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ESSENTIALS OF INVESTMENT

EXAM REVISION NOTES

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MODULE I

INTRODUCTION TO INVESTMENT

Foundations of Investment, Personal Finance Wealth Building

The Imperative Need for Investment in Modern Personal Finance: Historically, individuals preserved surplus wealth in physical currency notes or gold buried in lockers. In contemporary economies characterized by fiat currencies, fractional reserve banking, and persistent price inflation, holding unallocated cash is financially destructive.

Funding Inflexible Lifecycle Milestones

Heuristic Rules of Thumb for Wealth Doubling and Tripling:

- **The Rule of 114 (Tripling Time):** Approximate years to triple capital: Years to Tripleapproxr%114.
- **The Rule of 144 (Quadrupling Time):** Approximate years to quadruple (4x) capital: Years to Quadrupleapproxr%144.

Conceptual Demarcation: Savings vs. Investment: In popular discourse, the terms "saving" and "investing" are often used interchangeably, yet in financial economics they represent distinct behaviors on the financial spectrum.

- **Core Definition:** ; Allocating saved funds into capital assets expecting capital gains or dividend/interest yields.
- **Primary Objective:** ; Long-term wealth accumulation, purchasing power expansion, and capital appreciation.
- **Risk Profile:** ; Moderate to high market, interest rate, business, and volatility risks; capital may fluctuate.
- **Expected Returns:** ; Potentially superior (historically 10% to 15%+ per annum over long horizons in equities).

Traditional Savings Instruments

- **Savings Bank (SB) Account:** Daily balance interest, high liquidity, Section 80TTA deduction up to ₹10,000.
- **Recurring Deposit (RD):** Regular monthly contractual savings for fixed terms (6 months to 10 years).
- **Post Office Savings Schemes:** Sovereign security backed by Government of India, ideal for rural savers.

Essential Features of an Investment Asset: Every financial asset or investment instrument is characterized by structural attributes that determine its suitability for an investor's portfolio:

Market Liquidity

Tangibility Convenience

Investment, Speculation, Gambling Trading

The Long-Term Investor

- **Perspective:** Views equity shares as fractional ownership in real operating businesses.
- **Focus:** Corporate earnings power, return on equity (ROE), capital allocation prudence of management, industry competitive positioning.
- **Reaction to Volatility:** Views market declines as attractive buying opportunities to acquire quality assets at discounted valuations.
- **Holding Pattern:** Buy-and-hold strategy across business cycles.

Risk-Return Tradeoff and Deconstruction of Risk

Systematic Risk (Market / Undiversifiable Risk): Systematic risk originates from broad macroeconomic, political, and financial system forces that influence the entire commercial universe simultaneously.

C. Purchasing Power (Inflation) Risk

A. Business Risk

D. Liquidity Credit Risk

MODULE II

ALTERNATIVE INVESTMENT AVENUES

Bank Deposits and Fixed Interest-Bearing Instruments: Fixed-income instruments form the defensive backbone of any balanced investment portfolio. They represent debtor-creditor contractual relationships wherein an investor lends capital to a commercial bank, municipal body, corporate borrower, or sovereign government in return for regular, predetermined interest coupon payments and the unconditional return of the invested principal at maturity.

Commercial Bank Deposits: Products, Mechanics, and Safety: Bank deposits represent the primary financial savings gateway for the Indian public. Regulated strictly under the Banking Regulation Act of 1949 and Reserve Bank of India (RBI) guidelines, bank deposit products are categorized as:

Recurring Deposits (RD)

- **Nature:** Term deposit where a fixed Sum of is deposited monthly for a contracted tenure (6 months to 10 years).
- **Compounding:** Interest is compounded quarterly, providing disciplined forced savings for future milestones.
- **Premature Penalty:** 0% below the card rate).

