BEST INVESTMENT AVENUES IN THE CURRENT SCENARIO

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Abstract : Markets in 2014-2015 have been rife with fluctuations. The run up to the elections and its aftermath were great for the stock market. There was new optimism about the economy, industry, and business. Oil prices went down and inflation subsided. A year later, there are prospects of less than normal monsoon, a world economy belaboring its way to marginal growth, and industrial production showing sluggish to incrementally better performance month by month. Markets too have reacted similarly and have gone down by around 6% from their record high hit in March. In such a situation, investors tend to get confused about how and where to invest. In this article, the researcher identified various avenues of investment that can still give you good returns

IndexTerms **- Investment, Tax, Investor, Fund.**

I INTRODUCTION:

Savings form an important part of the economy of any nation. With the savings invested in various options available to the people, the money acts as the driver for growth of the country. Indian financial scene too presents a plethora of avenues to the investors. Though certainly not the best or deepest of markets in the world, it has reasonable options for an ordinary man to invest his savings. Banks are considered as the safest of all options, banks have been the roots of the financial systems in India. Promoted as the means to social development, banks in India have indeed played an important role in the rural upliftment. For an ordinary person though, they have acted as the safest investment avenue wherein a person deposits money and earns interest on it. The two main modes of investment in banks, savings accounts and fixed deposits have been effectively used by one and all.

However, today the interest rate structure in the country is headed southwards, keeping in line with global trends. With the banks offering little above 9 percent in their fixed deposits for one year, the yields have come down substantially in recent times. Add to this, the inflationary pressures in economy and one has a position where the savings are not earning. The inflation is creeping up, to almost 8 percent at times, and this means that the value of money saved goes down instead of going up. This effectively mars any chance of gaining from the investments in banks. Just like banks, post offices in India have a wide network. Spread across the nation, they offer financial assistance as well as serving the basic requirements of communication. Among all saving options, Post office schemes have been offering the highest rates. Added to it is the fact that the investments are safe with the department being a Government of India entity. So, the two basic and most sought after features, such as - return safety and quantum of returns was being handsomely taken care of. Though certainly not the most efficient systems in terms of service standards and liquidity, these have still managed to attract the attention of small, retail investors. However, with the government announcing its intention of reducing the interest rates in small savings options, this avenue is expected to lose some of the investors.

Public Provident Funds act as options to save for the post retirement period for most people and have been considered good option largely due to the fact that returns were higher than most other options and also helped people gain from tax benefits under various sections. This option too is likely to lose some of its sheen on account of reduction in the rates offered. Another often-used route to invest has been the fixed deposit schemes floated by companies. Companies have used fixed deposit schemes as a means of mobilizing funds for their operations and have paid interest on them. The safer a company is rated, the lesser the return offered has been the thumb rule. However, there are several potential roadblocks in these. First of all, the danger of financial position of the company not being understood by the investor lurks. The investors rely on intermediaries who more often than not, don't reveal the entire truth. Secondly, liquidity is a major problem with the amount being received months after the due dates. Premature redemption is generally not entertained without cuts in the returns offered and though they present a reasonable option to counter interest rate risk (especially when the economy is headed for a low interest regime), the safety of principal amount has been found lacking. Many cases

like the Kuber Group and DCM Group fiascoes have resulted in low confidence in this option. The options discussed above are essentially for the risk-averse, people who think of safety and then quantum of return, in that order. For the brave, it is dabbling in the stock market.

Stock markets provide an option to invest in a high risk, high return game. While the potential return is much more than 10-11 percent any of the options discussed above can generally generate, the risk is undoubtedly of the highest order. But then, the general principle of encountering greater risks and uncertainty when one seeks higher returns holds true. However, as enticing as it might appear, people generally are clueless as to how the stock market functions and in the process can endanger the hard-earned money.

For those who are not adept at understanding the stock market, the task of generating superior returns at similar levels of risk is arduous to say the least. This is where Mutual Funds come into picture.

