Chapter – II

Theoretical Framework

2.1 Introduction of investment

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Chapter-II

Theoretical Framework

2.1 Introduction of Investment-

The term investment refers to the amount of net increase (purchase less sales) in the assets hold by the households during the reference period. It consists of a) physical assets b) financial assets c) consumer durable and d) business assets.

The investment in physical assets is estimated at the value of net increase in it either by purchasing and constructing the new asset or improving existing assets.

Investment in financial assets is estimated at the net purchase of shares, debentures, bonds and other securities and jewelry, gold, etc. It also consists of net increase (depositor less withdrawals) in bank deposits, postal savings, provident fund, chit fund and payment towards life insurance premium.

Estimation of consumer durable is made at net increase in it on the same line on which that of physical assets is made.

In order to estimate the value of total investment, net increase in the value of business assets is also taken into account.

Assets-

The term assets consist of all types of assets- physical, financial, consumer durable of the value of Rs. 25 or more and business assets. Thus the savings is estimated as net increase in these assets by adopting the balance sheet method of estimation. The assets are classified into four categories-physical, financial, consumer durables and business assets on the basis of their durability, liquidity and utility.

Physical Assets-

The assets that have a life of one or more years and which cannot be converted easily in cash are termed as physical assets, e.g. Land and building, plant and machinery, etc.

Financial assets-

The assets that have more liquidity are considered as financial assets, e.g. shares, bonds, debentures, and other securities, bank deposits, postal savings, contribution to provident funds and chit funds, payment toward life insurance premium, jewelry and gold, etc.

Consumer Durable-

The assets that are used for household purpose are considered as consumer durables. TV set, Tape –recorder, Radio, VCR, CD Player, Fan, Iron, Freeze, washing machine, kitchen wares, household furniture and personal vehicles are few examples of consumer durables. These are movable properties.

Business Assets-

The assets, which are used in business activities, are regarded as business assets. It consists of land and building, machinery, furniture, debtors, stock in hand, etc.

2.2 Definitions and Concepts

The present part of the study gives in brief definition of various concepts used in this study. The principal concepts used in this study are as follows:

1) Household-

Household is defined as a group of persons related by blood, marriage or adoption sharing a common kitchen and living together under same roof at least for six months or more. During the study period, new born babies, brides and bridegrooms, members contributing to the income of the household and are associated with all its activities are considered as the part of household irrespective of the duration of their stay with the household.

2) Head of the household-

The members of the household who is recognized by all other members of the household as the responsible one for taking major financial decision is taken as the head of the household. In case of non- agreement, the eldest member of the household is treated as head of the household.

3) Earner-

Earner is defined as a person who depends for his livelihood on the income of his own employment or employment compensation or property income or a combination of such incomes. Household members actively engaged in farming, business and profession as craft are considered as earner even if they report no separate income.

4) Occupation-

The term occupation refers to the type of work done. For the present study following basic occupation are considered on the basis of which classification of sample household is made. Namely they are –

a) Salary Employees as (i) Government (ii) Private
b) Businessman
c) Professionals

d) Industrialist

e) Farmers

f) Pensioners

5) Income-

There isn't any universal definition of income. There are variations at different places and at different times. The fallacy of the statistics and incomparability of the data threatens the researchers. Therefore, it is the ultimate way to compute household income by adopting appropriate technique. In order to arrive at correct figure of income the researcher has constructed as under.

6) Gross Income-

Gross Income of the household is the sum of earning of all members of the household during the reference period earned by all sources of income. Following are the sources of income of the households-

a) Income from salary, wages and pension

b) Income from let out house property

c) Income from business and profession

d) Agricultural income

e) Horticultural Income

f) Casual receipt in the form of prize, award and lottery, etc.

g) Income from other sources, other than (A to F) above.

However, the capital gains or losses amounts received in the form of dowry, the amount received on account of matured insurance policies, provident fund and chit fund, etc. are not considered as current income.

2.3 Household Expenditure-

The term household expenditure includes the following expenses,

1) Consumption Expenses-

Consumption expenses includes the cost of consumption of cereals, pulses, fruits and vegetables, milk and milk products, edible oils, fuel, non-veg, clothing and bedding. For this purpose data for the last 30 days proceeding the date of visit were collected during the visit presuming that the consumption expenses was relatively stable over a period of 12 months.

2) Household expenses-

This expenses includes the expenses of consumption of electricity, water, telephone charges and corporate tax. This data depends upon the base of monthly or yearly.

3) Educational expenses-

It includes expenses incurred on the education of household members.