Tax-Saving Fixed Deposits

- **Lock-in Period:** Statutory mandatory lock-in of exactly 5 years.
- **Tax Deduction:** Eligible for deduction under Section 80C up to ₹1,50,000 per financial year.
- **Taxation of Yield:** The interest earned is fully taxable at the investor's marginal slab rate (EEE is NOT applicable; it is ETT).

Institutional Safety: The DICGC Insurance Framework: , across different tax brackets:

- **Nil Bracket (0%):** 50% (Positive real gain)
- **Slab 1 (5% + cess = 5.2%):** 14% (Positive real gain)
- **Slab 2 (20% + cess = 20.8%):** 04% (Breakeven)
- **Slab 3 (30% + cess = 31.2%):**)

Credit Rating Agency Framework (CRISIL, ICRA, CARE, India Ratings):: Before investing in any corporate bond or debenture, investors must inspect the mandatory Credit Rating assigned by independent SEBI-registered rating agencies:

- **AAA (Highest Safety):** Lowest expectation of default risk.
- **AA+ / AA / AA-:** High safety; very low credit risk.
- **A+ / A / A-:** ; Growth-oriented fixed-income allocators.
- **BBB+ / BBB / BBB-:** Moderate safety; lowest investment grade.

Government Securities (G-Secs) and Sovereign Debt: Government Securities (G-Secs) are tradable debt instruments issued by the Reserve Bank of India on behalf of the Central and State Governments to finance national fiscal deficits and infrastructure projects.

- **Treasury Bills (T-Bills):** Short-term money market sovereign instruments issued by the Central Government with tenures of 91 days, 182 days, and 364 days.
- **Dated G-Secs (Central Government Bonds):** Long-term sovereign debt securities with fixed or floating tenures spanning 5 to 40 years, paying semi-annual coupon interest.
- **State Development Loans (SDLs):** Debt instruments issued by individual State Governments to fund regional development, typically yielding 25 to 50 bps above Central G-Secs.
- **RBI Floating Rate Savings Bonds (FRSB):** 35%).

Government Small Savings Schemes and Real Estate

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Real Estate Investment: Physical Assets vs. REITs: Real estate represents one of the largest asset classes in India, traditionally viewed as a premier hedge against inflation and a store of generational family wealth.

Real Estate Investment Trusts (REITs)

- **Definition:** SEBI-regulated investment vehicles that pool capital to own, operate, and finance prime, income-producing commercial real estate (Grade-A office parks).
- **SEBI Distribution Mandate:** REITs are legally required to distribute at least 90% of their Net Distributable Cash Flows (NDCF) to unit holders semi-annually.
- **Fractional Ownership amp; Liquidity:** Listed on stock exchanges (BSE/NSE); investors can purchase a single unit (~₹300 to ₹400) like a share, achieving instant liquidity.
- **Indian Listed REITs:** Embassy Office Parks, Mindspace Business Parks, Brookfield India, and Nexus Select Trust (retail malls).

Key Real Estate Financial Valuation Metrics: Institutional real estate investors evaluate income-generating commercial properties using standardized quantitative metrics:

- **Net Operating Income (NOI):** Gross Rental Income minus Vacancy Losses and Operating Expenses (property taxes, insurance, repairs, maintenance, management fees).
- **Gross Rent Multiplier (GRM):** Property Purchase Price/Gross Annual Rental Income.
- **Debt-Service Coverage Ratio (DSCR):** NOI/Total Annual Debt Service.

Commodities and Gold as Portfolio Hedges: Gold has historically served as a universal monetary anchor, a store of value, and a flight-to-safety asset during t × of geopolitical conflict, currency devaluation, and financial crisis.

Investment in Cryptocurrencies: Mechanics, Risks, and Indian Tax Law: Cryptocurrencies (such as Bitcoin, Ethereum, and Solana) are decentralized digital cryptographic tokens operating on distributed blockchain consensus mechanisms (Proof of Work or Proof of Stake) without a central bank or sovereign monetary authority.

