PROJECT REPORT

A STUDY ON PREFERENCES OF INVESTORS ON VARIOUS INVESTMENT OPPORTUNITIES

SUBMITTED IN PARTIAL FULFILLMENT OF THE

REQUIREMENT OF MASTER OF COMMERCE

SUBMITTED BY

NAME: ………………………….

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UNDER THE SUPERVISION OF

…………………………

SUBMITTED TO:

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CERTIFICATE OF ORIGINALITY

This is to certify that the project titled **"A STUDY ON PREFERENCES OF INVESTORS ON VARIOUS INVESTMENT OPPORTUNITIES"** is an original work of the student and is being submitted in partial fulfillment for the award of the "Master of Commerce" of Indira Gandhi National Open University. This report has not been submitted earlier either to this University or to any other University/Institution for the fulfillment of the requirement of a course of study.

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Date:	**Date:**
Place:	**Place:**

ACKNOWLEDGEMENT

I feel indebted to my guide ……………………. For the completion of the dissertation entitled **"A STUDY ON PREFERENCES OF INVESTORS ON VARIOUS INVESTMENT OPPORTUNITIES"** The present work could be completed only because of the able guidance and affectionate attitude of my guide ……………………….

I am thankful to all respondents and all those who assisted me by supplying the requisite information towards the completion of the questionnaire there by enable me to collect the relevant data.

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CHAPTER 1

INTRODUCTION

INTRODUCTION

The secret of success in investment is to increase its value. That is a simple statement. It is like advising an investor in the stock market to "BUY LOW, SELL HIGH," The problem is how to do it? These days life seems to be more complicated than ever, with precious little time for a walk in the park or settling down with a good book, leave alone taking time out from one's busy schedule to make and monitor wise personal investment decisions. Investment is never an easy process.

Every individual moving in the pyramid of the hierarchy of needs should first satisfy the need for basic necessities in life and then save for their future. In today's environment, it is prudent for any investor to look into the real interest earned as inflation is moving out of gear. It is imperative that the returns be higher without the risk of losing the principal in an investment. This necessitates for optimization of risk and reward.

Unlike investments, cash in your hand, pays no returns. On the other hand, cash provides more liquidity than investment. People who hold cash must believe that this additional liquidity offsets the loss of returns.

Investing is a complex field of study involving knowledge of various investment tools, terms, concepts, strategies and processes. A study of investment is best accompanied by training-and experience in the field of investment.

Some one who has the knowledge, training and experience to perform financial planning does not necessarily need a planner, advisor or broken to execute a stock trade. However, being able to execute a stock trade is no way under estimating the importance of knowledge, training and experience in the lifetime pursuit of financial goals.

In the last couple of decades with technological and regulatory advancements like arrival of scrip less trade and involvement of Securities and Exchange Board of India [SEBI], execution of trade has been made accessible to individuals themselves through discount brokers and online trading firms.

REVIEW OF LITERATURE

R.K.Gupta, CEO, Taurus Mutual Fund says "Now the time has come for the mutual fund industry to address the problem of size and its impact on the investors. The Indian mutual/fund industry is tightly regulated by the SEBI. Many shortcomings faced by the industry in adhering to these regulations are being regularly discussed by the top management or SEBI with the Captains of industry directly as well as through the Association of Mutual Funds in India (AMFI). The industry has also realized that managing the others' money is more risky' and therefore, they have to be vigilant in their operations. The industry is so sensitive that the media and other competitors can exploit wrong action of even the junior staff of a fund. The main challenge before the industry is. how to attract retail investors, who are the backbone and prC\,vide stability for the growth of the mutual fund industry. The SEBI chairman has also expressed his concern on many occasions on this issue. The percentage of retail investors in the overall assets under management of the mutual fund industry is reducing. SEBI, time and again is emphasizing that mutual fund instruments (l.remeant for retail investors. However, looking at the present scenario, the situation is unlikely to improve in the near future, unless it is critically analyzed and cd dressed by the regulator and various players,"

According to R. Swami Nathan, Head, Sales and Distribution, Canbank Investment Management Services Limited, "There is no doubt mutual funds are here to stay. The challenges are formidable, but they can be overcome. The government and regulators with tax sops and investor, protection guideline nurture the industry. Now it is also the responsibility of the industry members to spread across the country for development, to ensure consistent growth. in. numbers as well as the much sought after AUM,"

Sanjay Sinha, Fund Manager, UTI Mutual Fund, expresses his view, as "Corporate profit and liquidity will primarily drive markets In March 2005 corporate results were very good. A recent study by a broking firm pointed out that the composite EPS or the sensex companies was between 563 and 570. This gave a price-earning multiple of less than 26 at the peak of 8500. Markets still holds a lot of value even at these levels. I FIIs inflows will continue to provide more liquidity. The appreciation of the rupee is adding comfort. There is also the concern of asset bubble taking place. But this will happen only if the growth of profit is not able to keep pace with the rise in the markets. This is not visible at this point of time. Investors may allocate 40 percent for equity, based on their risk appetite."

Amit Chandra, Joint MD, DSP Merrill Lynch Limited, says, in 2006 the Indian market will be driven a lot more by investment demand than consumption demand. The big story will be impact of increasing, corporate capex, due to rising capacity utilization and the need to accelerate infrastructure spends across sectors. "We accept a sharp rise of over 60 percent in infrastructure spend across sectors. Annual spending could hit $25 billion a year over the next three years and the impact of a at will be felt at a macro level and in the stock markets," he adds. Talking about sectors, Chandra is of the opinion that the pharma and textile sectors will be carefully watched in 2006- for the impact of major changes (adoption of patent laws and removal of quota system) in the regulatory environment on these sectors.

Gagan Banga, Director, India Bulls, expressed that at a time when the Sense x is ruling at 6500 levels, it is still at a moderate PE levels, feels Banga. Reason: if the industry is able to sustain a 25 per cent growth rate, FII inflows will surely continue. "1 also sense that the government is trying to address the fiscal deficit situation. Progress needs to be made on managing fiscal deficit, with infrastructure development and industrial growth. If we have progress on these fronts, markets will continue to respond positively, because FIIs will continue to buy the India story," he said. Talking about valuation, Banga feels that valuation in some stocks are stretched. "That will always happen in a dull market scenario. But we have new sectors emerging with many companies reporting robust growth. I sense that stock-specific positive momentum will continue," says Banga who, as a firm believer in fundamentals, recommends splitting the portfolio allocations into sectors like steel, infrastructure, construction, retail, financial services and some of it in cement, FMCG and IT.

S.A. Narayan, Managing Director, Kotak Securities said that Forecast equities at the very conservative levels will give a return between 15 and 20 per cent. In case of debt, even in the best scenario, it may not be possible to get more than 6 percent. This may not give any real returns (after factoring inflation 6-7 per cent). Even on international comparison, equities look good. Fundamental factors favour investment in equities. Bullion is also good and will give returns. However, problems of storage handling safety remain a concern for retail investor. Strategy allocate and stay invested. Don't get carried away by daily fluctuation. Look at portfolio allocation. Take advice of professionals if required. Follow a systematic investment plan approach to spread risks.

In India, unfortunately, not many investors look at bullion as an investment. Indian consumers buy about 20 percent of the global gold supply every year. This works out to about RsAO,OOO crore, bulk of which is in the form of jewellery. About Rs.6,000 crore is held in physical bars and coins form, according to Sanjeev Agarwal, Managing Director, Indian Subcontient, World Gold Council, who is of the view that this category of holders of bars and coins is on the increase and would continue to do so. Agarwal for one justifies the investment. "Gold is the only universal asset with no geographic, religious or socio- economic boundaries. Any government or industry does not influence its performance and prices and it acts a currency and inflation hedge. And above all it does not have a storage or liquidity problem. It has an adornment value and gets translated into a financial asset as a last resort."

MEANING OF INVESTMENT

Investment is the employment of funds with the aim of achieving additional income or growth in value. The essential quality of an investment is that it involves waiting for a reward. It involves the commitment of resources which have been saved or put away hom current consumption in the hope that some benefits will accrue in future. The term Investment does not appear to be as simple as it has been defined. Investment has been further categorised by financial experts and economists. It has also often been confused with the term speculation. The following discussion will give an explanation of the various ways in which investment is related or differentiated from the financial and economic sense and how speculation differs from investment. However, it must be clearly established that investment involves long-term commitment.

FINANCIAL MEANING

Investment is the allocation of monetary resources to assets that are expected to yield some gain or positive return over a given period of time. These assets range from safe investments to risky investments. Investments in this form are called "financial investment".

ECONOMIC MEANING

To the Economist, 'investment' means the net additions to the economy's capital stock, which consists of goods, and services that are used in the production of other goods and services. In this context, the term investment, therefore, implies the formation of new and productive capital in the form of new construction, new producers' durable equipment such as plant and equipment. Inventories and human capital are included in the economists' definition of investment.

From the point of view of people, who invest their funds, they are the suppliers of 'capital' and in their view; investment is a commitment of a person's funds to derive future income in the form of interest, dividend, rent or the appreciation of the value of their principal capital.

RATIONALE FOR THE STUDY

With the emergence of these financial instruments that help the investor to hedge the risk, it is essential that the investor should be aware of these financial innovate instruments. Without the adequate understand of these new instruments, the investor shall not enter into relevant contracts or may be just enter into contracts to increase the risk by making wrong selection. In this light, with the growth of equity participation of retail investor in city like Bhubaneswar, there is a greater need to understand the investors' preferences towards various investment opportunities.

STATEMENT OF THE PROBLEM

The statement of the problem is. A STUDY ON PREFERENCES OF INVESTORS ON VARIOUS INVESTMENT OPPORTUNITIES"

OBJECTIVES OF THE STUDY

Following objectives are formulated for the proposed study.

- To study the factors that influences the investors to invest.
- To know, whether the investors prefer direct investments or indirect investments.
- To find out, whether the investors are going for the financial instruments or other assets (like gold, silver, land, etc.,)
- To analyse whether the investors prefer fixed income securities or variable income securities.
- To know, whether the investors are taking the decision by themselves or with the help of financial advisors.

HYPOTHESIS

- Whether there is any significant difference between the investment behaviour of the investors between direct investments (bank deposits) and indirect investments (insurance).
- Is there any difference between the investment behaviour of the investors between financial securities (shares) and non-financial securities (land&buildings).
- Whether there is any difference between the investment attitude of the investors between fixed income securities (bank deposits) and variable income securities (mutual funds)

RESEARCH METHODOLOGY

Research design is a conceptual structure within which research is conducted. It constitutes the blueprint for the collection, measurement and analysis of data. Research design is needed because it facilitates the smooth sailing of the various research operations, thereby making research as efficient as possible yielding maximum information with minimum effort, time and money. Research design stands for advance planning of methods to be used for collecting the relevant data and the techniques to be used in their analyses. Preparation of research design should be done with great care as any error may upset the entire project. Therefore it is imperative that an efficient design must be prepared before starting research operations. The design helps the researcher to organize his ideas in a form whereby it will be possible for him to look for flaws and inadequacies.

TYPE OF RESEARCH

Once the problem is identified, the next step is the research design. Research design is the basic framework of rest of the study. A research design specifies the methods and procedures for conducting particular study.

The objectives of the project study necessitate the design of the research to be Conclusive and Descriptive. This is instrumental in providing information for the evaluation of particular courses of action. In this project the researcher follow the descriptive research design. The study is intended to find the investors preference towards various investment opportunities. The study design is descriptive in nature.

Source of Data:

There are two types of data:

Primary Data:

The primary data is fresh information collected for a specified study. The primary data can be gathered by observational, experimentation and survey method. Here the entire scheme of plan starts with the definition of various terms used, units to be employed, type of enquiry to be conducted, extent of accuracy aimed etc.,

The methods commonly used for the collection of primary data are:

1. Direct personal investigation, where the data is collected by the investigator from the sources concerned.
2. Indirect oral interviews, where the interview is conducted directly or indirectly concerned with subject matter of the enquiry.
3. Information received through local agencies, which are appointed by the investigator.
4. Mailed questionnaire method, here the method consists in preparing a questionnaire (a list of questions relating to the field of enquiry and providing space for the answers to be filled by the respondents.), which is mailed to the respondents with a request for quick response within the specified time.

Secondary Data:

The secondary data refers to data, which already exists.

The secondary data was collected from internal records, business magazines, company websites and Newspapers.

Source of data for the study: The primary data was collected from the customers coming in to stockbroker's office and certain addresses were collected from reputed brokers.

The secondary data was collected for this study from books on financial management, internal records, business magazines, company websites and Newspapers.

Research instruments:

For the collection of primary data a structured questionnaire was prepared covering various aspects of the study.

The questionnaire was containing closed-ended and dichotomous questions.

Population of the study: The entire customer's visiting the stock broking offices at Bhubaneswar formed the population of the study.

Sampling Procedure:

It is a procedure required for defining a population to the actual selection of the sample. The precision and accuracy of the survey results are affected by the manner in which the sample has been chosen.

Sample:

A part of a population, which is provided by some process on other, usually by deliberated selection with the object of investigating the properties of the parent population set.

Non probability sampling method is in deterministic method where the sample size in numerous and can't be determined. So for our convenience we take convenience-sampling method where all the population in sample is given equal opportunity.

Sampling Design

1. **Selection of study area:** The study area is in Bhubaneswar.
2. **Selection of the sample size:** 75 respondents were requested to answer the questionnaire.

Sampling Methods

Convenience method of sampling was used to collect the data from the respondents. Researchers or field workers have the freedom to choose whomever they find, thus the name "convenience". About 75 samples were collected from Bhubaneswar and most of the respondents were customers coming in to stock broker's office and certain addresses were collected from reputed brokers.

Data collection

The researcher personally visits the stockbroker offices in Bhubaneswar area. The customers who visit these offices were chosen as the respondents. The respondents were requested to fill in the questionnaire. The researcher thoroughly checks the questionnaire for any mistakes and after cross verifying the answers it was kept for the data analysis.

TOOLS TO BE USED FOR DATA ANALYSIS

The data collected from the respondents was put into Microsoft excel software and Percentage analysis were carried out. The data was represented in the form of pie charts and meaningful inferences were made after analyzing the data. For the purpose of testing the hypothesis, percentage analysis and chi-square test were used.

LIMITATIONS OF THE STUDY

- Understanding the nature of the risk is not adequate unless the investor or analyst is capable of expressing it in some quantitative terms. Expressing the risk of a stock in quantitative terms makes it comparable with other stocks.
- Measurement cannot be assured of cent percent accuracy because risk is caused by numerous factors such as social, political, economic and managerial efficiency.
- Respondent's bias may be another limiting factor.
- The study was limited to 75 respondents only.

