REVIEW OF RESEARCH
ISSN: 2249-894X
IMPACT FACTOR : 5.2331(UIF)
VOLUME - 7 | ISSUE - 5 | FEBRUARY - 2018

STUDY ON INDIVIDUAL INVESTMENT AVENUES AVAILABLE IN INDIA

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ABSTRACT

There are various investment avenues available in the market for the retail investor such as bank deposit, mutual fund, shares, debenture, bonds, insurances, real estate, bullion market etc. Even financial, advertising, newspaper supplements on financial matters and investment journals offer guidance to investors in the selection of suitable investment avenues.

KEYWORDS: *advertising, newspaper supplements.*

INTRODUCTION

There are some avenues/investment schemes where tax benefits are available. Such schemes are called Tax Savings Schemes of Investment. A tax payer can take the benefit of such schemes and bring down his total tax liability. The basic purpose of such schemes is to encourage investment in certain investment avenues. In some schemes, the entire investment is made tax free, i.e. it is deducted from yearly taxable income.

A bewildering range of investment alternatives is available. They fall into two broad categories, viz., financial assets and real assets. Financial assets are paper (or electronic) claims. The important financial assets are equity shares, corporate debentures, and government securities, deposits with banks, mutual funds, insurance policies and derivative instruments.

Real assets represented by tangible assets like residential house, commercial property, agricultural farm, gold, precious stones, and art objects. Although the discussion is fairly up to date, the rapid changes in the world of investments lead to creation of new investment alternatives.

- **Real Estate**

Real Estate investment is also one of the good investment options available. Real Estate investment means investments in the Land, Buildings, Flats, and Houses etc. Now a day the growth in the prices of real estate is very rapid. That's why investor gets good returns in this investment. But the growth of real estate investment is in the long term only. In short term there is no growth in this. It requires very huge investment. Only big investors can invest in this...... In Real Estate investment you will not have the liquidity. Buying and selling of property is not so easy at least in India. The Procedures and Documentation of 'Transfer of Property' is a very lengthy process. It takes time and money. For transfer you have to pay taxes and duties and some charges.

Many investors are looking into real estate as a flourishing option. However, with prices reaching their peak, getting return out of

real estate investing is a little confusing. The first thing that would come into investor's mind is 'Rent'. Giving property on rent is one of the best ways to get returns from property because investor not only earn rent but also enjoy the capital appreciation. But the investment in real estate is also very risky. Although the average rate of return is very high, a cautious investor should consider the property tax, stamp duty, municipal tax, capital gain tax and income tax on house property income.

The price of property is most significant for the determination of real estate. The property must be evaluated with regard to its price in relation to its location and its use; it should be situated in a place where higher rent is available. If property for farm is being considered, it must be found out whether the land is given for growing crops or the climate is suitable for any other business. Therefore, when an investor invests in real estate he would need to evaluate it according to its location and use.

A few years ago, owning a home was a dream for majority of people. But recently, a handful of benefits like tax sops and cheap loans have been blessing for millions of Indians who are now seeing that their dream turn into a reality. In fact more people are buying homes now than ever before and they are buying these very early in their life.

- **Commodity:**

Commodity market, contrary to the beliefs of many people, has been in existence in India through the ages. However the recent attempt by the Government to permit Multi-commodity National levels exchanges has indeed given it, a shot in the arm. As a result two exchanges Multi Commodity Exchange (MCX) and National Commodity and derivatives Exchange (NCDEX) have come into being. These exchanges, by virtue of their high profile promoters and stakeholders, bundle in themselves, online trading facilities, robust surveillance measures and a hassle-free settlement system. The future contracts available on a wide spectrum of commodities like Gold, Silver, Cotton, Steel, Soya oil, Soya beans, Wheat, Sugar, Channa etc., provide excellent opportunities for hedging the risks of the farmers, importers, exporters, traders and large-scale consumers. They also make open an avenue for quality investments in precious metals. The commodity market, as the movements of the stock market or debt market do not affect it provides tremendous opportunities for better diversification of risk. Realizing this fact, even mutual funds are contemplating of entering into this market.

