A PROJECT REPORT ON FACTORS EFFECTING INVESTMENT DECISIONS

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ABSTRACT

The paper aims to gives the brief idea regarding the various investment options that are prevailing in the financial markets in India. With lots of investment options like banks, Fixed Deposits, Government bonds, stock market, real estate, gold and mutual funds the common investor ends up more confused than ever. Each and every investment option has its own merits and demerits. In This project I have discussed about few investment options available.

Any investor before investing should take into consideration the safety, liquidity, returns, entry/exit barriers and tax efficiency parameters. We need to evaluate each investment option on the above-mentioned basis and then invest money. Today investor faces too much confusion in analyzing the various investment options available and then selecting the best suitable one. In the present project, investment options are compared on the basis of returns as well as on the parameters like safety, liquidity, term holding etc. thus assisting the investor as a guide for investment purpose.

I. INTRODUCTION

These days almost everyone is investing in something… even if it's a savings account at the local bank or a checking account the earns interest or the home they bought to live in. However, many people are overwhelmed when they being to consider the concept of investing, let alone the laundry list of choices for investment vehicles. Even though it may seem the everyone and their brothers knows exactly who, what and when to invest in so they can make killing, please don't be fooled. Majorities of investor typically jump on the latest investment bandwagon and probably don't know as much about what's out there as you think.

Before you can confidently choose an investment path that will help you achieve your personal goals and objectives, it's vitally important that you understand the basics about the types of investments available. Knowledge is your strongest ally when it comes to weeding out bad investment advice and is crucial to successful investing whether you go at it alone or use a professional. The investment option before you are many. Pick the right investment tool based on the risk profile, circumstance, time available etc. if you feel the market volatility is something, which you can live with then buy stocks. If you do not want risk, the volatility and simply desire some income, then you should consider fixed income securities. However, remember that risk and returns are directly proportional to each other. Higher the risk, higher the returns.

OBJECTIVE OF THE STUDY

- To make an analysis of various investment decision. The aim is to compare the returns given by various investment decision.
- To cater the different needs of investor, these options are also compared on the basis of various parameters like safety, liquidity, risk, entry/exit barriers, etc.
- To creating a basis not only for ongoing analyses but also for structural changes in the investment process.

- The project work includes knowing about the investment descisions like equity, bond, real estate, gold and mutual fund. All investment descisions are discussed with their types, workings and returns.

II. INVESTMENT ANALYSIS

Investment analysis is an ongoing process of evaluating current and potential allocations of financial assets and choosing those allocations that best fit the investor's needs and goals. The two opposing considerations in investment analysis are growth rate and risk, which are usually directly proportionate in any given investment vehicle. Through investment analysis, investors must consider the level of risk they're able to tolerate and choose investments accordingly.

Beyond weighing the return of an individual investment, investors must also consider taxes, transaction costs, and opportunity costs that erode their net return. Taxes, for instance, may be reduced or deferred depending on the type of investment and the investor's tax status. Transaction costs may be incurred each time an individual purchases or sells shares of stock or mutual funds. These fees are usually a percentage of the dollar amount being transferred. Such fees may sift 3-6 percent or more off the initial investment and final return. If they don't seem warranted, such expenses may be avoided by choosing no load mutual funds and dealing with discount brokers, for instance. Much more nebulous is opportunity cost, Again, both risk and growth factor into opportunity costs. For example, low risk comes at a price of low returns, but it may be worth the lost opportunity if the investor is retired and will be depending on the invested funds for living expenses in the near future.

It is useful to contrast the multi-level approach to investments emphasized in this work with some alternatives. We present them roughly in the order in which they were introduced historically. In simple societies, there is little distinction between *savings* and *investment.* One saves by reducing present consumption. One invests in the hope of increasing future consumption. Thus the woodsman who spares a tree for another year reduces consumption in the present (a long warm night by the fire) in the hope of increasing it in the future (warmer and longer nights by the fire next year). The tree is a productive investment -- barring floods, lightning strikes, etc., there will be more wood next year than there is this year. In most societies, intermediary steps connect individuals' savings with productive investments. Such investments are usually undertaken by firms, using resources generated by the savings of individuals. In many cases governmental agencies perform roles similar to those of business firms.

In our terminology, the individual who saves (defers consumption) is an Investor. To avoid confusion with Investment Firms, we will use the term *Business* to refer to a firm or governmental agency engaged in productive investment. Certainly the simplest (and no doubt earliest) form of investment is that in which each business is funded by one investor (or perhaps one family of investors). The figure below illustrates this, with I representing an Investor and B a Business.

