of supersession Recognised Stock Exchange -

(i) Central Government is of opinion that body of stock exchange should be supersession Recognised Stock Exchange,

(ii) Central Government has to serve a written notice to Stock Exchange for supersession of Recognised Stock Exchange to the Governing Body of Exchange, describing the reasons for supersession of Recognised Stock Exchange,

(iii) Central Government will Give an Opportunity of Being heard to Governing Body of Exchange,

(iv) Central Government shall issue a notification in gazette that Governing Body of Stock Exchange has been supersession Recognised Stock Exchange.

(2) Effects of supersession Recognised Stock Exchange - On supersession Recognised Stock Exchange the following consequences shall follow

(i) The members of the Governing Body shall cease to hold office from the date of publication of order of supersession Recognised Stock Exchange,

(ii) The Central Government may also appoint any person or persons to exercise and perform all the powers and duties of the governing body, and, where more persons than one are appointed, may appoint one of such persons to be the chairman and another to be the vice-chairman. The person or persons appointed under sub-section (1) may exercise and perform all the powers and duties of the governing body which has been supersession Recognised Stock Exchange,

(iii) All Properties of Stock Exchange as the person or persons appointed may specify as being necessary for the purpose of enabling him or them to carry on the business of the stock exchange, shall vest in the persons so appointed,

(iv) The persons so appointed, shall hold office for such period as may be specified in the notification.

(3) **Reconstitution of Governing Body:**

(i) The Central Government may call upon the reconstitution of governing body before determination of period of officer appointed by Central Government. On such reconstitution, all property of stock exchange which was in hands of person appointed by Central Government, shall vest in the governing body so reconstituted.

(ii) Until reconstitution of Governing Body, Central Government shall continue to exercise and perform their powers and duties.

9. Power of Central Government to Suspend Business of Recognized Stock Exchange

The Business of any Recognised Stock Exchange may be suspended by Central Government. However for Suspension following conditions should be satisfied -

(i) In the opinion of the Central Government an emergency has arisen and for the purpose of meeting the emergency the Central Government considers it expedient so to Suspend the Business
(ii) A notification in the Official Gazette, has been published, specifying Reasons for Suspension,
(iii) Suspension should be for maximum of 7 Days, but can be extended time to time if it is in the interest of the trade or the public interest,
(iv) An Opportunity of being heard shall be given to Recognised Stock Exchange before such extension.
(v) It would subject to such conditions as may be specified in the notification, and, if, in the opinion of the Central Government it is necessary to put conditions.

10. Power of Securities Exchange Board of India to Make or Amend Bye - Laws of Recognized Stock Exchange

(1) The Securities Exchange Board Of India may, either
(i) On a request received from the Governing Body of a Recognised Stock Exchange or
(ii) On its own motion, is satisfied that it is necessary or expedient so to do, make bye-laws for all or any of the matters specified in section 9 or amend any bye-laws made by such stock exchange under that section.

However it will make consultation with the Governing Body of the Stock Exchange.

(2) Any Bye Laws made or amended, shall be published in the Gazette of India and also in the Official Gazette of the State in which the principal office of the recognised stock exchange is situate, and the bye-laws so made or amended shall be effective form the date of its publication.

(3) In case of Amendment to the Bye Laws by Securities Exchange Board of India on its own motion, the governing body of a Recognised Stock Exchange may objects the same and may, file appeal to Securities Exchange Board of India within 2 months from the publication, for revision thereof.

Securities Exchange Board of India may, after giving an opportunity to the governing body of the stock exchange to be heard, revise the bye-laws so made or amended. Provided where it is require in the interest of the trade or in the public interest then Securities Exchange Board of India may, apply above provision without previous publication.

11. Members Not to Act as Principal

Investor cannot directly trade on a stock exchange. He can trade through a member of stock exchange so member acts as Agent between investor and stock exchange. Hence as per section 15, No member of Stock Exchange shall enter into any contract as a principal with any person (Investor) other than other Member of Stock Exchange, except in following cases:

(i) Where member secures the consent of such other person in writing and makes a disclosure in the note that he is acting as a principal,

(ii) In case of oral consent, then he must secure the same in written within 3 days,

(iii) A member may without obtaining any consent, close out any outstanding contract entered into by such person in accordance with the byelaws of the stock exchange,

(iv) Where the contract is a spot delivery contract **(Sec 18)**.

12. Contracts in Derivative Instruments – Whatever contained in any in any other law for the time being in force, contracts to be entered in derivative shall be legal and valid if such contracts are

(a) Entered in a recognised stock exchange,

(b) Settled in the clearing house of the that Recognised Stock Exchange,

As per the rules and bye-laws of such stock exchange.

13. Margins

It is the amount collected by members from their clients and deposits the same with the Clearing House of Stock Exchange.

Benefits of Margins are:

- Restrict excessive speculation
- Safeguard the interests of the investors,
- Protect the members by providing them with funds to cover anticipated fluctuations in prices of securities, if the client delays in paying the amount.

The members are required to compute margin payable for all securities traded by them and make the margin payments on the due date to the Stock Exchange authorities. At times the margins are also required to pay upfront, without which the trade cannot take place.

Types of Margins are:

(a) **Mark to Market Margin:** MTM margin is the notional loss, which a member or his client would incur, if the net cumulative O/S positions in all securities were closed out at the prevailing closing price of the concern trading day. It is find out as (Closing Price deducted from Traded Price) × aggregated buy and sell open position.

(b) **Volatility Margin:** it is put to curb out excessive volatility in the stock market. Price variations arising out of calls, bonuses, rights, or mergers, or amalgamations and other schemes of arrangements are first adjusted for finding out volatile securities and adjustments are done in prices for computation of volatility, when securities are traded ex-benefits. Securities which attract volatility margin and the applicable rates

of margin on above are announced on the last day of the trading cycle of the trade and it is applicable from the very first day of the next trading cycle. It is levied on the cumulative outstanding positions.

(c) **Gross Exposure Margin:** it is computed for aggregate of the net aggregate outstanding positions in each security. Each Exchange determines its own rates of GEM and Additional VM based on its own risk perception of the market and other risk containment.

(d) **Special Margin:** in Securities where price manipulation is suspected.

(e) **Adhoc Margin:** where it is felt that the margin cover vis-a-vis the exposure of the member is inadequate or a member has a concentrated position in some securities or has common clients along with other members, then Adhoc Margin is charged.

Trading System

(1) Trading on the National Stock Exchange (NEAT System): NSE operates on the 'National Exchange for Automated Trading' (NEAT) system, a fully computerized screen-based trading system. It enables members from across the country to trade simultaneously with enormous ease and efficiency by keying the order into the system. A single consolidated book for all orders for every stock displays, on a regular and real time basis, having consolidated buying and selling orders generated from all over the country. The orders are than executed only if they match price quantity conditions.

(2) Trading on the Stock Exchange, Mumbai (BSE): It works on BOLT (BSE on Line Trading) System. it have same features as in NEAT system. It is a fully automated, computerized, Transparent and confidential mode of trading.

1. Types of Market: The NEAT system has four types of market

(a) **Normal Market:** All orders which are of regular lot size or multiples thereof are traded in the normal market. Normal market consists of various book types such as regular lot orders, special term orders, negotiated trade orders and stop loss orders.

