# INVESTMENT OPPORTUNITIES IN INDIA

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## ABSTRACT

*People confuse 'too many holdings' with investment diversification. One of my friend considered spreading his money among different mutual funds as a good practice. He did it believing that it will create a diversified portfolio. When I looked into the holding of his mutual funds, they were all packed with equity. In 2008 when stock market crashed all over the world, so was his entire portfolio. So where is the diversification here? Buying only different mutual funds or stocks is not diversification. Knowledge about different investment opportunities in India will helps such people. The more options are known the wiser will be ones investment choices. Perhaps people get trapped in stocks and funds because they know only these options.*

**Keyword:** *Investment, opportunity, Asset, Deposit*

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## 1. Investment opportunities and Diversification

Investment Goals is important for investors to segregate their investment by **goals**. In order to make the goal-based investing effective one must have wide knowledge of investment opportunities. In financial terms we call these opportunities as **assets**. It is these assets that add money to our pockets. How selection of assets differs between goal to goal? When we invest our money, we do it for a requirement. If requirement is very close from today, selection of assets will be different. If requirement is far away from today, selection of assets will be different. If requirement is to generated regular income, assets will be different. Hence it is very important that one must **link every investment purchase** with a specific GOAL.

### 1.1 What are my investment goals? *I invest my money to make more money*

I mainly invest money for two things. Firstly I invest money for my family's future requirements. Secondly I invest my money to generated alternative source of income.

– To protect my family needs I rely on **capital appreciation** theory.
– To generated alternative income, I rely on **income investing** theory.

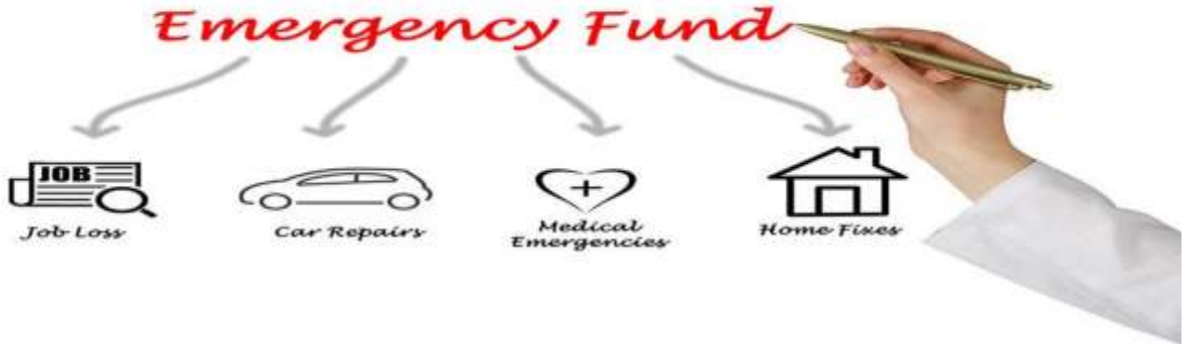
I know people who also invest their money for **Emergency**. There are people who invest money to **beat inflation**. There are large majority of people who also invest money for **short term trading**.

In this article we will segregate all investment opportunities in India on basis of following investment goals:

- Investing money to create **emergency fund**
- Investing money for **capital appreciation**
- Investing money for **income generation**
- Investing money to beat **inflation**

Let's see all the available investment opportunities we have in India categorized based on ones investment goals. Categorizing all investment opportunities this way, I believe, will benefit my readers the most. Its the goal based investing that is publicized in this article. There are so many people who invest their hard earned money. But why only a tiny majority gain success? People who has been successful has exhibited a common characteristic, they all practice goal based investing.

**1.2 Investment Opportunities for creation of emergency fund**




Here, those options are identified which are considered super-safe investments. In financial terms we call these options as **cash equivalents**.We have most control on the money that's kept in our wallet. We call it cash. If objective is to build emergency fund, create a sufficient cash back-up. But in financial terms, keeping cash in locker is not wise. Hence people invest money in cash equivalent options. The term cash-equivalent is used for those investment opportunities which are as safe as cash in our wallet. Cash equivalents has government backing which prevents the principal from erosion under all conditions. Not only the principal is 99.99% protected but the fund is also very **liquid**. People can draw-out their money whenever they like.**Protection of principal** and high liquidity is an essential ingredient for emergency fund generation.

