Investment Avenues and Investor Awareness

The Institute of Chartered Accountants of India
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Foreword

In the last decade of the 20th century, India took a number of steps to move from being highly controlled to a liberalised economy. The policy of liberalization still continues unabated and at present India welcomes investment in most of sectors including FDI through automatic route. Although we have progressed a lot, the Indian economy is still struggling to reduce financial issues, and ensure all strata enjoy the fruits of growth.

The challenges facing economy include as to how to maintain the momentum of growth particularly inclusive growth that reaches every nook and corner of the country. It is felt that small savings can help in the financial empowerment on one hand and channelize much needed investment needed for further growth. It is important to bring all people to the mainstream and encourage them to invest. Invest not only in the fixed deposits of nationalised banks, but also in the riskier share market based on their risk profile. Our government is also highly concerned about financial empowerment and has recently launched *Jan Dhan Yojana* to encourage masses to join the mainstream banking system.

To spread awareness about various investment opportunities and educate masses to make intelligent choices, the Committee on Financial Markets and Investors' Protection (CFMIP) of the Institute of Chartered Accountants of India conductsa series of Investors' Awareness Programmes under the aegis of Investors & Education Protection Fund of Ministry of Corporate Affairs, Government of India. The programme is conducted across the length and breadth of the country. It is heartening that CFMIP has conducted 812 Investors' Awareness Programmes in the previous financial year ending on 31st March, 2015.

I compliment CA. Anuj Goyal, Chairman, CA. Vijay Kumar Gupta, Vice-Chairman, and other members of CFMIP for conceptualizing and bringing out publication with title "*Investment Avenues and Investor Awareness*". I am sure the publication will effectively complement the efforts of the committee to encourage people to save and invest. Investors empowered with knowledge will be able to balance risks and returns and opt for better alternatives.Intelligent investors will not only make profits for themselves but also help the country to grow. After all small drops make oceans.

New Delhi
June 26, 2015

CA. Manoj Fadnis
President

Preface

Investor education, over the last few years, has assumed a very significant role in helping our economy to grow and in ensuring that the fruits of economic development reach far and wide. The world recently witnessed turbulent times in the financial markets which repeatedly shook the confidence of investors. Such global crises only enhance the need for educating investors to restore their confidence in the financial markets.

Investor education is not and should not only be a Government initiative. It requires inclusive efforts of all stakeholders–regulators, educational and professional institutes, market intermediaries, trade and business chambers and even corporates- to contribute their resources towards this objective.

The institute being a partner in nation's building has investors' education and their protection on its priority list and is a nodal partner under the aegis of Investor Education and Protection Fund (IEPF) of Ministry of Corporate Affairs, Government of India in ensuring financial literacy to the common man and creating awareness among the public at large about investment in corporate sector. In a nutshell, this publication covers various facets of Investors mantras and Do's and Don'ts in Capital Market. I am sure this publication will be immensely benefit large section of the society.

I compliment the members of Committee on Financial Markets and Investors' Protection for their valuable suggestion and comments.

I also thank CA. Manoj Fadnis, President, ICAI and CA. M. Devaraja Reddy, Vice- President, ICAI for their able guidance.

I would like to take this opportunity to place on record my deep appreciation to CA. Kuldeep Kothari who prepared the basic draft of this publication.

I wish to extend my sincere thanks to Dr. Amit Kumar Agrawal, Secretary, CFMIP and all committee secretariats who were instrumental in giving final shape to this document.

I firmly believe this publication will be immensely benefit large section of the society.

CA. Anuj Goyal
Chairman
Committee on Financial Markets and Investors' Protection, ICAI

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Chapter 1

Money's Magical Mantra

What is Money?

"Money is the wise man's religion." Euripides

Everyone uses money. We all want it, work for it and think about it. If you don't know what money is, you are not like most humans. However, the task of defining what money is, where it comes from and what its worth is, belongs to those who dedicate themselves to the discipline of economics.

''Money'' is primarily a medium of exchange or Form of exchange. It is a way for a person to trade what he has for what he wants. Ideal money has three critical characteristics: it acts as a medium of exchange; it is an economic good; and it is a means of economic calculation. "Money" in its different forms is represented as "Income", "Expense", "Cash Flow", "Saving", "Investment", "Wealth", "Finance", "Status", and "Financial Position". Money is a powerful instrument that has a capacity to buy, earn, reap and grow. The qualities of money are similar to those of "Fire". It can both purify and make things sacred and destroy everything that comes its way.

Why is it important to know about money?

"It's not the money that matters; it's how we use it that determines its true value." Knowing about money is important because it's more like knowing a person. Unless you understand the nature of the person it becomes difficult to move with him/her. It is essential to know the various attributes of money. Knowing these attributes assists you in taking well-informed financial decisions

Nature of Money

Money is power, freedom, a cushion, the root of all evil, and the sum of blessings." Carl Sandburg

Attributes of Money

An attribute is an inherent part of someone or something, which decides the very nature of the person or thing. In short it is more about how a person or thing reacts or behaves given a particular circumstance.

The attributes of money can be defined as follows

(a) Motivation–Money motivates; it has a great bearing on the emotional state of a person. Having sufficient money makes

(b) an individual self-dependent, thereby making him/her feel more secure and assured. This motivates a person to stay in the best of his temper.

(c) Attention–Having money invites attention to the person having it. People notice those individuals who do well and seem more consistent

(d) Mobility–Money is Mobile; the nature of money is to flow.

(e) Money keeps moving from an individual to a trader, from trader to another, from a trader to a bank, from a bank to an individual.

(f) Uniformity–Money of the same value must be of uniform quality. This applies particularly to the case where money has intrinsic value. People would be unwilling to accept an old thin cow as payment if it only had the same value as a young fat one.

(g) Reservation–Money has no reservations. Money goes to everyone. All money needs is a reason to move, it has no reservation as to the caste, creed or status of a person. It keeps changing hands

(h) Time Value of Money–A penny in hand today is worth more than a penny tomorrow. True to what is said, inflation plays a major role in depreciating the value of money in hand, hence holding back money in today's circumstance is only more detrimental to its value than investing it.

(i) Growth–Money is one non-living thing that grows. Sounds weird! Take a bank deposit or just leave it in a savings bank account, you can see money growing in its value with the interest that is paid on the bank or deposit balance. This non-living thing makes living possible for human beings

(j) Risk–No wonder there is constant fear of losing that all- powerful money. Everyone wants money, by fair or foul means, hence there is a risk of theft. You invest money for higher returns, there is a risk of losing money as they are in turn invested in highly risky ventures.

(k) Essential–To live, to survive, to safeguard for all this and more you need money. Money defines the status of living. It is essential to eat, to have a roof and to keep up your modesty. It is our life blood for good reasons. Yet money alone does not and cannot buy happiness.

(I) **Divisibility**–Money comes in different denominations so as to be able to pay for an item of any value, however large or small. Thus there is use for a 1 rupee coin, for rupee 10 notes and for the ability to transfer any amount from a bank account. In other words money must come in a number of different denominations and forms.

Truth about Money

“Money is a terrible master but an excellent servant.” –P.T Barnum

Facts about Money

- Save money gain more
- The best thing money can buy is financial freedom
- Idle money is foolishness
- Never spend your money before you have earned it.
- Money alone cannot give you happiness
- Good money is clean money
- Bad money is money earned from wrong means
- Man should control money otherwise it will control him
- Spending money is tricky
- Money has never made man happy, nor will it.
- Attention and Risk are siblings of Money
- We always need more money
- We take time to make money and spend it in no time
- Money goes to everyone
- Rich become richer and poor become poorer

Chapter 2

Individual – Investor & Money

Individual & Money

"It's not how much money you make, but how much money you keep, how hard it works for you, and how many generations you keep it for."

— Robert Kiyosaki

Money is the Driving force in an individual's life. An individual earns money to support his daily requirements in the first place, followed by other commitments. Therefore, money is essential part of his/her daily requirement. While the money earned is used for his requirements in the first place, a part of it is either set apart or the money remaining is saved for future use.

Money can grow and multiply only if the individual invests his/her savings intelligently. An individual becomes an investor when he actually puts his saved money into an income earning vehicle (investment). The quantum of saving and investing depends on his earning capacity, family requirements, spending pattern, Future Requirements and Knowledge about the investing options.

Investor

"The investor's chief problem and even his worst enemy is likely to be himself."

– Benjamin Graham

An investor can be an individual/firm/company or any other entity. Investor is a person/entity who commits money in physical or financial assets with the objective of receiving a financial return. The investment assets include stocks, bonds, real estate, commodities, and collectibles (e.g. art). Risk and return are the two main points which are kept in mind while investing. An investor and a speculator are two different terminologies. While a speculator makes quick and large gains from price increases, an investor waits for his asset to mature over time. Investing is key to building wealth, but investing in and of itself is not enough. You have to invest wisely. It's been rightly said by Benjamin Franklin that "an investment in knowledge pays the best interest."An investor's age becomes an important criterion in determining an investment. For example a young investor tends to buy assets with price appreciation potential as there are years before he would require funds for his retirement, while an older, retired investor will require regular income and thus wants assets that offer regular cash payments. The world of investing can be cold and hard. But if you do thorough research and keep your head on straight, your chances of long-term success are good.

Classification of Investors

"Investors are of two types only, those who make money and those who lose" — Anonymous

Investors are not the same. The differences among individual investors vary by several measures including personal and financial goals, current life situation and risk tolerance. Investors usually seek investments that not only generate good returns but also fulfill personal needs and provide financial security for the future time horizon.

The type of investor an individual/entity is (investment style), tends to influence the investment decisions made. From the point of view of investment management, these characteristics are often defined more rigorously as objectives and constraints. Objectives is the type of return being sought, while constraints include factors such as time horizon, how liquid the investor is, any personal tax situation and how risk is handled.

Classification of Investors

Investors can be classified as follows:

- Based on risk tolerance
  - Conservative
  - Moderately conservative
  - Moderately aggressive
  - Aggressive
- Based on nature of work
  - Salary earners
  - Self employed/entrepreneurs
  - Professionals

- Others

➢ Based on Income Group
- Low Income Group
- Middle Income Group
- High Income Group

➢ Based on Age Group
- Young
- Middle Aged
- Old Aged/Retired

Investors Based on Nature of Work

"Invest in yourself. Your career is the engine of your wealth."

— Paul Clitheroe

Salary Earners:

- Every month's Salary is wealth accumulation
- Thumb rule: Always hold 3 months' salary in savings (job change/delay in payout)
- Beginners: Be more aggressive (no or less liabilities, consistent income level)
- Mid-career people–Be Moderate (more liabilities, commitments)
- High Net worth Individuals (HNIs) – A balance of Moderation and Aggressiveness (more money)

Self Employed/Entrepreneurs

- Investment – Own Funds/Borrowed Funds
- Average of Income Earned every month
- Insurance cover for business and personal needs
- Surplus funds on savings
- Funds for further investment in business
- Loan repayment

Professionals

- Average earnings every month
- Loans for setting up Professional Practice and its repayment
- Monthly commitments
- Surplus savings
- Fund for further investment
- Investment in Real Estate
- Sole proprietorship/ Firm/Company

Income & Investments

"Never depend on single income. Make investment to create a second source" – Warren Buffet

Income and Investing go hand in hand. The investment size, pattern, period and risk taking capacity depend upon the income status of investor. How much you can save & invest depends on how much you earn. Hence income levels and expenditure pattern of the individuals greatly decide their size of investment. The more you earn the more you can save and invest.

Chapter 3

Income Expenditure & Savings

Income

"A large income is the best recipe for happiness"- Jane Austen

Income is the consumption and savings opportunity gained by an entity within a specified timeframe, which is generally expressed in monetary terms. However, for households and individuals, income is the sum of all the wages, salaries, profits, interests payments, rents, and other forms of earnings received... in a given period of time.

Flow of Money

Money has a circular flow. It flows from one factor of economy to other factor. All of us procure money from various sources. Employment, self-employment, entrepreneurship, business are some of the many ways of earning money. Expenditure by someone is a source of income for others. It is widely understood that in order to have money one has to procure it (earn it).

Majority of the people are as financially educated as they should be and they believe that financial planning is all about earning money. What they look for is to know ways of earning money. Undoubtedly earning money or procuring it is the first step in financial planning but it is not all. The planning begins only after procuring it.

When we talk about earning money we talk about three things:

1. Why do we need to earn?
2. How to earn?
3. Sources of earning?

Why?

- To eat
- To survive
- To satisfy our daily needs
- To safeguard ourselves
- To live & learn

How?

- Take up a job and get a salary
  - Work in a company
  - Work in an government organization
  - Work in a shop
  - Work in an agency
  - Work in a school
  - Work in hospitals
  - Work in factories
- Do something of your own and earn Profit
  - Teach students
  - Start a business
  - Set up a consultancy firm
  - Private practice
  - Consider offering professional services
- Invest Money earn Returns
  - Invest in Business Ventures, bank deposits

- Invest in Securities, bonds, debentures
- Invest in government instruments e.g.PF, Post office, NSC etc.

Sources of earning?

You earn money by performing an activity, the activity can be one in which you are involved personally and one in which you are not involved personally

- Personal Involvement /Participation
- No Personal Involvement/Participation

➢ Personal Involvement/Participation–Active Money Earning

In this case money is earned by one's personal participation. Examples are:

- Employment
- Own Business
- Private practice by Professional Practice

➢ No Personal Involvement/Participation–Passive Money Earning.

In this case money is earned without one's personal participation. Examples are:

- Money invested in Business Ventures earning profit or interest
- Money with Banks earning interest
- Money in Shares earning dividend or increase in value of shares
- Money in Government securities earning fixed income
- Money in Post office making good returns
- Money in Partnerships making profits
- Money in Joint Ventures that requires only monetary participation
- Money in Private Equity
- Money from Property (Commercial/Residential) Rentals
- Money from Bonds earning interest

"Financial Freedom is available to those who learn about it and work for it" — Robert Kiyosaki

Such earning comes handy on a rainy day when one's personal participation becomes difficult for some reason. This also helps an individual to maintain his/her standard of living irrespective of the income earned by way of personal participation. It is important for one and all to set up this sort of an arrangement over a period of time.

Yes! Money works for you. You invest money retained with you in business ventures or investment avenues where others work to earn money for you. Therefore, whether or not you participate, the money you invest is put to work and in turn fetches an earning for you.

While in the first instance you work for money, in the second one, you make money work for you. In both instances, you earn additional money. Therefore procuring money as a process does not stop with just income from employment or business, it also emerges from sound investment decisions.

TIPS on Earning Money

- Never put a ceiling on your income
- Always invest money for further earnings
- Always have an alternate source of income
- Earn money the right way, because money earned out of right means is rightly spent
- Tap the sources of earning money keeping your requirements in mind
- It is good to save and invest money as soon as you start earning because it is a time with fewer liabilities
- Self-employment and Entrepreneur options can be explored even if you are in regular employment, provided it does not affect your job or the terms of employment. Consider taking permission, if required
- It is good to form a Partnership where each of the partners is good at one aspect or the other and thereby all reap the benefit of expertise from one another.

Caution

1. Never venture into a business or profession you have no idea about
2. It is always good to gain experience before venturing out on your own

3. Always invest smaller amounts in business ventures before going big
4. Never put all the money in one basket

Nature of Income

It is essential to know the nature of income. It becomes extremely important to determine its taxability, accounting, economic significance and finally the nature of use it can be put to. Income earned can be regular or seasonal. The time duration indicates the regularity of income and whether the money received is income or not.