4) Expenditure on health care-

The expenditure incurred on medical treatment of the household members, medicines, oils, shampoo, perfumes, cosmetics and other health care activities like hair cutting and beauty parlor, etc.

5) Travelling and entertainment expenses-

It includes expenses on pleasure tours and tours in the nature of pilgrimage, travels and entertainment.

6) Socio-religious expenses-

This includes the expenses incurred on religious festivals such as Dasara, Deepawali, Ganesh Chaturthi, Christmas, Feasts offered on the occasion of fairs and the amount spent on in the nature of presents or gifts offered

at various function like marriages, birthday, naming ceremony and threading ceremony (Munj) also includes the contribution towards various public and social functions.

7) Installment paid-

This installment includes installment of loan, interest of loan, and insurance premium, etc.

8) Repair and maintenance expenses-

This includes repair and maintenance expenses of household property such as gas plant, agricultural machinery, farm implements, household durables, vehicles and repair to business property.

9) Agricultural expenses-

It includes expenses incurred on agricultural activities such as seeds, fertilizers, land revenue and the cost of all other inputs and operating expenses such as labour cost, machinery rent, irrigation charges, etc.

10) Household total expenses-

The total of all above expenses (1 to 9) is taken as household total expenses.

2.4 Principles of Investment-

Before making an analysis of the investment the basic principles of the investment are discussed below.

It is commonly agreed that the investment should be based on certain principles. The most important principles of investment are- security, profitability, liquidity and diversification.

a) The first principle is of security of principal amount. This principle states that the reserves that go in to the building up of the life fund should be free from the risk of being deflated. The investor should act as a conservative investor so that he may not be a victim of temptation of the increasing the values of investment by the wrong selection of securities.

b) The second principle is of profitability of investment. However one should be aware of the negative correlation shiph between security and profitability of investment. It would therefore be proper to consider the second principle as a subordinate to the first principle by the investor.

c) The third principle is that of liquidity, which states that it would be desirable to hold the investments in an early realizable form. Usually the inflow of funds is more than enough to meet the maturing obligations, under this principle. However, a case can be made out of the proper scheduling of the maturity of investments, so as to coincide with the maturing obligations.

d) Last but not the least is the principle of 'diversification' which the investor should consider. It means that funds should be distributed both geographically and among the different classes of investment. It is considered as a sound investment not to rely excessively on a single class of investments. As it is rightly said," Do not have all eggs in one basket".

These are the basic principle of sound investments. All these principles have been taken into account.

2.5 Types of Investments-

Having discussed the principles of sound investment, the various categories of investment are evaluated below called as Investment Avenues.

I . Financial securities

*Equity Shares

*Preference Shares

*Debentures

*Bonds

Money Market Instrument

*Treasury Bill

*Commercial paper

*Certificate of deposits

II . Non Marketable Financial Assets

*Bank Deposits

*Post Office

*Others (Co. Deposits, Provident Fund, etc.)

III . Mutual Fund

IV . Life Insurance Policies

V . Precious objects

*Gold and Silver

*Precious stone

*Art objects

VI . Real Estate

*Agricultural Land

*Non Agricultural Land as,

Open Plots

Resident Property

Commercial Property.

VII . Movable Property

*Household Machinery and Furniture

*Kitchenware

*Vehicles

*Consumer Durables

VIII . Business Assets or Commercial Investment

IX . Financial Derivatives

*Future

*Option

I. Fixed Income Securities-(Financial Securities)

In various investment avenues, some financial securities has get fixed income called as fixed income securities such as bonds, debentures, government securities and preference shares.

Bonds or debentures represent long term debt instruments. The issuer of a bond promises to pay a stipulated stream of cash flows. This generally comprises periodic interest payments over the life of the instrument and principal payment at the time of redemption. Following are the fixed income instruments- govt. securities, RBI saving bonds, private sector debentures, PSU bonds and preference shares.

- **Government Securities-**

Debt securities issued by the central govt., state govt. and quasi-govt. agencies are referred to as government securities.

Government securities have maturities ranging from 3-20 years and carry interest rates varying between 8 to 10 %. Ordinarily these securities are

typically held by banks, financial institutions, insurance companies and provident fund.

- **Savings Bonds-**

For individual investors, savings bonds are a popular instrument. RBT savings bonds have the following features-

1) Individuals, HUF's and NRI's can invest in these bonds.
2) The minimum amount of investment is Rs.1000 and there is no maximum limit.
3) The maturity period is 5 years from the date of issue.
4) There are two option- cumulative options and non-cumulative option.
5) The interest rate is 8% per annum, payable half yearly.
6) The interest earned is taxable. The bonds are exempt from wealth tax without any limit.
7) The bonds are transferable wholly or in part.
8) Nomination facility is available.
9) The bonds can be offered as security to banks for availing loans.