Over and above the futures market, there are two more commodity market- spot market and forward market. A spot market wherein the commodities are traded (i.e. bought and sold) for cash and delivery takes immediately. In forward market, the trading takes place directly between the buyers and sellers. The terms such as the quantity, quality' delivery date and price are negotiated in person between buyer and seller. However treading in commodity futures has become increasingly popular as futures trading in commodities results in transparent and fair price discovery due to large participation from all entities. It provides an efficient platform for all market players- producers, traders and consumers.

3.10.2. FINANCIAL ASSETS:

1. Investment in Capital Market:

Capital Market is a place where buyers and sellers of securities can enter into transactions to purchase and sell shares, bonds, debentures etc. Further, it performs an important role of enabling corporate, entrepreneurs to raise resources for their companies and business ventures through public issues. Transfer of resources from those having idle resources (investors) to others who have a need for them (corporate) is most efficiently achieved.

Through the securities market, stated formally, securities markets provide channels for reallocation of savings to investments and entrepreneurship. Savings are linked to investments by a variety of intermediaries, through a range of financial products, called 'Securities'.

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2.Small Saving Instruments:

It is again classified in to short term and long term saving instruments**.** Short term saving instruments**:** Broadly speaking, savings bank account, money market/liquid funds and fixed deposits with banks may be considered as short-term financial investment options. Savings Bank Account is often the first banking product people use, which offers low interest (4%-5% p.a.), making them only marginally better than fixed deposits**.**

A.Money Market or Liquid Funds: These funds are a specialized form of mutual funds that invest in extremely short-term fixed income instruments and thereby provide easy liquidity. Unlike most mutual funds, money market funds are primarily oriented towards protecting your capital and then, aim to maximize returns. Money market funds usually yield better returns than savings accounts, but lower than bank fixed deposits.

B.Fixed Deposits with Banks: These are also referred to as term deposits and minimum investment period for bank FDs is 30 days. Fixed Deposits with banks are for investors with low risk appetite, and may be considered for 6-12 months investment period as normally interest on less than 6 months bank FDs is likely to be lower than money market fund returns. Bank deposit offer money deposits at banking institutions that are not capable of being withdrawn for a specific preset term or time period. When the period of the term is over, then the money can either be withdrawn from the account or it can be rolled over into another term in the same account. The longer the term period is for this type of account, generally speaking, the better the yield is going to be for the money that is invested. Different deposit accounts offer different features and regulations. Some consumers hold several different types of deposit in order to meet different financial needs.

C.Employee Provident Fund (EPF): PF will also be counted as your debt component which can be maximized to 20% of your basic salary; the company contributes another 12%. The contribution will yield a return of 8% and will be eligible for tax benefits under Section 80C.

D.Public Provident Fund (PPF): A withdrawal is permissible every year from the seventh financial year of the date of opening of the account and the amount of withdrawal will be limited to 50% of the balance at credit at the end of the 4thyear immediately preceding the year in which the amount is withdrawn or at the end of the preceding year whichever is lower. However, it doesn't score too well on liquidity. PPF is a great investment if you have age on your side so that you can maximize the benefit by extending the period of holding.

E.National Savings Certificate (NSC): While the interest component gets accrued (deemed to be reinvested), it is returned to you along with the principal only on maturity. Hence the returns are both fixed and assured. Investments up to Rs.1, 00,000 are eligible for deduction from income under Section 80C. However interest earnings are fully taxable. Premature encashment is only allowed under specific circumstances such as death of the holder, forfeiture by the pledge or under court's order.

F.Kisan Vikas Patra (KVP): Liquidity in KVP is available any time after 2.6 years from the investment date, but a loss of interest has to be borne on premature liquidation. The interest earned is fully taxable as per your tax slab rate.

G.Post Office Time and Recurring Deposits (POTD): You can exit a POTD within six months of starting one without receiving any interest and if with-drawn after one year then 2 percentage points are deducted. There are no tax benefits in this scheme.

