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A STUDY ON VARIOUS TYPES OF INVESTMENTS AND OVERVIEW OF AN EQUITY INVESTMENT

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ABSTRACT

There are several types of investment options are available in the stock market which gives returns to the investors. The study entitled to "a study on various types of investment and overview of equity investments". The main objective of the study is to analyze the suitable investment options.This study on various types of investment ,it gives the brief idea regarding the different type of investment options it s like banks fixed deposits,bonds,stock market, mutual fund, gold, silver etc every investment have its own merits and demerits.

This paper explores information largely through secondary data source. The data is collected from various earlier published sources. the study depicts clear comparison of various investment options taking into consideration various risks,liquidity,tax, efficiency and return involved with the investment.

This study help to know the investment in stock market and various available investment options to make investmens according to the risk and return involved with it.

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OBJECTIVE OF THE STUDY

- To know which investment options are suitable to invest
- To find the characteristics and other details of those investment methods.
- The aim is to compare the returns given by various investment decision
- Compared is based on various parameters like safety , liquidity , risk , entry/exit barriers , etc…

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TYPES OF INVESTMENT

Equities: Investment in shares of companies is investing in equities.

Stocks can be brought/sold from the exchanges (secondary market) or via IPO's – Initial Public Offerings (primary market). Stocks are the best long-term investment options wherein the market volatility and the resultant risk of losses, if given enough time, are mitigated by the general upward momentum of the economy. There are two streams of revenue generation from this from of investment.

1.**Dividend:** Periodic payments made out of the company's profits are termed as dividends.

2.**Growth**: The price of the stock appreciates commensurate to the growth posted by the company resulting in capital appreciation.

On an average an investment in equities in India has a return of 25%. Good portfolio management, precise timing may ensure a return of 40% or more. Picking the right stock at the right time would guarantee that your capital gains i.e. growth in market value of stock possessions, will rise.

Bonds: It is a fixed income (debt) instrument issued for a period of more than one year with the purpose of raising capital. The central or state government, corporations and similar institutions sell bonds. A bond is generally a promise to repay the principal along with fixed rate of interest on a specified date, called as the maturity date. Other fixed income instruments include bank deposits, debentures, preference shares etc.

The average rate of return on bond and securities in India has been around 10-13% p.a.

Mutual Fund: These are open and close-ended funds operated by an investment company, which raises money from the public and invests in a group of assets, in accordance with a stated set of objectives. It is a substitute for those who are unable to invest directly in equities or debt

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because of resource, time or knowledge constraints. Benefits include diversification and professional money management. Shares are issued and redeemed on demand, based on the funs net asset value, which is determined at the end of each trading session. The average rate of return as a combination of all mutual funds put together is not fixed but is generally more than what earn is fixed deposits. However, each mutual fund will have its own average rate of return based on several schemes that they have floated. In the recent past, Mutual Funs have given a return of 18 – 35%.

Real Estate: For the bulk of investors the most important asset in their portfolio is a residential house. In addition to a residential house, the more affluent investors are likely to be interested in either agricultural land or may be in semi-urban land and the commercial property.

Precious Projects: Precious objects are items that are generally small in size but highly valuable in monetary terms. Some important precious objects are like the gold, silver, precious stones and also the unique art objects.

Life insurance: In broad sense, life insurance may be reviewed as an investment. Insurance premiums represent the sacrifice and the assured the sum the benefits. The important types of insurance policies in India are:

- Endowment assurance policy.
- Money back policy.
- Whole life policy.
- Term assurance policy.
- Unit-linked insurance plan.

ALL ABOUT EQUITY INVESTMENT

Stocks are investments that represent ownership --- or equity --- in a corporation. When you buy stocks, you have an ownership share --- however small --- in that corporation and are entitled to

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part of that corporation's earnings and assets. Stock investors --- called shareholders or stockholders --- make money when the stock increases in value or when the company the issued the stock pays dividends, or a portion of its profits, to its shareholders.