- **Debentures-**

Debentures are instruments meant for raising long term debt. 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. The important features of debentures are as follows-

1) For issue of debentures, a trustee is appointed through a deed. The trustee is usually a bank or a financial institution. The trustee is responsible for ensuring that the borrowing firm fulfills its contractual obligations.

2) Debentures are secured by a charge on the immovable properties.

3) All debentures issued with a maturity period of more than 18 month must be necessarily credit – rated.

4) The rate of interest on debentures may be fixed or floating.

5) Earlier the average redemption period for non-convertible debentures was about 7 years. Now there is no such restriction. A Company has the freedom to choose the redemption period.

6) Debentures may have a convertible clause, which gives the debenture holder the option to convert the debentures into equity shares on certain terms and conditions.

- **Public Sector undertaking Bonds (PSU)**

Public sector undertaking issue debentures that are referred to as PSU bonds. There are two types of PSU bonds – Taxable bonds and Tax-free bonds.

Generally PSU bonds have the following investor friendly features-

1) There is no decision of tax at source on the interest paid on these bonds.

2) They are transferable by mere endorsement and delivery

3) There is no stamp duty applicable on transfer.

4) They are traded on the stock exchange.

- **Equity shares-**

Shares represent a portion of capital. It refers the amount of money raised by issue of shares.

Indian Company act, 1956 has defined shares as –

Share means share in the share capital of the company and includes stock except when a distinction between stock and shares is expressed or implied.

Shares bring a permanent capital and company can used it through out in its lifetime.

Equity shares are regarded as the corner stone of the financial structure of the company. It provides a cushion of safety. They occupy a primary position. Equity holders provide venture capital of the company.

Equity shares represent ownership capital. Equity shareholders collectively own the company. They bear the risk and enjoy the reward of ownership.

- **Preference Shares-**

Preference shares represent a hybrid security that partakes features of equity shares and debentures. The salient features of preference shares are as follows.

1) Preference shares carry a fixed rate of dividend. Till recently, the maximum rate of dividend payable on preference shares was 14% p.a.

2) Preference dividend is payable only out of distributed profits.

3) Dividends on preference shares are generally cumulative. Dividend skipped in one year has to be paid. Subsequently before equity dividend can be paid.

4) Preference shares are redeemable – the redemption period is usually 7 to 12 years.

5) Currently preference dividend is tax exempt.

- **Money Market Instruments-**

Debt instruments, which have a maturity of less than one year at the time of issue, are called money market instruments. These instruments are highly liquid and have negligible risk. The major money market instrument is treasury bills, commercial paper and certificates of deposits. The money market is dominated by the government, financial institutions,

banks and corporate individual investors scarily participate in the money market directly.

1) Treasury Bills-

Treasury bills are the most important money market instruments. It is a short-term money market instrument issued by government of India. It has a maturity period of 364 days or 6 months. They are sold on an auction basis every week in certain minimum denominations by RBI. They do not carry an explicit interest rate. They are issued at a discount and repayable at par.

Rate of return on treasury bills is very low, yet they have an appeal for the following reasons-

These can be translated readily and there is a very active secondary market for them.

Treasury bills have nil credit risk and negligible price.

2) Commercial Paper-

A commercial paper represents short term unsecured promissory notes issued by firms that are generally considered to be financially strong.

Generally, large firms with considerable financial strength are able to issue commercial paper. The important features of commercial paper are as follows-

a) The maturity period of commercial paper is 90 to 180 days.

b) It is sold at a discount and redeemed at par. hence, the implicit interest rate is a function of the size of discount and the period of maturity.

c) Commercial paper typically is of a high denomination and hence is bought mainly by institutional investors and companies.

3) Certificates of Deposits-

Certificates of deposits represent short-term deposits, which are transferable from one party to another. Banks and financial institutions are the major issuers of CD's are issued in either bearer or registered form. They generally have a maturity of 3 months to 1 year. CD's carry a certain interest rate.

CD's are popular form of short-term investment for companies for the following reasons-

a) Banks are normally willing to tailor the denominations and maturities to suit the needs of the investors.

b) CD's are generally risk free.

c) CD's generally offer higher rate of interest than treasury bills or term deposits.