CHAPTER 2

INVESTMENT OPPORTUNITES

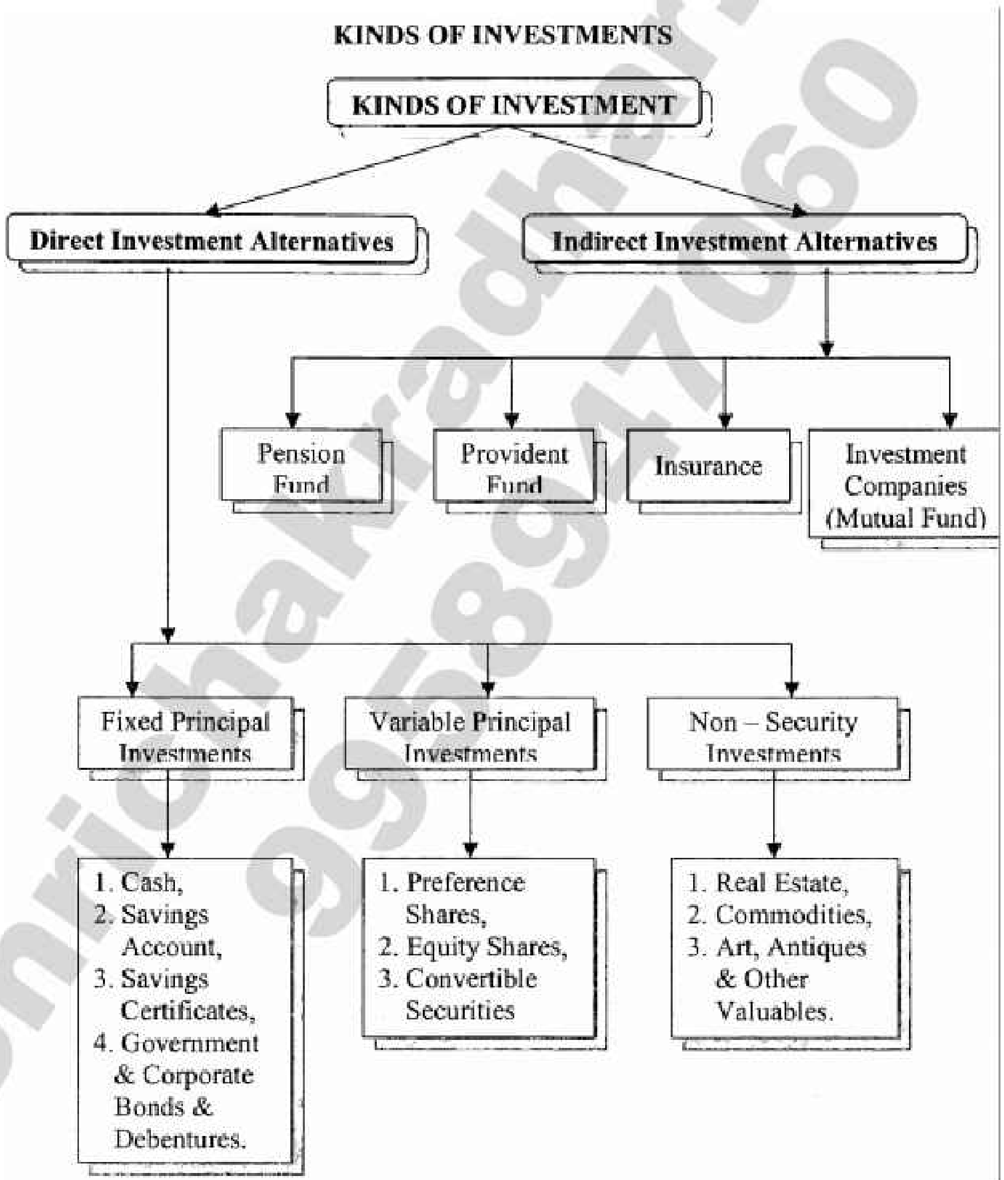
INVESTMENT OPPORTUNITIES

Many types of investment media or channels are available for making investments. Some media are simple and direct, where as others are complex necessitating detailed analysis and investigation. Some are poplar, whereas others are relatively new. Some are appropriate for one type of investors, while others may be suitable to rest of the types of investors. Whatever it is, the ultimate aim of the investor is to drive a variety of investments that fulfill his preference for risk and expected return.

The investor will select the portfolio, which will maximize his utility. Securities present a wide range of risk varying from risk-free instruments to highly speculative instruments like shares and debentures. Of the various securities available for investment, the investors will have to select those securities that will maximize his expected return.

However, while doing so he has give considerations to certain things. It is not only the construction of a new portfolio that will promise the highest expected return; but also, it is the satisfaction of the need of the investor.

One investor may face a situation when he requires extreme liquidity as well as safety of securities. Such as investor will have to choose a security with low return. Another investor would not mind high risk but he would like a high return. He can put his savings in growth shares, because he is willing to accept risk. Another important factor to be considered is the temperament and psychology of the investor. Some investors are willing to take risks, while others 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. Hence, to fulfill the requirements of different kinds of investors, many alternative investments exist. These can be categorised in many ways.



IMPORTANT OF INVESTMENTS

Investments are both important and useful in the context of present- day conditions. Some factors that have made investment decisions increasingly important are:

(a) Longer Life Expectancy: Investment decisions have become significant as most people in India retire between the ages of 55 and 60. Also, the trend shows longer life expectancy. The earnings from employment should, therefore be calculated in such a manner that a portion should be put away as savings. Savings by themselves do not increase wealth; these must be invested in such a way that the principal and income will be adequate for a greater number of retirement years.

The importance of investment decisions is further enhanced by the fact that there is an increasing number of women working in organisations. These women will be responsible for planning their own investments during their working life so that after retirement, they are able to have a stable income.

Increase in the working population, proper planning for life span and longevity have ensured the need for balanced investments.

(b) Increasing Rates of Taxation: Taxation is one of crucial factors in any country, which introduces an element of compulsion in a person's savings. There are various forms of savings outlets in our country in the form of investments, which help in bringing down the tax level by offering deductions in personal income. These will be discussed in greater detail under availability of investment media "later in the chapter. Some examples, however, may be cited here. Benefits in tax accrue out of investment in Unit Trust Certificates, Unit Linked Insurance Plan, Life Insurance, National Savings Certificates, Development Bonds, Post Office Cumulative Deposit Schemes etc.

(c) Interest Rates: Another aspect which is necessary for a sound investment plan is the level of interest rates. Interest rates vary between one investment and another. These may vary between risky and safe investments, they may also differ due to different benefit schemes offered by the investments. These aspects must be considered before actually allocating any amount. A high rate of interest may not be the only factor favouring the outlet for investment. The investor has to include in his portfolio several kinds of investments. Stability of interest is as important as receiving a high rate of interest. This book is concerned with determining whether the investor is getting an acceptable return commensurate with the risks that are taken.

(d) Inflation: Inflation has become a continuous problem since the last decade. In these years of rising prices, several problems are associated coupled with a falling standard of living. Before funds are invested, erosion of the resources will have to be carefully considered in order to make the right choice of investments. The investor will try and search an outlet which will give him a high rate of return in the form of interest to cover any decrease due to inflation. He will also have to judge whether the interest or return will be continuous or there is a likelihood of irregularity. Coupled with high rates of interest, he will have to find an outlet which will ensure safety of principal. Besides high rate of interest and safety of principal, an investor also has to always bear in mind the taxation angle. The interest earned through investment should not unduly increase his taxation burden. Otherwise, the benefit derived from interest will be offset by an increase in taxation.

(e) Income: Another reason why investment decisions have assumed importance is the general increase in employment opportunities in India. After independence, with the stages of development in the country, a number of new organisations and services were formed. The Banking Recruitment Services, the Indian Administrative Services, Public Sector Enterprises, expansion in the Private Corporate Sector, establishing of Financial Institutions, Tourism, Hotels, and Education are some examples. The employment opportunities gave rise to both male and female working force. More incomes and more avenues of investment have led to the ability and willingness of working people to save and invest their funds.

(t) Investment Channels: The growth and development of the country leading to greater economic activity has led to the introduction of a vast array of investment outlets. Apart from putting aside savings in savings banks where interest is low, investors have the choice of a variety of instruments. The question to reason out is which is the most suitable channel? Which media will give a balanced growth and stability of return? The investor in his choice of investment will have to tty and achieve a proper mix between high rate of return and stability of return to reap the benefits of both. Some of the instruments available are corporate stock, provident fund, life insurance, fixed deposits in the corporate sector, Unit Trust schemes and so on.

CHAPTER-3

RISK, RETURN AND SUCCESS IN INVESTMENT

RISK

EVOLUTION OF RISK

Graham Dodd and Cottle talked about the margin of safety in 1962. According to them, intrinsic value or fair value of a security would be a security analyst's judgement, based on it earning power and financial characteristics and without reference to its market price. The difference between intrinsic value and the market price was called margin of safety. The rule use by them for the assessment was 'higher the margin of safety, the lower the risk'. Markowiz was another, who brought the concept of risk for a portfolio.

All investments are risky. However, the degree of risk varies based on the features of the securities, the mode of investment, the issuer of the security, etc. In general, the term risk refers to the possibility of incurring a loss in a financial transaction. But risk involves much more than that.

A person making an investment expects to get some return from the investment in future. But future is uncertain. So the return, which is expected, also may not be certain. It is this uncertainty associated with the returns from an investment introduces risk into an investment.

RISK - MEANING

All investment involve some risk because the future value of an investment is never certain, Risk simply stated, is the possibility that the actual return on the investment will vary from the expected return or that the initial principal will decline in value. Risk implies the possibility of loss of investment.

Risk can be defined as a situation where the possible consequences of the decision that is to be taken are known. Risk and return are related. The higher the risk, the greater the return is expected to be .

The Webster's New Collegiate Dictionary definition of risk includes the following meanings;" "' possibility of loss/injury... The degree or probability of such loss'. This confirms the connotations put on the term by most investors. Professionals often speak of "downside risk" and "upside potential'.

TYPES OF RISK

1. SYSTEMATIC RISK

Systematic risk is non-diversifiable and is associated with the securities market as well as the economic, sociological, political and legal considerations of the prices of all securities in the economy. The effect of these factors is to put pressure on all securities in such a way that the prices of all stocks will move in the same direction.

Market risk, interest rate risk and purchasing power risk are grouped under systematic risk.

(i) MARKET RISK

Market risk is referred to as stock variability due to changes in investor's attitudes and expectations. Market risk triggers off through real events comprising poltical, social, economic reasons. Investors are more reactive towards decline in prices rather than increase in prices.

Through diversification, market risk can be reduced but not eliminated because prices of all stocks more together and any equity stock investor will be faced by the risk of a downwards market and decline in security prices. With a wise combination of stocks on the portfolio, to some extent, the risk will be reduced. While the impact on an individual security varies, experts in investment markets feel that all securities are exposed to market risk. Market risk includes such factors as business recessions, depressions and long-run changes in consumption in the economy.

(ii) INTEREST RATE RISK

A major source of risk to the holders of high quality bonds is change in interest rates, commonly referred to as interest rate risk. The longer the maturity period of a security the higher the yield on an investment and lower the fluctuation in prices. Short-term interest rates fluctuate at a greater speed and are more volatile than long-term securities. Consequently, changes in interest rates affect investors in long-term as well as in short-term.

Interest rates continuously changes for bonds, preferred stock and equity stock. Interest rate risk can be reduced by diversifying in various kinds of securities and also buying securities of different maturity dates.

The direct effect of increase in the level of interest rates will raise the price of securities. High interest rates usually lead to lower stock prices because of a diminished demand by speculators who purchase and sell by using borrowed funds and maintaining a margin.

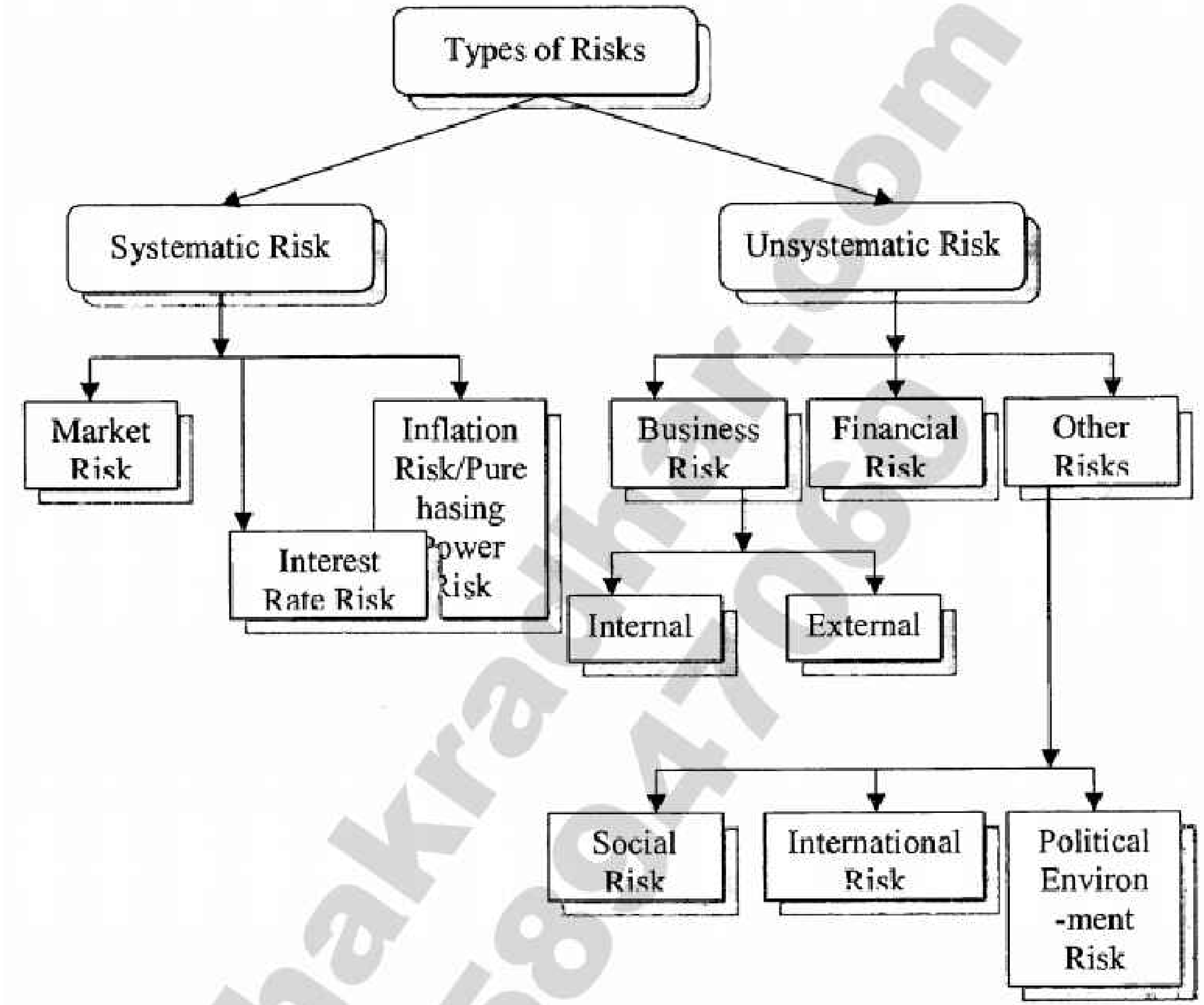
(iii) PURCHASING POWER RISK

Purchasing power risk is also known as inflation risk. This risk arises out of a change in the prices of goods and services and technically it covers both inflation and definition.

