SUDHRASAN COLLEGE OF ARTS AND SCIENCE, PERUMANADU, PUDUKKOTTAI.

INVERSTMENT MANAGEMENT

CLASS: II M.COM **SET-1** **SUBJECT CODE:P16MC41**

Max.marks :75

SECTION – A (7 X2 =14)

Answer all the questions

1. **What is Investment?**
Investment is the **employment of funds with the aim of achieving additional income or growth in value.** In involves the commitment of resource which have been saved or put away from current consumption in the hope that some benefits will accrue in future.

2. **What is speculation?**
Speculation consists in buying and selling commodities or securities or other property in the hope of a profit from anticipated changes of value.

3. **What is Gambling?**
Gambling is an act of creating artificial and unnecessary risks for expected increased returns. A gamble is a very short term investment based on rumours and hunches. Examples : horse racing, playing cards lottery .etc.,

4. **What are the various forms of investment? (or)Types of investment**
There are many types of investments and investing styles to choose form. Mutual funds, ETFs, individual stocks and bonds, closed-end mutual funds, real estate, various alternative investments and owning all or part of a business.

5. **What do you understand by financial investment?**
Financial investment means employment of funds in the form of assets with the object of earning additional income or appreciation in the value of investment in future.

6. **What do you investment environment?**
Investment environment even when people make decent incomes, they typically want to find ways to ensure that money will be available for the future. The result is that many people, at one time or another, seek to invest their funds in order to gain a financial return. Often, a safe investment option is debt investment.

7. **What are gilt edged securities?**
The securities issued by the central, state and quasi-governments are known as Government securities or gilt edged securities. The rates of interest on these securities are relatively lower because of their high liquidity and safety. Promissory notes and stock certificates are the important forms of government securities.

8. **What is primary market? (or) New issue market?**
   Securities available for the first time are offered through the primary securities market. The issuer may either be a new company or an existing company. In the new issue market, issuing houses, investment brokers and underwriters take up the responsibility of selling the stocks to the public.

9. **What do you mean by stock exchange? (or) Secondary market?**

   The stock exchange is a secondary market for securities which have already been issued and listed on a recognized stock exchange. Stock exchanges facilitate continuous purchase and sale of securities by the investors among themselves.

10. **What is listing of shares?**
    Listing means the admission of the security of a public limited company on a recognised stock exchange for trading. After the enactment of companies Act, 1998, listing of securities offered to public has become compulsory. Moreover, SEBI grants permission to the new issue of securities only when they are listed on a recognized stock stock exchange.

SECTION – B (5 X 5 =25)

Answer all the questions

11. (a) What are the objects of Investment?

- Return
- Capital appreciation
- Safety
- Liquidity
- Hedge against inflation
- Tax planning

1. **Return:** An investment is a commitment of funds made in the expectation of some positive rate of return. So, it is the sacrifice of certain present value for the future reward. Though investment is primarily made for income, it is however associated with risks.
2. **Capital appreciation:** Capital appreciation is one of the important objectives of investment. Investments involve real assets or financial assets. Real assets are tangible assets such as land, building, automobiles and bullions, whereas financial assets refer to pieces of paper having an indirect claim to real assets held by some others.
3. **Safety :** safety is the vital aspect as to why many investors are quite contended with low yield investments. They keep away from other investment options which are not cent percent safe. Investors who consider safety as the major objective fear loss of capital much more than loss of return.
4. **Liquidity :** The liquidity of an investment refers to the degree of its ready encashability. Generally, investors prefer investments which offer higher liquidity. Typically savings accounts and term deposits with banks are readily encashable.

5. **Hedge against inflation:** One of the important objectives of the investor while making investment is to hedge against inflation, i.e., seeking protection against inflation. Inflation is a serious problem our economy is facing now. Inflation has the effect of rising prices with a falling standard of living.
6. **Tax planning:** In practice, many investors are tax paying individuals. As the income tax rates vary from 10% to 30% with a surcharge, thae tax liability of those with higher income brackets is some what heavy.

(OR)

(b) Explain the essential features of an investment programme.

1. **Safety of Principal**
   Safety of principal signifies protection against any possible loss under the changing conditions. Safety of principal can be achieved through a careful review of economics and industrial trends before choosing the type of investment

2. **Liquidity**
   A liquid investment is one which can be converted into cash immediately without monetary loss. Liquid investments help investors meet emergencies. Portfolio of liquid investment enable the investors to raise funds through the sale of liquid securities or borrowing by offering them as collateral security.

