Unit - I

1. Define - Investment :-

Investment is the act of allocating funds to an asset or committing capital to an endeavor (a business, Project, real estate, etc) with the expectation of generating an income or Profit. In colloquial terms, investing can also mean Putting in time or efforts - not just money - into something with a long-term benefit, Such as an education.

2. Define - Economic Investment :-

Economic Investment are by definition, additions to the Capital Stock of a Company. These can range from equipment or machinery to a new production facility or even higher - quality materials to be used in manufacturing products to yield higher Profit margins. Generally Speaking, economic investments refer to a financial outlay in the areas of buildings equipments and inventory.

3. What do you mean by financial Investment :-

A financial investment is an asset that you Put money into with the hope that it will grow or appreciate into a larger sum of money. A few of the most common types of financial investments are CDs and bonds which Pay interest to the owners.

4. Define - bonds :-

A bond is a loan to a Company or government that pays back a fixed rate of return. It's a safer investment than Stocks, but still has risks. Something that joins two or more people or groups of people together. Such as a feeling of friendship.

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5. Define - Government Securities :-

In the investing world, government Securities applies to a range of investment products offered by a governmental body. For most readers, the most common types of government Securities are those item issued by the U.S. treasury in the form of treasury bond, bills, and notes. However the goverments of many nations will issue these debt istruments to fund ongoing, necessary, operations.

6. Define Investment - Debendures :-

A debendures is a type of debt instrument unsecured by collateral. Since debentures have no collateral backing debentures must rely on the credit worthiness and reputation of the issuer for support. Both corporations and governments frequently issue debentures to raise capital or funds.

7. Write a two types of Shares :-

Share of commodity
Share of community

1. Preferential Share capital
2. Equity Share capital.

1. The Preferential Share capital is that part of the issued Share Capital of the Company carrying a Preferential right for.
2. All Share capital which is NOT Preferential Share capital is equity Share Capital.

8. What do you mean Preference Shares :-

Preference shares, more commonly referred to as Preferred Stock, are Shares of a Company's stock with dividends that are paid out to Shareholders before common Stock dividends are issued. If the Company enters bankruptcy. Preferred Stockholders are entitled to be Paid from company assets before common Stockholders.

9. Define - Equity Shares :-

Equity Shares are the shares joint Stock Companies issue to the public as the main Source of long-term financing. Equity Share Value is Stated in terms of the face Value of each share. Which is also called issue price. Par Value, book Value, or ~~mistates~~ market Value.

5 Mark :-

1. List out Importance of Investment :-

1. Planning for Retirement :-

Investment decisions have assumed importance becawe people retire between the ages of 58 and 60. The trend also shows longer life expectancy. therefore the earnings from employment Should be calculated in Such way that a portion of it Should be Saved.

2. Increasing rates of tax :-

Taxation is another factor, which increased the importance of the investment. There are Various forms of savings outlets in our Country in the form of investment, which help in reducing the tax level by offering deducations in Personal income.

3. Interest Rates :-

Another factor, which is to be necessarily considered while taking investment decisions, is the level of interest rates. Different investments fetch different rates of interest.

4. Increasing Rate of inflation :-

Now-a-days, we are facing rise in Price level. There are Several problems associated with the increasing rate of inflation Such as fall in standared of living, erosion of the resources etc..

5. Larger Incomes :-

General increase in the employment opportunity is another factor which led the people to think much about investment. Income of the people increase due to the increase in the employment opportunities.

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6. Availability of Complex Number of Investment outlets :-

The growth and development of the Country led to greater economic activity. As a result a large number of investment outlets have been introduced. If funds are invested in bank deposits, people can get only a very low rate of interest.

~~7. Other~~ factors :-

2. List out Various objectives of Investment ?

1. Safety :-

While no investment option is Completly safe. there are products that are preferred by investors who are risk averse Such near - Safe products include fixed deposits Savings accounts, government bonds. etc...

2. Growth :-

While Safety is an important objectives for many investors, a majority of them invest to receive capital gains, which means that they want the invested amount to grow. There are Several options in the market that offer this benefit.

3. Income :-

Some individuals invest with the objective of generating a Second Source of income. Consequently. they invest in Products that offer return like bank fixed deposits. Corporate and government bonds, etc...

4. Other objectives :-

While the aforementioned objectives are the most common ones among investors today some other objectives include.

5. Tax exemption :-

Some people invest their money in Various financial Products Solely for reducing their tax liability.

Some Products offer tax exemption while many offer tax benefits on long - term profits.

3. Principles of Investment :-

1. Feeling of Safety :-

An investor before investing in any Security should see whether there would be a safety of Principal. While investing in Corporate Securities he should enquire as to name, reputation etc..