(b) **Odd Lot Market:** If the order size is less than regular lot size, such orders are traded in the odd-lot market. In an odd-lot market, both the price and quantity of both kind of the orders (i.e. buy and sell) should match exactly for the trade to take place.

(c) **Spot Market:** Similar to the normal market orders except that spot orders have different settlement periods vis-a-vis normal market. They do not have any special terms or attributes attached to them.

(d) **Auction Market:** Auctions are initiated by the Exchange on behalf of trading members for completing the settlement process.

2. Different Types of Orders/Conditions

(1) Time Related Conditions

(a) **Day Orders:** Valid for the day on which it is entered, If not matched it is cancelled automatically at the end of the trading day.

(b) **Good-Till-Cancelled Order (GTC):** Remains in the system till they are cancelled by Member, but Up to maximum number of days as specified by stock exchange.

(c) **Good-Till-Days/Date Order (GTD):** It Allow Trading Members to specify the days/date up to which the order should stay in the system, at the end of specified day Order is removed from the system.

(d) **Immediate or Cancel (IOC):** If order is matched immediately as soon as the order is released into the marker, otherwise removed from the market, Even a partial match is found, the transaction is completed in respect of the match and unabsorbed portion is cancelled immediately.

(2) Price Conditions

(a) **Limit Price Order***:* It Allow the price to be specified while entering the order, if it matches then order continuous otherwise it cancels.

(b) **Market Price/Order:** It is an order to Buy/Sell securities at the best price obtainable at the time of entering the order.

(c) **Stop Loss (SL) Price/Order:** It Allow the Trading Member to place an order which gets activated only when the Market Price of the relevant security reaches or crosses a threshold price. Until then, the order cannot even enter the market.

(3) Quantity Conditions

(a) **Disclosed Quantity Order:** It Allow the Trading Member of the stock exchange to make disclosure of only one part of the whole order quantity in the market. Once it is traded, the next portion of the order is automatically released and the this process remains continue till the full order is completed. However Stock Exchange itself may set a minimum Disclosed Quantity.

(b) **Short Sell:** When seller sales the shares when he actually don't have them, in the anticipation of reduction in price later on, then it is known as short sales. These are speculative orders. These orders are risky as square up to be done on the same day.

3. Order Books

It is a book which contains unmatched orders until they are matched or removed from the system. All the Orders are first numbered and stamped with time on receipt issued and then processed immediately for match. If a suitable match is not found, the orders are saved in different 'books'. Various types of books are:

(a) **Regular Lot Book:** Contains all regular lot orders that have none of the following attributes or conditions attached to them

- All or None (AON)
- Minimum Fill (MF)
- Stop Loss (SL)

(b) **Special Term Book:** It Contains all regular lot types orders that have any of the following attributes or conditions

- All or None (AON)
- Minimum Fill (MF)

(c) **Stop-Loss Book:** Stop Loss orders are stored in this book till the trigger price specified in the order is reached or surpassed. Order is released in the regular lot book, when stop loss condition is met as follows

- **Sell Order:** last traded price in the normal market reaches or falls below the trigger price of the order.
- **Buy Order:** when the last traded price in the normal market reaches or exceed the trigger price of the order.

(d) **Odd Lot Book:** Contains all odd lot orders (orders with quantity less than marketable lot). The system tries to match an active odd lot order against Non Active or passive orders in the book. However currently the ODD Lot market is used only for those orders that have quantity below or equal to 500 (i.e. quantity more than the market lot) for trading purpose. It is also known as Limited Physical Market.

(e) **Spot Book:** This Book Contains all spot orders, means orders having only the settlement period totally different in the system.

(f) **Auction Book:** This Book contains orders that are entered only for all auctions.

4. Rules for Matching of Order

Order Matching patters is always in price-time priority in the following sequence:

(i) Best Price means those order which have highest price (in case of sale) and Lowest Price (in case of Buy) will be first matched and

(ii) Within same Price, by time priority.

5. Depositories and Dematerialization

A transaction of purchase or sale of security said to be completed only after the buyer becomes the rightful owner of the securities and the seller gets the sale consideration. Depositories Act, 1996 was enacted to provide for establishment of depositories in securities with the objective of ensuring free transferability of securities with speed, accuracy and security by:

(a) Making shares and other securities of public limited companies easily transferable subject to certain securities ,

(b) Making Securities Dematerializing in the depository mode, and

(c) Providing for maintenance of ownership records in book entry form.

The Act made the securities of public limited companies freely transferable by restricting the company's right to use discretion in effecting the transfer of securities, thus, dispensing with the transfer deed document and other requirements under the Companies Act, 2013.

In a depository system, securities are held in securities (depository) accounts, which are more or less similar to holding funds in bank accounts.

Advantages of Depository Services

(a) High liquidity due to immediate transfer and registration,

(b) Receive bonus and right as direct credit eliminating the risk of loss in transit,

(c) Much lower risk of bad deliveries,

(d) Reduction in brokerage,

(e) Saving of stamp duty worth 1% of transaction price,

(f) Saving of courier, notary charges,

(g) No threat of original shares getting mutilated or misplaced.

In India NSDL and CDSL provide depository services. They work though their DP's, who provide service to investors.

6. Clearing and Settlement Mechanism

(a) Investor delivers shares or funds, as the case may be, to the broker.

(b) Broker delivers these on settlement day to the 'Clearing House'(In BSE), or to 'National Securities Clearing Corporation Ltd' (in NSE).

(c) The securities pay-in obligations of members/custodians are downloaded by the clearing agency.

(d) The Members/Custodians make available the required securities in their pool accounts with DPs by the prescribed pay-in time for securities.

(e) The depository runs an electronic file to transfer the securities from the pool accounts of members/custodians with DPs to the DP account of the clearing agency.

(f) The securities are transferred on the pay-out day by the depository from the DP account of the clearing agency to the DP accounts of members/custodians.

(g) The members are informed of their pay-in obligations of funds.

(h) The members make available required funds from their accounts to Clearing house banks Account's by prescribed pay-in day, (through clearing Bank only)

(i) Funds are transferred on the pay-out day from clearing agency's bank Account to the accounts of members, (through clearing Bank only).

Note	**Disclosure of Proprietary Trading by Broker to Client:** With the object to increase the transparency in the making of dealings between the member of the Stock exchange and the client, Securities Exchange Board of India has issued Directions that every member shall disclose to his client that whether he does client based business or business in for of proprietary trading also. Further, the broker shall disclose this information upfront to his new clients at the time of entering into the KYC agreement. If a broker do not trade on proprietary account, and chooses to do it at a later date, he shall be required to disclose the fact to his clients before he carries out any proprietary trading.

7. Transaction Settlement System at Stock Exchanges

In a Stock Exchange all the transactions in shares and securities are done through a predetermined system generally known as Settlement System. Currently the system prevailing is Rolling settlement.

Rolling Settlement

In it trades O/S at the end of the day have to be settled within "X" business days from the transaction date. For e.g. in a T+2 rolling settlement, a transaction entered into on Monday will be settled on Wednesday when the pay-in or pay-out takes place. In India T+2 System is in operation. Trades on each single day are settled separately. The netting of trades is done only for the day and not for multiple days.

