TYPES OF INVESTMENT AVENUES

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INVESTMENT

- INVESTMENT is the employment of funds on assets with the aim of earning income or capital appreciation.
- It is the commitment of funds which have been saved from current consumption with the hope that some benefits will be received in the future.
- it is a reward for waiting for money.
- Saving of the individuals are invested in assets depending on their risk and return demands, safety money, liquidity, the available avenue for investment, various financial institutions, etc.
- For the achievement of above goals appropriate decisions have to be taken.

CONCEPT OF INVESTMENT

- **ECONOMIC INVESTMENT**
- The concept of economic investment means net addition to the capital stock of the society. The capital stock of the society is the goods which are used in the production of other goods. The term investment implies the formation of new and productive capital in the form of new construction and produces durable instrument such as plant and machinery. Thus, an investment, in economic terms, means an increase in building, equipment, and inventory.

- **FINANCIAL INVESTMENT**
- This is an allocation of monetary resources to assets that are expected to yield some gain or return over a given period of time. It means an exchange of financial claims such as shares and bonds, real estate, etc. People invest their funds in shares, debentures, fixed deposits, national saving certificates, life insurance policies, provident fund etc. in their view investment is a commitment of funds to derive future income in the form of interest, dividends, rent, premiums, pension benefits and the appreciation of the value of their principal capital.

Investment avenues

- Investment avenues are the different ways that a person can invest his money. It also called investment alternatives or investment schemes.
- There are different methods are available to classify the investment avenues. Some of the methods are as follows.

1. Fixed Deposits
2. Bank deposits
3. Provident fund
4. Life insurance
5. Post office savings
6. Mutual funds
7. Gold
8. Equity shares
9. Debentures
10. Bonds etc

Fixed deposit

- Fixed Deposits, also popularly known as term deposit, allow you to earn risk-free interest by depositing an amount for a predefined term.
- There are multiple types of fixed or term deposits available at almost all major banks and NBFCs in India with tenors ranging from 7 days to 20 years.
- A Fixed Deposit is considered to be one of the best fit for investors who want to safely grow their money.
- The moment you invest in a FD, it gets locked; the investor can withdraw the principal only upon maturity. However, most banks or financial institutions allow premature withdrawal for a penalty.
- For the purpose of investment, there are varied types of fixed deposits in the market and users can pick one that best fits their investment.

Types of Fixed Deposits

- **Standard fixed deposit scheme:** Almost every bank offers standard fixed deposit schemes to their customers. When you are investing in this scheme, you have to lock the money over a fixed period ranging from 7 days to 10 years. The best part about the standard fixed deposit is that the interest rates are higher than the interest earned on money deposited in the normal savings account. The interest rate offered in a standard fixed deposit scheme varies from one financial institution to another.
- There are mainly two types of standard fixed deposit schemes:
  - **Cumulative scheme:** In a cumulative fixed deposit scheme, the interest is payable on maturity. The interest is compounded yearly, quarterly, and annually.
  - **Non-cumulative scheme:** Here, the interest is credited to your account quarterly, monthly, or annually. One also needs to understand that if you choose the non-cumulative option, the interest earned is taxable.
- **Tax-saving fixed deposit scheme:** The tax-saving fixed deposit is the best-**secured FD scheme** for claiming tax-exemptions under Section 80C of the Income Tax Act. The tax-saving fixed deposit comes with a fixed lock-in period of 5 years. By investing in this fixed deposit scheme, one can get an annual tax exemption of Rs 1.5 Lakh.

- **Senior citizen fixed deposit scheme:** The senior citizen fixed deposit scheme is a term plan that comes with special interest rates. The interest rate offered in this scheme is 0.50% higher. If you are above 60 years, you can choose a senior citizen fixed deposit scheme. It comes with the feature of a regular pay-out option where you can earn a reliable and steady income to cope with your daily financial requirements easily. During financial emergencies, a senior citizen can also avail of a loan against the Senior Citizen Saving Scheme (SCSS).
- **Benefits of getting FDs for senior citizens**
  - There are special interest rates offered in this scheme. It tends to be higher and generates profitable earnings on the investment made
  - The easiest way for senior citizens to double their money, as all the banks and financial institutions offer the **best FD rates for senior citizens.**
  - The SCSS scheme is a tax-saver FDS where one can claim tax exemption under Section 80C of the Income Tax Act of India.
  - Regular pay-out option offers more peace and financial security in the retirement years. There are different pay-out options where the interest is being paid out either half-yearly, yearly, monthly, etc.
  - The regular interest pay-out option can be a boon for retired people because it acts as a source of supplementary income.

