AKG ADVISORY LLP

Corporate and Legal Consultancy Firm

INVESTMENT ACTIVITY

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INVESTING

The act of committing money or capital to an endeavor with the expectation of obtaining an additional income or profit.

MEANING OF INVESTMENT

The word **investment** can be defined in many ways according to different theories and principles. It is a term that can be used in a number of contexts. However, the different meanings of "investment" are more alike than dissimilar.

Generally, investment is the application of money for earning more money. Investment also means savings or savings made through delayed consumption. According to economics, investment is the utilization of resources in order to increase income or production output in the future. An amount deposited into a bank or machinery that is purchased in anticipation of earning income in the long run is both examples of investments.

ESSENTIALS OF INVESTMENT

Essentials of investment refers to why investment, or the need for investment, is required. The investment strategy is a plan, which is created to guide an investor to choose the most appropriate investment portfolio that will help him achieve his financial goals within a particular period of time.

An investment strategy usually involves a set of methods, rules, and regulations, and is designed according to the exchange or compromise of the investor's risks and returns. A number of investors like to increase their earnings through high-risk investments, whilst others prefer investing in assets with minimum risk involved.

However, the majority of investors choose an investment strategy that lies in the middle.

Investment strategies can be broadly categorized into the following types:

Active strategies: One of the principal active strategies is market timing (an investor is able to move into the market when it is on the low and sell the stocks when the market is on the high), which is applied for maximizing yields.

Passive strategies: Frequently implemented for reducing transaction costs.

WHAT INVESTING IS NOT

Investing is *not* gambling. Gambling is putting money at risk by betting on an uncertain outcome with the hope that you might win money. Part of the confusion between investing and gambling, however, may come from the way some people use investment vehicles. For example, it could be argued that buying a stock based on a "hot tip" you heard at the water cooler is essentially the same as placing a bet at a casino. This is also called *speculation*.

True investing doesn't happen without some action on your part. A "real" investor does not simply throw his or her money at any random investment; he or she performs thorough analysis and commits capital only when there is a reasonable expectation of profit. Yes, there still is risk, and there are no guarantees, but investing is more than simply hoping Lady Luck is on your side.

WHY BOTHER INVESTING?

Obviously, everybody wants more money. It's pretty easy to understand that people invest because they want to increase their personal freedom, sense of security and ability to afford the things they want in life.

However, investing is becoming more of a necessity. The days when everyone worked the same job for 30 years and then retired to a nice fat pension are gone. For average people, investing is not so much a helpful tool as the only way they can retire and maintain their present lifestyle.

INFLATION

Inflation in layman's term is the rise in money volume compared to the accessible goods and services. As a result of inflation, there is a consistent hike in prices of goods and services and that is why with the same amount of money, you cannot buy the goods and avail the services like in the past.

Inflation has a massive impact on your investments. Regardless of an astronomical sum you are saving now, in future, owing to inflation, you can buy fewer goods. Your purchasing power reduces due to inflation. With higher inflation, the cost of living also increases.

The effect of inflation needs to be factored in when we plan for our future investments, especially for retirement. A vision of a decent lifestyle post retirement is essential. And this lifestyle would largely depend on the amount of money saved and amassed for the same. It is also necessary to watch your funds as you retire and how judiciously you save them. Sometimes, the inflation rates could go low, however, that does not guarantee that inflation would never come back to be a bother.

Inflation also has an effect on your investments. With the inflation rising, the interest rates also shoot up. This results in lower stock prices. If a consumer knows that a certain item might cost more in the future, they put a reduced value for the item and later, the prices of those financial assets go south.

KNOWING YOURSELF

Investors can learn a lot from the famous Greek maxim 'Know Thyself". Even though all investors are trying to make money, each one comes from a diverse background and has different needs. It follows that specific investing vehicles and methods are suitable for certain types of investors. Although there are many factors that determine which path is optimal for an investor, we'll look at two main categories: investment objectives and investing personality.

Investment Objectives

Generally speaking, investors have a few factors to consider when looking for the right place to park their money. Safety of capital, current income and capital appreciation are factors that should influence an investment decision and will depend on a person's age, stage/position in life and personal circumstances.

Personality

In other words, you need to know how much volatility you can stand to see in your investments. Figuring this out for yourself is far from an exact science; but there is some truth to an old investing maxim: you've taken on too much risk when you can't sleep at night because you are worrying about your investments.

Putting It All Together : Your Risk Tolerance.

INVESTMENT PLANNING

The basic idea behind any form of investment planning is to maximize future financial returns for future security. In formulating a financial plan, an individual investor must carefully consider his or her choices before making any decision. Investment planning involves considering many possible financial options that could be used to secure the desired financial future.

Often groups of individuals get together for the purpose of investment planning. Investment plans require careful scrutiny of the financial market. It is mostly the responsibility of the particular firm to make the decision on the matter of management of money, which could be utilized in meeting long term asset investment plans or for gathering working capital.