3. **Stable income**
   Investors invest their funds in such assets that provide stable income. Regularity of income is consistent with a good investment programme.

4. **Capital growth**
   One of the important principles of investment is capital appreciation. So, the investors, by recognizing the connection between industry growth and capital appreciation should invest in growth stocks.

5. **Tax implications**
   While planning an investment programme, the tax implications related to it must be seriously considered. The amount of income an investment provides and the burden of income tax on that income should be to given a serious thought

6. **Stability of purchasing power**
   Current funds are sacrificed with the aim of receiving larger amounts of future funds. So, the investor should consider the purchasing power of future funds.

7. **Legality**
   The investor should invest only in such assets which are approved by law. Illegal securities will land the investor in trouble. Apart from being satisfied with the legality of investment, the investor should be free from management of securities.

12. (a) Explain Investment process ? (or) Describe the various stages of investment (or) What steps should an investor?

- **Investment Policy**
- **Investment analysis**
- **Valuation of securities**
- **Construction of Portfolio**

1. **Investment Policy:** The first stage determines and involves personal financial affairs and objectives before making investments. It may also be called preparation of the investment policy stage. The investors has to see that he should be able to create an emergency fund, an element of liquidity and quick convertibility of securities into cash.
2. **Investment Analysis:** the next step is to analyse the securities available for investment. He must make a comparative analysis of the type of industry, kind of security and fixed vs. variable securities.
3. **Valuation of Securities:** Valuation helps the investor to know more about the return and risk expected from an investment. The valuation of securities is done in terms of future benefits from investments. Future value of securities may be determined with the help of a simple statistical technique such as trend analysis.
4. **Construction of portfolio:** a portfolio is a combination of securities. Construction of portfolio calls for a thorough knowledge of securities. Modern portfolio theory involves a more scientific approach. It is based on estimates of risk and returns of portfolio and the attitude of the investor towards a risk-return pattern.

(OR)

(b) Investment differ from Speculation Explain.

	Investment	**Speculation**
a **Time Horizon**	Long-term time framework beyond 12 months.	Short-term planning holding assets even for one day with the objective
Risk	It has limited risk	There are high profits and gains
Return	It is consistent and moderate over a long period.	High returns though risk of loss is high.
Use of funds	Own funds through savings	Own and borrowed funds.
Decision	Safety, liquidity, profitability and stability considerations and performance of companies.	Market behavior information, judgements on movement in the stock market. Hunches and beliefs.

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13. (a) Explain the factor of sound Investment.

1. **Legal safeguards**
2. **A Stable currency**
3. **Existence of Financial Institution and Services**
4. **Form of Business Organisation**
5. **Choice of Investment**
6. **Riskless vs. Risky Investment**

1. **Legal Safeguards:** A stable government which frames adequate legal safeguards encourages accumulation of savings and investment. Investors will be ill be willing to invest their funds if they have the assurance of protection of their contractual and property rights.
2. **A Stable Currency:** A well organized monetary system with definite planning and proper policies is a necessary pre-requisite to an investment market. A reasonable stable price level which is produced by wise monetary and fiscal management contributes towards proper control, good government, economic well-being. A well disciplined growth- oriented investment market and protection to the investor
3. **Existence of Financial Institution and Services:** the presence of financial institutions and financial services encourage savings, direct them to productive uses and helps the investment market go grow. In India, there are a number of institutions under Central Government and State Government and rural bodies that have encouraged the growth of savings and investment. The Life Insurance Corporation and Unit Trust of India offer a wide variety of schemes for savings and give tax benefits also.
4. **Form of Business Organisation:** The form of business organization which is permanent in existence encourages savings and investment. The public limited companies, therefore, is a popular form for investment as the investors benefit from liquidity, convenience and longevity.
5. **Choice of Investment:** 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.
6. **Riskless vs. Risky Investment:** Most investors are risk averse, but they expect maximum return from their investment. Every investment must be analysed because there is definitely some risk in it.

OR

(b) Why do people Invest?

It has been a natural trend for people to invest it they have some money in hand. When it comes to money, it is invest, leave it in the bank or spend. Most people prefer to invest because it would let their money grow, giving them some kind of leverage during lean days/ years. Of course, the primary reason would be to be financially secure.