The behavior of purchasing power risk can in some ways be compared to interest rate risk. They have a systematic influence on the prices of both stocks and bonds. If the consumer price index in a country shows a constant increase of 40/0 and suddenly jumps to 50/0 in the next year, the required rates of return will also have to be adjusted with an upward revision. Such a change in process will affect government securities, corporate bonds and common stocks.

The explanation of the ingredients of systematic risks show that market, interest rate risk and purchasing power risk are the principal sources of systematic risk in securities.

TYPES OF RISKS



2. UNSYSTEMATIC RISK

Unsystematic risk is unique to a firm or industry. It does not affect an average investor. The unsystematic risk, which affects the internal environment of a firm or industry although peculiar to a particular industry, also causes variability of returns for a company's stock. Unsystematic risk is caused by factors like labour strike, irregular discorganized management policies and consumer preferences.

These factors are independent of the price machanism operating in the securities market.

The two kinds of unsystematic risks in a business organisation are business risk and financial risk.

(i) BUSINESS RISK

Business risk, which is sometimes called operating risk, is the risk associated with the normal day-to-day operations of the firm. Business risk is also associated with risks directly affecting the internal environment of the firm and those of circumstances beyond its control. The former is classified as internal business risk and the later as external business risk. Within the two broad categories of risk the firm operates.

(a) INTERNAL BUSINESS RISK

This risk may be defined as the limiting environment of the concern. It is the framework within which an enterprise conducts its business operations. This will be of different degrees in cash enterprise. An enterprise can reduce its internal business risk with the help of the following measures:

- Reduction of fixed costs and expenses,
- Diversification of its business into a wide range of products.
- Cutting costs of production through various techniques and skills of management.

(b) EXTERNAL BUSINESS RISK

There are certain specific external factors, which are responsible for external risk. They are beyond the control of the enterprise. However, they are responsive to specific operating environmental conditions. Such factors include - business cycle, geographical distribution of population by age, group and race, political policies affecting the working of the enterprise, monetary policy i.e., RBI control, economic environment, etc.

In the sources uses context, business risk represents the chance of loss and the variability of return created by a firm's uses of funds. Business risk is concerned with EBIT. The two components of business risk signify the chance that the firm will fail because of the inability of the assets of the firm to generate a sufficient level of earnings before interest and the variability of such earnings.

(ii) FINANCIAL RISK

Financial risk is created by the use of fixed cost securities (i.e. debt and preference shares). In the sources and uses context, financial risk is the chance of loss and the variability of the owner's return created by a firm's sources of funds.

Financial risk is concerned with earnngs available to equity holders. The two components of financial risk reflect the chance of the firm will fail because of the inability to meet interest and/or principal payments on debt, and the variability of earnings available to equity holders caused by fixed financing changes (i.e. interest expense and preferred dividend). The second component is the extent to which earnings available to equity holders will vary at a greater rate than EBIT.

Incase the firm does not employ debt; there will be no financial risk.

(iii) OTHER RISKS

(a) REGULATION OR SOCIAL RISK

Some investments can be more attractive than others because of certain regulation or tax laws that give them an advantage of some kind. Some bonds introduced by insurance sector or the UTI are exempted from some tax laws. As a result of that special tax exemption, such institutions can price bonds to yield a lower interest rate since the net after tax yield may still make them attractive to investors. The risk of a regulatory change that could adversely affect the stature of an investment is a real danger.

b. INTERNATIONAL RISK

International risk can include both country risk and exchange rate risk.

- .EXCHANGE RATE RISK

All investors who invest internationally to today's increasingly global Investment arena, face the prospect of uncertainly in the returns after they convert the foreign gains back to their own currency. Exchange rate risk can be defined as the variability in returns on securities caused by currency fluctuations. Exchange rate risk is sometimes called currency risk.

For example, an Indian investor who buys a German stock denominated in marks must ultimately convert the returns from this stock back to Rupee value. If the exchange rate has moved against the investor, losses from these exchange rate movements can partially and totally negate the original return earned.

Obviously, Indian investors who invest only in Indian stock markets do no face this risk, but in today's global environment where investors increasingly consider alternatives from other countries, this factor has become important. Currency risk affects International Mutual Funds, Global Mutual Funds, Closed-

End Single Country Funds, Amercian Depository Receipts, Foreign Stocks, and Foreign Bonds .

- COUNTRY RISK

Country risk, also referred to as political risk, is an important risk for investors today. With more investors investing internationally, both directly and indirectly, the political, and therefore economic, stability and viability of a country's economy need to be considered .

- LIQUIDITY RISK

Liquidity risk is the risk associated with the particular secondary market in which a security is in trade. An investment that can be bought or sold quickly without significant price concession, the greater the liquidity risks. A treasury bill has little or no liquidity risk, where as a small OTC (Over the Counter) stock may have substantial liquidity risk.

SUCCESS IN INVESTMENTS

Success in most things is relative, and not less so in the field of investment. Success in investment can never be guaranteed as there are too many factors outside the control of the individual investor which influence the value of his investment — age, family needs, liquidity requirements, tax position and acceptability of risk. Inflation is one of these. Genuine success also means winning the battle against inflation, against the fall in the real value of savings and capital.

There are many other areas whether interference by government can affect an investment. Leasehold reform and nationalisation are two, which come readily to mind.

Thus, we are left with two definitions of success.

. Success is achieving the rate of return warranted by the level of risk assumed. Investors expect returns proportional to the risk assumed.

Success is achieving a rate of return in excess of warranted by the level of risk assumed. Investors expect abnormal returns for the risk assumed

To be successful under the first definition, an investor must have a rational approach to portfolio construction and management. Reasonably efficient diversification is the key. To be successful under the second definition, an investor must have at least one of the following:

Superior Analytical Skill

Superior Forecasting Ability

Inside Information, and

Dumb Duck.

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CRISIS-PROOF

An investment portfolio should be free from the effects of personal crises. No foreseeable crisis should ever cause the sale of investment at a loss. Before setting out on a policy of investment into risk situations (and every ordinary share is in a risk situation) there should be enough provision for crises. Thus the investor will have guarantees against loss of income through sickness or accident. He will have life assurance cover to protect his dependents, as this will meet estate duty liabilities and provide additional cash at such a time. And he will have cash investments so that the new car, the new household appliance, the new roof on the house, or, heaven forbid, redundancy and unemployment, do not cause immediate financial embarrassment.

DIVERSIFICATION

An investment portfolio will be diversified in two ways. Firstly in types of investment, to suit the needs of the investor, and secondly across industries and areas. Concentration of interest can produce greater profits. Obviously having all one's capital in the company, which will be the best market performer over the coming year, will produce maximum profits. So will putting all one owns at long odds on the horse, which will win the next race. Diversification will never make millionaires out of most people. But it will let them sleep at night.

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THE SUCCESSFUL INVESTOR

A successful investor will have a portfolio of investments, which fulfils the requirements we have discussed. In addition he will have certain personal qualities and attitudes. These may be summarized as follows.

CCEPTANCE OF RISK

The person who always wants to 'play safe' will never make a successful investor. This is not to say that foolhardiness is a virtue. But people, who consider that debts must always be kept to a minimum and that investments chosen must never, go down in value, will fail to achieve the best rewards. So the successful investor who owns his house will always have a mortgage or a bank loan secured on his house to give gearing to his portfolio and he will from time to time undertake bank borrowing for further investment when he considers that an exceptional buying opportunity presents itself. But he will not maintain bank borrowing when this can be repaid out of cash investments without prejudicing his 'emergency reserve'. Borrowing at interest is only worthwhile when the additional cash is held in growth investments, and can remain there for an indefinite period.

DESIRE FOR INFORMATION

The successful investor will be informed. He will read a daily paper, including the City pages. He will read a weekly journal, either devoted entirely to investments matters or containing a large investment section. He will read communications sent to him by the companies and institutions in which he holds investments. And he will increase his general knowledge by reading books and other publications on investment matters. He will not become an expert on fundamental or technical analysis but he will understand the results of such analyses.

ACCEPTANCE OF ADVICE

Everyone needs advice on individual investments. The range of available investment opportunities is so large that no one can be expert on them all. The professional investment manager needs the advice of a surveyor when buying a house, and a surveyor needs advice on insurance contracts. The successful investor makes up his own mind on policy. He knows what the balance of his portfolio should be, and he goes to the specialist for advice on the individual holdings. He tries to evaluate the advice he receives by examining the reasons put forward in support of the advice.

VOIDANCE OF GREED

The commonest vice amongst investors is greed. The desire for the last few coppers on the top an overpriced share causes more paper losses than any other factor. No one can calculate the top or bottom of a market. If one sells at the very top and bus at the very bottom this is not investment skill, it is sheer luck. When a share is overpriced it should be sold. When a share is cheap it should be bought. More profits have been made by buying too late and by selling too soon than by waiting for prices to be more favorable.

A balanced view should also be taken generally. The successful investor will sell fashion trends for what they are and will not be swept along with the herd, willy-nilly. He will not let the enthusiasm of others outweigh his own judgement. He will not be persuaded by salesmen or advertisements to enter into a scheme, which is not exactly what he requires. He will realise that no one is ever always right. And above all he will know that there is no guaranteed road to a fortune.

A free market requires a balance of buyers and sellers. Therefore every time someone sells a holding of ordinary shares because the price is too high, someone else is buying those same shares, usually for excellent reasons.

The vast majority of investment decisions, which result in purchase or sales on the market, are made by professional investment managers and advisers. Therefore every time a professional investment manager sells a holding because the price is too high, the chances are that another professional is buying those same shares.

RETURN

The chief aim of every investment is to earn income on investments. The return may take several forms. On a debenture, an investor expects to receive interest. On a share, he anticipates dividends. He may anticipate capital appreciation from some investments say corporate securities and rental income from house property.

Total return is the profit (or loss) on an investment. It is a combination of current income (cash received from interest, dividends etc.,) and capital gains or losses (the change in the value of the investment between the time bought and sold it). The published rate of return for a selected investment is usually expressed as a percentage of the current price on an annual basis. However, the real rate of return is the rate of earnings adjusted for inflation, which is further, reduced by income taxes and transactions costs.

$$\%\ \text{Rate of Return} = \frac{\text{Ending Wealth} - \text{Beginning Wealth)}}{\text{Beginning Wealth}} \times 100$$

The two parts of total return are:

a. Capital appreciation/price increase/capital gain and

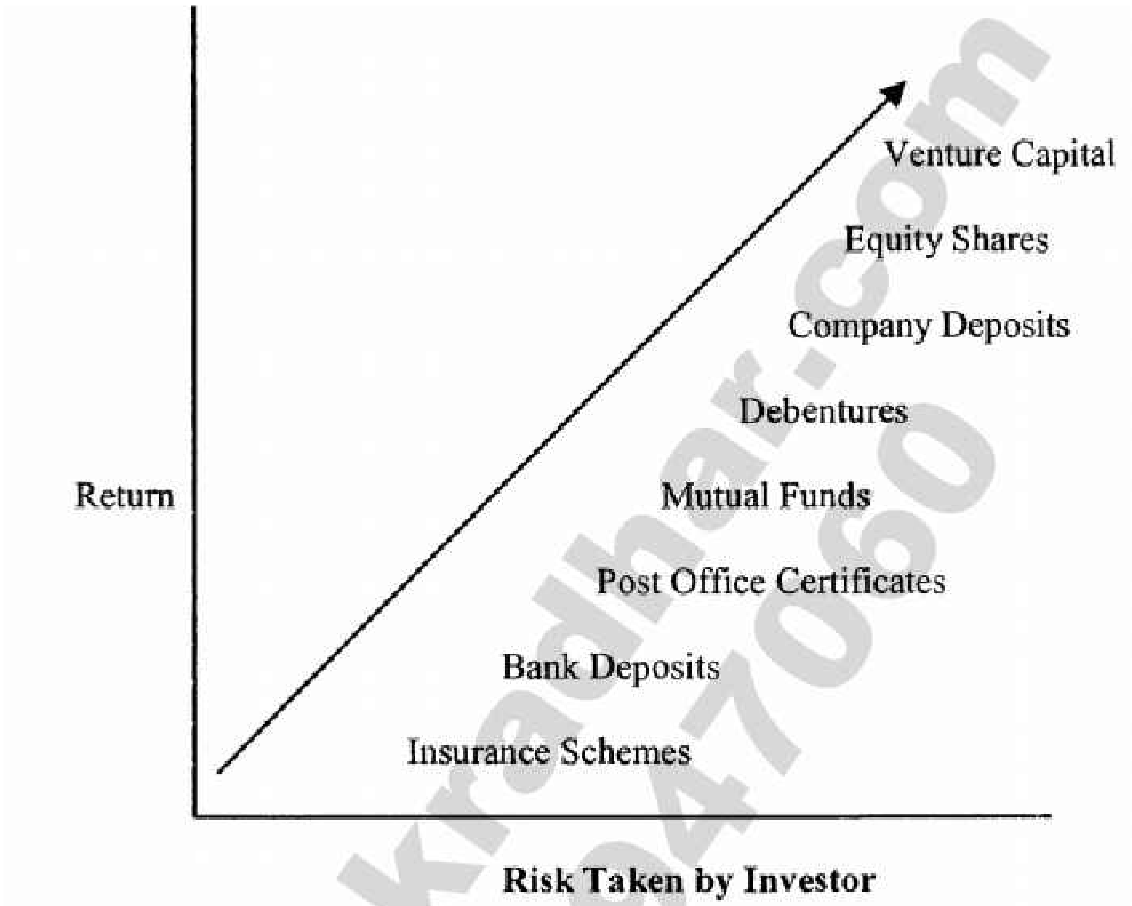
b. Cash tlow/dividends/interestlincome.

Ending Wealth = Ending Value (Price) + Cash flows

RISK AND RATE OF RETURN RELATIONSHIP

Generally speaking, risk and rate of return are directly related. As the risk level of an investment increases, the potential return usually increases as weJI. The pyramid of investment risk illustrates the risk and return associated with various types of investment options. As investors' moves up the pyramid, they incur a greater risk of loss of principal along with the potential for higher returns.

CHART RISK-RETURN RELATIONSHIP



Source : Investment Management – V.A. Avadhani

Causes of Risks

Risks are caused by the following factors;

1. Default in taking correct investment decision,
2. Failure to decide the correct timing of investments,
3. Selection of highly risky investment instruments,
4. Unsatisfactory creditworthiness of the issuer,

5. Selection of the investment having larger maturity period. This is because, the larger the period, the more risky is the investment normally,

6. Putting huge amount in any security. The higher the amount invested in any security the larger is the risk.

7. If the investment is secured by collateral there will not be much risk,

8. Selection of a risky industry or business in which the company is operating,

9. National and international factors, acts of god, etc., also affect investments badly.

SUCCESS IN INVESTMENTS

Success in most things is relative, and not less so in the field of investment. Success in investment can never be guaranteed as there are too many factors outside the control of the individual investor which influence the value of his investment - age, family needs, liquidity requirements, tax position and acceptability of risk. Inflation is one of these. Genuine success also means winning the battle against inflation, against the fall in the real value of savings and capital.

