Types of Investments

Podcast Episode #2 for March 2022 – Host + No Guest

[Host]

Hello everyone, thank you for joining us for a new podcast episode For Her. My name is _________, and I'll be your host for today's segment. In this episode, we will be providing an overview on the various types of investments that you may be considering for your own investment portfolio.

Outside of stating the obvious, investments are one of the investment avenue for women to grow their income, their savings and can help achieve your short-term and long-term financial goals, which is what we will explore in today's podcast episode.

If you are working, for example, then you can apportion some of your disposal income each month and put that in the markets. This could help you save for many things: a vacation, a degree, a vehicle, or even have extra money saved for a rainy day.

But again, you need not be working to invest in the markets. It's not a perquisite. Perhaps you're a woman who stays at home to take care of her family so even in that case Investing in markets is a strong mechanism to earn money for long-term goals your family may have: buying a home or saving for your child's education fees. I know I keep mentioning it time and again like a pop-up ad refusing to close but after all it's for your benefit.

I have seen a lot of women feel insecure about their age when questioned about starting to invest. The answer, fortunately, is not complex and summarized perfectly by the classic proverb, "The best time to plant a tree was 20 years ago. The second-best time is now." Truth be told, if women were influenced to financially plan their lives earlier, there is no doubt that not only would they be more empowered today but would also have more representation in business environments. While many women are more than fortunate to have found high-growth investment tools when they did, they will tell you that they would be much further ahead if they had pulled the trigger earlier.

With that said, not all forms of investment are indeed ideal for someone starting new. When it comes to investing, some routes are far less challenging, and frankly, less cumbersome than others. After all, who wants unnecessary hassle when it can be easily avoided by just selecting more suitable investments over others? And for that we need to understand the key tools of investment because just like a car can't move without gas, in a similar line of thought, investments can't operate without its tools.

When you first begin investing, do so in a way that helps you get the best RoI (return on investment) and bang for your buck. While we are all exceptionally busy, women sometimes have the added responsibility of co-managing work with responsibilities at home. This could make it challenging for you all to review your portfolio on a regular basis.

On the other hand, some women may find that they want to manage their portfolio more actively. So, in simple terms it's like no shoe fits all but at the same time it also means that you can choose whatever you want from an array of options in the menu. No two investment portfolios are the same and that's why it's important to be vigilant of how much time you can commit, which in turn can influence your investment options.

A word of caution- investing can take shape in the form of gambling in a flick of an eye because of the adrenaline rush it induces. So, it is crucial that we maintain calmness, be disciplined, use rational thought and not emotions – but, I am not the one to preach on this as you all are already an expert in that genre with the kind of goddess power you possess to handle the chaos at home and at work...it's child's play, am I right?!

Okay so coming back to the topic at hand, THE TOOLS.

First, let's look at equities or stocks - these are shares of ownership issued by publicly traded companies. They are traded on stock exchanges. You can potentially profit from owning equities either through a rise in the share price or by receiving dividends. Equities are considered higher risk investments as share prices can change dramatically over time and there may be a risk of losing your money.

The second is bonds or fixed income investments. These investments pay investors a rate of return in the form of fixed interest payments until the investment's maturity date. At maturity, investors are repaid the principal amount they had invested. Government and corporate bonds are the most common types of fixed-income products and are generally considered less risky than investing in equities or other asset classes.

And the third is cash or cash equivalents. These are highly secure financial assets that are liquid, meaning they can be readily converted into cash, such as high-interest savings accounts, short-term Guaranteed Investment Certificates (GICs), and other debt instruments with less than a year to maturity.

Let's explore equities and bonds in a bit more detail.

To go by the book, investing in equity means to buy into a business – when you buy shares of a firm, you have a percentage of ownership. The only hitch is that it comes with a certain amount of risk. As a general rule, the higher the return expectation, the higher the risk is. You purchase these stocks at exchanges like the BSE or perhaps another Exchange Centre. In this era where stock is the talk of the town, we need to understand the whys and how's of it. Stocks, otherwise known as equities, represent fractional ownership of a company. When you purchase a share of a company it means you own a small piece of that company. Some of the biggest brands today allow people to buy and sell their stocks. This is typically considered a riskier asset class because of the volatility that is sometimes associated with stock performance. Why you ask?

Well, because the price per share of a company is linked to many factors: the balance sheet of the company, its leadership, market news and so on. However, stocks also have the potential to yield exceptional returns. Because of how much their price can oscillate in a given day, investments in this asset class may not be suitable for everyone. They typically require more vigilance and active rebalancing, which can take some time.

Before we move forward, I would like to clear the air and address this confusion regarding equities and shares. Well, we can say that a stock is like a more popular yet still the younger sister concern of Equities because while an equity describes ownership, a stock describes a single unit of that ownership share. The more stock you buy, the more your equity. Put simply, a stock is the means with which you can engage in company equity transactions. Stocks are generally a tradable form of equity that was created to facilitate the exchange of ownership value in an open market.