- **Fixed deposits for NRIs and NREs:** If you are a non-resident Indian and looking for the right fixed deposit scheme, there are mainly two types of deposits
  - **NRE fixed deposit:** It is an ideal option for individuals earning in foreign currencies and want to convert the same in rupee. One of the major highlights of the NRE FD account is the interest earned under this scheme is tax-free.
  - **NRO fixed deposit:** The interest earned on the NRO fixed deposit is taxable. If you are residing abroad, earnings are generated from India, choose to go with the NRO fixed deposit scheme.
- **Corporate fixed deposits:** Company fixed deposits are a popular choice for investors. The interest rate offered in this **type of fixed deposit** is higher than that offered by banks and NBFCs. With the higher interest rate, the risk is also higher. Always invest after going through **ICRA credit ratings fixed deposits**. It helps in determining the risk percentage of investing in any of the corporate fixed deposits.

- **Here are the steps to choose the best saving schemes**
  - **Interest rate:** Always compare the interest rates offered by various banks, NBFCs, and corporates.
  - **Credibility:** Don't consider only interest rate as a factor to make the decision. Always choose the A-rated FD scheme of a company, bank or NBFCs
  - **Tenure:** After considering the above two factors, check the lock-in period and ensure that it matches your lock-in period requirement.
  - **Interest pay-out option:** There are wide options for getting interest pay-out options. It is a must to check the interest-pay-out procedure of each FD investment scheme.

Bank Deposits

- The bank is such a place where once we deposit money, it remains safe and also earns interest over some time. This is known as the deposit.
- Bank deposits serve different purposes for different people. Some people cannot save regularly. They deposit money in the bank only when they have extra income. The purpose of deposit then is to keep money safe for future needs. Some may want to deposit money in a bank for as long as possible to earn interest or to accumulate savings with interest so as to buy a flat, or to meet hospital expenses in old age, etc. Some, mostly businessmen, deposit all their income from sales in a bank account and pay all business expenses out of the deposits.
- On the basis of purpose they serve, bank deposit accounts may be classified as follows:

1. Savings Bank Account
2. Current Deposit Account
3. Fixed Deposit Account
4. Recurring Deposit Account

- **Savings Bank Account**

- As the name suggests this type of account is suitable for people who have a definite income and are looking to save money. For example, the people who get salaries or the people who work as laborers.
- This type of account can be opened with a minimum initial deposit that varies from bank to bank.
- Money can be deposited at any time in this account.
- Withdrawals can be made either by signing a withdrawal form or by issuing a cheque or by using an ATM Card. Normally banks put some restriction on the number of withdrawal from this account.
- Interest is allowed on the balance of deposit in the account. The rate of interest on this account varies from bank to bank and also changes from time to time.

- **Current Deposit Account**

➢ Big businessmen, companies, and institutions such as schools, colleges, and hospitals have to make payment through their bank accounts. Since there are restrictions on the number of withdrawals from a savings bank account, that type of account is not suitable for them. They need to have an account from which withdrawal can be made any number of times.

➢ Banks open a current account for them. On this deposit, the bank does not pay any interest on the balances. Rather the account holder pays a certain amount each year as an operational charge.

➢ For the convenience of the accountholders banks also allow withdrawal of amounts in excess of the balance of the deposit. This facility is known as an overdraft facility. It is allowed to some specific customers and up to a certain limit subject to previous agreement with the bank concerned.

