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Investment, Its Identification, and Methods.

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Abstract

Investment is the need of the hour. There are many ways of investing money. The purpose of investment is to make your money work for you. First of all, investment opportunities should be identified and then only investment should be done. Investment should be done by giving due importance to certain things as time factor, interest rate, return, risk, liquidity etc. Sometimes investment done at wrong time proves disastrous, and many people just lose their lifetime savings by just relying on others. Investment done with caution and prudence pay good returns.

Keywords : investment, money, rules, time, returns

Introduction

In common parlance, investment means to buy stock, bonds, shares, securities that already exists in stock market. This is not real investment but simply a transfer of existing assets. Investment can also be described as, sacrifice of money value at present for gains in future. These are the definitions according to finance. According to economics, investment means production or acquisition of some real capital assets during any period of time. Investment thus includes new plant and equipment, construction of public works like dams, roads, building etc., net foreign investments, inventories and stocks and shares of new companies.

Materials and Methods

For the purpose of in depth study the contents have been taken from relevant books ,articles, journals, websites. The method is analytical and descriptive.Both primary and secondary sources of information have been taken.

Results and Discussions

For a common man it is a tough thing to identify investment opportunity. It is often seen that common people just lose their life time saving by a wrong decision and relying on others blindly. Investing is the process of making your money work for you, instead of simply sitting safely in the back, and it is increasingly a necessity of modern life. Investors need to have rules. Investors should invest or trade like a robot- without emotions and always adherent to your rules. Some excellent rules are-

No group or sector in the world enjoys as its birthright the promise of consistent high returns. There is no asset class that will do simply well because of what it is. People said, “You should buy real estate because it is a hedge against inflation”. Even real estate investment done at wrong time didn’t work. Time factor is also one of the most important things to be taken into account. Investment done at wrong time or unfavorable time doesn’t pay good returns.

It is just absolutely correct, ‘book the bet no one else will’. If everyone likes the favorite in a football game and wants to bet on it, the point spread will grow so wide that the, as good as it is , is unlikely to be able to cover the spread. Take the other side of the bet, on the underdog. Likewise, if everyone is too scared of junk bonds to buy them, it will become possible for you to buy them at a yield spread which not only overcompensates for the actual credit risk, but sets the stage for their being the best performing fixed income sector in the world. The bottom line is that one must try to be on the other side of the question from everyone else. If everyone likes it, sell, if no one likes it, buy.

As Warren Buffet said, the less care with which others conduct their affairs, the more care with

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which you should conduct yours. When others are afraid, you needn't be, when others are unafraid, you should better be. It is usually said that the market runs on fear and greed. Yes it is true. As 1991 began, everyone was petrified of high yield bonds. Only the very best bonds could be issued, and thus buyers at that time did not have to do any credit analysis- the market did it for them. Its collective fear caused high standards to be imposed. But when investors are unafraid, they will buy anything. Thus the intelligent investor's workload is much increased.

Gresham law says, "bad money drives out good." When paper money appeared gold disappeared. It works in investing too: bad investors drive out good. It works in investing too- bad investors drive out good. When undemanding investors appear, they will buy anything. Underwriting standards fall, and it gets hard for demanding investors to find opportunities offering the return and risk balance they require, so they are forced to the sidelines. Demanding investors must be willing to be inactive at times.

Companies use a variety of methods for identification of investment opportunities and are-

- Management sponsored study for project identification.
- Formal suggestion schemes.
- Consulting advice.
- Review of researches done in the country or abroad.
- Conducting market surveys.
- Deputing executives to international trade fairs for identifying new products and technology.

Now the other important thing is where to invest. Every another person will give you advice, just free of cost, about investment. It is not easy like that. Investment should always be done looking at certain factors, such as time duration, risk, return, liquidity, amount to be invested etc. Traditionally people use to invest in land, cattle, precious metal, agriculture produce etc. They are still used for investment but many new alternatives have also emerged now. The popular ones are- bank account, shares, bonds, debentures, national saving certificates, to name a few. People, who don't have good idea, should start from low risk investments such as keeping money in saving bank account, making deposits in bank for short duration period with fixed interest rates. The funda of interest rate is, shorter the time period, lesser the interest, longer the time period, higher the interest.

A bond is a loan to a company or government. They are issued in very large sums and traded on a part of stock exchange. Bonds can be very low risk investments. They tend to take years to mature because the bond is a promise on the principle. The company that issues the bond is basically taking money from you with the agreement that it will pay it back in full on a set date, with regular interest payments until that time. Bonds are often great investments for those who want to start developing their portfolio but do not have a lot of cash to invest and are not sure about how they want to invest.

Mutual Funds can be a good choice if you have money you can risk and do not have the time or understanding to pick stocks for yourself. With this you are purchasing a collection of stocks from the stock market that have been chosen for you by a fund manager. You generally get the choice of low, medium, or high risk offering corresponding rates of return. Mutual funds enable investors with limited capital to take on some market risk and hopefully receive some market return, while being able to benefit from the purchasing power, diversification and professional management, a collective management scheme. For equity investments, mutual funds are a great place for the beginner to start. Mutual funds are often common because it pools the money of numerous investors in order to have a stronger stake in any given company. Mutual funds are often used as long term investments for things like retirement planning.

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Bank Fixed Deposit is low risk deposit best for 6-12 months investment period. Also referred to as term deposits, this product would be offered by all banks. Minimum investment period for bank fixed deposit is 30 days. It is important to plan your investment time frame while investing in this instrument because early withdrawals typically carry a penalty. At the same time fixed deposit schemes are also issued by companies known as Company Fixed Deposite. Typically FDs are open throughout the year. Invest in FDs only if you have surplus funds for more than 12 months. Just as in any other instrument, risk is an embedded feature of FDs, more so because it is not mandatory for non-finance companies to get a credit rating for this instrument. Investors should consciously select the companies they invest in. Quite a few small investors have lost their life saving by investing in FDs issued by companies that have run into financial problems.

Post Office Saving Schemes (POSS) are good way of investment as they yeild a higher return than bank FDs and is suitable for those who are retired individual ar have regular income needs.Besides the low (Government) risk, the fact that there is no tax deducted at source (TDS) in a POSS is amongst the key attractive features. Public Provident Fund is best fixed income investment for high tax payers. Debentures are option for large investment or to avail of some capital gains tax rebates.

Precious metals like gold, silver, platinum, and diamonds are very good alternatives of investment. These assets have elements of supply, demand, inflation, manufacturing, and manipulation built in their prices. After all, whatever may happen to the value of paper money, it is hard to imagine gold losing all its value.

Conclusion

People move from job to job, or from career to career, and due to government cutbacks the responsibility for providing for their retirement falls increasingly on the individual. By investing your money wisely you can make a profit that you can, then re-invest or put aside as nest-egg. A good return on investment can maximize earning potential. The major disadvantage of investing is that it is always possible to lose money on whatever investment you make. Well, an investment shouldn't be a gamble. Market should be researched thoroughly before investing. Although there is always a risk that the vagaries of the market will result in the investor losing money, they should always have a reasonable expectation that they will make a profit when they make the investment.

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