But the down side of these investment opportunities is that the returns are very low. As the investment risk is bare minimum, hence the returns are also rock bottom. In India, cash equivalent investment options can generate returns between 4% to 7% per annum. But what is the harm? Till investments are generating returns, we are actually making money. If one considers **inflation and income tax**, returns of cash-equivalent investments will be negative. Hence, except for emergency fund generation, experts do not prefer parking money in these options.
[Income generated from cash equivalent investment vehicles are taxable] Don't get me wrong please. I am not advocating here against creation of emergency funds. Perhaps creation of emergency fund is more important than any other goal. It is the emergencies in life that **eat away majority of our savings**. Hence its better to maintain emergency fund as a back-up.

Only those people who have sufficient emergency fund can invest freely. Only these people can afford to invest in high-risk-high-returns options. In order to take advantage of high return investment opportunities, one must build a sufficiently big emergency fund. Ideally one must have at least 6 months worth of expense in emergency fund.

1) **Savings Account:** We all have at least one savings account managed by us. Money kept in the savings account is considered safest. Ideally people would keep their emergency funds in savings account. As on today, a typical savings account deposit will earn close to 4% returns. The liquidity of funds is also guaranteed.

2) **Recurring Deposit**: Emergency fund creation gets built-up gradually. Recurring deposit is an excellent option in this regard. One can keep investing small sums of money each month as per recurring deposit scheme. Instead of waiting for large savings to accumulate, one can start investing in RD with as little as Rs 500.

3) **Fixed Deposit:** It is considered safest only next to savings account. In India, majority has at least one fixed deposit linked to their savings account. Experts consider money parked in fixed deposits as an ideal instrument for emergency funds. As on today, a typical savings account deposit will earn close to 7.5% returns. The funds are not as liquid as savings account but money can be withdrawn within 1-2 days notice.

4) **Money Market Mutual Funds**: Money market mutual funds are also very safe investment option. But they are not as well utilised by Indian middle class as savings a/c and bank deposits. On an average, money market mutual funds can give 8% returns. Money market funds mainly invest in corporate bonds, bank deposits, treasury bills, government backed instruments etc.

## 2. Investment Opportunities for capital appreciation

Who does not want to **retire rich**? I personally would like to lead a retire life with luxury. The only problem is, I want to **retire early**. I know a lot of people will eco my wish. In this cut-throat competing world, such desires are frequently visited. It is true that I cannot afford that luxury today. So what is the solution? Early and luxurious retirement is like a dream. But it can become a reality if we learn to utilise the power of capital appreciation.

Lets face a fact, even if we desperately want it, we cannot retire tomorrow. It will take come time to build a **retirement corpus**. Hence earlier we start the bigger corpus one can generate. But why it takes time to build retirement corpus through capital appreciation? Does capital appreciation opportunities yield lower returns like emergency savings? No, infact the reverse is true, capital appreciation opportunities yield high returns. Then why it should take time to build retirement corpus? There are two reasons why retirement corpus needs time. First, retirement corpus are big sums of money. Secondly, in short term capital appreciation opportunities are very **volatile**. In order to negate the effect of volatility, one must buy capital appreciation options with longer holding time. These are very highly volatile assets, hence also yield high returns. But in order to allow high yields to materialize, one must **hold them for long term**. Long term returns of these assets will **beat inflation**. On an average, an equity linked investment opportunity in India will yield returns close to 12-15% per annum. The only control point is, one must hold these assets for 5 years or more.

There are people who do not invest in capital appreciation assets. They take a plea that because they are contributing to **Retirement Plan** they are protected. More often than not, such plans fall drastically short of requirement. Hence investing growth based assets is essential.

1) **Direct Stocks:** Stocks provide best returns in long term. Perhaps there is no other investment opportunity that can match long term returns like stocks. The only control point one must learn before investing in stocks is to learn to value them. As an investor, one would not like to buy stocks of a fundamentally weak business. One would also like to avoid stocks at overvalued price levels.