II. Non-Marketable Financial Assets-

A good portion of the financial assets of individual investors is held in the form of non-marketable financial assets, like deposits. Deposits are similar to fixed income. Securities as they earn a fixed return. However, unlike fixed income securities, deposits are not represented by negotiable instruments. The important types of deposits as non-marketable financial assets are-

1) Bank Deposits

2) Post Office Deposits

3) Others (Company deposit, Provident fund Scheme, etc.)

Bank Deposits-

A bank deposit is one of the simplest of investment avenues opening a bank account and depositing money in it one can make a bank deposit.

The bank deposit consist of deposit with commercial banks, co-operative bank, credit and non-credit societies, these are the most important and convenient instrument of financial savings among the households. There are various kinds of bank accounts- current accounts, savings account and fixed deposit account. While a deposit in a current account does not earn any interest, deposits in other kinds of bank accounts earn interest.

The important features of bank deposits are as follows,

1) Deposits in scheduled banks are very safe because of the regulation of the reserve bank of india and the guarantee provided by the deposit insurance corporation, which guarantees deposits up to RS.1 Lakh per depositor of a bank.

2) There is a ceiling on the interest rate payable on deposits in the savings accounts.

3) The interest rate on fixed deposits varies with the term of the deposit. In general, the interest rate is lower for fixed deposit of shorter term and higher for fixed deposits of longer term.

4) If the deposit period is less than 90 days, the interest is paid on maturity, otherwise it is paid quarterly.

5) Bank deposits enjoy exceptionally high liquidity. They can be encashed prematurely by incurring a small penalty.

6) Loans can be raised against bank deposits

7) Most banks calculate interest on deposit between 10 th and the last date of the month.

Post Office Deposits-

Post office deposits are safer and secured investment than other investments. Similar to bank deposits, post office deposits have the following features.

1) Deposits can be made in multiples of Rs.50 without any limit.

2) The interest rates are slightly higher than bank deposits.

3) The interest is calculated half-yearly and paid annually.

4) No withdrawal is permitted for up to six months.

5) Withdrawal made between six month and one year, no interest is payable on withdrawal after 1 year but before the term ok deposit, interest is paid for the period the deposit has been held, subject to a penal deduction of 2%.

6) A post office time deposit account can be pledged.

7) Deposits in 10 to 15 year, post office cumulative time deposit account can be deducted before computing the taxable income under section 80 C.

Post office provided various schemes. Some popular schemes are given below,

Monthly Income Scheme of the post office(MISPO- is meant to provide regular monthly income to the depositors)

Kisan Vikas Patra (KVP)

National savings Certificate (NSC)

Others – (Co. Deposits, Provident fund schemes, etc.)-

Investor not only made investment in bank deposit and post office deposits but also other investments such as company deposits, provident fund schemes etc. Today various companies were established in market and they provide variety of benefits to their investors. It includes company deposits, employee provident fund scheme and public provident fund scheme.

- **Company Deposits-**

Many companies large and small solicit fixed deposits from the public. Finance companies are regulated by the reserve bank of india. The key features of company deposits in india are as follows-

1) For a manufacturing company the term of deposits can be one to three years. Whereas for non-banking finance company it can vary between 25 months to 5 years.

2) The interest rates on company deposits are higher than those on bank fixed deposits.

3) Co. deposits represent unsecured loans.

4) Co. deposits have to be necessarily credit –rated.

5) Depositor's don't get any tax benefits on co. deposits. However no income tax is deducted if the interest income is up to Rs. 5000 in a financial year.

6) Co. deposits offer some incentives like facility for premature withdrawal or free personal accident insurance cover to attract deposits.

- **Employee Provident Fund Scheme-**

This is a major vehicle of savings for salaried employees. The employee provident fund scheme has the following features.

1) Each employee has a separate provident fund account in which both the employer and the employee are required to contribute a certain minimum amount on a monthly basis.

2) The employee can choose to contribute additional amounts subject to certain restriction.

3) The contribution made by the employer is fully tax exempt. The contribution made by the employee can be deducted before computing the taxable income under section 80C.

4) The rate of interest on provident fund is 9.5% per annum that is totally exempt from taxes.

5) The balance in the provident fund account is fully exempt from wealth tax.

6) Within a certain limit, the employee is eligible to take a loan against the provident fund balance pertaining to his contributing only.

- **Public Provident Fund Scheme-**

This is one of the most attractive investment avenues available in india. Public provident fund scheme has the following features-

1) Individual and HUF's can participate in this scheme. A PPF account may be opened at any branch of the state bank of india or at specified branches of other nationalized banks.

2) The period of PPF account is stated to be 15 years, and then the number of contributions has to be 16. Thus a PPF account matures on the first day of the 17 th year.

