JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue

JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

FINANCIAL SYSTEM AND FINANCIAL MARKET - A STUDY

Dr. SOMASHEKARA. M.A, Ph.D
P.G. Coordinator and Associate Professor of Economics
Government First Grade College, Malur. KARNATAKA (STATE). INDIA

Abstract: now a day's Mutual Fund plays very important role and crucial instrument in financial markets. These Markets are the backbone of an economic system and aid allocation of share capital across the productive sectors of the economy. While Indian economic growth is in evitable, stability and dynamism of the financial system is essential for proper allocation of resources, which in turn helps sustain a healthy climate for saving and investment. In fact, the financial system has to be more dynamic than the real system as it has to continuously respond to the needs of the real economy to help it achieve its goals.

Key words: Financial Systems, Financial Markets, Share capital, investment, Mutual Fund

Introduction:

Financial system implies a set of complex and closely connected or interlinked Institutions, agents, practices, markets, transactions and liabilities in the economy. The financial system is concerned about money, credit and finance. The three terms are intimately related yet different from each other. Money refers to the current medium of exchange or means of payment. Credit or loans is the sum of money to be returned, normally with interest- it refers to a debt of economic unit. Finance is a monetary resource comprising of debt and ownership funds of the state, company or person. The financial system functions as an intermediary and facilitates the flow of funds from the areas of surplus to the areas of deficit. A financial system is a composition of various institutions, market regulations, transactions and claims. The financial system helps bring together showers and users of capital. Hence, the efficiency of financial markets is essential for facilitating optimal intermediation between households and firms.

The Indian financial system has always had a well-defined institutional structure. While it has been dominated by government sponsored financial institutions and nationalized commercial banks, in recent years, the private sector has been showing steady growth in the areas of asset management and financial services. Today India can boast of having would-comparable capital market and money markets. A financial market can be defined as a market in which

financial assets are created or transferred. These markets are classified as Money Market (where the instruments dealt are short-term maturity) and Capital Market (the instruments dealt are of long-term maturity).

INVESTMENTS

Investment is making the money work for you. Idle saved money will be eroded of its value by reduction in purchasing power. Investing smartly makes money grow. In other words one must involve funds available in such avenues that may counter balance the reduction of real value. Assets whose value increases over time must be chosen for such purpose. The investments must offer maximum advantages to the investor.Now there are a number of investments avenues available to common man. Recently all financial products investment opportunities come with some or other innovations. It is at the behest of the consumer the investor depending on the advantages in the investment is chosen.

FEATURES OF INVESTMENTS

1. Security:

It is guarantee that at least the amount deposited with the agency will be given back to the investor.

2. Risk Involved:

As different from security risk involved is risk associated with type of investment. It is said risk and returns go hand in hand, mainly there are four types of risk –inflation risk, business risk, rate of returns and uncertainty (of the future) risk.

3. Capital Appreciation:

The worth of investment when redeemed must be more than the initial investment.

4. Periodical Returns: Most people would like to have assured periodical returns regularly. Better rates of returns surely attract good number of investors.

5. Liquidity:

It is the case with which we can convert investments into cash or can be transferred to other individuals for some consideration.

6. Investor Services:

- These are the backbone of any organizations marketing activity. They are:
- Convenience of Investing
- Consultancy
- Restricted Early Redemption

- Flexible Maturity Period and Liquidity
- Good Rates of Returns
- Trust Worthy and Able Management

INVESTMENT BASICS

In the wonderful world of finance, there are a wide variety of choices available. One needs to understand the different investment vehicles such as stocks and bonds, and how these investment options work and what they can do for an investor. One can invest in stocks and bonds through mutual funds and take advantages of each of these vehicles and use them to invest and generate wealth in the most effective way. It is practical to diversify the investor's money among different types of investment vehicles, such as stocks, bonds and money market instruments. The goal is to help reduce risk and enhance returns. Establishing a well-diversified portfolio may allow the investor to avoid the risks associated with putting all his eggs in one basket. As the investor's financial goals are diverse, his investment choices need to be as Well. No single investment is likely to meet all of his needs, so he should keep some money in bank deposits to meet any urgent needs for cash and keep the balance in other schemes that maximize his return and minimize the risk. Depending on the investor's age, lifestyle, family commitments and the level of income and expensed, his financial goals will vary.

INVESTMENT AVENUES

The various investments avenues available here in India to today's investors are briefly mentioned below. A portfolio can contain investments from one or all of the following categories.

STOCKS

The term is used to describe the ownership in companies is stocks. When a company needs to grow or expand, it may sell part of its ownership to the public in the form of shares (stock). In exchange for the money received from the sale, the company gives shareholders a portion of its future profits, s well as a measure of its decision-making power. Stock prices can change greatly from day to day, depending on the supply and demand for the stock. If many investors want to buy the stock, the price may go up; if fewer investors are interested in buying the stock, the price may go down. This is one of the types of investment, which can make up part of an investor's portfolio.

FINANCIAL SECURITIES

Direct financial investments, which are represented by negotiable securities, are Referred to as financial securities. The major financial securities available in India are:

1. Equity shares
2. Preference shares
3. Convertible shares
4. Non convertible shares

5. Public sector bonds
6. Savings certificates
7. Gilt-edged securities
8. Money market securities

Since the project will be dealing with mainly such investments, a detailed description follows.

