



# **SNS COLLEGE OF ENGINEERING**

**Kurumbapalayam (Po), Coimbatore - 641 107**

**An Autonomous Institution**

**Accredited by NBA - AICTE and Accredited by NAAC - UGC with 'A' Grade  
Approved by AICTE, New Delhi & Affiliated to Anna University, Chennai**

**DEPARTMENT OF MANAGEMENT STUDIES**

**COURSE NAME : 19BA307 - INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT**

**II YEAR / III SEMESTER**

**UNIT 1 - INVESTMENT MANAGEMENT**



# CHOICE OF INVESTMENT & EVALUATION OF INVESTMENT

*is based on*

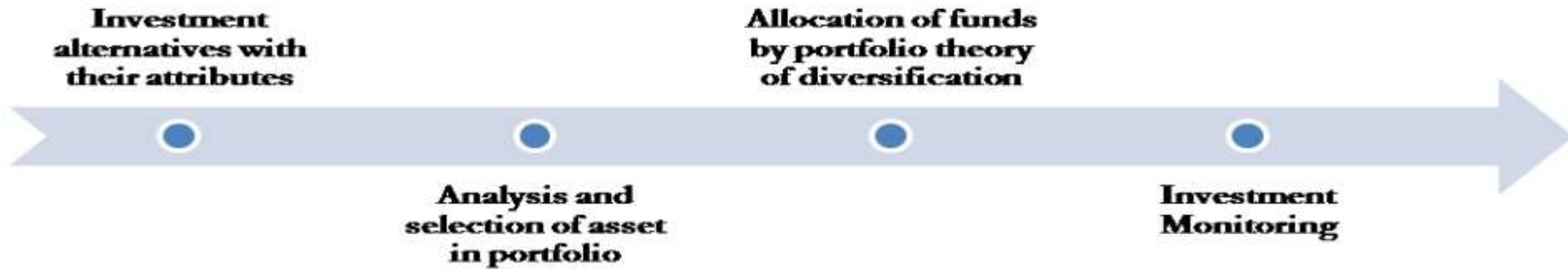
*Risk*

*Return*

*Safety*

# INVESTMENT ALTERNATIVES

<b>EQUITY SHARES</b>	<ul style="list-style-type: none"> <li>• Represents ownership in business</li> <li>• No fixed return, thus risky</li> <li>• Liquid investment</li> <li>• Blue Chip, Growth, Income Scrip</li> </ul>	<b>NON MARKETABLE SECURITIES</b>	<ul style="list-style-type: none"> <li>• Securities which cannot be liquidated in the market</li> <li>• Bank Deposits, PO Deposits, Company Deposits, PF Deposit</li> </ul>
<b>MONEY MARKET INST.</b>	<ul style="list-style-type: none"> <li>• Just like debentures</li> <li>• Time period is less (less than 1 year)</li> <li>• E.g. : Treasury bills, CP, CD</li> </ul>	<b>MUTUAL FUNDS</b>	<ul style="list-style-type: none"> <li>• Easy and Tension free investment</li> <li>• In Debt, or Equity or mix of both</li> <li>• Advantage of professional management services at low cost</li> </ul>
<b>LIFE AND GENERAL INSURANCE</b>	<ul style="list-style-type: none"> <li>• Life Insurance is investment for secure life.</li> <li>• General Insurance are useful for corporates.</li> </ul>	<b>REAL ESTATE</b>	<ul style="list-style-type: none"> <li>• It includes : Agricultural land, Semi-Urban Land, Commercial Property, Raw House, Farm House etc.</li> </ul>
<b>PRECIOUS OBJECTS</b>	<ul style="list-style-type: none"> <li>• Precious objects includes gold, silver, precious stones, paintings, ancient coins etc.</li> </ul>	<b>DERIVATIVE</b>	<ul style="list-style-type: none"> <li>• Indirect investment in assets.</li> <li>• Leverages the investments and manages the risk</li> <li>• Forward, Futures, Options, Swaps</li> </ul>
<b>DEBENTURES OR BOND</b>	<ul style="list-style-type: none"> <li>• Long term investment with fixed stream of cash flow, therefore relatively less risky</li> <li>• Risk depends upon the who is the issuer</li> <li>• E.g. : Government securities, saving bonds, PSU bonds, debentures of private sector companies</li> </ul>		





## Factors Affecting the Choice of Investment Securities

- A. Expected Rate of Return
- B. Tax Exposure
- C. Interest-Rate Risk
- D. Credit or Default Risk
- E. Business Risk
- F. Liquidity Risk
- G. Call Risk
- H. Prepayment Risk
- I. Inflation Risk
- J. Pledging Requirements



