

MANAGING INVESTMENTS THROUGH SECURITY ANALYSIS IN INDIA

¹**Mr. Sunny Masand**, Assistant Professor- RNB Global University-Bikaner, Rajasthan
²**Mr. Maulik Chandnani**, Assistant Professor- RNB Global University-Bikaner, Rajasthan
³**Mr. Ashok Prem**, Assistant Professor- RNB Global University-Bikaner, Rajasthan

Abstract

Investment management alongside security analysis constitutes a systematic approach utilized by investors and portfolio managers to make well-informed investment choices. Its aim is to pinpoint undervalued securities and craft a portfolio that effectively balances risk and return. Security analysis encompasses scrutinizing financial statements, economic indicators, and market trends to ascertain the intrinsic value of a security. The investment management process unfolds through several stages. Initially, the investor or portfolio manager assesses the investment objective and risk tolerance of the client or fund. Subsequently, they engage in security analysis to unearth undervalued securities or those poised for robust growth. Construction of the portfolio follows suit, factoring in diversification and asset allocation to achieve the desired risk-return equilibrium. Success in investment management with security analysis hinges on a profound comprehension of financial markets and economic indicators. Additionally, a solid grasp of invested companies and their respective industries is indispensable. Moreover, adeptness in analyzing financial statements and market data to discern trends and seize opportunities is imperative.

Introduction

Investment management denotes the professional oversight of financial assets, including stocks, bonds, and real estate, undertaken on behalf of individuals, corporations, and institutions. The primary objective of investment management is to optimize returns for clients while simultaneously mitigating risks and minimizing expenses.

Various types of investment management services are offered by financial professionals, encompassing portfolio management, asset allocation, risk management, and financial planning. Portfolio management involves crafting and supervising a diversified investment portfolio tailored to meet the specific needs and objectives of individual clients. Asset allocation, on the other hand, entails determining the optimal distribution of investments across different asset classes, such as stocks, bonds, and cash, based on factors like the client's investment goals, risk tolerance, and time horizon.

Risk management plays a pivotal role in investment management, encompassing the identification and mitigation of risks associated with individual investments or the overall portfolio. By managing risks effectively, losses are minimized, and the potential for maximizing returns is enhanced.

Financial planning is another integral aspect, involving the development of a comprehensive financial strategy that takes into consideration the client's goals, income, expenses, and other financial variables.

These investment management services are typically provided by financial advisors, investment managers, or specialized professionals adept in handling financial assets. They typically levy a fee for their services, which may be structured as a percentage of assets under management, a flat fee, or a combination thereof.

Investment management is a critical facet of the financial industry, furnishing individuals and institutions with expert guidance and proficiency in managing their financial assets to realize their long-term financial objectives.

Investment, fundamentally, is the deployment of money with the aim of generating greater returns or augmenting the value of the capital invested. The essence of investment lies in the necessity to exercise patience for a return on the investment. It entails committing resources that have been set aside from immediate consumption with the anticipation of their utility in the future. However, the concept of "investment" is more nuanced than it may appear initially.

Financial experts and economists have categorized investments into various groups and frequently, it is conflated with the term "speculation." In the subsequent discussion, we will explore the relationship between investment and the financial and economic contexts, as well as the distinctions between investment and speculation. It is imperative to underscore that investment demands a long-term commitment, distinguishing it from speculative activities.

Security Analysis

A security analyst is tasked with evaluating marketable forms of capital, known as securities, which can be categorized into debt securities, equity securities, and hybrid instruments. These securities may also encompass credit derivatives, excluding contracts for future commodity delivery. Unlike securities, the performance of these contracts is not contingent upon external influences. However, options tied to such contracts are deemed securities due to their dependency on third-party actions, as delineated by the language of the Supreme Court's ruling in SEC v. W. J. Howey Co., which distinguishes between securities and non-securities. Security analysis primarily falls into two categories: fundamental analysis, which scrutinizes financial statements and business fundamentals, and technical analysis, which examines price patterns and momentum. Quantitative analysis often incorporates indicators from both fields.

Types of Securities:

Shares: Shares, a type of equity security, represent ownership stakes in the issuing company's capital. Shareholders possess voting rights and may receive dividends if the company generates profits. Dividend amounts are typically determined through shareholder voting during General Meetings of Shareholders.

Bonds: Bonds serve as debt securities where the buyer lends capital to the issuer. While bondholders lack decision-making power within the company, they are entitled to repayment of the principal amount along with interest. Repayment methods vary, including annual installments or

upon bond maturity. Interest payments may be fixed or variable, with intervals ranging from annually to semi-annually.

Open-end Funds: Open-end funds consist of securities and other investments managed by professional fund management companies. These funds are "open-ended," meaning their capital grows as new investors contribute. They may invest in a variety of securities, including domestic and foreign stocks, bonds, and other assets. The risk and returns of open-end funds fluctuate depending on their portfolio composition.

Trading in Open-end Funds: Open-end funds are typically not traded on exchanges, with few exceptions. Investors usually purchase shares through fund management companies via mail or standing orders, incurring fees for each transaction. Alternatively, shares may be acquired through brokerage firms, where investors pay broker fees but no additional charges for trading on an exchange.