- Investing in stock portfolio – whenever one wishes to invest in stocks it's important to understand how stock market works in order to be able to make good income.
- Investing in fixed deposit accounts - Banks have options of helping investors to place their monies on a fixed deposit account. They earn income within a short period of time.

14. (a) Distinction between primary market and secondary market

Primary market	Secondary market
Primary market helps on mobilization of savings of individuals, Bankers, stock brokers and merchant bankers operate for the success of the issue	It is market for purchase and sale of securities and is represented by share brokers. After the issue of securities in the primary market, they are listed on the stock exchange
This market is called the New issue Market. All securities are first issued through this market.	When the security has been registered in the New issue market, all subsequent trades take place in the secondary market
It is the market for IPOs or Initial Public Offering	Popularly called the Stock Exchange after listing of shares.
This market helps in raising funds for industry or corporate organizations	The stock market helps in lending liquidity and marketability to such securities.

OR

(b) Describe the functions of stock exchange.

- **Marketability of securities** : Stock exchange are the markets for purchasing and selling securities. As they provide a ready and continuous market for securities, the securities can be converted into cash without delay.

- **Evaluation of securities :** In stock exchanges, prices of securities are determined by investors demand and supplier's preferences. Stock exchanges integrate the demand and supply of securities and determine their prices on a continuous basis.

- **Safety of investment:** Stock exchanges operate under the rules, bye-laws and regulations duly approved by the government. The members of stock exchange are bound by them.

- **Capital formation :** Capital formation occurs due to savings and investments. Stock exchange facilitate capital formation in the country. They create the healthy habit of saving, investing and risk bearing among the investors.

- **Regulation and Motivation of Companies :** Companies wishing to list their shares on a stock exchange should follow certain rules and regulatins.

- **Facilitates for healthy speculation:** Speculation is taking advantage of fluctuations of price movement. With regard to securities market, healthy speculation is essential to equate demand and supply of securities at different places.

- **Other services :** Stock exchange provide different kinds of securities carrying different returns and maturity period. Stock exchanges render a useful service to the invertors by diversifying their risks through wider portfolio of investment.

15. (a**) Explain the features of NSE.**

The main features of National Stock Exchange are as follows

I. It has nationwide coverage. The investor can make dealing through NSEI dealer.
II. NSE is the first stock exchange in the world which uses communication technology for trading its securities. It is fully computerised, screen based and ringless system.
III. It allows the investors to trade their securities from their offices or homes through the network with direct satellite link up.
IV. There are transparency dealings. The investor can check the exact price at which their transactions took place.
V. National Stock Exchange is a company promoted BY IDBI, ICCI, LIC and GIC and its subsidiaries, commercial banks. SBI capital market limited.
VI. The establishment of the NSE is a major step in upgrading trading facilities for investors and bringing Indian Financial markets in line with international markets.
VII. The index of the NSE is called as the Broader 50 share – Nifty.

(OR)

(b) Explain the objectives of BSE

The origin of the Bombay Stock Exchange dates back to 1875. It was recognised on a permanent basis in 1957. This is premier stock exchange is the oldest stock exchange in Asia. The objectives of the stock exchange are:

- To promote, develop and maintain a well-regulated market for dealings in securities.
- To safeguard the interest of members and the investing public having dealings on the exchange.
- To promote industrial development in the country through efficient resource mobilisation by way of investment in corporate securities.
- To establish and develop critical and fair practices in securities transactions.

SECTION –C (3 X 10 =30)

Answer any Three questions

16. Describe the source of Investment Information.

(i) International Affairs:
International factors, which influence domestic income, output and employment and for investment in the domestic market by F.F.I.s, O.C.B.s, etc. Also foreign political affairs, wars, and the state of foreign markets affect our markets.

(ii) Domestic Economic and Political Factors:
Gross domestic products, agricultural output, monsoon, money supply, inflation, Govt. policies, taxation, etc., affect our markets.

(iii) Industry Information:
Market demand, installed capacity, competing units, capacity utilisation, market share of the major units, market leaders, prospects of the industry, international demand for exports, inputs and capital goods abroad, import competing products, labour problems and Govt. policy towards the industry are all relevant factors to be considered in investment decision-making.

(iv) Company Information:
Corporate data, annual reports, Stock Exchange publications, Dept. of company affairs and their circulars, press releases on corporate affairs by Govt., industry chambers or associations of industries etc. are also relevant for security price analysis.

