

Pimpri Chinchwad Education Trust's  
S.B. Patil Institute of Management

Conference Proceedings on  
**Innovation in Management  
Practices for the Sustainable  
Development Goals**



**Editors**

- Dr. Kirti Dharwadkar
- Dr. Padmalochana Bisoyi
- Dr. Bhushan Pardeshi

**Himalaya Publishing House**

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## THE CURRENT STATE OF INNOVATIVE INVESTMENT AVENUES IN INDIAN ECONOMY

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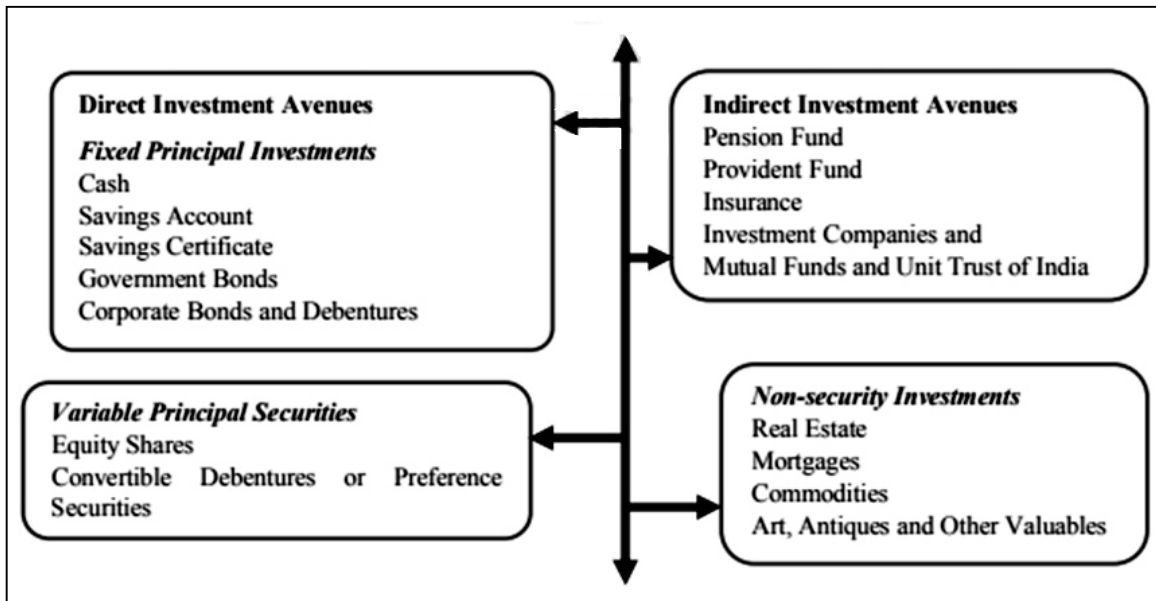
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### **ABSTRACT**

*Many types of investment avenues or channels for making investments are available. A sound investment program can be constructed if the investor familiarizes himself with the various alternative investments available. Investment media are of several kinds – some are simple and direct, others present complex problems of analysis and investigations. Some investments are appropriate for one type of investor and another may be suitable to another person. The ultimate objective of the investor is to derive a variety of investments that meet this preference for risk and expected return. The investor will select the portfolio, which will maximize his utility. Securities present a wide range of risk-free instruments to highly speculative shares and debentures. From this broad spectrum, the investor will have to select those securities that maximize his utility. The investor, in other words, has an optimization problem. He has to choose the security, which will maximize his expected returns subject to certain considerations. The investment decision is an optimization problem but the objective function varies from investor to investor. It is not only the construction of a portfolio that will promise the highest expected return but it is the satisfaction of the need of the investor. For instance, one investor may face a situation when he requires extreme liquidity. He may also want safety of securities. Therefore, he will have to choose a security with low returns. Another investor would not mind high risk because he does not have financial problems but he would like a high return. Such an investor can put his savings in growth shares, as he is willing to accept the risk. Another important consideration is the temperament and psychology of the investor. Some investors are temperamentally suited to take risks; there are others who are not willing to invest in risky securities even if the return is high. One investor may prefer safe government bonds whereas another may be willing to invest in blue chip equity shares of the company. Many alternative investments exist. These can be categorized in many ways. The investment alternatives/avenues are given below in Figure 1.*