3) The subscriber to a PPF account is required to make a minimum deposit of Rs.100 per year and maximum deposit Rs.70000 per year.

4) Deposits in PPF account can be deducted before computing the taxable income under section 80C.

5) The rate of interest of PPF deposits is 8% per annum, which is totally exempt from taxed.

6) The balance in a PPF account is fully exempt from wealth tax.

7) The subscriber to a PPF account is eligible to take a loan from the 3rd year to 6 th year after opening the PPF account.

8) The subscriber to a PPF account can make one withdrawal every year from the 6th year to 15 year.

9) On maturity, the credit balance in a PPF account can be withdrawn. However at the option of the subscriber, the account can be continued for two successive block periods of 5 years each, with or without deposits.

III. Mutual Fund-

A mutual fund represents a vehicle for collective investment. When you participate in the scheme of mutual fund, you become part-owner of the investments held under the scheme.

Mutual funds are associations or trusts of public members who wish to make investments in the financial instrument or asset of the business sectors or corporate sector for the mutual benefits of its members.

Mutual fund collects the money of these members from their savings and invests them in a diversified portfolio of financial assets with a view to reduce risk and to maximize their income and capital appreciation for distribution to its members on a pro-rata basis.

Mutual fund is thus a concept of mutual help of subscriber for portfolio investment and management of these investments by experts in the field. Those funds are set up under the Indian Trust Act. Unit Trust of India is governed by its own act.

Till 1986, Unit Trust of India was the only mutual fund in india. As the mutual fund sector was liberalized, a member of new entrants came into the field. Since then public sector banks and insurance companies have been allowed to set up subsidiaries to undertake mutual fund business,

In 1992, the mutual fund industry was opened to the private sector and a number of private sector mutual funds have been set up. At present, there are about 30 mutual funds managing nearly 1000 schemes.

While the mutual funds industry in india has registered a healthy growth over the last 15 years. In India, the following entities are involved in a mutual fund operation,-the sponsor, the mutual fund, the trustee, the

assets management company, the custodian, the registrars and transfer agents.

A mutual fund scheme may be a closed-ended or an open-ended scheme. The subscription to a closed-ended scheme is kept open only for a limited period, whereas an open-ended scheme accepts subscription from investors on a continuing basis.

Depending on the assets- mix, mutual fund scheme are classified into 3 broad categories: - equity schemes, hybrid (balanced) scheme and debt schemes.

Mutual fund invests in three broad categories of financial assets- stocks, bonds and cash stock comprise of equity and equity related instruments. Bonds are debt instruments that have a maturity of more than one-year cash comprises of debt instrument that have a maturity of less than one year and bank deposits.

The investments of a mutual fund are subject to a set of regulation prescribed by SEBI. Some of the restrictions are as follows,

a mutual fund, under all its schemes taken together, will not own more than 10% of any company's paid up capital carrying voting rights, a scheme shall not invest more than 15% of its net annual value in debt instrument issued by a single issuer which are related not below investment grade by an authorized credit rating agency.

Mutual fund schemes are periodically evaluated by independent institutions CRISIL and value research India are two such institutions whose rating or evaluations are currently very popular.

The income occurring to mutual funds are tax free if they are approved by SEBI and RBI, provided it distributes 90% of its profits. The mutual fund provide their investors pure income schemes which provides regular income balance schemes providing regular income and capital

appreciation and tax saving schemes offering growth with rebate on income earned from the mutual fund.

Mutual fund offers the advantages of diversification, professional management, liquidity, assured allotment, tax savings and transparency. The major disadvantage of investing in a mutual fund relates to the expenses of running the mutual fund.

The mutual funds have certain schemes for specific purpose. Some of them are as follows-

Dhanvidhya has been floated especially for the children's higher education. Another schemes called Dhanvriddhi, is an insurance linked investment plan. Bank of India has a bonanza exclusive growth scheme.

Mutual funds also allow 'roll over' facility to the investment. Investors are allowed to shift from one scheme to another of the same. Mutual Funs through this facility without any sales charges.

Mutual fund also provides the safety net facility to give confidence to the investors.

IDBI has given this facility in their schemes called NIT-95.

IV. Life Insurance Policies-

The basic needs of customer are protection and savings, which are met by life insurance policies. Policies provide protection, benefits are designed to protect the policy holder from the financial consequences of uncertain events such as accidents or death.

Policies are designed as savings contracts allow the policyholder to build up funds to meet specific investment objectives such as income in retirement or repayment of a loan. In practice, policies provide a mixture of savings and protection benefits.

