A theoretical Study of Different Instruments of Investment available in Indian Economy with a special focus of Mutual Funds

NARESH KEDIA
Amity Business School, Amity University Madhya Pradesh

ABSTRACT

It is an important aspect of any financial institution to have managed and trade securities or commonly called the financial instruments. Instruments here means an opportunity to invest and this opportunity is being facilitated through the assortments of financial services catering the need to invest in these instruments of investments,

Financial instruments can extend an opportunity to invest from period ranging less than a year whiles some extending over it. Securities are traded in the market – THE FINANCIAL MARKET of course, of which bank forms a quintessential part. The securities can be short term as well long term. Investments in CD, COD, CP, Equities are to regarded as short term while debentures and bonds are enlisted in long terms.

INTRODUCTION

Economy of India

The **economy of** India is the seventh-largest in the world measured by nominal GDP. The country is classified as a newly industrialized country, and one of the G-20 major economies, with an average growth rate of approximately 7% over the last two decades. The long-term growth prospective of the Indian economy is positive due to its young population, corresponding low dependency ratio, healthy savings and investment rates, and increasing integration into the global economy. The Indian economy has the potential to become the world's 3rd-largest economy by the next decade, and one of the two largest economies by mid-century. And the outlook for short-term growth is also good as according to the IMF, the Indian economy is the "bright spot" in the global landscape. India also topped the World Bank's growth outlook for 2015-16 for the first time with the economy having grown 7.6% in 2015-16. Growth is expected to decline slightly to 7.1% in the 2016-17 fiscal years. Some key points of Indian economy

- Low per capita income.
- Inequalities in income distribution.
- Predominance of agriculture.
- Rapidly growing population with 1.2% annual change.
- Low rate of capital formation due to less saving rate.
- Dualistic Nature of Economy (features of a modern economy, as well as traditional).Mixed Economy
- Follows Labor Intensive Techniques and activities.

Alternative Investment

An **alternative investment** is an investment in asset classes other than stocks, bonds, and cash. The term is a relatively loose one and includes tangible assets such as precious metals, art, wine, antiques, coins, or stamp sand some financial assets such as real estate, commodities, private equity, distressed securities, carbon credits, venture capital, film production, financial derivatives. Investments in real estate and forestry are also often termed alternative despite the ancient use of such real assets to enhance and preserve wealth. In the last century, fancy color diamonds have emerged as an alternative investment class as well. Alternative investments are to be contrasted with traditional investments.

Traditional Investments

Bonds

A Bond can be understood as an IOU which is issued by an issuer (borrower) and to a lender. Generally, bonds are instruments used by public and private sector enterprises to raise huge sums of money which any bank is incapable of lending. These bonds are then issued in the public market by the borrowing entity and are bought by lenders for specific amounts of money. Thousands of lenders then come together to lend the required amount and the borrowing organization is able to raise capital for its operational or growth purposes.

Stocks

Stocks or equity are shares that are issued by companies and are bought by the general public. This offers an avenue to companies to raise funds. Stocks entitle a customer ownership of a company. Shares, stocks and equity all imply the same thing. Shares are one of the most popular investment avenues in the world. This is because the returns offered by stocks is generally higher than any other financial instrument. However, to balance out the high return associated with stocks, the risk associated with these products is also quite high.

Small saving schemes

Small savings is another popular savings tool in the Indian financial market. The name itself suggests that these tools are meant for saving money in small amounts. The idea behind this financial tool is to enable the habit of saving in people from almost all economic sections. Some of the most common small savings tools are Sukanya Samriddhi Scheme, EPF (Employees Provident Fund), NPS (National Pension Scheme, Kisan Vikas Patra, Personal Provident Fund (PPF) etc. Almost all small savings schemes are initiated and facilitated by the government so as to enhance the spread and penetration of savings schemes in the country. Let us look into some of the most prominent schemes out of these.

Employees Provident Fund

Employees Provident Fund is another small savings scheme that is primarily offered by your employer. This includes salaried individuals of both private and public organizations. Any company with a workforce of more than 20 employees is mandated to register for the EPF scheme. Around 12% each month is deducted from the salary and contributed towards the EPF account of an employee. This EPF account is maintained by the Employees Provident Fund Organization, commonly known as the EPFO. The amount deposited towards EPF is eligible for tax exemption under section 80C of the Income Tax Act.

Mutual Funds

Mutual funds are financial instruments that are professionally managed and that invest money on behalf of any investor, in different securities. These mutual funds are classified into various types based on the type of securities that they invest in. Some of the most popular mutual fund types are balanced funds, stock funds, open-ended funds etc. These funds are classified based on their percentage allocation in different securities. So, an equity fund invests purely is equity and is a high risk high return product while a debt fund invests purely in debt and money market instruments and is hence a low risk low return financial product.

