SECURITIES AND EXCHANGE BOARD OF INDIA

Reading Material

for

Workshop

Under the aegis of

Securities Market Awareness Campaign

Empowering Investors Through Education

Content

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Preface

The Securities and Exchange Board of India (SEBI) has an objective to protect the interests of investors in securities and to promote the development of and to regulate the securities market. In furtherance of these objectives, SEBI has been working over the years in close coordination with various market participants, investors' associations, and the government to provide a modern, efficient and investor friendly market infrastructure with international best practices.

SEBI strongly believes that investors are the backbone of the securities market. We must look after their interest aggressively which would contribute to their continued support to securities market. Many investors may not possess adequate expertise/knowledge to take informed investment decisions. Some of them may not be aware of the complete risk-return profile of the different investment options. Some investors may not be fully aware of the precautions they should take while dealing with market intermediaries and dealing in different securities. They may be unfamiliar with the market mechanism and the practices as well as their rights and obligations. Their education and awareness, therefore, hold the key to reviving and sustaining their interests in the securities market.

In order to create awareness among investors all over the country, SEBI has launched a massive nationwide investor awareness programme. As a part of the programme, SEBI has prepared a variety of literature, including this booklet, which would be of interest to investors. This booklet answers most of the queries an investor may have about investing in the securities market. I am sure, this booklet will be immensely useful to any investor.

G. N. Bajpai
Chairman
Securities and Exchange Board of India

Chapter 1. Introduction

You, as an investor in securities, are the backbone of the securities market. Protection of your interest is of paramount importance. We realise that our endeavour will have limited effect unless you exercise certain precautions while making investment decisions. This booklet will familiarise you with the precautions you should take while dealing with market intermediaries and dealing in different securities. It will also attempt to answer some of the typical questions you may have about investment in securities.

Why should I invest?

You should consider investing if you want to earn a return on your idle resources, generate a specified amount to meet a specific goal in life, or make provision for an uncertain future. You must, however, invest with knowledge and full care in order to be able to meet any of these objectives.

What are my investment options?

You have a large variety of options to choose from. You can invest in financial assets such as securities including units of mutual funds. Your choice depends on the amount you would like to invest, the duration of your investment, your appetite for risk, your need for liquidity, your investment goal, and mechanisms available to protect you in case of exigencies.

What should be my investment objectives?

You would normally have three objectives, namely, safety, return and liquidity. You like your investment to be absolutely safe, while it generates handsome returns and provides high liquidity. It is difficult to achieve all three objectives simultaneously. Typically, one objective trades-off against another. For example, if you want high returns, you may have to take some risk, or if you want high liquidity, you may have to compromise on returns. If you have a regular income, you may prefer a growth-oriented investment. The objective, therefore, depends on your profile.

What care should I take while investing?

Before making any investment, you must ensure that you:

(a) obtain written documents explaining the investment,
(b) read and understand such documents,
(c) verify the legitimacy of the investment,
(d) find out the costs and benefits associated with the investment,

(e) assess risk-return profile of the investment,
(f) know the liquidity and safety aspects of the investment,
(g) ascertain if it is appropriate for your specific goals,
(h) compare these details with other investments opportunities available,
(i) examine if it fits with other investments you are considering or you have already made,
(j) deal only through an SEBI registered intermediary, wherever required,
(k) seek all clarifications about the intermediary and the investment,
(l) explore the options available to you should something goes wrong, and then, if satisfied, make the investment.

We call this 'Twelve Steps to Investing". In case you cannot exercise these precautions, you may delegate the responsibility of investment to a reliable and competent entity such as a mutual fund, to invest on your behalf. Even then you have to exercise care to choose the right entity who understands your needs and works in your interest.

Chapter 2. Financial Planning

Specification of the financial goals:

Investments are made with certain financial objectives. These objectives should be defined clearly and be measurable in money terms. For example, it is not enough to say "I want to retire comfortably". Such an objective should be stated, as "I want to retire with the ability to spend Rs. 2,00,000 annually, adjusted for inflation".

An investor saves to-day, to meet certain financial needs tomorrow. Unless the investor is clear about the purpose of saving, his efforts would not result in the desired benefits. Therefore, an investor must first identify his financial needs. For example, an investor may have one or more of the following financial needs:

1. To retire at age 55 with an annual income of Rs.3,00,000. I am now 35 years of age
2. To completely pay off the housing loan by the time I retire 20 years later.
3. To pay for my five year old daughter's college education that would cost me Rs. 1,50,000 per year for 4 years.

The first step for an investor is to clearly write down the financial needs. The financial needs would be expressed in terms of the amount required and the future date on which required. In the above three examples, we would write:

Example Number	Amount required	When required
1	Rs. 3,00,000 p.a.	Each year beginning from the 20th year from now and may be up to 40th year.
2	Rs. 5000 p.m.	For the next 20 years
3	Rs. 1,50,000 p.a.	Beginning from the 12th year from now till 16th year from now.

Every investor should take out time and prepare such a statement of financial goals covering as many requirements as possible. This is the basis on which the financial plan would be prepared. If the financial capability is found to be inadequate to meet all these goals then they have to be prioritized.

The investor's financial needs depend on the age, stage in the career path, size of the family, needs of the other family members, etc. Some of the needs can be identified with precision while others can only be tentatively determined. There

may be unanticipated needs as well for which provisions have to be made. Sometimes financial needs change with investor's changing circumstances.

In order to prepare a financial plan, these goals have to be stated in clear and determinable terms of age, amounts and time frame. The financial planning process is merely an exercise of allocation of today's money to meet tomorrow's needs. The financial plan is not static. It has to be reviewed from time to time to account for the changing circumstances.

Assessing the financial capacity:

As noted above, an investor sets aside some money today to realise the financial goals stated in the financial plan. How much money can be set aside now depends on circumstances now. This can be understood by understanding the income, assets and liabilities of the individual investor. The balance sheet lists the investor's assets and liabilities. Hopefully, the assets exceed the liabilities and this excess is the net worth. All assets and liabilities should be valued at the current market value instead of any cost basis. For example, if you own an equity share bought at Rs.1,000 and it is worth Rs.5,000 now, your balance sheet should reflect Rs.5,000. However, cost is important should you sell the share and pay taxes on the capital gain.