Life insurance is a contract between a person and an insurance company for a number of years covering either the life time period or a fixed

number of years. In India, life is protected by a monolithic institution called the Life Insurance Corporation of India.

Life insurance is called an investment because of a number of reasons-

1) It provide protection against risk of early death

2) It can be used as collateral for taking loans from banks.

3) Life of key men in an association can be protected

4) It provides tax advantages

5) It is measure of protection at the time of death because it gives provision for estate duty.

6) It is sum of money received at the end of a particular number of years, i.e. "the termination period of the contract".

Life insurance is therefore, called an investment with an element of protection and an element of investment.

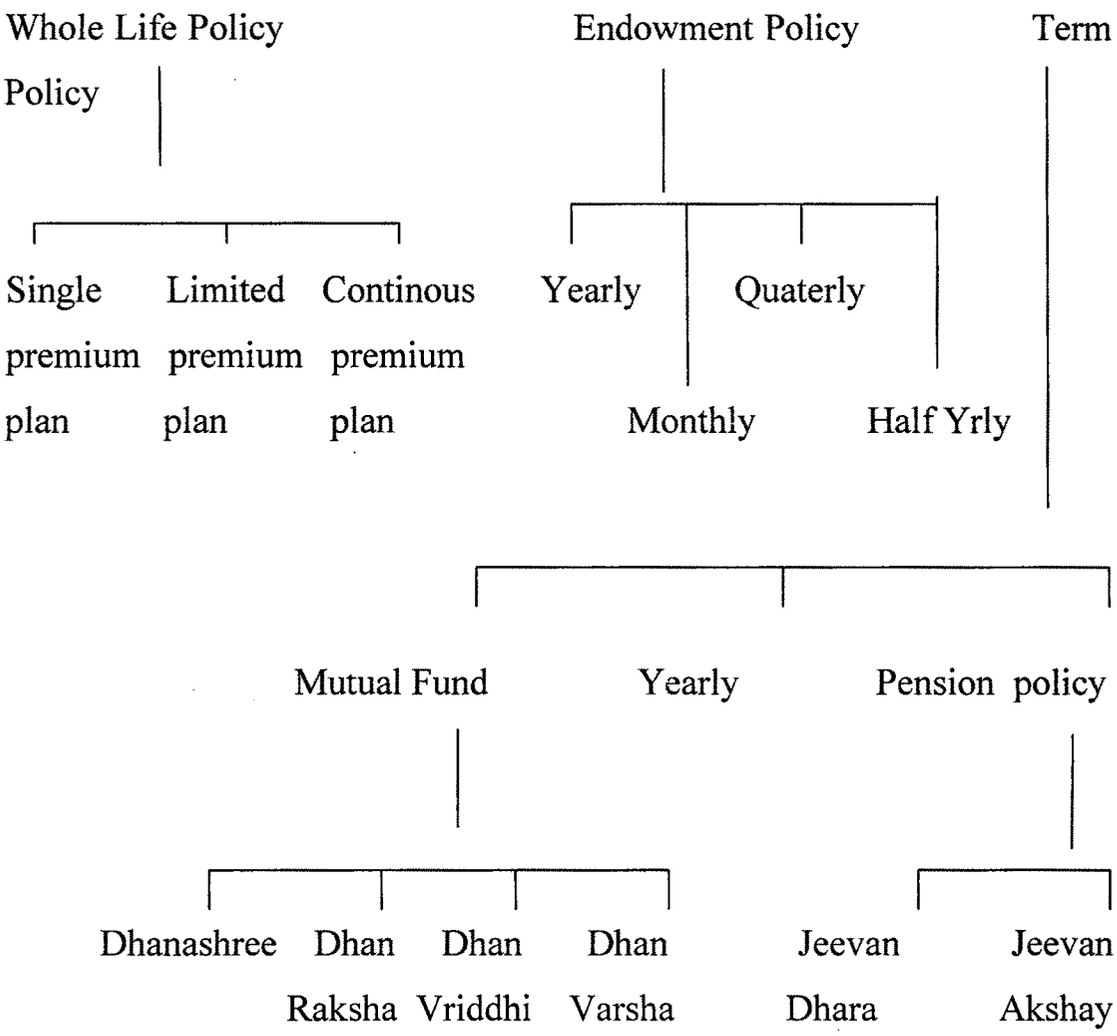
Life Insurance in India is provided by the Life Insurance of India (LIC), which was established by an act of parliament that came into effect on July 1, 1956. The LIC offers various life insurance schemes as follows,

Kinds Of Life Policies-

The kinds of policies are dependent on the amount of premium payable, the amount promised by the insurance company at the end of the termination period and the circumstances in which the amount becomes payable. Basically the corporation issues whole life policies, endowment policies and term policies. These in turn may be with profits or without profits. All policies make available certain attractive benefits and also have certain limitations. There is no best policy and the attractiveness of the policy will depend on the requirement of the investor.