An integral part of financial planning is the system a particular investor uses to decide how much and in what ways to invest. Another important task is to ascertain the source from where the money could be obtained.

Yet another important aspect of investment planning is analyzing the development and performance of investments in a particular span of time. This could help the investor by cutting down on the amount of uncertainty involved in the process. Investment planning also helps investors in channeling their funds in the right direction.

An important reason for investment planning is planning for retirement. Investment calculators have proven to be a useful tool in helping people plan in advance for their retirement.

TYPES OF INVESTMENT

A particular investor normally determines the investment types after having formulated the investment decision, which is termed as capital budgeting in financial lexicon. With the proliferation of financial markets there are more options for investment types.

According to the financial terminology investment means the following:

- Purchasing Securities in Money or Capital Markets.
- Buying Monetary or Paper Financial Assets in Money or Capital Markets.
- Investing in Liquid Assets like Gold, Real Estate and Collectibles.

Investors assume that these forms of investment would furnish them with some revenue by way of positive cash flow.

These assets can also affect the particular investor positively or negatively depending on the alterations in their respective values. Investments are often made through the intermediaries who use money taken from individuals to invest. Consequently the individuals are regarded as having claims on the particular intermediary.

It is common practice for the particular intermediaries to have separate legal procedures of their own.

Investment in the domain of personal finance signifies funds employed in the purchasing of shares, investing in collective investment plans or even purchasing an asset with an element of capital risk. In the field of real estate, investments imply buying of property with the sole purpose of generating income.

Investment in residential real estate could be made in the form of buying housing property, while investments in commercial real estate is made by owning commercial property for corporate purposes that are geared to generate some amount of revenue.

INVESTMENT STRATEGY

Investment strategy is actually the plan, which is followed by an investor to make profits and to achieve financial stability. Based on this investment strategy the investor identifies the areas where the money can be invested safely. At the same time the returns from that money is also of equal importance.

The investment planning also helps the investor to reduce the risk factor from the investment portfolio. Now several investment options are available in the market. There are thousands of people who are making money from these options. Again, there are also a large number of investors who are facing losses every day.

This means that if the investment is done in a proper manner, the profit can be made from every possible medium otherwise the result may be the opposite. But to make the investment successful, an investor needs to do the homework properly. He or she needs to follow that market closely in which he or she wants to invest.

There are several sources like the financial market news, several journals, internet and many more that can provide vital information about the financial market. These information are very important to form a strategy.

At the same time, the financial planners can also provide assistance to form an investment strategy, which suits the need of the investor.

Before planning a strategy for investment, one needs to be sure about the aim of his or her investment. One needs to decide about the desired returns and more importantly the amount of risk that he or she can bear. These factors are going to decide the suitable medium of investment for the investor.

The investment medium may be anything, the investment portfolio of the investor should be diversified. Investing in one single medium may increase the amount of risk. In multi-investment, the risks related to one medium are covered through another one.

The two basic investment choices are the stock market and the bond market. The stock market is full of different types of shares and options. All these shares are different from each other in many aspects like the amount of risk and the pace of growth. Now, the investor needs to follow a certain strategy to invest in this market. The investor needs to choose some specific shares in which the money would be invested. At the same time, the investor should also buy some options to minimize the amount of risk involved in the shares. The bond market is not so complicated and so the strategies are very simple.

THE CONCEPT OF COMPOUNDING

Albert Einstein called *compound interest* "the greatest mathematical discovery of all time". We think this is true partly because, unlike the trigonometry or calculus you studied back in high school, compounding can be applied to everyday life.

The wonder of compounding (sometimes called "compound interest") transforms your working money into a powerful income-generating tool. Compounding is the process of generating earnings on an asset's reinvested earnings. To work, it requires two things: the re-investment of earnings and time. The more time you give your investments, the more you are able to accelerate the income potential of your original investment, which takes the pressure off of you.

When you invest, always keep in mind that compounding amplifies the growth of your working money. Just like investing maximizes your earning potential, compounding maximizes the earning potential of your investments - but remember, because time and reinvesting make compounding work, you must keep your hands off the principal and earned interest.

PREPARING FOR CONTRADICTIONS

An important fact about investing is that there are no indisputable laws, nor is there one correct way to go about it. Furthermore, within the vast array of different investing styles and strategies, two opposite approaches may both be successful at the same time.

One explanation for the appearance of contradictions in investing is that economics and finance are social (or soft) sciences. In a hard science, like physics or chemistry, there are precise measurements and well-defined laws that can be replicated and demonstrated time and time again in experiments. In a social science, it's impossible to "prove" anything. People can develop theories and models of how the economy works, but they can't put an economy into a lab and perform experiments on it.

In fact, humans, the main subject of the study of the social sciences are unreliable and unpredictable by nature. Just as it is difficult for a psychologist to predict with 100%

certainty how a single human mind will react to a particular circumstance, it is difficult for a financial analyst to predict with 100% certainty how the market (a large group of humans) will react to certain news about a company. Humans are emotional, and as much as we'd like to think we are rational, much of the time our actions prove otherwise.