Balance Sheet of Mr. A as at 31st March 2003			
Assets		Liabilities	
Cash	80,000	House loan outstanding	6,00,000
Investments	4,00,000	Car loan outstanding	1,00,000
House	8,00,000	Net worth	**11,80,000**
Car	2,00,000		
Life insurance surrender value	4,00,000		
Total	18,80,000	Total	18,80,000

An investor should live within his means. Means is the income. Out of this income, routine expenses are met. The remaining amount is available for savings. An investor should prepare a statement of income and expense. It is called "Cash Flow Statement". The sources of income are the salary, dividends, interest, self-employment earnings, etc.

After identifying the income, an investor should identify the expenses. Expenses are generally grouped into living expenses, payments already committed and taxes.

The excess of income over expenses in each year is the amount available to save. The investor tries to achieve his financial goals subject to his saving capacity. The Cash Flow Statement is prepared under different scenarios. These are death, disability and retirement.

Cash Flow Statement of Mr. A for the period 1.4.2002 to 31.3.2003					
		Expected	Alternate scenarios		
			Disability	Death	Retirement
Income	Business income net/Salary	4,00,000	0	0	0
	Dividends, interest received	1,00,000	1,00,000	1,00,000	1,00,000
	Others	0	0	0	0
	Total	**5,00,000**	**1,00,000**	**1,00,000**	**1,00,000**
Expenses	Family living expenses	2,00,000	2,50,000	1,50,000	2,00,000
	Insurance premia	20,000	20,000	20,000	20,000
	Loan instalments	35,000	35,000	35,000	35,000
	Pension contribution	30,000	30,000	0	0
	Taxes	1,50,000	30,000	30,000	30,000
	Total	**4,35,000**	**3,65,000**	**2,35,000**	**2,85,000**
Excess (Deficit)		**65,000**	**(2,65,000)**	**(1,35,000)**	**(1,85,000)**

What is financial planning?

The balance sheet showed what the investor owns and what he owes. The cash flow statement showed the money available for making investments. Together, these two statements tell the investor's financial circumstances and saving potential. Financial planning is the process of meeting as many of the investor's financial needs as possible with his saving potential. The savings are made in a number of investment choices available in the economy with a view to meet the listed objectives.

Chapter 3. Investment Choices in the Securities Market

Among all investment options available, securities are considered the most challenging as well as rewarding. But Investment in securities requires considerable skill and expertise and carries the risk of loss if the choice of securities is not right or they are not bought/sold at right time.

There are a large variety of instruments referred to as securities in common parlance. SEBI has been established with the primary objective of protecting interests of investors in 'securities', which is defined in the Securities Contracts (Regulation) Act, 1956 to include:

i. shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or body corporate;
ii. derivative;
iii. units or any other instrument issued by any collective investment scheme to the investor in such schemes;
iv. security receipts;
v. government securities;
vi. such other instruments as may be declared by the central government to be securities;
vii. rights or interests in securities.

Different securities carry different risk-return profiles. Generally, higher risks carry higher returns and *vice versa*. The risks may take the form of credit risk (the counter party may default payment as it may not have integrity), the return risk (the return from the investment may depend on several contingent factors) and liquidity risk (it may be difficult to convert security into cash).

Investor's risk profile:

In Chapter 1, we stated that financial planning is the method by which the savings are channelised to achieve stated financial goals. It is not always possible to meet all financial goals with available savings. If savings are limited but the needs are substantial, then the savings should be invested in avenues that would offer high returns. But usually, high return also means high risk. All investors are not in a position to take high risks.

As discussed above, there are investment opportunities that are high on risk and there are investment opportunities that are low on risk. Each is called an asset class. An investor allocates his savings to one or more asset classes depending upon his circumstances. This decision is called the asset allocation decision. Asset allocation decision is perhaps the most important decision in the

investment process. The essence of asset allocation lies in the fact that, over time, it can determine up to 90% of the portfolio's return.

How much risk an investor can take depends on his financial circumstances and the mental make-up. Every investor must know his own unique risk profile and then make the investment decisions.

- What kind of investor are you?
- Are you prepared to take high risks?
- Are you averse to taking risks?

There are scientific methods by which you can understand your risk profile. For example, answering the following set of questions could give an idea about your risk profile:

Your age is
- Between 25-35
- Between 35-50
- Between 50-65
- Above 65

Your position is best described by
- You are self-dependent and do not support anybody
- You have dependent(s)
- Nearing retirement
- Retired

How much of the following needs have been taken care of? (Fully, partially, not at all)
- Insurance
- Retirement
- Children's education
- Housing

What proportion of your current expenses is funded from investments?
- Nil
- Up to 15%
- Between 15 and 30%
- Between 30 and 50%
- More than 50%

Your earnings in the future will
- far exceed inflation
- marginally ahead of inflation
- keep pace with inflation
- not keep pace with inflation

When the price of the share you have purchased drops steeply you would
- Sell your investment
- Sell part of your investment
- Do nothing

- Buy more of the same investment

There are basically three asset classes based upon the risk profiles. They are equity, debt and cash. Equity is risky, debt has low risk and cash has even lower risk. Within each asset class, the investor has to select specific instruments for investment.

Financial circumstances and the investor profile dictate the investment avenues for an investor. Financial instruments vary in terms of the liquidity, safety, and returns they offer. The challenge in making the investment decision is to choose the right combination of instruments keeping in mind the situation.

Each investment option has some advantages and some limitations. For example, while bank savings account would be highly liquid (you can withdraw whenever you like), investment in Public Provident Fund would be difficult to withdraw.

Risks are generally positively correlated with probability of returns. For example, returns in equity shares can be high, but the associated risks are also relatively higher than other options. Risks can be classified into systematic and unsystematic.

Unsystematic risks are those that can be minimised by diversifying one’s portfolio. For example, instead of investing in the shares of steel companies alone, one could invest into other sectors like pharmaceuticals and software. In this situation, your portfolio may not be terribly affected even if the steel sector were to register a mediocre performance. Systematic risks are those that cannot be minimised through portfolio diversification. For example, a Korean investor could not possibly have minimised or eliminated his loss due to currency crisis in South East Asia, through a strategy of diversification of his portfolio.

The character of the investor is also important. Some Investors have the time and the knowledge to study their investment portfolios carefully – these could be called as ‘active’ investors. Others do not intend to watch their investments regularly, due to lack of time or knowledge or inclination, and are looking for essentially safer avenues for parking their funds.

