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CLASS: IX-X Financial Literacy

INNESTMENT: A WIDER SPECTRUM

Different products and asset classes for investment:

Where to invest the surplus? This is a very critical decision which an investor has to take. Let us critically analyse the various options available for investment:
Buying a house would be an attractive option as it would ensure roof and value would appreciate over a period of time. However, the disadvantage erupts when the person id transferred to other place, the house would be an inflexible investment.
Investment in gold too would be limiting the choice since it may turn out to be an illiquid investment.
Selling gold may not give a lucrative return.
Bank deposits are no doubt a safe option, but the rate of interest is very low and doesn't ensure growth over a period of years.
It would be optimum for us to opt for mix of investment in different assets. We can make small investment in a house, a proportion in gold and some amount may be invested in bank deposit and mutual fund to ensure liquidity and higher flexibility.
Information regarding investment in different assets:
Bonds: Bonds are issued to raise funds in the same way an individual borrows funds from banks. An individual has to hypothecate its assets with the bank as security in proportion to the demand of the loan. In case of failure often individual to refund the money, the bank has the right to sale off these assets to recover its dues. On similar lines, a corporate can borrow funds from the general public. Here the sole borrow is a company and there are moneylenders in the form of individual investors. Since a company cannot pledge or mortgage its assets separately with each individual, it pledges its assets with a trust constituted for this purpose. The trustee is conferred with the power to dispose of the assets of the company in case of failure to meet the commitment of the individual investors. A company issues certificates to bonds holders while borrowing funds from the individual investors. This is known as bond certificate.
National Saving Certificate: NSCs are bonds issued by the central government with tenure of six years and sold through post office. Individuals including minors and trusts can invest in NSCs. They are issued in denominations ranging from 100 to 10,000. They offer interest rate of 8% compounded half yearly. The accumulated amount is paid on maturity.
Mutual Funds: Investors who desire to invest their funds in corporate securities lack information regarding profile of companies. Such investors can invest their funds in corporate securities through mutual funds. The pooled funds are invested by expert portfolio managers. They help the clients to invest in SIPs. Since mutual funds allow investment in numerous stocks, it enables investors to achieve broad diversification with an investment as low as Rs. 500. A mutual can generate a capital gain for individual investors since the price at which investors sell their shares can be higher than the price at which they purchase their shares. However, the price of the mutual fund share may decline over time, which would result in a capital loss.
Fixed Deposit: One of the oldest investment avenues in India is bank fixed deposit. It gives a return of 6%-8% p.a. depending on the tenure. It is a safe investment device for those who do not have a risk appetite and have traditionally put their money in them.
Insurance: It is an investment-cum-risk management instrument. The objective of ensuring one's life is to provide financial security to oneself and to the family members.
Investment in agricultural land: Income from agricultural land may be in various forms like land rent and sale proceeds of agricultural products. The value of agricultural land has been highly appreciating in some parts of the country.
Urban land: Due to increasing pressure of population on land, land prices have gone up all over the world. Investment in urban land can also be profitable.
Gold: It lends stability to the portfolio and act as a hedge against inflation and is highly liquid.

Understand Mutual Fund:

It offers good investment opportunities to the investors. It also carries certain risk. The investor should compare risks and expected yields after adjustments of tax on various investments which taking investment decision. It is a mechanism for pooling the resources by issuing units to the investors and investing funds in securities in accordance with objectives as disclosed in offer documents.

Investment in securities are spread across a wide cross section of industries and sectors and thus the risk is reduced. Diversification reduced risk because all stocks may not move in the same direction in the same proportion at the same time. Mutual fund issues units to the investors in accordance with quantum of money invested by them. Investors of mutual funds are known as unit holders.

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

Different Types of Mutual Funds:

Classification according to maturity period:

Open-ended Fund/ Scheme:

An open-ended fund or scheme is one that is available for subscription and repurchase on a continuous basis. These schemes do not have a fixed maturity period. Investors can conveniently buy and sell units at Net Asset Value (NAV) related prices which are declared on a daily basis. The key feature of open-end schemes is liquidity.