Capital inflow of money is not taxed, whereas money earned from services rendered, performing trade, exhibition of talent, from employment is generally taxed. Nature of income can be classified in these types:

- Regular Income and Seasonal Income
- Active and Passive Income Earning Capacity

Levels of Income

While so much has been discussed about money and income, it is the level of income that determines the nature of financial planning.

Level of Income and Nature of Commitment are the two criteria that determine the nature and effectiveness of financial planning.

A person earning Rs. 1,00,000 per month and committed to spending Rs. 85,000/month ends up saving Rs.15,000/month. On the other hand, a person earning Rs. 60,000/month and having commitment to spend about Rs.30,000/month saves about Rs. 30,000/month. While the standard of living and other such aspects are kept outside the purview of this discussion, ultimately what matters is not what you earn, but what you save.

Expenditure

"If you buy things you don't need, soon you will have to sell things you need"- Warren Buffet

We spend from what we earn for the basic needs, for food, for entertainment, for luxury, for friends & family. Amount spent and the spending pattern differ from person to person depending upon their income, status and size of their family. To cater to all the needs, one should develop a corpus to meet their expenses and sustain without any help from others.

Classification of Expenses - Expenses incurred by individuals are classified based on their requirement and frequency. Some of the expenditure is incurred on a monthly basis as on rent, food expense, electricity, gas, telephone, newspaper, maintenance, health, transportation, house cleaning and other miscellaneous expenses. Half yearly expenses generally include clothing, educational expenses, vehicle maintenance, insurance and renewals. Annual expenses generally consist of educational expenses, travel, insurance premium (both life and other insurance) and health expenses.

Nature of Expenses – While some of the expenditure incurred is fixed, some is variable. Expenses like rent, insurance premium, educational expenditures are fixed and incurred at fixed time intervals; on the other hand, expenses for food, electricity, clothing, medical care are variable, depending on the season, number of people, and other factors.

Scale of Expenditure – Some expenditures have a limited range of movement; certain other expenses involve huge sums of money when incurred. Monthly food expense, electricity, gas payment, insurance involve a certain sum of pre-determined and possibly foreseeable amounts. Expenses like medical, housing equated monthly instalments, involve huge outflow of money when incurred.

Future Plans and Contingencies – These include planned expenditure

- Foreseen for a future event – Medical Expenses, Repayment of Loan, Purchase of Vehicle
- Earmarked Expenditure – Marriage, Higher education, Purchase of Jewellery,
- Contingencies – Emergency Health Care Expenses, Replacement of Vehicle

Types of Expenditures

a. **Monthly Maintenance –** Expenses incurred on a monthly basis by an individual, which include his basic and comfort needs. This expense is generally fixed or slightly variable in nature

b. **Half Yearly Maintenance –** Expenses of this nature occur on a half yearly or in such similar time frames. Classic examples of such expenditure include insurance premium, instalments and educational expenses.

c. Annual Maintenance – While some expenses recur frequently, certain expenses like travel, school expenses and premium are required to be paid on an annual basis. Annual expenses generally involve large sums of money, hence advance planning for these expenses becomes essential.

d. Fixed and Variable Expenditures – The fixed and variable nature of expenditure mainly depends on the purpose of the expenditure. Generally, consumption based expenses are variable in nature; expenses that have a price volatility impact are also variable in nature.

Nothing is constant except change. Therefore whatever is termed as fixed in nature, especially expenses like rent, premium other monthly expenses are variable over a period of time. Planning in advance for such expenses helps in handling any last minute rush

e. Medical Expenses – Classification of medical expenses as a separate type of expenditure is required considering the huge amount of outflow involved. Medical and Healthcare services have, undoubtedly, improved over a period of time, so have the amounts of money involved in acquiring the same. Consultation with a doctor and purchase of medicine prescribed for general illness costs you not less than Rs. 600/-. While this is the case with a regular medical check-up, treatment of specified illness, consultation with a specialist, surgery, other hospitalized treatments, usually, cost huge sums of money. Planning for such expenses becomes critical. Medical insurance is the most common method to cover these medical expenses.

f. Earmarked expenditures – Earmarked expenditures include those that are set apart for specific purposes or accumulated for being incurred at a future date. Marriage, higher educational expenses are some of the most common of earmarked expenditures that generally involve an outflow of huge sums of money.

g. Future Plans – It is common for individuals to have their own future plans for doing things. Such plans generally include purchase of a house, jewellery, pleasure trip and pilgrimage. Saving Plans for such expenses begin at an early date.

h. Educational Expenditure – Much similar to the medical expenses are the education expenses. Right from schooling till graduation and post-graduation of a child, education involves huge outflow of money. Saving for these expenditures becomes essential in order to meet the heavy admission and term fees for schools and semester fees for colleges

i. **Contingencies** – As we all know, life is full of contingencies. As different from all categories of expenditures mentioned in the above paragraphs, this one head "contingency" includes every other kind of expenditure incurred, especially, at a very short notice and always comes as a total surprise to the individual. Hence a sufficient sum should be set apart to meet these uninvited but essential expenditures

Classification of expenditure enables an individual to plan for his needs, enables him to identify his requirements, prioritize them according to importance, essentiality and time frame. This becomes one of the basic steps to determine one's financial commitment and thereby plan their finances.

Savings

"Do not save what is left after spending, but spend what is left after saving". **— Warren Buffet**

What Matters?

It is not how much money you earn

What matters is how much you save

A quick recap

Why do we earn?

We earn for our

- needs,
- necessities,
- comforts,
- luxuries

Is that all? Or, is there something that is equally important? We also earn to SAVE.

You should also earn for saving/retaining. Not all that you earn should be spent, otherwise you will be left with no money for emergencies.

Borrowing is not an option to get money. It is not procuring; it **is creating a liability to meet your present need**s for which you pay interest and other charges on such borrowed amounts; that is the cost you pay for borrowing money for your needs.

What do people do with the money they earn? They

- pay their bills,
- spend on their monthly needs,
- pay taxes,
- repay loans

and it goes on.

How many people really set aside some amount for retaining? After all the expenses they are hardly left with anything that they retain as their savings.

As normal human beings, we earn mainly for our primary needs, followed by other obligations like paying bills, taxes and the rest. Here, our primary need includes the money we would want to retain with us, our savings. Therefore, while allocating the money earned, it would be wise to first allocate for our primary needs and then distribute the remaining for our other obligations. This way, not only do you find money to save, it also keeps your expenses under check.

Well, what happens when the remaining money allocated is not sufficient to meet your obligations with the government taxes, creditors loan, bills etc? You should pay the amounts or you will be penalized. It means you are under pressure to find money to pay them in time. Well, this kind of a pressure works well to find ways and means of earning more money than what you actually get paid. In other words, you explore options of making more money.

Any legal means of making money is welcomed as good money and bad money have their respective characteristics. Therefore, what we find here is that shifting your focus to satisfy your needs first, is indirectly making you explore more options of making money or procuring money.

As discussed earlier, procuring money can be active or passive. At this juncture, we should appreciate the fact that how a shift in focus actually and automatically changes our approach towards money, its procurement, retaining and investment.

All of the above and more to come, takes us through the nature of money, nature of investors and all about being wise with money.

Classifying Savings

Savings can be classified as

- Saving to Retain
- Saving for Future Expenses

Saving to Retain

This constitutes actual saving. It is the amount that accumulates into a corpus for safe keeping and for further investment. Hence one should ensure sufficient amount of money is accumulated by carefully planning your expenses.

Saving for Future Expenses

This amounts to saving for future expenses or, in other words, earmarking money for a particular expense. This is saving for a short term. This amount is meant to be spent. Therefore, in the long term, such savings cannot be counted as savings or retained earnings

Examples of such expenses are as follows

- Saving for Marriage expenses
- Saving to buy Vehicles
- Saving for Medical Expenses
- Saving for decorating the house
- Saving for replacements
- Saving for vacations
- Saving for celebrations
- Saving for functions
- Saving for Gifting
- Saving for Household maintenance and repair
- Saving for Children's Educational expenses – yearly school fees, college fees, Coaching classes, exam fees
- Saving for Higher Education
- Saving for Household items (as their value depreciates over a period of use)

Classifying people into rich and poor only signifies their financial acumen for being a good or a bad investor. Good investors do not just work hard to earn money, but in turn also make money work for them. It helps them maintain not just their financial stability but also supports them in times of difficulty. On the other hand, bad investors stick to certain self-made and widely- believed rules that only hard work can earn them good money and completely neglect the aspect of investing and the concept of passive money.

Now it is clear how the rich get richer and the poor get poorer.

Being wise with money and financial decisions has nothing to do with greed. The only difference: being greedy is about getting rich overnight and being financially wise is growing rich day by day.

TIPS on Saving Money

"if Saving money is wrong, I don't want to be right".- William Shatner

1. Squeeze expenses and Save; it pays.
2. Cut out wasteful expenditure from your Budget
3. Cut down on Luxury
4. Small is Beautiful, keep things small they help in keeping expenses under check
5. Save in the name of Minor Children

6. Differentiate between what you deserve and what you desire
7. Save Surplus Fund whether out of monthly income or any windfall
8. Aim at accumulating corpus out of money saved
9. It is good to set aside your savings before you start spending for the month
10. Aim at saving a certain amount every month and follow religiously

Caution

1. Saving should be kept safe
2. Do not invest all your savings; keep a safe amount in bank accounts or fixed deposits for emergencies
3. Do not go by your friend's experience in Investment, always enquire and research from your side as well

Chapter 4

Financial & Tax Planning

"Know what you own, and know why you own it."-Peter Lynch

Why Financial Planning?

It is rightly said in the above quote that we can't make money by letting it remain idle or in savings accounts; financial planning and management of the resources in the most efficient way is what one should do. Financial planning is a process that uses your financial resource to achieve your financial goals. In short, it helps you plan the use of your money to meet your needs and retain something for a rainy day.

Who needs financial planning?

There is no yardstick to decide as to who needs to plan their finances.

It applies to everyone who uses money to survive in this world; the difference lies only in their scale and level of income, investments and expenses.

Does everyone plan their finances?

Not really, because they hardly know what it means to plan their finances and, therefore, always have reasons to postpone it. People who have done financial planning have not just been fair with their money, but have also generated wealth for themselves and their generations.

Steps in Financial Planning

While Financial Planning is a process of planning your finances, there are certain things you need to know before you could proceed with the planning phase. The factors to consider before financial planning have 4 steps. A fair understanding of these four steps is sure to make the financial planning process more meaningful:-

➢ *Knowing Your Financial Goals*

Financial goals of an individual define what he or she would like to achieve in terms of money over a period of time. Some examples of financial goals are:

- buying a residential property worth 5 crores in July 2016
- Saving Rs. 2 crores for daughter's marriage expenses in 2030
- Purchasing a resort worth Rs. 10 crores in Rajasthan
- Planning for a retirement income of Rs. 8 lakhs per month starting 2030
- Repaying Housing loan worth Rs. 1 crore in 5 years starting from 2016
- Purchasing Gold worth 50 lakhs in 3 years' time

These goals can be divided into Short Term, Medium Term and Long Term

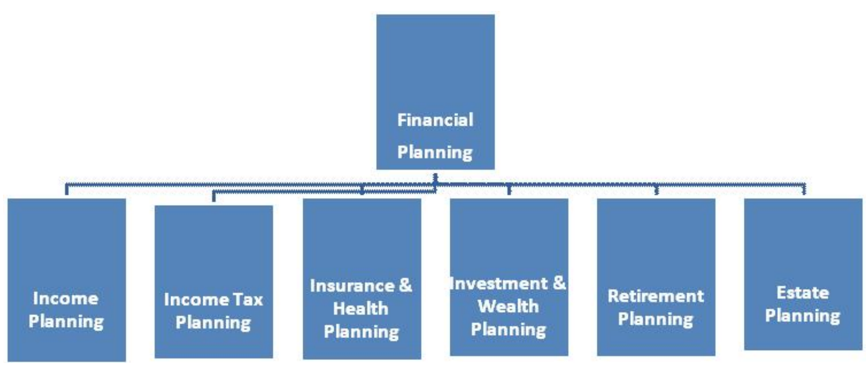
➢ *Knowing Your Financial Position*

Cash Flow Statement

A statement that gives details about how much money you received, how much you spend and how much you save is called the Cash Flow Statement.

A cash flow statement consists of details pertaining to cash received and cash paid during the year irrespective of the year to which it belongs. All payments made by way of cash or through bank are considered and payments made from all bank accounts are considered. The payments could be for expenses, repayment, investment and loan everything is considered. The balancing figure is generally allocated among bank balances and cash in hand.

This statement is a basic document to be prepared by the individuals/entities for knowing the liquid position and for preparing detailed analytical report of inflows and outflows of money. It does not consider the non cash expenses.



Statement on Networth

A Statement on Net worth provides a quick looks at your financial situation at a given point of time. It gives details about your assets, liabilities, and the difference between the two is your net worth. In short it tells you how much money you will be left with had you paid of all your liabilities with the help of money from your assets (cash generated by way of interest or by sale of the asset).

Example :

Particulars	Mr. Amit Bengani
Liquid Assets	Rs.
Savings Account Fixed Deposit with Bank Liquid Fund Cash	20,00,000 60,00,000 - 5,00,000
Invested Assets	
Stocks Mutual Funds Bonds PPF Gold Real Estate – Land	1,00,000 2,00,000 1,00,000 5,00,000 13,00,000 50,00,000
Other Assets House Car	2,50,00,000 8,50,000
Total Assets (A)	4,15,50,000
Liabilities	
Home Loan Car Loan	80,00,000 3,00,000
Total Liabilities (B)	83,00,000
Total Networth (A-B)	3,32,50,000

Investment Planning

Investment Planning and calculations involve preparing a schedule for saving target one wishes to reach keeping their long term goals in mind.

While preparing these figures one has to have in mind the Time value of money concept, for we all know that a rupee earned today is far more valuable than a rupee earned tomorrow. Also it will be of interest to the reader to know the magic Compounding Interest can create.

Compounding Effect

People with very limited income have been able to save around 3 to 4 crores by investing in equities over a period of two to three decades amounts in the range of 10, 50 and 500.

The idea behind preparing a Cash Flow Statement or a Net worth Statement is for the investor or the individual to understand his position and what exactly he does with money he earns or receives. Where an individual has savings in lakhs of rupees earning an interest of about 6 %, it will be worthwhile to pay off his loans taken at the rate of 16% from the savings held, instead of retaining the savings and repaying the loan with interest.

When should one opt for Financial Planning?

The moment one begins earning money or has property to manage, one should opt for Financial Planning.

Planning your Finances

- Financial Planning is a must
- Know where you stand - Net Worth (Assets – Liabilities), Personal Budget
- Make your financial goals clear - Goals and Objectives - Major Purchase, Children's Education, Retirement, Marriage, Vacation
- Know how to reach your targets and timelines
- Implement your financial plan
- Reap the benefits

What is the Role of a Professional Financial Planner?

The role of a professional Financial Planner is most important because most of the investors are not as financially educated as one is required to be to manage investments, risks etc. A reliable professional offers advice that best suits your financial status and financial needs. Well, in order to ensure that such professionals are carefully chosen and well regulated, investment advisors or professional financial planners are regulated with the help of The (Investment Advisors) Regulation 2013.

Components/Elements of Financial Planning

Income Planning

An individual's income planning strategy defines his sources of income and how he plans to meet his short and long term goals.

Sources of Income

- Salary
- Business Income
- Self-Employment
- Investment Income

While the first three sources of income invariably require personal participation of the individual, investment income does not require his personal participation but still generates income. Therefore, while dealing with the sources of income, it is important to have both active and passive income sources that help the individual in those difficult times when personal participation becomes difficult.

