



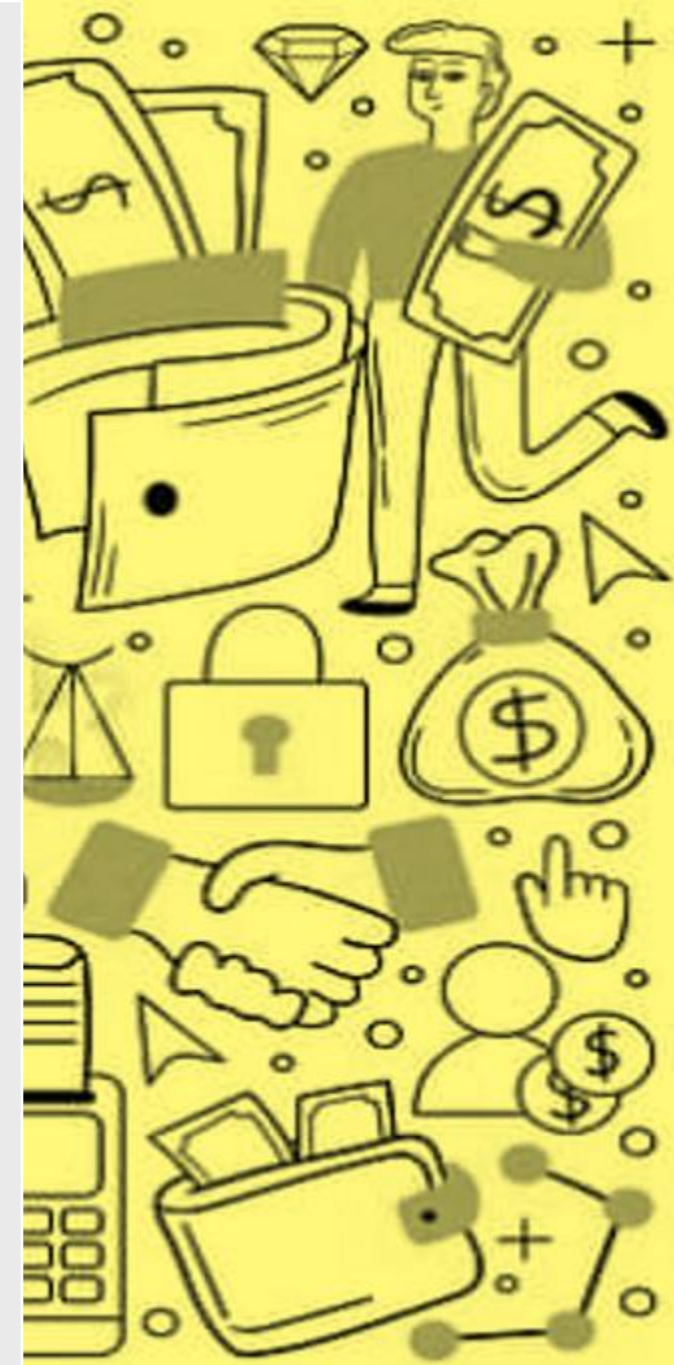
INVESTMENT MANAGEMENT

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UNIT-I

- ❖ **Meaning, Definition & Types of Investments**
- ❖ **Features of Investment**
- ❖ **Meaning & Definition of Investment Management**
- ❖ **Scope & Objectives of Investment Management**
- ❖ **Process of Investment**
- ❖ **Emerging Dimensions in Online Investment Portals**
- ❖ **Investment and Speculation**
- ❖ **Asset Allocation and portfolio Allocation-
Diversification, Risk Assessment, Selection of Asset
Mix**
- ❖ **Strategies for Portfolio Allocation- Active and
Passive.**

TYPES OF INVESTMENT

Financial

Economic

Domestic

Secured

Unsecured

**Foreign (ADR,
GDR)**

Debt oriented

**Equity
Oriented**

Personal (jewelry, life insurance)