Close-ended Fund/ Scheme

A close-ended fund or scheme has a stipulated maturity period e.g. 5-7 years. The fund is open for subscription only during a specified period at the time of launch of the scheme. Investors can invest in the scheme at the time of the initial public issue and thereafter they can buy or sell the units of the scheme on the stock exchanges where the units are listed. In order to provide an exit route to the investors, some close-ended funds give an option of selling back the units to the mutual fund through periodic repurchase at NAV related prices. SEBI Regulations stipulate that at least one of the two exit routes is provided to the investor i.e. either repurchase facility or through listing on stock exchanges. These mutual funds schemes disclose NAV generally on weekly basis.

Classification according to investment objectives:

Growth / Equity Oriented Scheme

The aim of growth funds is to provide capital appreciation over the medium to long- term. Such schemes normally invest a major part of their corpus in equities. Such funds have comparatively high risks. These schemes provide different options to the investors like dividend option, capital appreciation, etc. and the investors may choose an option depending on their preferences. The investors must indicate the option in the application form. The mutual funds also allow the investors to change the options at a later date.

Income / Debt Oriented Scheme

The aim of income funds is to provide regular and steady income to investors. Such schemes generally invest in fixed income securities such as bonds, corporate debentures, Government securities and money market instruments. Such funds are less risky compared to equity schemes. These funds are not affected because of fluctuations in equity markets. However, opportunities of capital appreciation are also limited in such funds. The NAVs of such funds are affected because of change in interest rates in the country. If the interest rates fall, NAVs of such funds are likely to increase in the short run and vice versa. However, long term investors may not bother about these fluctuations.

Balanced Fund

The aim of balanced funds is to provide both growth and regular income as such schemes invest both in equities and fixed income securities in the proportion indicated in their offer documents. These are appropriate for investors looking for moderate growth. They generally invest 40-60% in equity and debt instruments. These funds are also affected because of fluctuations in share prices in the stock markets. However, NAVs of such funds are likely to be less volatile compared to pure equity funds.

Money Market or Liquid Fund

These funds are also income funds and their aim is to provide easy liquidity, preservation of capital and moderate income. These schemes invest exclusively in safer short-term instruments such as treasury bills, certificates of deposit, commercial paper and inter-bank call money, government securities, etc. Returns on these schemes fluctuate much less compared to other funds. These funds are appropriate for corporate and individual investors as a means to park their surplus funds for short periods.

NAV(Net Assets Value):
The performance of a particular scheme of a mutual fund is expressed by NAV. Mutual fund invest the money collected from the investors in securities market. NAV is the market value of securities held by the schemes. NAV per unit is the market value of securities of a scheme divided by the total number of units of the schemes on any particular date.
NAV is the total asset value (net of expenses) per unit of the fund and is calculated by the Asset Management Company (AMC) at the end of every business day. Net asset value on a particular date reflects the realisable value that the investor will get for each unit that he his holding if the scheme is liquidated on that date.
The value of all the securities in mutual funds portfolio is calculated daily. From this, all expenses are deducted and the resultant value divided by the number of units in the fund is the fund NAV or its Net Asset Value.

Entry Load and Exit Load:
Some Asset Management Companies (AMCs) have sales charges, or loads, on their funds (entry load and/or exit load) to compensate for distribution costs. Funds that can be purchased without a sales charge are called no-load funds. Entry load is charged at the time an investor purchases the units of a scheme. The entry load percentage is added to the prevailing NAV at the time of allotment of units. Exit load is charged at the time of redeeming (or transferring an investment between schemes). The exit load percentage is deducted from the NAV at the time of redemption (or transfer between schemes). This amount goes to the Asset Management Company and not into the pool of funds of the scheme.