**Fig. 1: Investment Avenues**

- *The investment avenues have been categorized as direct and indirect investment alternatives/avenues. Direct investments are those where the individual makes his own choice and investment decision. Indirect investments are those in which the individual has no direct hold on the amount he invests. He contributes his savings to certain organizations like Life Insurance Corporation (LIC) or Unit Trust of India (UTI) and depends upon them to make investments on his and other people’s behalf. So, there is no direct responsibility or hold on the securities. An individual also makes indirect investment for retirement benefits, in the form of provident funds and pension, life insurance policy, investment company securities and securities of mutual funds. Individuals have no control over these investments. They are entrusted to take care of the particular organization. In the organizations like Life Insurance Corporation or Unit Trust of India, provident funds are managed according to their investment policy by a group of trustees on behalf of the investor. The examples of indirect investment alternatives are an important and rapidly growing segment of our economy. In choosing specific investments, investors will need definite ideas regarding a number of features that their portfolio should have.*

To summarize:

- *Direct investments are those where the individual has a direct hold on his investment decision.*
- *Indirect investments are those where the investor is dependent on another organization.*

**Keywords:** Innovation, Investment, Indian Economy.

## **1. RISKLESS VS. RISKY INVESTMENTS**

Most investors are risk averse but they expect maximum return from their investments. Every investment must be analyzed because there is some risk in it. Only government securities are riskless. The Indian investment scene has many schemes to offer to an individual. On an analysis of these schemes, it appears that the investor has a wide choice. A vast range of investments is in the government sector. These are mostly risk-free but low return yielding. Several incentives are attached to it. The private sector investments consist of equity and preference shares, debentures and financial engineering securities. These have the features of high risk. Ultimately, the investor must make his investment decisions. The dilemma faced by the Indian investor is the reconciliation of profitability, liquidity and risk of investments. Government securities are risk-free and the investor is secured. However, to him, the return or yield is very important as he has limited resources and would like to plan an appreciation of the investments for his future requirements. Government securities give low returns and do not fulfill his objective of money appreciation. Private sector securities are attractive, though risky. Reliance, Infosys, Wipro and Tatas give to the investor the expectation of future appreciation of investment by several times. The multinational and blue chip companies offer very high rates of return and also give bonus shares to their shareholders. Real Estate and Gold have the advantage of eliminating the impact of inflation, since the price rises experienced by them have been very high. The Indian investor in this context cannot choose his investments very easily.

An investor can maximize returns with minimum risk involved if he carefully analyzes the information published in the prospectuses of private companies. Contents as the past performance, name of promoters and board of directors, the main activities, its business prospects and selling arrangements should be assessed before the investor decides to invest in the company. From the point of view of an investor, convertible bonds may under proper conditions, prove an ideal combination of high yield, low risk and potential of capital appreciation.

## **2. FIXED AND VARIABLE PRINCIPAL SECURITIES**

Fixed principal investments are classified as those whose principal amount and the terminal value are known with certainty. Cash has a definite and constant rupee value, whether it is deposited in a bank or kept in a cash box. It does not earn any return. Savings accounts have a fixed return; they differ only in terms of time period. The principal amount is fixed plus interest is earned on the deposit. Savings certificates are classified as national savings certificates, bank savings certificates and postal savings certificates. Government bonds, corporate bonds and debentures are sold having a fixed maturity value and a fixed rate of income overtime. The variable principal securities differ from the fixed principal securities because their terminal values are not known with certainty. The price of preference shares is determined by demand and supply forces even though preference shareholders have a fixed return. Equity shares also have no fixed return or maturity date. Convertible securities such as convertible debentures or preference shares can convert themselves into equity shares according to certain prescribed conditions and thus have features of fixed principal securities supplemented by the possibility of a variable terminal value. Debentures, preference shares and equity shares are examples of securities sold by companies to investors to raise necessary funds. To summarize:

- Fixed securities terminal values are certain with fixed return and maturity dates.

- Variable principal securities terminal values are uncertain. Their price is determined by demand and supply mechanism.

### **3. NON-SECURITY INVESTMENTS**

‘Non-security Investments’ differ from securities in other categories. Real estate may be the ownership of a single home or include residential and commercial properties. The terminal value of real estate is uncertain but generally there is a price appreciation, whereas depreciation can be claimed in tax. Real estate is less liquid than corporate securities. Mortgages represent the financing of real estate. It has a periodic fixed income and the principal is recovered at a stated maturity date. Commodities are bought and sold in spot markets; contracts to buy and sell commodities at a future date are traded in future markets. Business ventures refer to direct ownership investments in new or growing business before firms sell securities on a public basis. Art, antiques and other valuables such as silver, fine China and jewels are also another type of specialized investments which offer aesthetic qualities also.