(v) Security Market Information:
The Credit rating of companies, data on market trends, security market analysis and market reports, equity research reports, trade and settlement data, listing of companies and delisting, record dates and book closures etc., BETA factors, etc. are the needed information for investment management.

(vi) Security Price Quotations:
Price indices, price and volume data, breadth, daily volatility, range and rate of changes of these variables are also needed for technical analysis.

(vii) Data on Related Markets:
Such as Govt., securities, money market, forex market etc. are useful for deciding on alternative avenues of investment.

(viii) Data on Mutual Funds:

Their schemes and their performance, N A V and repurchase prices etc. are needed as they are also investment avenues.

(ix) Data on Primary Markets/New Issues, etc.

17. Discuss the different alternatives available to an investor for making investments. (OR) Discuss the various sources of investment (alternative/Media/channel.)

What is investment Media?(or) Investment alternatives

Investment media are of several kinds. Some are simple and direct, others present complex problems of analysis and investigations. Some are familiar; others are relatively new and unidentified. Some investments are appropriate for one type of investor and another may be suitable to another person.

(1) **Negotiable Instrument**s / **Securities** –

These investment alternatives can be traded in the market.

(i) Variable Income Securities

• **Equity Shares:** Shares which do not carry any preferential rights in repayment of capital and dividend payments are equity shares. The rate of dividend is not fixed and varies depending upon the profitability, financial position and business objectives of a company.

(ii) Fixed Income Securities

• **Preference Shares –** Shares which carry preferential rights in respect of dividend payment and repayment of capital are preference shares.

• **Debentures –** These are capital market instruments used to raise medium and long term capital funds from the public. It comprises of Periodic interest payments over the life of the instrument and principle payment at time of its redemption.

• **Bonds –** They are similar to debentures but are issued by public sector companies. Its value in the market depends upon the interest rate and maturity of the bond.

• **IVP`s and KVP`s –** These are savings certificates issues by the post office with the name Indra Vikas Patra and Kisan Vikas Patra..

• **Government Securities –** These are secured securities issues by the central and state government. The rate of interest on these securities is relatively low but they are highly liquid and safe.

• **Money Market Securities –** These securities have very short term maturity usually less than a year. E.g. Treasury bills, Commercial paper, Certificate of Deposit

(2) Non Negotiable Instruments / Securities – These investment alternatives cannot be traded in the market.

• **Deposits:** Deposits earn a fixed rate of return.

- **Bank Deposits –** Banks usually offer three traditional facilities, they are; current account facility (no interest is paid), savings account (4-5% interest is paid) and fixed account (7-8% interest is paid).
- **Post Office Deposits –** Fixed deposit and Income schemes at Post offices provide around 13% to 15% interest rate.
- **NBFC Deposits –** NBFC`s having bet owned funds over 25 lakh can accept deposits with maturity ranging from 3-5 years and provide interest rate higher than commercial banks.

• **Tax Sheltered Savings Scheme –** These are beneficial for tax-paying Investors. They offer tax relief to its participants according to the taxation laws. E.g. Public Provident Fund Scheme, National savings scheme, National Saving Certificate, Public Provident Fund Scheme, National Savings Scheme, National Savings Certificate

• **Life Insurance –** It is a contract for payment of a sum of money to the person assured or entitled on happening of an insured event or at maturity. It also provides tax benefits to the person buying the insurance scheme. E.g. Basic Life Insurance: Whole Life Assurance Plan, Endowment Assurance Plan, Term Assurance Plans, Plans for Children, Pension Plans

(**3) Mutual Funds**

A mutual fund is a professionally-managed investment scheme, usually run by an asset management company that brings together a group of people and invests their money in stocks, bonds and other securities.

(4) Non-Financial Instruments or Real Assets

These Investment alternatives usually form the major part of the investor`s portfolio. They include:

- **Gold and Silver –** They provide best protection against inflationary tendencies in an economy.
- **Real Estate –** They provide high returns to investors but require high investment and long term commitment. This investment alternative includes investment on land, buildings, any personal and property.
- **Antiques –** They usually guarantee safety of investment. A price rise is generally due to increased interest of collectors or increased social importance.

18. **What do you mean by Investment decision process? How is it going to help investor in making sound investment decision?**

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Investment decisions are concerned with the question whether adding to capital assets today will increase the revenues of tomorrow to cover costs. Thus investment decisions are commitment of money resources at different time in expectation of economic returns in future dates.

Categories of Investment Decisions:

There are several categories of investment decisions.