NON- SECURITIES FINANCIAL INVESTMENTS

A non-securitized financial investment, unlike a financial security, represents a financial investment that is not transferable or negotiable. The major non-securitized Financial investments available in India are:

1. Bank deposits
2. Post office deposits
3. Company fixed deposits
4. Provident fund schemes
5. National savings scheme
6. Life insurance

REAL ASSETS

The investments avenues discussed so far are broadly referred to as financial Investments as they represent financial claims. Real assets, on the other hand, represent physical investment. The important categories of real asset are:

1. Real estate
2. Gold and silver
3. Precious stones
4. Art objects

EQUITY SHARES

Of all the forms of securities, equity shares appear to be the most romantic. While fixed income investment avenues may be more important to most of the investors, Equity shares seem to capture the interest the most.

PREFERENCE SHARES

Preference shares represent a hybrid security that partly assumes some Characteristics of equity shares and some attributes of debentures. The salient Features of preference shares are as follows:

1. Preference shares carry a fixed of dividend
2. Preference dividend is payable only out of distributable profits.
3. Dividend on preference shares is generally cumulative.
4. Preference shares are redeemable-the redemption period is around 12 Months.

CONVERTIBLE BONDS (DEBENTURES)

A convertible bond is a bond that may be compulsorily or optionally converted into equity shares in future. The general features of a convertible bond include the conversion ratio, conversion price, and conversion timing and conversion (or stock) value.

NON-CONVERTIBLE DEBENTURES

Akin to promissory notes, non-convertible debentures are instruments for raising long-term debt capital. The obligation of a company towards its debenture holders is similar to that of a borrower who promises to pay interest and principal at specified times.

CORPORATE BONDS

Many types of companies issue corporate bonds in order to finance projects ranging from building a new plant to modernizing at a current location. Risk and return vary, depending on the financial strength of a corporation. Bonds issued by corporations with lower credit quality generally pay a higher rate of interest to compensate investors for the higher repayment risk; bonds issued by corporations with excellent credit ratings and established profitability pay lower interest due to the relatively low degree of risk. Depending on the issuing company, these securities can vary widely in yield, maturity and credit quality.

STATE GOVERNMENT BONDS

Local governments issue state Government Bonds in order to finance a variety of projects, ranging from water systems and public schools, to hospitals and police protection. Since these bonds are unique in that the interest paid by the bond is generally free from income tax, it is important to consider the equivalent taxable yield (the rate of return on a taxable investment needs to match that of tax-free State Government Bonds investments). State Government Bonds are generally considered to be relatively low risk investments, second only to securities issued by the government and its agencies. However, within State Government Bonds themselves, there is a wide range of credit quality.

SAVINGS CERTIFICATES

Issued by the post offices, savings certificates are a part of small savings schemes.

The important Savings Certificates are:

- Indira Vikas Patra
- Kisan Vikas Patra

GOVERNMENT SECURITIES

Debt securities issued by the central government, State government and quasigovernmental Agencies are referred to as government securities or gilt-edged Securities. Three types of instruments are issued:

An Investment that resembles a company debenture

It carries the name of the holder/s and is registered with the public debt office (PDO). For transfer, it has to be lodged with the PDO along with a duly completed transfer Deed. The PDO pays interest to the holders registered with it on the specified date of Payments. **A promissory note**, issued to the original holder, which contains a promise by the president of India (or the governor of a state) to pay as per a given schedule. It can be transferred to a buyer by an endorsement of the seller. The current holder has to present the note to the government treasury (or a designated authorized agency) to receive interest and other payments.

A bearer security, where the interest and other payments are made to the holder of the security.

MONEY MARKET SECURITIES

A money market security is a debt instrument that has a very short maturity. The Common money market securities in India are treasury bills, commercial paper, and certificates of deposit. In many respects, most money market instruments are just short-term versions of bonds. For example Treasury Bills (T-Bills), commercial paper, and certificates of deposit are just three of the dozens of fixed-income investments that mature in one year or less. While bonds are used primarily to receive a steady income, money market instruments are used more like savings accounts. They generally preserve your initial investment whilst generating a more modest level of income giving you yields that are usually only slightly higher than interest rates offered by banks on savings accounts. This type of investment has the lowest risk out of the three types of investment described.

Conclusion:

"The art and science of decisions about investment mix and policy, matching investments to objectives, asset allocation for individuals and institutions, and balancing risk vs. performance." Portfolio management is all about strengths, weaknesses, opportunities and threats in the choice of debt vs. equity, domestic vs. international, growth vs. safety, and numerous other trade-offs encountered in the attempt to maximize return at a given appetite for risk. The primary allocation methodology uses the precise statistical calculation approach that has proven that a mix of uncorrelated investments can produce a more efficient portfolio that has a high rate of return and less volatility (risk). Applying these techniques allows Companies to provide continuous asset management on a scientific and objective basis. This consistent approach avoids the plight of most money managers who end up chasing the markets for short-term yields. These methods substantially increase the potential for consistently higher returns and greatly reduce the risk of loss of capital and purchasing power.

Reference:

Economic Political Weekly

Financial Institutions and Markets – L.M. Bhole

Indian Economy – Sundaram.K.P.M and Rudradutt

Indian Financial System-P.N.Varshney, D.K.Mittal

Reserve Bank of India Bulletins