2) **Equity Linked Mutual Funds**: These mutual funds invest 100% in stocks. People who are not comfortable buying direct stocks can buy mutual funds. Long term returns of equity linked mutual funds can match that of direct stocks. In some cases, returns of mutual funds even outperform its peer stocks.

## 3. Investment Opportunities for income generation

People should start accumulating **alternative income generation** options early in their life. Some people in their middle ages start thinking about alternative income generation. These are those people who have realized that being dependent only on **job for income** can be dangerous. There is still a huge majority of people for whom alternative income generation is not a priority. These are those people who are either filthy rich or are **financially ignorant**. One must divert at least **5-10%** of monthly take home salary towards alternative income generation. It may look like pea-nuts in the beginning. But over a period of time, the income generated from income producing assets will start to supplement the salary. I have seen real life example where ones income from such assets is nearly 75% of ones take home salary. Such people really enjoy the benefits of **financial freedom**.

### 3.1 Where to invest money for income generation?

1) **Fixed Deposit:** Haven't we already talked about fixed deposits in emergency fund section? Yes but this fixed deposit is slightly different. Here the investor can choose to withdraw the accrued interest monthly/quarterly/annually. The sole purpose of this fixed deposit is to generate fixed income for its investors.
**2) Dividend Paying Stocks**: Haven't we already talked about fixed deposits in emergency fund section? Yes but these stocks are lightly different. These are stocks of companies which regularly shares its profits with its shareholders. The profits shared by the companies are in form of dividends. I will give you a real life example. I currently hold few shares of Coal India Ltd. Today I have received some **dividends from the company**. The dividend income has been credited right into my savings account. The dividend yield that currently I am making with Coal India is 9.5% per annum.
**3) Dividend Paying Mutual Funds**: Like dividend paying stocks,**dividend paying mutual funds** also specialise in income generation for its investors. Generally such mutual funds pay dividends once every year. I will give you a real life example. I currently hold few units of Franklin India fund. In the month of Feb'16 it paid me dividend. The dividend yield that I made with Franklin India was 7.4% per annum.
**4) Rental Property**: Rental income from real estate property is very assured. I personally have a rental property which regularly yields monthly income. Though at this stage the income yield of that property is very low (4.8% p.a.) but soon it will grow. Every year the rental income grows to match inflation. Moreover, I too **prepay my home loan** every quarter with purpose of lowering of EMI. This further will improve my rental yield in times to come.
**5) REITs**: Though REITs has still not started in India but I will still mention them here. By end of year 2016, first REITs is going to be launched in India. This will be perhaps the best income generating opportunity available for common man. To know more about REITs one can **visit an article** already published by me. On an average, REITs are expected to yield at least 7-8% per annum returns for its investors.

## 4. Investment Opportunities to beat inflation


Inflation is a main concern of all. It is because of inflation that our purchasing power goes down with time. If we can only invest money to beat inflation we say that our 75% job is done. Investments that has potential to **beat inflation** are invaluable. Such options are investment opportunities in real sense. All investment options that deal with **paper currency** are bound to face the wrath of inflation some day. The best alternative for one to safeguard ones wealth against inflation is to keep accumulating **hard assets** as well. Here we will discuss about those hard assets here. I have seen people calling stocks, equity mutual funds etc as options to beat inflation. They are not wrong. These investment options has returns so high that they can easily beat inflation. But they cannot be treated as an ideal inflation beating asset. Performance of these investment options are completely dependent on **strength of paper currency**. Hence we must find an alternative opportunity that can beat inflation.

**1) Gold & Silver**: It is considered as the best inflation hedge. There is an option for investors to buy physical gold or its ETF. Supply of precious metal is limited. Over a period of time, the demand of precious metals has only increased. According to current trends, its is expected that gold and silver has potential to beat inflation in long term.

**2) Residential Property**: Residential property is also an investment opportunity one should not miss. The earlier on starts to accumulate it, the better. The capital appreciation of a well located property will certainly beat inflation. If one can add rental income, residential property becomes a sure sort inflation hedge.

**OBSEVATIONS…**

I hope you have liked the information. The idea that was highlighted here was to practice goal based investing. From this simple example one can understand how selection of investments changes with goal. I am personally a more of an 'income investor'.