Next comes bonds and fixed income investments. I am referring to bonds which essentially represents a debt instrument in which the issuer company borrows money from the lender (bond holder) and, in return, is obliged to pay interest on the principal amount.

Let me break this down for you. So, I will begin with a simple question... Did you ever borrow money? I am expecting a yes since most of us have borrowed money at some stage in our lives. Similarly, companies need money for expansion and government too needs funds for social programs and infrastructure. In many cases, the money required is more than that can be issued by the banks as a loan. Hence, these entities issue bonds to the public markets. A number of investors thus help raise the money by lending a portion of the funds that are needed. In simpler terms, bonds are similar to loans for which the investor is a lender. The company or the entity that sells the bonds is known as the issuer. Bonds can be treated as IOUs that are given by the issuer to the lender, who in this case is the investor. No one would lend money for nothing and hence the issuer of the bonds pays that extra for using the funds in the form of interest. The interest on the bonds is paid at a fixed rate and a predetermined schedule. The interest rate when it comes to bonds is often called a 'Coupon'. The amount that is being borrowed is called the face value, and the day the amount has to be repaid is known as the maturity date. Bonds are less risky when compared to stocks, but they also come with low returns.

If you surf through the internet, you will find that both bonds and stocks are capital market securities but the difference is that stakeholders have an equity share in the company however bond holder has a creditor stake in the company aka shareholders enjoy status of owners while bonder holders act as lenders for the company.

Digging deeper into it, we can find several types of bonds. Without prolonging it, I will give a brief insight into some of its types.

Government bonds: As the name suggests these are the bonds that are issued by the government directly. These are secured as they are backed by the Government of India. These bonds generally have a low rate of interest. One of the bonds that falls in this category is the Sovereign gold bond.

Corporate bonds: Corporate bonds are issued by the private companies. These company's issue both secured and non-secured bonds. They tend to pay higher interest rate than government or bank bonds.

Tax saving bonds: The tax saving bonds or tax-free bonds are issued in India by the government itself to provide tax savings to individuals. Along with the interest, the holder would also receive a tax benefit. One such bond is capital gains bond which basically allows you to transfer your gains from long term assets such as land and house property into specific bonds. It offers you tax exemption from Capital gains tax under Section 54EC of the Income Tax Act, 1961, for up to 6 months from the sale of the asset sold. It means that you need to invest in capital gains bonds within 6 months of the transfer of capital assets. It can be issued by sub authorities particularly NHAI (National Highways Authority of India) & RECL (Rural Electrification Corporation Ltd).

Bank and Financial institution bonds: These bonds are issued by various banks or financial institutions. A number of bonds that are available in this segment are from this sector. Under it lies the RBI bond which the Government of India issues in correspondence to 7.7% taxable bonds, 2018, with effect from January 10, 2018, in order to enable resident citizens to invest in a taxable bond without any monetary ceiling.

Now that we have familiarized ourselves with the tools, I would say it's time that we dive into the investment vehicles aka the techniques.

The number one contender we have is Mutual funds. A mutual fund is an investment vehicle that pools money from various investors and uses the money to invest in the stock market. Assets such as equities, bonds, and other financial instruments are some examples of what mutual funds invest in. Mutual funds can be actively managed funds or passively managed funds. In actively managed funds, the fund manager performs market research to align the portfolio with the fund's objective. While passively managed funds replicate the index or benchmark. For example, exchange traded fund (ETF) and index fund.

In physical form, the units are dealt through AMC (the asset management company). The AMC directly sells the units to investors and, at the time of redemption, repurchases it. Investing through physical form means holding it in a Statement of Account (SOA) form. The fund house issues the account statements. The RTA maintains all records of investors and assists fund houses to track investor's data. Investors can get on-demand reports of their mutual fund holdings through online portals of RTAs. Physical form is cheaper than a demat form. There are no additional brokerage costs. Just the mutual fund fee.

In demat form, mutual funds are purchased and sold on the exchange or through brokers. The buying and selling is done through a demat account. This form is highly liquid. It is because the buyer or the seller can either be the AMC (Asset management company) or any other investor as the units are freely available. The broker with whom the mutual funds are dealt with provides a demat account statement on demand. An investor can hold mutual fund holdings and shares in one single demat account. This way, the investor can have a consolidated view of all the types of investments. Demat or brokerage account has brokerage charges which are over and above

the mutual fund fee. Loan against mutual funds is possible under brokerage account. STP and SWP are not possible in demat form, which is possible under the physical form.

If I may make a suggestion, please speak to a financial advisor and work with them to identify your financial goals, help them understand why you are investing and what you're hoping to achieve. They will help you determine the right investment vehicles for you, with someone in your situation, meaning with someone who has the time frame you have to invest, and the risk tolerance you have. And they will look at your overall financial well-being and then recommend the right investments for you.

And with that, I would like to thank you all very much for joining our episode. Make sure you look at some of our other resources on the ForHER website that may provide even more details on our discussion. And keep joining us for our every episode and we will continue to bring more informative episodes!

Thank you!