There are many other areas whether interference by government can affect an investment. Leasehold reform and nationalisation are two, which come readily to mind. Thus, we are left with two definitions of success.

1. Success is achieving the rate of return warranted by the level of risk assumed. Investors expect returns proportional to the risk assumed.

2. Success is achieving a rate of return in excess of warranted by the level of risk assumed. Investors expect abnormal returns for the risk assumed.

To be successful under the first definition, an investor must have a rational approach to portfolio construction and management. Reasonably efficient diversification is the key. To be successful under the second definition, an investor must have at least one of the following .

1. Superior Analytical Skill,
2. Superior Forecasting Ability,
3. Inside Information, and
4. Dumb Duck.

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To end this chapter on a reflective not, there are three facts, which an investor, should never forget.

A. A free market requires a balance of buyers and sellers. Therefore every time someone sells a holding of ordinary shares because the price is too high, someone else is buying those same shares, usually for excellent reasons.

b. The vast majority of investment decisions, which result in purchase or sales on the market, are made by professional investment managers and advisers. Therefore every time a professional investment manager sells a holding because the price is too high, the chances are that another professional is buying those same shares.

Anyone who had the key to a fortune would not be advising others for a living.

CHAPTER-4

PLANNING AND PROCESS IN INVESTMENT

PLANNING

If we were making investments decisions today that will directly affect our future wealth, it would make sense that we utilize a plan to help guide our decisions. Surprisingly, the majority of people to not have in place any type of formalised investment plan. Taking some time to put together a financial plan can reap tremendous benefits. First, let's define financial planning.

Financial planning is the process of meeting your life goals through the proper management of your finances. Life goals can include buying a home, saving for your child's education or planning for retirement.

Financial planning provides direction and meanmg to your financial decisions. It allows you to understand how each financial decision you make affects other areas of your finances. For example, buying a particular investment product might help you payoff your mortgage faster or it might delay your retirement significantly. By viewing each financial decision as part of a whole, you can consider its short and long-term effects on your life goals. You can also adapt more easily to life changes and feel more secure that your goals are on track.

SELF-HELP OR PROFESSIONAL HELP?

Some personal finance software packages, magazines or self-help books can help you do your own financial planning. However, you may decide to seek help from a professional financial planner if:

- You need expertise you don't posses in certain areas of your finances. For example, a planner can help you evaluate the level of risk in your investment portfolio or adjust your retirement plan due to changing family circumstances .
- You want to get a professional opinion about the financial plan you developed for yourself.
- You don't feel you have the time to spare to do your own financial planning .
- Your have an immediate need or unexpected life event such as a birth, inheritance or major illness.
- You feel that a professional adviser could help you improve on how you are currently managing your finances.
- You know that you need to improve your current financial situation but don't know where to start.

COMMON MISTAKES

It may be helpful to be aware of some common mistakes people make when approaching financial planning:

- Don't set measurable financial goals .
- Make a financial decision without understanding its effect on other financial issues.
- Confuse financial planning with investing .

- Neglect to re-evaluate their financial plan periodically .
- Think that financial planning is only for the wealthy .
- Think that financial planning is for when they get older.
- Think that financial planning is the same as retirement planning .
- Wait until a money crisis to begin financial planning.
- Expect unrealistic returns on investments .
- Think that using a financial planner means losing control.

PROCESS OR STEPS IN INVESTMENT

The financial planning process consists of six steps that help you take a "big picture" look at where you are financially. Using these six steps, you can work out where you are now, what you may need in the future and what you must do to reach your goals. These six steps are:

1. Establishing and defining the client-planner relationship

The financial planner should clearly explain or document the services to be provided to you an define both his and your responsibilities. The planner should explain fully how he will paid and by whom. You and the planner should agree on how long the professional relationship should last and on how decisions will be made.

2. Gathering client data, including goals-

The financial planner should ask for information about your financial situation. You and the planner should mutually define your personal and financial goals, understand your time frame for results and discuss, if relevant, how you feel about risk. The financial planner should gather all the necessary documents before giving you the advice you need.

3. Analysing and evaluating your financial status

The financial planner should analyze your information to assess your current situation and determine what you must do to meet your goals. Depending on what services you have asked for, this could include analysing your assets, liabilities and cash flow, current insurances coverage, investments or tax strategies.

4. Developing and presenting financial planning recommendations and/or alternatives.

The financial planner should offer financial planning recommendations that address your goals, based on the information you provide. The planner should go over the recommendations with you to help you understand them so that you can make informed decisions. The planner should also listen to your concerns and revise the recommendations as appropriate.

5. Implementing the financial planning recommendations

You and the planner should agree on how the recommendations will be carried out. The planner may carry out the recommendations or serve as your "coach," coordinating the whole process with you and other professionals such as attorneys or stockbrokers.

6. Monitoring the financial planning recommendations

You and the planner should agree on who will monitor your progress towards your goals. If the planner is in charge of the process, she should report to you periodically to review your situation and adjust the recommendations, if needed, as your life changes.

CHAPTER-5

TAX CONSIDERATIONS

TAXATION

Taxation is an important factor in investment planning because the objective of investment for growth or income is to maximize take-home return, which in effect are after-tax returns.

One must, as a prudent person, arrange his financial affairs in such a manner as to pay the minimum tax required by law. The law (IT Laws) provides several tax saving facilities and exemptions and it is imperative that one is aware of these in order to avail of them.

Having said that as an investor one should remember that;

a. Tax considerations alone should not determent investment decisions not should tax considerations override investment decisions. The login or the strength of the investment choice must be the basis for the investment or disinvestments. The taxation factor must always be secondary.

b. One should not be very bothered about tax planning and 'tax shelters' unless one is in the very high tax bracket. Most investors need only a working knowledge of tax and need not be too concerned about tax planning as far as investments are concerned as most likely, they will not need to tax plan extensively.

A. INCOME TAX

EXEMPTED INCOMES

- Agriculture Income [Sec 10 (1)]
- Any sum received from Hindu Undivided Family (H.U.F) [Sec 10(2)]
- Share of Income from Firm [Sec 10 (2A)]
- Interest paid to Non-Resident [Sec 10 (4)(i)]
- Interest to Non-Resident on Non-Resident (External) Account [Sec 10 (4)(ii)]
- Interest paid to a person of India Origin and who is Non-Resident [Sec 10(4B)]
- Travel Concession to an Indian Citizen Employee [Sec 10 (5)]
- Certain Incomes received by an individual who is not a citizen of India [Sec 10(6)]
- Tax paid by Government or Indian concern on Income of a Foreign company [Sec 10(6A), (6B), (6BB) and (6C)]
- Perquisites and Allowance paid by Government to its Employees serving outside India [Sec 10(7)]
- Employees of Foreign Countries working in India under Cooperative Technical Assitance Programme [Sec 10(8)]
- Income of a Consultant [Sec 10 (8A)]
- Income of Employees of Consultant [Sec 10(8B)]
- Income of any member of the family of individuals working in Indiaunder co-operative technical assistance programmes. [Sec 10(9)}
- Gratuity [Sec 101(10)]

- Commuted value of pension received [Sec 10(IOA)]
- Amount received as leave encashment of retirement [Sec 10(IOAA)]
- Retrenchment compensation paid to workmen [Sec 10 (10B)]
- Payment received under Bhopal Gas Leak Disaster (Processing of Cliams act 1985. [Sec 10 (10BB)]
- Retirement compensation from a public sector company or any other company. [Sec 10 (10C)]
- Income by way of tax on perks [Sec 10 (10CC)]
- Any sum received under a life insurance policy [Sec 10(10D)]
- Payment from Statutory Provident Fund [Sec 10 (II)]
- Payment from Recognized Fund [Sec 10(12)]
- Payment from superannuation Fund [Sec 10(13)]
- House Rent Allowance [Sec 10 (BA)]
- Any allowance given for meeting Business Expenditure [Sec 10(14)]
- Interest Incomes [Sec 10 (15)]
- Payment made by an Indian company engaged in the business of operation of aircraft [Sec 10(15A)] Scholarship [Sec 10(16)]
- Allowance ofM.P/M.L.Alor M.L.C [Sec 10(17)]
- Awards Instituted by Government [Sec 10(17A)]
- Pension received by the winners of Vir Chakra etc.[Sec 10(18)]
- Family pension of war widow [Sec 10(19)]

- Income from one palace of a former ruler [Sec 10(19A)]
- Income of a local authority [Sec 10(20)]
- Income of scientific research association [Sec 10(21)]
- Income ofa News Agency[Sec 10(22B)]
- Income of some Professional Institution [Sec 10(23A)]
- Exemption of Income Received by Regimental Fund [Sec 10(23AA)]
- Income of a Fund set-up for the welfare of employees or their dependents[Sec 10(23AAA)]
- Income a pension fund set up by LIC or other msurer. [Sec 10(23AAB)]
- Income of Institutions established for development of Khadi and Village Industries. [Sec 10(23B)]
- Income of State Level Khadi and Village Industries Board. [Sec 10(23B8)]
- Income of certain Authorities set up to manage Religious. And Charitable Institutions.. [Sec 10(23BBA)}
- Income of European Economic Community. [Sec 10(23BBB)]
- Income of a SAARC Fund for regional projects. [Sec 10(23BBC)]
- Any income of the Secretariats of the Asian organisation of the Supreme Audit Institutions [Sec 10(23BBD)]
- Any income of Insurance Regulatory and Development Authority [Sec 10(23BBE)]

- Any income received by a person on behalf of following Funds. [Sec 10(23C)]

  Income of Mutual Fund [Sec 10(23D)]
- Income of Investor Protection Fund [Sec 10(23EA)]
- Income of the Credit Guarantee Trust for small Industries. [Sec 10(23EB)]
- Income of Venture Capital Company. [Sec 10(23F)]
- Income of venture capital fund [Sec 10(23FA)]
- Income of a Venture Capital Company or venture Capital Fund [Sec 10(23FB)]
- Any income by way of Dividend, Interest or Long Term Capital Gain of an Infrastructure Company, Infra Structure Fund or a Co- operative Bank. [Sec 10(23G)]
- Income of Registered Trade Unions [Sec 10(24)]
- Income of Provident and Superannuation Funds [Sec 10(25)]
- Income of Employee's State Insurance Fund [Sec 10(25A)}
- Income of Schedule Tribe Members [Sec 10(26) and 10(26A)]
- Income of a corporation set-up for promoting the interests of scheduled castes, Scheduled Tribes or Backward Classes. [Sec 10(26B)]
- Income of a corporation set-up to protect the interests of Minorities [Sec 10(26BB)]
- Any income of a corporation for ex -servicemen. [Sec 10(26BBB)]
- Income of cooperative society looking after the interests of scheduled Castes or Scheduled Tribes or Both. [Sec 10(27)]

- Any income accruing or arising to Coffee Board etc., [Sec 10(29A)]
- Amount received as subsidy from or through the Tea Board. [Sec 10(30)]
- Amount received as subsidy from or through the concerned Board. [Sec 10(31)]
- Income of child clubbed U/s 64(lA) [Sec 10(32)]
- Income from transfer of capital assets of UTI [Sec 10(33)]
- Income by way of dividend from Indian company [Sec 10(34)]
- Income from units of UTI and other mutual funds [Sec 10(35)]
- Income from sale of shares in certain cases [Sec 10(36)]
- Capital Gain on compulsory acquisition of urban Agricultural Land. [Sec 10(37)]
- Long Term Capital Gain on transfer of shares and securities covered under Security Transaction Tax (STT). [Sec 10(38)]
- Income from international sporting event [Sec 10(39))
- Income received as grant by a subsidiary company [Sec 10(40)]
- Income from transfer of asset of an undertaking engaged in the business of generation, transmission or distribution of power. [Sec 10(41)]

INCOME FROM INTEREST

Interest income from following sources IS also required to be included in Gross Total Income .

- Interest on Company Deposits,
- Interest on Debentures,
- Interest on Savings Bank Account/Fixed Deposits with Banks .

- Interest on Post Office Savings Schemes like MIS, NSC, KVP, etc.
- Interest on private loans given to relatives, friends or any other entity
- Interest on Government Securities.

(A total deduction up to Rs.15,000 is allowed in respect of certain interest incomes Under Section 80L).

DIVIDEND INCOME

Dividend Income from Companies/Equity-oriented Mutual Funds is fully tax-free Under Section 10(34) and (35) in the hands of investors. Dividends are also tax-free in the hands of investors, incase of debt- oriented mutual fund schemes. However, the Asset Management Company is liable to deduct 12.5% distribution tax incase of individual. CAPITAL GAINS

1. Total income shall be divided in three parts.

(i) Short Term Capital gain on shares (which are subject to securities transaction tax)

(ii) Long Term Capital gain on all assets except on shares (which are subject to securities Transactions. Tax, which is fully, exempted u/s. 10(37).

(iii) Balance total income.

b. On short term capital gain on shares (which are subject to securities transaction tax) income tax shall be levied @ 10% of such gain u/s 111(A).

c. On Long term capital gain on all assets (except on shares which are subject to Securities Transaction Tax which is fully exempted u/s 10(38) tax shall be levied @ 20% of such gain u/s 112;

d. On balance total income tax is to be calculated at scheduled rates.

f. In case the balance total income is less than the exempted limit of Rs.l,OO,OOOthe difference between actual balance income and Rs.l ,00,000 shall be adjusted from short term capital gain if there is no long term capital gain and if there is long term gain it shall be adjusted from such long term capital gain and balance capital gain shall be taxed at prescribed rates as per above.

g. Deduction u/s 80C to 80U are also not admissible out of short/long term capital gain.

DEDUCTION FROM TAXABLE INCOME

These deductions are divided under two categories

a. Deductions in respect of certain payments.

b. Deductions in respect of certain incomes.

DEDUCTIONS IN RESPECT OF CERTAIN PAYMENTS

1. Deduction regarding approved savings in P.F. Life Insurance Premium, etc. etc. [Sec 80C]

2. Deduction in respect of contribution to Pension Fund [Sec 80CCC]

3. Deduction in respect of contribution to pension scheme of Central Government [Sec 80CCD]

4. Restriction on total amount of deductions uls SOC, SOCCC and SOCCD [Insertion of new Section 80CCE]

5. Deduction in respect of Medical Insurance Premia [Sec SOD]

6. Deduction in respect of maintenance including medical treatment of a dependent that is person with disability [Sec SODD]

7. Deduction in respect of medical treatment, etc., [Sec SODDB]

8. Deduction in respect of interest on loan taken for higher education. [Sec SOE]

9. Deduction III respect of donations to certain funds, Chartable Institutions etc., [Sec SOG]

Qualifying amount for deduction U/S80C

1. Own contribution to P.F.

If S.P.F .. fully qualifies [Govt.. LIC. University. SBI. RBI etc.] IfR.P.F .. fully qualifies.