These features should be consistent with the investors’ objectives and in addition should have additional conveniences and advantages. The following features are suggested for a successful selection of investments.

### **4. FEATURES OF INVESTMENT AVENUES**

The features of an investment program consists of safety of principal, liquidity, income stability, adequate income, purchasing power, stability, appreciation, freedom from management of investments, legality and transferability.

#### **Safety of Principal**

The investor, to be certain of the safety of principal, should carefully review the economic and industry trends before choosing the types of investment. To ensure safety of principal, the investor should consider diversification of assets. Adequate diversification involves mixing investment commitments by industry, geographically, by management, by financial type and by maturities. A proper combination of these factors would reduce the risk of loss. Diversification in proper investment program must be reasonably accomplished.

#### **Liquidity**

An investor requires a minimum amount of liquidity in his investments to meet emergencies. Liquidity will be ensured if the investor buys a proportion of readily saleable securities out of his total portfolio. He may, therefore, keep a small proportion of cash, fixed deposits and units which can be immediately made liquid. Investments like stocks and property or real estate cannot ensure immediate liquidity.

#### **Income Stability**

Regularity of income at a consistent rate is necessary in any investment pattern. Not only stability, it is also important to see that income is adequate after taxes. It is possible to find out some good securities which pay practically all their earnings in dividends.

### Appreciation and Purchasing Power Stability

Investors should balance their portfolios to fight against any purchasing power instability. Investors should judge price level inflation, explore the possibility of gain and loss in the investments available to them, limitations of personal and family considerations. The investors should also try and forecast which securities will appreciate. A purchase of property at the right time will lead to appreciation in time. Growth stock will also appreciate over time. These, however, should be done through analysis and not as speculation or gamble.

### Legality and Freedom from Care

All investments should be approved by law. Law relating to minors, estates, trusts, shares and insurance be studied. Illegal securities will bring out many problems for the investors. One way of being free from care is to invest in securities like Unit Trust of India, Life Insurance Corporation, mutual funds or savings certificates. The management of securities is then left to the care of the Trust who diversifies the investments according to safety, stability and liquidity with the consideration of their investment policy. The identity of legal securities and investments in such securities will also help the investor in avoiding many problems.

### Tangibility

Intangible securities have many times lost their value due to price level inflation, confiscatory laws or social collapse. Some investors prefer to keep a part of their wealth invested in tangible properties like building, machinery and land. It may, however, be considered that tangible property does not yield an income apart from the direct satisfaction of possession or property.

**Table 1: Features of Investment Avenues**

<i>Particulars</i>	<i>Risk</i>	<i>Return/ Current Yield</i>	<i>Capital Appropriation</i>	<i>Liquidity/ Marketability</i>	<i>Tax Benefit</i>
Equity Shares	High	Low	High	High	High
Debentures	Low	High	Very Low	Very Low	Nil
Bank Deposit	Low	Low	Nil	High	Nil
Public Provident Fund	Nil	Nil	Low	Low	Moderate
Life Insurance Policies	Nil	Nil	Low	Low	Moderate
Real Estate	Low	Low	High in Long-term	Moderate	Changes according to rules
Gold and Silver	Low	Nil	High in Long-term	Moderate	Nil

Investment is a study of employment of funds for the purpose of a return to the investor. It is of long-term horizon and it has to be planned through a proper process of evaluation. The investment process consists of different stages such as preparing an investment policy, making investment analysis, valuation of securities, portfolio construction and review.

### **POINTS TO REMEMBER**

- Investment is employment of funds for achieving additional income and growth in value.
- Investment must be distinguished from speculation and gambling in terms of time horizon, risk, return and decision-making process. Investment is usually planned whereas speculation and gambling depend on immediate decisions with also the element of 'luck'.
- Investments are transfers of financial assets from one person to another. They range from low risk to high risk.
- Investments are usually long-term and low risk. Speculation is high risk and high return and for short-term period of time.
- Investments may be financial claims or real and tangible assets like land and buildings, plant and machinery, gold, antiques, etc.
- Investment may be direct and indirect securities like shares and debentures. Investments in provident funds, pension funds and mutual funds are forms of indirect investments.

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