Income Tax Planning

"The Hardest thing to understand in the world is income tax"- Albert Einstein

Though it is not the case in general, still there is a lot which is required to be understood and planned. Tax planning is must do for People falling in the high income category because they end up paying close to 30% of their earnings in the form of taxes. Hence investments offering tax benefits should be the preferred option. Knowledge on simple tax saving investments can help in planning for their taxes.

Chapter VIA & Other Deductions under the Income Tax Act, 1961

S.No	Section	Nature of Deduction	Limit
1	80 C	For LIC Premium,PPF ,Repayment of Home loan,NSC,Deposits and interest earned on sukanya samriddhi account	Maximum Rs. 1,50,000 deduction for 80C,80CCC and 80CCD Put Together
2	80 CCC	For Annuity plan of LIC or any other insurer and pension plans	Maximum Rs. 1,50,000 deduction for 80C,80CCC and 80CCD Put Together
3	80 CCD	For National pension schemes notifies by the central govt.(10% of salary or 10 % GTI in case of non-salaried assesses)	Maximum Rs. 1,50,000 deduction for 80C,80CCC and 80CCD Put Together(Additional deduction of Rs. 50,000 for individual assessee given in finance act, 2015)
4	80 CCG	For Investment under Rajiv Gandhi equity scheme,2013	The deduction allowed is 50% of amount invested or Rs.25,000/- whichever is lower (this is in addition to the benefit allowed under section 80C)
5	80 D	For payment of medical insurance premium for Self/Family and parents	Deduction of Rs. 25000 ,additional deduction of Rs. 25,000 for parents and Rs. 30,000 if they are senior citizens
6	80 DD	For Maintenance and medical treatment of disabled dependant	Deduction up to Rs. 1,25,000
7	80 DDB	For Treatment of specified disease or ailment	Deduction up to Rs. 80,000
8	80 E	For Interest payment on	No limit for deduction

S.No	Section	Nature of Deduction	Limit
		education loan for higher studies	
9	80 EE	For Interest payment on loan for residential house property	Additional deduction(other than sec. 24) up to Rs. 1,00,000
10	80 G	For Donation to specified charitable fund and institutions	Deduction up to 50% to 100% of donation made sub. To restriction provided in sec. 80 G
11	80 GG	For payment rent in case HRA is not Given	Deduction up to Rs. 24,000
12	80 GGC	For Donation to political parties	Deduction up to Rs. 60,000
13	80 TTA	For interest received on saving bank account	Deduction up to Rs. 10,000
14	80 U	For an individual who suffers from physical disability	Deduction up to Rs. 1,25,000/-
15	54,54 EC and 54 F	For Exemption from long term capital gain tax	Deduction within the limits and provisions of respective sections
16	24	For Interest payment on Home loan	Deduction Rs. 2,00,000 in case of self occupied property (No limit in case property is not self occupied)

Insurance and Health Planning

"Fun is like insurance; the older you get, the more it costs." - Frank McKinney

Insurance Planning is concerned with ensuring adequate coverage against insurable risks. Calculating the right level of risk cover is a specialized activity, requiring considerable expertise. Proper Insurance Planning can help you look at the possibility of getting a wider coverage for the same amount of premium or the same level of coverage for the same amount of premium or the same level of coverage for a reduced premium. Hence the need for proper insurance planning.

Insurance Planning takes into account the risks that surround you and then provides an adequate coverage against those risks. There is no risk not worth insuring yourself against. Be it life or non-life. And insurance should first and foremost be looked as a measure to guard against all risks. Now, Insurance need differs from person to person, too. It depends on your age, profile, requirements, level of risks, your income etc. So insurance planning takes into account all the factors before chalking out a plan customized for you and gives you the most suitable option.

Life Insurance Planning

Your Life Insurance Needs

Calculating life insurance needs is not a simple exercise. You must evaluate your current and required cover in 2012 and take corrective action. Remember that each of us has their own lifestyle, goals, aspirations and dependents that may be completely different from the life situation for your friend or colleague. So what works for someone else may not work for you.

There are essentially three ways to calculate your insurance needs:

(a) Expense protection: Calculates the corpus required to take care of the family's future expenses and goals. Inflation diminishes the value of money and hence expenses need to be adjusted to inflation for calculation of protection required.

(b) Human life value: It is the economic value of an individual- the present value of all his or her future income. Setting aside the part of income one spends on oneself, the protection required through human life value calculates today's value of one's income for the years till his or her retirement.

(c) Needs analysis: In this method you calculate your needs by considering each of your dependents and what financial milestones you want to achieve for them. The needs may range from child education, marriage to repayment of loans. Next you assess your current assets and investments and shortfall due to possible loss of life. This gap in income can be filled up by insurance.

Ideally, insurance must be taken to cover the working period in one's life. You take insurance to protect your dependents from the loss of your income; using the same logic, you take insurance for the time that the dependents are being supported by your income. Hence, it is advisable to take insurance till one's retirement. However, when insurance is taken for protecting and saving towards specific goals, then the tenure of the plan should match the years left for meeting the goal.

Choosing a product will depend on the specific need and the life stage one is in. What is the final product you will choose? When there are multiple choices that match the need, it is the affordability that makes the final choice. Most importantly, individuals must be aware of the purpose of the insurance they are buying. They must know that life insurance products for investment and savings are structured for the long term and meant for someone who is earning and whose earnings are supporting his/her dependant(s).

In a nutshell:

- Insurance Planning is the first step to cover against risk.
- Opting for adequate life insurance cover is essential. It is very important that you are adequately covered as inadequate cover is equal to no cover at all.
- Insurance requirement to be reviewed once in every 2 years
- Insurance secures our
- Future
- Finances
- Loved Ones
- Insurance planning is the first step towards financial planning and financial planning should be the first step towards purchasing insurance. To advise an individual on his or her insurance needs, it is important to get a holistic view of the present and the future.
- Insurance requirement must be reviewed every two years or when there is a change in the family scenario, for example, the addition of dependants.
- The insurance requirement changes with every change in your life — income, expenses, life style, members, liabilities and assets.

Types of Life Insurance Policies

There are a variety of policies available in the market, ranging from Term Endowment and Whole Life Insurance, to Money Back Policies, ULIPs, and Pension plans. Let's see what each of these is about, so that you can consider the one that best suits you.

- Term insurance policy
- Whole Life Policy
- Endowment Policy
- Money Back Policy
- Annuities and Pension
- Unit linked Insurance Plan (ULIP)
- Riders: Comprehensive coverage

Investment and Wealth Planning

"How many millionaires do you know who have become wealthy by investing in saving accounts? I rest my case".-Robert G. Allen

Investment planning/management, also known as portfolio managemernt, is not a simple activity as it involves many complex steps which is explained as below

Investment objectives & constraints

The main objectives to be taken into consideration by investors are capital appreciation, current income and safety of principal. The relative importance of each of these objectives needs to be determined. The main aspect that affects the objectives is risk. Some investors are risk takers while others try to reduce risk to the minimum level possible. Identification of constraints arising out of liquidity, time horizon, tax and special situations need to be addressed.

The Asset Mix

An important decision with respect to the asset mix decision has to do with the proportion of equity shares or shares of equity oriented mutual funds i.e. stocks and proportion of bonds in the portfolio. The combination on the number of stocks and bonds depends upon the risk tolerance of the investor. This step also involves which classes of asset investments will be places and also determines which securities should be purchased in a particular class.

The Portfolio Strategy

There are two types of portfolio strategies. The first is an active portfolio strategy which aims to earn greater risk adjusted returns depending on the market timing, sector rotation, security selection or a mix of these. The second strategy is the passive strategy which involves holding a well diversified portfolio and also maintaining a pre-decided level risk.

Securities

Investors usually select stocks after a careful fundamental and technical analysis of the security they are interested in purchasing. In case of bonds credit ratings, liquidity, tax shelter, term of maturity and yield to maturity are factors that are considered.

Implementing Portfolio

This step involves implementing the formulated portfolio strategy by buying or selling certain securities in specified amounts. This step is the one which actually affects investment results.

Portfolio Revision

Fluctuation in the prices of stocks and bonds lead to changes in the value of the portfolio and this calls for a rebalancing of the portfolio from time to time. This principally involves shifting from bonds to stocks or vice-versa. Sector rotation and security changes may also be needed.

Performance Evaluation

The assessment of the performance of the portfolio should be done from time to time. It helps the investor to realize if the portfolio return is in proportion with its risk exposure. Along with this it is also necessary to have a benchmark for comparison with other portfolios that have a similar risk exposure.

Investing Is Not Gambling

An investor should constantly behave like investor, not a speculator.

Investing is NOT gambling. Gambling is putting money at risk by betting on an uncertain outcome with the hope that you might win money. Part of the confusion between investing and gambling, however, may come from the way some people use investment vehicles.

Ideal Investment strategy

Even though all investors are trying to make money, they all come from diverse backgrounds and have different needs. It follows that specific Investing vehicles and methods are suitable for certain types of investors. Although there are many factors that determine which path is optimal for an investor, we'll look at three main categories:

(a) Investment objectives,

(b) Timeframe, and

(c) Investing personality

(a) Investment Objectives

Generally speaking, investors have a few primary objectives:

- safety of capital
- current income and
- capital appreciation

These objectives depend on a person's age, stage/position in life, ,personal circumstances and income level of the person. A 75-year-old widow living off her retirement portfolio is far more interested in preserving the value of investments than a 30-year-old business executive would be. Because the widow needs income from her investments to survive, she cannot risk losing her investment. The young executive, on the other hand, has time on his or her side. The objective and investment pattern of investor from high income group will be totally different from others. As investment income isn't currently paying the bills, the executive can afford to be more aggressive in his or her investing strategies.

(b) Timeframe

As a general rule, the shorter your time horizon, the more conservative you should be. For instance, if you are investing primarily for retirement and you are still in your 20s, you still have plenty of time to make up for any losses you might incur along the way. At the same time, if you start when you are young, you don't have to put huge chunks of your paycheck away every month because you have the power of compounding on your side.

On the other hand, if you are about to retire, it is very important that you either safeguard or increase the money you have accumulated. Because you will soon be accessing your investments, you don't want to expose all of your money to volatility you don't want to risk losing your investment money in a market slump right before you need to start accessing your assets.

(c) What is your personal characteristic?

The personality trait that will determine your investing path is your desire to research investments. Thus, in addition to risk taking ability, some personal characteristics like, a cool temper, balanced outlook and data based decisions determine the success of an investment.

Forbidden/Unsafe Investments

The following categories of investment are totally forbidden for all categories of investors (will be discussed in detail in topic all about investor awareness):

- Chit funds, Nidhi's, Ponzi Schemes, Mutual Benefit societies
- Phoney real estate schemes and plantation schemes.
- Deposits with partnership firms, private limited companies and other companies who do not enjoy good credit rating.
- Speculative stocks and private placements of equity shares in companies promoted by unknown –entrepreneurs.
- Volatile scrips which fluctuate rather dangerously.
- Peerless-type savings schemes which use insurance jargon simply to confuse you.
- New issues of shares by first generation unknown-entrepreneurs.

Some guidelines towards a strong financial future:

The following are important steps towards ensuring a strong financial future:

- Define your goals
- Estimate your current financial position

- Choose the investments according to your life stage
- Diversify your investment to reduce risk
- Do a lot of market research
- Budget for your investment
- Reduce the number of records. Instead of having too many unwanted bank accounts, demat accounts and unwanted investments, close the unnecessary ones. Keep one bank account in a branch nearby and preferably in Joint names.
- Have a cross power of attorney between spouses. This is valid during one's lifetime.
- Make nominations in (a)Company's PF and your PPF accounts (b) LIC policies and personal accident policies (c) Gratuity (d) Superannuation schemes (e) Ownership flat (f) bank accounts etc.
- Acquaint your spouse and family members with your financial arrangements, your advisors and consultants, and familiarise them with your files and documents.

Risks v/s Rewards

"Never test the depth of the river with both the feet".-Warren Buffet

You should never invest in anything about which you don't have knowledge because it will be considered as foolishness, not that you took a risk for possible return. Risk is a real life fact for any investor. Stock markets may go down, companies may go bankrupt, inflation rates may soar or the government may not have enough funds to pay back. Therefore before making any investment you have to ask the question "What is the risk involved?"

One should remember that every investment has risk attached to it. Only the degree of risk is different. One should analyze the risks to evaluate the returns that can be expected from an investment.

The key to investment success is ideal diversification of assets. Diversification means more than just having different types of investments. It means having a right mix of investments across sectors, time horizons, markets, instruments and so on. A good portfolio will have stocks, bonds, mutual funds, money market funds etc. of different companies from different sectors. When you diversify, you spread your money among many different securities, thereby avoiding the risk that your portfolio will be badly affected because a single security or a particular market sector turns sour.

Portfolio and Diversification

A portfolio is a combination of different investment assets mixed and matched for the purpose of achieving an investor's goal(s). Items that are considered a part of your portfolio can include any asset you own--from real items such as art and real estate, to equities, fixed-income instruments, and cash and equivalents. For the purpose of this section, we will focus on the most liquid asset types: equities, fixed-income securities, and cash and equivalents.

Basic Types of Portfolios:

- Aggressive investment strategies
- Conservative investment strategies

Summary of Investment and Wealth Planning gives the following advantages:

1. Defining return objective
2. Understanding risk tolerance
3. Investment constraints
4. Guidelines to construct a portfolio
5. Basis for portfolio monitoring and review
6. Better control over financial decisions
7. Allows perpetuity and solves disputes between client and advisor.

Retirement Planning

Retirement planning involves planning for the following:

- Allocation of finances for Retirement
- No Government sponsored retirement plan
- Nuclear Families

During the Life Time

Trust	Power of Attorney	Gift	Partition

- Unforeseen Medical expenses
- Estate Planning & systematic investments every month

Steps to be followed in Retirement Planning

- Decide of age for retirement
- Annual income need for retirement years
- Current market value of all the savings and investments
- Determine a realistic annualized rate of return
- Consider company pension plan, if any

Now compute the value required on retirement

Retirement Investment Options

- Public Provident Fund (PPF)
- National Savings Certificate (NSC)
- Employees Provident Fund (EPF)
- Mutual Fund Products
- Insurance Products
- New Pension Schemes
- Reverse Mortgage

Estate Planning

The sum of all the assets of a person, less his liabilities becomes his ESTATE. For examples all properties, bank accounts investments, insurances and collectibles, less the liabilities of a person are collectively called a person's estate. Estate planning is about

- Accumulating and Disposing of an estate to maximize the goals of the estate owner.
- Distribute wealth to a certain beneficiary or beneficiaries to whomsoever the owner wishes.
- Important to take the help of an attorney experienced in estate law

Objectives of Estate Planning

- Asset transfer to beneficiaries
- Tax- effective transfer
- Planning in case of disabilities
- Time of distribution can be pre-decided
- Business succession
- Selection of Trustee or guardian or the exe

Terminologies in Estate Planning

- **Will** – A document that conveys your wishes about your estate and helps in following it after your death
- **Testator** – A person who makes his will
- **Executor** – A person who executes the will after the death of the testator
- **Legatee/Beneficiary** – A person who inherits the estate under a will.
- **Inestate** – A person who dies without making a valid last will is said to die inestate
- **Probate** – A legal process of settling the estate of a deceased person
- **Trust** – It is a relationship in which a person called the trust transfers something of value, movable or immovable to another person called a trustee. The Trustee then manages and controls these assets for the benefit of a third person called a beneficiary.
- **Power of Attorney** – A authorization to act on someone else behalf in a legal or business matter.