Some companies are privately held, which means the shares are available to a limited number of people, such as the company's founders, its employees, and investors who fund its development. Other companies are publicly traded, which means their shares are available to any investor who wants to buy them.

The IPO

A company may decided to sell stock to the public for a number of reasons such as providing liquidity for its original investor or raising money. The first time a company issues stock is the initial public offering (IPO), and the company receives the proceeds from that sale. After that, shares of the stock are treaded, or brought and sold on the securities markets among investors, but the corporation gets no additional income. The price of the stock moves up or down depending on how much investors are willing to pay for it.

Occasionally, a company will issue additional shares of its stocks, called a secondary offering, to raise additional capital.

Types Of Stocks

With thousands of different stocks trading on U.S. and international securities markets, there are stocks to suit every investor and to complement every portfolio.

For example, some stocks stress growth, while others provide income. Some stocks flourished during boom time, while others may help insulate your portfolio's value against turbulent or depressed markets. Some stocks are pricey, while others are comparatively inexpensive. And some stocks are inherently volatile, while others tend to be more stable in value.

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Growth & Income

Some stocks are considered growth investments, while others are considered value investments. From an investing perspective, the best evidence of growth is an increasing price over time. Stocks of companies that reinvest their earnings rather than paying them out as dividends are often considered potential growth investments. So are stocks of young, quickly expanding companies. Value stocks, in contrast, are the stocks of companies that problems, have been under performing their potential, or are out of favor with investors. As result, their prices tend to be lower than seems justified, though they may still be paying dividends. Investors who seek out value stocks expect them to stage a comeback.

Market Capitalization

One of the main ways to categorize stocks is by their market capitalization, sometimes known as market value. Market capitalization (market cap) is calculated by multiplying a company's current stock price by the number of its existing shares. For example, a stock with a current market value of $30 a share and a hundred million shares of existing stock would have a market cap of $3 billion.

P/E ratio

A popular indicator of a stock's growth potential is its price-to-earnings ratio, or P/E – or multiple – can help you gauge the price of a stock in relation to its earnings. For instance, a stock with a P/E of 20 is trading at a price 20 times higher than its earnings.

A low P/E may be a sign that a company is a poor investment risk and that its earnings are down. But it may also indicate that the market undervalues a company because its stock price doesn't reflect its earnings potential. Similarly, a stock with a high P/E may live up to investor expectations of continuing growth, or it may be overvalued.

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Investor demand

People buy a stock when they believe it's a good investment, driving the stock price up. But if people think a company's outlook is poor and either don't invest or sell shares they already own, the stock price will fall. In effect, investor expectations determine the price of a stock.

For example, if lots of investors buy stock A, its price will be driven up. The stock becomes more valuable because there is demand for it. But the reverse is also true. If a lot of investors sell stock Z, its price will plummet. The further the stock price falls, the more investors sell it off, driving the price down even more.

The Dividends

The rising stock price and regular dividends that reward investors and give them confidence are tied directly to the financial health of the company.

Dividends, like earnings, often have a direct influence on stock prices. When dividends are increased, the message is that the company is prospering. This in turn stimulates greater enthusiasm for the stock, encouraging more investors to buy, and riving the stock's price upward. When dividends are cut, investors receive the opposite message and conclude that the company's future prospects have dimmed. One typical consequence is an immediate drop in the stock's price.

Companies known as leaders in their industries with significant market share and name recognition tend to maintain more stable values than newer, younger, smaller, or regional competitors.

Earnings and Performance

Investor enthusiasm for a stock can sometimes take on a momentum of its own, driving prices up independent of a company's actual financial outlook. Similarly, disinterest can drive prices

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down. But to a large extent, investors base their expectations on a company's sales and earnings as evidence of its current strength and future potential.

When a company's earnings are up, investor confidence increases and the price of the stock usually rises. If the company is li9sin g money—or not making as much as anticipated -- the stock price usually falls, sometimes rapidly.