FEATURES OF INVESTMENT

1) SAFETY

2) REGULARITY & STABILITY OF INCOME

3) STABILITY OF PURCHASING POWER

4) APPRECIATION OF CAPITAL

5) TAX BENEFITS

6) LEGALITY

7) CONCEALIBILITY

8) LIQUIDITY

9) TANGIBILITY

INVESTMENT MANAGEMENT

INVESTMENT + MANAGEMENT

- ❖ It refers to manage the all Financial Assets and other Investment Products.
- ❖ It involves not only Buying and Selling of Financial Products but also the short and long term investment strategies for acquiring and disposing of the investment holdings.
- ❖ It also includes the services like budgeting, banking, tax, etc.



OBJECTIVES OF INVESTMENT MANAGEMENT



- 1) To meet the Short and Long Term Financial Needs without any tension or stress.**
- 2) To ensure the proper growth of the Principal amount.**
- 3) To reduce the Tax Liability**
- 4) To minimize the risk involve in investment**
- 5) To hedge Against Inflation in an economy**

SCOPE OF INVESTMENT MANAGEMENT

1) Recognition of Investor's Requirement

- The investors differ from each other in terms of their taste and preferences, goals, and their risk taking ability.
- Identify and collect the data relating to investors' requirement.

2) Formulation, Implementation and Execution of Investment Policies and Strategies

- According to the investors requirement different investment policies and strategies are formulated and implemented.

3) Supervising and Monitoring the Portfolios

- Portfolio's performance is evaluated and adjusted from time to time in order to get the optimum returns.



PROCESS OF INVESTMENT

Policy formation –

- Determining investment objectives
- Computing investable amt.

Investment analysis-

- Economy analysis • Industry analysis • Co. analysis

Valuation of securities –

CAPM etc.

Portfolio construction

Portfolio evolution

EMERGING DIMENSIONS IN ONLINE INVESTMENTS PORTALS

The introduction of Internet has been almost revolutionary and disruptive technologies in history creating a major paradigm shift. Before modern computer technology, if a person wanted to do a trade then it was necessary to call a stockbroker and place an order. Commission rates for selling and buying stocks were set in stone. We can look at how technology has lowered the barrier for entry into investing. The number of people who own stock or who trade have increased exponentially over the last few decades. Nowadays, there are several advanced online trading platforms and apps through which anyone can invest by simply sitting at their home. There is no longer the need to interact face-to-face with someone or even talk to them on the telephone.

TYPES OF ONLINE BROKERAGE FIRMS

There are two broad models of online brokerage firms such as:

- 1) bank backed firms and
- 2) Entrepreneur backed firms

Bank Backed Brokerages

It has expanded on the basis of their brand name and the trust of investors in them. The integrated three-in-one accounts offered by these bank backed brokerages help their parent bank by giving it accounts along with float income.

Examples-ICICI direct and HDFC securities, etc.

Entrepreneur Backed Firms

Entrepreneur backed firms expanded by offering customers a mix of online and offline accounts, higher margin finance amounts and lower brokerage rates. Though the bank based has performed better but the latter have not lagged too far behind.

Examples- Sharekhan, Indiabulls, Religare and IndiaInfoline, etc.