In this case the problems associated with corporate governance are mitigated, since the Investment Firm is in a position to serve as the exclusive monitor of each of the Businesses. On the other hand, the division of ownership of the Investment Firm among many Investors may lessen incentives for the management of the Investment Firm to act solely in the interests of the Investors. Perhaps most important, the use of a financial intermediary can greatly reduce the required number of contractual arrangements. For example, if there were N investors and M businesses, direct investment with sufficient diversification might require N*M such arrangements. However, if one financial intermediary could provide all the needed diversification, only N+M contracts would be required.

TYPES OF INVESTMENT OPTIONS

A brief preview of different investment options is given below:

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 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.

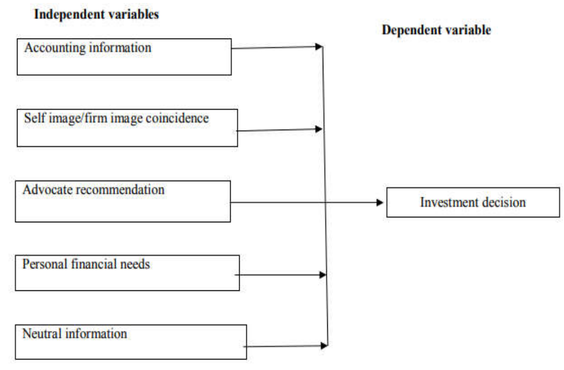
Money back policy.

Whole life policy.

Term assurance policy.

Unit-linked insurance plan.

CONCEPTUAL FRAMEWORK OF INVESTMENT DECISION



III. RESEARCH METHODOLOGY

Equities, Bonds, Real Estate, Gold, Mutual Funds and Life Insurance were identified as major types of investment decision.

The primary data for the project regarding investment and various investment DECISIONS were collected through interactions had with the manager.

The secondary date for the project regarding investment and various investment DECISIONS were collected from websites, textbooks and magazines.

Then the averages of returns over a period of 5 years are considered for the purpose of comparison of investment options. Then, critical analysis is made on certain parameters like returns, safety, liquidity, etc. Giving weightage to the different type of needs of the investors and then multiplying the same with the values assigned does this.

RESEARCH DESIGN

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically.

Research type

Many investors were reluctant to reveal their investment details especially the amount of money invested so, referral sampling method is used for this study.

Sample description

The sample was drawn from the population of the potential investors from India.

TOOLS OF DATA COLLECTION

Primary data: The data has been collected directly from respondent with the help of structured questionnaires.

Secondary data: The secondary data has been collected from various magazines, journals, newspapers, text books and related websites.

IV.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. Some look for the next infosys, other buys real estate or gold. Many of them deposit their savings in the Public Provident Fund (PPF) or post office deposits, others plump for debt mutual funds. Very few buy across all asset classes or diversify within an asset class. Therefore it has been widely said that "Don't put all your eggs in one basket". The idea is to create a portfolio that includes multiple investments in order to reduce risk.

Things changed in early may 2011 since then the stock market moved up more than 70%, while many stocks have moved more. Real estate prices are also swinging up, although it is difficult to map in this fragmented market. Gold and Silver prices have spurted.

Bonds continue to give reasonable returns but it is no longer leads in the comparative rankings. Right now equity looks the best bet, with real state coming in second. The question is how long will this last? If it is a short-term phenomenon, going through the hassle of switching over from debt may not be worth it. If it's a long-term situation, assets should be moved into equity and real estate. This may be long-term situation. The returns from the market will be good as long as profitability increases. Since the economy is just getting into recovery mode, that could hold true for several years. Real estate values, especially in suburban areas or small towns could improve further. The improvement in road networks will push up the value of far-flung development. There is also some attempt to amend tenancy laws and lift urban ceilings, which have stunted the real estate market.

My gut feeling is that a large weightage in equity and in real estate will pay off during 2012-2013. But don't exit debt or sell off your gold. Try and buy more in the way of equity and research real estate options in small towns/suburbs.

Regardless of your means of method, keep in mind that there is no generic diversification model that will meet the needs of every investor. Your personal time horizon, risk tolerance, investment goals, financial means, and level of investment experience will play a large role in dictating your investment experience will play a large role in dictating your investment mix.

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