Steps and Tools in Estate Planning

- **Steps**
  - Listing of assets and liabilities
  - Open family discussion on selecting the guardian
  - Update the current beneficiaries like life insurance
  - Decide upon the distribution of the assets on death
  - Funeral arrangements with spouse and family
  - Assistance of an estate planning authority
- **Tools**
  - Life Insurance
  - Will
  - Trust

There are various tools that a financial planner can adopt for getting an estate plan in place. Some tools are effective during the lifetime of an individual while some after his/her death.

The following figure shows the tools used for estate planning by transferring the assets to the beneficiary, with or without restrictions, during the lifetime of an individual.

The following figure shows the tools used for estate planning where the transfer of assets to the beneficiary becomes effective after the death of an individual.

Tips in Estate Planning

Following are some points one must check in the "Will", otherwise it will create chaos and problems afterwards or it may defeat the very purpose of the "Will".

(a) It must be signed by two (2) witnesses who are of the age of majority and should not be the beneficiaries under that "Will".

(b) When you appoint a person as an Executor to the "Will", before appointment take his consent. Appoint more than one Executor and handover to each Executor one sealed copy of the "Will". In case you wish to have a Registered "Will", then inform it to the Executor where you have registered your "Will".

(c) Prepare the list of all Assets and Liabilities and mention them in the "Will". In addition to this, always have a residual clause in the "Will".

(d) Even though it is not compulsory, it is advisable to have the "Will" neatly typed and drafted beyond ambiguity.

(e) It must be revised every three (3) years, because in that span of the period, many changes might take place, for example, assets may increase/decrease, or beneficiaries may increase or decrease.

(f) Whenever you want to change your "Will", you can do so by making a codicil, but it is better if you make a fresh "Will".

Don't give the "Will" to the beneficiaries to read because their attitude towards you may change. Let it be suspense for the beneficiaries.

(g) It is advisable to make "will" for self and spouse separately.

(h) A "Will" may be registered with the Sub-Registrar of ssurances office.

Although it is not necessary to register a "Will", it adds protection, validity and secrecy to the "Will".

The tax Impact

- Transfer of assets under a "Will" isn't considered a transfer and hence is a tax-neutral transaction.
- However, when the beneficiaries sell the inherited assets, it will attract tax based on his taxable income and the classification of the assets as a business/capital asset.
- Until such time as the assets are transferred to the beneficiaries, the income from such assets will be assessed in the hands of the executor as representative taxpayer.
- Through "Will", trust of new HUF can be created which are separate taxable entities.

How does Financial Planning help?

- The first benefit will be that you will set realistic financial and personal goals

- It helps you assess your current financial status by examining your assets, liabilities, income, insurance, taxes, investments and estate plan
- You will develop a realistic, comprehensive plan to meet your financial goals by addressing financial weaknesses and building on financial strengths
- You will realize the benefits only when you put your plan into action and monitor its progress
- You will stay on track and be sufficiently informed to meet the changing goals, personal circumstances, stages of life, products, markets, and laws

Chapter 5

Art of Investing

"In Investing what is Comfortable is rarely profitable". - Robert Arnott

Investing your Savings

There are three things that you need to consider before investing your savings.

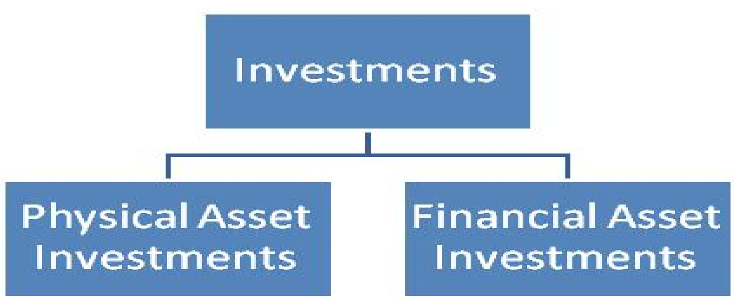
Investment Option	Returns	Liquidity	Safety	Active Involvement	Amount Required
Equity Shares	Low to High	Moderate to High	Low	Yes	Medium
Debentures	Moderate	Low	Moderate	No	Medium
PSU/FI Bonds	Moderate	Moderate	High	No	Low
RBI Tax Free Bonds	Moderate	Moderate	High	No	Low
Debt Mutual Funds	Moderate	High	Moderate	No	Low
Equity Mutual Funds	Low to High	High	Low	No	Low

- Percentage of Savings retained for Contingencies and other Emergencies if any
- Investments having a Short Term Tenure

	Students	Salary Earners-Private	Salary Earners-Government	Professionals	Traders	House wives	Retired Persons
Returns	VI	VI	I	VI	VI	I	I
Liquidity	LI	I	I	LI	LI	I	I
Safety	I	I	VI	I	I	VI	VI
Tax Savings	LI	VI	I	VI	VI	LI	LI

VI: Very Important I:Important LI: Less Important

- Investment having a Long Term Tenure



Retained Earnings

Good that you earn money, and also decide to retain some of it. And what do you do after it? You Invest. Basically, you make the money work for you. Investments can be classified into safe and risky ones. While safe investments earn lesser return, risky ones get greater returns.

What do you want from Investing?

- Huge Returns
- Value appreciation
- More money than before
- Seldom do all our expectations come true.

What should you remember while investing?

- When you start investing, expect nothing for a year or so, especially in stocks.
- In short, invest only what you can lose. ● Analyse the cause of your loss.
- It is important to develop knowledge about investing and the sector in which you intend to invest is essential. Knowledge matters.
- This gives you an edge over others and helps you succeed in an investment decision.
- Always keep tab on the financial news and information, and if required, even take a few courses on investments: it is likely to give you a good insight into investing.

Golden Rules on Investing

- Start saving soon and investing early
- Invest at Regular Intervals
- Always aim at Long term investments
- It is always important to diversify investments.

Steps to consider before Investing your Savings

The after saving and pre-investing phase should take care of the following:

- A **liquid fund for contingencies** is set apart (this amount should not be considered for investment though this should be either kept as a bank balance or deposit)
- A **liquid fund for immediate requirements** is developed (this amount should not be considered for investment as they are meant for an expenditure that could be quite urgent)
- **Basic Insurance**, is required. It is always suggested to have a term plan that comes with a lesser premium when compared with a life insurance with sum assured for the same amount.
- **Use of Credit to be to the kept minimum**, as credit not only eats up your savings, it also creates more liability (using credit card virtually means expending money out of your future earnings, which is not worth practising)
- **A fund for your Retirement** is absolutely essential. A fixed sum of money accumulated towards a retirement reserve is crucial to ensure worry free retirement for you and your spouse (This is especially important when you have no retirement corpus accumulated by your employer)

Considerations for Planning Your Investment Strategy

Investing as a job requires certain considerations to be planned before venturing into one. The following considerations should be kept in view before formally beginning your investment:

- Write down your Investment Goals
- Time that you can allocate to pursue your investment goals
- What is the level of your knowledge with regard to investments and investing?
- Funds available for investment purposes
- To what extent can you take losses without affecting other considerations?
- Your today's financial position
- What is the level of your risk tolerance? (low/ medium/ high)

General Cautions while Investing

1. It is important to get details, especially written documents, explaining more about the investment you are considering.
2. It is not only important to read such documents and understand them, it is equally important to verify their authenticity.
3. Before you decide to make an investment, know the cost associated with it and subsequent benefits you are about to receive.
4. Any investment should be assessed for its liquidity aspect together with its safety.
5. The above aspects will enable you to analyse whether the investment under consideration is appropriate for your investment goals.
6. Also check how this particular investment goes with the other investments you have already made or are about to make.
7. If the investment requires you to deal through an intermediary, ensure that you operate through an authorized intermediary.
8. Enquire and thoroughly research about the intermediary.
9. Know what to do if something goes wrong with your investment; know your options and avenues; proceed only if satisfied.
10. Never invest money you need in the short term.

Chapter 6

Knowledge on Investments

The Asset Allocation

Equity

- Comprises of – Shares & Stocks
- Variety – Blue Chip, Growth Stocks, Income Stocks, Cyclical Stocks, Defensive Stocks, Speculative stocks
- Advantage – Greater returns, diversification, liquidity, information, tax benefits, appreciation, dividends, pledge, voting
- Regulator – BSE, NSE,
- Markets – Primary & Secondary, Online Trading
- Investors – Retail Institutional Investors, Non Institutional Investors, Qualified Institutional Buyers

Gold

Gold has traditionally been extremely popular with Indians. Almost every household possesses gold in one form or the other and it forms part of important events like marriage, religious ceremonies etc. It is also an important asset class, used as a currency and a commodity.

Major Characteristics

- Gold (Chemical Symbol-Au) is primarily a monetary asset and partly a commodity.
- Gold is world's oldest international currency.
- Gold is an important element of global monetary reserves.
- With regards to investment value, more than two-thirds of gold's total accumulated holdings is with central banks' reserves, private players, and held in the form of high-karat jewellery. Less than one-third of gold's total accumulated holdings are used as "commodity" for jewellery in the western markets and industry.

Global Scenario

- London is the world's biggest clearing house.
- Mumbai is under India's liberalised gold regime.
- New York is the home of gold futures trading.
- Zurich is a physical turntable.
- Istanbul, Dubai, Singapore, and Hong Kong are doorways to important consuming regions.
- Tokyo, where TOCOM sets the mood of Japan.

Factors Influencing the Market

- Above ground supply of gold from central bank's sale, reclaimed scrap, and official gold loans.
- Hedging interest of producers/miners.
- World macroeconomic factors such as the US Dollar and interest rate, and economic events.
- Commodity-specific events such as the construction of new production facilities or processes, unexpected mine or plant closures, or industry restructuring, all affect metal prices.
- In India, gold demand is also determined to a large extent by its price level and volatility.

Fixed Income Securities

Fixed-income securities are investments where the cash flows are according to a pre-determined amount of interest, paid on a fixed schedule. The different types of fixed income securities include government securities, corporate bonds, commercial paper, treasury bills, strips etc. The investors benefit by investing in fixed income securities as they preserve and increase their invested capital or also ensure the receipt of dependable interest income. The instruments traded can be classified into the following segments based on the characteristics of the identity of the issuer of these securities:

Government	Central Government	Zero Coupon Bonds
Securities	State Governments	Coupon Bearing Bonds, Treasury BillsSTRIPS Coupon Bearing Bonds
Public Sector Bonds	Government Agencies/Statutory Bodies Public Sector Units	Government Guaranteed Bonds, Debentures PSU Bonds Debentures Commercial Paper
Private Sector Bonds	Corporates Banks Financial Institutions	Debentures, Bonds, Commercial Paper, Floating Rate Bonds, Zero Coupon Bonds, Inter-Corporate Deposits Certificates of Deposits, Debentures, Bonds Certificates of Deposits, Bonds

Money Market Instruments

Money market instruments are those instruments, which have a maturity period of less than one year. The most active part of the money market is the market for overnight call and term money between banks and institutions and repo transactions. Call Money/ Repo are very short-term Money Market products. The below mentioned instruments are normally termed as money market instruments:

1. Certificate of Deposit (CD)
2. Commercial Paper (C.P)
3. Inter Bank Participation Certificates
4. Inter Bank term Money
5. Treasury Bills
6. Bill Rediscounting
7. Call/Notice/Term Money

Post Office Schemes

- Post Office Savings Account
- Post Office Recurring Deposit Account
- Post Office Monthly Income Accounts
- National Savings Certificate (VIII Issue)
- Kisan Vikas Patra
- Senior Citizen Saving Scheme (SCSS)
- Public Provident Fund Scheme
- Deposit Scheme for Retiring Government Employees
- Deposit Scheme for Retiring Employees of Public Sector Companies

Commodities

Commodities allow a portfolio to improve overall return at the same level of risk. Unlike stocks and bonds, commodities are real assets, comprising inherent intrinsic value based on their actual commercial or industrial application. Commodities' price fluctuations do not have positive correlation with stock market and therefore, these are best tools to diversify portfolio. Moreover, investing in commodities that rise with inflation provides a natural hedge against inflation.

Therefore, commodities not only help in portfolio diversification, they also provide hedge against inflation. Hence, of late, investing in commodities has become an essential part of portfolio management.

Commodity Derivative Market

It can be described as a derivative instrument whose value is derived from the underlying commodity. The commodity derivatives market is a direct way to invest in commodities rather than investing in the companies that trade in those commodities. For example, an investor can invest directly in steel

The government of India issued notifications on April 1, 2003 permitting futures trading in commodities. Trading in commodity options, however, is still prohibited. The lifting of the 30-year ban on commodity futures trading in India has opened yet another avenue for investors.

Commodity Futures can be traded on following platforms:

- National Commodity and Derivative Exchange (NCDEX)
- Multi Commodity Exchange of India Ltd (MCX)
- National Multi Commodity Exchange of India Ltd (NMCE)
- ACE Derivatives and Commodity Exchange (ACE)
- Indian Commodity Exchange Limited (ICEX) Major categories of commodities one can trade
- Vegetable Oil Seeds, Oils and Meals
- Pulses, spices, vegetables, gum, sugar, gaur seed
- Metals, energy products cotton etc.

Currency

Currency trading is also known as foreign exchange, or forex, and it is the process of buying or selling international currencies for commerce or as an investment. By trading currencies, an investor is provided with a way to invest in a currency's future. However, currency is not traded in a financial market per se, because there is no exchange. Rather, it is totally electronic, run by a number of international banks, and it is available to investors or buyers 24 hours a day, from Sundays through Fridays.

Currency Futures

In order to provide a liquid, transparent and vibrant market for foreign exchange rate risk management, Securities & Exchange Board of India (SEBI) and Reserve Bank of India (RBI) have allowed trading in currency futures on stock exchanges for the first time in India, initially based on the USDINR exchange rate and subsequently on three other currency pairs – EURINR, GBPINR and JPYINR.

Trading in currency futures is allowed on three exchanges:

- Multi Commodity Exchange – Stock Exchange (MCX-SX)
- National Stock Exchange (NSE)
- United Stock Exchange (USE)

Trading in currency futures would give Indian businesses another tool for hedging their foreign exchange risk effectively and efficiently at transparent rates on an electronic trading platform. The primary purpose of exchange-traded currency derivatives is to provide a mechanism for price risk management and consequently provide price curve of expected future prices to enable the industry to protect its foreign currency exposure. The need for such instruments increases with increase of foreign exchange volatility. These contracts also offer a better flexibility than the over-the-counter (OTC) market in terms of transparency in rates that is ensured by an electronic trading platform.

Currency Options

Currency Options are contracts that grant the buyer of the option the right, but not the obligation, to buy or sell underlying currency at a specified exchange rate during a specified period of time. For this right, the buyer pays premium to the seller of the option.

➢ *Currency Options*: Options that during a specified period of time contract grant the buyer of the option the right and not the obligation to buy or sell underlying currency at a specified exchange rate.

➢ *USD-INR Option*: Options in which Underlying asset is US Dollar – Indian Rupee (US$-INR) spot rate USD-INR option contracts are Premium styled European Call and Put Options. The premium is quoted in rupee terms. However, the outstanding position is in USD terms.

Derivatives

Derivatives, such as futures or options, are financial contracts which derive their value from a spot price, which is called the “underlying”. For example, wheat farmers may wish to enter into a contract to sell their harvest at a future date to eliminate the risk of a change in prices by that date. Such a transaction would take place through a forward or futures market. This market is the “derivatives market”, and the prices of this market would be driven by the spot market price of wheat which is the “underlying”. The term “contracts” is often applied to denote the specific traded instrument, whether it is a derivative contract in wheat, gold or equity shares. World over, derivatives are a key part of the financial system. The most important contract types are futures and options, and the most important underlying markets are equity, treasury bills, commodities, foreign exchange, real estate etc.

