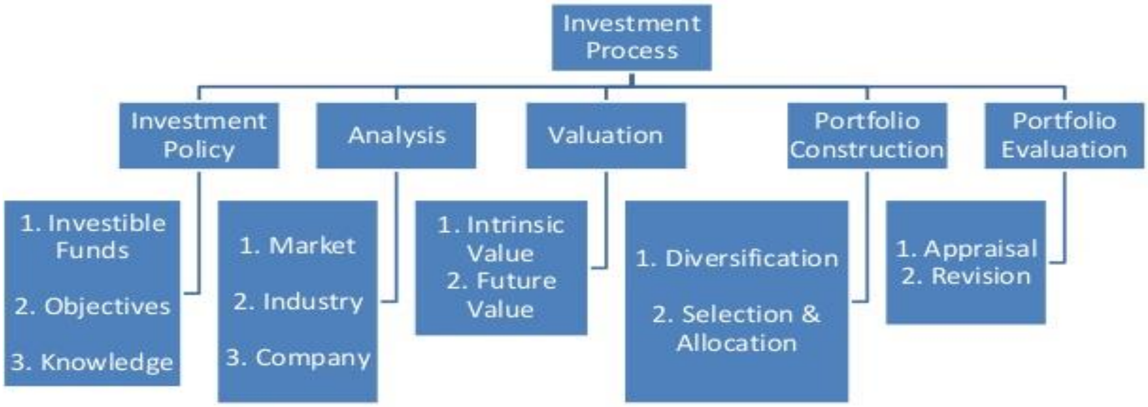
INVESTMENT PROCESS



1. ***Investment Policy:***

The first stage determines and involves personal financial affairs and objectives before making investments. It may also be called preparation of the investment policy stage.

The investor has to see that he should be able to create an emergency fund, an element of liquidity and quick convertibility of securities into cash. This stage may, therefore; be considered appropriate for identifying investment assets and considering the various features of investments.

2. ***Investment Analysis:***

When an individual has arranged a logical order of the types of investments that he requires on his portfolio, the next step is to analyse the securities available for investment. He must make a comparative analysis of the type of industry, kind of security and fixed vs. variable securities. The primary concerns at this stage would be to form beliefs regarding future behaviour or prices and stocks, the expected returns and associated risk.

3. ***Valuation of Securities:***

The third step is perhaps the most important consideration of the valuation of investments. Investment value, in general, is taken to be the present worth to the owners of future benefits from investments. The investor has to bear in mind the value of these investments.

An appropriate set of weights have to be applied with the use of forecasted benefits to estimate the value of the investment assets. Comparison of the value with the current market price of the asset allows a determination of the relative attractiveness of the asset. Each asset must be valued on its individual merit. Finally, the portfolio should be constructed.

4. ***Portfolio Construction:***

Under features of an investment programme, portfolio construction requires a knowledge of the different aspects of securities. These are briefly recapitulated here, consisting of safety and growth of principal, liquidity of assets after taking into account the stage involving investment timing, selection of investment, and allocation of savings to different investments and feedback of portfolio. While evaluating securities, the investor should realize that investments are made under conditions of uncertainty. These cannot be a magic formula which will always work. The investor should be concerned with concepts and applications that will satisfy his investment objectives and constantly evaluate the performance of his investments. If need be, the investor may consider switching over to alternate proposals.

5. ***Portfolio Evaluation***

This is the last step of the investment process. The securities included in the portfolio may not perform as predicted or may not satisfy the investing objectives. Therefore, an investor should make periodic evaluation of the performance of the portfolio against the investment objectives. Some securities in the portfolio which stood attractive may no longer be so attractive. Thus, investors should delete such securities from the portfolio and add new ones that are attractive. Thus evaluating and revising is an ongoing process.

Risk & Return Concept

Risk & Return of a Single Asset

The typical object of investment is to make **current income from investments in the form of dividends and interest income.** The investments should earn reasonable and expected rate of return on investments. Certain investments like bank deposits, public deposits, debentures, bonds etc. will carry a fixed rate of return payable periodically.

In case of investments in shares of companies, the periodical payments in the form of dividends are not assured, but it may ensure higher returns than fixed income investments. But the investments in equity shares of companies carry higher risk than fixed income instruments.

Another form of return is in the form of capital appreciation. This element of **return is the difference between the purchase price and the price at which the asset can be sold, it can be a capital gain or capital loss arising due to change in the price of the investment.**