

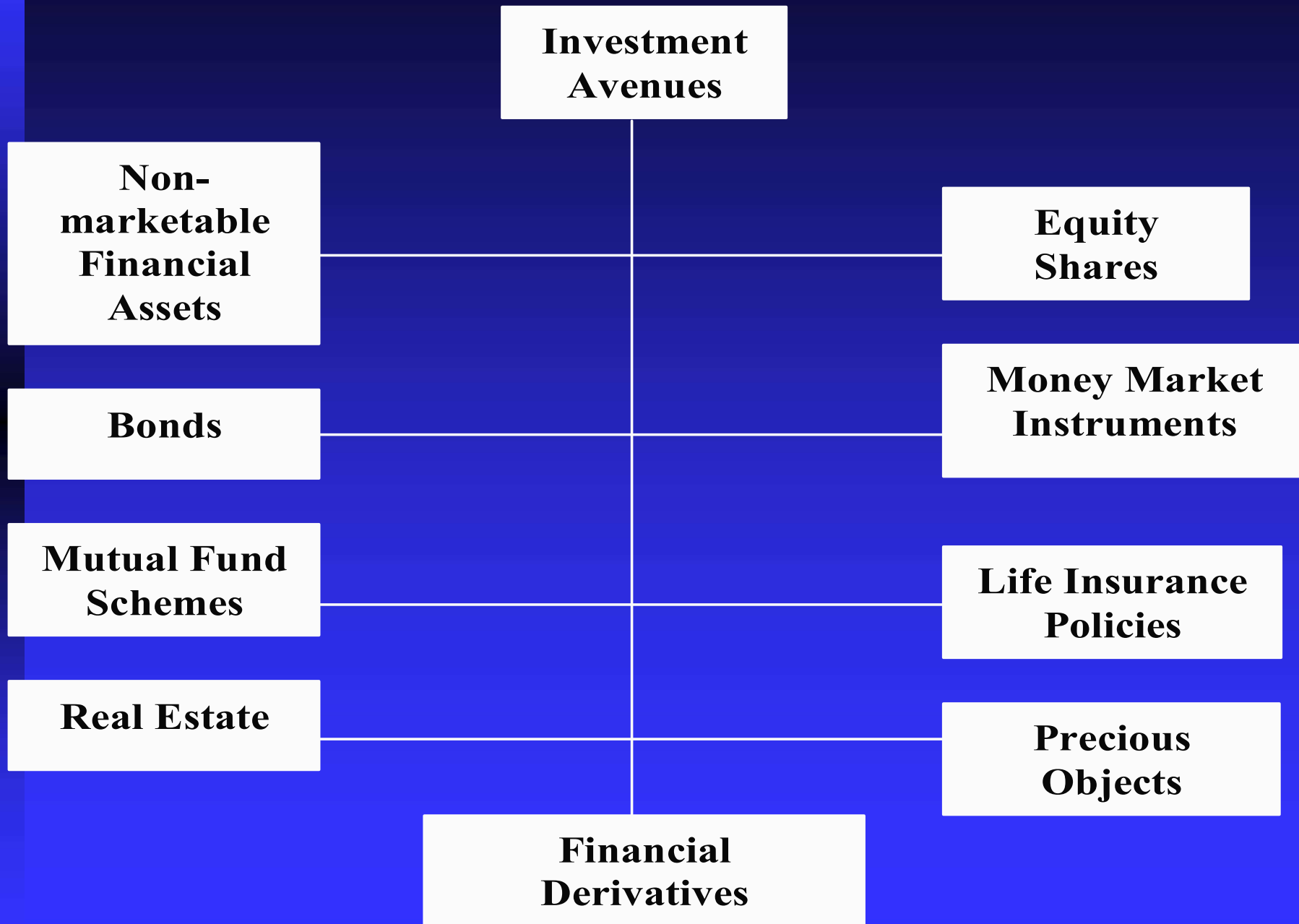
OVERVIEW

A Broad Map of the Territory

OUTLINE

- **Investment Alternatives**
- **Investment Attributes**
- **Investment versus Speculation**
- **Financial Markets**
- **Portfolio Management Process**
- **Approaches to Investment Decision Making**
- **Common Errors in Investment Management**
- **Qualities for Successful Investing**
- **Three Approaches to Succeed as an Investor**