Intrinsic Value

A company's intrinsic value, or underlying value, is closely tied to its prospects for future success and increased earnings. For that reason, a company's future as well as its current assets contributes to the value of its stock.

You can calculate intrinsic value by figuring the assets a company expects to receive in the future and subtracting its long-term debt. These assets may include profits, the potential for increased efficiency, and the proceeds from the sale of new company stock. The potential for new shares affects a company's intrinsic value because offering new shares allows the company to raise more money.

Analysts looking at intrinsic value divide a company's estimated future earnings by the number of it s existing shares to determine whether a stock's current price is a bargain. This measure allows investors to make decisions based on a company's future potential independent of short-term enthusiasm or market hype.

Stock Splits

If a stock's price increases dramatically the issuing company may split the stock to bring the price per share down to a level that stimulates more trading. For example, a stock selling at $100 a share may be split 2 for 1 doubling the number of existing shares and cutting the price in half.

The split doesn't change the value of your investment, at least initially. If you had 100 shares when the price was $100 a share, you'll have 200 shares worth $50 a share after the split. Either

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way, that's $10000. But if the price per share moves back toward the pre-split price, as it may do your investment will increase in value. For example if the price goes up to $75 a share your stock will be worth $15000, a 50% increase. Investors who hold a stock over many years, through a number of splits, may end up with a substantial investment even if the price per share drops for a time. A stock may be split 2 for 1, 3 for 1, or even 10 for 1 if the company wishes, though 2 for 1 is the most common.

Stock Research and Evaluation

Before investing in a stock, its important to research the issuing company and understand how the investment is likely to perform, for example, you'll want to know ahead of time whether you should anticipate a high degree of volatility, or more stable slower growth.

A good place to start is the company's 10 k report, which it must file with the Securities and Exchange Commission (SEC) each year. Its extremely detailed and quite dry, but it is through. You'll want to pay attention to the footnotes as well as the main text, since they often provide hints of potential problems.

Company News and Reports

Companies are required by law to keep shareholders up to date on how the business is doing. Some of that information is provided in the firm's annual report, which summarizes the company's operations for individual investors. A summary of current performance is also provided in the company's quarterly reports.

Buying and Selling Stock

To buy or sell a stock you usually have to go through a broker. Generally the more guidance you want from your broker the higher the broker's fee. Some brokers usually called full-service brokers provide a range of service beyond filling buy and sell orders for clients such as researching investments and helping you develop long and short-term investment goals.

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Discount brokers carry out transactions for clients at lower fees than full-service brokers but typically offer more limited services. And for experienced investors who trade often and in large blocks of stock there are deep-discount brokers whose commissions are even lower.

Online Trading is the cheapest way to trade stocks. Online brokerage firms offer substantial discounts while giving you fast access to your accounts through their Web Sites. You can research stocks track investments and you to trade before and after normal market hours. Most of today's leading full-service and discount brokerage firm make online trading available to their customers. Online trading is an extremely cost-effective option for independent investors with a solid strategy who are willing to undertake their own research. However the ease of making trades and the absence of advice may tempt some investors to trade in and out of stocks too quickly and magnify the possibility of locking in short-term losses.

Volatility

One of the risks you'll need to plan for as a stock investor is volatility. Volatility is the speed with which an investment gains or loses value. The more volatile an investment is the more you can potentially make or lose in the short term.

Managing Risk

One thing for certain: Your stock investment will drop in value at some point. That's what risk is all about. Knowing how to tolerate risk and avoid selling your stocks off in a panic is all part of a smart investment strategy.

Setting realistic goals allocating and diversifying your assets appropriately and taking a long-term view can help offset many of the risks of investing in stocks. Even the most speculative stock investment with its potential for large gains may play an important role in a well-diversified portfolio.

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Conclusion

There are several investments to choose from these include equities, debt, real estate and gold. Each class of assets has its peculiarities. At any instant, some of those assets will offer good returns, while others will be losers. Most investors in search of extraordinary investments try hard to find a single asset.

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