In certain segments, Value at Risk (VaR) based margining approach has been adopted for transactions. In case, a member fails to deliver the shares sold in rolling settlement, the Exchange conducts an auction session on T+2, to meet the shortfall where offers are invited from the other members to deliver the shares. In case no shares are received in auction, the sale transaction is closed-out at a close-out price, determined by the higher of the following

(a) Highest price recorded in the scrip from the settlement in which the transaction took place up to a day prior to the auction.

or

(b) 20% above the closing price on a day prior to the auction.

In this case, the auction price/close-out and difference betweens sale price, if positive is payable by the seller who failed to deliver the scrips. In case, auction /close out price is less than sale price, the difference is not given to the seller but is credited to Investor Protection Fund.

8. Circuit Filters or Circuit Breakers

They are price bands that set the upper and lower limit within which a stock can fluctuate on any particular day. It is imposed to curb excess fluctuations in market.

For e.g. Exchange applies circuit filters on scrips, if their price fluctuates more than 20% of the closing price of scrips on the previous day in any direction.

It restricts extreme price movements and resist price manipulation. Protect investors from extreme fluctuations created by rumors and short term fears.

Market Wide Circuit Breakers: They are introduced to control excessive market movements in BSE sensex and Nifty. MWCB applies at 10-15-20% of the movements in these indices whichever is breached earlier.

The stock exchange on a day to day basis shall calculate the 10%, 15% and 20% limits of circuit breaker for market-wide index variation based on the last day's closing level of the said index. The breakers provide the time to participants to react to the movement by way of the trading halt. Every time a 15 minutes pre session after the each trading halt is introduced. However, these limits vary from time to time. All Investors needs to make sure that relevant notification or circular is referred to which technically deals with such matters.

9. Accounting Aspects Stock Exchange Transactions

Accounts of active members (Members who have conducted business even for a single day in a year) of stock exchanges to be activity by Chartered Accountant. Such Activity will be of the nature of the normal activity. The members of the exchange are required to maintain the following books of accounts and records:

- Register of Transactions (Sauda Book) / Daily Transaction List
- Clients Ledger
- General Ledger
- Journals
- Cash Book

- Bank Pass Book
- Documents Register / Inward-Outward Register.
- Members' contract book showing details of all contracts entered into by him with other members of the same exchange.
- Counterfoils copies or duplicates copies of contract notes issued to clients.
- Written consent of clients.
- Margin Deposit Book.
- Register of accounts of sub-brokers.
- An agreement with a defined sub-broker which specifies the scope and authority and responsibilities of that stock-broker and also such sub-brokers.
    - Copies of all margin statements downloaded from the Exchange.
    - Copies of Settlement/Valan Balance Sheet along with all relevant sheets.
    - Details of Spot Delivery transactions entered into.
    - Client database & Broker Client Agreement.
    - Copy of Registration Certificate of each Sub-broker.
    - Copy of approval for each Remisier given by the exchange.
    - Copy of the Power of Attorney/Board Resolution authorizing Directors/employees to sign the Contract Note.
- Copies of Pool Account Statements.

Remember	If a member holds membership of any other recognized Stock Exchange, or in a different segment of the same Exchange, then such member is required to maintain a separate set of books of accounts, records and documents for trades executed on each recognized stock exchange or each segment.

Important books of accounts, documents and their relevant activity procedures are as follows:

(i) **Register of Transactions (Sauda Book)/Daily Transactions List:** It is also known as Trade File. Contains details of all deals transacted by them on a day to day basis such as, name of the client, number of transaction, rate and quantity of bought or sold. Register contains all the transactions, which may be following kind:

(a) members' own business on the Exchange,

(b) member's business on the Exchange on behalf of clients,

(c) member's business with the clients on principal-to-principal basis,

(d) member's business with the members of other Stock Exchange,

(e) member's business on behalf of his clients with the members of other Stock Exchanges,

(f) Spot transactions.

(ii) **Contract Notes:** Document through which a contractual obligation is established between a member and a client. Every member has to issue contract note to his clients for the trades executed on their behalf. Following Internal Control procedures for proper maintenance and issuance of contract notes shall also be there.

(a) Contract notes have been serially numbered,

(b) No serial number has been left blank,

(c) Contract Note have been issued in respect of all transactions.

(d) Issued to the Client within 24 hours of execution of the trades,

(e) Format of the Contract Note is as prescribed by the regulations of the Exchange,

(f) Duplicate copies/counterfoils of contract notes are maintained,

(g) Brokerage charged is in with the permissible limits and is indicated separately including GST (STT shall also be mentioned if any),

(h) Contract notes have been signed by an authorized person. In case Contract Note is signed by any authorized person than also check Copy of the Power of Attorney/Board Resolution authorizing Directors/employees to sign the Contract Note.

(i) Transaction Identification, Trade Identification and Trade Execution time has been printed on the contract note issued,

(j) Securities Exchange Board of India Registration number, Settlement number, Settlement dates have been mentioned,

(k) PAN number of the member and client has been mentioned on Contract Note,

(l) All clauses specified by the Exchange have been printed on the Recognised Stock Exchange of the contract notes,

(m) If Broker acts as Principle the contract note should be in form ‘B’. This form is used to take consent of client for the trade done by the broker acting as principle.

(iii) **Goods & Service Tax (GST):** GST on a member of a stock exchange is levied on the value of taxable services which shall be the gross amount of brokerage charged by the Broker for service provided or to be provided by him, @ rate prescribed from time to time by the Government. Services provided by sub-brokers have also been proposed to be brought into tax net w.e.f. 01.07.2017.

(iv) **Security Transaction Tax:** In the Union Budget for 2004-05, Government has introduced Securities Transaction Tax to be levied on all transactions done on stock exchange. Stock exchanges have responsibility of levy, collection and remittance of the STT on all transactions from the date of notification. No stock exchange can permit trading activities if it implements required software and procedures for the levy and collection and remittance of Securities Transaction Tax.

(v) **Client Bills:** Client Bills represents the summary of all the transactions which executed on behalf of the client during any particular settlement portion. Net amount receivable or payable to the Member from/to the client. The Investor should check whether the same have been properly posted to client's ledger.

(vi) **Clients Ledger:** Contains the details of the bills raised and the payment received from or made to the clients. Investor Should check that -

(a) Payment is made to the client within 48 hours of pay-out by the Exchange.

(b) Payments not made or received since a considerable period or Amount of payment made or received is consistently different for bills raised over a period of time in respect of some clients. It may represent some financial or Accounting irregularity which would require further attention of the Investor.

(c) Identify accounts where loans or deposits received from/to paid to the clients have been passed through this account.

(d) Confirming of clients balances at the end of the financial year on a test basis.

(e) Ascertain the age of clients' accounts and in case of old debit balances for determining provision for bad and doubtful debts. As per the exchange regulations there cannot be running credit account in any client ledger which is more than three months.

(vii) **Settlement Control Account:** Net amount receivable from or payable to the Exchange, Clearing house is posted to the Settlement Control Account. Investor should himself verify that the balances in that account after settlement of his transaction should ideally be Zero and in case of any balance left in this account, the reconciliation statement from the member should be obtained.

(viii) **Clearing House Bank Account:** Payment related to the pay-in or pay-out is routed through the Clearing House account. This account normally reflects the bank Entries which are passed in the clearing Bank Account. The book balance in this account should be reconciled with the balance in Clearing Bank account as per bank statement.

