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# A Study on Investment Alternatives Available to Investors

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Abstract - **A wide variety of investment alternatives are available to the investors to suit their needs and nature. A knowledge about the different alternatives enables the investors to choose investment intelligently. The required level of return and the risk of tolerance level decide the choice of investor. The investment alternatives range from financial securities to traditional non security investments. The problem of surplus give rise to the question of where to invest. In the past, Investment avenues were limited to real assets, schemes of the post office and the banks. The financial securities may be negotiable or non-negotiable so this study helps to understand the various alternative available for the investors.**

**Keywords: Avenue, financial security, non-negotiable, returns, surplus, tolerance.**

## I. Introduction

Investment is the process of sacrificing something now for the prospect of gaining something later. It involves the commitment of funds made with an expectation of some positive returns. The essential ingredient of investment is the expectation of return. The expected return is realized in future, hence there is possibility that the expected return can be higher or lower than the return realized. The fluctuation in the actual return is the risk associated with an investment so the risk and return are the keys factors of any investment.

## II. Review of Literature

Sharpe/ Alexander discussed that investment is sacrifice of certain present value for some uncertain future values [1]

F. Amling discussed that purchase of a financial asset that produces a yield that is proportional to the risk assumed over some future investment period. [1]

For making proper investment involving both risk and return, the investor has to make a study of the alternative avenues of investment — their risk and return characteristics and make proper projection or expectation of the risk and return of the alternative investments under consideration.[7]

Investment planning is an alien concept for the Indian populace. For a country, which till now was worried about making ends, meet this emerging trend is definitely a new experience. But the truth is that if only they would have been introduced to the Art of Managing Money, life could have been so much easier. Most of us spend more than half of our lives working and saving because money is important, in fact crucial. However, most of us spend almost no time planning to make that hard-earned money work more effectively for us. So, how do you plan your financial life? Financial planning is nothing but an assessment of your goals and the steps you must take to help make them a reality. What you first need to figure out..........[9]

Investment, in economics, is the addition to the total physical stock of capital. It signifies the new expenditure on addition of capital goods and inventories. Investment raises the level of aggregate demand, which in turn increase the level of income and employment in economy. [10]

Financial assets have specific properties that distinguish them from physical and intangible assets. These properties are monetary value, divisibility, convertibility, reversibility, liquidity and cash flow. [12]

Direct Investment which involves securities that investors not only buy and sell themselves but also have direct control over. The investors who invest directly in financial markets, either using a broker or by other means, have a wide variety of assets from which to choose [13]

## III. Research Methodology

This is a conceptual study based on the secondary data collected from books, journals, magazines, newspapers and the internet.

## IV. Meaning of Investment

Investment means putting money into various securities. It refers to the net additions to the capital stock of an economy, production of other goods such a building, railroads etc. Investment is the use of funds with the aim of earning income or capital appreciation. Investment has two attributes namely risk and time. Investment is a sacrifice to earn return in future. The sacrifice has to be borne is certain but the return in the future may be uncertain. This attribute of investment indicates the risk factor. The risk is

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undertaken with a view to reap some return from the investment.

**INVESTMENT ALTERNATIVES**

Different investments confer different sets of rights on the investment and different set of conditions under which these rights can be exercised. Some investments are very simple and direct whereas some are quite complex and requires a lot of analysis and investigation. Some investment is traditional and familiar whereas some are new and unfamiliar to the investors.

**DIRECT INVESTMENT ALTERNATIVES**

Direct Investment are those investment in which investor takes his own decision. There are three types of Direct Investments: fixed principal investments, variable investment and non-security investments:

**1. FIXED PRINCIPAL INVESTMENTS**

In fixed principal investments, the principal amount and the maturity amount are known with certainty.

For example:

- Cash
- Saving Bank Account
- Saving Certificates
- Government Bonds
- Corporate Bonds
- Corporate Debentures

**2. VARIABLE PRINCIPAL SECURITIES**

In variable principal securities, the maturity value is not known with certainty.

For example:

- Equity Shares
- Preference Shares
- Convertible Debentures and Preference shares

Equity shares have no fixed return or maturity value. Preference shares have a fixed return but their market price is determined by demand and supply forces. Convertible securities viz-debentures and preference shares themselves into equity shares according to some prescribed conditions.

**3. NON-SECURITY INVESTMENTS**

For example:

- Real Estate
- Mortgages
- Commodities
- Business Ventures
- Art and other valuables

Real estate is less liquid than security form of investment. The maturity value is not known in real estate but generally there is a price appreciation. Mortgages represent financing of real estate. Commodities are bought and sold in spot markets. Contract to buy and sell securities at a future date are traded in future markets. Business ventures are direct ownership investments in new or growing businesses. Joint venture is made before the corporations sell securities on a public basis. Art, jewelry and other valuables are specialized investments which offer aesthetic qualities also to the investors.

