UNIT-1

INVESTMENT SETTING

1.5 INVESTMENT ALTERNATIVES

1.5.1 Traditional Investments:

Stocks:

- **Types:** Common stocks (voting rights, potential dividends), preferred stocks (fixed dividends, priority in liquidation).
- **Investment styles**: Value investing (buying undervalued stocks), growth investing (buying high-growth potential stocks), income investing (seeking regular dividend income).
- **Considerations:** Volatility, company analysis required, diversification across sectors and company sizes.

Bonds:

- **Types**: Government bonds (low risk, low return), corporate bonds (riskier, higher potential return), municipal bonds (tax-exempt in some jurisdictions).
- **Maturity:** Short-term, intermediate-term, long-term, affecting interest rates and risk.
- **Considerations:** Credit risk (issuer's ability to repay), interest rate fluctuations, potential for early call by issuer.

Cash Equivalents:

- **Types:** Money market funds, certificates of deposit (CDs), Treasury bills.
- **Benefits:** Safety, liquidity, capital preservation.
- **Considerations:** Low returns, inflation may erode purchasing power.

1.5.2 Beyond the Basic Investments

Real Estate:

- **Direct Ownership:**
  - **Benefits**: Tangible asset, rental income, potential appreciation, tax benefits.
  - **Considerations**: High upfront costs, management responsibility, illiquidity.
- **REITs:**

- **Benefits**: Professional management, diversification, liquidity (traded on exchanges).
- **Considerations**: Fees, less control over individual properties, subject to market fluctuations.

Commodities:

- **Futures contracts:** Agreement to buy or sell a commodity at a specific price in the future.
- **ETFs**: Track an index of commodity prices, offering diversified exposure.
- **Considerations**: High volatility, complex futures contracts, limited accessibility for individual investors.

1.5.3 Alternative Investments:

- **Private Equity:**
  - **Benefits**: High potential returns, access to early-stage companies.
  - **Considerations**: High minimum investment, illiquidity, long lock-up periods, limited information available.
- **Hedge Funds:**
  - **Benefits:** Potential for high returns, access to sophisticated strategies.
  - **Considerations**: High fees, illiquidity, potential for significant losses due to complex strategies and leverage.
- **Other Alternatives:**
  - **Pros:** Diversification, access to unique asset classes.
  - **Cons:** High fees, illiquidity, lack of regulation (some options), high due diligence required.

Additional Points:

- **Emerging Markets:** Investing in stocks and bonds from developing countries with high growth potential, but also higher risk.
- **Cryptocurrencies**: Highly volatile and speculative, not yet widely accepted as an investment.
- **Derivatives**: Contracts derived from underlying assets (stocks, bonds, commodities) used for hedging or speculation, requiring advanced knowledge and risk management.

Remember:

- Each investment type has its own risk-return profile and suitability for different investor profiles.

- Diversification across asset classes and investment types is crucial for managing risk.
- Conduct thorough research, understand the risks, and seek professional advice if needed before investing.

Further Exploration:

- Explore investment research reports and analyses by reputable firms.
- Consider taking online courses or attending workshops to expand your investment knowledge.
- Connect with other investors and investment professionals to learn from their experiences.