- **Fixed Deposit Account**

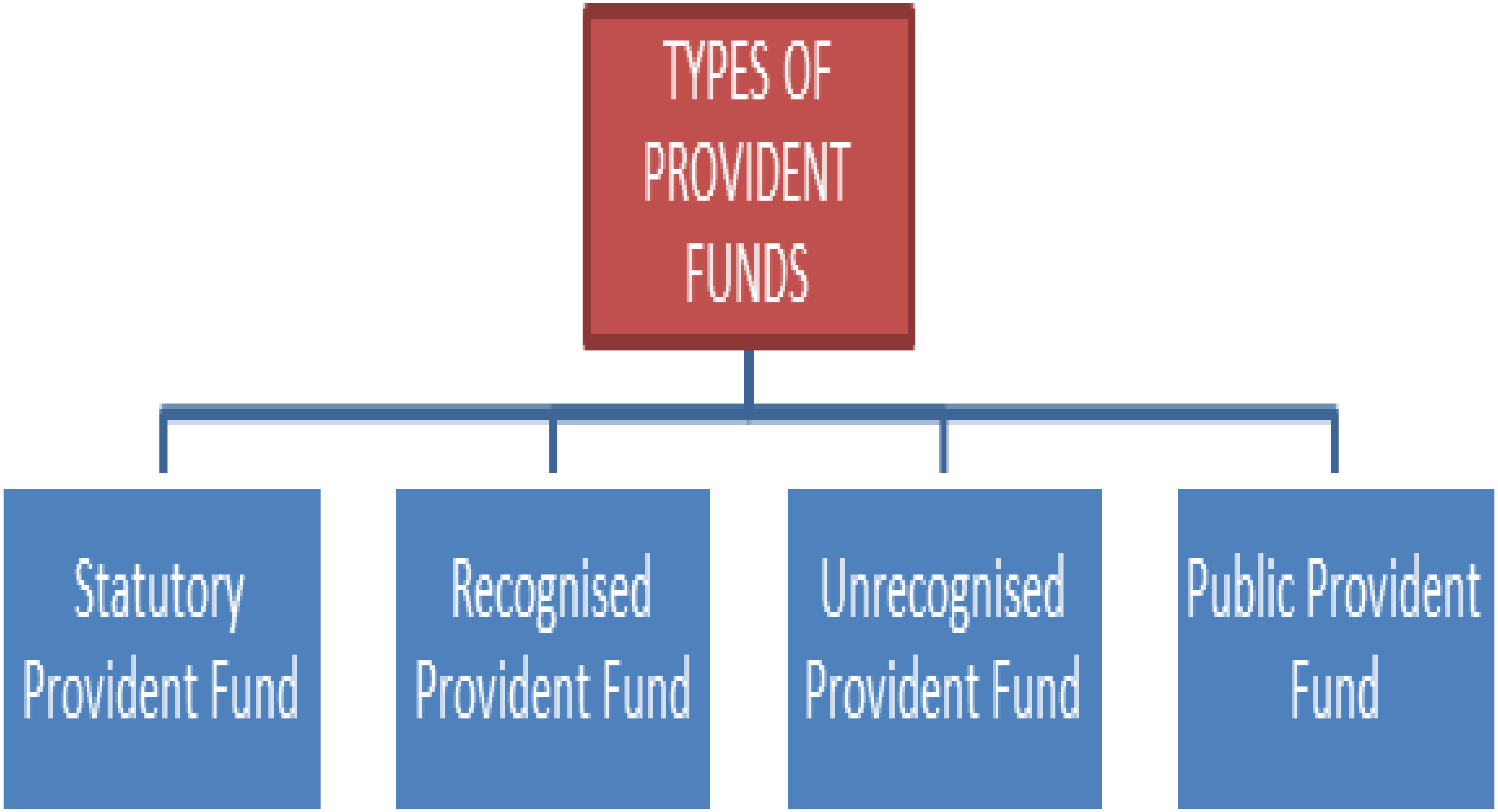
➢ Some bank customers may like to put away money for a longer time. Such deposits offer a higher interest rate.

➢ This type of deposit account allows the deposit to be made of an amount for a specified period. This period of deposit may range from 15 days to three years or more during which no withdrawal is allowed. However, on request, the depositor can encash the amount before its maturity. The interest on a fixed deposit account can be withdrawn at certain intervals of time. At the end of the period, the deposit may be withdrawn or renewed for a further period. Banks also grant a loan on the security of the fixed deposit receipt.

- **Recurring Deposit Account**
- While opening the account a person has to agree to deposit a fixed amount once in a month for a certain period. The total deposit along with the interest therein is payable on maturity. However, the depositor can also be allowed to close the account before its maturity and get back the money along with the interest till that period.
- The account can be opened by a person individually, or jointly with another, or by the guardian in the name of a minor. The rate of interest allowed on the deposits is higher than that on a savings bank deposit but lower than the rate allowed on a fixed deposit for the same period.
- The recurring deposit accounts may be of the following types:
- **Home Safe Account or Money Box Scheme**: For regular savings, the bank provides a safe or box (Gullak) to the depositor. The safe or box cannot be opened by the depositor, who can put money in it regularly, which is collected by the bank's representative at intervals and the amount is credited to the depositor's account.
- **Cumulative-cum-Sickness deposit Account**: A certain fixed sum is deposited at regular intervals in this account. The accumulated deposits over time along with interest can be used for payment of medical expenses, hospital charges, etc.
- **Home Construction deposit Scheme/Saving Account**: In this account, we can deposit the money regularly either for the purchase or construction of a flat or house in future. The rate of interest offered on the deposit, in this case, is relatively higher than in other recurring deposit accounts.