## Factors Affecting the Choice of Investments (continued)



### COMPONENTS OF THE RISK FACTOR

- **Inflation risk** - during periods of high inflation your investment return may not keep pace with the inflation rate
- **Interest rate risk** - you may invest in a bond at a 6%, rates later go up to 8%; your bond price falls
- **Business failure risk** - bad management or products affect stocks and corporate bonds and mutual funds that invest in stock
- **Market risk** - prices fluctuate because of behaviors of investors
- **Global investment risk** - changes in currency affect the return on your investment



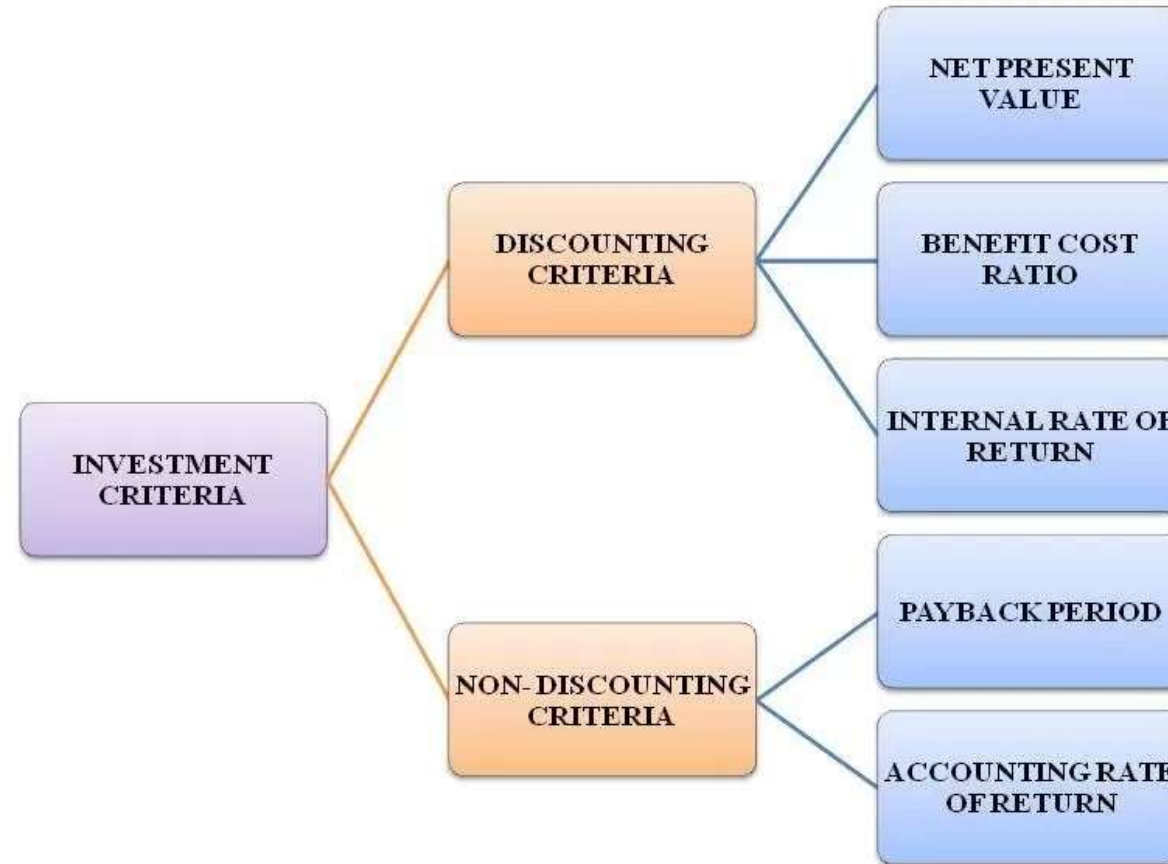


# Investment Evaluation Criteria

- Three steps are involved in the evaluation of an investment:
  1. Estimation of cash flows
  2. Estimation of the required rate of return (the opportunity cost of capital)
  3. Application of a decision rule for making the choice



# INVESTMENT EVALUATION TECHNIQUES





# Concept of Risk

- ✓ A person making an investment expects to get some returns from the investment in the future.
- ✓ However, as future is uncertain, the future expected returns too are uncertain.
- ✓ It is the uncertainty associated with the returns from an investment that introduces a risk into a project.
- ✓ The expected return is the uncertain future return that a firm expects to get from its project.
- ✓ The realized return, on the contrary, is the certain return that a firm has actually earned.





## Concept of Return

- ✓ Return can be defined as the actual income from a project as well as appreciation in the value of capital.
- ✓ Thus there are two components in return—the basic component or the periodic cash flows from the investment, either in the form of interest or dividends; and the change in the price of the asset, commonly called as the capital gain or loss.



THANK YOU