INVESTMENT

Investment is the employment of funds with the aim of getting return on it. In general terms, investment means the use of money in the hope of making more money. In finance, investment means the purchase of a financial product or other item of value with an expectation of favorable future returns. Investment of hard earned money is a crucial activity of every human being. Investment is the commitment of funds which have been saved from current consumption with the hope that some benefits will be received in future. Thus, it is a reward for waiting for money. Savings of the people are invested in assets depending on their risk and return demands. Investment refers to the concept of deferred consumption, which involves purchasing an asset, giving a loan or keeping funds in a bank account with the aim of generating future returns. Various investment options are available, offering differing risk-reward tradeoffs. An understanding of the core concepts and a thorough analysis of the options can help an investor create a portfolio that maximizes returns while minimizing risk exposure.

OBJECTIVES OF INVESTMENT

Safety: There is truth to the axiom that there is no such thing as a completely safe and secure investment. However, we can get close to ultimate safety for our investment funds through the purchase of government-issued securities in stable economic systems or through the purchase of corporate bonds issued by large, stable companies. Such securities are arguably the best means of preserving principal while receiving a specified rate of return. The safest investments are found in the money market. In order of increasing risk, these securities include: Treasury bills (T-bills), certificates of deposit (CD), commercial paper or bankers' acceptance slips or, in the fixed-income (bond) market, in the form of municipal and other government bonds and corporate bonds. As they increase in risk, these securities also increase in potential yield

Return: Investors buy or sell financial instruments in order to earn return on them. The return on investment is the reward to the investors. The return includes both current income and capital gain or losses, which arises by the increase or decrease of the security price.

Time: Time is an important factor in investment. It offers several different courses of action. Time period depends on the attitude of the investor who follows a ‘buy and hold’ policy. As time moves on, analysis believes that conditions may change and investors may revaluate expected returns and risk for each investment.

Liquidity: Liquidity is also important factor to be considered while making an investment. Liquidity refers to the ability of an investment to be converted into cash as and when required. The investor wants his money back any time. Therefore, the investment should provide liquidity to the investor.

Tax Saving: The investors should get the benefit of tax exemption from the investments. There are certain investments which provide tax exemption to the investor. The tax saving investments increases the return on investment. Therefore, the investors should also think of saving income tax and invest money in order to maximize the return on investment.

ASSET CLASSES

An asset class is a group of similar investment vehicles. Different classes, or types, of investment assets – such as fixed-income investments – are grouped together based on having a similar financial structure. They are typically traded in the same financial markets and subject to the same rules and regulations.

- **Stocks or equities** – Equities are shares of ownership issued by publicly-traded companies. They are traded on stock exchanges such as the NYSE or NASDAQ. You can potentially profit from equities either through a rise in the share price or by receiving dividends. The asset class of equities is often subdivided by market capitalization into small-cap, mid-cap, and large-cap stocks.
- **Bonds or other fixed-income investments** – Fixed-income investments are investments in debt securities that pay a rate of return in the form of interest. Such investments are generally considered less risky than investing in equities or other asset classes.
- **Cash or cash equivalents, such as money market funds** – The primary advantage of cash or cash equivalent investments is their liquidity. Money held in the form of cash or cash equivalents can be easily accessed at any time.
- **Real estate or other tangible assets** – Real estate and other physical assets are considered an asset class that offers protection against inflation. The tangible nature of such assets also leads to them being considered as more of a "real" asset. In that respect, they differ from assets that exist only in the form of financial instruments, such as derivatives.
- **Futures and other financial derivatives** – This category includes futures contracts, the forex market, options, and an expanding array of financial derivatives. Derivatives are financial instruments that are based on, or derived from, an underlying asset. For example, stock options are a derivative of stocks.

INVESTMENT PROCESS

Before investing, investment management should be done. Investment Management is a five step process. Following are the 5 steps of investment management:-

- **1- Setting the Investment Objectives:-**
  The first and the basic step for investment is that the investor should set his investment objectives. These investment objectives vary from person to person. For example for an individual the objective may be to optimize the rate of return.