H.Post Office Monthly Income Scheme (POMIS): Premature withdrawal is permitted if deposit is more than one year old. A deduction of 5% is levied from the principal amount if withdrawn prematurely.

I.Senior Citizens Savings Scheme (SCS): The tenure is 5 years and can be extended by another 3 years. Liquidity is available after one year but it proves costly as there is a penalty of 1.5% of the amount deposited. No tax break and now you need to pay TDS too.

3 .Long Term Financial options available for investment: Post Office Savings Schemes, Public Provident Fund, Company Fixed Deposits, Bonds and Debentures, Mutual Funds etc

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A.Public Provident Fund: A long-term savings instrument with a maturity of 15 years and interest payable at 8% per annum compounded annually. A PPF account can be opened through a nationalized bank at anytime during the year and is open all through the year for depositing money. The subscriber to PPF account is required to make deposit of Rs. 100 per year. The maximum permissible deposit Rs. 100,000 Tax benefits can be availed for the amount which is invested and interest accrued is tax-free. The balance of PPF account is fully exempt from wealth tax. Further it is not subject to attachment under any order or decree of a court. A withdrawal is permissible every year from the seventh financial year of the date of opening of the account and the amount of withdrawal will be limited to 50% of the balance at credit at the end of the 4th year immediately preceding the year in which the amount is withdrawn or at the end of the preceding year whichever is lower the amount of loan if any.

On maturity, the credit balance in PPF account can be withdrawn. However, the option of the subscriber, the account can be continued for three successive block periods of five years each, with or without deposits. During the extensions the account holder can make one withdrawal per year, subject to condition that the total amount withdrawn during 5-year block does not exceed 60 percent of the balance to the credit of the account at the beginning.

B.Bonds: Bonds or debentures represent long term debt instruments. The issuer of bonds promises to pay a stipulated stream of cash flows. It is a fixed income (debt) instrument issued for a period of more than one year with the purpose of raising capital. The central or state government, corporations and similar institutions sell bonds. A bond is generally comprises repayment of the principal along with a fixed rate of interest on a specified date, called the Maturity Date. It is intended to suit the investment needs of risk averter who is primarily interested in steady returns coupled with safety of principal sum. Bondholders or debenture holders are the creditors of the company. Bond holders assume risk but comparatively less than equity shareholders in the same organization. Unlike equity shareholders, the bond investors do not share in the growth of a company to any appreciable extent. The debenture holder, it is assumed, is a happy being who is totally unconcerned with fluctuation in earning power.

Table No 1.1
Types of Bonds and its features

Type	Typical Features
Central Government Bonds	Medium- to long term bonds issued by RBI on behalf of GOI. Coupon payments are semi-annual.
State Government Bonds	Medium- to long term bonds issued by RBI on behalf of State Government. Coupon payments are semi-annual.
PSU Bonds	Medium- to long term bonds issued by Public Sector companies in which central or state government has an equity stake of 51 % or more.
Corporate Bonds	Short-to medium term issued by Debentures Private or Public Sector Companies.
Money Market Instruments	Debt instruments like Treasury Bills (issued by GOI), Commercial Paper (issued by corporate) and Certificates of Deposits (issued by Banks and Financial Institutions) that have a maturity of less than a year.

Source: Systematic Investment Planning published by Network 18

C.Mutual Fund: Mutual fund is an investment vehicle which gives the multiple benefits to the investor. Mutual fund is not just shares. But it invests in equity shares, corporate debts, government debt, gold and all available asset classes. So in a sense, a mutual fund is a vehicle that allows investor to invest in all other

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asset classes. The combined holdings of the mutual fund owns are known as its portfolio. Each unit represents an investor's proportionate ownership of fund's holdings the income these holding generate.

Structure of Mutual Fund: Mutual funds comprise four constituents:

1. Sponsors
2. Trustees
3. Asset Management Company(AMC)
4. Custodians

SEBI's regulations clearly specify the role of each constituent.

Sponsor: The Sponsor establishes a mutual fund. It could be a registered company, scheduled bank or a financial institution.

