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A STUDY OF VARIOUS INVESTMENT AVENUES IN INDIA

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ABSTRACT

Investors invest their savings to enhance their future consumption possibilities by increasing their wealth. Investment decision requires proper financial planning. Various investment avenues are available in market with their distinct features. According to requirement of investors they invest some fund in financial instrument some in nonfinancial instrument. The study aimed to focus on various investment avenues available in India.

INTRODUCTION

Investment environment contains the market which provides various investment vehicles to investors and places for transaction with these investment vehicles. Every investment vehicle differs with each other on the basis of risk and return. The choice of investment option depends on our goal, budget, risk tolerance capacity, etc. Thus, investment decision is a part of our economic life. Everybody contract such decisions in different context at different time. Somebody earn more profit and some lose their money through investment but everybody invests for his future interests in the form of time, money and so on.

The fund for investment comes from assets already owned, savings, etc invested in different investment avenues so that by earning return from these investments we can enhance our future consumption possibilities like, education fee, marriage, health issues, etc. because, at the time of these responsibilities generally, we become not as much able to work and generate more fund. We do not invest only for return and capital appreciation but it is for better wealth management as well, in order to protecting our assets from inflation, taxes and other factors. Our present investment decisions affect our future wealth and it makes common sense to utilize a plan to guide our decisions. Financial planning helps in our investment decisions for example, which investment avenue or scheme will suit us can be decided with the help of financial planning.
The term *speculation* and *investment* together used simultaneously but these two terms differ on the basis of planning horizon, risk disposition, and return expectation, basis for decisions and leverage. Speculation is a financial action that does not promise for safety along with the return on principal sum. It is usually short term tendency. If a person purchases real productive asset, he is an investor while if he purchase financial asset from secondary market he is speculating his future cash flows or capital appreciation. In comparison to investors, speculators seek to make abnormally high return and for that they bear high risk. If a person buys a stock because of it goes high that means he is speculating. Speculation is not wrong thing but investor should realize that he is speculating. Speculation is very complex task and it demands more maintenance, more time and proper strategy of investment.

The following key factors considered by investors before making investment decisions:

Return – The expected rate of return plays a very important role in investment decision. It guides to investor where he should invest. The investor can decide according to his expectation whether he should invest in financial instrument or non financial instrument and how much amount should invest in financial instrument and how much in non-financial instrument.

Risk Profile – Risk means the volatility of portfolio's value. The risk tolerance ability differs from person to person so investor should choose the investment option based on his risk profile. Risk profile depends on investor's financial condition, personality, environment etc. So, understanding own risk bearing capacity is a crucial factor in investment decision like, a low risk investor should not invest into equities. He should look for the safe investment option. Risky asset class causes a loss of principal.

Liquidity – Liquidity is also an important criterion for selection of investment avenue. It is the ability to convert asset into cash immediately. More liquid funds have less risk and the price of this safety is low return in compare to other investment options. For example, if the need of money is arising in 3 – 4 years time frame then an investor should not invest into PPF, because PPF has minimum lock up to 5 years.

Taxation – Tax liability plays an important role in selection of investment avenues. The investor belong to high tax bracket will prefer to invest in the option which offer higher return.

INVESTMENT AVENUES AT A GLANCE:

There are various investment avenues available in India. Brief descriptions of the investment avenues are given below:

Investment avenues can be classified into four groups:

a) Marketable Investments,
b) Non-marketable Investments,
c) Mutual Fund Schemes, and
d) Physical Assets.

a) Marketable Investments: Marketable investments include equity shares, preference shares, convertible debentures, non-convertibles debenture, bonds of public sector units, savings certificates, Government securities etc. Equity shares and public sector bonds are the most common investment avenues among the marketable investments for the common man.

b) Non-marketable Investments: Non-marketable investments include bank deposits, provident and pension funds, life insurance, post-office saving deposits and fixed deposits like National Saving Certificates (NSC), Kisan Vikas Patra (KVC), private company's shares, etc. The post-office and savings banks deposits, recurring deposits and fixed deposits are most common and important among the non-marketable investments.

Deposits in post offices and nationalized commercial banks are regarded as the less risky investment avenues. However, the rates of return in those investment avenues are comparatively less. The rate of return of fixed deposit in banks was high as 13% in the year 1991-92 and 1995-96 which has come down to 7- 9% in the year 2013-2014.