Different types of policies are given in table: -

Life Policies



V. Precious Object-

Precious objects are items that are generally small in size but highly valuable in monetary terms. The important precious objects are gold, silver and precious stones (such as diamonds, rubies, emeralds, sapphires and pearls) and art objects (such as painting and antiques).

- Gold and Silver-

Gold and silver is one of the most valuable assets in any economy. It has been used in india primarily as a form of saving by the housewives.

Gold and Silver, the two most widely held precious metals, appear to almost all kinds of investors for the following reasons.

1) Historically, they have been good hedges against inflation.
2) They are highly liquid with very low trading commissions
3) They are aesthetically attractive.
4) They possess a high degree of money ness.

These are advantages of gold and silver. It has some dis-advantages as follows,

1) They do not provide regular current income
2) There is no tax advantage associated with them
3) There may be a possibility of being cheated
4) Due to the softening of their prices, gold and silver have not kept up with inflation in recent times.

- **Precious Stones-**

Precious stones are diamonds, rubies, emeralds, sapphires and pearls. They have appealed to investors since times immemorial because of their aesthetic appeal and rarity. Diamonds in particular have attracted interest because of their high per carat value. The quality of a diamond is basically judged in terms of the 4 C's, viz. Carat, Colour, cut and clarity.

While precious stones may have appeal for the affluent investor and those who have skill in buying them, they are not suitable for the bulk of the investor for the following reasons-

1) Poor Liquidity-

Precious stones can be very illiquid. It may not be easy to sell them quickly without giving major price concessions.

2) Subjectivity in valuation-

The grading process by which the quality and value of precious stone is determined can be quite subjective.

3) Substantial Investment-

For investment purpose, larger precious stones are suitable. Most investment grade precious stones, diamonds in particular require huge investments.

4) No regular returns-

Precious stones do not earn a regular return during the period they are held. On the contrary, the investor has to incur the costs of insurance and storage.

- **Art Objects-**

Objects which possess aesthetic appeal because their production require skill, taste, creativity, talent and imagination may be referred to as art objects.

According to this definition, painting, sculptures, etching and so on, may be regarded as art objects. (Some of these objects, thanks to their historical importance are classified as antiques). The value of an art object is a function of its aesthetic appeal, rarity, reputation of the creator, physical condition, and fashion. The more commonly bought objects are painting and antiques.

Painting appears to be the most popular among objects of arts. In the last decade or so, interest in painting has grown considerably, thanks to the substantial appreciation in the market value of paintings of Hussain, Raza, Menon and others.

An object of historical interest may be regarded as antique. Antique may be in the form of painting, coins, stamps, flower vases, a manuscript, a sculpture or any other object. The basic advantage of an antique is that the investor can sell it at any price, which propounds, but it is very difficult to find these antiques. Antiques are very risky for long holding period investment. The state of only one piece makes a fortune.

VI. Real Estate- (The Tangible Thing)

The investment avenues discussed so far are monetary assets, which essentially represent financial claims. Real assets on the other hand, are physical goods. The important categories of real assets are-

a). Agricultural Land

b). Non-Agricultural Land as,

*Open Plot

*Resident property

*Commercial Property

a) Agricultural Land-

Agricultural land is one of the important parts of real estate. The appreciation in the value of agricultural land makes it an attractive investment proposition. Its appeal is further enhanced by the following factors.

Advantages-

1) Agricultural income per se is not taxable. However it is included to the total income for determining the tax rate applicable to the non-agricultural income of the assesses.
2) Agricultural land is exempt from wealth tax.
3) Loans are available for agricultural operations at a concessional rate.
4) There is a charm in living in a farm house.
5) Capital gains arising from the sale of agricultural land may be tax-exempt in some cases or may be taxed at a concessional rate.

Investment in agricultural land has also create some problems are as follows-

1) In many states, land ceiling laws are quite restrictive. Moreover, in some states the law precludes non-agriculturists from acquiring agricultural land.

2) Many states have law that confers ownership to the cultivating tenant.

3) Farmhouses in general are not very safe.

4) Agricultural activity is often uneconomical or unprofitable particularly if it is done on a part-time basis.

b) Non-Agricultural Land-

The land, which is not used for agriculture purpose, is called as non-agricultural land. It includes resident property, commercial property and open plots.