Investment options:

Various options available are described in the following paragraphs and evaluated broadly on criteria such as

- Liquidity
- Safety
- Returns
- Tax savings

- Active involvement required to manage the investment
- Minimum amount that can be invested

A summarised table of options is provided at the end of this chapter.

Equity Shares – Primary Market

Primary market refers to new issues of shares by new companies as well as existing companies. Apart from shares, other instruments commonly issued in the primary market are debentures, convertible debentures, shares with attached options like warrants, etc.

Equity Shares – Secondary Market

Secondary market refers to the stock exchanges where an investor can buy (or sell) shares which are listed on them. India's stock market has been dominated by equity shares. As a result of significant changes in the recent past, particularly computerisation, online trading, dematerialisation and depository participation, investors are now dealing with a much more transparent and efficient secondary markets.

Equity Shares yield returns in two ways: one, dividends declared by companies usually at the end of a year (and sometimes during the course of the year) and, two, capital gains on sale of Equity Shares.

Liquidity of investment in equity shares depends upon the trading volumes of the share. If the share is actively traded, an investor can easily sell the shares and realise the sale proceeds. However, if the share is not traded (or is delisted), then liquidity is a constraint. Technically, it is possible to buy even single shares in dematerialised securities regime and also to buy small lots of 50 to 100 shares so as to keep the investment amount low.

Equity shares are primarily volatile instruments. Equity share is an appropriate investment avenue for an investor who is not risk averse. Such an investor is prepared to take risks in order to generate higher returns. Returns from equity shares at aggregated levels have been historically higher than most other avenues over the long term. However, individual investors could gain or lose depending on the companies' shares they invest in. An investor needs to be aware of the companies and their performances. Company performance should be monitored closely in order to track the investment performance. An investor should also have some basic knowledge of financials and of market systems in order to manage equity investments. The trends in equity market are reflected in the movement of the equity indices and the volume of the trading activity.

Debt instruments:

Debt instruments represent contracts where one party is the lender (investor) and the other party is the borrower (issuer). The debt contract specifies the rate of interest, time of interest payment, repayment of principal, etc. In India, the term "bond" is used to represent the debt instrument issued by the central and state governments and PSUs. The term "debenture" is used to mean debt issues from the private corporate sector. The principal features of a debt instrument are:

- Maturity
- Coupon
- Principal

Maturity refers to the date on which the principal would be repaid. Coupon is the rate at which interest is calculated with reference to the face value. For example, a 10% 2010 bond refers to face value of Rs. 100, coupon rate of 10% p.a.. and repayment of the face value in the year 2010.

The coupon rate may be fixed for the entire perod or may be related to a benchmark rate. In the latter case, the coupon rate changes as the benchmark rate changes. This instrument is called a floating rate debt instrument.

There are debt instruments that come with options to redeem the principal earlier than the maturity date. If the option rests with the issuer, it is a bond that is callable. If the option to redeem rests with the investor, it is puttable.

There are many different types of debt instruments in India. These are:

- PSU bonds
- Government securities
- Treasury bills
- State loans
- Corporate debentures
- Bonds from financial institutions
- Commercial papers
- Certificates of deposits

The secondary market activity for debt instruments takes place in the debt segment of the exchange. The trends in the debt market are reflected in the debt indices and the turnover data. In India, the debt market activity is dominated by banks and institutions.

Bonds and debentures:

A Bond is a loan given by the buyer to the issuer of the instrument. Bonds may be issued by companies, financial institutions, or the government. Over and above the scheduled interest payments as and when applicable, the holder of a bond is entitled to receive the par value of the instrument at the specified maturity date. Bonds can be broadly classified into (a) Tax-Saving Bonds and (b) Regular Income Bonds. Tax-Saving Bonds offer tax exemption up to a specified amount of investment. Examples are:

a)ICICI Infrastructure Bonds under Section 88 of the Income Tax Act, 1961
b)NABARD/ NHAI/REC Bonds under Section 54EC of the Income Tax Act, 1961
c)RBI Tax Relief Bonds

Regular-Income Bonds, as the name suggests, are meant to provide a stable source of income at regular, pre-determined intervals.

Similar instruments issued by companies are called debentures. Bonds are usually not suitable to achieve capital appreciation. Sometimes, an investor buys bonds at a lower price just before a decline in interest rates, and the subsequent drop in the interest rates leads to an increase in the price of the bond, thereby facilitating capital appreciation.

Bonds are suitable for regular income purposes. Depending on the type of bond, an investor may receive interest semi-annually or even monthly, as is the case with monthly-income bonds. Depending on one's capacity to bear risk, one can opt for bonds issued by top-ranking corporates, or that of companies with lower credit ratings. Usually top ranking corporates offer lower interest on bonds as compared to companies with lower credit ratings.

Company Debentures

Debentures are debt instruments. Companies borrow from debenture-holders and generally offer a fixed rate of interest to such investors. Most debentures are redeemed after a specified period. The period could be short (less than 18 months) or long depending on the terms of issue. In some cases, companies also pay a premium on maturity. .

Investors can subscribe to public issue of debentures by companies or buy debentures from the secondary market. In view of the fixed returns from these securities, prices of debentures are generally much less volatile relative to shares. Investors earn interest and capital gain (difference between the purchase price and the sale price or if held till redemption, the difference between purchase price and the redemption price).

Yields on debentures could be higher or lower than the specified rate of interest depending on the correlation between face value and market value. For example, assume that a Rs 100 debenture carrying 15% interest is bought for Rs 90. The price paid is Rs. 90 whereas the interest earned is Rs. 15. This would translate to a yield of 16.67%.

In the above example, the investor would get back Rs 100 from the company (face value) if he holds the debentures up to maturity. Hence, apart from the interest yield of 16.67%, he would also gain Rs 10 by way of capital gain. When this capital gain is also considered for computing the yield, it is termed as Yield to Maturity (YTM). A detailed illustration for calculation of YTM is provided in the appendix to this chapter.

Liquidity in debentures is unfortunately low in the Indian markets in view of the lack of interest in these instruments so far. Very few debentures are actively traded on stock exchanges.

Most debt issues are required to be rated by credit rating agencies. Rating indicates the quality of the instrument. An indication of credit rating is given below:

Credit Rating Symbols and What They Mean*	
High Investment Grades	
AAA	Highest Safety
AA	High Safety
Investment Grades	
A	Adequate Safety
BBB	Moderate Safety
Speculative Grades	
BB	Inadequate Safety
B	High Risk
C	Substantial Risk
D	In Default

Different rating agencies might have different symbols then the ones given above.