(ix) **Brokerage Account:** Verify whether

(a) Brokerage is credited for each settlement or not, failing which the reasons thereof can be inquired into.

(b) Periodically reconciled with the amount on which the GST has been paid.

(c) In Revenue Recognition of Brokerage Income AS 9 is followed or not.

(x) **Margin Deposit Book:** It contains Details of all the margins deposited with the Clearing House. Investor should ascertain

(a) Whether the member has complied with all the directives regarding margins, etc. issued by Securities Exchange Board of India,

(b) Cross-checked with the daily margin statements downloaded from the Stock Exchange,

(c) Ensure Margins have been properly calculated, collected and paid,

(d) Whether adjustment entries relating to settlement margin and daily margin are correctly passed or not,

(e) Ensure that exemptions from payment of margins if any have been claimed correctly.

(xi) **Members' Own Trading Account:** Entry are passed in the same way as it is done for a client. Verify the entries appearing in this account with respect to the bills raised for own account trading. Balance appearing in this account should be identified into profit or loss or closing stock-in-hand.

(xii) **Bank Book -** Member are required to maintain separate bank account for the client's money and their own money. Money that can be paid into clients account are:

(a) Money existing or received for on behalf of clients,

(b) Money for correction of any amount which may be by mistake or accidently withdraw from the account,

(c) A cheque or draft received from or on the behalf of a client,

Money can be paid form client's account are:

- Money required for payment to the Clearing or Corporation House on behalf of clients.
- Money for replacement for any sum which may be by mistake or accidently deposited into client account.

Verify the bank reconciliation statement for all the bank accounts.

(xiii) **Documents Register (Inward/Outward Register) -** Contains the particulars of the securities (including their distinctive numbers) received from/to or delivered to clients in a physical form by a member. It lists and identifies every security available with the member at any given time.

Investor should analyze the balances of stock appearing in this register and segregate the same into client stock and own stock. Investor should physically verify the stock available with a member in certain scrips.

10. Maintenance and Preservation of Books of Accounts and Other Documents

Every Recognised Stock Exchange and its Members are required to maintain and preserve the Specific Books of Accounts and Documents for below period

(i) As per Securities Contract Act: 5 years.

(ii) As per SECURITIES EXCHANGE BOARD OF INDIA Regulation: for minimum period of 5 years.

DEMATERIALIZED SECURITIES

On account of compulsory dematerialization of most of the securities, all stock brokers are required to maintain two accounts with their (DP). One account is Beneficiary Account' wherein the demat securities belonging to the members' for their own account are held and the other is 'Pool Account' wherein the demat securities of the clients are temporarily lodged for transfer to/from the Clients/Clearing House in the Pay-in/Pay-out. In case of sale clients transfer the same in the demat form to the member's Pool Account to transfer the same to Clearing House on the Pay-in day. In case of purchase Clearing House transfer the securities to Pool Accounts of the members.

Investor should verify

(a) Whether the securities received by the member in the Pool Account are transferred to the buying clients' Demat Account within 24 hours of declaration of Pay-out.

(b) Check that the shares lying in the Pool Account have not been utilized by the member to meet his own pay-in obligations. If Investor finds anything like that, he should further inquire into the matter.

(c) Depending upon the nature of the business of Broker, the Investor may apply such procedural tests as he considers necessary on major items of income and expense such as, commission, sub-brokerage, underwriting income, interest and dividends, advisory fees, interest, amounts payable towards transactions charges and other charges to the Exchange or Clearing House and other income and expenses.

(d) Check any other abnormal transaction.

INTERNAL ACTIVITY FOR STOCK BROKERS / TRADING MEMBERS / CLEARING MEMBERS

Securities Exchange Board of India vide its Circular dated 21.10.2008 has decided that stock brokers/trading members/clearing members shall carry out complete internal activity on a half yearly basis by an independent qualified chartered accountants, company secretaries or cost accountants who are in practice and who as well as do not have any kind of conflict of interest.

DERIVATIVES

Derivative is a kind of security the price of which is dependent upon or which is derived from one or more assets underlying for it. The derivative in actual terms is a contract between two or more than two parties. The value of it is determined by fluctuations in the assets underlying for it.

Derivative Trading on the NSE: The derivatives trading on the NSE commenced with S&P CNX Nifty Index futures on 12th June, 2000. The futures contract on NSE is based on S&P CNX Nifty Index. Currently, it has a maximum of 3 month expiration cycle. It means three different contracts are available for trading, with One month, Two months and Three months expiry period. Every time a new contract is introduced in the next trading day after the expiry of the coming month contract.

The Futures and Options trading system of NSE called NEAT-F&O trading system, provides fully automated screen based trading for S&P CNX Nifty futures on a nationwide basis and an online monitoring and surveillance mechanism. The NEAT-Futures & Options trading system is generally accessed by two kinds of the users. The Trading Member has access to various functions for example Making order entry, doing order matching, Management of order and trading. However the Clearing Members uses only the trader platform for the monitoring the trading members for whom they enter and clear the transactions. In Addition to it, they can enter and set out the limits to various positions, which a trading member can take for him. Generally there are Two Types of Clearing Members

- Trading Member Clearing Member who is however also a TM.
- Professional Clearing Members (PCM) is a CM however who is not a TM at all.

Derivative Trading on the BSE: The derivatives trading on the BSE commenced with BSE Sensitive Index futures on 9th June, 2000. The futures contract on BSE is based on BSE Sensitive Index (Sensex). The trading and settlement mechanism is more or less on the same lines as in NSE. However, for settlement purposes, the daily settlement price is calculated as the weighted average price of trades during the day. Trading in Index Options and Stock Futures & Options has also been introduced in Derivatives Segment of BSE.

DELISTING OF SECURITIES

(1) A Recognised Stock Exchange may Delist the Securities, on any of the ground or grounds as may be prescribed under this Act

   (a) After recording the reasons therefore, and

   (b) After giving an Opportunity of being heard to Company concerned.

(2) A Listed Company or an Aggrieved Investor may file an appeal before the "Securities Appellate Tribunal" against the decision of the Recognised Stock Exchange within 15 days (or Such Extended time as given by SAT, but not exceeding 1 month) from the date of the decision of the Recognised Stock Exchange and the provisions of sections 22B to 22E of this Act, shall also apply, to such appeals.

SUMMARY

To sum up knowledge on the regulatory body and acts relating to the stock exchanges, procedure for recognition and withdrawal of recognition along with rights and duties of stock exchanges, powers of central government on stock exchanges functioning, trading system, clearing and settlement mechanism at NSE and BSE, terminologies relating to trade in stock markets is essential to investors to protect themselves while trading or investing in stock markets.