Fixed Deposits

As the name itself indicates, fixed deposits are financial instruments that are one of the oldest and safest ways to save money. These are not necessarily active investment tools, but are rather a passive way to save and earn returns. A fixed amount of money is kept aside with a financial institution for a fixed number of days or months or years. In turn, interest is earned on this money. The rate of interest differs with the deposit tenure and also with the banking entity.

INVESMENT AND INSURANCE SERVICE

Nowadays a ward investment is becoming more popular. Person invest their money in to various schemes or in to the gold or share market etc. but some time he is in to the difficult situation, for that bank help person invest wisely through financial and investment services.

Types of investment: - **Mutual Funds:** Invest through the Mutual Fund route to meet varied investment objectives:

SCHEMES	SCHEMES
Banking Debt Fund - Direct (Bonus)	Banking Debt Fund - Direct (Div-D)
Banking Debt Fund - Direct (Div-M)	Banking Debt Fund - Direct (Div-W)
Banking Debt Fund - Direct (G)	Banking Debt Fund (Bonus)
Banking Debt Fund (D)	Banking Debt Fund (Div-D)

Banking Debt Fund (Div-M)	Banking Debt Fund (Div-W)
Banking Debt Fund (G)	Capital Protection Fund - Sr.I (D)
Capital Protection Fund - Sr.I (G)	Capital Protection Fund - Sr.II (D)
Capital Protection Fund - Sr.II (G)	Capital Protection Fund - Sr.III (D)
Capital Protection Fund - Sr.III (G)	Capital Protection Fund - Sr.IV (D)

Table 1 Invest through the Mutual Fund route

Features and Benefits of MFs

- Ease of MF Investment Online
- Invest in Mutual Funds online and manage all your MF investments in Bank's Net Banking.
- Login to Bank internet banking from anywhere, anytime and invest at the click of a button.
- All aspects of MF transaction processing viz. Purchase, Additional purchase, Redemption & Switch available on a single platform
- Online transactions are quick and easy with an enriching customer experience and help to plan investment based on market conditions.
- To apply, simply download the Forms (Clients Registration Form, Risk Profiler and KYC Forms). Fill and submit the forms at your nearest Bank branch.
- Pool savings with other investors who share the same financial goal
- Money is collected from a number of investors and then invested in capital market instruments like shares, debentures and securities. Income earned through the investments, and capital appreciation realised is shared by the unit owners in proportion to the units owned by them.
- Enjoy diverse benefits at a low cost.
- Mutual Funds offer you a chance to invest in a diversified, professionally managed basket of securities at a low cost, making it the most suitable investment option.
- AMCs are also able to negotiate better brokerage terms for the sale and purchase of investments.
- Benefit from our research driven model

- Banks adopt a strong research driven recommendation model enabling you to choose the best funds, based on qualitative and quantitative parameters
- Get assistance from a dedicated Relationship Manager
- Decide if you want a dedicated Relationship Manager to ensure that all your investment requirements are taken care of smoothly and efficiently.
- The relationship managers are equipped to assist in the financial planning process and investment decisions.
- Avail of our One Page Portfolio Snapshot
- We offer a unique 'One Page Portfolio Snapshot' report across investment products to our customers, which can be viewed through our Internet Banking module
- Get your funds managed professionally for higher returns
- The funds invested in Mutual Funds are managed by Fund Managers. Fund Managers are qualified professionals and their investment decisions across asset classes are backed by research which helps achieve investment objective of the scheme. Fund managers are in a better position to manage your investments and get higher returns.
- Reduce your investment risk
- Diversification among a number of investments helps reduce the risk of any single holding
- Liquidate your investment with ease
- Open-ended schemes offer liquidity through on-going sale and repurchase facility so investors don't have to worry about finding a buyer for their investments
- Benefit from flexibility and transparency
- Choose a scheme that matches your investment objective, and get information on investments through fact sheets, offer documents, annual reports and promotional materials
- All Mutual Fund activities in India are well regulated by SEBI
- Get tax benefits on investments
- Schemes with equity exposure of over 65%, such as equity funds and dividends received from equity schemes are completely tax-free as the Mutual Fund is not required to pay the dividend distribution fee, and the investor is exempt from Income Tax.

Types of MFs

By Structure

Open Ended – These are schemes that do not have a fixed maturity. The Mutual Fund ensures liquidity by announcing sale and repurchase price for the unit of an open-ended fund.

Closed Ended – These are schemes that have a fixed maturity. The money of the investor is locked in for the period. Occasionally, closed-end schemes provide a re-purchase option to the investors, either for a specified period or after a specified period. Liquidity in these schemes is provided through listing in a stock market.

