Investment Avenues

- Dr. Priyanka Jain

Investors are a heterogeneous group, they may be large or small, rich or poor, expert or lay man and not all investors need equal degree of protection (Mayya, 1996). An investor has three objectives while investing his money, namely safety of invested money, liquidity position of invested money and return on investment. The return on investment may further be divided into capital gain and the rate of return on investment as interest or dividend. Among all investment options available, securities are considered the most challenging as well as rewarding. Securities include shares, debentures, derivatives, units of mutual funds, Government securities etc. An investor may be an individual or corporate legal entity investing funds with a view to derive maximum economic advantage from investment such as rate of return, capital appreciation, marketability, tax advantage and convenience of investment.

The Capital market facilitates mobilization of savings of individuals and pools them into reservoir of capital which can be used for the economic development of a country. An efficient capital market is essential for raising capital by the corporate sector of the economy and for the protection of the interest of investors in corporate securities. There arises a need to strike a balance between raising of capital for economic development on one side and protection of investors on the other. Unless the interests of investors are protected, raising of capital, by corporates is not possible. Like, the primary objective of a senior citizen's asset allocation is the generation of regular income.

Keywords : Investment, Investment Avenues, Debt, Equity, Commodities

Investment – parking of funds(current) to earn benefits or securing growth in future can be termed as Investments. It is a sacrifice from current income to gain returns at a later stage/date. Investment should be done to yield more return than rate of inflation. The current income of an individual can be put aside for two things – either consumption or savings. The money once consumed is gone forever, whereas the savings bears fruit.

Major element of any investment is time and risk. It purely depends upon individual capacity to give importance to either of the two elements, on the basis of one's need. There are plenty of areas where money can be invested like- government bonds, equities, gold, real estate, stocks, fixed deposits, etc.

A proper planning and analysis should be done in order to reach to a perfect decision of investment/ or portfolio management. One's skill improves with the timely investments.

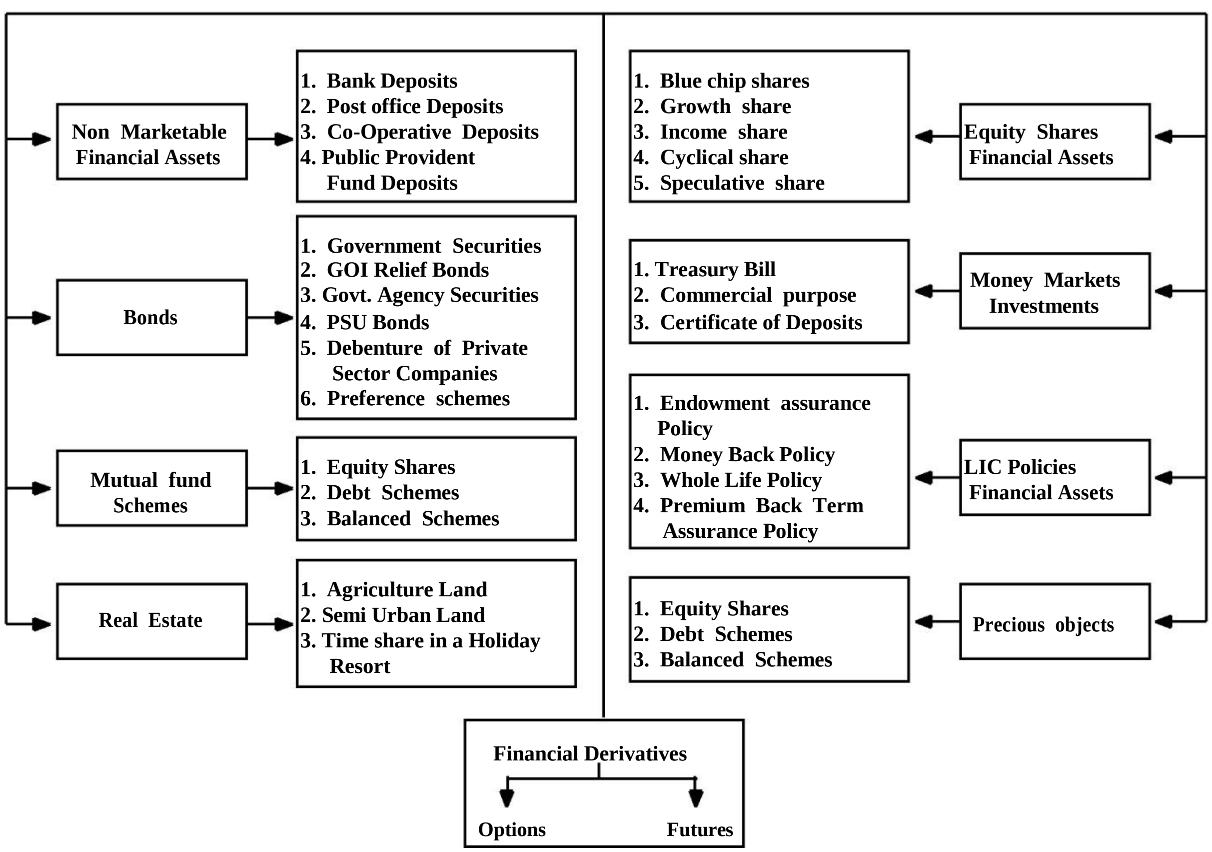
Copyright © 2012 SciResPub.