- **2- Establishing Investment Policy:-**
  Establishing investment policy refers to the allocation of asset amongst the major allocated assets in the capital market. The range of allocated asset is from equities, debt, fixed income securities, real estate, foreign securities to currencies. Restraint of environment and that of investor should be kept in mind while establishing the investment policy.

- **3- Selecting the Portfolio Strategy:-**

The portfolio strategy selected should be in accordance and in conformity with the investment objectives and investment policies. If these are not in accordance with each other then the whole investment management process will collapse.

- **4- Selecting the Assets:-**
  The assets to be placed in the portfolio have to be selected by the investor. This is the point where real creation of portfolio will take place after the selection of assets in which to invest by the manager or investor. That asset will be selected which will give best return in available resources and which involves lowest risk. The assets can be shares, stocks, art objects, securities, gold, property etc.

- **5- Measuring and Evaluating Performance:-**
  In this step the performance of the portfolio will be measured in comparison to the realistic benchmark or the standard set by the investor. Risk and return will be evaluated by the manager. Measuring and evaluating the portfolio will give the feedback to the investor and will in turn help the investor to improve the quality as well as the performance of the portfolio of investment.

DIFFERENCES BETWEEN INVESTMENT AND GAMBLING

1. Tangible vs Intangible

Ownership of something tangible is not involved in gambling. But in the case of investment, we are investing in to a tangible product.

2. Gambling for fun, Invest for profit

Gambling is a type of entertainment. But in investment, the activity is not motivated solely by entertainment or compulsion

3. Relationship

In case of gambling the relationship is like a player and it will stop when the game is over. But in the case of investment we build a long term relationship with the business

4. Recovering of losses

In gambling there is no way for recover losses unless we bet for additional amount. In the case of investing when share price fall, we still have our stock with us. We can still hold on our stock and wait for the market to recover.

5. Risk

There is risk in gambling. However, in stock investing, we can manage and minimize our risk through hedging and structuring our portfolio with different types of stocks

6. Knowledge and skill

In gambling ,there is no research has been conducted, but in the case of investing investor learns and conduct market analysis and research before he invests will certainly benefited than the average investor.

INVESTMENT AND SPECULATION

1. An investment involves an asset with the hope of securing returns over the principal amount in the future. On the other hand, speculation involves conducting a risk financial transaction with the aim of making large-scale gains from a single transaction.
2. Investments are generally held for a long period of time generally more than a year. Instances like real estate and life insurance are held for time horizons like 25-30 years. Speculation is held for a very short time span usually less than a year and can even be on a forthcoming event.
3. The amount of a risk assumed is relatively moderate as compared to speculation. Since investment is done largely by the middle class working for the community, they would be putting the spare money of their hard work, which they expect to earn a stable return. They are ready to part with their savings if it offers a definite return. Speculation will focus on getting high returns in a relatively shorter amount of time and thus quantum of risk is very high.
4. An investor will be using their own funds for investing whereas speculators will make use of borrowed funds and luring the borrowers with attractive returns.
5. The above point also reflects the attitude of the investors and speculators. Investors will generally follow a cautious and conservative approach while considering the investment along with the risk appetite they can absorb. Speculators believe in an aggressive approach highlighting attack but careless attitude. As the returns are far too attractive, and the window of opportunity is very small, this behavior will easily get reflected.
6. The investors expect to profit from the change in the value of an asset whereas speculators focus on extracting profits from price changes due to demand and supply forces.

7. While making decisions, investors will conduct extensive research and focus on the fundamental factors of the company such as the financial position, ratio analytics, etc. whereas speculative decisions are based on technical charts, market dynamics and personal opinion/tips received.
8. The avenues for considering investment will focus on the Blue chip companies of stock market, savings bank account, provident fund, etc. but speculators will focus on areas such as commodity market, options trading, betting, etc.
9. Investment does not give rise to practices such as insider trading or possible leakage of information which can be observed in speculative activities since the returns in them are lucrative.
10. The level of patience and sacrifice is relatively large in case of investment but not in case of speculation though the probability of losses does multiply in speculative activities.
11. The amount of money for investing activities is relatively less and depends on the ability of the individual/ organization but speculation requires large funds for executing the activities.