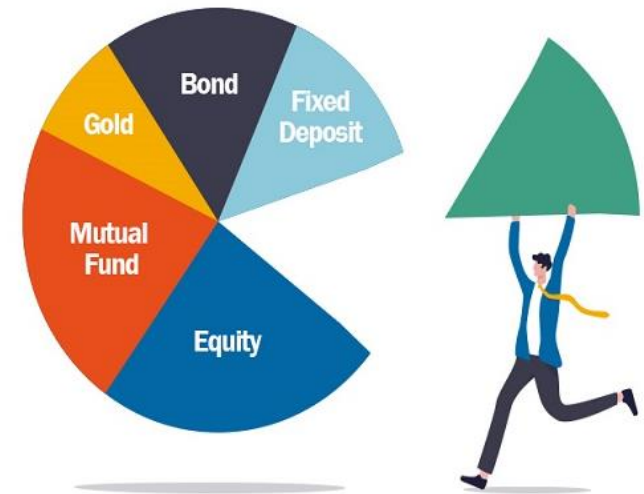
INVESTMENT AND SPECULATION



- **Speculation means taking up the business risk in hope of getting short term gain speculation essentially involves buying & selling activities with the expectation of getting profit from the price fluctuations. The time factor involved in speculation & investment is different.**
- **The investor is always interested in consistent good RoR for a longer period.**
- **He is basically concerned with the direct benefits provided by the securities in the long run whereas the speculator is interested in getting abnormal gain i.e. extremely high RoR that too in a shorter period.**
- **The speculator is more interested in market action & its price movement whereas the investor constantly evaluates the worth of securities.**
- **The investor would try to match the risk & return whereas the speculator would like to assume greater risk than the investor.**

ASSET ALLOCATION

An investment portfolio is a pie that is divided into pieces of varying sizes representing a variety of asset classes & types of investments to accomplish an appropriate risk return allocation. A portfolio could be a collection of investments or owned by the same individual or org. these investments often include stock (which are investments in individual businesses), bonds (which are investments in debts that are designed to earn interest) & mutual funds (which are essentially pools of money from many investors that are invested by professionals).

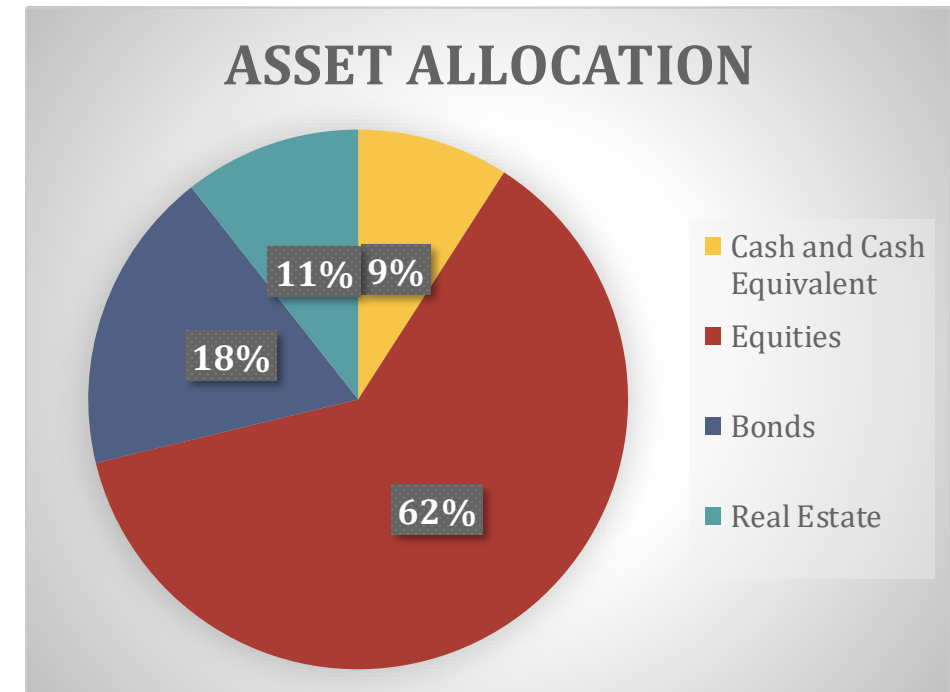


ASSET ALLOCATION (PORTFOLIO ALLOCATION) AND DIVERSIFICATION

Asset Allocation and Diversification are often used in the same sense but they are very different strategies.