Returns from high quality debentures are steady and can be ascertained in advance based on the YTM. These returns would vary only if the company were to renege on its payment obligations. An investor need not be actively involved

in investment management, except to the extent of keeping basic track of companies, which might be performing badly and could fail to fulfill its interest or repayment obligations.

Debenture prices are dependent on the face value of these instruments. The most common face value is Rs 100. Hence, even small amounts of Rs 10,000 can be invested in debentures.

Public Sector and Financial Institutions Bonds

Various bonds are floated from time to time by public sector undertakings as well as Development Financial Institutions. Most bonds offer attractive schemes like monthly interest, quarterly interest, various redemption options, deep discount bond options, etc.

A deep discount bond is a long-term bond where the initial amount invested keeps growing based on the interest accumulated on the principal amount. For example, an investment of Rs 2,800 today could yield Rs 1,00,000 after 30 years.

Bond prices are dependent on the face value of these instruments. The most common face value is Rs 100. Minimum amounts are generally around Rs 5,000. An investor need not be actively involved in investment management.

RBI Tax Free Bonds

RBI Tax Free Bonds are special bonds issued by the RBI offering tax-free facility. The rate of interest in such bonds is generally lower than regular bonds (around 8.5%) and hence will attract only high taxpayers. These bonds tend to be long-term instruments.

RBI Tax free bonds are very safe as they come from the country's central bank. Returns from the bonds are steady and can be ascertained clearly in advance based on the YTM. For an original subscriber, 8.5% tax free return would work out to over 12% pre-tax, assuming the highest tax rate of 30%.

Mutual Fund Schemes

Mutual Funds are entities which collect funds from small investors, pool these funds together and invest into various equity and debt instruments (or even money market instruments and government securities). Mutual Funds employ competent finance professionals who research the markets effectively, which an individual investor might not successfully manage. Further, these entities are taken seriously by a company's management in view of their large fund base.

Mutual fund schemes can be open-ended or close-ended. Open-ended schemes do not have a fixed maturity. Investors can buy/sell units of such schemes from/to the fund itself at prices determined by **Net Asset Value (NAV)** plus or minus a load, applied either at the point of purchase or sales by the fund. Liquidity in open-end mutual funds is very high. In case of close-ended mutual funds, liquidity depends on the availability of buyers and sellers in the stock exchange where these units are listed. Thus, liquidity is similar to that of listed shares.

Close-ended schemes may be listed on stock exchanges and traded at listed prices. If it is not listed, regular repurchase facility will be provided by the mutual Funds. These prices could vary substantially from the NAV due to investor perceptions, demand and supply situations, etc. Indian data indicates that listed prices are generally much lower than the NAV.

NAV is a common expression in the mutual fund industry and denotes Net Asset Value. NAV per Unit is equal to:

Market value of the assets of the scheme less liabilities
divided by
Number of units outstanding

Mutual Fund Schemes are floated with objectives that determine their investment pattern. A growth-oriented scheme would predominantly invest in equities and would seek capital appreciation as its major objective. A debt-oriented scheme would predominantly invest in debt instruments and would seek regular income as its major objective. A balanced scheme would invest partially in equity and rest in debt and would balance the objectives of growth and income. Tax Saving Schemes are designed to provide tax shelter to the investors.

Of late, mutual funds are floating innovative schemes like index funds, specific sector funds, money market funds, gilt funds, etc. Index funds seek to invest in index stocks (e.g. only those stocks which are used to determine the Sensex, Nifty, etc.). Specific sector funds seek to invest into specified sectors like pharmaceuticals or software. Money market and gilt funds seek to invest into those markets alone.

Most mutual funds levy an extra charge to investors who enter into or exit from their Funds. Levies at the point of entry are termed 'Entry Loads' and those at the point of exit are termed 'Exit Loads". Typically these loads are pegged at a certain percentage of the NAV –for example – Entry load of 1.5% of NAV. Some funds charge different loads depending on the quantum of investment. For example, the entry load could be 1.5% for investments below Rs 1 lakh and 1% for investments above that level.

Debt-oriented mutual funds

These funds seek to provide a regular return to investors and would invest in debt instruments where risk levels are lower (relative to equity), and would generate regular returns for the fund and consequently for its investors.

In view of the nature of the fund's investments, safety levels are relatively high in debt-oriented funds. An investor need not be actively involved in investment management. However, the investor should be watchful about the NAV movements. While generally the returns from debt funds are expected to be steady, there could be NAV volatility if the interest ranges change.

Equity-oriented mutual funds

These funds invest in equities and generate capital appreciation. Redemptions are effected within 2-3 days in most mutual fund schemes.

Safety levels are low and slightly better than investment in shares directly by the investors, as most funds invest in a basket of equities thus hedging their individual risks partly through the basket approach. Returns in equity funds are volatile and would depend on the market movement in general and investment expertise of the mutual fund in particular. An investor need not be actively involved in investment management. However, the investor should watch the NAV and the load.

Tax Saving Schemes of Mutual Funds and Financial Institutions

These schemes are floated by mutual funds and financial institutions after obtaining government approval for offering specified tax benefits to investors. An investor gets an additional sweetener. Other features of these investment options are on par with the regular features of mutual funds and financial institutional options discussed above.

Derivative products:

Futures, options, forwards, warrants and swaps are called derivative products. They derive their value from another asset, index or reference rate.

A forward contract is a customized contract where the settlement takes place at a future date but at prices agreed on the date the contract is written

A futures contract is similar to a forward except that it is standardized and traded on the derivative exchange.

An option gives the right and not obligation to the buyer to buy/sell an asset at a future date but at price agreed on the date of writing the contract. A buyer of an option pays a price called premium. An option that gives the right to buy an asset is a call option. When the right given is a right to sell the asset, it is put option. Warrants are long dated call option on equity shares.