- Financial contracts which derive their value from a spot price called the underlying
- Derivative Instruments traded are Futures and Options
- Derivative Exchange/Segment function as a Self-Regulatory Organization and SEBI Acts as the oversight regulator
- Futures contracts, Index Options, Stock options, Stock Futures, Mini Derivative contract on Index, Long tenure Index Option contracts, Volatility Index, Bond Index and Exchange traded Currency Derivatives are permitted by SEBI.

Exchange Traded Funds

ETFs are different from mutual funds in the sense that ETF units are not sold to the public for cash. Instead, financial institutions purchase and redeem ETF shares directly from the ETF, but only in large blocks, varying in size by ETF from 25,000 to 200,000 shares, called “creation units”. Purchases and redemptions of the creation units generally are in kind, with the institutional investor contributing or receiving a basket of securities of the same type and proportion held by the ETF, although some ETFs may require or permit a purchasing or redeeming shareholder to substitute cash for some or all of the securities in the basket of assets.

Mutual Funds

Types of Mutual Fund Schemes

A wide variety of Mutual Fund Schemes exists to cater to the needs such as financial position, risk tolerance and return expectations etc. The table below gives an overview into the existing types of schemes in the Industry.

By structure:

- Open-ended schemes
- Close-ended schemes
- Interval schemes

By Investment Objective:

- Growth schemes
- Diversified Equity schemes
- Income schemes
- Balanced schemes
- Money market schemes

Other Schemes:

- Gilt Fund schemes
- Index schemes
- Sector specific schemes
- Tax savings schemes
- Hybrid schemes
- Fund of Fund schemes
- Floating Rate schemes

Types of Mutual Funds include the following:

- Equity Linked Savings Scheme
- Arbitrage Funds
- Dynamic Funds
- Fixed Maturity Plans
- International Mutual Funds
- Monthly Income Plans
- Multi Cap Funds
- Quant Funds

Real Estate

"The best Investment on Earth is Earth". - Louis Glickman

What is Real estate investment?

Real estate investment includes investment in:

- Agricultural land
- Farm houses
- Urban land and
- House property
- Commercial property

What are the guidelines used to evaluate real estate as an investment option?

To evaluate real estate as an investment option, use the following guidelines.

- Check out the various loan options to raise the finances.
- Ensure that there is scope for infrastructure development around the property under consideration.
- Another factor is the location and the proximity to schools, hospitals, markets, public transportation, etc.
- Check out the rental returns and capital appreciation potential in the area where the property is located.
- Actual property taxes to be paid.
- Finally, ensure that you are able to maximize the tax benefits to the limit.

What are the sources of Housing finance?

- Own money
- State Housing Boards
- Loans from Employers
- Loans from Co-operative Housing Societies
- HDFC

- Housing Schemes of Banks and financial institutions
- LIC Housing Finance

Alternative Investments

An alternative investment is an investment product other than the traditional investments of stocks, bonds, cash, or property. The term is a relatively loose one and includes tangible assets such as art, wine, antiques, coins, or stamps and some financial assets such as private equity and film production. Globally, alternative investment avenues are quite in vogue among rich investors, who are estimated to allocate 5-10% of their investment portfolio into these products. Alternative investments are favoured mainly because their returns have a low correlation with those of standard asset classes.

1. Rare Coins and Paper Currency (Numismatics)

Numismatics is the study or collection of currency, including coins, tokens, paper money, and related objects. With a bit of interest in and insight on the art of collecting coins and paper money, one can expect handsome returns comparable to traditional investments. The idea of numismatics as an investment tool is still in its nascent stage but is fast catching up in India.

2. Stamp Collection (Philately)

Investing in stamps can help you earn handsome returns in the long term. The demand for Indian stamps has been rising for the past two-three years. So, it might be the right time to park some funds here before prices go beyond your reach.

3. Art

Investing in art is a good method for diversification. Since art prices do not depend on other possible components of a portfolio, they act as a cushion when other markets are not doing well. The aesthetic pleasure of viewing a great piece of art is a great advantage.

Scheme	Interest Rates	Interest Rates	Maturity	Remarks
	w.e.f. April 1, 2013	Prior to April 1, 2013		w.e.f. April 1, 2013
PPF	8.70%	8.80%	15 Years	Investment limit maintained at Rs. 1 lakh; Tax Deduction u/s. 80C
MIS	8.40%	8.50%	5 Years	N.A.
NSC (VIII Issue)	8.50%	8.60%	5 Years	Maturity Value – 151.62% or 1.5162 Times of Investment
NSC (IX Issue)	8.80%	8.90%	10 Years	Maturity Value – 236.60% or 2.366 Times of Investment
SCSS	9.20%	9.30%	5 Years	Interest Payable Quarterly; Tax Deduction u/s. 80C
Recurring Deposit	8.30%	8.40%	5 Years	Maturity Value – Approximately 7456.6% or 74.566 Times of Monthly Investment
Term Deposits	8.40%	8.50%	5 Years	No change in 1-Year Term Deposit Rate; Investment in 5-Year Term Deposit qualifies for Tax Deduction u/s. 80C
	8.30%	8.40%	3 Years	
	8.20%	8.30%	2 Years	
	8.20%	8.20%	1 Year	
Savings A/c. Deposit	4%	4%	N.A.	N.A.

A few things an investor must look into:

- Art buyers should gain as much knowledge as possible of the artist's work, the quality, provenance, condition and period in which it was painted before investing.
- Have a clear idea about the time horizon and gestation period for a particular work to appreciate in value.
- If an investor is looking for quick returns, he must buy works of well-known artists. If you like a less famous artist's work and are prepared to wait, your returns might grow majorly over a period of time.
- Buy art only if you like the quality of work and not just the artist. Art requires careful maintenance.

4. Antiquities

Antiquities are the story tellers of the history of the world. Their importance lies in their dwindling numbers and their reflection of the culture of bygone societies. A historical object of significance will only get rarer with time, and as the rule goes, the rarer the object, the more valuable it is.

The antiquities market consists of small collectibles (like vessels, lamps, prints and puppets, etc), wooden carvings and textiles, stone sculptures, bronze works and miniature paintings in a more or less ascending order. Most of the pieces acquired range from the 10th to 19th century.

5. Wine

At an annual traded value of $4 billion (year-on-year), wine is emerging as a very good investment option. The London-based Liv-ex Fine Wine 100 Index, the wine investment industry benchmark, has been giving a compounded annual return of 13.7 percent since 1988. As of November 2010, the Liv-ex gave a return of 38.7 percent year-on-year.

Wine purchased as an investment is typically obtained from a reputable wine broker since wine houses do not generally sell directly to the public. Indian wine advisory firms, such as Antique

Wine Company and Drayton Capital, offer services to hold and preserve the wine on behalf of their clients.

6. Private Equity

Private equity has arrived as a major component of the alternative investment universe and is now broadly accepted as an established asset class within many institutional portfolios. Many investors, still with little or no existing allocation to private equity, are now considering establishing or significantly expanding their private equity programs.

Venture Capital

Venture capital is investing in companies that have undeveloped or developing products or revenue.

● *Seed stage Financing*: provided to research, assess and develop an initial concept before a business has reached the start-up phase.

● *Start-up stage Financing*: for product development and initial marketing. Companies may be in the process of being set up or may have been in business for a short time, but have not sold their products commercially and are not yet generating a profit.

● *Expansion stage Financing*: for growth and expansion of a company which is breaking even or trading profitably. Capital may be used to finance increased production capacity, market or product development, and/or to provide additional working capital. This stage includes bridge-financing and rescue or turnaround investments.

Replacement Capital

Purchase of shares from another investor or to reduce gearing via the refinancing of debt.

Buyout

A buyout fund typically targets the acquisition of a significant portion or majority control of businesses which normally entails a change of ownership. Buyout funds usually invest in more mature companies with established business plans to finance expansions, consolidations, turnarounds and sales, or spinouts of divisions or subsidiaries. Financing expansion through multiple acquisitions is often referred to as a "buy and build" strategy. Investment styles can vary widely, ranging from growth to value and early to late stage. Furthermore, buyout funds may take either an active or a passive management role.

Special Situation

Special situation investing ranges over a broad area, including distressed debt, equity-linked debt, project finance, one-time opportunities resulting from changing industry trends or government regulations, and leasing. This category includes investment in subordinated debt, sometimes referred to as mezzanine debt financing, where the debt-holder seeks equity appreciation via such conversion features as rights, warrants or options.

Go for this option only if you have a large sum — say a crore of rupees — which you can invest and wait at least eight years before you see any money back.

Through a PE fund, you can invest in upcoming companies in new sectors. Taking a relatively early position in them can fetch very good returns. Very often such companies are in the pre-IPO stage, and need both financial and managerial support, which is provided by the PE fund, and can give higher return than other asset classes.

One can also choose funds that are specialists and invest in sectors where public stock markets don't offer many options.

About 10 percent of the total portfolio in PE would be ideal for diversification purpose.

The SEBI (Alternative Investment Fund) Regulations 2012 – An Overview

(a) All AIFs whether operating as Private Equity Funds, Real Estate Funds, Hedge Funds, etc. must register with SEBI under the AIF Regulations.

(b) SEBI (Venture Capital Funds) Regulations, 1996 ("VCF Regulations") have been repealed. However, existing VCFs shall continue to be regulated by the VCF Regulations till the existing fund or scheme managed by the fund is wound up. Existing VCFs, however, shall not increase the targeted corpus of the fund or scheme as it stands on the day of Notification of these Regulations. Such VCFs may also seek re-registration under AIF regulations subject to approval of 66.67% of their investors by value.

(c) Existing funds not registered under the VCF Regulations will not be allowed to float any new scheme without registration under AIF Regulations. However, schemes floated by such funds before coming into force of AIF Regulations, shall be allowed to continue to be governed till maturity by the contractual terms, except that no rollover/ extension or raising of any fresh funds shall be allowed.

(d) Existing funds not registered under the VCF Regulations which seek registration but are not able to comply with all provisions of AIF Regulations may seek exemption from the Board from strict compliance with the AIF Regulations.

(e) The first amendment to the SEBI (AIF) Regulations, 2012 was issued via a SEBI notification dated 16th September 2013. The following amendments have been carried out

(i) Notified the framework for setting up Angel Funds.

(ii) Have cut lead time for fund managers for seeking commitments.

(iii) Linked the investment allocation for different categories of AIFs to their 'investible funds' (previously, the linkage was to the 'corpus' of the fund).

(iv) Permits a lower threshold of Rs. 2.5 million in case a Social Venture Fund accepts grants as against the prescribed minimum ticket size of Rs. 10 million for capital commitments.

Categories of funds

The Regulation seeks to cover all types of funds broadly under 3 categories. An application can be made to SEBI for registration as an AIF under one of the following 3 categories:-

(i) Category I AIF – Those AIFs with positive spillover effects on the economy, for which certain incentives or concessions might be considered by SEBI or Government of India or other regulators in India, and which shall include Venture Capital Funds, SME Funds, Social Venture Funds, Infrastructure Funds and such other Alternative Investment Funds as may be specified. These funds shall be close- ended, shall not engage in leverage and shall follow investment restrictions as prescribed for each category. Investment restrictions for VCFs are similar to restrictions in the existing VCF Regulations.

(ii) Category II AIF – Those AIFs for which no specific incentives or concessions are given by the government or any other Regulator; which shall not undertake leverage other than to meet day-to-day operational requirements as permitted in these Regulations; and which shall include Private Equity Funds, Debt Funds, Fund of Funds and such other funds that are not classified as category I or III. These funds shall be close- ended, shall not engage in leverage and have no other investment restrictions.

(iii) Category III AIF – Those AIFs including hedge funds which trade with a view to make short term returns; which employ diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives. These funds can be open- ended or close- ended. Category III funds shall be regulated through issuance of directions regarding areas such as operational standards, conduct of business rules, prudential requirements, and, restrictions on redemption, conflict of interest as may be specified by the board.

Other salient features

(a) The Alternative Investment Fund shall not accept from an investor an investment of value less than rupees one crore. Further, the AIF shall have a minimum corpus of Rs. 20 crore.

(b) The fund or any scheme of the fund shall not have more than 1000 investors.

(c) The manager or sponsor for a Category I and II AIF shall have a continuing interest in the AIF of not less than 2.5% of the initial corpus or

Rs.5 crore whichever is lower and such interest shall not be through the waiver of management fees.

(d) For Category III Alternative Investment Fund, the continuing interest shall be not less than 5% of the corpus or rupees ten crore, whichever is lower.

(e) Category I and II AIFs shall be close-ended and shall have a minimum tenure of 3 years. However, Category III AIF may either be close-ended or open-ended.

(f) Schemes may be launched under an AIF subject to filing of information memorandum with the Board along with applicable fees.

(g) Units of AIF may be listed on stock exchange subject to a minimum tradable lot of rupees one crore. However, AIF shall not raise funds through Stock Exchange mechanism.

(h) Category I and II AIFs shall not be permitted to invest more than 25% of the investible funds in one Investee Company. Category III AIFs shall invest not more than 10% of the corpus in one Investee Company.

(i) AIF shall not invest in associates except with the approval of 75% of investors by value of their investment in the Alternative Investment Fund.

(j) All AIFs shall have QIB status as per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.

(k) The Regulations provide for transparency and disclosures and mechanism for avoidance of conflict of interest.

Difference in Governmental Regulation between Venture Capital and Private Equity

There are no legal or regulatory differences between ‘private equity funds’ and ‘venture capital funds’, and the SEBI (Alternative Investment Fund) Regulations, 2012 *(SEBI (Venture Capital Funds) Regulations 1996 stands repealed*) and FVCI Regulations seek to regulate all PE or VC funds irrespective of such difference in their nomenclature. Consequently, trusts, companies and LLPs desirous of establishing a private equity fund are required to register themselves with the SEBI as ‘venture capital funds’ to undertake private equity and venture capital activities, irrespective of whether the investment is a significant investment or not.

Chapter 7

Non-Resident Indians (NRIs)

India offers a tremendous opportunity for investment and wealth building for Non Resident Indians (NRI) as India is slated to grow at the rate of 8%-10% for the next few decades. The Government has provided a wide range of incentives and concessions to Non-Resident-Indians, some of which are being listed here:

Facilities available to NRIs/OCBs

NRIs/OCBs are granted the following facilities:

1. Maintenance of bank accounts in India.
2. Investments in securities/shares of, and deposits with, Indian firms/companies.
3. Investments in immovable properties in India.

Financial Planning For NRIs

Financial Planning for NRIs can be much the same as Financial Planning for Resident Indians. there are only a few things which NRIs need to keep in mind when executing the Financial Plan i.e., when investing. The investment avenues for NRIs are broadly the same as investment avenues for Resident Indians, with a few small points to keep in mind. A NRI should keep in mind the 5 points below before investing:

1. Deciding which country to invest
2. Where to invest your money
3. Which account to invest from
4. How much to invest, and
5. The tax applicable to your investments.

Deciding which country to invest

The recent economic down turn has made a number of Indians working in foreign countries concerned about their job security and investment options.

This has made them think about managing their finances in a better way by taking professional advice and by investing more money in India, their home country. The India Shining story is something we have all heard about in the past, but is it really true when compared to other developing nations such as Brazil, China and Russia?

