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## Fundamental of Investment

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Q.1. What is Investment? Explain the essential, objectives, characteristics/features of Investment.

→ Investment is a process in which investors invest the funds on different assets and securities with the aim of earning, income or capital appreciation. Investment is made to get a return in future which may be in the form of interest, dividend, premium or capital appreciation.

According to Alexander, "Investment is sacrifice of certain present value for some uncertain future value."

According to F. Amliang, "Investment means purchase of a financial assets that produces a yield that is proportional to the risk assumed over some future investment period."

According to above definition, it can be concluded that investment is the net addition to the Capital Stock of the Company. By other words, investment is the allocation of money to assets that are expected to yield some income over a period of time.



## • Features of Investment :

The main Investment features or objectives are increasing the rate of return and reducing the risk. However, the main features of Investment are as follows:

- i) Risk → Risk of holding securities is related with the probability of actual return becoming less than the expected return. The existence of risk in any type of Investment is natural. Risk involves delay in repayment of capital or non-recovery of capital and no-payment of return.
- ii) Return → Investor always expect a good rate of return from their investment. Return is concern with interest and appreciation to Capital. The appreciation to the Capital can be judged by the difference between purchase price and Sale price. Interest is received as a return on the investment in bonds and Securities.
- iii) Safety → An investor keeps its safety in his mind before making investment. Return and Safety both

used are rival each other where Return is high safety is less, where safety is high where return is less. Therefore, investment in government securities is considered safe and risk less.

iv) Liquidity → Liquidity means investment could be converted into cash without much loss of time. If the investment can be incashed after a fixed period, it will be less liquid. However, rate of return on high liquid assets may be lower.

v) Tax benefit → If a person has tax liability, prefers to invest in those assets which are eligible for tax benefit. For ex. NSC, PPF etc.

vi) Tradability → Liquidity of an investment depends upon the tradability of security it means some investment can be transferred easily such as shares, debentures etc. But some investments can not be transferred easily such as bank deposits, post office deposits etc.

vii) Hedge against inflation → The rate of return should ensure a cover against the inflation. The return rate should be <sup>higher</sup> ~~less~~ than the rate of inflation. otherwise, investors will have loss in real term. The return thus earned should assure the safety of the principal amount, regular flow of income and be a hedge against inflation.