SUMMARY OF OPTIONS AVAILABLE

Investment Option	Liquidity	Safety		Active Involvement Required?	Tax Savings	Amount Required
Equity Shares	**Moderate to High**	**Low**		**Generally Yes**	**Long Term Low Tax**	**Medium**
Company Debentures	Low	Modera te		Generally No	Refer Tax Chapter	Medium
Public Sector and FI Bonds	Moderate	High		No	Refer Tax Chapter	Low
RBI Tax Free Bonds	Moderate	High		No	No Tax	Low
Debt oriented Mutual Funds	High	Modera te		No	Moderate	Low
Equity oriented Mutual Funds	High	Low		No	Good	Low

The above table is indicative. Attractiveness of each option changes practically every day depending on economic conditions, government policies and other factors.

APPENDIX

YIELD TO MATURITY

Let us take the example of Reliance Petroleum Triple Option Convertible Debentures. Let us assume that the Debenture is available for Rs 65 on 31st August 1999 and that it will be redeemed as under:

Rs 20 on 30th November 1999
Rs 30 on 30th November 2000
Rs 30 on 30th November 2001

What is the Yield to Maturity that an Investor will earn from this transaction?

Computer spreadsheets give you the Yield to Maturity through the mechanism of Internal Rate of Return (IRR) in moments. Let us attempt some trial and error calculations here. Assume that YTM was 18% per annum.

On Rs 65 invested, for 3 months (Sept, Oct and Nov 1999), the interest would come to Rs 2.93. Hence the Rs 20 returned back would include Rs 2.93 of interest and Rs 17.07 of principal. The balance invested principal would be Rs 65 less Rs 17.07 i.e. Rs 47.93.

On Rs 47.93, you would earn 18% for the year to end 30th November 2000. This comes to Rs 8.63. Thus, the Rs 30 which the company pays you would comprise Rs 8.63 of interest and balance Rs 21.37 principal. Your outstanding principal would therefore become Rs 47.93 less Rs 21.37 i.e. Rs 26.56.

On Rs 26.56, you would earn 18% for the year to end 30th November 2001. This comes to Rs 4.78. Thus, the Rs 30, which the company pays you, would comprise Rs 4.78 of interest and balance Rs 26.22 principal. However, your actual principal is Rs 26.56.

This indicates that we have assumed a high YTM. We should reduce the YTM and repeat the calculations. The exact yield that would make the balance principal Rs. 26.56 is 16.73%. The table below explains the workings.

Repayment	Amount Paid	Interest	Principal Paid	Principal Balance
30th November 1999	20.00	2.72	17.28	47.72
30th November 2000	30.00	7.98	22.02	25.70
30th November 2001	30.00	4.30	25.70	NIL

Chapter 4. How to transact in securities?

Factors that should be taken into account:

You should take into account the following factors before investing in securities:

i. whether there is a regulatory framework in place in respect of the security and you are protected in case of any eventuality;
ii. whether the offer of the security is in compliance with the due process of law;
iii. whether the security has any counter party risk
iv. whether the security can be liquidated to cash easily so that you can meet your liquidity needs;
v. whether the security generates returns compatible with its risk; and
vi. whether the security fits into your investment portfolio and meets your investment goals (diversification, investment horizon, regularity of income, growth opportunities, the quality of the issuer, etc.).

Converting securities into cash:

You can convert a security to cash if it is listed and traded actively on stock exchanges. You can sell securities on an exchange and get cash as per the settlement cycle of the exchange.. Since transactions on stock exchanges enjoy settlement guarantee, you will invariably get cash in time. If you do not get cash for whatsoever reason, there is an institutional arrangement to settle your claims. However, all securities are not listed on exchanges and not all listed securities are actively traded. If liquidity is of paramount importance to you, you should look at the history of trading of that particular security.

Acquiring the securities:

You can acquire securities by subscribing to issues made by corporate/government/mutual funds in the primary market or by purchasing them from the secondary market. You have the option to subscribe to public issues of securities at the price fixed by the issuer or at the price as may be determined by investors through the book building/auction. You may also subscribe to rights issues offered by the company. You also acquire securities issued by the company as a bonus. Before acquiring the security/units of mutual funds, you must fully understand the issue documents, specifically the risk aspects. You can also buy or sell securities on a stock exchange through a SEBI registered broker/sub-broker.

Rights & obligations of the investor:

You have the right to receive documents regarding your investment.. You have the right to demand and verify the genuineness of the certificate of registration of the intermediary through whom you intend to transact. You must receive the securities on allotment or on transfer on time. If your security makes you a shareholder, you should receive dividends on time and other corporate benefits like rights, bonus etc. You have a right to participate and vote in general meetings. , receive copies of the Annual Report, apply for winding up of a company, etc. If you are a debenture holder, you have the right to receive interest/redemption on time and apply for winding up of the company if the company fails to pay its debt. If you are trading on an exchange, you should get the best price at that point of time and receive money and securities on time.

Your general obligations are to remain vigilant about the company/intermediary and securities you are dealing with/in, to pay/deliver securities as and when called upon and to exercise rights conferred on you.

Intermediaries:

A large variety of intermediaries such as brokers, merchant bankers, depositories, mutual funds, intermediate between issuers of securities and investors and between investors. Most of the intermediaries in the securities market are registered and regulated by SEBI. A code of conduct has been prescribed for each intermediary certain intermediaries like agents of mutual funds are indirectly regulated by SEBI through mutual funds.

Is it necessary to transact through an intermediary?

Certain transactions require you to transact through an intermediary. For example, you need to transact through a broker/sub-broker if you intend to buy/sell any security on stock exchanges. You need to maintain an account with a depository if you intend to hold securities in demat form. You need to deposit money with a banker to an issue if you are subscribing to public issues. You get guidance if you are transacting through an intermediary. Choose a SEBI registered intermediary, as he is accountable for its activities. The list of registered intermediaries is available with SEBI, exchanges, industry associations.

Selecting an intermediary:

You should transact through that intermediary who is subject to regulatory discipline of SEBI. . The intermediary must be registered with SEBI and you should verify this from the registration certificate displayed at the office of the intermediary. While selecting an intermediary, you should also take into account

(a) the cost of services, (b) the quality of services, (c) track record of the intermediary, and (d) the location and your convenience.

You can know the general reputation of an intermediary from its existing clients. Besides, SEBI issues a press release as and when it punishes an intermediary for violation of any regulation, including code of conduct. The exchanges also issue press releases when they suspend a broker. In case the intermediary does not act professionally, you should take up the matter with SEBI and with the self-regulatory organisation/industry association with which the intermediary is associated. In addition, you can also file complaints in the court of law.