In summary, a security analyst's role involves assessing various forms of securities, including shares, bonds, and open-end funds. Each type of security offers distinct features and investment opportunities, ranging from ownership stakes and voting rights to fixed-income returns and diversified portfolios managed by professionals. By employing fundamental and technical analysis techniques, analysts evaluate securities to inform investment decisions and optimize returns for clients.

Need for the Study

The driving force behind this study was the quest for a comprehensive understanding of investment and its applications. Delving into the historical evolution and potential outcomes of investments was the primary motivation. This project aimed to elucidate the investments made, thereby enhancing comprehension regarding their benefits to investors.

The research emanated from a case study encompassing the essence of investment analysis. It underscores the utilization of available resources within a country over successive years to produce goods and services in the ensuing years. Adopting a time valuation perspective, the study delves into the principles of compound growth or interest to provide a satisfactory arithmetic approach. Time is measured in discrete units, spanning years, months, and weeks, both retrospectively and prospectively. While compounding envisages future growth in population, demand, or accrued interest in savings accounts, discounting focuses on the present value of future returns. For instance, to assess the present value of an amount expected seven years hence, discounting reduces the future valuation based on a preferred rate, reflecting a propensity for immediate returns.

Investment Industry in India:

India boasts a vibrant investment industry offering a plethora of options for wealth accumulation. Central to this industry are various key components:

Stock Market: Regulated by the Securities and Exchange Board of India (SEBI), the Indian stock market ranks among Asia's largest. The National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) stand as the nation's primary stock markets.

Mutual Funds: Managed by professional fund managers, mutual funds are favored investment vehicles in India. They comprise diverse categories such as equity funds, debt funds, and hybrid funds.

Fixed Deposits: Renowned for their stability, fixed deposits are a preferred investment avenue among risk-averse investors. Banks offer fixed deposits with varying tenures and interest rates.

Real Estate: Real estate investment, especially prevalent among high net worth individuals, has witnessed significant growth in major cities over the past decade. Property prices surge, making real estate an attractive investment avenue.

Gold: Gold serves as a traditional safe haven investment in India, particularly during economic uncertainties. The cultural affinity towards gold drives its demand, with purchases often associated with weddings and other celebratory occasions.

Government Bonds: Issued by the Indian government to raise funds, government bonds are esteemed by risk-averse investors for their safety. Although offering lower interest rates compared to other investments, they are considered secure.

Types of Investments Available to Investors:

Investors have access to various investment options, each characterized by unique features and potential returns:

Stocks: Representing ownership shares in companies, stocks are traded on stock exchanges. While offering high returns, they entail higher risk, making them a popular choice in investment management.

Bonds: Fixed-interest financial securities issued by companies or governments, bonds offer relatively lower returns compared to stocks. Bond investment management requires expertise in macroeconomic trends, credit analysis, and interest rate movements.

Mutual Funds: Pools of capital from multiple investors, mutual funds invest collectively in securities such as stocks and bonds. Managed by experts, they provide diversification and easy access to various securities.

Exchange-Traded Funds (ETFs): Similar to mutual funds, ETFs are traded on stock exchanges, offering advantages such as diversification, ease of use, and lower costs.

Real Estate: Investments include direct ownership of property or investing in Real Estate Investment Trusts (REITs), providing potential appreciation and steady income streams.

Commodities: Physical assets like gold, silver, and oil offer diversification and potential inflation protection.

Alternative Investments: Hedge funds, private equity, and venture capital are non-traditional investments offering higher potential returns but also higher risks, typically available to accredited investors.

Each investment type presents distinct characteristics, risks, and potential returns. Therefore, investors must carefully assess their goals, risk tolerance, and investment horizon before selecting an investment avenue. Seeking professional advice can aid in making informed investment decisions.

In conclusion, the study delves into the multifaceted realm of investments, encompassing their historical context, development, and diverse applications. By scrutinizing the investment industry in India and the plethora of investment options available to investors, the study aims to equip individuals with the knowledge required to navigate the complex landscape of investment management.

Scope of the Study

The investigation aims to assess the potential risks and rewards associated with investing in a select group of equities. These equities span various industries such as infrastructure, pharmaceuticals, automobiles, power, the public sector, energy, and beyond. The analysis encompasses examining the performance and prospects of individual corporate stocks within these industries.

To execute this investigation effectively, it involves several key components:

Employing Professional Fund Managers: Experienced fund managers are tasked with conducting thorough research on the selected equities. Their expertise in financial analysis and market trends is instrumental in identifying investment opportunities and mitigating risks.

Conducting Research: In-depth research is conducted on both individual assets and asset classes. This involves analyzing financial statements, market trends, industry dynamics, and company fundamentals to assess the potential for growth and profitability.

Trading and Settling: Timely execution of trades is crucial to capitalize on market opportunities. Efficient settlement procedures ensure smooth transaction processes and timely acquisition or divestment of equities.