By Investment Objective

Equity Schemes - These primarily invest in shares. Based on the objective, investments could be in growth stocks, where earnings growth is expected to be high, or value stocks, where the view of the fund manager is that current valuations in the markets do not reflect the intrinsic value. The various kinds of equity schemes are:

Equity Diversified- All non-theme and non-sector funds can be classified as equity diversified funds.

Mid Cap- These funds invest in companies from different sectors. However they put a restriction in terms of the market capitalisation of a company, i.e., they invest largely in BSE Mid Cap Stocks.

ELSS - ELSS is an open-ended equity growth scheme that is offered by Mutual Funds in line with existing ELSS guidelines. The investments under this type of scheme are subject to a lock-in period of 3 years and, as per the Finance Act 2005, are allowed the benefit of income deduction uptoRs. 1,50,000 under section 80(C).

RGESS- Rajiv Gandhi Equity Savings Scheme is a tax advantage savings scheme for first time retail investors in securities market. It gives tax benefit who invests uptoRs. 50,000 and whose annual income is below Rs. 12 Lakhs. Tax benefit is upto 50% deduction on investment amount under section 80 CCG of income tax act.

Thematic- These schemes invest in various sectors but restrict themselves to a particular theme e.g., services, exports, consumerism etc.

Sector Specific- These are schemes that invest in a particular sector for example IT. They have a high degree of risk associated with them as if that a particular sector does not perform then their returns will suffer.

Flexi cap- These kinds of schemes invest across market caps.

Special Funds- There are also schemes to meet financial objective like retirement and child plan.

Debt or Income Schemes- Such a fund invests in interest bearing securities, mainly government securities and corporate bonds. This fund earns returns for its investors from interest income on its investments and profits on trading securities. In terms of risk, this type of fund is the least risky.

Money Market Schemes- These schemes invest in short-term debt instruments issued by the government, corporate or banks. These are typically investments in short term papers like the CPs and CDs etc.

Hybrid Schemes- Balanced Schemes: Balanced schemes invest in a mix of equity and debt. The debt investments ensure a basic interest income, which the fund manager hopes to top with a capital gain from the investment in equities. However, loses can eat into basic interest income and capital.

Monthly Income Plans- MIPs are suitable for conservative investors who along with an exposure to debt do not mind a small exposure to equities. These funds aim to provide consistency in returns by investing a major part of their portfolio in debt market instruments with a small exposure to equities. Thus an MIP would be suitable for conservative investors who along with protection of capital seek some capital appreciation as MIPs have an exposure to equities. However, the monthly income is not assured.

Hybrid Asset Allocation Funds-These schemes invest in a mix of Equity, Arbitrage and Debt.

Asset Allocation Funds- These schemes invest in a mix of Equity, Debt and Commodity.

Equity Linked Saving Scheme (ELSS)- An Equity Linked Saving Scheme is an open-ended equity growth scheme that is offered by Mutual Funds in line with existing ELSS guidelines.

- The investments under this type of scheme are subject to a lock-in period of 3 years and, as per the Finance Act 2005, and are allowed the benefit of income deduction up to Rs. 1,50,000.
- ELSS offers the benefits of tax saving and capital gains.
- Instead of spreading your investments across different instruments such as PPF, ELSS, NSC and infrastructure bonds, you can now invest the entire limit of Rs. 1,50,000 available under Sec 80(C) in ELSS.

Advantages of ELSS

- Lock-in for three years prevents unnecessary withdrawals and allows your money to grow over a period of time
- Investments in equity over a long-term delivers better returns than that of other savings instruments and similar to other equity schemes

- Tax savings and high returns
- Flexibility to Invest in small amounts through a Systematic Investment Plan.

Systematic Investment Plan (SIP)

- A Systematic Investment Plan (SIP) is a convenient way to accumulate wealth in a disciplined manner over a long-term period.
- The investments under this type of scheme are subject to a lock-in period of 3 years and, as per the Finance Act 2005, and are allowed the benefit of income deduction up toRs. 1,50,000.
- It helps you to invest regularly in small instalments and thereby build wealth over a period of time.
- SIP is a method of investing in a mutual funds scheme.
- These schemes are offered by the Asset Management Companies (AMCs) to customers through a distributor.
- The Bank acts as a distributor of Mutual Fund products for the AMC to the customers.
- A customer wanting to invest in such a scheme can avail of the Systematic Investment Plan option through Axis Bank.

Advantages of SIP

Power of Compounding – SIP helps you to start investing at an early age to meet the greater expenses of your life. Saving a small sum of money regularly makes money work with greater power of compounding with significant impact on wealth accumulation.

Rupee Cost Averaging – SIP minimises the effects of investing in volatile markets. It helps you average out your cost by generating superior returns in the long run. It reduces the risk associated with lump sum investments. Since you get more units when the NAV drops and fewer when it rises, the cost averages out over time, so that the average cost of your investment is often reduced.