Where to invest your money

i. **Direct Equity**: NRI's can invest their funds in equity markets. But, before investing in equity, one should take into account the time horizon of investment, risk and return expected on the investment and the long term goals. There is no limit or cap for NRI's investing in direct equity.

ii. **Mutual funds**: A Mutual Fund would be a safer bet compared to direct equity for a foreign investor who has limited expertise. For an NRI, no specific approval for investing or redeeming from mutual fund is required. However, certain mutual funds may not accept deposits from NRIs based in the USA or Canada. If you are a USA / Canada based NRI, it is especially important to first check the fund house rules before investing, so that money is not locked away for a few days before simply being returned to you rather than being invested.

iii. **Real Estate:** In India it is another favourite with NRIs. The clear benefit here is that while you are residing in a foreign country, the apartment / house can be given out on rent, thereby providing additional income. It is also a common myth that as an NRI, it is not possible to get a home loan. A NRI can certainly avail a home loan to purchase a property in India.

Taxation for NRI

You must also keep in mind the taxation implication on your investments. Taxation for NRIs Incidence of tax for different tax payers is summarized as below:

Residential Status	Indian Income	Foreign Income
Resident and Ordinarily Resident (ROR)	Taxable	Taxable
Non-Resident Indian (NRI)	Taxable	Not Taxable

*Indian Income means income which is received in India or accrues or arises in India.

**Foreign Income means income which is not received in India and does not accrues or arises in India.

In the case of a Non Resident, only the income earned or received in India is taxed in India. Accordingly, income earned outside India would not be taxable in India.

Tax on Dividends: Dividends declared by equity-oriented funds (i.e. mutual funds with more than 65% of assets in equities) are tax-free in the hands of NRI investor. Dividends declared by debt-oriented mutual funds (i.e. mutual funds with less than 65% of assets in equities), are tax-free in the hands of the NRI investor. However, a dividend distribution tax (which varies for individual and corporate investors) is to be paid by the mutual fund on the dividends declared by them. Dividends received from foreign companies are taxable in the hands of shareholder as the foreign companies are not liable to DDT Taxation of capital gains on mutual fund.

A unit of a mutual fund is treated as short-term capital asset if it is held for less than 12 months.

Short Term Capital Gain: When the units in Equity Oriented Mutual Fund are sold (redeemed) within one year of being held by the investor, it becomes short term gains or loss. The Short term gains are taxed at 15% on gain. When the units in Debt-Oriented Mutual Fund are sold (redeemed) within one year of being held by the investor, it is taxed under slab rates applicable to Individual.

Long Term Capital Gain: When the units in Equity Oriented Mutual Fund are sold after holding for more than a year, gains on redemption of such units are tax free, while the units in Debt Oriented Mutual Fund are sold after holding for more than a year, gains on such units redemption are taxable as Long term Capital Gains.

Long-term capital gains on debt-oriented funds are subject to tax @20% of capital gains after allowing indexation benefit, or at 10% flat without indexation benefit, whichever is less. Indexation benefit is when the cost of the investment is raised to account for inflation for the period the investment is held. This is done by using a cost inflation index number released by the tax authorities every year.

Types of Bank Accounts

An NRI must also consider which account he should be investing from. But before doing so, it is important to take into account some points: Are the funds in the bank account from which you will be investing, obtained from

Indian sources or are they repatriated (brought back home) from the country in which you are working? E.g. Are they your salary funds? In which currency do you want to hold the bank account? Do you plan to repatriate the funds in the account back into the foreign currency, in order to take it back to your country of work? Based on the answers to these questions, you can decide whether you need to invest from your NRE (Non Resident External) account or your NRO (Non Resident Ordinary) account.

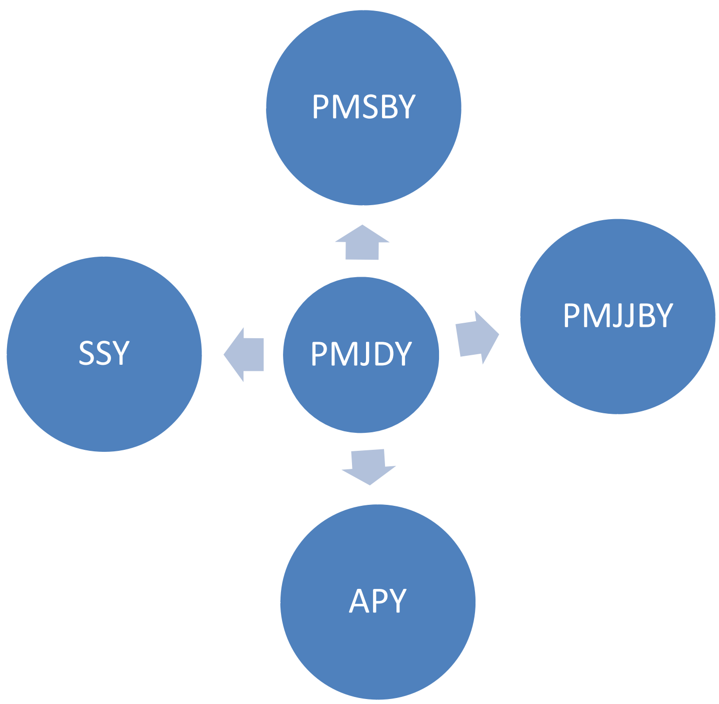
a) *NRE Account*: In an NRE account, your funds in foreign currency are converted into Indian rupees, at the rate prevailing at the time of transferring the funds from the account. The principal as well as the interest is freely repatriable or can be transferred to the foreign country. Funds in the NRE account can be freely repatriated.

b) *NRO Account*: If you want an account to transfer Indian earnings, an NRO account is suitable for you. Foreign funds can also be deposited into this account. The interest income earned on in this account is subject to tax in India. The interest is subject to income tax deduction at source @ 30% plus applicable surcharge plus education cess. Funds in the NRO account cannot be repatriated abroad.

Chapter 8

Investor & The Government

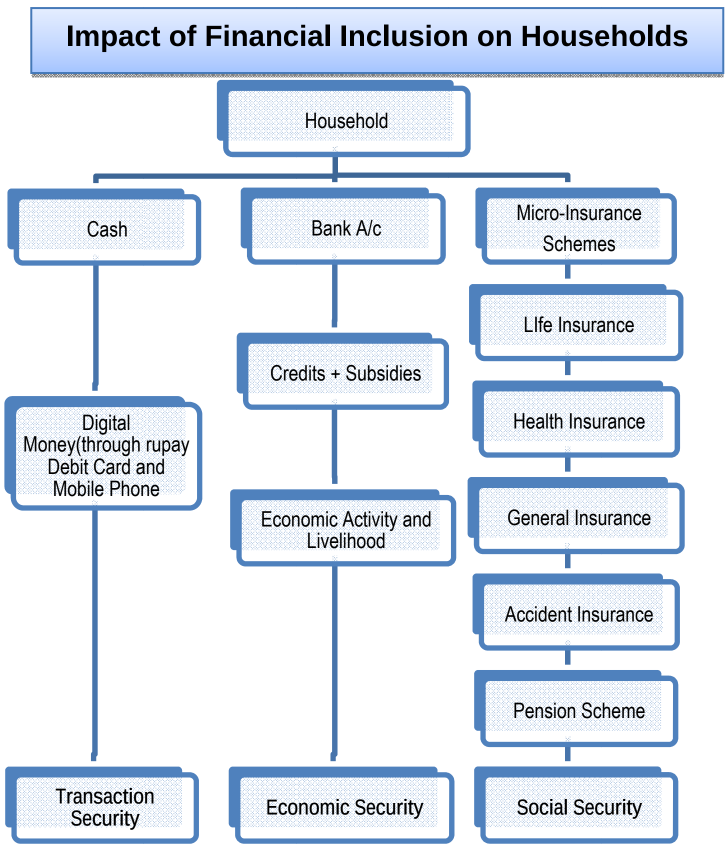
Government of India has taken initiative to introduce some investment plans to protect investors from the normal market, so that they can invest their small savings into some beneficial schemes like Pension Scheme, Life Risk Scheme, Health Scheme, savings into Banks. The government has also taken a big step forward towards financial inclusion by Pradhan mantra Jan Dhan Yojna and it has and it will financially mainstream crores of people who are not aware of it. For the implementation of all these schemes/ plans, the Government has launched the following schemes:



A. Pradhan Mantri Jan-DhanYajana:

A plan which can add people of India into the Banking sector so that their small savings can be invested and kept in the banking sector. It is a National

Mission for Financial Inclusion to ensure access to financial services, namely, Banking/ Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension in an affordable manner.The objective of "Pradhan Mantri Jan-DhanYojana (PMJDY)" is ensuring access to various financial services like availability of basic savings bank account, access to need- based credit, remittances facility, insurance and pension to the excluded sections, i.e., weaker sections & low income groups.



B. Pradhan Mantri Suraksha Bima Yojana

A scheme by which a person can insure his life only with a single rupee per month.The scheme will be a one year cover, renewable from year to year, Accident Insurance Scheme offering accidental death and disability cover for death or disability on account of an accident. The scheme would be offered / administered through Public Sector General Insurance Companies (PSGICs) and other General Insurance companies willing to offer the product on similar terms with necessary approvals and tie up with Banks for this purpose. Participating banks will be free to engage any such insurance company for implementing the scheme for their subscribers.

Scope of coverage: All savings bank account holders in the age 18 to 70 years in participating banks will be entitled to join. In case of multiple saving bank accounts held by an individual in one or different banks, the person would be eligible to join the scheme through one savings bank account only. Aadhar would be the primary KYC for the bank account.

Benefits: As per the following table:

	Available Benefits	Sum Insured
a.	Death	Rs. 2 Lakh
b.	Total and irrecoverable loss of both eyes or loss of use of both hands or feet or loss of sight of one eye and loss of use of hand or foot	Rs. 2 Lakh
c.	Total and irrecoverable loss of sight of one eye or loss of use of one hand or foot	Rs. 1 Lakh

C. Pradhan Mantri Jeevan-jyoti Bima Yojana

A scheme by which people of India can cover their life risk so that in the event of their death, their family member can get support from the amount that will be provided under the scheme. The scheme will be a one year cover, renewable from year to year, Insurance Scheme offering life insurance cover for death due to any reason. The scheme would be offered / administered through LIC and other Life Insurance companies willing to offer the product on similar terms with necessary approvals and tie- ups with Banks for this purpose. Participating banks will be free to engage any such life insurance company for implementing the scheme for their subscribers.

Scope of coverage*:* All savings bank account holders in the age 18 to 50 years in participating banks will be entitled to join. In case of multiple saving bank accounts held by an individual in one or different banks, the person would be eligible to join the scheme through one savings bank account only. Aadhar would be the primary KYC for the bank account.

Benefits: Rs.2 lakhs is payable on member's death due to any reason

Premium: Rs.330/- per annum per member. The premium will be deducted from the account holder's savings bank account through 'auto debit' facility in one instalment, as per the option given, on or before 31st May of each annual coverage period under the scheme. Delayed enrolment for prospective cover after 31st May will be possible with full payment of annual premium and submission of a self-certificate of good health. The premium would be reviewed based on annual claims experience. However, barring unforeseen adverse outcomes of extreme nature, efforts would be made to ensure that there is no upward revision of premium in the first three years.

D. Atal Pension Yojana

The government announced the scheme of universal social security in the pension sector for all Indian people, specially, for those who are poor and under- privileged.

Benefits *:*Fixed pension for the subscribers ranging between Rs. 1000 to Rs. 5000, if he/she joins and contributes between the age of 18 years and 40 years. The contribution levels would vary and would be low if subscriber joins early and increase if he/she joins late.

Table of contribution levels, fixed monthly pension of Rs. 1,000 per month to subscribers and his spouse and return of corpus to nominees of subscribers and the contribution period under Atal Pension Yojana :

Age of Joining	Years of Contribution	Indicative Monthly Contribution (in Rs.)	Monthly Pension to the subscribers and his spouse (in Rs.)	Indicative Return of Corpus to the nominee of the subscribers (in Rs.)
18	42	42	1,000	1.7 Lakh
20	40	50	1,000	1.7 Lakh
25	35	76	1,000	1.7 Lakh
30	30	116	1,000	1.7 Lakh
35	25	181	1,000	1.7 Lakh
40	20	291	1,000	1.7 Lakh

E. Sukanya Samriddhi Yojana

SUKANYA SAMRIDHI YOJANA (girl child prosperity scheme) is a government scheme for girls. This scheme has been launched by the Government as part of the 'Beti-Bachao Beti-Padhao' campaign with the vision to provide for Girl Child Education and Her Marriage Expense. It is a small deposit scheme for girl child. Under this scheme the government will provide yearly interest rate of 9.1 per cent and will also provide income tax deduction under section 80C of the Income Tax Act, 1961 and educational and marriage money facilities. Under this SUKANYA SAMRIDHI YOJANA, natural or legal guardian of the girl child shall be allowed to open third account. This Scheme has commenced from 02.12.2014. With the grace, Girl child who is born between 2.12.2003 & 1.12.2004 can open account up to 1.12.2015. For applying one needs some documents, which are Birth certificate of girl child, address proof and Identity proof.

'Sukanya Samriddhi Account' can be opened at any time from the birth of a girl child till she attains the age of 10 years, with a minimum deposit of Rs 1000. A maximum of Rs 1.5 lakh can be deposited during the financial year."The scheme primarily ensures equitable share to a girl child in resources and savings of a family in which she is generally discriminated as against a male child," said a government statement.

Chapter 9

IEPF & Investor Awareness

The central government has established a Fund which is to be utilized for investor awareness and protection of the interests of the investors. This comes under of Ministry of Corporate Affairs of Govt. of India .This Fund is called Investor Education and Protection Fund (IEPF).

Amounts to be credited to IEPF

The following amounts that remained unpaid and unclaimed for a period of seven years from the date they became due for payment is credited to the fund:

(a) Amounts in the unpaid dividend accounts of the companies

(b) The application moneys received by companies for allotment of any securities

(c) Matured deposits with companies

(d) Matured debentures with companies

(e) The interest accrued on the amounts referred to in clauses (a) to (d)

(f) Grants and donations given to the fund by the central government, state governments

(g) Interest and other income received out of the investments made from the fund

Criteria for the purpose of financial assistance from IEPF:

(a) Any organisation/entity who has a viable project proposal on investor education and Protection.

(b) The limit for each person/organization for assistance from the Fund should be subject to 5% of the budget of IEPF during that financial year and not exceeding 80% of the amount to be spent on the proposed programme/activity.

(c) The associations or institutions or organizations already engaged in activities relating to investor awareness, education and protection and proposing to take up investor programmes, organizing seminars, symposia etc. shall undertake projects for investor protection including research activities.

(d) Associations or institutions or organizations shall, unless specific exemption has been made in this regard by the Committee on IEPF, be in existence for a minimum period of 2 years prior to its date of application for registration.

(e) No profit-making association or institution or organization shall be eligible for registration for the purposes of financial assistance from the fund.

(f) Notwithstanding the above, the Committee on IEPF can give a project to any organization.

Investor Protection Fund

What is the Investor Protection Fund (IPF) and when is it used?

The IPF is maintained by NSE to make good investor claims, which may arise out of non-settlement of obligations by the trading member, who has been declared defaulter / expelled, in respect of trades executed on the Exchange. The IPF is utilised to settle claims of such investors where the trading member through whom the investor has dealt has been declared a defaulter or expelled by the Exchange. Payments out of the IPF may include claims arising on account of non-payment of funds, credit balance by the defaulter /expelled member or non-receipt of securities purchased by the investor through the trading member or non-receipt of securities or fund provided as margin by the investor to the trading member, who has been declared a defaulter/expelled member.