ISSN 2278-7763

In this uncertain and volatile life, even the markets (secondary/commodity, etc.) refuse to perform as per the expectations of the investor. Hence, one needs to analyse well in advance which security can be considered worth to invest into; which security is suitable to game for.

With the changing times, inclusion of youngster's decision has also taken a solid ground while deciding which investment avenue to exercise. There may be a difference of opinion in selecting a good stock, a statistical approach may solve the issue. A proper and systematic analysis of stock leads to the formation of a flexible portfolio that may be churned easily as the needs of the hour. There can be various investment avenues like T-Bills, 10 Yr G Security Bonds, Mutual Funds, etc. Parking money in tax haven is a better/safer way of evading tax. One needs to check out the pros and cons, before getting into any such elements.

Investment Avenues



Copyright © 2012 SciResPub.

ISSN 2278-7763

The Emerging Investment Avenues

According to a study undertaken jointly by Merrill Lynch and Cap Gemini Ernst and Young, High Net worth Individuals [HNIs] or wealthy investors are proactive in portfolio management, risk management, consolidation financial assets and use of diversification strategies as actively as large institutions. HNIs are proactive in identifying new investment options and take inputs from professional advisors in volatile market conditions.

HNIs are dynamic in modifying their asset allocation and were among the first investors to move from equities to fixed income during 2001-2002 period of downturn in equity markets. They shifted back to equities when they identified favorable market trends.

Needs of wealthy investors

Wealthy investors being aware of the emerging investment opportunities use sophisticated investment strategies such as:-

- Leveraging on the professional advisors' capability to analyse market trends and make appropriate investments
- Searching for innovative products to enhance value
- Diversifying across various types of assets
- Investing across emerging geographies
- Consolidating financial information and assets

Investment products and avenues

- **Managed products:** Managed product service is the most popular investment strategy adopted by wealthy investors globally
- **Real Estate:** Wealthy investors have found this asset class very attractive and have invested directly in real estate and indirectly through real estate investment trusts.
- **Art and passion:** Wealthy investors also have their investment in art, wine, antiques, and collectibles
- **Precious Metals:** Gold and other precious metals are attractive investment options to balance the asset allocation
- **Commodities:** Wealthy investors have turned to commodities to offset the lower returns from fixed income securities.
- **Alternative investments:** Hedge funds and Private equity investments such as venture funds are becoming increasingly popular with wealthy investors to reduce the investment risks related to stock market fluctuations. This is because these instruments have low correlation with equity asset class performance. Investment in non correlated assets, such as commodities helps to improve diversification of the portfolio amidst volatile market conditions.

Characteristics of wealthy investor

The wealthy investor of today is:-

Copyright © 2012 SciResPub.

ISSN 2278-7763

- Young, educated and knowledgeable
- Well informed about global trends
- Willing to take risks
- Demanding and quality conscious
- Performance oriented in taking decisions and less loyal
- Techno savvy and seeks information from various sources
- Smart in looking for the best deal
- Not attracted by traditional status symbols that do not add value
- Hands on in checking investments, making deals and getting personally involved

Special needs of investors

The strategies and characteristics of investors has led to financial institutions innovating and expanding their product range to meet the growing demands of such investors.

