Delhi College Of Arts and Commerce
University of Delhi

Subject- INVESTING IN STOCK MARKET (E- Resources)
Course- BCom (prog) Sem IV-C
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Unit 1- Investing fundamentals
Topic for today-

- Meaning of investing
- Nature of investing

❖ Meaning of Investment and its Features

The word "investment" can be defined in many ways according to different theories and principles. It is a term that can be used in a number of contexts. However, the different meanings of "investment" are more alike than dissimilar. Generally, investment is the application of money for earning more money. Investment also means savings or savings made through delayed consumption. According to economics, investment is the utilization of resources in order to increase income or production output in the future.

According to finance, the practice of investment refers to the buying of a financial product or any valued item with anticipation that positive returns will be received in the future. The most important feature of financial investments is that they carry high market liquidity. The method used for evaluating the value of a financial investment is known as valuation. According to business theories, investment is that activity in which a manufacturer buys a physical asset, for example, stock or production equipment, in expectation that this will help the business to prosper in the long run.

❖ Types of Investment in Security Analysis and Portfolio Management

Types of investments

Investments may be classified as financial investments or economic investments.In Finance investment is putting money into something with the expectation of gain that upon thorough analysis has a high degree of security for the principal amount, as well as security of return, within an expected period of time. In contrast putting money into something with an expectation of gain without thorough analysis, without security of principal, and without security of return is speculation or gambling. Investment is related to saving or deferring consumption. Investment is involved in many areas of the economy, such as business management and finance whether for households, firms, or governments.

Economic investments are undertaken with an expectation of increasing the current economy's capital stock that consists of goods and services. Capital stock is used in the production of other goods and services desired by the society. Investment in this sense implies the expectation of formation of new and productive capital in the form of new constructions, plant and machinery, inventories, and so on. Such investments generate physical assets and also industrial activity. These activities are undertaken by corporate entities that participate in the capital market.

Financial investments and economic investments are, however, related and dependent. The money invested in financial investments is ultimately converted into physical assets. Thus, all investments result in the acquisition of some asset, either financial or physical. In this sense, markets are also closely related to each other. Hence, the perfect financial market should reflect the progress pattern of the real market since, in reality, financial markets exist only as a support to the real market.

❖ Characteristics and Objectives of Investment Management

➢ ***Characteristics of investment***

The features of economic and financial investments can be summarized as return, risk, safety, and liquidity.

1**. Return**

- All investments are characterized by the expectation of a return. In fact, investments are made with the primary objective of deriving a return.
- The return may be received in the form of yield plus capital appreciation.
- The difference between the sale price and the purchase price is capital appreciation.
- The dividend or interest received from the investment is theyield.
- The return from an investment depends upon the nature of the investment, the maturity period and a host of other factors.

Return = Capital Gain + Yield (interest, dividend etc.)

2. Risk

Risk refers to the loss of principal amount of an investment. It is one of the major characteristics of an investment.

The risk depends on the following factors:

- The investment maturity period is longer; in this case, investor will take larger risk.
- Government or Semi Government bodies are issuing securities which have less risk.
- In the case of the debt instrument or fixed deposit, the risk of above investment is less due to their secured and fixed interest payable on them. For instance debentures.
- In the case of ownership instrument like equity or preference shares, the risk is more due to their unsecured nature and variability of their return and ownership character.
- The risk of degree of variability of returns is more in the case of ownership capital compare to debt capital.
- The tax provisions would influence the return of risk.

3.Safety:

Safety refers to the protection of investor principal amount and expected rate of return.

- Safety is also one of the essential and crucial elements of investment. Investor prefers safety about his capital. Capital is the certainty of return without loss of money or it will take time to retain it. If investor prefers less risk securities, he chooses Government bonds. In the case, investor prefers high rate of return investor will choose private Securities and Safety of these securities is low.

4.Liquidity:

Liquidity refers to an investment ready to convert into cash position. In other words, it is available immediately in cash form. Liquidity means that investment is easily realizable, saleable or marketable. When the liquidity is high, then the return may be low. For example, UTI units. An investor generally prefers liquidity for his investments, safety of funds through a minimum risk and maximization of return from an investment.

- Examples of Investment Objectives and Basic Types

Your investment objective can be considered growth but it may also be income or preservation if you're retired, or it can be some combination or variation of those types. For example, some investors want to grow their account value over time but they also want to take some income from their investments. Therefore, this investment objective can be considered growth and income. Preservation objectives will usually seek to keep account values stable or, at a minimum, grow at a rate equal to the expected rate of inflation, which is usually around 3.5% to 4.0% for investing purposes.

Before you begin investing, be sure to determine your own investment objective. Then you will be able to match your objective with that of the mutual funds to buy that are appropriate for you and your goals.

NOTE: In case of difficulty in understanding of any topic, students can freely contact the undersigned.

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