7

REAL ESTATE INVESTMENTS

INTRODUCTION

Once billionaire industrialist rightly said, 90% of millionaires got their wealth by investing in realty. And with time i've got realized that it's true, given that you develop the catalyst mind to create the simplest of the chance. The arena demand an eye fixed for detailing that understands the highs and lows of the industry and may make the proper choices. A mid corona virus pandemic, property has once more emerged because the safest investment option. For Indians, owning a home has been traditionally considered a matter of prestige moreover as safety. In the last few years people started preferring to pay rents instead of making long term investments in purchasing the House. If we glance at the economy, it seems to be a troublesome year, but consistent with realty experts, 2020 will see the foremost traction for the important estate sector and only the financially stronger players will stay ahead within the game. Within the opinion of experts, the important estate investment within the contemporary world needs a distinct strategic approach than purchasing a property for private use. Once you choose property as an investment strategy, you get property to create profit out of it. In most cases, the investor rents out the property or resells it at the next cost. Keeping both the kinds of interests in mind, here is an analytical detail of the important estate market, which can facilitate your clarify the doubts. With migration because the core idea behind job search in bigger cities, the estate has

boomed within the last 2 decades and is probably going to grow within the coming years also. People are able to invest in small flats with dual purpose i.e., to measure and to try to to investment. So, keeping that in mind, the demand is growing rapidly, and it's expected to rise till 2025.

The ratio of defaulters is high, which again makes it a sensible move for genuine players to create an improved scope within the market and attract customers with timely delivery of projects. Investors will seek greater transparency and trust in their investments. to place it into perspective, the private market commercial land returned a median of 9.85 percent over the past five years, in step with the National Council of property Investment Fiduciaries' (NCREIF) July 2018 data.

Unexpected performance has been achieved in last few years, with the quite lesser movement in the performance in equity and other securities including Bonds and Debentures against very competitive returns due to risk adjustments. The cash which we hold is not a true investment at all, rather the asset which we held specially the tangible one, which truly enhances its reliability and return on investment. The positive relationship between GDP growth and demand for assets stems from the inflation hedging capability of the arena.

The reluctance to speculate in property was supported shorter returns, the next rate of interest on home loans and therefore the argument that it's cheaper to rent than buy a house. However, the corona virus pandemic that we face immediately will change the mindset. For those who just planned to start the making investments, the acquiring the house gives them a feel of more secured investment. The people will seek to possess their personal house which are the bright side going forward. The continued weakness within the equity markets will further aid the sentiment and revive consumer interest within the sector. the worth of properties within the assets market will, therefore, remain stable.

Whenever the economies taking the high ups, than the property which earns maximum rents, converts into the higher value capital Asset and convert that asset into a secured investment in true sense. Because of the Reserve Bank of India (RBI) announcement for reducing repo rate by 75 bps and also the new rate of interest is 4.4 percent will make sure the reduction of the house loan interest rates which could be a further sentiment booster. Fence-sitters must use this era wisely and appearance to enter the market actively. The post-pandemic world is going to be good for the important estate sector, the one sector that may emerge because the bright side in such a bleak scenario. Timing is crucial when one is considering investing in land and also the time now's ripe to place it through action. No doubt the financial security is always on the top priority of the investor's mind and one should not actually invest his money in diversified state instead of which it is better to invest in a security which is most stable and secure and safe as well.

WHAT IS THE TRUTH ABOUT A REAL INVESTMENT

Real estate investment is actually a kind of investment in which we purchase or owns or sometimes give on lease or sale the land of any kind or any structure for the purpose of earning the money. It could be break out in various categories such as residential or commercial or industrial or other land.

1. **Residential realty:** Residential real estate consists of single-family homes, multi-family homes, townhouses, and condominiums. Occupants may rent or own the properties that they sleep in. generally those property in which more than four houses or units are accompanied is known as commercial property.
2. **Commercial realty:** Commercial real estate is property that's used for the aim of business. Commercial property is assessed as office space, retail space, or multi-family homes. Some samples of commercial assets properties include business offices (office), restaurants (retail), and enormous apartment buildings (multi-family).
3. **Industrial real estate:** because the name suggests, these properties serve an industrial business purpose. Few of the examples of the same are like storage warehouse or factories or plants etc.
4. **Land:** Land generally consists of undeveloped property with no structures thereon. However the drawback is that there are very little options to earn the money from the investment made in Lands. Landowners can earn money through various other options like, agriculture, or through the event or sale of the land.

OWING OR LENTING

There are two categories of buyers, one is people who are end-users of property and also the other are those that invest to earn rent or resale the property to come up with revenue and multiply money. Understand and analyze your purpose so invest accordingly. If you're an end-user, rummage around for properties built with amenities and for renting purpose, you may seek for cheaper ones, so as to maximise profit in near future.

INVEST WITHIN THE RIGHT TECHNOLOGY

It is important to grasp that technology has taken every space, including land. You'll be surprised to grasp that it's made activities like rent collection, communications between the owner and also the tenants easy to follow. So as to achieve maximum benefits, you ought to invest within the right tech. for example, you'll use landlord software to assist manage the property better. The technology no doubt helps in saving the time and obviously the cost too, as well as helps in focusing the resources on every aspect of the property.

LESSER RISKS IN SMALLER MARKETS

If experts are to be believed, the smaller the market is, the lesser the chance is in assets. Because of smaller geographical region, bigger players don't jump into the market

and this offers a wider scope for the smart local players to play and generate revenue. Also, the ratio of price of purchase and rent is far different as compared to metropolitans, which further increases the scope for people to take a position in smaller cities for the aim of investment and renting.

IS IT WISE TO INVEST IN PROPERTY IN INDIA IN 2020-21?

According to realty experts, it's an enormous yes to take a position within the realty sector within the next two years and everybody is optimistic about the long run of the estate industry within the country and appearance forward to brighter days. It's believed that 2020 has great potential for both residential and commercial land business. In the last few years a trend of having sharing offices has increased due to the cost saving specially in big cities where the rent is too high to afford and mainly the in the IT sector it is in very high demand. Experts suggest that to create it a smoother pathway for investors and developers, the govt. has to take more quick and bold corrective measures for the housing and concrete infrastructure sector, in order that demand may be boosted to an unprecedented level. Also, it's expected that whenever the government intervenes with corrective measures, the concept of co-living will see widespread acceptance in India. This trend is acting as a catalyst for an organized rental market in cities like Bengaluru, NCR, and Pune within the same way as co-working spaces did for the commercial space. Since in last few year some strict Financial Discipline and Accountability along with transparency is established in the real estate sector, hence in year 2020 to 2025, the Indian real Estate Market will show I good performance.

POINTS TO THINK ABOUT BEFORE INVESTING IN ASSETS

It is possible for somebody who has no prior realty experience to induce frenzied by the lure of profits and invest in land which offers no returns. Realty investment comes with certain risks and a beginner should keep the subsequent points in mind before spending his/her hard-earned money. Realty is mostly an excellent investment option. It can generate ongoing passive income and may be a decent long-term investment if the worth increases over time. You'll even use it as an element of your overall strategy to start building wealth. However, you wish to form sure you're able to start investing in property. For one, you'll have to put down a big amount of cash upfront to start assets investing. That's to not mention the continued maintenance costs you'll be chargeable for, in addition because the potential for income gaps if you're between tenants for a time.

1. **Use Cash to Pay:** Many financial experts warn against borrowing money to get investments. You ought to consider this before you get a bit of investment property. Un case someone cannot afford to pay the cost of the home even the minimum amount, then we should ready to pay at least the mortgage amounts, even without income. Give some thought to it: With renters, there is high turnover. You'll

also experience a time where you have got no renters the least bit for the property. If you can't afford the mortgage payment without the income, it's going to find yourself being more of a financial burden, instead of a method of building wealth. Plus, if you can't pay the mortgage, it could find yourself damaging your credit, which is able to cost you money within the long term.