Marketing: Marketing efforts aim to attract potential investors by highlighting the investment opportunities and the potential benefits of investing in the selected equities.

Internal Audits: Internal audits are conducted to evaluate the effectiveness of internal systems and controls. This ensures compliance with regulatory requirements and safeguards against potential risks.

Preparing Reports for Clients: Comprehensive reports are prepared for clients, detailing the investment rationale, performance analysis, and future outlook of the selected equities. These reports serve as valuable insights for clients in making informed investment decisions.

The complexity of managing investment portfolios necessitates a diverse team comprising various roles. Front-line employees, such as marketers, interact directly with clients, while back-line employees, such as fund managers, are responsible for investment decision-making. Compliance staff ensure adherence to legal and regulatory frameworks, while internal auditors evaluate internal controls. Financial controllers manage the institution's finances, while computer experts maintain technological infrastructure. Additionally, back-office employees handle transaction tracking and record-keeping for numerous clients.

In essence, the investigation seeks to provide a comprehensive analysis of the potential risks and rewards associated with investing in specific equities across diverse industries. By leveraging the expertise of professional fund managers and conducting thorough research, the aim is to optimize investment outcomes for clients while adhering to regulatory standards and internal controls.

Fundamental Principles of Investment Strategy

Investors face a multitude of choices when it comes to making investment decisions, and understanding fundamental principles of investment strategy can guide them in constructing a well-balanced portfolio. Here are some key principles to consider:

Diversification: Spreading investments across various asset classes, such as stocks, bonds, and real estate, helps reduce risk by minimizing the impact of poor performance in any one asset class.

Risk and Return: Investments with higher potential returns usually come with higher risk. Balancing the potential for greater returns against the risk of loss is crucial.

Time Horizon: The length of time an investor plans to hold an investment, known as the time horizon, influences investment decisions. Longer time horizons typically offer more potential for growth but also entail higher risk.

Asset Allocation: Allocating investments across different asset classes based on investment goals, risk tolerance, and time horizon is essential for portfolio diversification and risk management.

Market Timing: Attempting to predict market movements and base investment decisions on those predictions, known as market timing, is risky and challenging to do consistently.

Cost Management: Minimizing investment costs, including fees and taxes, is critical for maximizing returns over the long term.

Professional Advice: Seeking guidance from financial advisors or investment managers can help investors make informed decisions tailored to their individual circumstances and goals.

Security Analysis in Investment Management:

In India, security analysis plays a crucial role in investment management, focusing on evaluating securities like stocks and bonds to gauge their investment potential. Here are some common strategies employed in security analysis:

Fundamental Analysis: This involves examining a company's financial statements, management team, industry trends, and macroeconomic factors to identify undervalued or overvalued securities. It can be applied to both stocks and bonds.

Technical Analysis: Analyzing past price and volume data to identify patterns and trends that may predict future price movements. This method is primarily used for stocks.

Quantitative Analysis: Utilizing mathematical models and statistical techniques to analyze securities, applicable to both stocks and bonds.

Risk Management: Identifying and managing risks associated with investing in securities through strategies like diversification, asset allocation, and hedging.

Asset Allocation: Dividing a portfolio among different asset classes based on investment objectives, risk tolerance, and time horizon, a crucial aspect of portfolio construction and risk management.

Active Management: Analyzing market trends and company fundamentals to identify attractive investment opportunities, applicable to both stocks and bonds.

By employing these strategies, investment managers aim to identify attractive investment opportunities while managing risk effectively. Through careful analysis and strategic portfolio

construction, investors can align their investments with their financial objectives and achieve long-term success.

Recommendations for Investment Management

Here are some suggestions and recommendations for effective investment management:

Define Clear Investment Objectives: Before investing, articulate clear investment objectives aligned with financial goals, risk tolerance, and time horizon. This clarity helps determine appropriate asset allocation and strategies.

Conduct Thorough Research: Prior to making investment decisions, conduct comprehensive research. Analyze financial statements, economic indicators, market trends, and other relevant data to identify viable investment opportunities.

Diversify Your Portfolio: Diversification is key to managing risk. Spread investments across different asset classes, sectors, and geographic regions to mitigate risk exposure and potentially enhance returns.

Monitor Your Portfolio: Regularly review and monitor your portfolio to ensure alignment with investment objectives and risk tolerance. Make necessary adjustments and rebalance periodically to maintain optimal performance.

Consider Professional Assistance: If lacking time or expertise, consider engaging a professional investment manager. They can assist in developing investment strategies, selecting suitable investments, and monitoring portfolio performance.

Stay Disciplined: Maintain discipline and patience in investment management. Avoid reactionary decisions based on short-term market fluctuations, and adhere to long-term investment plans.

In conclusion, investment management with security analysis is pivotal for informed decision-making. Identifying undervalued securities and constructing balanced portfolios requires a profound understanding of financial markets, economic indicators, and invested companies. Successful management entails a disciplined, systematic approach with continuous monitoring and adjustment as market dynamics evolve. By adhering to these principles, investors can pursue their financial objectives while mitigating risk effectively.

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