2. Existence of liquidity :-

Securities should have liquidity. An investment is said to be liquid when it can be converted into cash without delay at full market value in any quantity

3. Permanent Purchasing power :-

An investor before making investment in any Security should consider the purchasing power of future funds.

4. Capital Appreciation :-

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The excess of realisable Value of a Security over its Purchase Value is known as capital appreciation. Generally, investors seek securities, which will appreciate over time.

5. Tax benefits :- Tax benefits.

Normally, any Security investment face two problems such as the income from investment and the burden of tax on that income

6. Legality :-

Investors should invest only in those avenues, which are legally approved. Otherwise, he will have to face many Problems.

4. Advantages & Disadvantages of debentures :-

Advantages :-

1. Preferred by Investors :-
2 Less Investment risk
3. Maintanence of Control.
4. Less Costly.
5. Trading on equity.
6. Remedy against over Capitalisation.
7. Market response.
8. Reliable Source.
9. Useful for conversion.

disadvantages :-

1. Not Suitable for all Companies.
2. Permance Burdon.
3. Requires huge fixed Asset.
4. No Voting rights.
5. Difficulty in repayment.
6. Affecting the capacity to Raise loan.

5. Advantages, disadvantages for equity shares!

Advantages :-

1. Non - recurring fixed Payment.
2. No Charge.
3. Long term funds.
4. Capital formation.
5. Credit worthiness.
6. Ownership.
7. Right issue.

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Disadvantages :-

1. Inability to refund.
2. Difficulty in trading on equity.
3. Concentration of Control.
4. Not always acceptable.
5. Divided at the Board's mercy.
6. Illiquid
7. ~~Speculation~~ Speculation

10 Marks :-

1. Different government Securities :-

Characteristics :-

1. Issuing Authority.
2. Government Securities and stock market.
3. Government Securities and commercial banks.
4. Issue price.
5. Government Securities and Rate of interest.
6. Tax exemption.
7. Government Securities and financial institutions.
8. Government Securities and under writing.
   i) Operations of the government Securities market
   ii) Prices and yields on government Securities.
   iii) Life insurance.
      a) element of Protection
      b) element of Investment

2. Types of Preference :-

1. Cumulative Preference Shares.
2. Non-Cumulative Preference Shares.
3. Participating Preference Shares.
4. Non-Participating Preference Shares.
5. Convertible preference Shares.
6. Non-Convertible Preference Shares.
7. Redeemable Preference shares.
8. Guaranteed Preference Shares.

3. Types / kinds of Investment :-

Direct Investment Alternatives :-

1. Fixed Principle investment.
2. Variable Principle Securities.
3. Non-Security investment.

I Fixed Principles investment.

i) Cash
ii) Savings account.
iii) Savings Certificates.
iv) Government Bonds
v) Corporate bonds. and debentures.

II Variable Principles investment

i) Preference shares.
ii) Equity Shares.
iii) Convertible Securities

iii) Non - Security Investment :-

i) Real estate
ii) Mortages.
iii) Commodities.
iv) business Ventures.
v) Art, Antiques and Other Valuables.

Indirect Investment :-

i) Pension fund.
ii) Provident fund.
iii) Insurance.
iv) Investment companies.
v) UTI and Other Trust Companies.

4) Scope of Investment :-

* Meaning of investment :-

* Nature and Scope of investment :-

1. To understand Various investment decision rules.
2. To know what are the good investment decision rules
3. To know the Category of investment decision rule
4. You can take investment decision only after analysing entire Process of investment that Starts, with funds Contribution and ends with getting expectations fulfilled.
5. the investment decision rules allow you do formalize the Process and specify what Condition or Conditions need to be met to accept the project.

vi) You will take decision only after ensuring that the required expectations in terms of returns are ensured at any cost.

Meaning and definition :- Shares

According to Sec 2(46) of the companies Act, Share means Share in the capital of the Company and includs Stock except where a distribution between Stock and Share is expressed or implied.

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4. Advantages & disadvantages of debentures.

1. Preferred by Investors :-

Since they attract cautions investor by offering definite Security and Safety of investment.

2. Less Investment risk :-

The interest on debentures a charge against Profits. The data and rate of payment are certain.

3. Less costly :-

Usually, the rate of interest is lower than the rate of divided pay able on Preference Share and equity shares.

4. Maintenance of Control :-

Mr. Hastings points out, debentures financing Permit the Company to raise long term funds without diluting the Present Control.

5. Tradings on equity :-

The Company Can trade on equity.

6. Remedy against over capitalisation :-

This will help the company to overcome to defects of over captilisation.

7. Reliable Sources :-

This help the Company not to depend on fair weather Sources like Public deposits.

8. Market Response :-

The Company can easily dispose of the debentures in the open market.

9. Useful for Conversion :-

The Company may Convert different loans into debentures carrying lower rate of interest.

Disadvantages :-

1. Not suitable for all companies :-

It is not suitable for companies with fluctuating income and compani producing goods which have an elastic demand.