The maximum amount of claim payable from the IPF to the investor (where the TM through whom the investor has dealt is declared a defaulter) is Rs.11 lakhs.

Investment Awareness & IAP

Investor Awareness is a term used in investor relations by public companies and similar bodies to describe how well their investors, and the investment market in general, know their business. Its significance is that investors are expected to base their investment decisions on awareness and knowledge, and a lack of these may lead to a low profile amongst its peers in the market (i.e., competing businesses and investment opportunities), to the detriment of the business.

Investor awareness is knowledge the investment community has of a company. It can be looked at like this: “Do investors know about your company?” If the answer is “yes,” then it could be said that the company has “good investor awareness” which means investors have knowledge and have a perception about the company and are very aware of its products and services. If we were to assume that a company has “no investor awareness” or “poor investor awareness,” then the company has probably done a poor job at creating visibility in the investment community and likely no one outside of the company's offices (or friends and family) has knowledge of the company.

To create awareness amongst the public at large and to ensure that the investors are informed about the MCA & ICAI’s initiative in regard to investors’ protection, the committee on financial markets & Investor’s protection conducts “Investor Awareness Program” under the aegis of Investor Education & Protection Fund of the Ministry of Corporate Affairs.

Case Study on Chit Fund Scams/Ponzi Schemes – “Saradha Chit Fund Scam”

There are many schemes which run in the market with a motive to fool the investors and run away with their hard earned money. Chit funds and Ponzi schemes are an example of that. They usually offer unusuall high interest, high returns and benefits that are practically impossible to be earned, and the investor gets trapped there and loses his/her savings and hard earned money. You all must be aware of the latest chit fund fraud that has happened in West Bengal. Here is what happened in the case:

Saradha Chit Fund Scam

Saradha Chit Fund was founded by Sudepta Sen in West Bengal, and the main concentration of the fund was in W.B. and other eastern states. But chit fund was not the real business of “Saradha” . As we know, a chit fund cannot declare in advance the return an individual is likely to make, given the way it is structured. With Saradha chit fund and its promoter Sudipta Sen, that doesn't seem to have been the case. Returns were promised to prospective investors in advance.

Was “Saradha” a Chit fund in reality?

They offered fixed deposits, recurring deposits and monthly income schemes. The returns promised were handsome. In fixed deposits, for instance, they promised to multiply the principal 1.5 times in two-and-a-half years, 2.5 times in 5 years and 4 times in 7 years. High-value depositors were told they would get a free trip to "Singapore". The insanely high returns which were offered were not going to be possible in any case. Someone had to pay the price as the chain can’t go on for too long.

In fact, it was neither a chit fund nor any collective income scheme; it was a pure example of a ponzi scheme which was formed with the purpose of robbing the investors.

Where did all the collected money go?

The company was most active in collecting money from depositors. Against the money collected, Saradha promised allotment of land or a flat. The investors also had the option of getting their principal and the promised interest back at maturity. The land or the flats were not allotted to investors; the investors did not have day to day control either over the scheme or over the flat or land for that matter. The money/land/flat came to them only at maturity.

All this was simply a sham and there were no real assets. Saradha was trying to create an illusion and was trying to tell its investors and its agents that this was what they were trying to do with the money they were collecting from investors. But they were doing nothing of the kind. They were using money brought in by the newer investors to pay off the older investors whose investments had to be redeemed. At the same time they were creating an illusion of a business as well, which really did not exist. Trouble started at the beginning of second year when employees didn't get their salaries on time. Then agents were told to make payments for maturities with fresh collections or make adjustment against renewals." This is what happens in any Ponzi scheme.

Conclusion

Though Sen is behind the bars and many of the persons who were involved are booked under various charges, this doesn’t solve the problem. Thousands of chit funds and high return schemes are still running in various parts of country and most of these collective investment schemes or public deposit schemes do not have any business model in place. They simply rotate money using money brought in by later investors to pay off earlier investors. They also pay high commission to agents to keep bringing in new investors. That keeps the Ponzi scheme going.

Chapter 10

Investor Grievances Redressal

Taking Care while Investing

While making an investment the following precautions should be taken:

1. Obtain written documents explaining the investment
2. Read and understand such documents
3. Verify the legitimacy of the investment
4. Find out the cost and benefit associated with such investment
5. Assess risk-return profile of the investment
6. Know the liquidity and safety aspects of the investments
7. Ascertain if it is appropriate for your specific goals
8. Compare these details with other investment opportunities available
9. Examine if it fits in with other investments you are considering or you have already made
10. Deal only through an SEBI Registered intermediary, where required
11. Seek all clarifications about the intermediary and the investment
12. Explore all the option available to you should some option go wrong, after analysis make the investment

Investor Grievances & Arbitration (Stock Exchanges) - Source:

BSE

S.No	Column 1	Column 2
1	Regional Arbitration Centres	States and Union Territories covered by the Regional Arbitration Centres
2	BSE Ltd. Regional Office – North,	Delhi, Haryana, Uttar Pradesh, Uttaranchal,

S.No	Column 1	Column 2
	7th Floor, Mercantile House 3K G Marg New Delhi - 110 001. Telephone Number:011-4151048 Telefax No.:011-41510480 E-mail Id: iscdelhi@bseindia.com ; ritesh. kumar@bseindia.com	Himachal Pradesh, Punjab, Jammu & Kashmir, Chandigarh, Rajasthan
3	BSE Ltd. Regional Office – East, 1st Floor, Kishor Bhaban 17, R. N. Mukherji Road Kolkata –700 001 Telephone Number:033-22133184, Telefax No.:033-22130530	West Bengal, Bihar, Jharkhand, Orissa, Assam, Arunachal Pradesh, Mizoram, Manipur, Sikkim, Meghalaya, Nagaland, Tripura, Chhattisgarh
4	BSE Ltd. Regional Office – South, 4th floor, Exchange Building No. 11, Second Line Beach Chennai – 600 001 Telephone Number:044-42163999 Telefax No.:044-42164999 E-mail Id: iscchennai@bseindia.com; s.periyasamy@bseindia.com	Andhra Pradesh, Karnataka, Kerala, Tamilnadu, Andaman & Nicobar, Lakshadweep, Pondicherry.
5	BSE Ltd. Regional Office – West, Department of Investor Services, P J Towers, 1st floor, Dalal Street, Fort, Mumbai – 400001. Telephone Number: 022-22721233/34 Fax No.: 022-22723677 E-mail Id: crasto@bseindia.com	Pradesh

Investor Grievances & Arbitration (Stock Exchanges) - Source:

NSE

You should address the complaint to the Mumbai Office or the Regional Offices of NSE based on the dealing office where the deals were executed as given below:

S.No	State in which Dealing office of the trading member is located	Complaint to be addressed to
1	Maharashtra, Gujarat, Goa, Daman, Diu, Dadra & Nagar Haveli, Madhya Pradesh	MUMBAI: National Stock Exchange of India Ltd. 'Exchange Plaza', C-1, Block G, Bandra-Kurla Complex, Bandra (East), Mumbai – 400 051 Tel. No: (022) 2659 8190 Fax No : (022) 2659 8191
2	Delhi , Haryana, Uttar Pradesh, Uttaranchal, Himachal Pradesh, Punjab, Jammu & Kashmir, Chandigarh , Rajasthan	DELHI : National Stock Exchange of India Ltd. 4th Floor, Jeevan Vihar Building , Parliament Street, New Delhi-110 001 Tel No : (011) 2334 4313 Fax No: (011) 2336 6658
3	West Bengal, Bihar, Jharkhand, Orissa, Assam, Arunachal Pradesh, Mizoram, Manipur, Sikkim, Meghalaya, Nagaland, Tripura, Chhattisgarh	KOLKATA: National Stock Exchange of India Ltd. 1st Floor, Park View Apartments, 99, Rash Behari Avenue , Kolkata – 700 029. Tel No : (033) 24631802 1805 24631809 1812 Fax No : (033) 24631791 / 1806
	Andhra Pradesh, Karnataka,	CHENNAI:

S.No	State in which Dealing office of the trading member is located	Complaint to be addressed to
	Kerala, Tamilnadu, Andaman & Nicobar, Lakshadweep, Pondicherry	National Stock Exchange of India Ltd. 2nd floor, Ispahani Centre, Door No 123-124, Nungambakkam High Road, Chennai - 600 034 Tel No : (044) 2833 2500 Fax No.: (044) 2833 2510 / 2521

NSE also provides a facility for registering complaints online. For more information, visit the website of NSE: www.nseindia.com under the link 'INVESTORS'

Is there any specified form for lodging the complaint?

Investors are requested to use the following forms:

- Investor Complaint Form – TM for lodging complaints against trading members/registered sub-brokers and
- Investor Complaint Form - CO for complaints in respect of companies traded on NSE.

These forms are available on the website of NSE: www.nseindia. com under the link 'INVESTORS'

Arbitration

What is "Arbitration"?

Arbitration is a quasi-judicial process of settlement of disputes between Trading Member, investor, clearing member, sub-brokers etc. Arbitration aims at quicker legal resolution for the disputes. When one of the parties feels that the complaint has not been resolved satisfactorily either by the other party or through the complaint resolution process of the Exchange, the parties may choose the route of arbitration.

Who can apply for arbitration?

One of the parties to the dispute who wants legal remedy for resolving dispute could apply for arbitration. In other words, investor, sub-broker, trading member or clearing member can apply for arbitration.

What are the different forms / documents required to be submitted while applying for arbitration?

List of documents that are required to be submitted is provided below.

S. No	Forms / Document Mandatory	Purpose
1	Form no. I	Application for arbitration
2	Form no. II	For providing Arbitrator preference in descending order
3	Statement of Case	Brief description of the case date wise, the basis of arriving at the claim amount and relief sought through arbitration.
4	Cheque /Pay Order/ Demand Draft	Towards cost of arbitration.
	Additional Documents *	
5	Statement of Accounts	Incase of dispute for funds / securities
6	Copies of the relevant Contract Notes & Bills	Relevant to the matter or as per the direction given by the arbitrator

* In case, investor does not have additional documents at the time of making application, the same may be submitted during the course of arbitration.

How do I obtain arbitration application forms, if I wish to apply for Arbitration?

Arbitration application forms are available on Exchange website at http://www.nseindia.com/content/assist/asst_arb_forms.zip. Applicant may download the same and use the form for making application. Alternatively, investors may request for forms by sending an email to ignse@nse.co.in along with the complete postal address, so that the forms can be mailed to them.

Where can an investor file arbitration against the trading member?

The application for arbitration has to be filed at the Regional

Arbitration Centre (RAC) viz. Mumbai, Delhi, Kolkata or Chennai covering the state in which the Constituent ordinarily resides.

S. No	Seats of Arbitration – Regional Arbitration Centres (RACs)	States covered by the RAC
1	DELHI	Delhi , Haryana, Uttar Pradesh, Uttaranchal, Himachal Pradesh, Punjab, Jammu & Kashmir, Chandigarh , Rajasthan
2	KOLKATA	West Bengal, Bihar, Jharkhand, Orissa, Assam, Arunachal Pradesh, Mizoram, Manipur, Sikkim, Meghalaya, Nagaland, Tripura, Chhattisgarh
3	CHENNAI	Andhra Pradesh, Karnataka, Kerala, Tamilnadu, Andaman & Nicobar, Lakshadweep, Pondicherry
4	MUMBAI	Maharashtra, Gujarat, Goa, Daman, Diu, Dadra & Nagar Haveli, Madhya Pradesh

How is arbitrator appointed? For a case, how is the number of Arbitrators determined?

If the value of the claim made by an applicant or counter-claim made by the other party is less than or equal to Rs. 25 lakh, sole Arbitrator is appointed.

If the value is more than Rs. 25 Lakh, panel of three Arbitrators is constituted.

Who can represent the arbitration matter on behalf of the investor?

Investor may attend the arbitration proceedings and defend the matter on his own or authorize a representative to defend the matter. He also has the opportunity to use services of an advocate to represent the matter.

What is a hearing? Is hearing required in all matters?

Hearing is a process, wherein the investor and trading member appear before the Arbitrator at the Exchange premises to present their case.

In case the claim amount is less than Rs. 25,000 the Arbitrator may hold hearing to pass the award, else he may pass the award based on the documents submitted by both the parties.

If the claim amount is more than Rs. 25,000 Arbitrator holds hearing at the Exchange premises.

What is the time required for completion of arbitration proceedings?

The arbitrator is required to complete arbitration proceedings within three months from the date of initial (first) hearing and pass the award. However, the period can be extended by three more months to complete the arbitration proceedings and pass the award.

What is an “Award”?

Award is a judgment passed by the arbitrator which gives decision on dispute, clearly stating the action that the parties have to take.

How is the award implemented?

An Award may be passed in favour of investor or trading member. When award is passed in favour of investor, the Exchange ensures implementation of the award.

The trading member may settle the award and confirm the same to the Exchange. In case, trading member fails to settle the award, the award amount is kept aside. On expiry of three months from the date of receipt of award, the award amount is released to the investor if trading member has not challenged the award in court.

If the trading member challenges the award in court, the award amount kept aside is dealt with as per the court order.

What if there are errors in the award? Can it be rectified?

The investor is required to make an application under section 33 of the Arbitration and Conciliation Act, 1996 within thirty days from the receipt of the arbitral award with the Exchange for getting errors rectified. The Exchange forwards a copy of application to the arbitrator for carrying out the correction.

What if investor wants to seek interpretation on a specific point or part of the award?

The investor is required to make an application under section 33 of the Arbitration and Conciliation Act, 1996 within thirty days from the receipt of the arbitral award with the Exchange for seeking interpretation. The Exchange forwards a copy of application to the arbitrator for giving interpretation on the specific point or part of the award.

What if investor wants an additional award on the claims presented before the Arbitrator but omitted in the award?

The investor is required to make an application under section 33 of the Arbitration and Conciliation Act, 1996 within thirty days from the receipt of the arbitral award with the Exchange for making an additional award for the claims presented in arbitral proceeding but omitted from the award. The Exchange forwards a copy of application to the arbitrator for giving an additional award.

What if either of the parties is not satisfied with the Award passed by the arbitrator?

If either of the parties is not satisfied with the Award, the aggrieved party may approach the appropriate court with an application for setting aside the award under section 34 of the Arbitration and Conciliation Act, 1996 within a period of three months from the date of receipt of the Award.

What are the deposits collected towards cost of arbitration? Is it one time, or additional amount is required to be paid towards cost of arbitration?

The parties are required to deposit the cost of arbitration depending on the claim as under:

S. No.	Amount of Claim / Counter Claim (higher amount to be considered)	Amount of deposit
1	Upto Rs. 10 lakhs	Rs.10,000/- (deposit is taken only from the trading member and not from the investor)
2	More than Rs.10 Lakhs but less than or equal to Rs.25 Lakhs.	Rs.12,000/-
3	Above Rs.25 Lakhs	Rs.18,000/-

Additional deposit may be called towards cost of arbitration from the parties depending on the number of hearings held in the matter.

In case, the investor files arbitration against issuer (listed companies), he is required to deposit the cost of arbitration even if the claim amount is less than Rs. 10 Lakh.

What will be the status of the complaint filed with Investor Services Cell (ISC), if arbitration is initiated against the trading member?

Once arbitration proceedings are initiated against the trading member, the complaint filed with the Investor Services Cell (ISC) is treated as closed.

What if arbitration application is not filed within six months from the date of claim, difference or dispute?