INVESTMENT ALTERNATIVES



INVESTMENT ATTRIBUTES

- RETURN
- RISK
- LIQUIDITY
- TAX SHELTER
- CONVENIENCE

EVALUATION OF VARIOUS INVESTMENT AVENUES

	Return		Risk	Marketability/ Liquidity	Tax Shelter	Convenience
	Current yield	Capital appreciation				
Equity Shares	Low	High	High	Fairly high	High	High
Non-convertible Debentures	High	Negligible	Low	Average	Nil	High
Equity Schemes	Low	High	High	High	High	Very high
Debt Schemes	Moderate	Low	Low	High	No tax on dividends	Very high
Bank Deposits	Moderate	Nil	Negligible	High	Nil	Very high
Public Provident Fund	Nil	Moderate	Nil	Average	Section 80 C benefit	Very high
Life Insurance Policies	Nil	Moderate	Nil	Average	Section 80 C benefit	Very High
Residential House	Moderate	Moderate	Negligible	Low	High	Fair
Gold and Silver	Nil	Moderate	Average	Average	Nil	Average

INVESTMENT VS. SPECULATION

INVESTOR

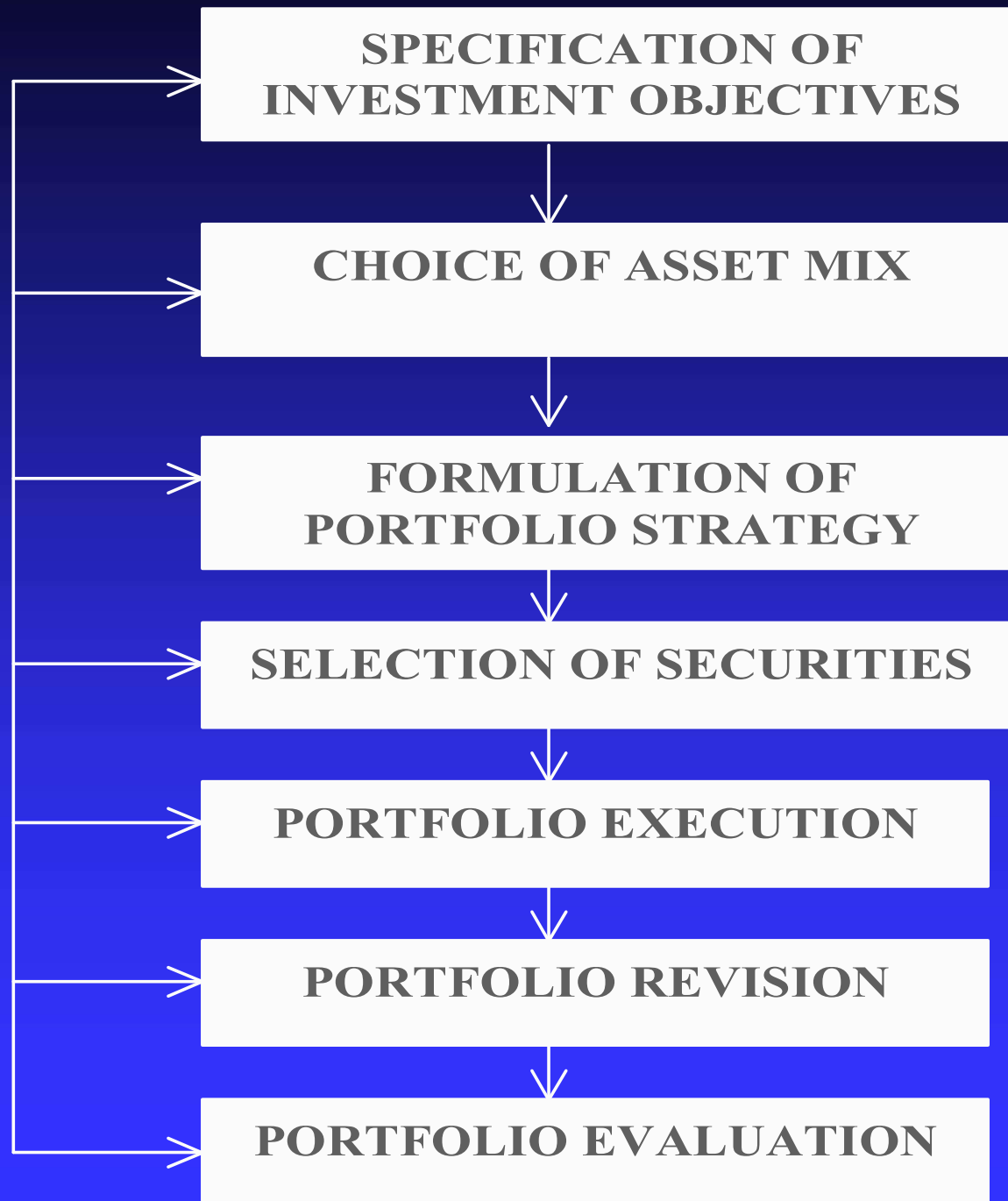
SPECULATOR

• PLANNING HORIZON	LONG	SHORT
• RISK DISPOSITION	MODERATE	HIGH
• RETURN EXPECTATION	MODEST	HIGH
• BASIS FOR DECISIONS	FUNDAMENTAL	TECHNICAL
• LEVERAGE	NO	HIGH

CLASSIFICATION OF FINANCIAL MARKETS



PORTFOLIO MANAGEMENT PROCCESS



APPROACHES TO INVESTMENT

DECISION MAKING

- **FUNDAMENTAL APPROACH**
- **PSYCHOLOGICAL APPROACH**
- **ACADEMIC APPROACH**

$MP \approx IV$

RANDOM WALK

POSITIVE LINK..RISK & RETURN

- **ECLECTIC APPROACH**

COMMON ERRORS IN INVESTMENT MANAGEMENT

INVESTORS APPEAR TO BE PRONE TO THE FOLLOWING ERRORS IN MANAGING THEIR INVESTMENTS.

- **INADEQUATE COMPREHENSION OF RETURN AND RISK**
- **VAGUELY FORMULATED INVESTMENT POLICY**
- **NAÏVE EXTRAPOLATION OF THE PAST**
- **CURSORY DECISION MAKING**
- **SIMULTANEOUS SWITCHING**
- **MISPLACED LOVE FOR CHEAP STOCKS**
- **OVER-DIVERSIFICATION AND UNDER-DIVERSIFICATION**