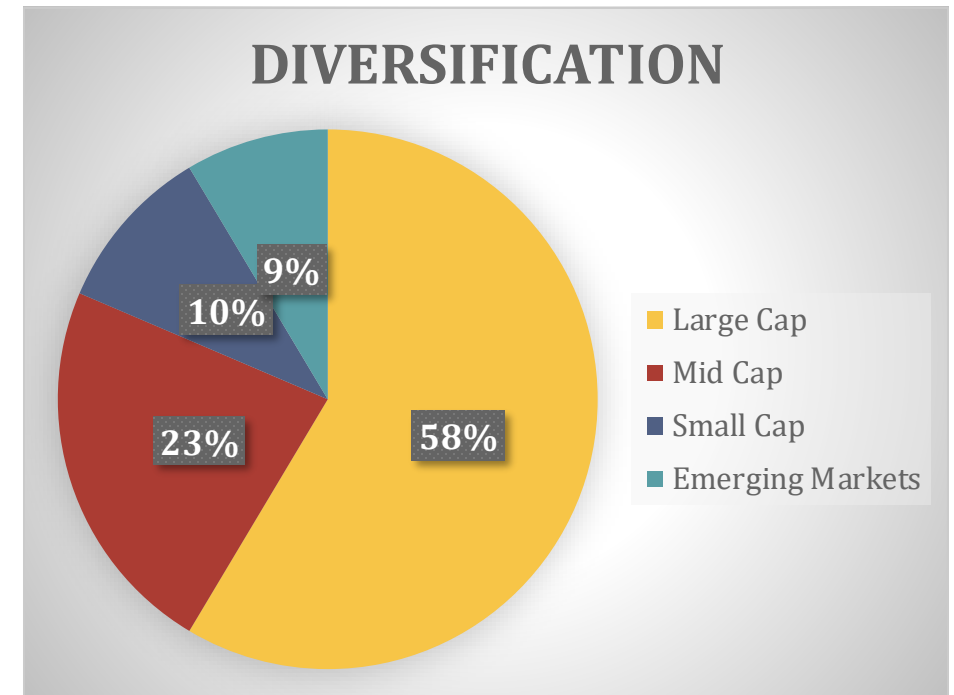
ASSET ALLOCATION

Asset allocation refers to locating funds in different asset class or investment products. The major asset classes that most investors will find themselves in are stocks, bonds, cash, commodities, real estate, etc. Asset allocation is done according to the investor's goals and objectives. For example, Asset Allocation of investor who want to earn regular income will be different from the one who simply want to maximize his wealth.



DIVERSIFICATION

In asset allocation, we allocate funds in different types of assets in our portfolio, diversification concerns with the number of each of those assets within your portfolio.



RISK ASSESSMENT

Risk Assessment means identifying, analyzing and examining prospective events that may negatively influence individuals, organizations, assets, environment, etc. In Investment, Risk Assessment helps in identifying the inherent risks and provide measures, processes and controls to reduce the impact of these risks in Investment.

RISK ASSESSMENT PROCESS

Hazards
Identification

Figure who
might be
harmed and
how

Assess the
Risk and find
precautions

Analyze your
findings and
implement
them

Assessment
Follow-up
and update if
necessary

SELECTION OF ASSET MIX

The asset mix is the breakdown of all of the assets within a portfolio-based on Risk taking ability and objectives of investor, such as stocks, bonds, cash, real estate, etc.

Here we solve the question, should the long term/short term stock-bond mix be 50:50, 25:75, 75:25 or any other ratio?



ASSET MIX

STRATEGIES FOR PORTFOLIO ALLOCATION

ACTIVE
PORTFOLIO
STRATEGY
(Dynamic Approach)

PASSIVE
PORTFOLIO
STRATEGY
(Hands-on Approach)

ACTIVE INVESTING/PORTFOLIO STRATEGY

Active Investing is based on Hanson approach that is requires someone to act in the role of portfolio manager and again try to find a way to beat the market by taking full advantage of the short term stock price changes.

In Active Investing strategy the manager actively participate in managing portfolio of a person. He does all the fundamental and technical analysis of the stocks and tries to purchase it on every dip in order to ensure better returns.