2. **First Plan the expenses:** When purchasing land for investment purposes, you would like to contemplate the price of taxes, utilities, upkeep, and repairs. Henceforth it is always found to be easy to go through a rental company as the general problems like repairs and maintenance as well as rent collection. This but naturally would have an additional cost, will make easy to bear the burden of owing or renting a property easily. Especially if you don't have time to try and do everything that must be done at your property, using center could be a good option. You would like to cost your rental property in order that all of those fees and other expenses are fully covered. Additionally, you must take the primary few months of surplus money and set it aside to hide the value of repairs on the property. It's also important to own insurance on the property (and plan for the cost). you ought to even be prepared to cater to additional costs and other situations as they arise, perhaps with a monetary fund for the property.

3. **keep Patience:** Buying a property could be a time consuming affair, with most genuine property transactions taking some days to be complete. While variety of assets firms offer to complete formalities overnight, the very fact remains that exhibiting patience can facilitate your land a decent deal. Being hurry in purchasing the property can make to purchase a property which do not fall in your expectation. Also, sellers can delay projects, which could see your investment not offering any returns for a particular period, checking your patience.

4. **Do R&D for the Property**: doing all your homework before you exit to seem for a property is critical today. With variety of projects turning out, it are often confusing to settle on the correct land, for sellers are typically known for sweet talking buyers. If you're purchasing land that you simply attempt to sell at a later date, you wish to research the land deed thoroughly. For understanding if any new roads are planned near the land you buy and consider how which will affect the property value. Also, make sure there isn't a lien on the property. You will also want to contemplate things just like the comparables within the neighborhood, including whether the world is up-and-coming, and other external factors that might affect the property value. Once you have got done your research, you ought to be able to make the right decision about purchasing it as an investment. Investing is often a risk, so keep

that in mind. you will make money on your investment, but you may lose money similarly. Things may change, and a part that you simply thought might increase in value won't actually go up, and the other way around. The amenities on offer, the history of the development company, the materials used, the realm a property is found in can all play a job in determining the returns you get on your investment.

5. **Don't start with Big One:** Some property investors begin by purchasing a duplex or a house with a basement apartment, then living in one unit and renting out the opposite. This can be an honest thanks to get your feet wet, but confine mind that you just are going to be living within the same building as your tenant. Additionally, after you founded your budget, you may want to form sure you'll cover the whole mortgage and still live comfortably without the extra rent payments coming in. As you become softer with being a landlord and managing an investment property, you will consider buying a bigger property with more income potential. When a person holds more than one property, it makes him comfortable to manage more properties and to earn a higher amount of return on them through such a vast investment.

6. **Check the Papers**: The papers of a property are perhaps the foremost important factor one should consider, for it's possible for somebody who isn't at home with the estate industry to urge scammed into buying a property with fake papers. Buying a property which is not legally clear can make you fall in various lawsuits or court cases, which will make your whole investment into an onerous property. Hence all papers of the property shall be checked only by a legal expert and to save you from the part of controversy relating to the property. Variety of times people sell properties below market rate, which should provide you with a warning, for such properties could have litigations or internal issues with the owner.

7. **Check Market Rates**: Most local governments provide a guidance value to assist investors know the speed of a property. Knowing the market rate can facilitate your track local trends, ensuring that you simply don’t get scammed into paying a better amount than what a property deserves. Researching market rates and dealing out developments could facilitate your extrapolate the returns you may expect within the future.

8. **See Neighbours**: rebuke the neighbours may be a good idea which most folks tend to ignore. this may facilitate your get a first-hand perspective of how things are during a locality, helping you cut down any problems or areas which could dilute an investment. Reprimand them can even facilitate market rates and see how the realm has developed and therefore the scope for future development. Given the actual fact that neighbours aren’t salesmen trying to sell you the property, one can get a transparent picture of the important estate they will buy.

9. **Calculate Your Finances:** it's important to calculate the finances you have got so as to make sure that you just meet certain goals. While it's easy to induce loans from banks, calculating the interest and other factors is crucial.

10. **Remain Positive**: it's important to remain positive while executing a true estate deal, for there are guaranteed to be times when deals don't make up place. Remaining calm and composed while interacting with property sellers can facilitate your get additional benefits.

11. **Negotiate**: Negotiations are a key aspect of the Indian realty system, as everyone seems to be searching for a deal which is able to make them richer. Knowing the art of negotiation can facilitate your save plenty of cash and find additional freebies like parking spaces, furniture, etc.

12. **Consider the danger Factor**: land investments are typically safer than other investments, but that doesn't mean they're totally innocuous. Legal hurdles and property disputes are extremely common in India and one should make sure that the property they're fascinated by is obvious and minus the hassles.

Owning a property are often the best move given the changing dynamics of our times, and keeping these simple points in mind can point a beginner towards the correct path to investing in assets.

OTHER CONSIDERATION FOR CREATING INVESTMENT

1. **Plan Purposefully:** Investing in property isn't any less, but such as a business. Therefore, it also needs an idea and laying the inspiration of objective and long-term or short-term goals. Having a much bigger picture are often difficult within the beginning, but remember that point gives clarity. Make sure that you've got foreseen the due course of life events to managed together with the property dues.

2. **Seek for Tax Benefits:** While it rightly said, every rupee saved on taxes is another rupee freed up to take a position in property. Investing in assets cuts down the gross income thus reduces the taxable amount. it's a decent takeaway while lowering expenditure while being in sync with the system. Though different salary slabs have various tax benefits, it's advised to consult your tax advisor for an in depth breakup of specifics and savings.

3. **Explore for Desired Location:** Developing areas have better options to decide on from in an exceedingly price that developed projects can't. For example investor always likes to acquire the property of every nature or kind such as Villas or Houses even flats.

4. **Wholesale properties offer a steep discount:** it's the most effective time to speculate when a project encompasses a plethora of housing options to supply. This is often because bulk buying will facilitate your save cost. For example, if flats in Jaipur Jagatpura are available and purchasable. These flats, when sold individually, will facilitate your put an excellent deal in your pocket. All you wish to try and do is run a study numbers and demand, choose some refurbishment, and you're good to go!

5. **Build a network and invest after investigation:** Networking opens variety of sources and options to appear for. While you're not a native of the place, the place can become acquainted with trusted support. An investment decision lead by a well-chosen mentor, business partners, clients or members of a non-profit organisation brings to cater all the issues and challenges faced within the process. A majority of property investing relies on experiential learning, savvy realty investors understand the importance of building a network, a well-laid network and in-depth research holds utmost importance.

WAYS TO CREATE INVESTMENT IN LAND

Real estate investments don't necessarily involve property ownership. As a matter of fact, there are many other opportunities that allow the investors to reap the advantages of realty appreciation, without the necessity to shoulder the continued responsibilities of building maintenance. Investors who chose to speculate beyond the standard sense have the choice to take a position across multiple locations and property sizes together with different classes of land. While these may function predecessors to future property-owning, you will also find the returns from these investments compelling enough to avoid buying a property altogether.