Economists, academics, research analysts, fund managers and individual investors often have different and even conflicting theories about why the market works the way it does. Keep in mind that these theories are really nothing more than opinions. Some opinions might be better thought out than others, but at the end of the day, they are still just opinions

ONLINE INVESTMENT

With the advent and subsequent growth of computers along with the development of Internet facilities, **online investment** has become a much practiced mode of investment. For a considerable period of time, online investment has come to replace physical investment practices.

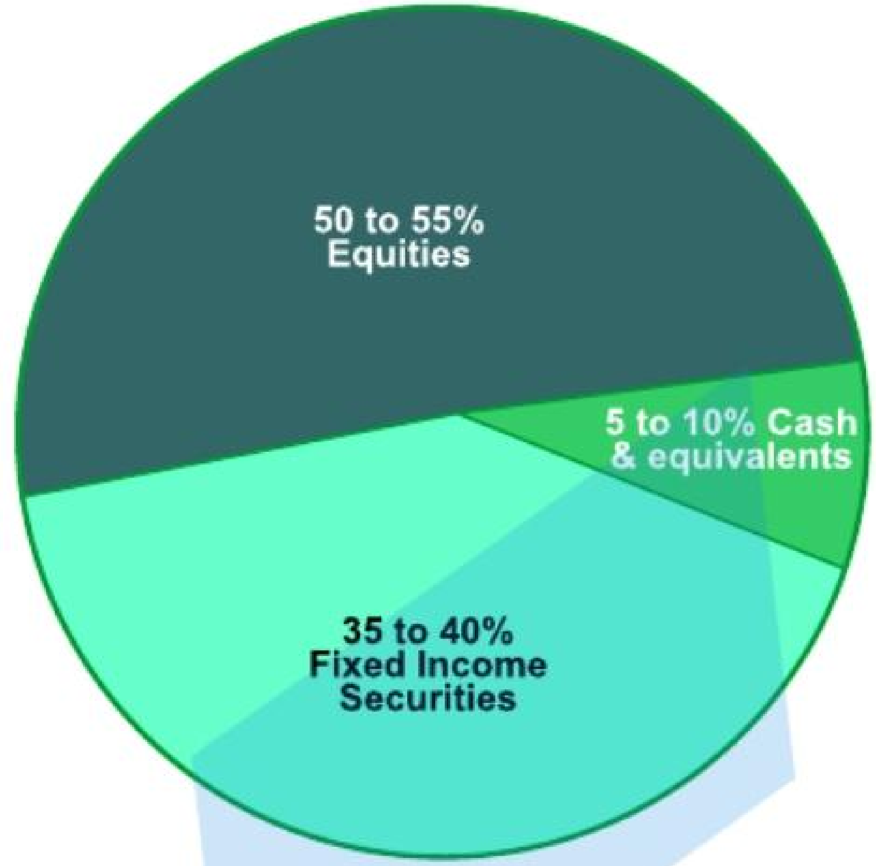
The speciality of **online investment** is the fact that the quality of the services provided in this domain is top notch. The pace of transaction, as well as the fact that the investors might be able to carry on the trade themselves without the need of any external help has made online investment a lucrative proposition.

The **online investment services** allow the investors to invest their money in mutual funds and many other favorable investment options on a global basis. In this context, another important aspect is that the investors operating in the global market also prefer to invest in foreign stocks.

THE PORTFOLIO

A portfolio is a combination of different investment assets mixed and matched for the purpose of achieving an investor's goal(s). Items that are considered a part of your portfolio can include any asset you own - from real items such as art and real estate, to equities, fixed-income instruments and their cash and equivalents.

An easy way to think of a portfolio is to imagine a pie chart, whose portions each represent a type of vehicle to which you have allocated a certain portion of your whole investment. The asset mix you choose according to your aims and strategy will determine the risk and expected return of your portfolio.



Basic Types of Portfolios

In general, aggressive investment strategies - those that shoot for the highest possible return - are most appropriate for investors who, for the sake of this potential high return, have a high risk tolerance (can stomach wide fluctuations in value) and a longer time horizon. Aggressive portfolios generally have a higher investment in equities.

The conservative investment strategies, which put safety at a high priority, are most appropriate for investors who are risk averse and have a shorter time horizon. Conservative portfolios will generally consist mainly of cash and cash equivalents, or high-quality fixed-income instruments.

Why Portfolios?

It all centers around diversification. Different securities perform differently at any point in time, so with a mix of asset types, your entire portfolio does not suffer the impact of a decline of any one security. When your stocks go down, you may still have the stability of the bonds in your portfolio.

There have been all sorts of academic studies and formulas that demonstrate why diversification is important, but it's really just the simple practice of "not putting all your eggs in one basket." If you spread your investments across various types of assets and markets, you'll reduce the risk of catastrophic financial losses.

Compiled By:
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It is our constant endeavour
to create effective and useful awareness.

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