PASSIVE INVESTING/PORTFOLIO STRATEGY

Passive investing is an investing strategy where the investor adopts a buy and hold strategy as opposed to making regular trades.

Passive investing is often called Index Investing, in this gain or loss is directly proportionate to the market. Here, a stock is picked from indices and we will have gain when the market goes up and take losses when the market goes down.

Some of the major indices in India are:

Benchmark indices – BSE Sensex and NSE Nifty

Sectoral indices like BSE Bankex and CNX IT

Market capitalization-based indices like the BSE Smallcap and BSE Midcap

Broad-market indices like BSE 100 and BSE 500

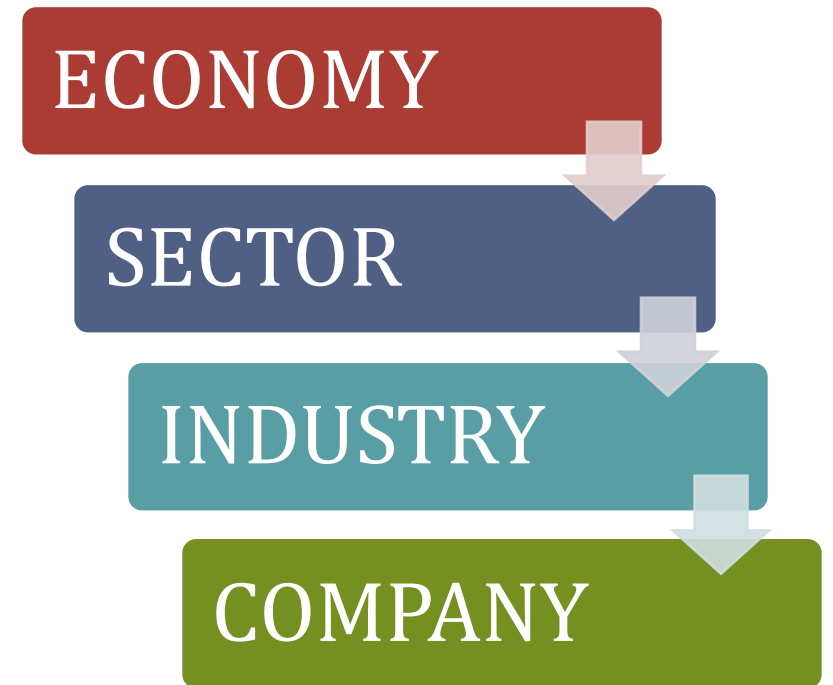
UNIT-II

- ❖ Equity Research-Financial Statement Analysis, Fundamental Analysis, Technical Analysis
- ❖ Portfolio Evaluation
- ❖ Stock Market Indicators- Types of Stock Market Indices
- ❖ Indian Stock Exchanges' Indices.

EQUITY RESEARCH

FUNDAMENTAL ANALYSIS

- It refers to deep study and analysis of financial and economical aspects.
- Fundamental Analysis actually aids an investor to find the right industry or company to invest.
- Fundamental Analysis is also known as the three dimensional analysis because it comprises of
 - Economy Analysis (Which Economy to Invest)
 - Industry Analysis (Which Industry to Invest)
 - Company Analysis (Which Company to Invest)
- There are 2 approaches for Fundamental Analysis-
TOP DOWN ANALYSIS- Economy -> Sector-> Industry->Company
BOTTOM UP ANALYSIS- Company ->Industry-> Sector -> Economy



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- Company Analysis Considers –
 - Quantitative Aspects** (includes Financial Statement Analysis) –
 - 1) Income Statement
 - 2) Balance Sheet
 - 3) Cash Flow Statement
 - Qualitative Aspects:**
 - 1) Goodwill and Brand Recognition
 - 2) Competitive Advantage
 - 3) Business model and Management
 - 4) Corporate Governance

TECHNICAL ANALYSIS

- It refers to deep study and analysis of past statistical aspects for future recommendations.