1. **By Creating a True Estate Investment Company:** assets Investment Trust may be a specialised company which makes debt and equity investments in commercial assets. Introduced within the year 1960 for the aim of allowing the investors a chance to take a position in assets as an asset class, REIT is thought to supply at least seven to eight percent return annually to even small and middle investors. Almost like a investment firm, REIT investors hold shares of the REIT and earn returns within the type of dividends, depending upon the performance of the REIT investments. They assist in sponsoring assets through trusts and let investors become the owners of assorted properties, while they'll not be ready to buy an asset solely. As per the REIT guidelines, a minimum of 80 percent of the worth must be invested in revenue-generating assets, whereas, the remaining will be invested in under-construction projects.

2. **Property wholesaling:** assets wholesaling could be a great way for people to interrupt into the important estate industry, without investing a large amount to urge started. It's a kind of property-flipping wherein the investor, also called because the wholesaler, enters into an agreement to shop for a property that they believe is underpriced. The property is then sold to the end-user at a profit. The method helps a beginner to realize insight into the estate market and learn invaluable negotiation skills. The wholesaler earns revenue within the sort of a fee that's attached to the transaction, usually a specific percentage of the property cost.

3. **Investing through realty Mutual Funds:** Investing in land mutual funds may be a good way to diversify your realty portfolio. The concept is analogous to a investment firm wherein; the investor owns some of the open-end fund while the corporate itself owns the investment that it makes. The earnings are within the style of a dividend or a specific amount of share appreciation. Assets mutual funds primarily invest in REITs, land stocks, and direct purchases of residential, commercial, and industrial units. The choice is majorly favorable to small investors who are unwilling to take a position in land directly. A vital point to think about here is that the earnings from realty mutual funds rely upon several factors, including demand and provide demographics, market conditions, and interest rates. Real Estate Mutual Funds are perhaps the Best Options for the investment specially for those who want advantage of increment in asset value and has sufficient amount to get a property, especially in cities like Mumbai and Delhi where property prices are extremely high,".

4. **Online Investment Platforms:** Online assets investment platforms pool funds from several investors and invest on their behalf in opportunities which otherwise would be expensive to explore. The range is quite very for investments and property types as well as investment at minimum levels. With attention on both residential and commercial assets, the web platforms provide the investors access to take a position in a very single property or a diversified portfolio of assets. However, the medium is best suited to people who can afford to go away their investments uninterrupted for an extended period of your time.

5. **Using Loans:** Hard money loan is essentially a loan extended by a private to a true estate investor. Also spoken as bridge loans, hard money loan involves short-term lending to finance an investment project. The loan is provided on the premise of the worth of the property secured. Usually, the lender provides credit up to 65-75 percent of the property value and earns by way of interest, which is usually higher as compared to the standard property loans.

In case you want to be part of the realty sector but still stand back from the hassles of being a landlord, you'll try investing through any of the above mediums. However, for an entire amateur, it's always advisable to consult a realty expert before taking the plunge.

WAYS TO VALUE A TRUE ESTATE RENTAL PROPERTY

Determining the value of and also the return on an investment property are even as important as deciding its value. Investors can use the sales comparison approach, the capital asset pricing model, the income approach, and therefore the cost approach to work out property values. There’s not a one-size-fits-all solution, so a mixture of those factors may have to be applied.

1. **The Sales Comparison Approach:** The sales comparison approach (SCA) is one in every of the foremost recognizable kinds of valuing residential land. It’s the tactic most generally employed by appraisers and assets agents after they evaluate properties. This approach is solely a comparison of comparable homes that have sold or rented locally over a given fundamental quantity. Most investors will want to determine an SCA over a major timeframe to glean any potentially emerging trends. The Sales commission Approach perhaps is the best one because it relies on the feature to allocate a concerned price. This value can also be supported with various features such as number of bedrooms or bathrooms or other amanitas such as swimming pool or garage or fireplaces etc. Price per area unit could be a common and easy-to-understand metric all investors can use to work out where their property should be valued. In other words, if a 2,000-square-foot townhouse is renting for INR 1/square foot, investors can reasonably expect income in this ballpark, provided comparable townhouses within the area are going for that, too. Confine mind that SCA is somewhat generic—that is, every home contains a uniqueness that won't always quantifiable. Buyers and sellers have unique tastes and differences. It is also a technique that ought to be accustomed compare to relatively similar homes. So it doesn't work if you are going to value the property you're fascinated by, that is 2,000 square feet with a garage, swimming bath, six bedrooms, and five full size bathrooms which in comparison to another property which has almost half of bedroom and that too without pool in just an space of around 1200 square yard. It's also important for investors to use an authorized appraiser or assets agent when requesting a comparative market research. This mitigates the chance of fraudulent appraisals, which became widespread during the 2007 land crisis.
2. **The Capital Asset Pricing Model:** The capital asset pricing model (CAPM) could be a more comprehensive valuation tool. The CAPM introduces the concepts of risk and cost because it applies to realty investing. This model looks at potential return on

investment (ROI) derived from income and compares it to other investments that don't have any risk, like u. s. Treasury bonds or alternative varieties of investing in assets, like property investment trusts (REITs). In nutshell it could be said that if expected return on any Risk Less or Guaranteed investment is in excess of expected Return on Investment then it will be a foolish act to invest in Investment property to earn the rent. With regard to risk, the CAPM considers the inherent risks to rent realty. for instance, all rental properties aren't the identical. Location and property age are key considerations. A property for rent in an exceedingly high-crime area will likely require more safety precautions than a rental in an exceedingly gated community. This model perhaps is the best one in the sense that consideration of factoring is important before making consideration in any investment or specially when creating a pricing structure. CAPM helps you identify what return you deserve for putting your money in danger.

3. **The Income Approach:** The income approach focuses on what the potential income for rental property yields relative to initial investment. The income approach is employed frequently for commercial property investing. The income approach is employed frequently with commercial property investing. This rate is that the projected annual income from the gross rent multiplier divided by the present value of the property. So if an edifice costs INR 120,000 to get and therefore the expected monthly income from rentals is INR 1,200, the expected annual capitalization rate is: 14,400 (INR 1,200 x 12 months) ÷ INR 120,000 = 0.12 or 12%. This is often a really simplified model with few assumptions. Quite likely, there are interest expenses on a mortgage. Also, future rental incomes could also be more or less valuable five years from now than they're today. Many investors are conversant in the web present value of cash. Applied to property, this idea is additionally referred to as a reduced income. Dollars received within the future are subject to inflationary additionally as deflationary risk, and are presented in discounted terms to account for this.

4. **Gross Rent Multiplier Approach:** This approach values a rental property supported the quantity of rent an investor can collect annually. It’s a fast and simple thanks to measure whether a property is well worth the investment. This, of course, is before considering any taxes, insurance, utilities, and other expenses related to the property, so it should be crazy a grain of salt. While it's going to be almost like the income approach, the gross rent multiplier (GRM) approach doesn't use net operating income as its cap rate, but gross rent instead. The gross rent multiplier's cap rate is bigger than one, while the cap rate for the income approach could be a percentage value. So as to urge an apples-to-apples comparison, you must observe the GRMs and income of other, similar properties to the one during which you're

interested. Parenthetically a billboard property sold within the neighborhood you are looking at for INR 500,000, with an annual income of INR 90,000. To calculate its GRM, we divide the sale price by the annual rental income: INR 500,000 ÷ INR 90,000 = 5.56. You'll compare this figure to the one you are looking at, as long as you recognize its annual income. You'll be able to see its market price by multiplying the GRM by its annual income. If it's above the one that sold recently i.e. for INR 500,000 it's going to not be worthwhile, so consider moving on.