Mutual Funds are essentially investment vehicles where people with similar investment objective come together to pool their money and then invest accordingly. Each unit of any scheme represents the proportion of pool owned by the unit holder (investor). Appreciation or reduction in value of investments is reflected in net asset value (NAV) of the concerned scheme, which is declared by the fund from time to time. Mutual fund schemes are managed by respective Asset Management Companies (AMC). Different business groups/ financial institutions/ banks have sponsored these AMCs, either alone or in collaboration with reputed international firms.

Several international funds like Alliance and Templeton are also operating independently in India. Many more international Mutual Fund giants are expected to come into Indian markets in the near future.

II Investment alternatives in India

Non marketable financial assets: These are such financial assets which gives moderately high return but can not be traded in market.

- Bank Deposits
- Post Office Schemes
- Company FDs
- PPF
- Equity shares
- Bonds
- Money market instrument
- Mutual Funds
- Life insurance
- Real estate
- Precious objects
- Financial Derivatives

2.1. Equity mutual funds (especially comprising blue chip companies)

Though the market has gone down, there is not much downside in blue chip companies and mutual funds comprising of these companies. The government is clear about manufacturing and is providing faster clearances for factories to be set up, production to start, and energy to be given to the industry. "This may take a few months to operationalize, but the trend is clear. The projects that were in limbo for the last couple of years have started getting approved. This will create significant momentum and wealth for large firms and their investors. Blue chip equity funds are offered by HDFC Mutual Fund, Birla Sun Life, Reliance and many more," says Adhil Shetty, founder & CEO of BankBazaar.com.

In the present scenario equity still remains the most attractive investment option for investors having a long-term holding period. Despite the recent run-up, the potential for gains over the medium to long run remains very robust. "Besides higher returns, equity offers you the advantage of instant liquidity and flexibility in terms of redeeming in parts as per your requirement. Also, if you chose the equity mutual funds route, you can invest even small amounts of money. SIP option makes it easy to invest systematically over a longer period of time as well as benefit from rupee cost averaging," says Ashish Kapur, CEO, Invest Shoppe India Ltd.

2.2. Balanced fund (funds made up of equity and debt)

Many investors are not comfortable with pure equity funds because of high risk associated with the fund. Hence, they look for an avenue that is less risky and also takes advantage of market movements partially. Balanced fund is a good choice for such investors.

"Balanced funds invest a part in equity and a part in debt. The equity part moves up and down as per the market and the companies they represent, while the debt part is relatively consistent in returns. The overall return is determined by the weighted average return of equity part and debt part," informs Shetty.

For investors not having a very long period of investing or not comfortable with volatility and risks of the equity market, arbitrage and income schemes of mutual funds could be considered. They do not offer any guarantees but usually you will get significantly higher post-tax returns in these funds compared to bank fixed deposits. These schemes are usually without a lock in and hence offer the same liquidity and redemption flexibility as equity investments do.

2.3. EPF (Employee Provident Fund) and PPF (Public Provident Fund)

EPF and PPF are risk-free investments offering returns of about 9%. There are many advantages of investing in EPF and PPF. They are risk free because they are backed by the Government of India. Moreover, the interest earned is also tax free. You can also save taxes on PPF and EPF investment, subjected to the limit of Rs 1.5 lakh under 80 C.Generally, EPF is done by your employer, and you and your employer both pay equal amount towards your EPF account. Apart from the post office, PPF account can now be opened in any bank. Walk down to the nearest branch of BOI, Bank of Baroda, ICICI Bank or any other bank to open your PPF account. The maximum amount that can be invested in PPF in a year is Rs 1, 50,000. This can be done in a maximum of 12 deposits in a year, and not necessarily each month. The minimum amount required is Rs 500. PPF has tenure of 15 years, though you can withdraw it before 15 years, subject to certain conditions.

According to financial experts, conservative investors can still bank on EPF for creating their retirement corpus, but for investors with low or moderate risk profile and limited or no other retirement benefits, PPF currently appears to be the best option as returns are to a large extent guaranteed and the withdrawals after the mandatory holding period are tax-free.