Public Provident Fund:

Interest rate of 8.7% per annum w.e.f. 01-04-2013.
Minimum deposit is 500/- per annum. Maximum deposit is Rs. 1,00,000/- per annum
The scheme is for 15 years.
Investment up to Rs 1,00,000/- per annum qualifies for Income Tax Rebate under section 80C of IT Act.
Interest is completely tax-free.
Deposits can be made in lumpsum or in 12 installments.
One deposit with a minimum amount of Rs 500/- is mandatory in each financial year.
Withdrawal is permissible from 6th financial year.
Loan facility available from 3rd financial year upto 5th financial year. The rate of interest charged on loan taken by the subscriber of a PPF account on or after 01.12.2011 shall be 2% p.a. However, the rate of interest of 1% p.a. shall continue to be charged on the loans already taken or taken up to 30.11.2011.
Free from court attachment.
Non-Resident Indians (NRIs) not eligible.
An individual cannot invest on behalf of HUF (Hindu Undivided Family) or Association of persons.
Ideal investment option for both salaried as well as self employed classes.

National Saving Certificate:
National saving certificate scheme is a scheme launched by the government to promote the habit of savings among the common man and to channelize these saving in the right direction for the benefit of whole country. Under this scheme deposits are accepted by the government through post office and amount generated through these deposits is used for the growth of the country.
To encourage the tax payer to invest in this scheme, the government has allowed this investment in NSC to be claimed as a tax deduction under section 80C which helps the tax payers in reducing his tax burden.
Interest
The interest rate in NSC is almost at par with interest rates on other fixed income earning instrument like PPF, Tax saving fixed deposit etc. The interest rate on NSC is compounded half yearly and is announced by the government every year before 1st April and they keep in changing every year.
Interest on NSC is liable to tax as per the income tax slab of the individual. However no TDS is deducted on such interest but such income shall be reflected in the income tax return of the individual.
Minimum and Maximum

The minimum amount to be invested in NSC is Rs.1 00 and there is no maximum limit on the amount to be invested in the NSC. A person can invest any amount in NSC. However, tax deduction under section 80C can only be claimed for a maximum of Rs. 1,50,000.

Types of NSC

Single holder type certificate

Joint A type certificate

Joint B type certificate.

Post Office Monthly Income Scheme:

Post Office Monthly Income Scheme is one of the post office schemes which gives you a guaranteed return on your investment. Anyone who wants to generate a monthly income can open this account and get an assured monthly income.You get 8% interest per year, which is payable on per month basis. You will get the interest each month from *the date of making the investment,* not from start of the month.

This post office saving scheme does not come under sec 80C so there is no tax-exemption for the amount you invest in this, and interest income is taxable, but there is no TDS cut in this scheme.

The maturity period of this scheme is 6 years. You will also be eligible for a 5% bonus if you retain your scheme foe 6 years, so eventually your overall return including this bonus can turn out to be around 8.9% . There is a limit on the amount you can invest in POMIS. It's limited to Rs 4.5 lacs for a single account and 9 lacs for a joint account. You can have any number of accounts, but within the overall upper limit. There is no compulsion to take your money out after maturity, you can leave the money in the account, but then it would earn the interest equal to

Even though the maturity period for POMIS is 6 yrs , there is facility to break it and take your money out. However you can take your money only after 1 year. You have to pay some penalty which is as follows

- **If you break it within 1-3 yrs** : 2% penalty on Deposit amount
- **If you break it after 3 yrs** : 1% penalty on Deposit amount

Different fixed income investment schemes:

Investment schemes	Maturity period	Interest
Bank fixed deposits	Few days to several years	Usually over 8%
Tax saver bank fixed deposit	5 years or more	Usually over 8.5%
Public Provident Fund	15 years	8.8%
National Saving Certificate	10 years	8.9%
Senior Citizens Saving Scheme	5 years	9.3%
Monthly Income Scheme	5 years	8.5%
Tax Free Bonds	They traded on the stock Exchange so, can be bought And sold any time	Usually upward over 8%
Fixed Maturity Plans	1 year or more	Not fixed but usually comparable to Fixed deposit.
Corporate NCDs	Varying Maturity	Higher than fixed deposit.
Saving Bank Deposit	No Maturity	4-7%.

Ponzi Schemes:

A Ponzi scheme is a fraudulent investing scam promising high rates of return with little risk to investors. The Ponzi scheme generates returns for older investors by acquiring new investors. This scam actually yields the promised returns to earlier investors, as long as there are more new investors. These schemes usually collapse on themselves when the new investments stop.