Primary Market:

Primary market is the place for issue of new securities. The companies issue new securities to raise funds for investment and/or discharge some obligation. They do so either through public issues, rights issues or offer for sale. It is a public issue if anybody and everybody can subscribe for the securities. It is a rights issue if the offer is made only to existing shareholders. However if the issue is made to select few people, it is called a private placement. It may be noted that private placement of securities does not come under the regulatory purview of SEBI. The issuers, who satisfy eligibility criteria, can issue securities after complying with SEBI guidelines and the provisions of the Companies Act, 1956. If you are interested to buy securities from the primary market, you must still be mindful of the twelve steps to investing mentioned earlier.

Getting information about issues:

The company issuing securities issues a prospectus or a statement in lieu of prospectus detailing the term of issue, including price or mode of price determination, utilisation of issue proceeds, the risk factors, management, a variety of disclosures, and the modus operandi of subscription for and allotment of securities to investors. This document is submitted to SEBI and Registrar of Companies. An abridged form is issued in the newspapers. However, if you wish to subscribe for any issue of securities, you must obtain a copy of the full prospectus and understand its contents.

It is important for you to assess the risk associated with investing in equity securities on your own. Prior to making your investment decision, you must definitely read the sections relating to risk factors, business of the company, management's discussion and analysis of the financial statements of the company, basis of issue price, and important financial ratios, such as, Price to Earnings, Price to Cash flow and relative attractiveness of the issuer company vis-à-vis comparable companies in that industry.

It is important for you to assess the risk associated with investing in debt securities on your own. In particular, you should consider the credit rating and nature of security being offered. Issuer companies are mandatorily required to obtain ratings from at least one rating agency. They are required to disclose all credit ratings that they have obtained during the last three years preceding the pubic or rights issue of the debt instrument. . It is also mandatory for companies making debt issues in the primary market to create a security for the debt securities. In the event of any default by the company for servicing the debt securities, the debenture trustee can liquidate the secured assets to repay the outstanding to the debenture holders. You must therefore carefully analyse the

type of security being offered by the company against the debt borrowings, as it will ensure repayment of your money, in case the company becomes insolvent.

Demat account:

Though the company is under obligation to offer the securities in both physical and demat mode, you have the choice to receive the securities in either mode. If you wish to have securities in demat mode, you need to indicate the name of the depository and also of the depository participant with whom you have depository account in your application. It is, however, desirable that you hold securities in demat form as physical securities carry the risk of being fake, forged or stolen.

Does the investor have a say in pricing?

The securities are issued at a price fixed by the issuer (fixed price issue) or at the price as may be determined by investors through the process of book building. In a fixed price issue, you do not have any say in the price of the security being issued, while in a book built issue, you have a say in the determination of the price of the security being issued.

Participating in the book-building process:

In the book building process, the Book is typically open for a minimum period of five days, when you can submit your bid and also revise it. During the period when the Book is open, a graphical display (updated every half hour) of demand at various prices can be seen at the bidding terminals of the syndicate members. You can make a bid at any price at or above the floor price by submitting a completed Bid-cum-Application Form and the Bid amount) at any of the Bid Collection Centres of the syndicate members. The Book Running Lead Manager or the syndicate members enter each option into the electronic bidding system as a separate bid and generate a Transaction Registration Slip for each price and demand option and give the same to you.

Paying for the securities:

For Fixed-price issues, you are required to submit the amount payable on making the application along with your application form to the collecting Bank. For Book-built issues, you are required to submit the amount payable on making the Bid (by the retail category) along with your Bid-cum-Application Form to the syndicate member.

Secondary Market

Secondary market enables you to adjust your holdings of securities in response to changes in your assessment about risk and return by selling or buying your securities. It enables you to sell securities for cash to meet your liquidity needs. It essentially comprises of the stock exchanges which provide a platform for trading of securities. The securities are traded, cleared and settled as per a detailed well-settled regulatory framework under the supervision of the Exchanges and oversight of SEBI. You can access the trading platform of an exchange only through a registered broker.

Why is it necessary to trade on a stock exchange?

Stock exchange lists securities and provides you an opportunity to trade in the listed securities. It ensures certain compliances and disclosures from companies in your interest. It guarantees settlement of trades executed on your behalf and provides you protection if your broker becomes a defaulter.

Any trade in securities outside stock exchanges other than spot transactions are not backed by regulatory framework of exchanges or SEBI. Hence you do not get any protection if you trade outside an exchange. Besides, the stock exchange offers a ready market for your securities. If you are trading outside an exchange, you have to waste considerable time to find out the right person who is willing to undertake a corresponding transaction with you. Other benefits of trading on an exchange include: you do not take counterparty risk, which is assumed by a clearing corporation, you have access to the investor grievance redressal mechanism of stock exchanges.

The brokers/sub-brokers are your link to the stock exchange. They are intermediaries in the market subject to the regulatory discipline of SEBI/the concerned stock exchange. They enter into transactions in securities on your behalf. Your relation with them is governed by the terms set out in the client-broker/client-sub-broker agreement.

If you are buying and selling securities actively, it is advisable that you open a depository account to receive and deliver demat securities. It is in your interest that you have depository account to get immediate credit for purchase of securities, and avoid all the ills of physical certificates.

Choosing a broker:

The broker/sub-broker must be registered with SEBI/ the concerned stock exchange, which you should verify from the registration certificate displayed at his office. The list of such authorised brokers/sub-brokers is available with the respective exchanges. He should have the infrastructure to transact your business with speed and accuracy. Besides, you should also look for your convenience such as location, cost and quality of service, etc.

Knowing about the companies:

There are a number of sources where you can get information about the company. In terms of listing agreement, the companies are required to make continuous disclosures about price sensitive information. These disclosures are disseminated through the web sites of the exchanges. Besides, SEBI provides EDIFAR (Electronic Data Information Filing And Retrieval system), which is an automated system for filing, retrieval and dissemination of time sensitive corporate information. The EDIFAR contains information about (i) financial statements comprising of balance sheets, profit and loss account and full version of the annual report, half yearly financial statements including cash flow statements and quarterly financial statements, (ii) corporate governance reports, (iii) shareholding pattern and (iv) action taken against the company by a regulatory body. EDIFAR is available at http://sebiedifar.nic.in. Apart from the above, the details of a company are also available with your intermediary and numerous public online sites.

What should an investor check before buying securities in the secondary market?