If P.P.F .. fully qualifies. Account can be in the name of self, spouse or any child

IfU.R.P.F .. does not qualify.

2. Any amount contributed by employee towards Approved Superannuation fund Fully qualities.

3. Life insurance Premium paid by employee or by employer to assure life of employee, his spouse or children (minor or major, married or unmarried) shall qualify up to actual premium paid or 20% of sum assured whichever is less. Sum assured shall not include bonus or any premium agreed to be returned.

4. Any amount deducted from the salary payable by or on behalf of the Government to any individual in accordance with the conditions of his service, for the purpose of securing to him a deferred annuity or making provision for his spouse or children, in so far as the sum so deducted does not exceed one-fifth of the salary.

5. Any amount contributed to keep in force a contract for a deferred annuity, not being an annuity plan referred to in clause (12). The persons on whose name savings can be made are in the case of an individual, the individual, the wife or husband and any child of such individual. Such contract docs not contain a provision

for the exercise by the insured of an option to receive a cash payment in lieu of the payment of the annuity;

6. Any amount deducted by employer (Govt.) out of employee's salary under group insurance scheme fully qualifies.

7. Any amount invested by a person with UTI or LIC under Unit Linked Insurance Plan (ULIP) fully qualifies.

8. Any amount invested in NSC VIII issue fully qualifies,

9. Interest Accrued on NSC VIII issue Purchased earlier is deemed to be reinvested hence fully qualifies.

10. Any amount deposited under notified deposit scheme 92 fully qualifies.

11. Any amount paid to LIe under New Jeevan Dhara, New Jeevan Dhara I, or New Jeevan Akshay, New Jeevan Akshay I, New Jeevan Akshay II plans fully qualifies.

12. Any amount deposited with mutual fund under a scheme of pension fund i.e. UTI retirement Pension Fund shall fully qualify.

13. Any amount deposited with nationalised bank under home deposit scheme of National Housing Bank fully qualifies.

14. Any amount deposited with an authority engaged in housing development or town and rural development fully qualifies.

15. Any amount deposited with housing finance institutions fully qualifies.

CHAPTER 6

DATA ANALYSIS AND INTERPRETATION

Data analysis is the act of transforming data with the aim of extracting useful information and facilitating conclusions. Data analysis is the process of systematically applying statistical and/or logical techniques to describe and illustrate, condense and recap, and evaluate data. According to Shamoo and Resnik (2003) various analytic procedures provide a way of drawing inductive inferences from data and distinguishing the signal (the phenomenon of interest) from the noise (statistical fluctuations) present in the data.

The organization, analysis and interpretation of data and formulation of conclusions and generalizations are necessary steps to get a meaningful picture out of the raw information collected. The analysis and interpretation of data involves the objective material in the possession of the researcher and the subjective reactions and desires to derive from the data the inherent meanings in their relation to the problem.

The present study discusses the investment preferences of investors in Bhubaneswar.

For this study primary data are collected and used for testing the hypothesis.

GENERAL INFORMATION ABOUT THE RESPONDENTS

TABLE NO.1

TABLE SHOWING THE AGE OF THE RESPONDENTS

Age	No. of respondents	Percentage (%)
25-30	48	64.00%
30-35	12	16.00%
35-40	8	10.67%
40-45	3	4.00%
45 & above	4	5.33%
Total	75	100%

From the above table, it is clear that out of 75 samples of investors, 64% of the investors fall between the age group of 25-30 years. 16% of the investors are between the age group of 30-35 years and 10.67% of the investors are from the age group of 35-40 years.

CHART NO.1

CHART SHOWING THE AGE OF THE RESPONDENTS

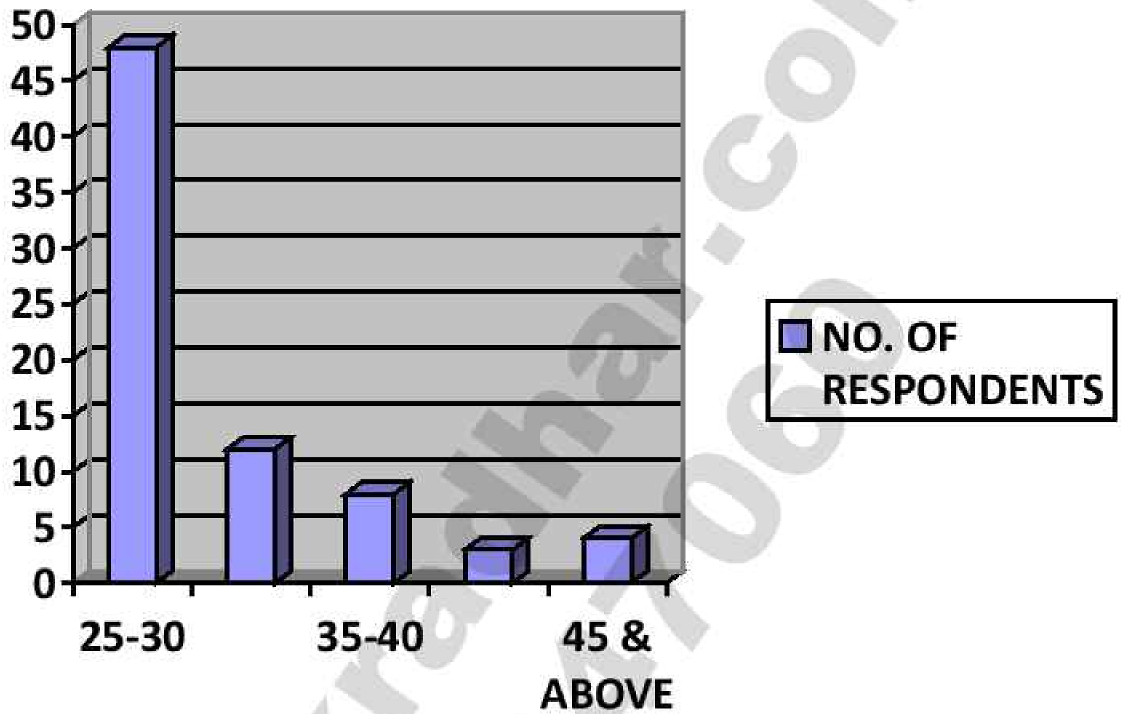


TABLE NO.2

TABLE SHOWING THE SEX OF THE RESPONDENTS

Sex	No. of respondents	Percentage (%)
MALE	**66**	**88%**
FEMALE	**09**	**12%**
TOTAL	75	**100%**

The above table explains the sex of the respondents of 75 samples of investors. Out of the sample, 90% of the respondents are male and 10.05% of the respondents are female.

CHART NO.2

CHART SHOWING THE SEX OF THE RESPONDENTS

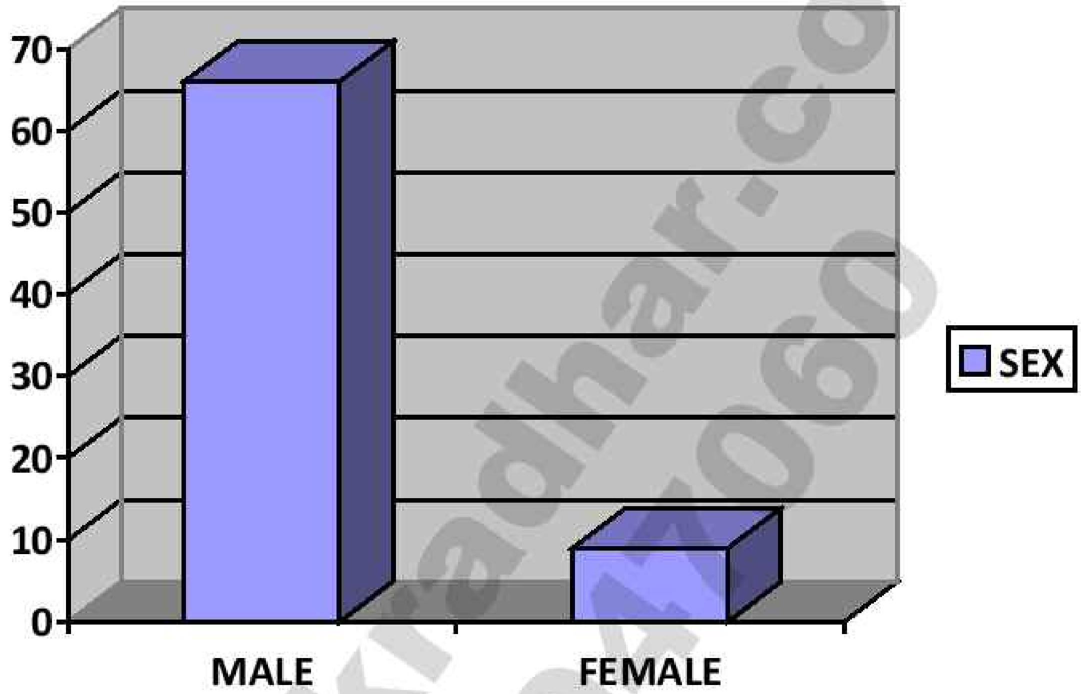


TABLE NO.3

TABLE SHOWING OCCUPATION OF THE RESPONDENTS

OCCUPATION	No. of respondents	Percentage (%)
BUSINESS	25	33%
PROFESSIONAL	21	28%
PRIVATE SECTOR	18	24%
GOVERNMENT SERVICE	8	10.7%
OTHER	3	4%
Total	75	100%

The above table gives the occupation of the respondents of 75 samples of investors. Out of the samples, 21% of the respondents are professional, 18% of the respondents are private sector employees and 25% of the respondents are businessmen.

CHART NO.3

CHART SHOWING OCCUPATION OF THE RESPONDENTS

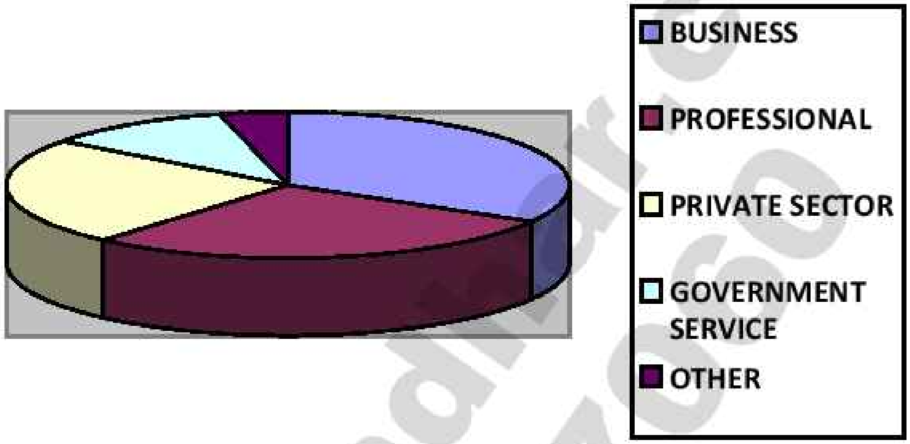


TABLE NO.4

TABLE SHOWING ANNUAL FAMILY INCOME OF THE RESPONDENTS

ANNUAL FAMILY INCOME	No. of respondents	Percentage (%)
BELOW RS. 60,000	6	8%
RS. 60,001- RS.1,20,000	42	56%
RS. 1, 20,001-RS. 1,80,000	10	13.3%
RS. 1, 80,001-RS. 2,40,000	12	16%
ABOVE RS. 2,40,000	5	6.7%
Total	75	100%

The above table shows the annual family income of randomly selected sample of investors. Out of the sample, 56% of the respondents come under Rs.60,000 — Rs.1,20,000 income bracket and nearly 16% of the respondents come under Rs.1,80,000-Rs.2,40,000 income bracket.

CHART NO.4

CHART SHOWING ANNUAL FAMILY INCOME OF THE RESPONDENTS

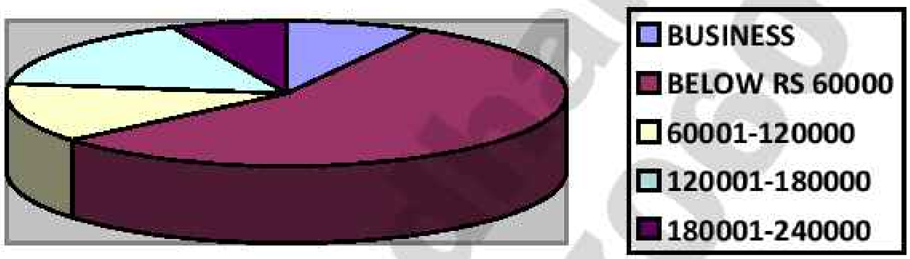


TABLE NO.5

TABLE SHOWING AVERAGE ANNUAL EXPENDITURE

OF THE RESPONDENTS

AVERAGE ANNUAL EXPENDITURE	PERCENTAGE (%)
HOUSEHOLD	48.7%
EDUCATION	21.32
ENTERTAINMENT/LEISURE	7.64%
CONSUMER DURABLE	16.88%
OTHER	6.09%
TOTAL	100%

The above table shows the average annual expenditure of randomly sample of investors. Out of the sample 48.07% of the respondents spend for household 21.32% of the respondents spend for education, 7.64% of the respondents spend for entertainment, 16.88% spend for consumer Durable and 6.09% spend for other expenditure.

CHART NO.5

CHART SHOWING AVERAGE ANNUAL EXPENDITURE

OF THE RESPONDENTS

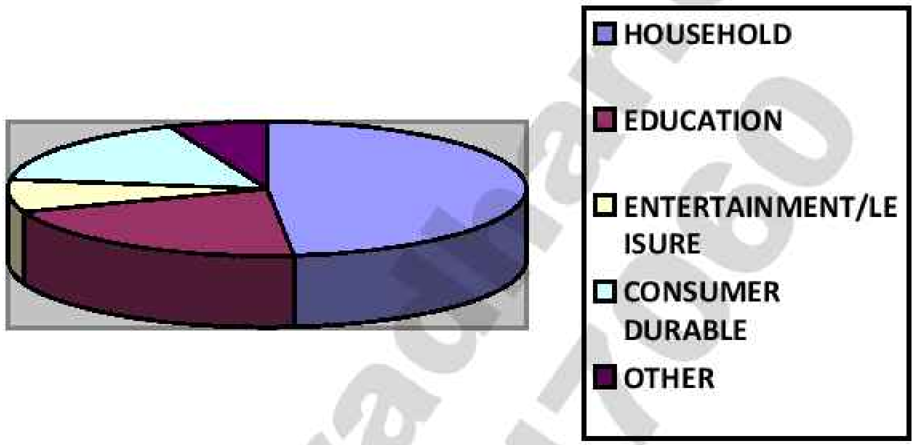


TABLE NO.6

TABLE SHOWING ANNUAL INVESTMENT OF THE RESPONDENTS

ANNUAL FAMILY INVESMENT	No. of respondents	Percentage (%)
BELOW RS. 10,000	21	88%
RS. 10,001- RS. 20,000	18	24%
RS. 20,001-RS. 50,000	28	37.33%
RS. 50,001-RS. 1,00,000	06	8%
ABOVE RS. 1,00,000	2	2.67%
Total	75	100%

The above table shows the average annual investment of randomly selected sample of investors. Out of the sample, 28% of the respondents invest below Rs.10,000, 24% of the respondents invest Rs.10,000-Rs.20,000, 37.33% of the respondents invest Rs.20001-50000, 8% of the respondents Invest Rs.50,001-Rs.1,00,000, 2.67% of the respondents Invest above Rs.1,00,001.