5. **The price Approach:** the price approach to valuing assets states that property is merely worth what it can reasonably be used for. it's estimated by combining the land value and therefore the depreciated value of any improvements. Appraisers from this school often espouse the best and best use to summarize the value approach to belongings. It's frequently used as a basis to value vacant land. If a Land developer is looking for purchasing the land to develop a condominiums, then the value of the land will going to be based upon the most effective use of that land. If the land is surrounded by oil fields and also the nearest person lives 20 miles away, the simplest use and thus the very best value of that property isn't converting to apartments, but possibly expanding drilling rights to seek out more oil. Another best use argument should do with property zoning. If the potential property isn't zoned for residential purposes, its value is reduced, because the developer will incur significant costs to induce rezoned. it's considered most reliable when used on newer structures and fewer reliable for older properties. it's often the sole reliable approach when watching special use properties.

6. **The underside Line:** there's nobody thanks to determine the worth of a rental property. Most serious investors observe components from all of those valuation methods before making investment decisions about rental properties. Then, once you've found a property which will yield you a positive amount of income, find a positive rate for your new property employing a mortgage calculator. Using this tool also will provide you with more concrete figures to figure with when evaluating a prospective rental property.

THE BETTER INVESTMENT: LAND VS. SHARES

Investing in assets or stocks may be a personal choice that depends on your pocketbook, risk tolerance, goals, and investment style. It's safe to assume that more people invest within the stock exchange, perhaps because it doesn't take the maximum amount time or money to shop for stocks. If you're buying realty, you are going to possess to avoid wasting and put down a considerable amount of cash. After you buy stocks, you purchase a little piece of that company. In general, you create money two ways: because the value of the

company's stock increases, the worth of your investment goes up, too. And, looking on the corporate, you'll receive regular dividends, which you'll reinvest to grow your investment. Once you buy realty, you acquire physical land or property. Also, since assets may be leveraged, it's possible to expand your holdings whether or not you cannot afford to pay outright. Text doesn't Land investors who buy property own something concrete that they will be accountable. Note that this Real Estate investment trusts (REITs), which are how to take a position in land through financial products that are bought and sold like stocks. There is variety of considerations for investors when choosing between investing in stocks or buying land as an investment.

1. **Returns for Exchange vs. Property:** Investing within the stock exchange makes the foremost sense when paired with benefits that boost your returns, like company matching or catch-up contributions. But those perks aren't always available and there's a limit to what proportion you'll be able to like them. Investing within the securities market independently may be unpredictable and therefore the return on investment is commonly under expected. Comparing the returns of land and therefore the exchange is an apples-to-oranges comparison the factors that affect prices, values, and returns are very distinct. However, we are able to get a general idea by comparing the S&P 500 ETF Total Return (SPY) and therefore the Vanguard assets ETF Total Return (VNQ):
2. **Real Estate vs. Stock Risks:** The housing bubble and banking crisis of 2008 brought a decline in value for investors within the land and therefore the stock markets—and the COVID-19 crisis is doing it everywhere again, albeit for various reasons. Still, it is vital to recollect that stocks and land have very different risks overall.

Real Estate

Here are some things to contemplate when it involves property and also the risks related to it. The foremost important risk that folks miss is that land requires lots of research. It is not something you'll be able to move into casually and expect immediate results and returns. Property isn't an asset that's easily liquidated, and it cannot be cashed in quickly. This implies you cannot cash it in when you're in an exceedingly bind. For house flippers or people who have rental properties, there are risks that include handling repairs or managing rentals on your own. a number of the most issues you'll encounter are the good costs, to not mention the time and headache of getting to cater to tenants. It’s not something you'll do during your off-time especially if it is a rental. Tenants will always need something, and you will not be ready to put them off if there's an emergency. As an investor, you will want and wish to think about hiring a contractor to handle repairs and renovations of your flip, or a property manager to oversee the maintenance of your rental. This might delve your bottom line, but it does reduce your valuable time overseeing your investment.

Stock Market

The exchange is subject to many different styles of risk: Market risk, economic risks, and inflationary risk. The first one is that the value of shares is completely volatile and linked with market situations just as in this pandemic time the prices are fluctuated a lot. Volatility may be caused by geopolitical still as company-specific events. Say, for example, a corporation has operations in another country. Such a foreign division is as per the rules and regulation of that country, but in case of existence of any kind of economic problem in that country or political imbalance arises, then share price of the company may vary. Share prices are not decided only by the Demand and supply rather also determined through monetary policy and regulation including Tax structure revisions or interest rate changes as set out by Central Banking System. Other risks may stem from the investor himself. Consider this: Dividend-paying stocks can generate reliable income, but it'd take a substantial investment in an exceedingly high dividend stock to come up with enough income to sustain retirement without selling additional securities.

Pros and Cons of Investing in Real Estate

Real estate investors have the flexibility to achieve leverage on their capital and make the most of considerable tax benefits. Although realty isn't nearly as liquid because the exchange, the long-term income provides passive income and also the promise of appreciation. Despite this, it is important to think about the number of cash that goes into property investments. you wish to own the power to secure a payment and financing if you are not making all-cash deals. Since assets isn't as liquid, you cannot depend on selling your properties immediately once you is also in need. Other disadvantages include the prices related to property management and therefore the investment of your time that goes into repairs and maintenance.

Pros and Cons of the Stock Exchange

For most investors, it doesn't take large cash infusion to urge started within the stock exchange, making it an appealing option. Unlike land, stocks are liquid and are generally easily bought and sold, so you'll depend on them just in case of emergencies. With such a large amount of stocks and ETFs to settle on from, it is often easy to make a well-diversified portfolio.

But, as noted above, stocks tend to be more volatile, resulting in a more risky investment. Selling your stocks may lead to a capital gains tax, making your tax burden much heavier. And unless you've got plenty of cash within the market, your holdings might not be ready to grow much.

Additional Factors to Contemplate

Buying property requires more initial capital than investing in stocks, mutual funds, or perhaps property investment trusts. However, when purchasing property, investors have more leverage over their money, enabling them to shop for a more valuable investment vehicle. Putting INR 25,000 into securities buys INR 25,000 in value. Conversely, the identical investment in realty could buy INR 125,000 in property with a mortgage and tax-deductible interest. Cash garnered from rent is predicted to hide the mortgage, insurance, property taxes, and repairs. Additional land investment benefits include depreciation and other tax write-offs. Assets that generates monthly income can increase with inflation even during a rent-controlled area, which offers an extra advantage. Another consideration is taxes after selling the investment. Selling stocks typically leads to capital gains taxes. Land capital gains may be deferred if another property is purchased after the sale.

SUMMARY

Real investment has distinct features comparing to financial investment in various aspects. Knowing categories of real investment, factors to think before investing, alternative ways to make real investment may influence the investors' decision. Similarly, the methods to measure the value of a true estate rental property and comparison of pros and cons of real investment and financial investment drives the investor to choose the right investment avenue at right time to invest money particularly during present pandemic and post pandemic situation.

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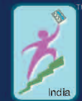

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