Employee Provident Fund Scheme

- Provident Fund is **a government-managed retirement savings scheme for employees**, who can contribute a part of their savings towards their pension fund, every month. These monthly savings get accumulated every month and can be accessed as a lump sum amount at the time of retirement, or end of employment.
- An employee can contribute more amounts to this fund, subject to certain provision, but employer's share is base as some percentage on basic pay.
- One of the main reasons why the **provident fund scheme** was introduced was to encourage the employees develop the habit of monthly savings and provide them a regular income post-retirement.


TYPES OF PROVIDENT FUNDS
Statutory Provident Fund
Recognised Provident Fund
Unrecognised Provident Fund
Public Provident Fund

- **Statutory Provident Fund –** This scheme is set up under the Provident Funds Act, 1925. It is meant for government employees, universities, recognised educational Institutions, railways, etc. It is also known as the General Provident Fund (GPF). The interest rates of general provident funds are revised from time to time by the government. The private sector employees are not eligible for the general provident fund.
- **Recognised Provident Fund –** The Provident Fund Act, 1952 applies to all establishments employing 20 or more employees. The establishments covered under the scheme can either apply for the government-approved scheme or start a PF scheme by forming their trust. The establishments can join the government-approved scheme set up under the PF Act 1952, which is a recognised provident fund. Alternatively, the establishment's employer and employee can create a provident fund scheme by forming a trust, and funds are invested as per rules prescribed under the PF Act, 1952. The commissioner of income tax must approve the scheme to receive the status of the recognised provident fund.
- **Unrecognised Provident Fund –** If the commissioner of income tax does not approve the provident fund scheme created by the employer and employee (as mentioned above), then such scheme is an unrecognised provident fund scheme.
- **Public Provident Fund –** The government has established a provident fund for the general public. Any person can contribute to this scheme by opening a public provident fund account with the authorised bank. The person can deposit an amount starting from Rs.500 to Rs.1,50,000. The corpus of the PPF can be fully withdrawn after the completion of 15 years.

Life Insurance

- **Life insurance** is a contract between an insurance policy holder and an insurer and assurer, where the insurer promises to pay a designated beneficiary a sum of money upon the death of an insured person (often the policy holder). Depending on the contract, other events such as terminal illness or critical illness can also trigger payment. The policy holder typically pays a premium, either regularly or as one lump sum. The benefits may include other expenses, such as funeral expenses.

- Following are the different types of life insurance policies available today in the market:-
- • **Term Life Insurance:** **Term insurance policies** provide the predefined amount of money to the policyholder's family, only if the policyholder dies during a specified term. No claim if the insured person survives till the end of the policy period. This policy essentially remains active for a predefined time and is one of the affordable policies available in the market.
- • **Whole life insurance:** Whole life insurance as the name suggests provides you cover at all points of your life in which the policy is in force. This coverage time can go as long as 100 years. These policies also offer loan facilities to the policyholder. The overall process of buying is simple and can be done online as well through a simple process.
- • **Money Back Policy:** The main difference and advantage of **money back policy** is that it gives the policyholder different survival benefits which are linked to the period of the policy. Unlike other policies, this policy gives you money during the policy period. Regardless of the installments paid, if the policyholder dies, the family gets the entire sum. These policies are expensive as compared to other counterparts.
- • **Endowment Policy:** Endowment policies are different from term insurance policies in a way that in case of these policies, the insured gets a lump sum amount of money if s/he survives till the maturity date. The policy offers insurance with savings at the same time. They also come with riders that may be used to increase the coverage of the policy. In case of death, the endowment policy guarantees that along with the sum a participation profit is also paid according to the nature of the policy.
- • **Retirement Plans:** **Retirement plans**, in simple terms, can be defined as those plans that guarantee fixed income after your retirement. They aid in creating a retirement corpus. This corpus is then invested to generate post-retirement money flow, thus creating a financial cushion and helping in risk mitigation. The money is rolled out in the form of monthly pension. All in all, these policies help the insurer in achieving the financial goals of long term nature.

GOLD AND SILVER

- For ages, gold and silver have been considered as a form of investment. They are considered as best hedge against inflation. This is a form of investment amongst the rural and semi-urban population. Besides, investors tend to invest in jewelry instead of pure gold. Gold has been used throughout history as money and has been a relative standard for currency equivalents specific to economic regions or countries, until recent times.