Asset Management Company(AMC): The AMC manages the money of mutual fund. An AMC takes investment decisions, compensates investors through dividends, maintain proper accounting and information of pricing of unitsand calculates net asset value.

Trustees: Trustees hold the property of the mutual fund for the benefit of the holders.

Custodian: Custodian is responsible for safekeeping securities and other assets of a mutual fund. He is responsible for receipt and delivery of securities, collecting income, distributing dividends.

For the most part, investors should buy mutual funds as a long-term investment. The nice thing about mutual funds is that the objectives change from fund to fund. Each mutual fund has a different strategy - it is your job to decide what your objectives are and which fund best suits those objectives? Mutual fund strategies include growth, aggressive, low risk, balanced, momentum, and many others. These are funds operated by an investment company, which raises money from the public and invests in a group of assets (shares, debentures etc.), in accordance with a stated set of objectives. It is a substitute for those who are unable to invest directly in equities or debt because of resource, time or knowledge constraints. Benefits include professional money management, buying in small amounts and diversification. Mutual fund units are issued and redeemed by the *Fund Management Company* based on the fund's net Asset value (NAV), which is determined at the end of each trading session.

Diversification is one of the best ways to reduce risk; Mutual funds offer investor an opportunity to diversify across the assets, depending on their investment needs. Investor can sell their mutual fund units on any business day and receive the current market value. Certain mutual fund schemes offer investor tax benefit.

Individual can invest in mutual funds through various methods

1. **Systematic Investment Plan (SIP) -** SIP has brought mutual funds within the reach of an average person as it enables even those with tight budgets to invest Rs 500 to Rs. 1000 on a regular basis in place of making a heavy one time investments. This enables one to invest earlier and realize benefits of compounding to the maximum.
2. **Systematic Withdrawal Plan (SWP) –**SWP allows investor to withdraw money from mutual fund in pre-determined installments at periodic intervals. It allows investor to choose quantum and periodicity of withdrawals from the fund.
3. **Systematic Transfer Plan (STP) –** STP allows individual to make periodic transfers from one fund to other. Therefore, an STP could be a tool to rebalance individual's portfolio.
4. **Growth, Dividend Payout and Dividend Reinvestment Plan –** A Mutual fund offers three options, dividend is paid out of profits periodically or reinvested in same scheme and in growth option no dividend is paid instead price appreciation is made in NAV.

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Types of Mutual Funds:

Each fund has predetermined investment objectives that tailor the fund's assets, regions of investment and investment strategies. At the fundamental level, there are three varieties of mutual funds:

Equity Funds (stocks)
Fixed Income Funds (bonds)
Money market funds

Mutual funds can also be classified as open ended or closed end, depending upon the maturity date of the fund.

Open- ended Fund: An open-ended fund does not have a maturity date. Investors can buy and sell units of an open-ended fund from Asset Management Company. The prices at which purchase and redemption transactions take place in a mutual fund are based on net asset value.

Closed-end Funds: Closed –end Funds run for a specific period. On the specified maturity date all units are redeemed and the scheme comes to a close. The units shall be listed on a stock exchange to provide liquidity. Investor buys and sells the units among themselves, at the price prevailing in stock exchange.

Money Market Funds: These funds invest in extremely short-term fixed income instruments. The returns may not be very high, but the principal is safe. These offer better returns than savings account but lower than fixed deposits without compromising liquidity.

Various modes for investing in Mutual Funds

1. Self Investment: If investor know exactly in which fund to invest in and how much to invest, then he can do so.
2. Agent through investment: Agent will advice the investor on picking the right fund and also does the paperwork.
3. D-mat Account: Investor can invest in mutual fund through online broking account and also sell the mutual funds through same account.

D.Life Insurance:

Life Insurance is a contract between a person and an insurance company for a specified period as agreed between the parties.

The investor's basic needs such as protection and savings are met by insurance policies. Policies that provide protection benefits are designed to protect the policyholder (or dependents) from financial consequences of unwelcome events such as death or disability.