You should not buy securities on impulse, a hot tip or follow the herd. You should discriminate between information, casting away irrelevant and illogical pieces of information, and checking for opportunities and facts before buying a security. You should examine the fundamentals of a security before taking a decision to invest.

Documents that an investor should receive from the broker/sub-broker in respect of trades:

At the start of your relationship with a broker/sub-broker, you should sign the client-broker/client-sub-broker agreement indicating your relations with him and retain a copy with you. You should receive from the broker a contract note indicating your transactions upon execution of your trades. You should also obtain receipt of all monies paid to the broker.

Regulations require that you receive the contract note indicating details like Order Number, trade Number, Time, Price, Brokerage, etc within 24 hours of trade. In case you have any doubt about the details contained in the contract note with respect to order number, trade number, price, etc. you must avail of the facility now provided to the investors by the major stock exchanges (NSE and BSE) to verify their trades on the respective websites. It is desirable to avail of this facility in respect of a few trades on random basis even when there is no doubt. The exchanges generate and maintain an audit trail of orders/trades for a number of years and you can counter check details of your order/trade with the exchanges.

Contract note:

Contract note is confirmation of trades done on a particular day on your behalf. It establishes a legally enforceable relationship between you and the broker in respect of settlement of the trades. It helps to settle disputes/claims/differences. It is a prerequisite for filing a complaint or arbitration proceeding against the broker. A valid contract note should be in the prescribed form, be signed by the authorized signatory and contain the details of trades.

Making and receiving payment:

It is advisable to make payment by way of account payee cheque in the name of the broker/sub-broker only. A proper receipt should be collected from the intermediary. You should receive payment for securities within 48 hours of declaration of pay-out by the respective stock exchange.

Delivering and receiving the securities:

You should deliver securities before the pay-in is due and you should receive securities for which you have made payment, within 48 hours of the securities pay-out by the respective exchange.

Margins and deposits with brokers:

The regulations do not mandate any requirement for the investor to keep a deposit with the broker. It depends on your understanding with the broker/sub-broker. You are, however, required to pay upfront margin to the broker before the trade is executed. Exchanges generally prescribe higher levels of margins to be collected from clients as upfront depending on the liquidity of the security.

Why an investor protection fund?

The exchanges maintain an Investor Protection Fund to make good investor claims, which may arise out of non settlement of obligations by the trading member, who has been declared a defaulter, in respect of trades executed on the Exchange.

Grievances against companies and brokers:

You should bring it to the notice of the broker with whom the sub-broker is affiliated. In case the sub-broker/broker fails to resolve the dispute and in case of complaints against a broker/company, you should take up the matter with Investor Grievance Cell of the concerned exchange. The Cell takes up complaints for redressal in respect of trades executed on the exchange or trades pertaining to companies traded on the exchange. You should lodge the complaints in the prescribed form with all associated documents such as contract note.

Derivative market:

A derivative is a contract which derives its value from prices or index of prices of securities. It helps you to protect your position in securities from price risk and to increase the returns from your investments. A derivative contract is legal and valid only if such contracts is traded on a recognized stock exchange. If you trade in derivatives on an exchange, clearing corporation becomes the legal counterparty to all trades executed on the exchange and guarantees settlement; you do not have to search for a counter party to trade with you as the market provides liquidity, and formal rules and mechanisms of the exchange ensure market stability and integrity. The commonly versions of derivatives are futures and options. Standardised derivatives contracts such as Index Futures, Index Options, Stock Futures and Stock Options are currently traded on Indian exchanges.

Brokers and stock exchanges in derivative markets:

Stock exchange designs derivative contracts and provides you an opportunity to trade in those contracts. It guarantees settlement of contracts executed on your behalf and provides you protection if your brokers becomes a defaulter. You can trade in derivatives only through a broker. He is a SEBI registered intermediary who trades on an exchange on your behalf. Your relation is governed by the terms set out in the client-broker agreement. The broker must be registered with SEBI, which you should verify from the registration certificate displayed at his office.

Margins and deposits:

Usually you are required to pay an initial margin, which seeks to capture the largest loss that a portfolio might reasonably be expected to suffer from one day to the next day, upfront, i.e. before the trade is executed. This is intimated to you by your broker. You may be required to keep an upfront margin with the broker either in cash or in the form of acceptable collaterals. This is essential since the margins are required to be paid upfront by a client, at the time a trade is executed. This avoids daily margin calls on the client.

What if the broker has defaulted?

You may report your complaints/grievances to the Investor Grievance Cell. Alternatively, you may refer the matter to Arbitration or may approach the Defaulters Committee to lodge your claim against the Defaulter. Further, you may seek protection from the Investor Protection Fund of the respective exchange. The Fund makes good your claims, which may arise out of non-settlement of obligations by a broker, in respect of trades executed on the exchange if the broker is declared defaulter.

When does an investor pay for the derivatives purchased?

You may either keep an amount with the broker for adjustment against settlement obligations, or may pay separately for each contract, as agreed to in the client-member agreement. It is however advisable to reconcile the accounts with broker frequently to avoid disputes.

When does an investor receive the money for the derivatives sold?

You should get credit in your account for the payments in respect of contracts sold by you within the time stipulated by the Exchange. However, you may get credit either daily or at intervals as agreed to in the client-member agreement.

Grievances against the broker:

You should take up the matter with Investor Grievance Cell of the concerned Exchange.

Depository services:

There are two depositories, namely the National Securities Depository Limited and Central Depository Services (India) Limited which maintain ownership records of securities in book entry form and effect transfer of securities with speed, accuracy and security. The depositories hold securities in demat and all

securities in depository are fungible. While the investors in securities appear as beneficial owners in the records of the depository, the depositories appear as registered owners in the record of the company. All rights relating to securities, however, accrue to beneficial owners.

Holding securities in the demat form helps you get get immediate transfer of securities in case of purchases; you do not pay stamp duty on transfer of securities; you avoid risks associated with physical certificates such as bad delivery, fake securities, etc.

A depository interfaces with the investors through its agents called **Depository Participants** (DPs). If you want to avail of the services offered by a depository, you need to open an account with a DP. This is similar to opening an account with any branch of a bank in order to utilise the bank's services.