Shares

- In a company form of organisation, the total capital of the business is divided into smaller units known as equity share. When an investor subscribes to the equity share of a company, contributes to the total capital of the business and he becomes a shareholder. For the company, such a contribution is like a liability on which it needs to give returns to the shareholder.
- Investors earn returns in equity investing by way of dividends and capital appreciation. Along with monetary benefits, the holders of such shares also get voting rights in critical matters of the company. Basically, they are treated as owners of the company wherein the ownership is limited to the extent of the shares held by them.
- Individuals have financial goals which motivate them to invest. However, the choice of investment avenue can make or break the realisation of financial dreams. It is because of the forces of inflation and taxes. These tend to reduce the purchasing power of your money and impede faster wealth accumulation.
- choices of investing can bring about a lot of difference in your rate of return.

- Investors make huge profits when the shares are way above the price at which you bought them initially. If the price of an equity share A increase to Rs 200 after five years from the time when you bought it at Rs 100, it shows that you have doubled your money. On top of it, you receive dividends, bonus or rights shares, which further maximizes your returns.
- **Types Of Shares:** broadly share can be of two types:
- Equity shares: These are also known as ordinary shares, and it comprises the bulk of the shares being issued by a particular company. Equity shares are transferable and traded actively by investors in stock markets. As an equity shareholder, you are not only entitled to voting rights on company issues, but also have the right to receive dividends. However, the dividends - issued from the profits of the company - are not fixed. You must also note that equity shareholders are subject to the maximum risk - owing to market volatility and other factors affecting stock markets - as per their amount of investment.

- **Classification Of Equity Shares On The Basis Of Definition**

1. **Bonus Shares:** implies those additional stocks which are issued to existing shareholders free-of-cost, or as a bonus.
2. **Rights Shares:** Right shares meaning is that a company can provide new shares to its existing shareholders - at a particular price and within a specific time-period - before being offered for trading in stock markets.
3. **Sweat Equity Shares:** If as an employee of the company, you have made a significant contribution, the company can reward you by issuing sweat equity shares.
4. **Voting And Non-Voting Shares:** Although the majority of shares carry voting rights, the company can make an exception and issue differential or zero voting rights to shareholders.

- **Classification Of Equity Shares On The Basis Of Returns**

1. **Dividend Shares:** A company can choose to pay dividends in the form of issuing new shares, on a pro-rata basis.
2. **Growth Shares:** These types of shares are associated with companies that have extraordinary growth rates. While such companies might not provide dividends, the value of their stocks increase rapidly, thereby providing capital gains to investors.
3. **Value Shares:** These types of shares are traded in stock markets at prices lower than their intrinsic value. Investors can expect the prices to appreciate over a period of time, thus providing them with a better share price.

- **Preference Shares**
- These are among the next types of shares issued by a company. Preferential shareholders receive preference in receiving profits of a company as compared to ordinary shareholders. Also, in the event of liquidation of a particular company, the preferential shareholders are paid off before ordinary shareholders. Here is a look at the different types of shares in this category:
- **Cumulative And Non-Cumulative Preference Shares Meaning:** In the case of cumulative preference shares, if a particular company doesn’t declare an annual dividend, the benefit is carried forward to the next financial year. Non-cumulative preference shares don't provide for receiving outstanding dividends benefits.
- **Participating/Non-Participating Preference Share Definition:** Participating preference shares allow shareholders to receive surplus profits, after payment of dividends by the company. This is over and above the receipt of dividends. Non-participating preference shares carry no such benefits, apart from the regular receipt of dividends.
- **Convertible/Non-Convertible Preference Shares Meaning:** Convertible preference shares can be converted into equity shares, after meeting the requisite stipulations by the company’s Article of Association (AoA), while non-convertible preference shares carry no such benefits.
- **Redeemable/Irredeemable Preference Share Definition:** A company can repurchase or claim redeemable preference share at a fixed price and time. These types of shares are sans any maturity date. Irredeemable preference shares, on the other hand, have no such conditions.

Debentures

- When it comes to corporate finance, **company debentures** are loan instruments for medium to a long term of period. These are offered by both large companies and the government. Debentures mainly work on the reputation of the issuing authorities and at a fixed interest rate. Authority bodies issue debentures when they seek to borrow money from the public at a predetermined rate of interest.
- **Types of Debentures:** There are several **types of debentures** available in the market.
- **Secured debentures**

- When **company debentures** are secured against assets of the concerned company, these are called secured or mortgage debenture.
- If the security is on assets of the issuing company, then it is called fixed charge debentures. Contrarily, if the security is not specific but generic assets of the organisation, it is called a floating charge debenture.
- Secured **debentures examples** are such as company or factory building. If the company gets insolvent, the loan amount needs to be cleared before selling the property. These are divided into two further categories –

1. **First mortgage or preferred debenture :** First mortgages or preferred debentures' obligations are justified first with preference in time of realisation of the assets.
2. **Second mortgage or ordinary debenture:** After fulfilling the first mortgage debentures debt, second mortgage or ordinary **company debentures** will be serviced in the event of realisation.