Life Insurance is called an investment because of number of reasons

a. It provides protection against risk of early death and accidents.
b. It can be used as Collateral; for taking loans from banks.
c. Life of key men in an association can be protected.
d. It provides tax benefits.
e. Lump sum amount including bonus receivable on termination of policy term.

Life insurance is income protection in the event of your untimely death. The nominee will receive proceeds from an insurance company to offset the income lost as a result of policy holder's death. One can think of life insurance as a morbid form of gambling: if one lived longer than the insurance company expected one to, then one would "lose" the bet. But if one died early, then one would "win" because the insurance company would have to pay out the beneficiary. Insurers (or underwriters) look carefully at decade's worth of data to try to predict exactly how long one will live. Insurance underwriters classify individuals based on their height, weight, lifestyle (i.e. whether or not they smoke) and medical history (i.e. if they have had any serious health complications), earnings. All these variables will determine what rate class

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category a person fits into. This doesn't mean that smokers and people who've had serious health problems can't be insured, it just means they'll pay different premiums.

The types of policies are dependent on the amount of premium payable, the amount promised by Insurance Company at the end of term. Basically the insurance company issues whole life policies, endowment policies and term policies. All these policies have certain attractive benefits and also have certain limitations. The policy selection will depend upon the requirements of investor and relative features of policy.

The common types of insurance policies are;

- Whole Life Assurance
- Endowment Assurance Policy
- Money Back Plan
- Unit Linked Plan
- Term Insurance
- Immediate Annuity
- Deferred Annuity

The premium payable under life insurance policy can be deducted from taxable income under section 80C of Income Tax Act, 1961.In case of an individual the policy can be on the life of the individual or on the life of the spouse of the individual or dependent child, parents of the individual. Any sum received under a life insurance policy, including the sum allocated by way of bonus on such policy is also exempt from income tax under section 10 (10D) of Income Tax Act.

Whole life policy- This policy covers insurance for almost whole life of investor. The investor has to pay premium throughout his or her life. The sum assured or policy amount is paid to the nominee upon the death of the policy holder

Endowment policy- This type of policy covers the insurance for a specified period. The policy holder has to pay premium for that specified period or up to the death whichever is earlier. After specified period the sum assured along with accumulated bonus is paid to the policy holder if he is alive on maturity date. If policy holder expires during the term of policy, the said amount is paid to the nominee of the policy holder.

Money back policy- This policy also covers the insurance for a specified period. The policy holder has to pay premium for that specified period or up to the death whichever is earlier. But this policy provides the periodic returns during term of policy, as long as policy holder is alive. If policy holder expires during the term of policy, the sum assured is paid to the nominee of the policy holder.

Term policy- This policy also for specified period. The policy holder has to pay premium for that specified period or up to the death whichever is earlier. But this policy provides that policy holder will not receive any amount if he is alive at the end of policy period. Only nominee will get sum assured on death of policy holder during the term of policy.

Annuity Plan- An annuity plan ensures regular income to the policy holder or nominee either for fixed period or till death depending upon the terms of plan. An annuity may be immediate or differed. Under immediate annuity, the annuity installment starts immediately after the policy is taken. in case of deferred annuity plan , annuity installment starts after the deferment period.

E: HEALTH INSURANCE:

Health insurance popularly known as Medical insurance or Mediclaim can be defined as a financial mechanism that exists to provide protection to individual investor and his dependents from expenses incurred as a result of unexpected illness or accident. Health insurance is a contract between insurer and insured person. The contract is renewable per annum. Under this insurance contract, the insurer agrees to compensate or guarantee the insured person against loss by such contingent event and provide financial coverage for which insured party pays premium

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The health insurance rests on two grounds
1. Illness or Accident cannot be predicted
2. Financial burden of hospitalization is high and cannot be anticipated.

The General Insurance Corporation and its four subsidiaries designed a number of medical reimbursement schemes. They are sold to individual or group of individuals on voluntary basis. The Government of India now permitted the private sector companies also to enter into this field.