If the arbitration application is not filed within six months from the date of claim, difference or dispute, the matter may suffer on limitation. However, the issue regarding limitation is decided by the arbitrator in the award after considering the submissions made by the parties to arbitration.

Who bears the cost of arbitration? Is there any different approach for a retail investor?

The Arbitrator decides in the award as to which party should bear the cost of arbitration.

In respect of arbitration matters, where the claim amount is less than Rs. 10 lakhs, the investor is not required to pay the cost of arbitration. The Exchange bears the cost of arbitration on behalf of the investor (Investor may be applicant or respondent).

Which Are The Regulators/Authorities to Approach For Other Types of Complaints?

The Regulators/authorities whom the investor has to approach for Redressal of other types of grievances are given below:

S.No	Grievances pertaining to	Regulators/Authorities
1	Banks deposits and banking Fixed Deposits with Non Banking Financial Companies (NBFCs) and other matters pertaining to NBFCs	Reserve Bank of India (RBI) http://www.rbi.org.in
2	Insurance Companies/ Brokers / Agents / products and Service	Insurance Regulatory and Development Authority of

S.No	Grievances pertaining to	Regulators/Authorities
		India (IRDA) http://www.irdaindia.org
3	Manufacturing companies Unlisted companies Mismanagement of companies, financial performance of the company, Annual General Meeting, Annual Report, minority shareholders interest, non-receipt of preferential allotment shares, etc. And corporate actions as per the court order such as mergers, amalgamation, reduction of share capital/par value, etc. Nidhi Companies Investor awareness and Protection	Ministry of Corporate Affairs (MCA) http://www.mca.gov.in www.ipef.gov.in www.watchoutinvestors.com
4	Commodities	Forward Markets Commission (FMC) http://www.fmc.gov.in
5	Pension Fund	Pension Fund Regulatory and Development Authority (PFRDA) http://www.pfrda.org.in
6	Monopoly and anti competitive trade practices	Competition Commission of India (CCI) http://www.cci.gov.in
7	Chit Funds	Registrars of Chit Funds of the concerned state
8	Housing Finance Companies	National Housing Bank (NHB) www.nhb.org.in

(Note: Addresses and Email Ids of Authorities and Offices referred to above are subject to change. For this purpose, one may refer to the updated information on respective websites)

Chapter 11

Warning Alerts and Wise Investing

"A wise person should have money in his head, but not in heart".- Jonathan Swift

Let's Start with 5 key investing don'ts of legendary investor Warren Buffet:

- Don't put all your money in one basket (investment)
- Don't go for quick profits/unreasonably high returns
- Don't think you have to be an expert to profit from stocks
- Don't let world events (like what's happening in Ukraine,Syria, Iraq) affect your investing decisions
- Don't feel bad when stocks go down

Alert 1

Invest only in fundamentally strong companies:

- Do not go for momentum or penny stocks.
- Invest only in companies with strong fundamentals; these are the ones that will withstand market pressures, and perform well in the long term.
- Equity investments cannot be sold back to the company/ promoters.
- Strong stocks are also liquid stocks.

Alert 2

Read Carefully:

- Do not gamble away your hard earned money.
- Due diligence is a must.
- Read about the offer. This is an advice difficult to practice with offer documents now running into more than 1000 pages; abridged prospectus too is difficult to read. Yet, read you must, at least sections on risk factors, litigations, promoters, company history, project, objects of the issue and key financial data.

Alert 3

Follow life-cycle investing

- You can afford to take greater risks when you are young.
- As you cross 50, start getting out of risky instruments.
- By 55/60, you should be totally out of equity. (You can't afford to lose your capital when you have stopped earning new money). There are better things in life at that age than watch the price ticker on TV!

Alert 4

Invest in IPO

- IPOs are a good entry point.
- Remember, IPOs have to be bought; these are not forced upon the investors.
- Due diligence is a must. Don't invest blindly in an IPO.
- Decide whether you are investing in an IPO or in a company. If in an IPO, then exit on listing date. If in a company, then remain invested as you would in a listed stock.
- Use the ASBA process to invest.

Alert 5

Learn to Sell

- Most investors buy and then just hold on (Most advice by experts on the media is also to buy or hold, rarely to sell).
- Profit is profit only when it is in your bank (and not in your register or Excel sheet).
- Remember, you cannot maximize the market's profits so don't be greedy.
- Set a profit target, and sell.

Alert 6

Deal only with registered intermediaries

- Many unauthorized operators in the market will lure you with promises of high returns, and then vanish with your money.

- Dealing with registered intermediaries is safer and allows recourse to regulatory action.

Alert 7

Let not greed make you an easy prey!

- Many scamsters are roaming around, to exploit your greed.
- Most scams rob small investors.
- Be careful about the entity seeking your money.

Alert 8

Beware of the media, especially the stock specific advice on electronic media

- Too many "saints" in the capital market offering free advice!
- In reality, many of these advisors have vested interests.
- Also beware of the get-rich schemes being sold through SMS and emails.

Alert 9

Don't get carried away by advertisements

- The job of an advertisement is to make you feel-good.
- Don't get carried away by attractive headlines, appealing visuals, catchy messages.

Alert 10

Beware of fixed/guaranteed returns schemes (Ponzi schemes)

- Anyone who is offering a return much greater than the bank lending rate is suspicious.
- Remember plantation companies- promised huge returns (in some cases 50% on Day 1)!

Alert 11

Beware of the grey market premium

- These are artificial and normally created by the promoter himself.

Alert 12

Don't get overwhelmed by sectoral frenzies

- Remember, all companies in a sector are not good. Each sector will have some very good companies, some reasonably good companies and many bad companies.
- Be also wary about companies that change their names to reflect the current sectoral fancy.

Alert 13

Don't over-depend upon 'comfort' factors like

- IPO Grading
- Independent Directors

Alert 14

Don't blindly take decisions based on accounts just because these are audited

- There is high incidence of fraudulent accounts and mis-advertising of financial results. Satyam case is a wakeup call.
- Read qualifications and notes to the accounts.
- Look out especially for unusual entries such as related party transactions, sundry debtors, subsidiaries' accounts.

Alert 15

Cheap shares are not necessarily worth buying

- Do not chase price, chase value.
- Price can be low because the company in fact is not doing well (but hype over the company/sector may induce you).
- Worse, the price can be low because the face value has been split (over 500 companies have split their shares).
- Rationale given: make shares affordable to small investors
- Not valid, as in demat one can buy even one share
- Real purpose: to make shares appear "cheap"

- Companies with a share price of Rs.50 have split 1:10

Alert 16

Be wary of companies where promoters issue shares/warrants to themselves

- Preferential allotments to promoters are almost always made for the benefit of the promoters only. (The fair route should be rights issue).

Alert 17

Don't be fooled by Corporate Governance Awards/CSR

- There is a high incidence of fraudulent companies upping their CG and CSR activities.

Alert 18

Be honest

- Be honest to yourself as only then can you demand honesty.
- We are very weak investors/have no strong investor associations/ take everything lying down.
- Need to form/join strong investor associations and fight for our rights.
- Need to demand disgorgement.

Alert 19

Invest - don't speculate

- Don't invest just because a friend has told you that scrip would be a jackpot.
- Speculating in the market is similar to gambling. It's just that such gambling is legal.
- To be a successful investor requires planning, study and discipline.

Alert 20

Don't leverage on the market

Leverage trading is for traders in the market. For investors, invest your own funds. Don't borrow and invest in the market. And investment must be a small share of your wealth and not your entire hard- earned money.

Annexure - I

Tabulation of Various Investment Schemes

Scheme	Interest payable, Rates, Periodicity etc.	Minimum Amount for opening of account and maximum balance that can be retained	Salient features including Tax Rebate
Post Office Savings Account	4.0% per annum on individual/ joint accounts.	Minimum INR 20/-for opening.	Account can be opened by cash only. Minimum balance to be maintained in a non-cheque facility account is INR 50/-. Cheque facility available if an account is opened with INR 500/- and for this purpose minimum balance of INR 500/- in an account is to be maintained. Cheque facility can be taken in an existing account also. Account in name of Minor can also be opened in this scheme.
5-Year Post Office	From 1.4.2013, interest rates are	Minimum INR 10/- per month	Account can be opened by cash/

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Recurring Deposit Account .	as follows:- 8.3% per annum (quarterly compounded) On maturity INR 10/- account fetches INR 744.53. Can be continued for another 5 years on year to year basis.	or any amount in multiples of INR 5/-. No maximum limit.	cheque and in case of cheque the date of deposit shall be date of presentation of cheque. . Nomination facility is available at the time of opening and also after opening of account.· Account can be transferred from one post office to another. Any number of accounts can be opened in any post office. Account can be opened in the name of minor, and a minor of 10 years and above can open and operate the account. Joint account can be opened by two adults. Subsequent deposits can be made up to 15thday of next month if account is opened

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			up to 15th of a calendar month, and up to last working day of next month if account is opened between 16th day and last working day of a calendar month If subsequent deposit is not made up to the prescribed day, a default fee is charged for each default. After 4 regular defaults, the account becomes discontinued and can be revived in two months, but if the same is not revived within this period, no further deposits can be made in it. There is rebate on advance deposit of at least 6 instalments. Single account can be converted into Joint and Vice Versa. Minor after attaining majority has to apply for conversion of the

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			account in his name. One withdrawal up to 50% of the balance allowed after one year. Full maturity value allowed on R.D. Accounts, restricted to that of INR. 50/- denomination in case of death of depositor subject to fulfilment of certain conditions.
Post Office Time Deposit Account	Interest payable annually but calculated quarterly. From 1.4.2013, interest rates are as follows:- Period Rate 1yr.A/c 8.20% 2yr.A/c 8.20% 3yr.A/c 8.30% 5yr.A/c 8.40%	Minimum INR 200/- and in multiple thereof. No maximum limit.	Account may be opened by individual. Account can be transferred from one post office to another. Any number of accounts can be opened in any post office. Account can be opened in the name of minor and a minor of 10 years and above age can open and operate the account.· Joint account can be opened by two adults.

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			Single account can be converted into Joint and Vice Versa. Minor after attaining majority has to apply for conversion of the account in his name.
			2,3 & 5- year accounts can be closed after 1 year at discount. Account can also be closed after six months but before one year with interest @post office savings account. The investment under 5 Years TD qualifies for the benefit of Section 80C of the Income Tax Act, 1961 from 1.4.2007.
Post Office Monthly Income Account Scheme	From 1.4.2013, interest rates are as follows:- 8.40% per annum payable monthly.	In multiples of INR 1500/-. Maximum investment limit is INR 4.5 lakhs in single account and INR 9 lakhs in joint account.	Account may be opened by individual. Account can be opened by cash/ Cheque, and in case of cheque, the date of realization of cheque in Govt. account shall

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		An individual can invest maximum INR 4.5 lakh in MIS (including his share in joint accounts) For calculation of share of an individual in joint account, each joint holder has equal share in each joint account.	be date of opening of account. Nomination facility is available at the time of opening and also after opening of account. Account can be transferred from one post office to another. Any number of accounts can be opened in any post Office, subject to maximum investment limit by adding balance in all accounts. Account can be opened in the name of minor and a minor of 10 years and above age can open and operate the account. · Joint account can be opened by two or three adults. All joint account holders have equal share in each joint account.

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			Single account can be converted into Joint and Vice Versa. Minor, after attaining majority, has to apply for conversion of the account in his name. Maturity period is 5 years from 1.12.2011 on. Interest can be drawn through auto credit into savings account standing at same post office, through PDCs or ECS. Can be prematurely encashed after one year but before 3 years at the discount of 2% of the deposit and after 3 years at the discount of 1% of the deposit. (Discount means deduction from the deposit.) A bonus of 5% on principal amount is admissible on

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			maturity in respect of MIS accounts opened on or after 8.12.07 and up to 30.11.2011. No bonus is payable on the deposits made on or after 1.12.2011.
Senior Citizen Savings Scheme	From 1.4.2013, interest rates are as follows:- 9.20% per annum, payable from the date of deposit of 31st March/30th Sept/31st December in the first instance & thereafter, interest shall be payable on 31st March, 30th June, 30th Sept and 31st December.	There shall be only one deposit in the account in multiple of INR.1000/- maximum not exceeding INR 15 lakhs.	An individual of the Age of 60 years or more may open the account. Maturity period is 5 years An individual of the age of 55 years or more but less than 60 years who has retired on superannuation or under VRS can also open account subject to the condition that the account is opened within one month of receipt of retirement Benefits, and amount should not exceed the amount of retirement benefits. A depositor may operate more than

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			one account in individual capacity or jointly with spouse (husband/ wife). Account can be opened by cash for the amount below INR 1 lakh and for INR 1 Lakh and above by cheque only. In case of cheque, the date of realization of cheque in Govt. account shall be date of opening of account. Nomination facility is available at the time of opening and also after opening of account. Account can be transferred from one post office to another Any number of accounts can be opened in any post office subject to maximum investment limit by adding balance in all

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			accounts. Joint account can be opened with spouse only and first depositor in Joint account is the investor. Interest can be drawn through auto credit into savings account standing at same post office, through PDCs or Money Order. Premature closure is allowed after one year on deduction of 1.5% interest & after 2 years 1% interest (Discount means deduction from the deposit.). After maturity, the account can be extended for further three years within one year of the maturity by giving application in prescribed format. In such cases, account can be closed any time after

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			expiry of one year of extension without any deduction. TDS is deducted at source on interest if the interest amount is more than INR 10,000/- p.a. Investment under this scheme qualifies for the benefit of Section 80C of the Income Tax Act, 1961 from 1.4.2007.
15 year Public Provident Fund Account	From 1.4.2013, interest rates are as follows:- 8.70% per annum (compounded yearly).	Minimum INR. 500/- Maximum INR. 1,00,000/- in a financial year. Deposits can be made in lump-sum or in 12 instalments.	An individual can open account with INR 5/- but has to deposit minimum of INR 500/- in a financial year and maximum INR 1,00,000/- Joint account cannot be opened. Account can be opened by cash/ Cheque, and In case of cheque, the date of realization of cheque in Govt. account shall

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			be date of opening of account. Nomination facility is available at the time of opening and also after opening of account. Account can be transferred from one post office to another.· The subscriber can open another account in the name of minors but subject to maximum investment limit by adding balance in all accounts. Maturity period is 15 years but the same can be extended within one year of maturity for further 5 years and so on. Maturity value can be retained without extension and without further deposits also. Premature closure is not allowed before 15

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			years. Deposits qualify for deduction from income under Sec. 80C of IT Act. Interest is completely tax-free. Withdrawal is permissible every year from 7th financial year from the year of opening account.. Loan facility available from 3rd financial year. No attachment under court decree order.
Kisan Vikas Patra	Re-launched in the year 2014		
National Savings Certificates (NSC) 5 Years National Savings Certificate (VIII Issue) 10 Years National	From 1.4.2013, interest rates are as follows:- 8.5% compounded six monthly but payable at maturity. INR. 100/- grows to INR 151.62 after 5 years.	Minimum INR. 100/- No maximum limit available in denominations of INR. 100/-, 500/-, 1000/-, 5000/- & INR. 10,000/-.	A single holder type certificate can be purchased by, an adult for himself or on behalf of a minor or by a minor. Deposits qualify for tax rebate under Sec. 80C of IT Act. The interest accruing annually but deemed

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Savings Certificate (IX Issue)	8.80% compounded six monthly but payable at maturity. INR 100/- grows to INR 236.60 after 10 years.		to be reinvested under Section 80C of IT Act. Source: http://www.indiapost.gov.in

*interest rates used for various investment schemes are the interest rates as effective on 01-04-2013.