2.4. Bonds offered by the Government and Corporate

Bonds are another avenue that is risk free. The bonds offered by the government are risk free because the government usually doesn't default on the payment. If everything fails, they can always print new notes and pay the bond holder (at the cost of inflation though). As far as corporate bonds are concerned, bonds offered by large firms with sound business models are preferable. There is a

small risk in corporate bonds in case the company goes bankrupt. However, bonds by Tata, Mahindra, Reliance, L&T etc. are almost risk free.

"The best way to identify a good bond offering is to look at the rating. All the bonds offerings have to go through a mandatory rating by a rating agency. The rating agency decides the rating based on the company's ability to honor its obligations to bondholders, i.e. whether it can pay the interest and principal on time. A high rating is an indication that the risk is low," says Shetty. For investors who value safety over returns and have a long period of investments, tax-free bonds are a fairly attractive option. They offer guaranteed returns which are higher than bank deposits after adjusting for tax. "Although many of them are listed, but trading volumes are low. Therefore, the disadvantage of this option is that investors may not be able to redeem their investments in case they need money before the maturity date," informs Kapur.

2.5. Real Estate

For the last couple of years, the real estate sector has disappointed investors. The market is not showing any discernible trend in this sector. Additionally, the real estate sector is mired in many controversies, corruption, and injurious practices. However, the main contributing reason for the prevailing widespread skepticism was low economic growth and even lowers expectation of future growth. However, with the new government focused on economic growth, the real estate sector will bounce with the first hint of an uptick in growth. Moreover, projects such as smart cities will provide ample opportunities to investors in the real estate sector. But investors should be careful of a few companies which are embroiled in controversies and legal battles with the government and consumers.

2.6. Foreign or overseas mutual fund

This is another area that investors usually don't consider due to minimal or zero awareness about foreign companies and markets. However, many mutual fund companies such as DSP Black Rock, Franklin Templeton and others offer mutual funds focused on foreign countries. These funds invest in many countries baUS shale oil companies, Saudi oil field companies, among others.

2.7. National Saving Certificate

National Saving Certificate (NSC) is a saving bond by the Indian government, primary used for small savings and tax saving. NSC is a risk-free investment option. It is part of the Indian postal service. NSC has a fixed term of 5 years. The rate of interest is currently 7.9% compounded annually. Investment up to Rs 1,00,000 per annum qualifies for tax rebate under Section 80C of the Income Tax Act. There is no maximum limit for investment and the minimum limit is Rs 100. Saving certificates can also be used as collateral security to get a loan from banks. The interest received is taxable. NSC is a good investment option with low risk and for shorter investment horizons up to 5 years.

2.8. Company Fixed Deposits

Company FDs are a better investment option for enterprising investors who are willing to take some risk. The risk taking is rewarded in terms of higher returns in comparison to bank FDs. "In order to attract investors towards their fixed deposits, companies offer higher returns. At present the highest return offered by company fixed deposits is close to 11% per annum. Company fixed deposits, however, are not fully secured as they are not backed by the government. In general the fixed deposit tenure ranges between 12 months to 60 months. The rate of interest varies from company to company and is related to the creditworthiness. A more creditworthy company would offer less interest and vice versa," informs Agarwal.

Investors, therefore, must do their due diligence before investing in company FDs. Following are a few things that investors should be extremely careful about:

Credit profile:

This helps determine whether the company will honor all capital and interest payments. Therefore, higher-rated FDs (AAA/FAAA) should be preferred. Companies which are having credit rating below AA should not be considered for investing.

Interest rate:

A higher rate of return on company FDs is obviously preferable. However, make sure you do not compromise on the credit rating for a higher return.

Interest payout frequency:

FDs are known to offer interest payouts at varying frequencies – monthly, quarterly, annually or a one-time payment on maturity. You must opt for the one that meets your needs. The one-time payment or 'on maturity' option generates the highest return, due to the effect of compounding

III CONCLUSION:

In the current scenario, investing is very important and investing in stock markets is a major challenge ever for professionals. The young people should start investing earlier so that they can reap the benefits of investing in future. People should keep their eye open and keep updating themselves about various investment avenues so that they can get safe returns.

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