Benefits of Health Insurance Policy
1. It provides financial security to family members
2. It covers hospitalization and medical bills.
3. Investor can avail tax benefit on premium paid under section 80D of the Income Tax Act 1961.

F: Shares /Common Stock:

Stock is sometimes referred to as shares, securities or equity. Simply put, common stock is ownership in part of a company. For every stock you own in a company, you own a small piece of the office furniture, company cars and even that lunch the boss paid for with the company credit card. More importantly, you are entitled to a portion of the company's profits and any voting rights attached to the stock. With some companies, the profits are typically paid out in dividends. The more shares you own, the larger the portion of the company (and profits) you own.

Common stock is just that, "common". The majority of stocks trading today are in this form. Common stock represents ownership in a company and a portion of profits (dividends). Investors also have voting rights (one vote per share) to elect the board members who oversee the major decisions made by management. In the long term, common stock, by means of capital growth, yield higher rewards than other forms of investment securities. This higher return comes at a cost, as common stock entails the most risk. Should a company go bankrupt and liquidate, the common shareholders will not receive money until the creditors, bondholders and preferred shareholders are paid. Buying and selling stocks provides better returns as compared to other financial instruments. Stock trading can be done either on a full time or part time basis. Online stock trading can also be used as a source of income from home for housewives, the elderly as well as the physically challenged. Stock trading also offers scope for diversification across various companies, geographies.

Common stocks or equity shares can be purchased either via an initial public offer i.e. when the company raises money and offer the public at large a share of ownership in the company or via secondary markets i.e. when you buy from previous holder in a marketplace. Stock Market is an electronic platform where investors come together to buy and sell their equity shares. Like any other market, this is where the price of an equity share gets decided upon an on-going basis, depending upon the demand and supply and prevailing emotions of the buyers and sellers. The two largest markets for equities in India are the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE)..

A stock index represents the change in the weighted value of a set of stocks. Some of the prominent indices in India are SENSEX (30 Stocks), NIFTY (50 Stocks), BSE 200 Stocks). Investors with optimistic view of the future of the stocks are buyers and commonly referred as bulls. Similarly, investors who hold a pessimistic view are sellers of stocks are considered bears. Indices fluctuate and some of the other factors that affect indices are sentiments, government policies, currency movements, global factors, economic indicators such as GDP growth, interest rates, inflation.

The benefits distributed by the company to its shareholders can be
1) Monetary benefits
2) Non-monetary benefits

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Interim dividend, final dividend and capital appreciation are monetary benefits whereas bonus, right issues are non-monetary benefits.

Thus investment in share is one of the interesting options. This investment offers very high rate of return, coupled with maximum risk. There are many factors which affects the share prices so it is extremely difficult to predict the future share prices the reason is that stock market is runs on probability.

Below is the snapshot of all available investment avenues with their returns, tax impact and lock in period

Table No. 1.2:
Features of various Investment Avenues

INVESTMENT AVENUE	INTEREST RATE	TAX IMPACT	LOCK IN
TO MEET LIQUIDITY			
Savings Accounts	3.5%	Interest is taxable	No lock in
SHORT TERM INVESTMENTS			
Bank Fixed Deposits	5-6 %	Interest is taxable	7 days onwards
Debt/ Liquid Funds	varies	Dividend tax free Short term capital gain tax	No lock in
Infrastructure Bonds	5-6%	Interest is taxable	3 years onwards
MEDIUM YERM INVESTMENTS			
National Savings Certificate	8%	Interest is taxable	6 years
Kisan Vikas Patra	8%	Interest taxable	8 yrs and 7 months
Post Office Deposits	8%	Interest is taxable	varies
LONG TERM INVESTMENTS			
Mutual Funds	15-18%	Dividend tax free, No long term Capital Gain	No lock in
Equity Shares	varies	Dividend tax free, No long term Capital Gain Tax	No lock in
PPF	8%	Interest tax free	6-15 years
Gold	varies	Capital Gain Tax	No lock in
Real Estate	Varies	Capital Gain Tax	No lock in

Source: “Everything you wanted to know about investing in Mutual Funds

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