CHART NO.6

CHART SHOWING ANNUAL INVESTMENT OF THE RESPONDENTS

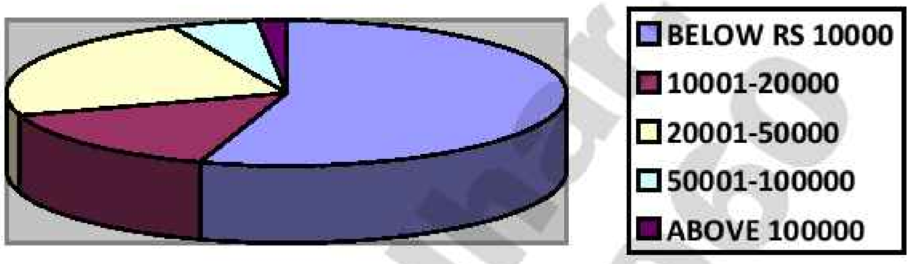


TABLE NO.7

TABLE SHOWING INVESTMENT OF THE RESPONDENTS

Rank	Return	Security	Liquidity	Tex Benefits	Appreciation	Other	Total
1	19	46	2	5	2	1	75
2	22	17	14	12	9	1	75
3	18	9	18	8	20	1	75
4	14	4	26	18	12	1	75
5	6	2	19	27	15	6	75
6	3	2	1	2	1	66	75

The above table shows that 46 respondents consider security as a major factor for their investment decision and 19 respondents consider return as another factor for their investment decision.

CHART NO.7

CHART SHOWING INVESTMENT OF THE RESPONDENTS

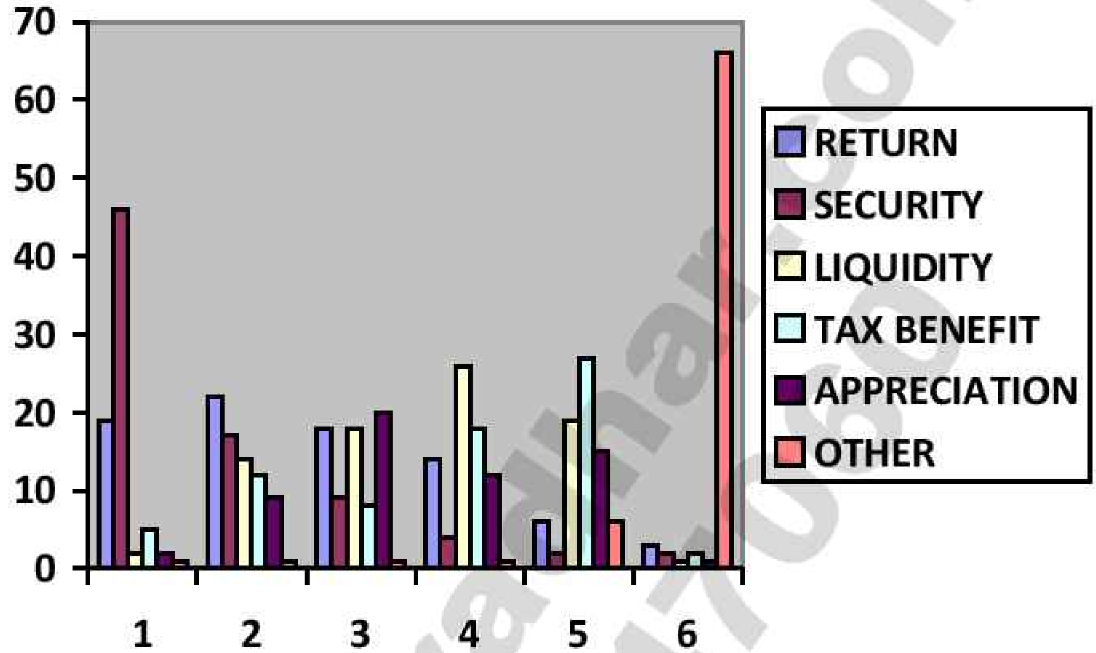


TABLE NO.8

TABLE SHOWING THE RANKING OF VARIOUS INVESTMENT AVENUES

Rank	A	B	C	D	E	F	G	H	I	J
1	14	20	4	3	15	3	2	10	3	1
2	11	15	3	4	8	5	12	8	7	2
3	5	19	6	3	17	5	1	9	7	3
4	15	3	9	7	12	4	8	5	10	2
5	6	16	5	3	11	4	16	3	8	3
6	5	2	9	14	6	15	18	2	4	1
7	14	3	20	15	1	5	11	2	3	1
8	3	1	20	15	2	14	5	3	8	4
9	4	2	3	11	4	32	10	4	4	1
10	1	3	2	7	1	3	4	2	1	31

A. Government Securities **B.** Insurance

C. Primary Share Market **D.** Secondary Share Market

E. Bank Deposits F. Deposits/Debentures

G. Mutual Funds H. Land and Buildings

I. Gold/Silver J. Others

Above diagram shows that 20 respondents like to deposit in bank, 18 respondents like to invest in insurance policies and 14 respondents prefer to invest in land and buildings.

CHART NO.8

CHART SHOWING THE RANKING OF VARIOUS INVESTMENT AVENUES

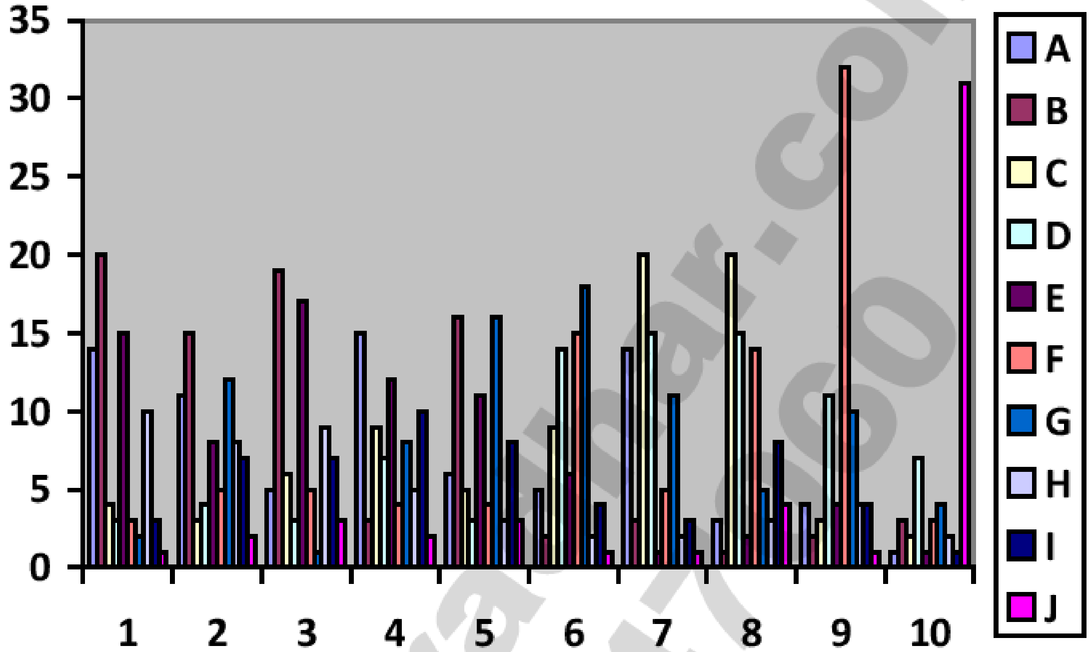


TABLE NO.9

TABLE SHOWING RANKING BASED ON FIXED RETURN

Rank	Government Securities	Bank deposits	Insurance	Preference shares	Loans/bonds
1	15	35	18	5	2
2	12	30	24	2	5
3	33	14	13	8	7
4	6	2	16	28	23
5	8	5	2	24	36

The above table explains that 35 respondents prefer to invest in bank deposits and 18 respondents like to invest in insurance schemes.

CHART NO.9

CHART SHOWING RANKING BASED ON FIXED RETURN

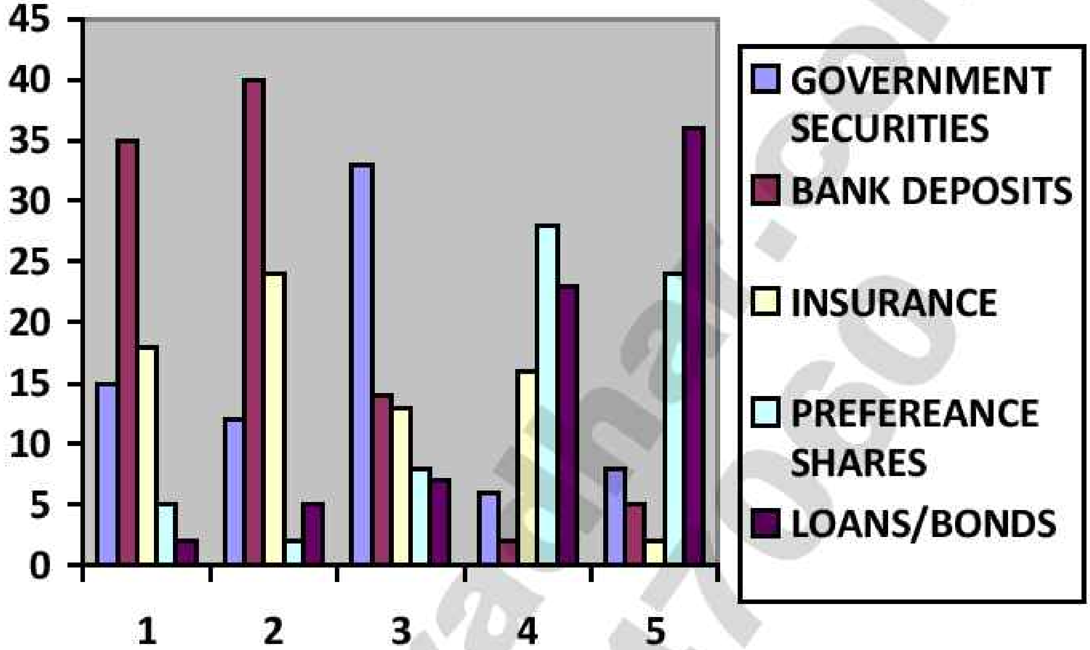


TABLE NO.10

TABLE SHOWING RANKING BASED ON VARIABLE RETURN

Rank	Share	Mutual funds	Chit funds	Floting bonds	Others
1	25	36	11	2	1
2	30	21	9	9	6
3	22	8	29	12	4
4	3	9	15	38	10
5	1	2	15	7	50

The above table shows that 36 respondents are interested to invest in mutual funds and 25 respondents are interested to invest in shares.

CHART NO.10

CHART SHOWING RANKING BASED ON VARIABLE RETURN

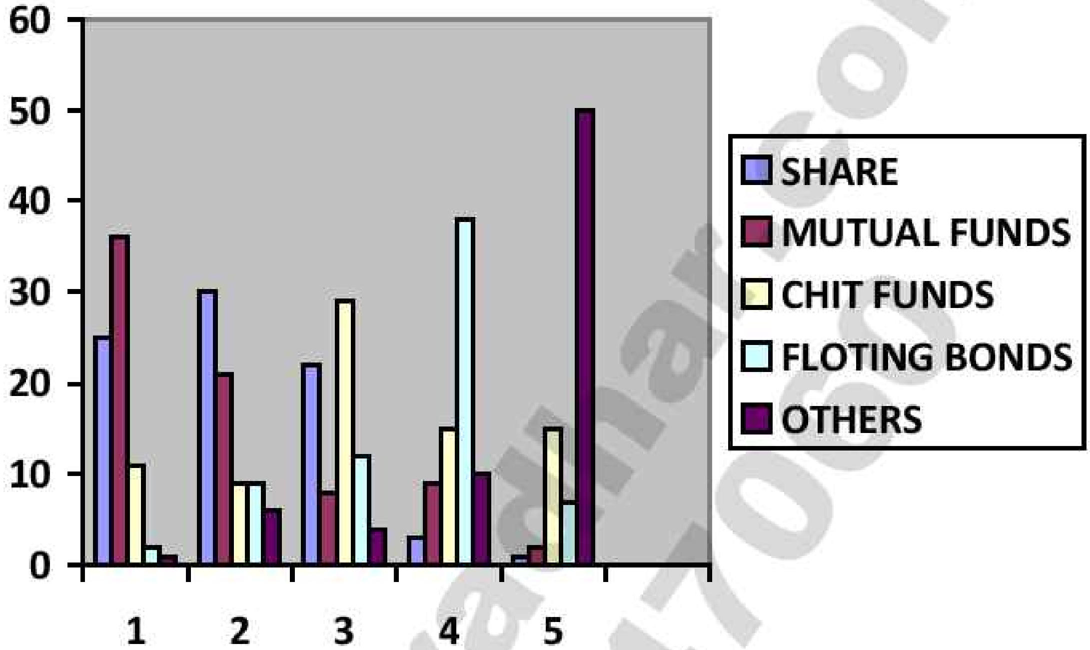


TABLE NO.11

TABLE SHOWING RANKING BASED ON SECURITY

Rank	A	B	C	D	E	F	G	H
1	21	16	12	3	15	1	2	5
2	17	11	19	12	11	1	2	2
3	8	17	18	9	12	5	2	4
4	12	8	15	19	11	2	8	1
5	12	10	12	11	4	15	2	9
6	6	8	1	7	3	34	15	1
7	10	5	2	6	3	29	15	5
8	2	1	3	4	1	2	5	57

A , government securities B. Land

C. insurance D. gold/silver

E. deposits F. mutual funds

G. shares H. others

The above diagram shows that 15 respondents prefer only bank deposits and 21 respondents like to invest in government securities as secured investment.