- **BUYING SHARES OF FAMILIAR COMPANIES**
- **WRONG ATTITUDE TOWARD LOSSES AND PROFITS**
- **TENDENCY TO SPECULATE**

QUALITIES FOR SUCCESSFUL INVESTING

- **CONTRARY THINKING**
- **PATIENCE**
- **COMPOSURE**
- **FLEXIBILITY AND OPENNESS**
- **DECISIVENESS**

THREE APPROACHES TO SUCCEED AS AN INVESTOR

- PHYSICALLY DIFFICULT APPROACH
- INTELLECTUALLY DIFFICULT APPROACH

BEN GRAHAM : QUANTITATIVE
NAVIGATOR

J.M. KEYNES : INSIGHTS..MARKETS
PSYCHOLOGY

JOHN TEMPLETON : BARGAIN STOCKS
WARREN BUFFETT : VALUE INVESTING

GEORGE SOROS : REFLEXIVITY
PRINCIPLE

PETER LYNCH : FLEXIBILITY

SP. TALENT ...DILIGENTLY HONED & NURTURED

- **PSYCHOLOGICALLY DIFFICULT APPROACH**
 - **DEVELOP AN INVESTMENT POLICY AND ADHERE TO IT CONSISTENTLY**
 - **DO NOT FORECAST STOCK PRICES**
 - **RELY MORE ON HARD NUMBERS AND LESS ON JUDGMENT**
 - **MAINTAIN A CERTAIN DISTANCE FROM THE MARKETPLACE**
 - **FACE UNCERTAINTY WITH EQUANIMITY**

SUMMING UP

- **A bewildering range of investment avenues is available.**
- **For evaluating an investment, the following attributes are relevant: rate of return, risk, marketability, tax shelter, and convenience.**
- **A financial market is a market for creation and exchange of financial assets.**
- **Financial markets can be classified by the nature of claim, maturity of claim, seasoning of claim, timing of delivery, and organisational structure.**
- **Portfolio management is a complex activity which can be broken down into a series of steps.**
- **The stock market is thronged by investors pursuing diverse investment strategies.**
- **Investors are prone to various errors**
- **The qualities of contrary thinking, patience, composure, flexibility, and decisiveness are required to succeed in the investment game.**