- **Residential Property-**

The most important asset for individual investors is generally a residential house. A residential house represents an attractive investment proposition for the following reasons-

1) The total return (rental savings plus capital appreciation) from a residential house is satisfactory.

2) Loans are available from various quarters for buying/constructing residential property.

3) For wealth tax purpose, the value of a residential property is reckoned at its historical cost and not at its present market price.

4) Interest on loans taken for buying/constructing a residential house is tax deductible with certain limits.

5) Ownership of a residential property provides psychological satisfaction.

Due to these advantages a residential property represents the most important part of the portfolio for the bulk of investors.

- **Commercial Property-**

The more affluent investors may be interested in investing in commercial property. This may take the form investing in commercial property. This may take the form of constructing a commercial complex or buying office or shop space in a commercial complex.

The appeal of such an investment lies mainly in the form of regular rental income, which can be revised upward periodically. Further, the commercial property may enjoy some capital appreciation over a period of time.

The disadvantage of such an investment is that it requires a large outlay and may require time and effort in managing it.

- **Open Plots-**

Open plots means the non-agricultural areas which are used for construction of buildings. The buildings may be in the form of residential complexes or commercial / industrial complexes. Due expansion of the urban areas the people have started investing in such open plots. The cost of land is increasing at higher rate and therefore the this avenues of investment has become very attractive.

VII) Movable Property-

The property is used for household purpose, which is called movable property. Movable property consists of household appliance like-

1) Household machinery and furniture- fixture and fittings
2) Kitchenware

3) Vehicles- personal vehicles as two wheeler, three wheeler or four wheeler

4) Consumer durable as fan, refrigerator, TV set, Tape recorder, Radio, Video set, CD player, etc.

Today, these movable properties are one of the important part of mans life.

VIII) Business Assets/ Commercial Assets-

In order to know the clear objective behind holding specific type of assets and to get insight of the changing pattern of household investment, the researcher has considered business assets independent of all other assets. These are used for the business purpose only. It consists of business, premises, machinery, tools and implements and stock in trade.

IX) Financial Derivatives-

Derivatives are the instruments, the value of which depends upon the underlying assets on which it is created. These underlying assets may be a commodity, currency, securities (shares and debentures) or index.

From the point of view of investors and portfolio managers, future and options are the two most important financial derivatives. They are used for hedging and speculation.

Future and option perform 3 very useful economic function i.e. risk transfer, price discovery and market completion.

1) **Futures**- (where the hedgers and speculators meet)

Future is a financial contract, which derives its value from the underlying assets.

A future contract is an agreement between two parties to exchange an asset for cash at a predetermined future date for a price that is specified today.

The party, which agrees to purchase the assets is said to have a long position and the party, which agrees to sell the asset, is, said to have a short- position. The party holding the long position benefits if the price increases whereas the party holding the short position loses if the price increases and vice versa.

Future contract is not an investment because no cash is paid to buy an asset. It is just a commitment to do a transaction in future.

A future contract is a standardized for ward contract markets play an important role in the world of finance. Many kinds of future instruments have been developed and the use of futures has received a great deal of attention.

Broadly there are two types of futures i.e. commodity futures and financial futures.

A commodity futures contract is a futures contract in a commodity like cocoa or aluminum while a financial future contract is a future contract in a financial instrument like Treasury bond or currency.

Equity futures are of two types i.e. Stock Index Futures and Futures on Individual Securities. e.g. In India, National Stock Exchange (NSE), Bombay Stock Exchange (BSE)

The participants in the future market are either Hedger or Speculators.

Hedgers are parties who are exposed to risk because they have a prior position in the commodity or the financial instrument specified in the future contract. Hedgers buy or sell futures contracts to protect themselves against the risk of price changes.

Speculators do not have a prior position that they want to hedge against price fluctuation rather they are willing to assume the risk of price fluctuation in the hope of profiting from them.

The future market offers the following attraction to the speculator i.e. leverage, ease of transaction and lower transaction costs.

2) **Option-**

An option gives its owner the right to buy or sell an underlying asset (equity shares) on or before a given date at a predetermined price.

Option represents a special kind of financial contract under which the option holder enjoys the right (for which he pays a price) but has no obligation to do something.

There are two basic types of options i.e. call option and put option. They serve as building blocks for developing more complex options.

A call option gives the option holder the right to buy a stock at a fixed price on or before a certain date.

A put option is apposite of a call option. It gives the holder the right to sell stock at a specified price on or before a certain date.

A call option is equivalent to a combination of the underlying stock, a put option on that stock and a debt equal to the exercise price. This equivalence is referred to as the put-call parity.