Severe Inherent Risks of Cryptocurrencies

- **Extreme Price Volatility:** Crypto assets regularly experience drawdowns of 70% to 85% within months, lacking fundamental cash flows (no dividends, interest, or earnings).
- **Zero Sovereign Backing:** Unlike fiat currency or G-Secs, cryptocurrencies have no legal tender status or underlying sovereign tax authority.
- **Regulatory amp; Cybersecurity Threats:** Vulnerable to exchange hacks, private key loss, wallet phishing, and regulatory bans.

Direct Equity vs. Mutual Funds: When participating in corporate equity expansion, individual investors face a core strategic choice: investing directly in listed corporate shares or delegating management to professionally managed mutual funds:

- **Professional Management:** ; Managed by institutional Fund Managers supported by dedicated research analyst teams.
- **Capital Required for Diversification:** ; Instant diversification across 40–70 stocks with a Systematic Investment Plan (SIP) as low as ₹500 per month.
- **Emotional Control amp; Discipline:** ; Automated monthly SIP debits enforce disciplined rupee-cost averaging across market cycles.
- **Cost Structure:** 25% for Regular Plans).

Core Debt Mutual Fund Categories

- **Overnight amp; Liquid Funds:** Invest in debt securities maturing in 1 to 91 days.
- **Ultra Short amp; Low Duration:** Invest in instruments maturing between 3 to 12 months, yielding higher returns than bank savings.
- **Corporate Bond Funds:** Mandated minimum 80% investment in highest-rated corporate debt (AAA/AA+).
- **Gilt Funds:** Minimum 80% investment in sovereign Government Securities (G-Secs).
- **Target Maturity Funds:** Passive index debt funds holding G-Secs/SDLs matching a specific maturity date, locking in predictable yields.

MODULE III

MUTUAL FUNDS

Theoretical Foundations and Structure of Mutual Funds

Comprehensive Comparative Evaluation: Merits and Limitations

Classification Taxonomy of Mutual Fund Schemes

Large-Cap, Mid-Cap Small-Cap Funds

- **Large-Cap Funds:** Minimum 80% in top 100 companies by full market capitalization.
- **Mid-Cap Funds:** Minimum 65% in companies ranked 101st to 250th by market cap.
- **Small-Cap Funds:** Minimum 65% in companies ranked 251st onwards.
- **Large amp; Mid-Cap Funds:** Mandated minimum 35% in large-cap and minimum 35% in mid-cap stocks.

Hybrid Schemes (Combining Equity, Debt Multi-Assets):

- **Conservative Hybrid Funds:** 10% to 25% in equities; 75% to 90% in debt instruments.
- **Aggressive Hybrid Funds:** 65% to 80% in equities; 20% to 35% in debt.
- Dynamic Asset Allocation / Balanced Advantage Funds (BAF): Dynamically manages equity exposure between 0% and 100% using proprietary algorithmic valuation models (P/E, P/B, trend metrics), booking profits at market peaks and buying aggressively during crashes.
- **Multi-Asset Allocation Funds:** Mandated minimum investment of at least 10% in three or more distinct asset classes (typically Equity, Debt, and Gold/Silver/REITs).
- **Arbitrage Funds:** Minimum 65% in equity and equity derivatives, exploiting simultaneous price discrepancies between the cash (spot) market and futures market.

Systematic Investment Plan (SIP) and Rupee Cost Averaging: A Systematic Investment Plan (SIP) is a disciplined investment approach allowing an investor to contribute a fixed monetary Sum of (as low as ₹500) into a mutual fund scheme at predetermined intervals (weekly, monthly, quarterly) via automated electronic bank mandates (NACH / e-mandate).

- **Month 1:** 000
- **Month 2 (Market correction):** 000
- **Month 3 (Bear market bottom):** 500
- **Month 4 (Market recovery):** 000

Net Asset Value (NAV): Definition, Mathematics, and Valuation: The Net Asset Value (NAV) represents the performance metric and intrinsic book value of a single mutual fund unit.