Table 1.1: Post Office Saving Schemes in India

Schemes	Interest Rates	Tenure	Investment Limit	Tax Rebate
Post Office Savings Account	4% p.a.	No fix tenure	Minimum INR 20/- and Maximum RS. 100,000	Interest is tax free u/s 80L
5 - years Recurring Post Office Deposit Account	8.4% p.a. compounded quarterly	5 years, can be renewed for another 5 years	Min. INR 10/- per month or multiple of INR 5/- and Max. No Limit	No tax rebate
Post Office Time Deposit Account	8.40% 8.40% 8.40% 8.50%	1 Year 2 Years 3 Years 5 Years	Min. INR 200/- or its multiple and Max. no limit	Investment qualifies for deduction u/s 80C and interest is tax free u/s 80L
Post Office Monthly Income Account	8.40% p.a.	6 years	Min. INR 1500/- per month or multiples of it and Max. INR 4.5 lakhs for individual and INR 9 lakhs for joint account	Interest is tax free u/s80L
15 - Year Public Provident Fund Account	8.70% p.a. compounded yearly	15 years	Min. INR 500/- and Max. INR 100,000/-	Investment qualifies for deduction u/s 80C and interest is tax free u/s 80L
5 - years National Saving Certificate (VIII issue)	8.5% p.a. compounded half yearly but payable after maturity.	5 years	Min INR 100/- and Max. no limit	Investment and interest deemed to be reinvested qualifies u/s 80C
10 - years National Saving Certificate (IX issue)	8.80% p.a. compounded half yearly but payable after maturity.	10 years	Min INR 100/- and Max. no limit	Investment and interest deemed to be reinvested qualifies u/s 80C
Senior Citizen Saving Schemes	9.20% p.a.	5 years	Only one deposit allowed in multiple of INR 1000/- and max. INR 15 lakhs	Investment qualifies for deduction u/s 80C

c) Mutual Funds Schemes: Instead of directly buying financial securities, one can invest in mutual funds. Mutual funds provide an opportunity to diversify the risk of investor by investing in different securities. Mutual funds managed by professional fund managers, who decide where to invest, when to invest, how much to invest and when to disinvest so that the mutual funds scheme would be able to give a profit to its investors.

d) Physical Assets: Physical assets include house, car, building, land, flats, gold, silver etc. For the bulk of the investors the most important asset in their portfolio is a residential house. Generally physical assets are purchased to satisfy basic needs, like if an investor purchase a land or home then he and his family would be living there. He buys a car for travelling comfortably.

Table 1.2: Evaluation of Various Investment Avenues

		Rate of Return (Annual Income)	Rate of Return (Capital Gain)	Risk Profile	Liquidity	Tax Benefit
Marketable Investment	Equity	Low	High	High	High	Yes
	Non-convertible Debentures	High	Low	Low	Average	No
Nonmarketable Investments	Bank Deposit	Low	Nil	Low	High	Yes
	Life Insurance	Nil	High	Nil	Average	Yes
	Provident Fund	Nil	High	Nil	Average	Yes
Mutual Fund Schemes	Growth/Equity	Low	High	High	High	Yes
	Income/Debt	High	Low	Low	High	Yes
Physical Assets	Real Estate	Low	High	Low	Limited	Average
	Precious Metal	Nil	Average	Average	Nil	Average

Household Saving:

Economic outlook conducted a study that concluded that in the last two years the financial savings accounted for less than a third of the household savings. The households started showing a serious aversion towards investing their money in financial instruments since 2010-11. The financial savings dropped from 12% of GDP in 2009-10 to 9.9% in 2010-11. It dropped further to 7% in 2011-12 and remained low at 7.1% in 2012-13. Because of decrease in financial saving and no increase in savings in physical assets, overall household sector saving rate also declined. There was a progressive shift in allocation of household savings towards financial assets from physical assets since independence (Table 1.3).

Table 1.3: Distribution of Household Saving Between Financial and Physical Assets (As Percentage to GDP at Current Market Prices)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Household Sector Saving	23.0	23.6	25.2	23.1	22.8	21.9
Financial Saving	11.6	10.1	12.0	9.9	7.0	7.1
Saving in Physical Assets	11.4	13.5	13.2	13.2	15.8	14.8

Source: rbi.org - Table 11.3 gross domestic saving – sector wise

Because of negative returns on financial savings and easy availability of personal loans, the households have shown a clear preference for physical assets over financial assets in the recent times. The financial savings yielded either marginal or negative real returns during the last three years because of high inflation (Fig 1.1).

