# Investment Environment

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# NDGURU

# Chapter - 1
## Investment Environment

**Concept:**

Simply, Investment refers to the sacrifice of present financial resources with the view to get additional financial benefit in future. The best use of the saving can be defined as the investment or purchase of financial assets or real assets is investment.

In other words, Investment can be defined as the process of bearing risk on his saving by satisfying today in another sector in order to get the more extra in future. It involves the commitment of resources that have been saved or put away from current consumption in hope that some benefit will produce in future.

The sacrify takes place in the present and is certain while the reward comes later and is uncertain. Today numerous alternatives of investment are available such as:

- Common stock
- Preferred stock
- Debt securities
- Hybrid securities
- Real assets, mutual fund, etc.

* key points:
- Sacrify of present financial resources.
- Alternative or the best use of the saving.
- Process of bearing risk
- Purchase of financial assets | Real assets

* Reasons for Investment:
- To get future financial benefit
- To increase the value of wealth
- To save the money from inflation or to maintain the purchasing power of money.

* Major elements of Investment:
1. Risk: Bearing uncertain
2. Time: Holding Period or certain duration
3. Return: Comes in future or expectation of the benefit.

* Difference between Investment and Speculation:

| Basis | Investment | Speculation |
|---|---|---|
| 1. Objective | Stable Return / Series of Return | Buy low and sell High / Capital Gain |
| 2. Risk | It is low risky. | It is high risky. |
| 3. Return | Moderate Rate of Return | High Rate of Return |

| | | |
|---|---|---|
| 4. Time | Long-term | Short-term |
| 5. Decision | Individual usually make decision with amount of Information available. | Individual make decision based on limited - Information. |
| 6. Planning | longer planning horizon | Short-term planning horizon. |
| 7. Investor | Generally Risk averse. | Generally risk seeker. |

## * Investment Environment:

There are various factors that may be internal or external qualitative or quantitative which may affect the investment decision directly or indirectly it considered as the Investment environment. The overall investment environment is categorized into three parts which are:

1. Securities or financial assets:
   - Ownership Securities / Common stock
   - Hybrid Securities | Preferred stock
   - Debt Securities | bond or debenture
   - Derivative instruments / Option or futures
   - Money Market Instruments i.e short term in nature
   - Capital Market Instruments i.e long term in nature

2. Securities markets

a. On the basis of security based
- Primary market
- Secondary market

b. On the basis of time or life span of securities
- Money market
- Capital market

3. Financial Intermediaries or Financial Institutions
- Bridge between savers and users

- Investment
  - Real Assets (Land, Building, plant, etc)
  - Financial Assets (stock, Bond, debt, etc)

- Short Term Securities (Money Market Instrument)
  - Corporate Security
    - Commercial Paper
    - Banker's Acceptance (BA)
    - Certificate of Deposit (CD)
    - Euro-Dollars, etc.
  - Government Security
    - Treasury Bill (T-Bill)
      - (Issued at Discount and Redeemable at Par)
- Long Term Securities (Capital Market Instrument)
  - Corporate Security
    - Common Stock
    - Preferred Stock
    - Bond / Debt
  - Government Security
    - Treasury Note
    - Governmental Bond

## 1. Short Term Securities:

The securities which have less than one year life are called short-term securities. They are also called money market instruments. The return on short term securities are higher. Most of the short term securities are issued at discount.

### a. Corporate Securities:

The securities issued by corporation / Company is called corporate securities.

i. Certificate of Deposit (CD)
ii. Commercial Paper
iii. Euro, dollars, etc.

### b. Government Securities:

The securities issued by government to raise the funds is called government securities. Government securities are risk free security that's why return on government securities are lower than corporate securities. Treasury Bill (T-Bill) is the example of government securities..

2. Long Term Securities:

The securities which have more than one year life is called long term securities. They are also called capital market instrument. The risk and return associated with long term securities are higher than short term.

a. Corporate securities
    1. Common stock
    2. Preferred stock
    3. Bond

b. Government Securities
    1. Treasury Note
    2. Governmental Bond

* Investment Alternatives:
    1. Short Term Securities (T-Bill, Commercial Paper, etc)
    2. Common stock
    3. Fixed Income Securities
    4. Mutual funds
    5. Derivative Securities
    6. Other Investment alternatives (gold, silver, real estate, etc)

## * Factors to be considered in choosing Investment alternatives:

1. Investment goal
2. Risk and Rate of Return
3. Tax consideration
4. Investment horizon
5. Investment strategy.

## * Process of Investment

1. Determining Investment objectives
2. Developing Investment plan.
3. Evaluating and selecting investment alternatives
4. Constructing a portfolio
5. Evaluating and Revising the portfolio.