- **Market Value of Securities:** Daily closing market prices of listed equities, bonds, and money market instruments held in the portfolio.
- **Accrued Income:** Dividends declared but not yet credited, plus accrued coupon interest on debt holdings.
- **Current Assets:** Uninvested cash in bank accounts, receivables from unsettled sales.

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- **Current Liabilities:** Payables for unsettled security purchases, unpaid redemptions.
- **Accrued Expenses:** Daily prorated management fees, custodian charges, audit fees, and marketing costs.

Direct Plans vs. Regular Plans: The Compounding Cost of Intermediation: Introduced by SEBI on January 1, 2013, every mutual fund scheme operates two parallel plans with a single identical portfolio of assets:

- **Regular Plan:** Purchased through financial intermediaries, distributors, banks, or brokers.
- **Direct Plan:** Purchased directly from the AMC (or through SEBI-registered Direct RIA platforms).

Portfolio Construction Metrics

- **Portfolio Turnover Ratio (PTR):** The percentage of the portfolio's holdings that have been replaced over the trailing 12 months.
- **Top 10 Holdings:** The concentration of scheme assets in the top 10 individual stocks (healthy concentration is typically 30% to 50%).
- **Sector Allocation:** Percentage exposure to banking, IT, pharma, autos, highlighting thematic bets.

One-Time KYC Compliance

Master Synthesis: Mutual Fund Evaluation and Selection Matrix

- **Emergency Contingency (0–6 Months):** Liquid / Overnight Debt Funds; 100% Ultra-short Debt; Credit Quality of Portfolio (AAA/Sovereign), Zero Exit Load
- **Near-Term Milestone (1–3 Years):** Corporate Bond / Low Duration Funds; 100% High-grade Debt; Low to Moderate; Modified Duration, Yield to Maturity (YTM)
- **Medium-Term Growth (3–5 Years):** Balanced Advantage / Multi-Asset Hybrid; 40–65% Equity, 25–40% Debt, 10% Gold; Sharpe Ratio, Downside Capture Ratio in drawdowns
- **Tax Saving under 80C (3+ Years):** ELSS (Equity Linked Savings Scheme); 80–100% Equity (3-yr lock-in); Moderately High; 3-Year and 5-Year Rolling Alpha, Portfolio Turnover Ratio

Executive Synthesis, Governance Policy, and Continuing Professional Mastery: To conclude, mastery of the concepts examined throughout this module empowers students and commerce executives to evaluate complex fiscal data with precision, independence, and analytical clarity.

Comparative Regulatory and Practical Implementation Standards: A rigorous examination of corporate commercial practice highlights the indispensable role of standardized accounting principles.

Empirical Casework: Forensic Analysis, Audit Trail Verification, and Internal Controls: Empirical accounting investigations across modern industrial enterprises illustrate that financial distortion, fraud, and misstatement rarely occur as isolated incidents; rather, they stem from structural vulnerabilities within accounting workflows, segregation-of-duties lapses, or inadequate internal audit scrutiny.

- **Ledger amp; Voucher Integrity:** ; Companies Act (Sec.
- **Revenue amp; Cost Allocation:** ; Ind AS 115 (Revenue from Contracts with Customers) amp; CAS 1 to 24 Cost Accounting Standards.
- **Fiscal Risk amp; Tax Compliance:** ; GST Law Section 16/36 Rules amp; Income Tax Act Transfer Pricing Provisions.
- **Working Capital Governance:** ; Tandon amp; Chore Committee Norms for Bank Working Capital Credit Appraisal.

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Advanced Analytical Dimensions and Applied Commerce Casework (Analytical Division 5): The concepts, statutory provisions, operational accounting rules, and quantitative models detailed in this module carry critical implications for enterprise governance, audited disclosure standards, and executive fiscal decision-making.