Inflation rose sharply at the wholesale as well as the consumer level during 2010-2013. The Wholesale Price Index (WPI) rose at a compounded annual rate of growth (GARG) of 8.6 per cent between 2009-10 and 2012-13. The rise in the Consumer Price Index (CPI) was even steeper at 9.8%. As inflation rate is increased saving rate has tended to pull down, household attempt to maintain their current consumption level. The households preferred bank deposit for parking their money over the equity markets, as the real value of their money got eroded less in these. The term deposits of more than one year maturity yielded annual average returns of 9.25% during 2010-13. This is on the higher end of the deposit rates. On the lower end, the returns were 7.75%. When discounted for inflation, the bank deposits too yielded negative or marginally positive returns between 2009-10 and 2012-13. But, the real value of the savings parked in deposits eroded less than that parked in shares. Hence, share of deposits in total financial savings went up from 28.8% in 2009-10 to 37.7% in 2010-11 and further up to 50.2% in 2011-12.

Similar case was of provident & pension funds. Their share in total financial savings of households went up from 16.6% in 2009-10 to 21.6% in 2012-13.

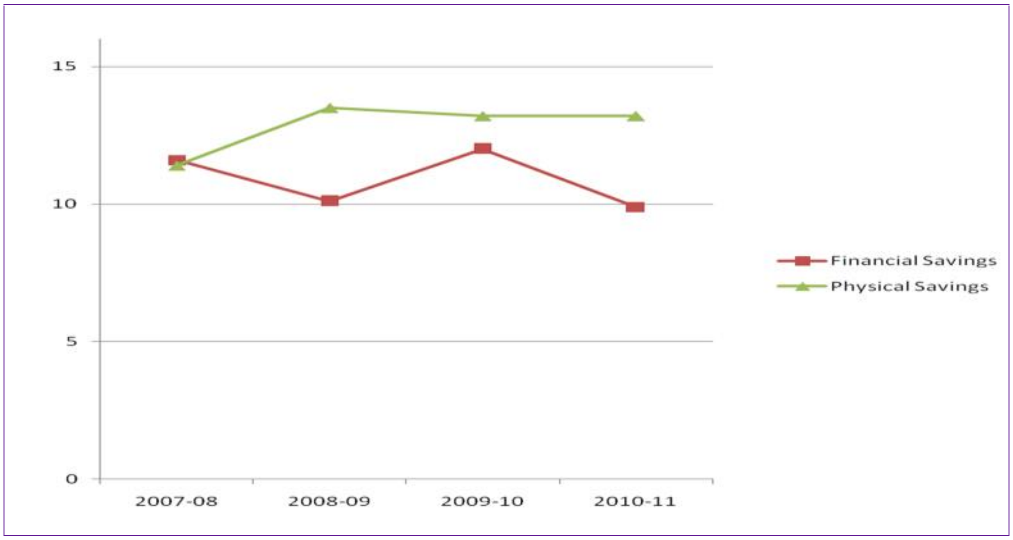

Fig 1.1: Distribution of Financial and Physical Savings

This only explains the choice households made between different financial assets. Their overall preference was clearly for the physical assets. The share of physical assets in total household savings shot up from 52.5% in 2009-10 to 69.2% in 2011-12 and then remained high at 67.6% in 2012-13. The savings in physical assets include of households' investments in construction and machinery and change in stock. The property prices rose substantially during the last three years, making investments in real estate attractive. This explains the shift in household savings towards physical assets from financial assets.

The rising availability of banking credit to finance purchases of physical assets also contributed to the shift of savings away from the financial assets. As per the Reserve Bank of India (RBI) data, the scheduled commercial banks (SCBs) disbursed net loans of INR 3.2 trillion during April 2010-March 2013. This is a big jump from the INR 638.3 billion loans disbursed in the preceding two years. A major chunk of this was for housing purposes (INR 1.6 trillion). Net personal loans disbursed for purchases of vehicles were also substantial at INR 733 billion. More importantly, there was a sharp jump in loan disbursement for these purposes in the last three years.

Thus, the easy availability of loans and positive real returns on investments in real estate has prompted households to shift their savings into physical assets from financial assets in the last few years.

CONCLUSION

The present study endeavored to evaluate various investment avenues including different post office saving schemes with their returns and risk factor. A detailed analysis of household savings in last two years was made in this study. It is found that most of the household savings are moving towards physical investment rather than financial investment because of easy availability of physical investment with goo return.

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