- **Unsecured debentures**

Unsecured debentures are created only out of the credibility of the company, and they don't carry securities against any assets of the concerned company. Therefore, the relevant organisation doesn't offer any protection on the rate of paying interest or on paying off the loan amount to the holders.

- **Convertible debentures**

- Convertible debentures are mixed financial tools carrying the benefits of both debt and equity shares. Individuals who hold **company debentures** like convertible debenture are allowed to convert their assets into stocks. This conversion will be done with a specific ratio and after a certain period depending on the terms and conditions of the contract.
- Furthermore, convertible debentures have two types – partly convertible and fully convertible. As the name suggests, fully convertible debentures are allowed to be converted entirely into equities. However, with party convertibles, only a limited part can be converted into stocks as per the norms of the contract.

- **Non-convertible debentures**

  Debentures that don't allow the holders to opt for the conversation of debt to stock are called non-convertible debentures. This type of debenture endures as debt only.

- **Redeemable debentures**

  If the **company debentures** issuing authorities are legally mandated to redeem the debenture certificate on a particular date and pay the return to the investors, then those are called redeemable debentures.

- **Irredeemable debentures**

  Contrary to the previous one, irredeemable debentures don't carry along a redemption date with it. Therefore, these debentures can be redeemed either when the company will liquefy its assets or as per the terms and condition of the debenture contract. Another name of these debt instruments is a perpetual debenture. In the Indian security market, this type of debenture is not allowed to be sold.

- **Registered debentures**

  Registered debentures are those debt tools where the credentials of the holders such as their name, bank details, residential address, etc. are legally enrolled with the issuing authority. Hence, the investors must notify the organisation if the **company debentures** have already been transferred to another individual. Or else, the accumulated return will be credited to the previous holder.

- **Bearer debenture**

  Differently, bearer debentures don't carry any registration with any specific investor's details. With a mere delivery process, the debentures are transferred to any new holders. Moreover, the accumulated interest is paid at the exchange of coupon attached to the debenture certificate.

REAL ESTATE

Real estate is basically defined as immovable property such as land and everything permanently attached to it like buildings. It is true to say that real estate offer a rate of return which is superior to avenues such as company deposits on a long term basis. The investment in real estate essentially depends on the risks associated with it, and the alternative investment opportunities.

BONDS

- **Bonds are issued by organizations generally for a period of more than one year to raise money by borrowing**.
- Organizations in order to raise capital issue bond to investors which is nothing but a financial contract, where the organization promises to pay the principal amount and interest (in the form of coupons) to the holder of the bond after a certain date. (Also called maturity date).Some Bonds do not pay interest to the investors, however it is mandatory for the issuers to pay the principal amount to the investors.

Types of Bonds

- **<u>Government Bonds</u>**: A government bond is a debt instrument issued by the central and state governments. Such bonds are issued to raise money to finance government projects such as those involving infrastructure development. Typically, government bonds are considered risk-free since the government itself backs them. For the bond to default, the government would have to collapse, which is highly unlikely in developed countries and unlikely in most developing countries.

  <u>Types of government bonds:</u>

  - **<u>Fixed-Rate Bonds:</u>** In fixed-rate bonds, the coupon rate remains constant throughout the investment period.
  - **<u>Floating Rate Bonds:</u>** The coupon is set with respect to a reference rate in floating-rate bonds, for example, MIBOR (Mumbai Interbank Offered Rate), LIBOR (London Interbank Offered Rate), + some basis points. When the interest rate rises, fixed-rate bonds lose value, whereas fixed-rate bonds gain value if the interest rate rises. There is, however, no impact of fluctuations in interest rates on the floating rate bonds.
  - **<u>Zero-Coupon Bonds:</u>** No coupon is paid during the life of such bonds.
  - **<u>Sovereign Gold Bonds :</u>** RBI issues these bonds on behalf of the central government. They are convenient substitutes for holding physical gold and are denominated in grams of gold.

- **<u>Municipal Bonds</u>**: Municipal bonds or muni bonds, in short, are bonds issued by municipal corporations. Municipal corporations are local government bodies that use these bonds to finance socio-economic projects like the ones involved in building public infrastructure, including roads, bridges, hospitals, schools, etc., in a community.

- **Government Agency bonds:** Government agency bonds or agency bonds are issued by government-backed agencies for specific goals. They offer relatively more outstanding coupon payments but are slightly riskier than government bonds.