2. Permanent Burden :-

Since the Company has to pay interm whether in makes a Profit or Incurs loss, it becomes a Permanent burden on the financial resources of the Company.

3. Requires huge fixed Assets :-

Most of the debentures are Secured so Companies with less fixed assets cannot raise money through debentures.

4. No Voting Rights :

The debenture holders have to Voting rights. This may discourage some investors.

5. difficulty in repayment :-

During depression, the Company will find it difficult to repay the principles and fixed interest.

6. Affecting the capacity to Raise.

Loans : If debentures are issued generally they are Secured against all the assets.

A) Advantages, disadvantages of equity share ?

1. Non - recuring fixed payments :-

Equity shares are not a burden on the resources of the company.

2. No Charge :-

The company get equity capital without creating any charges on the assets of the Company.

3. Long term funds :-

During the lifetime of the company the question of refunding the equity capital does not arise.

4. Capital formation:

This helps the capital formation of the country.

5. Credit worthiness:

Creditors will readily lend money to the company, which is having a huge amount of equity capital.

6. Ownership:

Equity shareholders are the real owners of the company.

7. Right Issue:

If an existing company issue new equity shares.

Disadvantages:

1. Inability of refund:

If there arises over capitalisation because of wrongful equity shares issue, the excess amount cannot be refunded.

2. Difficulty in trading on equity:

If any equity shares are issued company cannot trade on equity.

3. Concentration of control:

Right issue may lead to concentration of control of the company in the hands of a few persons.

4. Not always Acceptables:

Because of the uncertainty of the return on the equity shares.

5. Dividend at the Boards Mercy:

The Board recommends the rate of dividend.

6. Illiquid:

Since equity shares are not refundable they are treated as illiquid.

7. Speculation:

Higher dividends during prosperous period and low dividents during depression periods, shall lead to ample speculation.

5. Types of Preference Shares

1. Cumulative Preference Shares:

If any year the company does not earn adequate profit, dividents on preference shares may not be paid for that year

2. Non - Cumulative Preference Shares :-

The divident on these shares are payable only out of the profits of the Current year.

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3. Participating preference Shares :-

During the lifetime of the company in addition to fixed dividend. the shareholders of this kind of Shares have a right to participate in the Surplus of Profits.

4. Non - Participating preference Shares :-

The holders of this kind of shares have no right either or participate in the Surplus of profits with remains after payment to equity shareholders.

5. Convertiable Preference Shares :-

The holders of this kind of shares have a right to Convent their shares into equity Shares into equity Shares.

6. Non - Convertiable Preference Shares :-

The holders of this kind of shares have no right to Convert their preference shares into equity shares

7. Guaranteed Preference Share :-

In case of Conversation of a Privall concern into a limited Company or in case of amalgamation and absorption.

6. Kinds of investment :-

Direct Investment :-

I Fixed Principle Investment :-

fixed Principle Investments are there whose Principles amount and the termind Value are known with certainty.

i) Cash :-

Cash has a definite and Constant Value. It does not earn any return, while in hand.

ii) Savings Accounts :-

Savings account have a fixed return they differ only in terms of time period.

iii) Savings Certificates :-

Savings certificates are quite read. Here also Principle amount is fixed plus interest earned over time.

4. Government Bonds :-

State governments and Central Government issue Government bonds.

5. Corporate Bonds and debentures:-
Corporate bonds and debentures also have a fixed maturity Value and fixed rate of return over time.

II Variable Principles Securities:

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1. Preference Shares:-
Even though Preference Shares have a fixed return, the Price of preference Shares is determined by demand and supply forces.

2. Equity Shares:-
Equity shares is a Security that represent ownership interest in a Company.

3. Converitable Securities:-
Converitable Security as such as Convertible debentures or preference Shares can convert them selves into equity shares.

III No - Security Investment:
Non - Security investment are these, which are other than Corporate securities.

1. Real Estate:-
It denotess the ownership of residential as well as Common properties.

2. Mortages:-
Mortages denote the financing of real eastate

3. Commodities:-
In the Process of buying ~~or~~ selling Commodities, while Purchasing the goods we pay the Prize for them.

4. Business Ventures:-
Business Ventures denote direct ownership investments in new or growing business befor e firms sell security on a Public banks.

5. Art, Antiques and Other Valuables:-
Art, antiques and other Valuables include Silver, gold and jewellery.

II Indirect Investment Alternatives:-
Indirect investment alternatives are those in which the individual has no direct hold on the amount he invests. He contributes his savings to certain organisation, such as LIC, UTI etc and depends upon them to make investments on his behalf. So he has no direct responsibility or hotel on the securities also makes indirect investment for retirement benefits in the form of Provident funds and Pension like insurance, investment Company Securities and units of UTI.