Convenience and Regularity – SIP gives you the convenience to pay through Axis Bank Electronic clearance service (ECS) or Auto Debit. You can decide the amount and the mutual fund scheme. A fixed amount will automatically get debited from your account on a date specified by you.

BANK TRIPLE ADVANTAGE FUND

- We all dream for a bright future for our loved ones and plan our investments accordingly. However, markets fluctuations and changes in the economy can sometimes put an end to your dreams. Therefore, it's advisable to spread your investments across different asset classes.
- Build wealth no matter what is happening in the economy

- There are obviously no guarantees but you can maximise your chances of making money irrespective of what is happening in the economy by investing in a diverse range of assets (such as equity, debt and gold). By balancing your investments across multiple asset classes, you tend to reduce risk of losing money to economic shocks (like the recent global financial crisis).
- Understand assets' performance over time
- Empirical studies have shown that between 1995 and 2009, if you had invested equally in stocks, bonds and gold, only once would you have lost money i.e. in 1995. In all the other 14 years, average returns from an equal mix of these three assets were positive.
- Explore growth through diversification
- There's always a solution. Triple Advantage Fund helps you take advantage of diversification by investing in a mix of equity, fixed income and gold. This not only helps avoid monetary surprises but also provides opportunity for wealth growth. With Axis Triple Advantage Fund, if you have planned for something, chances are you should be able to go and get it.
- See key features of Triple Advantage Fund
- Provides diversification across three asset classes viz. equity, fixed income and gold thereby leading to reduction in risk
- Returns potential not compromised even with reduced risk levels
- Returns more stable than pure equity or gold investments over the long term
- Offers convenience. Now one single application is sufficient for investment in three asset classes.
- 20 - 30% of investment in gold. Gold is a good hedge against financial crises.

Public provident fund

Introduction

Public Provident Fund Scheme in India is one of the most popular investments. And that's no surprise since it provides tax cuts, its maturity (interest) is tax free, and it cannot be attached in the case of debt or obligation that is a completely secure means. The money that will be yours forever. When you take a loan against the account, withdraw from the account, and much more to reactivate a closed account to knowledge of the different features of PPF account will help you.

PPF guide this work has been brought to you all the information you will need on PPF and important points to keep in mind that you will find it very useful to highlight the need to make the most of the investment avenue to provide you with for. PPF also a nifty calculator that you fund your own PPF can use to check the value added.

Let's start at the beginning.

What is PPF? Public Provident Fund (PPF) scheme of the Central Government, 1968 framed under the Act briefly PPF, PPF is a government-backed, long-term savings plan which was initially introduced by the government as it is to provide retirement security wants to self employed persons and workers in the unorganized sector. Today the PPF is the Indian citizens' darling investment avenue. If you are keen on a safe corpus, a decent rate of return, tax benefits (deduction on the money invested, tax free interest and a tax free maturity value) and have a long term investment horizon, then the PPF is for you. These were those with low funnel PPF Bay Disciplined make the most of it, and I also need liquidity Elsewhere Meet your needs, Bikes yourmoney invested in this was closed for fifteen years. I also excluded studies further loan against your PPF account offers kids who can make you focus Occasions was written during a family wedding was helped, cradling it to us all your money at the same time Task gives a piece of mind.

What are the main features of the PPF account?

Let's see what the main features of the scheme are

Interest rate	8.80% p.a. compounded annually*
Tenure	15 years (plus the first year of investment)
Minimum Investment	Rs. 500 p.a.
Maximum Investment	Rs. 100,000 p.a.
Tax Benefit	Under Section 80C, interest is tax exempt

TABLE PPF account scheme

*The interest rate is currently 8.80% p.a. This is subject to change.

What are the benefits of having a PPF account?

To reiterate, your PPF account are exempt investment (Rs. 1,00,000 per annum). Interest earned on investments is exempt from paying taxes, so tax-free return of 8.80% per year. One of the best features of PPF account in the case of debt or liability cannot be linked to any claim, the money is yours for life. Even if you go bankrupt, and its favorable financial planning firm as we are certain you will, it could never afford to repay a loan can be claimed by any creditor will not.

There are more things to know about the PPF account, which we will go into ahead

MEASUREMENT ON THE BASIS OF RISK AND RETURN

Best Investment Options in India

BIBLIOGRAPHY

1. https://www.axisbank.com/
2. http://www.slideshare.net/
3. http://www.amfi.com /

4. http://www.moneycontrol.com /
5. http://www.mutualfundindia.com/
6. http://investopedia.com/
7. Graham Benjamin the Intelligent Investor
8. Punithavathy Pandian Security analysis and portfolio management