1. Public Sector Bonds: These bonds are issued by Public Sector Units (PSU) or the firms, with the government being the majority stakeholder for the country's growth and expansion purposes. Examples of PSU companies in India: National Thermal Power Corporation (NTPC), Oil and Natural Gas Corporation (ONGC), Steel Authority of India Limited (SAIL).

- **Corporate Bonds**: Like the government, government-backed agencies and municipal corporations need funding for various purposes; corporations also require funds for operations and expansion purposes. Corporate bonds are fixed-income securities issued by industrial corporations to raise funds to invest in plants, equipment, or working capital. They can be categorized on the basis of:

1. credit quality (measured by the ratings assigned by rating agencies)
2. maturity (short term, intermediate-term, or long term)
3. component of the indenture (sinking fund or call feature)

Corporate bonds can be subdivided as such:

1. **Secured Bonds:** Secured bonds are the most senior bonds in a firm's capital structure and have the lowest risk of default.
2. **Mortgage Bonds:** Mortgage bonds are backed by specific assets such as land and buildings. In the case of bankruptcy, the proceeds from the sale of these assets are used to pay off the mortgage bondholders.
3. **Collateral Trust Bonds:** Collateral trust bonds are a form of mortgage bond except that the assets backing the bonds are financial assets, such as stocks, notes, and other high-quality bonds.
4. **Equipment Trust Bonds:** Equipment trust bonds are mortgage bonds secured by specific pieces of transportation equipment, such as locomotives and airplanes.
5. **Subordinated Bonds:** Subordinated bonds are similar to debentures, but, in the case of bankruptcy, subordinated bondholders have a claim to the firm's assets only after the firm has satisfied the claims of all secured and debenture bondholders.
6. **Convertible Bonds:** Convertible bonds are just like other bonds, but the bondholder's indenture gives the bondholder the option to exchange the firm's common stock with the bond. Due to this added provision, convertible bonds pay lower coupon payments but are usually quite attractive for the bondholders.

Zero Coupon Bonds: This is a type of bond that makes no coupon payments but instead is issued at a considerable discount to par value. For example, a zero coupon bond with a $1000 par value and ten years to maturity might be trading at $600. So today you pay $600 for a bond that will be worth $1000 in ten years.

Other Types of Bonds

1. **Bonds raised by governments in adverse situations:** War Bonds, Climate Bonds, etc.
2. **Bonds made by introducing special provisions in indenture:** Step-Up Bonds, Step-Down Bonds, Sinking Fund Bonds, Extendable Bonds, Extendable Reset Bonds, etc.
3. **Bonds used for international investing:** Eurobonds, Yankee Bonds, Samurai Bonds, etc.
4. **Tax-Saving Bonds**

Mutual Funds

- **A mutual fund is a company that pools money from many investors and invests the money in securities such as stocks, bonds, and short-term debt. The combined holdings of the mutual fund are known as its portfolio. Investors buy shares in mutual funds. Each share represents an investor's part ownership in the fund and the income it generates.**
- A mutual fund is a professionally-managed investment scheme, usually run by an asset management company that brings together a group of people and invests their money in stocks, bonds and other securities. As an investor, you can buy mutual fund 'units', which basically represent your share of holdings in a particular scheme. These units can be purchased or redeemed as needed at the fund's current net asset value (NAV). These NAVs keep fluctuating, according to the fund's holdings. So, each investor participates proportionally in the gain or loss of the fund. All the mutual funds are registered with SEBI. They function within the provisions of strict regulation created to protect the interests of the investor. The biggest advantage of investing through a mutual fund is that it gives small investors access to professionally-managed, diversified portfolios of equities, bonds and other securities, which would be quite difficult to create with a small amount of capital.

Various types of Mutual Fund schemes exist to cater to different needs of different people. Largely there are three types mutual funds.

- **Equity or Growth Funds**
- These invest predominantly in equities i.e. shares of companies
- The primary objective is **wealth creation** or **capital appreciation**.
- They have the potential to generate higher return and are best for long term investments.
- Examples would be
  - "Large Cap" funds which invest predominantly in companies that run large established business
  - "**Mid Cap funds**" which invest in mid-sized companies. funds which invest in mid-sized companies.
  - "Small Cap" funds that invest in small sized companies
  - "Multi Cap" funds that invest in a mix of large, mid and small sized companies.
  - "Sector" funds that invest in companies that are related to one type of business. For e.g. Technology funds that invest only in technology companies
  - "Thematic" funds that invest in a common theme. For e.g. Infrastructure funds that invest in companies that will benefit from the growth in the infrastructure segment
  - Tax-Saving Funds