CHART NO.11

CHART SHOWING RANKING BASED ON SECURITY

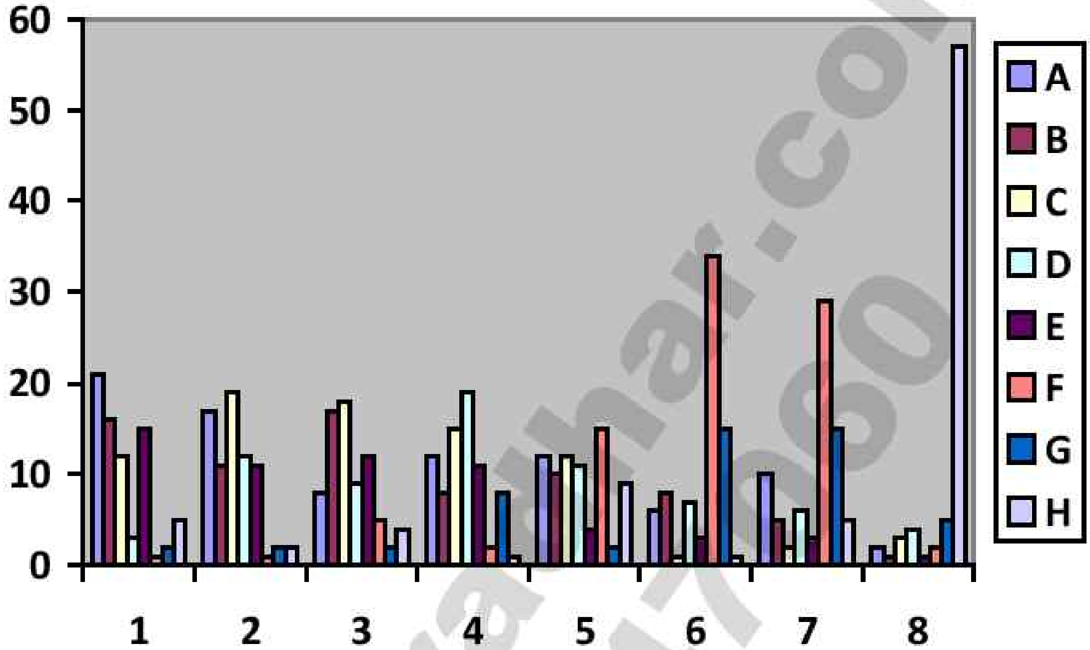


TABLE —12

TABLE SHOWING RANKING OF PURPOSE OF INVESTMENT

Rank	Future saving	Children Higher Education	Emergency	Capital Appreciation	Others
1	52	8	3	9	3
2	19	24	20	8	4
3	5	23	20	20	7
4	7	25	12	30	1
5	1	3	5	6	50

The above diagram explains that 52 respondents invest for their future and 9 respondents for capital appreciation and 8 respondents for children's higher education.

CHART 12

CHART SHOWING RANKING OF PURPOSE OF INVESTMENT

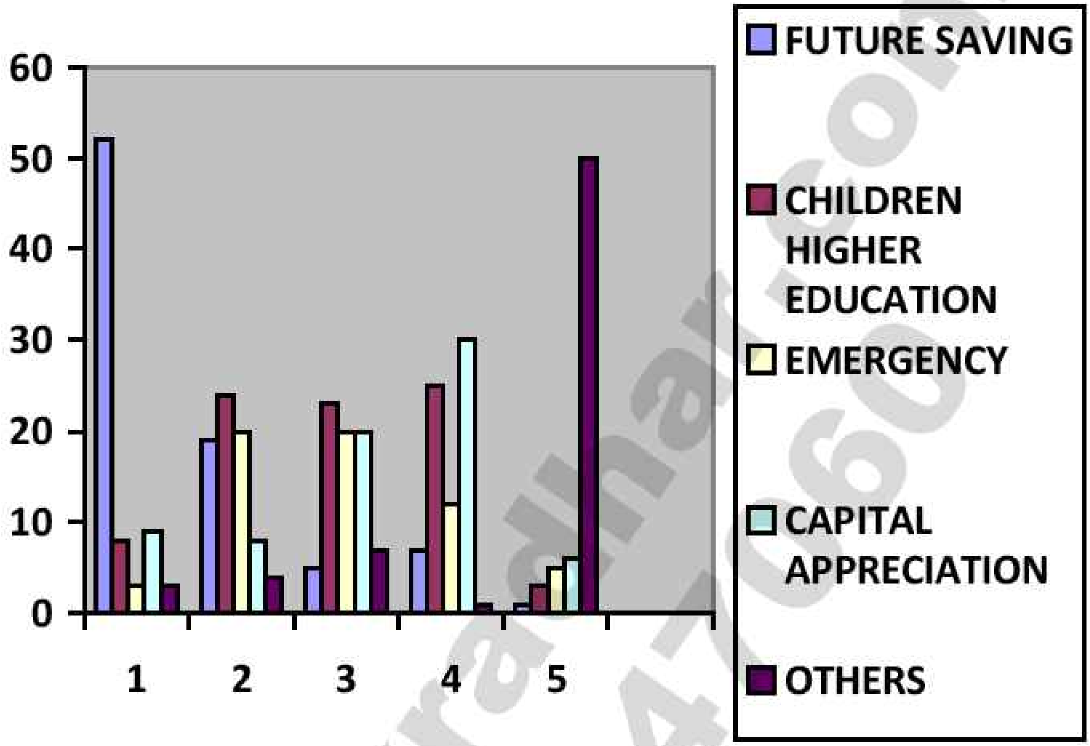


TABLE — 13

TABLE SHOWING RANKING OF TYPE OF LIQUIDITY PREFERED

Type of liquidity	No. of respondents	Percentage (%)
Immediate conversion into cash	52	69.34%
Marketability	8	10.67%
Flexible buy back option	1	1.33%
Loans/withdrawals	13	17.33%
Others	1	1.33%

The above diagram shows that 52 respondents prefer immediate conversion into cash rather than loans/withdrawals and marketability.

CHART — 13

CHART SHOWING RANKING OF TYPE OF LIQUIDITY PREFERED

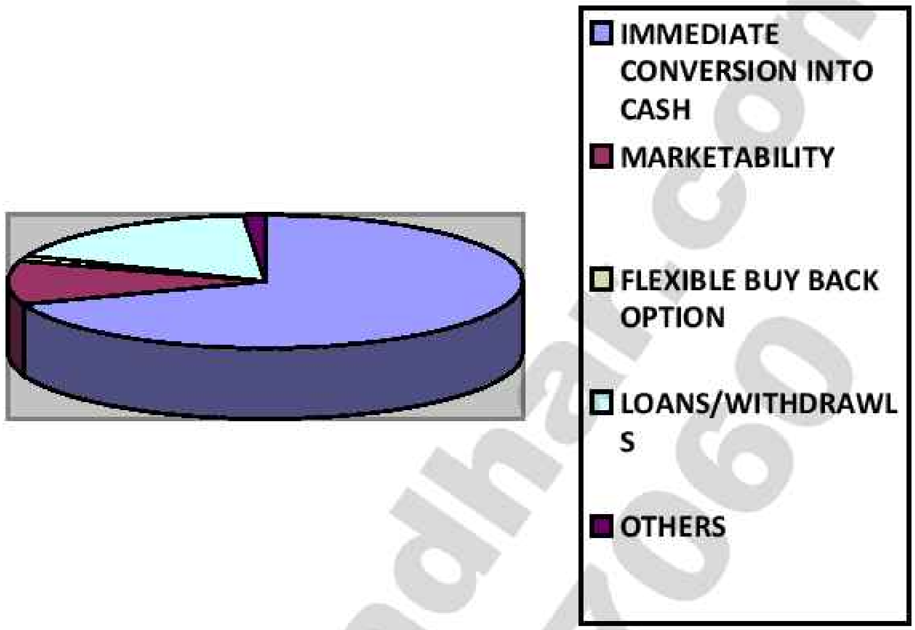


TABLE NO.14

TABLE SHOWING RANKING PREFERENCE FOR TAX PLANNING

Rank	NSC	LIC	PPF	Mutual funds	Infrastructure Bonds
1	12	45	5	9	4
2	28	9	25	12	1
3	22	11	24	9	9
4	9	4	17	35	10
5	4	1	12	22	36

The above diagram shows that 45 respondents prefer to save tax only by investing in LIC and 12 respondents in NSC.

CHART NO.14

CHART SHOWING RANKING PREFERENCE FOR TAX PLANNING

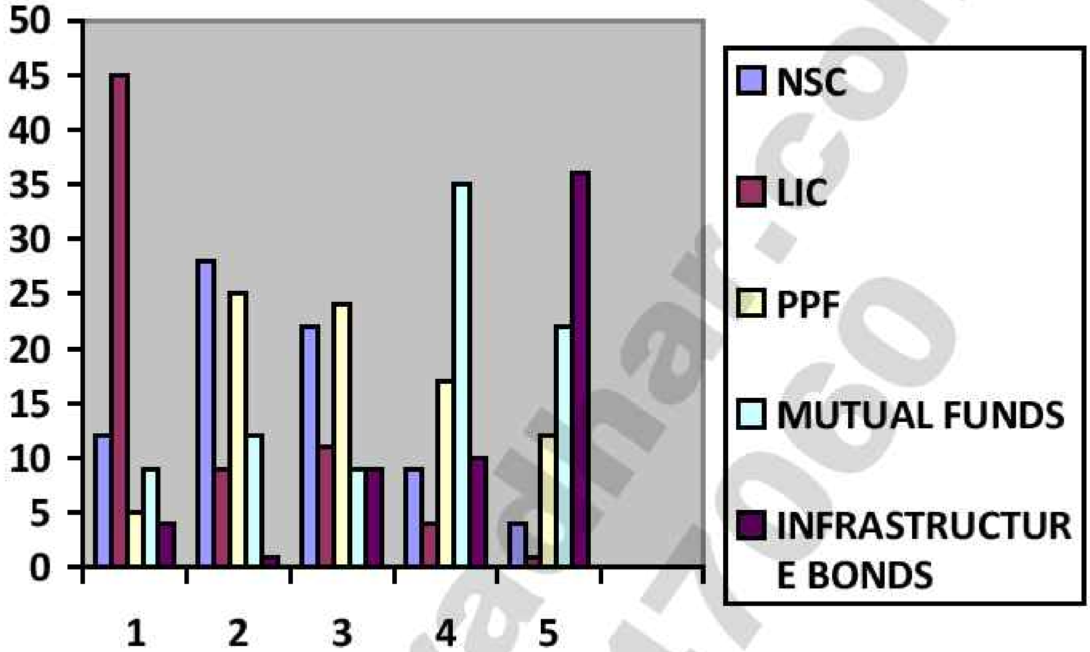


TABLE NO.15

TABLE SHOWING IDEAL OF INVESTMENT

No. of Years	No. of respondents	Percentage (%)
Less than 1 yr	6	8%
1-2 yrs	8	10.67%
2-3 yrs	21	28%
3-5 yrs	29	38.67%
Above5 yrs	11	17.66%
Total	75	100%

The above table shows that nearly 39% of the respondents are of the view that 3-5 years is ideal investment period and nearly 28% of the respondents say that 2-3 years will be the ideal period for the investment.

CHART NO.15

CHART SHOWING IDEAL OF INVESTMENT

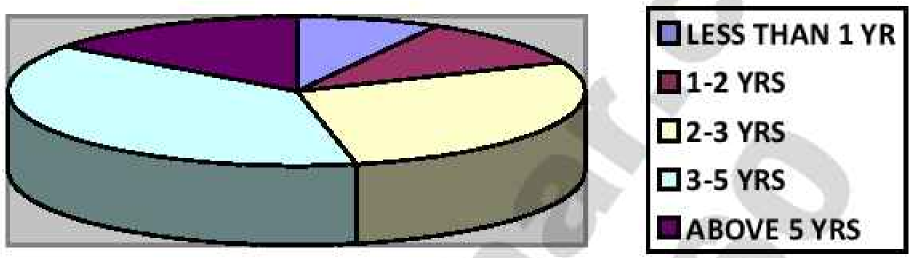


TABLE NO.16

TABLE SHOWING RANKING BASED ON APPRECIATION

Rank	Primary Share Market	Secondary Share Market	Mutual fund	LIC	Land Gold/silver	Others
1	8	5	9	19	33	1
2	9	5	20	24	10	7
3	8	9	25	10	2	1
4	29	22	14	6	3	1
5	9	32	12	15	4	3
6	1	2	1	8	5	58

The table shows that 33 respondents believes that investing in land, gold and silver will gets appreciated and 19 respondents are of the view that investing in LIC policies will be appreciated.

CHART NO.16

CHART SHOWING RANKING BASED ON APPRECIATION

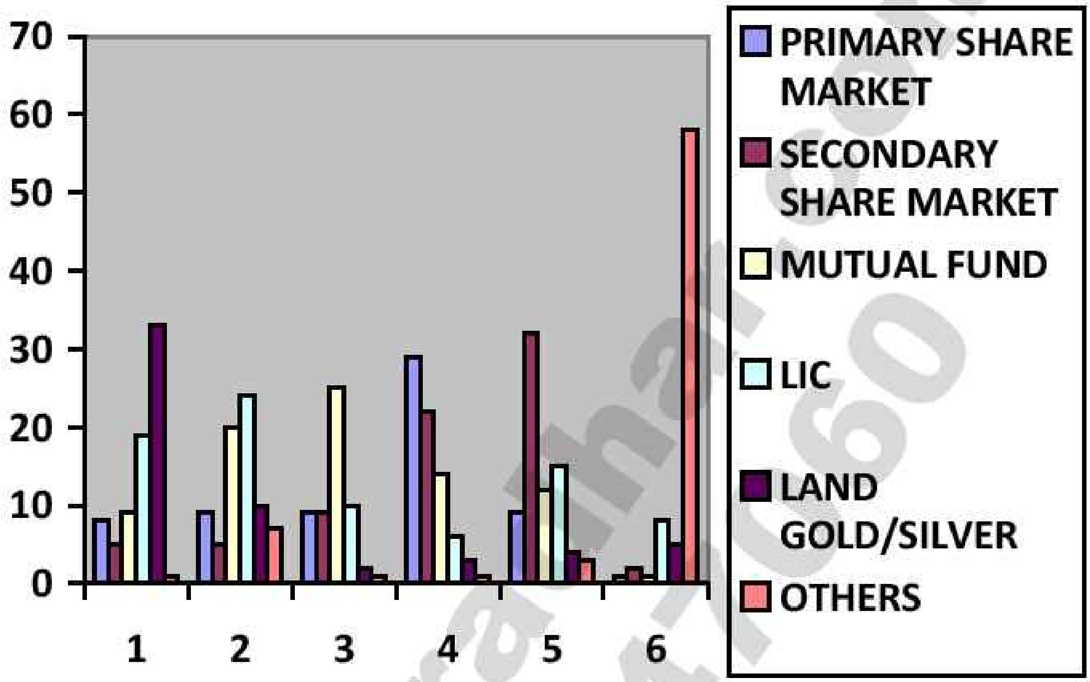


TABLE NO.17

TABLE SHOWING RANKING OF VARIOUS RISKS

Rank	Default Risk	Business risk	Purchasing Power Risk	Interest Rate risk	Political Risk	Market Risk
1	15	12	15	9	2	22
2	5	22	12	15	5	16
3	12	17	9	5	19	15
4	9	18	5	15	17	11
5	4	3	18	23	20	7
6	9	3	17	25	17	4

The table explains that 15 respondents feel that default risk as the greater and 22 respondents say that market risk as greater risk.

