INVESTMENT

Investment is the employment of funds with the aim of getting return on it. In general terms, investment means the use of money in the hope of making more money. In finance, investment means the purchase of a financial product or other item of value with an expectation of favourable future returns. Investment of hard earned money is a crucial activity of every human being. Investment is the commitment of funds which have been saved from current consumption with the hope that some benefits will be received in future. Thus, it is a reward for waiting for money. Savings of the people are invested in assets depending on their risk and return demands. Investment refers to the concept of deferred consumption, which involves purchasing an asset, giving a loan or keeping funds in a bank account with the aim of generating future returns. Various investment options are available, offering differing risk-reward tradeoffs. An understanding of the core concepts and a thorough analysis of the options can help an investor create a portfolio that maximizes returns while minimizing risk exposure.

There are two concepts of Investment**:**

1) Economic Investment: The concept of economic investment means 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 producers' durable instrument such as plant and machinery. Inventories and human capital are also included in this concept. Thus, an investment, in economic terms, means an increase in building, equipment, and inventory.

2) 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. Financial investment involves contrasts written on pieces of paper such as shares and debentures. 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. In primitive economies most investments are of the real variety whereas in a modern economy much investment is of the financial variety.

The economic and financial concepts of investment are related to each other because investment is a part of the savings of individuals which flow into the capital market either directly or through institutions. Thus, investment decisions and financial decisions interact with each other. Financial decisions are primarily concerned with the sources of money where as investment decisions are traditionally concerned with uses or budgeting of money.

Speculation Vs. Gambling

1. Purpose:

- Speculation is undertaken with a view to protecting against future fluctuations (in securities' prices) and to make profit out of the price-differentials.
- Gambling on the other hand, is undertaken solely with a view to making profits on price movements.

2. Degree of Risk:

- Speculation is based on the scientific analysis of market conditions. Accordingly, it is a calculated risk.
- On the other hand, gambling involves blind chance-taking. Therefore, it comprises total risk.

3. Basis of Decisions:

- Foresight is the basis of speculation decisions. Speculation proper is based on scientific knowledge of business conditions and proper forecasting.
- Gambling is purely an exercise in chance and is undertaken blindly and ignorantly. There is no objective knowledge of business conditions under gambling.

4. Utility:

- Genuine speculation is a useful activity. It helps in ironing out price fluctuations and thus, builds investors' confidence. In this manner, good speculation is socially desirable.
- Gambling is harmful to the community as it victimizes investors by causing violent fluctuations in securities' prices.
- Healthy speculation tends to iron out price fluctuations, whereas gambling only accentuates these fluctuations.

5. Legality:

- There is no legal restriction on speculation. It is a legally permissible activity because it is a valuable economic service.
- Gambling, on the other hand, is unsocial, unhealthy and illegal.

6. Physical Transfer of Securities:

- Speculation may involve physical transfer of securities or it may be merely a trading on price-differences.

- Gambling, however, never involves physical transfer of actual possession. It aims at reaping profit solely on price movements.

Objectives of Investment

The options for investing savings are continually increasing, yet every investment vehicle can be categorized according to three fundamental characteristics: safety, income, and growth.

Those options also correspond to investor objectives. While an investor may have more than one of these objectives, the success of one comes at the expense of others. We examine these three types of objectives, the investments used to achieve them, and the ways investors can incorporate them into a strategy.

Safety

There is truth to the axiom that there is no such thing as a completely safe and secure investment. However, we can get close to ultimate safety for our investment funds through the purchase of government-issued securities in stable economic systems or through the purchase of corporate bonds issued by large, stable companies. Such securities are arguably the best means of preserving principal while receiving a specified rate of return.

Income

The safest investments are those likely to have the lowest rate of income return or yield. Investors must inevitably sacrifice a degree of safety if they want to increase their yields. As yield increases, so does the risk.

To increase their rate of investment return and take on risk above that of money market instruments or government bonds, investors may choose to purchase corporate bonds or preferred shares with lower investment ratings. Investment grade bonds rated at A or AA are slightly riskier than AAA bonds but typically also offer a higher income return than AAA bonds. Similarly, BBB-rated bonds carry medium risk, but they offer less potential income than junk bonds, which offer the highest potential bond yields available but at the highest possible risk. Junk bonds are the most likely to default.

Most investors, even the most conservative-minded ones, want some level of income generation in their portfolios, even if it is just to keep up with the economy's rate of inflation. But maximizing income return can be an overarching principle for a portfolio, particularly for individuals who require a fixed sum from their portfolio every month. A retired person who requires a certain amount of money every month is well served by holding reasonably safe assets that provide funds over and above other income-generating assets, such as pension plans.

Capital Growth

This discussion has thus far been concerned only with safety and yield as investment objectives and has not considered the potential of other assets to provide a rate of return from an increase in value, often referred to as a capital gain.

Capital gains are entirely different from yield in that they are only realized when the security is sold for a price that is higher than the price at which it was originally purchased. Selling at a lower price is referred to as a capital loss. Therefore, investors seeking capital gains are likely not those who need a fixed, ongoing source of investment returns from their portfolio, but rather those who seek the possibility of longer-term growth.

Capital growth is most closely associated with the purchase of common stock, particularly growth securities, which offer low yields but a considerable opportunity for an increase in value. For this reason, common stock ranks among the most speculative of investments as the return depends on what will happen in an unpredictable future. Blue-chip stocks can potentially offer the best of all worlds by possessing reasonable safety, modest income, and potential for capital growth generated by long-term increases in corporate revenues and earnings as the company matures. Common stock is rarely able to provide the safety and income generation of government bonds.

Secondary Objectives

Tax Minimization: An investor may pursue certain investments to leverage tax minimization as part of their investment strategy. A highly paid executive, for example, may seek investments with favourable tax treatment to lessen his or her overall income tax burden. Making contributions to an IRA or another tax-sheltered retirement plan, such as a 401(k), can be an effective tax minimization strategy.

Marketability/Liquidity: Many of the investments we have discussed are reasonably illiquid, which means they cannot be immediately sold and easily converted into cash. Achieving a degree of liquidity, however, requires the sacrifice of a certain level of income or potential for capital gains.

Common stock is often considered the most liquid of investments because it can be sold within a day or two. Bonds are also marketable, but some bonds are highly illiquid or non-tradable with a fixed term. Similarly, money market instruments may only be redeemable at the precise date at which the fixed term ends. If an investor seeks liquidity, money market assets and non-tradable bonds are not likely to be held in their portfolio.