MODULE IV

INVESTMENT IN DIRECT EQUITY

Capital Market Infrastructure: Accounts, Depositories Settlement

The Trading Account

- **Function:** Acts as the trade execution interface linked directly to stock exchanges (NSE and BSE).
- **Role in Trading:** Facilitates buy and sell order entry, margin management, order routing, and real-time execution.
- **Operator:** Maintained and serviced by a SEBI-registered Stockbroker.

Depository Architecture: NSDL vs. CDSL: Before 1996, Indian stock markets operated via physical paper share certificates. This settlement framework suffered from severe operational friction: counterfeit certificates, postal theft, mutilation, forged transfer deeds, and settlement delays stretching over months (bad delivery risk).

- **Establishment Date:** ; February 1999 (India's second national depository).
- **Primary Promoters:** ; Bombay Stock Exchange (BSE), State Bank of India, Bank of India, and HDFC Bank.
- **Exchange Association:** ; Historically associated with BSE and prominent discount brokerages (Zerodha, Groww).
- **Client Account Identification:** , 1208160012345678).

The Mechanics of the T+1 Rolling Settlement:: In January 2023, India became the second major capital market in the world (after China) to transition fully to the T+1 Rolling Settlement Cycle (where T represents the Trading Day):

Anatomy of the Corporate Transaction Cost Stack: When an investor executes an equity trade, the total cost deducted extends beyond brokerage. The statutory cost stack comprises:

- **Securities Transaction Tax (STT):** Levied by the Central Government.
- **Exchange Turnover Charges:** 00375%) for exchange infrastructure access.
- **SEBI Turnover Charges:** 0001%).
- **Integrated GST:** Statutory 18% Goods and Services Tax charged strictly on the Sum of of (Brokerage + Exchange Turnover Charges + SEBI Fees).
- **Stamp Duty:** 015% (₹1,500 per crore) on buy delivery trades.

Stop-Loss (SL) SL-Market (SL-M) Orders

- **Stop-Loss Limit Order (SL):** Designed to limit downside risk.
- **Stop-Loss Market Order (SL-M):** When the trigger price is breached, an instant market order is submitted, ensuring guaranteed exit even in rapid price crashes.

Fundamental Analysis and Stock Valuation Techniques

Industry Analysis

- Threat of new entrants amp; barriers to entry.
- Bargaining power of corporate suppliers.
- Bargaining power of institutional buyers.
- Threat of disruptive substitute products.
- Intensity of competitive rivalry among incumbents.

Intrinsic Stock Valuation: The Discounted Cash Flow (DCF) Model: The cornerstone of fundamental equity valuation is that the intrinsic value of any commercial business equals the present value of all future Free Cash Flows to Firm (FCFF) discounted at its Weighted Average Cost of Capital (WACC):

- **FCFF:** (Operating Cash Flow - Capital Expenditures (CapEx)).
- **WACC:** (E/V×Ke + (D/V × Kd × (1 - T))), where (Ke) is cost of equity and (Kd) is pre-tax cost of debt.
- **Terminal Value (Gordon Growth Model):** (FCFFn+1 / WACC−g), where (g) is the perpetual stable growth rate (cannot exceed GDP growth rate).

Candlestick Charting Fundamentals Core Patterns: Originating in 18th-century Japan with rice trader Munehisa Homma, Japanese Candlestick Charts display four critical data points for any trading timeframe: Open, High, Low, and Close (OHLC):

- **Real Body:** The solid box connecting the Open and Close prices.
- **Upper Wick (Shadow):** Line extending from top of real body to the highest price traded during the session.
- **Lower Wick (Shadow):** Line extending from bottom of real body to the lowest price traded during the session.

Technical Indicators and Trend Oscillators

Modern Portfolio Theory (MPT) and Strategic Asset Allocation

Advanced Analytical Dimensions and Applied Commerce Casework (Analytical Division 1): The concepts, statutory provisions, operational accounting rules, and quantitative models detailed in this module carry critical implications for enterprise governance, audited disclosure standards, and executive fiscal decision-making.

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