CHART NO.17

CHART SHOWING RANKING OF VARIOUS RISKS

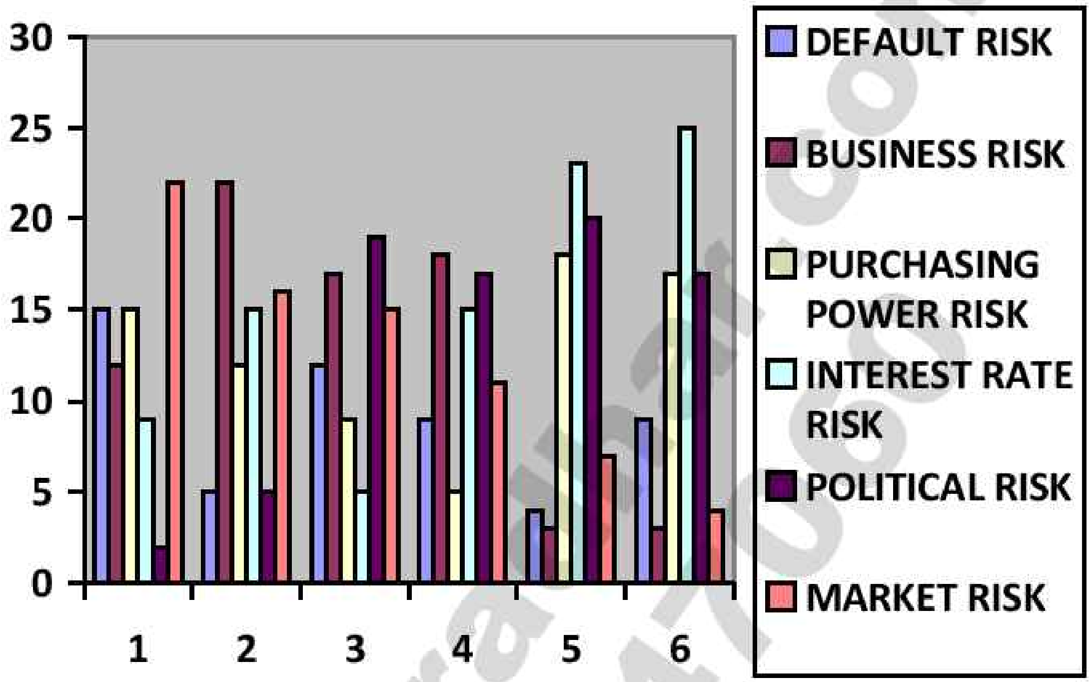


TABLE NO.18

TABLE SHOWING RANKING OF PERSONS RELIED FOR INVESTMENT DECISION MAKING

Rank	A	B	C	D	E	F	G
1	15	17	12	20	3	5	3
2	9	22	13	22	2	5	2
3	5	10	6	8	11	27	84
4	18	4	14	15	10	13	1
5	12	11	15	2	15	16	4
6	9	3	11	3	34	13	2
7	2	1	3	1	6	3	59

A. Agents B. Magazines

C. Consultants D. Friends/Relatives

E. Company Direct Mail F. Advertisement

G. Others

The diagram shows that 20 respondents relies friends and relatives and 12 respondents relies on investment consultants for investments decision making.

CHART NO.18

CHART SHOWING RANKING OF PERSONS RELIED FOR INVESTMENT DECISION MAKING

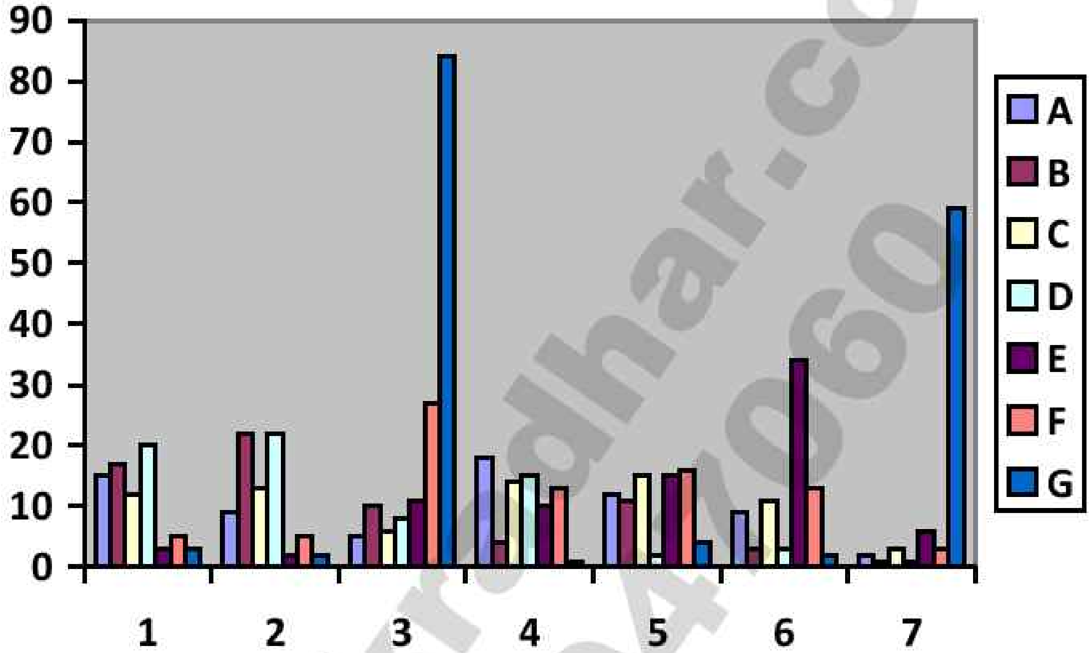


TABLE NO. 19

TABLE SHOWING RANKING OF SOURCES OF INVESTMENT INFORMATION

Rank	TV	Dailies	Financial Journals	Company Reports	Books/ Publications
1	15	39	17	3	1
2	35	21	12	5	2
3	13	9	39	12	3
4	4	13	5	30	23
5	15	1	7	32	19

The diagram shows that 39 respondents collect information from dailies (newspapers and financial years) and 17 respondents collects information from financial journals.

CHART NO. 19

CHART SHOWING RANKING OF SOURCES OF INVESTMENT INFORMATION

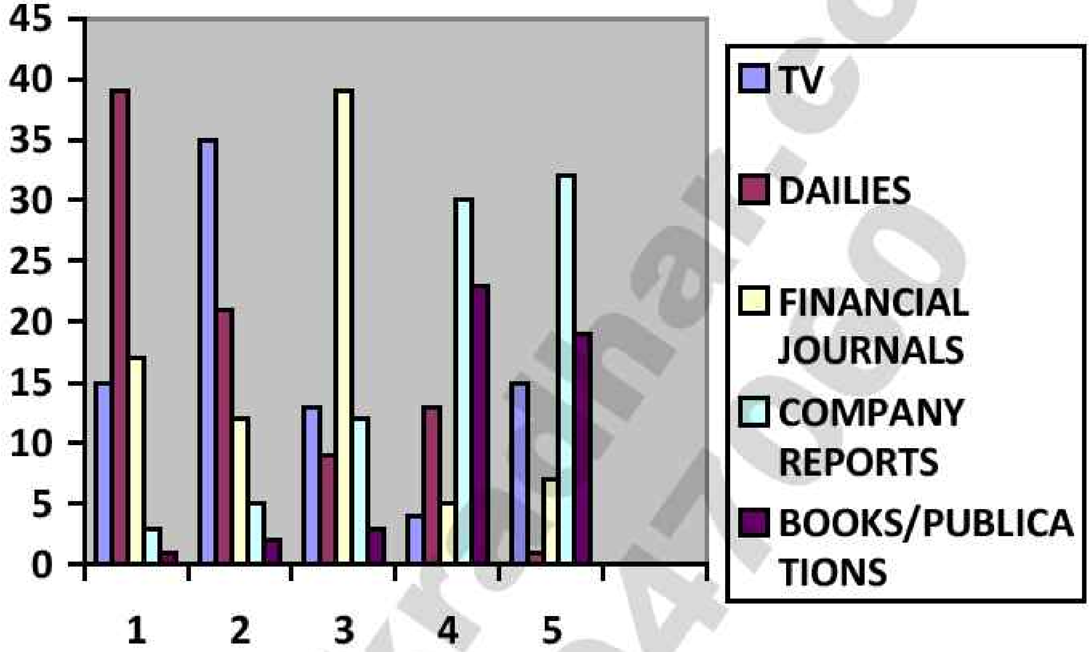


TABLE NO.20

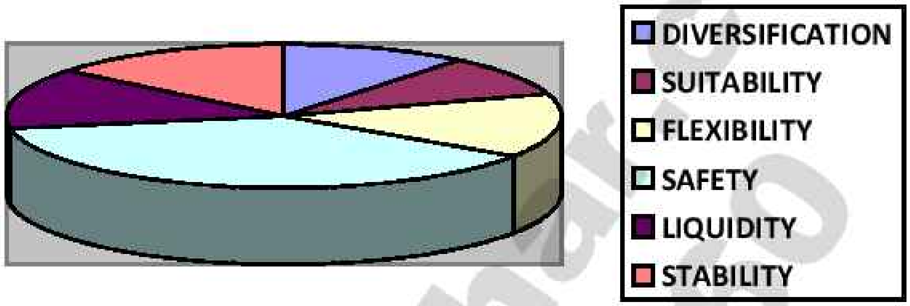
TABLE SHOWING THE IDEAL MIX FOR INVESTMENT PORTFOLIO

Factor	No. of respondents	Percentage (%)
Diversification	**24**	**10.67%**
Suitability	**21**	**9.33%**
Flexibility	**32**	**14.22%**
Safety	**85**	**37.78%**
Liquidity	**30**	**13.33%**
Stability	**33**	**14.67%**
Total	**225**	**100%**

The above table shows that majority of the respondents prefer safety, liquidity and flexibility for the ideal mix for the investment portfolio.

CHART NO.20

CHART SHOWING THE IDEAL MIX FOR INVESTMENT PORTFOLIO



ANALYSIS ABOUT INVESTORS' PREFERENCE

NULL HYPOTHESIS —1

There is no significant difference between the investment behaviour of the investors between direct investments (bank deposits) and indirect investment (insurance).

TABLE NO.21

TABLE SHOWING THE INVESTORS PREFERENCE FOR DIRECT INVESTMENT AND INDIRECT INVESTMENT

Particulars	Direct investment (bank deposits)	Indirect Investment (insurance)	Total
Yes	39	36	75
No	36	39	75
Total	75	75	150

Chi-Square Value = 0.24 Significant at 5% Level = 3.841

Among 75 respondents, 39 respondents prefer bank deposits and 36 respondents prefer insurance.

INFERENCE

The calculated value 0.24 is less than table value at 5% level (3.841). Thus, the null hypothesis is accepted.

RESULT

Hence, it is found that there is no difference in the investment behaviour of the investors between direct investments (bank deposits) and indirect investments (insurance).

NULL HYPOTHESIS —2

There is no significant difference between the investment behaviour between financial securities (shares) and non-financial securities (land & buildings).

TABLE NO.22

TABLE SHOWING THE INVESTORS PREFERENCE TOWARDS FINANCIAL AND NON-FINANCIAL SECURITIES

Particular	Financial Security (shares)	Non-financial Securities (land & buildings)	Total
Yes	17	58	75
No	58	17	75
Total	75	75	150

Chi-Square Value = 44.84 Significant at 5% level =3.841

Among 75 respondents, 17 respondents prefer investment in shares and 58 respondents prefer investment in land and buildings.

INFERENCE

The calculated value 36.52 is more than the table value at 5% level (3.841). Thus, the null hypothesis is rejected.

RESULT

Hence, it is found that there is a difference in the investment behaviour of the investors between financial securities (shares) and non financial securities (land & buildings).

NULL HYPOTHESIS —3

There is no significant difference between the investment attitude of the investors between fixed income securities (Bank Deposits) and variable income securities (Mutual Funds).

TABLE NO.23

TABLE SHOWING THE INVESTORS PREFERENCE TOWARDS FIXED INCOME AND VARIABLE INCOME SECURITIES

Particular	Fixed income Securities (bank deposits)	Variable income Securities (mutual funds)	Total
Yes	28	47	75
No	47	28	75
Total	75	75	150

Chi-Square Value = 9.64 Significant at 5% level = 3.841

Among 75 respondents, 28 respondents prefer investment in bank deposits and 47 respondents prefer investment in mutual funds.

INFERENCE

The calculated value 1.32 is less than the table value at 5% level (3.841). Thus, the null hypothesis is accepted.

RESULT

Hence, it is found that there is no difference in the investment behaviour of the investors between fixed income securities (Bank Deposits) and variable income securities (Mutual Fund).

TABLE NO.24

CONSOLIDATED STATEMENT SHOWING THE RESULT OF HYPOTHESIS

Hypothesis	Result
1. Null Hypothesis There is no significant difference between the investment behavior of the investors between direct investment (bank deposit) and indirect investment (insurance)	**Accepted**
2. Null Hypothesis There is no significant difference between the investment behaviour between financial securities (shares) and non-financial securities (land & buildings).	**Rejected**
3. Null Hypothesis There is no significant difference between the investment attitude of the investors between the investment in fixed income securities (bank deposits) and variable income securities (mutual funds).	**Accepted**

CHAPTER 7

FINDINGS AND CONLUSIONS

FINDINGS

Following are some major findings of the study:

- Nearly 48 respondents consider security as their major investment factor than any other factor.
- Investors prefer to invest mostly in bank deposits, insurance and land & buildings as their major source of investment.
- Based on fixed return, investors prefer to invest in bank deposits.
- Based on variable return, investors prefer to invest in mutual funds.
- In case of security, most of the investors prefer bank deposit as their means.
- LIC schemes are highly preferred by investors for availing tax benefits.
- Majority of the investors view that, the investments made for a period of 3-5 years will be the ideal period for maximising the return.
- Flexibility, Safety and Liquidity are considered for maintaining the ideal investment portfolio.
- Chi-square test shows that the investors in Bhubaneswar prefer investing in both direct (bank deposit) and indirect (insurance) investment.
- It also shows that the investors in Bhubaneswar prefer investing in non-financial securities (Land & Buildings).

CONCLUSION

Investors in Bhubaneswar are aware of the various investment opportunities. They are also aware that no investment can be made without risk. Each and every investment has its own risk, even the more secured investments like bank deposits, land, gold and silver, etc., investments made in Land & Buildings, gold, etc., has comparative value in long run.

The investors does not use the buy and hold strategy. A vast range of investments are in the government sector. These are mostly risk free but low return yielding. The private sector investments consist of equity and preference shares, debentures and Public deposits with companies. The predominance of government securities serves the purpose of bringing about confidence to the individual investor.

The Bhubaneswar's investor is to a great extent affected by the taxation policy of the Government.

Finally the affects the investor is the helpless and inadequate nature in which he deals with the investment climate in the country.

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