



UNIT-1

INVESTMENT SETTING

1.2 CHARACTERISTICS OF INVESTMENT WITH EXAMPLES:

Investments share specific characteristics, regardless of their type or purpose. Here are some key features, each illustrated with an example:

1.2.1. Risk & Return:

- **Definition:** Every investment carries some degree of risk, the possibility of losing some or all of your invested capital. This risk is often associated with the potential for higher returns (profits).
- **Example:** Investing in a high-growth tech startup carries significant risk because the company may not succeed, but if it does, the returns could be substantial. On the other hand, a government bond offers lower risk with a guaranteed, but smaller, return.

1.2.2. Time Horizon:

- **Definition:** The amount of time you plan to hold your investment before selling it. Different investments are suited for different time horizons.
- **Example:** Saving for a short-term goal like a vacation might involve low-risk, easily accessible investments like a savings account. Long-term goals like retirement could benefit from riskier investments like stocks with the potential for higher growth over time.

1.2.3. Liquidity:

- **Definition:** How easily you can convert an investment to cash. More liquid investments are easier to sell quickly when needed.
- **Example:** Savings accounts and money market funds are highly liquid, while real estate can take time and effort to sell.

1.2.4. Diversification:

- **Definition:** Spreading your investments across different asset classes and sectors to reduce overall risk.
- **Example:** Instead of investing all your money in one stock, building a diversified portfolio might include stocks, bonds, and real estate to minimize risk from any single asset performing poorly.



1.2.5. Cost:

- **Definition:** Any fees or expenses associated with buying, holding, and selling an investment. These can include transaction fees, management fees, and taxes.
- **Example:** Mutual funds typically charge annual management fees, while trading individual stocks incurs transaction fees. Consider these costs when evaluating potential investments.

1.2.6. Goals & Risk Tolerance:

- **Definition:** Your investment decisions should align with your financial goals and risk tolerance.
- **Example:** An investor nearing retirement with a low-risk tolerance might prioritize stable income-generating investments like bonds over riskier high-growth stocks.

1.2.7. Regulations & Taxes:

- **Definition:** Investments are subject to various regulations and taxes depending on their type and location.
- **Example:** Certain investments like real estate investment trusts (REITs) might offer tax benefits, while others like individual stocks may be subject to capital gains taxes. Understanding these regulations and taxes is crucial for informed investment decisions.