Victoria University

of Bangladesh

Assessment Topic:

Final Assessment

Course Title: Fundamentals of Investment

Course Code: FIN-402

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Ans: to the question no-02

Ans:- Risk-less and Risky investments:- Most investors are risk averse but they expect maximum return from their investments. Every investment must be analyzed because there is some risk in it. only government securities are risk less. The indian investment scene has many schemes to offer to an individual. on an analysis of these schemes. it appears that the investor has a wide choice. A vast range of investments is in the government sector. These are mostly risk fee but Low return yielding. The private sector Several incentives are attached to it. investments consist of equity and preference shares, debentures and financial engineering securities. These have the features of high risk. Ultimately the investor must make his investment decisions.

The dilemma faced by the indian investor is the reconciliation of profitability, Liquidity and risk of investments. Government securities are risk free and the investor is secured. However to him the return is very important as he has limited resources

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and would like to plan an appreciation of the investments. Government securities give low returns and do not fulfil has objective of money appreciation.

Private sector securities are attractive though, risky. Reliance, Infosys, Wipro, Tatas give to the investor the expectation of future appreciation of investment by several times. The multinational and blue chip companies offer very high rates of return and also give bonus shares to their shareholders.

Real Estate and Gold have the advantage of eliminating the impact of inflation. since the price rises experienced by them have been very high. The indian investor in this context cannot choose his investments very easily.

An investor can maximize returns with minimum risk involved if he carefully analyses the information published in the prospectuses of private companies. Contents as the past performance name of promoters and board of

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directors, the main activities, its business prospects and selling arrangements should be assessed before the investor decides to invest in the Company.

Risk is absolutely fundamental to investing no discussion of returns or performance is meaningful without at least some mention of the risk involved. The trouble ~~of~~ for new investors, though, is figuring out just where risk really lies and what the differences are between low risk and high risk.

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Ans: to the question no – 04

* Two (02) Topics there are bellow —

* Ans:– Variable Principal Securities:– The variable Principal securities differ from the fixed principal securities because their terminal values are not known with certainty. The Price of Preference shares is determined by demand and supply forces even though Preference shareholders have a fixed return. Equity shares also have no fixed return on maturity date. Convertible securities such as convertible debentures Convertible securities such as convertible debentures or Preference shares can convert themselves into equity shares according to certain prescribed conditions and thus have features of fixed principal securities supplemented by the possibility of a variable terminal value.

Debentures. Preference shares and equity shares are examples of securities sold by Companies to investors to raise ~~mess~~ necessary funds. To summarize —

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/ Fixed securities terminal values are certain with fixed return and maturity dates.

/ Variable principal securities terminal values uncertain Their price is determined by demand and supply ~~mec~~ mechanism.

* ## Non-Securities Investments:-

"Non-Securities Investments" differ from securities in other categories. Real estate may be the ownership of a single home or include residential and Commercial properties. The terminal value of real estate is uncertain but generally there is a price appreciation, whereas depreciation can be claimed in tax. Real estate is less liquid than corporate securities. Mortgages, represent the financing of real ~~esat~~ estate. It has ~~been~~ a periodic fixed income and the principal is recovered at a stated maturity date. Commodities are bought and sold in spot markets, Contracts to ~~pay~~ buy and sell Commodities at a future date are traded

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in future ~~to~~ markets. Business ventures refer to direct ownership investments in new or growing business before firms sell securities on a public basis. Art antiques and other valuables such as silver, fine China and Jewels are also another type of specialized investments which offer aesthetic qualities also.

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Ans: to the question no-5

* Ans:- Features of an Investment:- These features should be Consistent with the investors objectives and in additions should have additional Conveniences and advantages. The following features are suggested for a successful selection of investments.
The features of an investment program consists of
~~safety of~~ / Safety of Principal
/ Liquidity
/ Income stability
/ purchasing power stability
/ Appreciation
/ Freedom from management of investments
/ Legality and transferability.
/

* Safety of Principal:- The investor to be certain of the safety of principal. should Carefully review the economic and industry trends before Choosing the types of investment. To ensure safety of Principal the investor

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should consider diversification of assets. Adepuate diversification involves mixing investment commitments by industry, geographically by management by financial type and by maturities. A proper combination of these factors would reduce the risk of loss. Diversification in proper investment programmes must be reasonably accomplished.

* Liquidity:- An investor requires a minimum amount of liquidity in his investments to meet emergencies. Liquidity will be ensured if the investor buys a proportion of readily sale able securities out of his total portfolio. He may therefore keep a small proportion of each, fixed deposits and units which can be immediately made liquid. Investments like stocks of property or real estate can not ensure immediate liquidity.

* Income stability:- Regularity of income at a consistent rate is necessary in any investment pattern. Not only stability it is also important to see that income is adequate after taxes. It is possible to find out some goods securities which pay practically all their earning in dividends.

* Appreciation and purchasing power stability:- Investors should balance their ~~pro~~ portfolios to fight against any purchasing power instability. Investors should judge price level inflation, explore the possibility of gain and loss in the investments available to them, limitations of personal and family considerations. The investors should also try and forecast which securities will appreciate. A purchase of property at the right time will lead to appreciation in time. Growth stock will also appreciate overtime. These, however should be done through analysis and not as speculation or gamble.

* Legality and freedom from care:- All investments should be approved by Law. Law relating to minors, estates, trusts, shares and insurance be studied. Illegal securities will bring out many problems for the investors. One way of being free from care is to invest in securities like Unit Trust of India, Life Insurance Corporation, mutual funds or savings certificates. The management of securities is then left to the care of the Trust who diversifies the investments

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according to safety, stability and liquidity with the consideration of their investment policy. The identity of legal securities and investments in such securities will also help the investor in avoiding many problems.

* Tangibility:- Intangible securities have many times lost their value due to price level inflation, confiscatory laws or social collapse. Some investors prefer to keep a part of their wealth invested in tangible properties like building, machinery and land. It may, however be considered that tangible property does not yield an income apart from the direct satisfaction of possession or property.

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Ans: to the questions no - 06

* Ans:- The Investment Process:-

The investment Process is generally described in four stages. These stages there are bellow —

/ Investment policy.

/ Investment Analysis.

/ Valuation of Securities.

/ Portfolio Construction.

* 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 investor has to be able to create an emergency fund, an element of liquidity and quick convertibility of securities into cash. The stage may, therefore be considered appropriate for identifying investment assets and considering the ~~imp~~ various features of investments.

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* <u>Investment Analysis:</u>- The second stages of investment, when an ~~analysis~~ individual has the types of investment that the requires on his portfolio the next step is to analyze the securities available for investment. He must make a comparative analysis of the type of industry, kind of security and fixed variable securities. The Primary concerns at the stage would be to form beliefs regarding future behaviour or Prices of stocks and the expected returns and associated risk.

* <u>Valuation of Securities:</u>- The third step is the most important consideration of the valuation of investments. Investment value, in general, is taken to be the present worth to the owners of future benefits from investments. An appropriate set of weights have to be applied with the use of forecasted benefits to estimate the value of the investment assets. Comparison of the value with the current market Price of the assets allows a determination of the relative attractiveness of the asset. Each asset

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must be valued on its individual merit. Finally the portfolio should be constructed.

* Portfolio Construction:— As discussed earlier under features of an investment programme, portfolio construction requires knowledge of the different aspects of securities. These are ~~bea~~ briefly recapitulated here consisting of safety and growth of principal, liquidity of assets after taking into account the stage involving investment timing, selection of investment, allocation of savings to different investments and feedback of portfolio.

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