**INDIRECT INVESTMENT ALTERNATIVES**

In indirect investment alternatives, the individual's investors have no control over the amount invested. The investments are entrusted to the care of particular organization. These organizations manage the funds on the behalf of investors with the help of group of trustees.

For example:

- Pension Fund
- Provident Fund
- Insurance
- Investment Companies
- Unit Trust of India

**TRANSFERABLE FINANCIAL SECURITIES**

**1. EQUITY SHARES**

The holders of equity shares are the real owners of the company. They have voting rights in the meeting of company. They have a control over the working of the company. Equity shareholders get dividend after paying it to the preference shareholders. The rate of dividend depends upon the profits of the company. They may get a higher rate of return of capital after satisfying claims of creditors and preference shareholders. The investors in these shares have the risk of income as well as their share money. Besides income they expect appreciation in the value of their shares. If the company shows good results then the value of these shares appreciates in the market and investors earn profits by selling their holdings.

The stock market classify shares on the basis of their strength as follows:

- **BLUE-CHIP SHARES**

The shares of companies well established, financially strong, good record of earning, paying regular dividend are called blue chip shares. These shares are the fancy of long-term investors. The dividend pay out of such companies is moderate but capital appreciation is high.

- **INCOME SHARES**

The shares of companies having stable operations, moderate growth rate, regular earnings are called income shares. The share price of these shares generally remains stable.

- **CYCLICAL SHARES**

The shares of companies having cyclical tendency of growth are called cyclical shares. The shares of shipping companies are generally called cyclical shares. The price of such shares tend to be highly volatile.

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- **DEFENSIVE SHARES**

The shares of companies which are relatively unaffected by the ups and downs of general business conditions are called defensive shares. The shares prices are relatively stable. Shares of food processing and beverages companies are covered under this category.

- **SPECULATIVE SHARES**

Shares attracting the attention of bull and bear operators who bring wide fluctuations in their prices are called speculative shares.

**2. PREFERENCE SHARES**

These shares have two preference as compared to other shares. There is preference for payment of dividend when the company has distributed profits. The second preference is regarding repayment of capital at the time of liquidation. Preference shareholders don't have voting rights but they are paid fixed rate of dividend. The investor who want a regular income even though the rate may be less will prefer such shares. There are cumulative preference shares on which arrears of dividend are paid if it is skipped in some years due to non-availability of profits. There are convertible preference shares where the holders have a right to get their shares converted into equity shares after a specified period. On the discretion of the company redeemable preference shares can be paid.

**3. DEBENTURES**

A company can raise long term loans by issuing debentures. A debenture is an acknowledgement of a debt. An investment in debentures fetches a fixed and regular rate of interest. These debentures have a provision to get them converted into equity shares after a specified period. Such an investor earns regular interest on these investments and then has the advantage of capital appreciation on conversion into shares.

4. **GOVERNMENT SECURITIES**

The securities issued by central government, state government and quasi-government agencies are known as government securities. These securities have maturity period between 3 and 20 years and carry different interest rates. Three types of securities have been issued by the government. One category resembles debentures and the name of the purchaser is given on the instruments. These can be transferred by completing a transfer deed and the interest is paid to holder on a specified date. The second category of such securities are promissory notes issued on the name of President of India. The buyer has to present the document at the time of receiving interest or payment. The third category is of bearer securities where the holder is entitled to interest and repayment.

**5. MONEY MARKET SECURITIES**

These are debt instruments of short period duration.

- **TREASURY BILLS**

These are short term money instruments issued by the government. These are sold at a discount and redeemed at par. No interest is paid on treasury bills nut the difference between purchase price and face value is income of the investors. The treasury bills are bearer instruments. The corporate sector may purchase these bills to use idle funds but individual investors have no attraction for these securities.

- **CERTIFICATE OF DEPOSITS**

A Certificate of deposit is a marketable receipt for funds. It is deposited in a bank for a fixed period of time. The denomination of these securities is high and high rate of interest is paid on them.

- **COMMERCIAL PAPERS**

It is short term unsecured promissory notes sold by large business firms to raise funds. These papers are pf high denominations with varying maturity periods. These are sold at a discount and paid at a par on maturity. The difference between in the purchase and par value is the income.

## V. CONCLUSION

Investment can be done for variety of purposes. There are different types of investment alternatives available for investment. Every investment has its own features. Selection of one alternative should be based on individual need, objective of investment. Some investments are easily transferable while others are non-transferable. So the objectives of investment should be understood before initiating the process of investment. The fundamental consideration for investment should be growth-oriented company with substantial future potential.

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