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B.Com Honours | Semester II | Calicut University

Essentials of Investment

Course Code: COM2MN105 • Module 1 Notes

1. Introduction to Investment: Concepts and Objectives

An investment is the commitment of money or capital to purchase financial instruments or other assets in order to gain profitable returns in the form of interest, income, or appreciation of the value of the instrument. It is the core engine of wealth building and personal finance management. This module covers the definition and need for investment, the relationship between savings and investment, primary investment objectives, the distinction between investment and speculation, and risk classifications.

Savings vs. Investment

- **Savings:** Setting aside a portion of current income for future use, typically kept in highly liquid and low-risk bank deposits. Focuses on preservation.
- **Investment:** Deploying saved capital into productive assets (shares, real estate, mutual funds) to earn higher returns. Focuses on growth and carries risk.
- **Systematic Savings:** Establishing regular habits (like monthly savings) is essential to compile the capital required for meaningful investment.

Primary Objectives of Investment

Investors deploy capital to achieve specific financial goals:

- **Wealth Accumulation:** Building long-term funds for retirement, education, or estate planning.
- **Capital Appreciation:** Growing the principal amount invested (e.g., buying a stock at ₹100 and selling at ₹200).
- **Income Generation:** Receiving regular payouts (e.g., stock dividends, bond interest, rental income).
- **Inflation Protection:** Earning returns that exceed the inflation rate to maintain purchasing power.

Investment vs. Speculation

Understanding the boundary between investing and speculating is vital for financial safety:

Comparative Basis	Investment	Speculation
Time Horizon	Long-term planning horizon (typically years).	Short-term horizon (days or weeks).
Risk Level	Moderate, calculated risk based on analysis.	Very high risk of capital loss in pursuit of high returns.
Analysis Basis	Fundamental analysis (earnings, assets, business quality).	Market rumors, price charts, and momentum.
Income Return	Expects steady dividends or interest payouts.	Focuses solely on capital gain from price swings.

Introduction to Investment Risk

Every investment carries risk—the probability that actual returns will differ from expected returns. Risk is divided into two categories:

Systematic Risk (Market Risk)

Macroeconomic risks that affect the entire market and cannot be diversified away. Includes **Interest Rate Risk** (bond price drops when rates rise), **Inflation Risk** (purchasing power loss), and **Market Risk** (geopolitical shocks, recessions).

Unsystematic Risk (Specific Risk)

Microeconomic risks unique to a specific company or sector. Includes **Business Risk** (poor product sales, management failure) and **Financial Risk** (high corporate debt leading to default). Can be minimized through portfolio diversification.