



## UNIT-1

### INVESTMENT SETTING

#### 1.6 CHOICE AND EVALUATION OF INVESTMENT ALTERNATIVES

##### 1. Equities (Stocks):

- **Risk-Return:**
  - **High Risk-High Return:**
    - Potential for capital appreciation and dividends.
    - Volatility influenced by market conditions, economic factors, and company performance.
  - **Time Horizon:**
    - **Long-Term:**
      - Historically, equities tend to provide higher returns over extended periods.
      - Allows for the weathering of market volatility.
  - **Tax Considerations:**
    - **Capital Gains:**
      - Taxed based on holding period.
      - Long-term gains often taxed at a lower rate than short-term gains.

##### 2. Bonds:

- **Risk-Return:**
  - **Moderate Risk-Moderate Return:**
    - Generate income through interest payments.
    - Prices influenced by interest rate changes and credit risk.
- **Time Horizon:**
  - **Varies:**
    - Short to long-term bonds available.
    - Longer-term bonds may be sensitive to interest rate changes.



- **Tax Considerations:**

- **Interest Income:**

- Taxed at ordinary income rates.
    - Municipal bonds may offer tax-free interest income.

### 3. Real Estate:

- **Risk-Return:**

- **Moderate to High Risk-Moderate to High Return:**

- Potential for rental income and property appreciation.
    - Market conditions, location, and management impact returns.

- **Time Horizon:**

- **Long-Term:**

- Real estate often appreciates over extended periods.
    - Illiquid asset – requires commitment.

- **Tax Considerations:**

- **Depreciation:**

- Tax benefits from property depreciation.
    - Possible deductions for mortgage interest.

### 4. Mutual Funds:

- **Risk-Return:**

- **Varies by Fund Type:**

- Equity funds carry higher risk and return potential.
    - Bond funds may offer lower risk and returns.

- **Time Horizon:**

- **Varies by Fund Objective:**

- Equity funds for long-term growth.
    - Bond funds for income with a shorter horizon.

- **Tax Considerations:**



- **Capital Gains Distributions:**
  - Taxed annually for funds with realized gains.
  - Tax-efficient funds may minimize tax impact.

## 5. Derivatives:

- **Risk-Return:**
  - **High Risk-High Return:**
    - Used for hedging or speculative purposes.
    - Leverage amplifies both gains and losses.
  - **Time Horizon:**
    - **Short to Medium-Term:**
      - Derivatives often used for tactical positioning.
      - Not suitable for long-term buy-and-hold strategies.
  - **Tax Considerations:**
    - **Tax Efficiency:**
      - Gains and losses taxed based on short-term or long-term classification.
      - Tax implications vary by derivative type.

## 6. Cryptocurrencies:

- **Risk-Return:**
  - **Very High Risk-High Return:**
    - Known for extreme price volatility.
    - Lack of regulation and market maturity.
  - **Time Horizon:**
    - **Varies:**
      - Short-term trading for speculative gains.
      - Long-term holding for potential appreciation.
  - **Tax Considerations:**



- **Capital Gains:**
  - Taxed based on holding period.
  - Cryptocurrencies may have unique tax reporting requirements.

## 7. Precious Metals (e.g., Gold and Silver):

- **Risk-Return:**
  - **Moderate Risk-Moderate Return:**
    - Traditionally considered a safe-haven investment.
    - Prices influenced by economic factors and inflation.
- **Time Horizon:**
  - **Varies:**
    - Often used for wealth preservation over the long term.
    - Liquid asset, but price fluctuations can occur.
- **Tax Considerations:**
  - **Capital Gains:**
    - Taxed based on holding period.
    - Certain gold investments may qualify for special tax treatment.

## 8. Savings Accounts and Fixed Deposits:

- **Risk-Return:**
  - **Low Risk-Low Return:**
    - Secure, guaranteed returns.
    - Interest rates may not keep pace with inflation.
- **Time Horizon:**
  - **Short to Medium-Term:**
    - Suitable for emergency funds or short-term goals.
    - Limited growth potential over the long term.
- **Tax Considerations:**
  - **Interest Income:**



- Taxed as ordinary income.
- Interest earned on savings accounts may be subject to tax deduction.

**Conclusion:**

Investors should carefully assess their risk tolerance, investment goals, and time horizons when choosing among different investment options. Additionally, understanding the tax implications is crucial for optimizing after-tax returns. Diversification across various asset classes can help create a balanced portfolio that aligns with individual financial objectives.