A financial advisor should keep in mind the following special needs and expectations of the wealthy clients:-

- **Demand broader range of services and skills**: Wealthy clients not only are on the look out for multiple investment avenues, unlike other clients, but are also ready to face the risks associated with newer products.
- **Net worth and goals need to be matched and assets need to be planned tax effectively:** Since investors have surplus funds that can be passed on to the next generations and also come into the high tax paying category, investors need to advice them on the best methods to transfer their assets after death as well as on the best tax saving investments.
- **Estate planning and tax planning:** In-depth knowledge about tools of estate planning such as wills, trusts, and power of attorney is necessary. It is also important to know the succession rules and tax rules to do effective tax planning resulting in minimal/no tax on transfer of assets.
- **Educate the client:** Educating the client on various and different types of investment avenues that will suit him the best will prove very beneficial for the financial advisor. Wealthy clients, especially those who are self made, may assume that if they can make wealth in one industry they can manage their own portfolio as well. In such cases it is best to educate the client about the best investment options rather than trying to push a product; because if one is trying to push a product, the client is unlikely to get interested since he/she will be having enough people chasing him/her for investments.

Risk appetite shows the capacity of an investor to bear losses related to his investments. Risk appetite is unique for each investor as it depends on various personal factors such as age of the investor, earnings stability, financial condition of his family etc.

It is important to understand the risk appetite to decide on the allocation in your investment portfolio to high risk and high returns instruments as against the low risk and low returns instruments.

Copyright © 2012 SciResPub.

ISSN 2278-7763

Table : Summary Evaluation of Various Investment Avenues (Vashisht and Gupta, 2005)

Investment options	Return		Risk liquidity	Market-ability	Tax shelter [From Income Tax Act]	Conveni-ence
	Return yield	Capital Appreci-ation				
Equity Shares	Low	High	High	Fairly High	Section 80L benefit	High
Non-Convertible Debentures	High	Negligible	Low	Average	Nil	High
Equity Schemes	Low	High	High	High	Section 80L benefit	Very high
Debt Schemes	High	Low	Low	High	No tax on dividends	Very high
Bank Deposits	Moderate	Nil	Negligible	High	Section 80L benefit	Very high
Public Provident Fund	Nil	High	Nil	Average	Section 88 benefit	Very high
Life Insurance Policies	Nil	Moderate	Nil	Average	Section 88 benefit	Very high
Residential House	Moderate	Moderate	Negligible	Low	High	Fair
Gold and Silver	Nil	Moderate	Average	Average	Nil	Average

Investors should align their fixed income portfolios towards medium and long-tenure products to benefit from the fall in interest rates. Investment avenues should be such to provide a platform where convenience, cost-effectiveness and tax-efficiency is combined to make investment a simple and attractive vehicle.

Copyright © 2012 SciResPub.

References

1. Agarwal, Krishna Kumar (2007) "*Capital Market in India*", Anmol Publications Pvt. Ltd., New Delhi, I Edition. Gopalswamy, N. (2005)

2. "*Capital Market: The Indian Financial Scene*", MacMillan India Ltd., I Edition, p.243, 268-276. Kania, M.H. (2005) "*Expert Committee Report Submitted to SEBI*", Government of India.

3. Mayya, M.R. (2006) "*Investor Protection*", Bharat Law House Pvt. Ltd., New Delhi, I Edition, p.1.

4. Neelamegam R. and Srinivasan R. (1996) "*Investors' Protection: A Study on Legal Aspects*", Raj Publications, Delhi, Edition I.

5. Sakriya, D. (2000) "*SEBI and Securities Market in India*", Anmol Publications Pvt. Ltd., New Delhi, I Edition.

6. Saroja, S. (2001) "*Emerging Trends in the Capital Market in India*", Global Business Press, New Delhi, I Edition, p.131.

7. Shaji, Vikraman (2001) "Separate Law Proposed to Protect Small Investors", *The Business Line – Investment World*, February 23.
8. Vashisht, A.K. and Gupta, R.K. (2005) "*Investment Management and Stock Market: Strategies for Successful Investing*"

9. Deep & Deep Publications Pvt. Ltd., New Delhi, I Edition, p.5, 10.

10. Vinayakam, N. (2004) "*A Profile of Indian Capital Market*", Kanishka Publishers, New Delhi, I Edition, p.61-62.

Website

1. www.bseindia.com

2. www.mca.gov.in

3. www.nseindia.com

4. www.sebi.com

Copyright © 2012 SciResPub.

ISSN 2278-7763

5. www.thewealthwisher.com
6. www.economictimes.com

Acts

1. The Capital Issues (Control) Act, 1947.
2. The Companies Act, 1956.
3. The Securities Contracts (Regulation) Act, 1956.
4. The Securities and Exchange Board of India Act, 1992.
5. The Depositories Act, 1996.

Copyright © 2012 SciResPub.