- **Income or Bond or Fixed Income Funds**
- These invest in Fixed Income Securities, like Government Securities or Bonds, Commercial Papers and Debentures, Bank Certificates of Deposits and Money Market instruments like Treasury Bills, Commercial Paper, etc.
- These are relatively **safer investments** and are suitable for **Income Generation**.
- Examples would be **Liquid Funds**, Short Term, Floating Rate, Corporate Debt, Dynamic Bond, Gilt Funds, etc.
- **Hybrid Funds**
- These invest in both Equities and Fixed Income, thus offering the best of both, **Growth Potential** as well as **Income Generation**.
- Examples would be Aggressive Balanced Funds, Conservative Balanced Funds, Pension Plans, Child Plans and Monthly Income Plans, etc.

Post office Deposits

- **Post Office Savings Account:** The minimum deposit to open a Post Office Savings Account is Rs.500. The account can be opened in single or joint ownership by domestic customers. An interest rate of 4% p.a. Is applicable to the deposits. You can avail of a cheque book, ATM card, e-banking and mobile banking services, and other services with the account on request.

- **5-Year Post Office Recurring Deposit Account (RD):** As the name suggests, the tenure of this RD account is fixed for five years. You can agree to a fixed monthly deposit payment starting from Rs.100 and earn interest at 5.8% p.a. The interest gets compounded quarterly. You can get a loan of up to 50% against the deposit you have already made in the account after completing 12 instalments without defaulting.

- **Post Office Time Deposit Account (TD):** There are four possible tenures for Post Office Time Deposit Accounts you can choose from, i.e. 1 year, 2 years, 3 years, and 5 years. The minimum deposit allowed in this account is Rs.1,000. The interest is calculated quarterly but is payable on an annual basis. For a tenure of up to 3 years, the rate is 5.5% p.a. and it is 6.7% p.a. for a 5-year tenure.

- **Post Office Monthly Income Scheme:** You can deposit a sum of Rs.1,000 up to Rs.4.5 lakh in a single account and up to Rs.9 lakh in a joint account. An interest rate of 6.6% p.a. can be earned through this account. You can get monthly fixed income from the scheme. You cannot prematurely close the account before completing one year. Premature closure beyond one year can attract penalties.

- **Senior Citizen Savings Scheme (SCSS):** This is a government-backed retirement scheme that allows you to make a deposit of a lump sum in one instalment. The deposit can range from Rs.1,000 up to Rs.15 lakh. The scheme offers an interest rate of 7.4% p.a. Individuals above the age of 60 years are eligible to open this account. Retired civilian employees aged between 55 years and 60 years and retired defence employees aged between 50 years and 60 years of age can also open the account subject to investing the retirement benefits within one month from the date of receipt of the benefits.

- **15-Year Public Provident Fund Account (PPF):** Many salaried individuals prefer PPF as an investment and retirement tool as the scheme offers income tax deductions up to Rs.1.5 lakh per financial year. The minimum deposit required to open the account is Rs.500 and the upper limit is Rs.1.5 lakh.Though the tenure of the account is 15 years, you only have to pay Rs.500 per financial year to keep the account active. An interest rate of 7.1% p.a. is offered by the scheme. The interest is compounded yearly. Also, the interest earned on this account is tax-free.
- **National Savings Certificates (NSC):** NSC comes with a tenure of five years where you need to make a minimum deposit of Rs.1,000. There is no maximum deposit defined for this account. With an interest rate of 6.8% p.a., the interest gets compounded annually and is paid out only at maturity. An individual can open any number of accounts under the scheme. The certificate can be pledged or transferred as security to the housing finance company, banks, government companies, and others.
- **Kisan Vikas Patra (KVP):** The attraction of this scheme is that over the tenure of the account, your investment will be doubled. The minimum deposit for this account is Rs.1,000. As per the rates applicable to quarter 4 of the fiscal year 2020-21, the applicable interest rate is 6.9% p.a. And the tenure of the account is 124 months (10 years and 4 months). Please note that the tenure of the account varies with the variation in the interest rate.
- **Sukanya Samriddhi Accounts (SSA):**This is a government scheme dedicated to the financial well-being of the girl child. Only girl children below the age of 10 years are eligible to get the benefits of this account. The account must be opened and operated by parents or guardians.The minimum deposit required is Rs.250 and a max of Rs.1.5 lakh per financial year. An interest rate of 7.6% p.a. Is applicable. The interest is calculated on a yearly basis and compounded annually. The guardian can operate the account until the girl child attains 18 years of age. The deposit can be made for a maximum of 15 years from the date of opening the account.

THANK YOU