

Fundamentals of Investments

S. Y. B.Com. Semester - IV

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CONTENTS...

| | |
|---|-----------|
| 1. Investment Environment | 01 - 50 |
| 2. Analysis of Equity and Debt Instruments | 51 - 101 |
| 3. Portfolio Analysis and Financial Derivatives | 102 - 131 |
| 4. Investor Protection | 132 - 150 |
| Appendix - I | 151 - 154 |

UNIT - I

Investment Environment

MEANING OF INVESTMENT

In any economy there will be a group having surplus funds and there will be another group having deficit. For example, individuals earning income may have surplus funds left with them after meeting their regular expenses. Such individuals may be interested in deploying their surplus funds in certain avenues which will result in additional income and multiplication of their savings. On the other hand there is corporate sector which has identified profitable projects and requires huge amount of funds for exploiting the opportunities in such projects. It is very important to transfer the funds from surplus sector to deficit sector. Investment is an important activity in an economy that results in transfer of surplus funds from savers in an economy to the deficit sector. Such transfer is intended to result in gains to both savers as well as users of surplus funds through the process of wealth creation.

From the viewpoint of an individual, investment is an activity involving sacrifice of consumption of goods or services today to earn returns in future. In other words, in an investment activity, an individual commits his/her funds for an economic activity for a particular time period so as to earn suitable returns. For example, an individual investing ₹ 10,000 in equity shares of a company, commits his funds to the company to earn good returns in future in the form of dividends and also appreciation in the value of equity shares after certain period of time. Similarly, another individual may buy gold of ₹ 50,000 with the hope of selling it at a higher price in future and making profits on the same. Thus, investment is an activity that is expected to give reward to the investor.

However, there is a possibility that this reward may accrue to a lesser extent or the reward may not accrue at all. For example, the company in which an investor has invested ₹ 10,000 may not declare a dividend after one year due to low profits. Or the price of equity share has not appreciated and instead has fallen after a period of one year resulting in loss to the investor. Similarly, the price of gold may have declined and investor is unable to sell the gold at a profit after certain period of time. Thus, in an investment there is possibility of loss. Whether an investor would indeed earn expected returns from an investment is uncertain. This uncertainty brings an element of risk in an investment.

Thus, it can be summarized that, investment is an economic activity that requires commitment of surplus funds with the hope of earning returns in future. However, these returns are uncertain. Hence the activity of investment involves both returns as well as risk.