(i) Inventory Investment:

Holding of stocks of materials is unavoidable for smooth running of a business. The expenditure on stocks comes in the category of investments.

(ii) Strategic Investment Expenditure:

In this case, the firm makes investment decisions in order to strengthen its market power. The return on such investment will not be immediate.

(iii) Modernisation Investment Expenditure:

In this case, the firm decides to adopt a new and better technology in place of the old one for the sake of cost reduction. It is also known as capital deepening process.

(iv) Expansion Investment on a New Business:

In this case, the firm decides to start a new business or diversify into new lines of production for which a new set of machines are to be purchased.

(v) Replacement Investment:

In this category, the firm takes decisions about the replacement of worn out and obsolete assets by new ones.

(vi) Expansion Investment:

In this case, the firm decides to expand the productive capacity for existing products and thus grows further in a uni-direction. This type of investment is also called capital widening.

19. Discuss the methods of floating shares in new issue market.

The new issue market facilitates transfer of funds from savers to the companies raising fresh capital. There are four methods of placing new issues in the market, namely

1. **Public Issues**
   Sale through a prospectus is a direct method of floating shares. Under this method, the issuing company offers to public, a fixed number of shares through a legal document, called prospectus. The prospectus contains the following:
   i) Name of the issuing company

ii) Address of the registered office of the company
iii) Existing and proposed business activities
iv) Location of the industry
v) Minimum subscription
vi) Dates of opening and closing of subscription list
vii) Names and address of the institutional underwriters and the amounts underwritten by them

2. **Offer for sale**
Under this method, securities are offered to public through intermediaries such as issue house and brokers. Two stages ae involved in the sale of securities. First, the issuing company issues securities to issuing houses and brokers at a fixed price. Secondly, the intermediaries resell the securities to the ultimate investors at a higher price. This method is advantageous to the issuing company as it is relieved fro the burden of printing and advertising prospectus.

3. **Placement**
Under this method, the issue is placed with limited number of financial institutions, corporate bodies and noteworthy individuals. These intermediaries, purchase the shares and sell them to investors at later date at a suitable price. This method is suitable when the issuing company is small in size

4. **Right issue**
Shares of existing companies which are already listed in the stock exchange are sold through right issue. Under right issue, the shares are first offered to the existing shareholders. These shares are called right shares. The rights themselves are transferable and saleable in the market by the shareholders who are entitled to buy right shares.

20. Explain the role of SEBI in protecting investor's interest.

SEBI has issued Guidelines, Rules and Regulations to protect the investors by making it compulsory for companies to provide information through documents so that the investors can take decisions in purchasing securities in a fair manner.

i. **Offer Document:** A company has to prepare its offer document giving information of general and finance nature according to SEBI's guidelines.

ii. **Prospectus:** A company has to file a draft prospectus with SEBI before making a public offer

iii. **Listing** : A company cannot issue securities unitl it applies for listing of its shares at a stock exchange.

iv. **Capital :** A company can make a rights issue or public issue only when the existing shares of a company are fully pai up.

v. **Credit Rating:** SEBI restricts companies to make a debt issue without obtaining a credit rating and an investment grade.

vi. **Restrictions:** SEBI restricts unlisted companies from issuing their shares it makes an exception in some cases. An unlisted company can issue shares it its promoters contribute at least 20% of post-issue capital.

vii. **Inspection:** SEBI also monitors companies. It may carry out inspection of the books of accounts and other records of a listed company in respect of matters covered by its guidelines.

viii. **Advertisement:** A company usually advertises a public issue. Such advertisements should contain statements which are fair, clear and truthful giving the risk factor to enable an investor to make his judgment and not be influenced by any wrong statements.

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10. **What is listing of shares?**

SECTION – B (5 X 5 =25)

Answer all the questions

11. **(a) What are the objects of Investment? OR**
    (b) Explain the essential features of an investment programme.
12. **(a) Explain Investment process ? (or) Describe the various stages of investment (or) What steps should an investor?OR**
    (b) Investment differ from Speculation Explain.
13. **(a) Explain the factor of sound Investment. OR**
    (b)Why do people Invest?
14. **(a) Distinction between primary market and secondary market(OR)**
    (b) Describe the functions of stock exchange.
15. (a**) Explain the features of NSE. (OR)**
    (b) Explain the objectives of BSE

SECTION –C (3 X 10 =30)

Answer any Three questions

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