- Technical analysis attempts to forecast the price fluctuations of virtually any tradable instrument that is generally subject to forces of market i.e. supply and demand, including stocks, bonds, futures, and currency pairs.
- Technical analysis most commonly applies to price fluctuations of stocks, but some analysts track numbers other than just price, such as trading volume or open interest figures.
- In order to recognize chart patterns. analyst use technical indicators such as Relative Strength Index, Moving Averages, MACD, Bollinger bands, etc.



PORTFOLIO EVALUATION

- It refers to the evaluation of the performance of overall investment. Its essentially the process of comparing the return earned on a portfolio with the return earned on a benchmark portfolio.
- It is a kind of taking feedback of a portfolio and if required then necessary changes can be made in portfolio.
- The ability of investor depends upon the knowledge about latest developments which accursed in the market. An experienced investment analyst continuously monitors & evaluates the results of the concerned portfolio.
- The expert's portfolio constructor will produce superior performance only the market & other factors. The performance also depends upon the timing of investments & capabilities for investment selection.



RATIOS FOR PORTFOLIO EVALUATION

While evaluating the performance of the portfolio, the return from the portfolio is first arrived at, then the return earned p.u. of risk is calculated & this return p.u. of risk is the measure that is used to evaluate the portfolio performance.

□ Sharpe's Ratio = $R_P - R_F / SD$

Where R_P = return realized from the portfolio

R_F = risk free return

S.D = standard deviation

□ Treynor's Ratio = $R_P - R_F / \beta$

□ Jensen's measure of portfolio evaluation. A risk adjusted performance measure that represents the avg. return on a portfolio over & above that predicted by the CAPM, given the portfolio's β & average market return.

Jensen's $\alpha = R_P - E_{R \text{ by CAPM}}$

TYPES OF STOCK MARKET INDICES

1) **Benchmark Indices:** S&P BSE Sensex, a collection of 30 best-performing stocks and Nifty 50, a collection of 50 best-performing stocks are indicators of BSE and NSE respectively. They are considered benchmark indices because they are the most concise, use the best practices to regulate the companies they pick and hence are the best points of reference for how the markets are doing in general.

2) **Sectoral Indices:** Both exchanges, NSE and BSE also have some indicators that are a gauge of companies falling under one particular sector. Indices like NSE Pharma and S&P BSE Healthcare are indicators of their respective exchanges for the pharmaceutical sector. Another example could be Nifty PSU Bank and S&P BSE PSU Indices are indicators of all the listed public sector banks.



3) Market-cap based indices: Market cap is the market value of any public traded company. Indices like NSE smallcap 50 and S&P BSE smallcap are indices that are a collection of only those companies that have a lower/smaller market capitalization in accordance with rules by SEBI. There are also other indices like NSE midcap 100, S&P BSE midcap, etc.



4) Other indices: There are also some other indices like S&P BSE 100, S&P BSE 500, NSE 100 among others which are slightly bigger indices and have a much bigger number of stocks listed on them.

INDIAN STOCK EXCHANGE- INDICES

BOMBAY STOCK EXCHANGE

- ❑ **BSE Limited**, also known as the **Bombay Stock Exchange (BSE)**, is an Indian stock exchange located on **Dalal Street** in **Mumbai (Bombay)**.
- ❑ Established in **1875**.
- ❑ It is the oldest stock exchange in Asia, and also the tenth oldest in the world.
- ❑ **INDEX- Sensex**



NATIONAL STOCK EXCHANGE

- ❑ **National Stock Exchange of India Limited (NSE)** is the leading stock exchange of India, located in the **Mumbai (previously Bombay), Maharashtra**.
- ❑ Incorporated in **1992**.
- ❑ The NSE has developed into a sophisticated, electronic market, which ranked fourth in the world by equity trading volume.
- ❑ **INDEX- Nifty**



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