Dematerialising and rematerialising:

You can dematerialise the securities which are registered in your name and are in the list of securities admitted for dematerialisation with either depository. You can get an updated list of securities admitted for dematerialisation from your DP or web sites of depositories. If you wish to get back your securities in physical form, you have to request your DP for rematerialisation of the same. The DP will forward your request to the depository which will take the matter with the concerned company. The company will issue physical certificates to you. You have full freedom to hold your securities in physical or demat form, as you wish.

Choosing a DP:

You should select your DP to open a demat account just like you select a bank for opening a savings account. Some of the important factors you should take into account are: convenience (proximity to your office/residence, business hours), Comfort (reputation, antecedents, experience of other investors, infrastructure) and Cost (service charges and the service standards). You must also ensure that the DP is registered with SEBI.

Delivery instruction slips (DIS):

DIS are like cheque book and you must handle it carefully. You should insist your DP to issue a DIS book (not loose slips). The DIS numbers must be pre-printed and your account number [client id] should be pre-stamped. Do not leave signed blank DIS with anyone and keep the DIS book under lock and key when not in use.

Receiving the dematerialized shares:

In a public issue, the issuer advises the DP to credit your account with the securities allotted to you. For receiving demat securities in case of purchases from secondary market, you may give a one-time standing instruction to your DP. This standing instruction can be given at the time of account opening or later. Alternatively, you may choose to give separate receipt instruction to your DP for receiving every credit. You should ensure that your broker transfers the securities from its clearing account to your depository account, before the book closure. If the securities
remain in the clearing account of the broker, the company will give corporate benefits (dividend or bonus) to the broker. In that case, you will have to collect the benefits from your broker.

Selling dematerialized shares:

After you have sold the securities, you would instruct your DP to debit your account with the number of securities sold by you and credit your broker's clearing account. This delivery instruction has to be given to your DP using the DIS given to you by your DP at the time of opening the account.

Dividend and interest:

The concerned company obtains the details of beneficiary holders and their holdings from the depository. The amount due to you are paid by the company through the ECS (Electronic Clearing Service) facility or by issuing warrants on which your bank account details are printed.

Bonus shares:

The concerned company obtains the details of beneficiary holders and their holdings from the depository. Your entitlement is credited by the company directly in your depository account.

How much does an investor pay to the depository?

A depository interfaces with the investors through DPs. It does not charge the investors directly but charges DPs, who are free to have their own charge structure for the investors. However, you should look at the charges levied by a DP in relation to its range and quality of services rendered.

Grievances:

You should approach your DP for any grievances related to depository operations. In case of failure of your DP to resolve your grievance, you can write to your depository. In case depository/depository participant does not redress your grievance adequately, you may write to SEBI.

Mutual funds

Some of you may prefer some kind of collective investment vehicle, which can pool your marginal resources, invest in securities and distribute the returns among you on cooperative principles. You benefit in terms of reduced risk, and higher returns arising from professional expertise of fund managers employed by such investment vehicle. This is the appeal of the mutual funds which offer a path to stock market far simpler and safer than call-a-broker-and-buy/sell-securities route. In India, we have a large number of funds offering a large variety of schemes to suit requirements of every type of investor.

The securities market is highly volatile. The risk of losing money is high. Selecting securities with growth and income potential from the securities market involves careful research and monitoring of the market, which is not possible for all investors. Also the key to successful investing in securities markets lies in building a diversified portfolio, which requires substantial capital.

The mutual fund is a professional intermediary between the investor and the securities market. The mutual fund mitigates to a large extent the shortcomings of direct investing. The specific advantages of investing in a mutual fund are:
Professional Management: The mutual fund has investment management skills and research skills topped by a professional management.
Diversification: An investor in a mutual fund acquires a diversified portfolio no matter how small his investment. Thus the risk of loss is spread over a large number of investors and thus the individual does not face the entire loss. Also the risk of one instrument is spread over a large number of investment instruments.
Low Costs: The mutual fund has economy of scale; the fund pays lower cost because of larger volumes and this benefit is passed on to the investor.
Liquidity: Units of a mutual fund can be sold back to the fund (Open-end), or sold in the market (Closed-end) or redeemed at end of specified period.
Transparency: The NAV of the schemes are displayed everyday on Association of Mutual Funds in India (AMFI) website as well as other websites.
Choice of Schemes: The Mutual funds offer a wide range of schemes which can suit different types of investors.
Regulated: Mutual funds are regulated by SEBI.

Know your investment objective:

You should first know your own investment objectives i.e. whether you want liquidity or short-term returns or long term capital appreciation. Then you should select the type of schemes available matching your investment objective. After the scheme selection, you must compare the past track record and returns of such scheme by different mutual funds. For this you should thoroughly verify the offer document with emphasis on past performance, sponsors, investment objective, asset allocation pattern, etc.

Choosing a mutual fund scheme :

You should choose a scheme by looking at the scheme highlights, scheme specific
risk factors, details of fees, expenses and load and past performance, apart from the investment objectives and policies and comparing it with other schemes.

Buying mutual fund units:

In case of open-end schemes, you can purchase the units directly from the fund itself. You can approach the fund's office or through the Distributors/Brokers/Sub-Brokers or Agents. In case of closed-end schemes, you can buy the units from the stock exchange where the units are listed or from the Mutual Funds providing repurchase facility. Mutual funds normally come out with

an advertisement in newspapers publishing the date of launch of the new schemes. You can also contact the agents and distributors of mutual funds who are spread all over the country for necessary information and application forms. Forms can be deposited with mutual funds through the agents and distributors who provide such services. Nowadays, the post offices and banks also distribute the units of mutual funds. However, you should note that the mutual funds schemes being marketed by banks and post offices should not be taken as their own schemes. The only role of banks and post offices is to help in distribution of mutual funds schemes to the investors.

Liquidity:

The units of the mutual funds are extremely liquid. Incase of open-end schemes, you can redeem the units on any working day at the applicable NAV of that day from the mutual fund itself. Incase of closed end schemes, you can trade the units on the recognised stock exchange where the units of the fund are listed.

Sector specific funds:

These are the funds/schemes, which invest in the securities of only those sectors or industries as specified in the offer documents e.g. Pharmaceuticals, Software, Fast Moving Consumer Goods (FMCG), Petroleum stocks, etc. Sector specific funds are normally cyclical in nature and the risks faced by such funds are also sector specific risks. The returns in these funds are dependent on the performance of the respective sectors/industries.

Tax Saving Schemes:

These schemes offer tax rebates to the investors under specific provisions of the Income Tax Act, 1961 as the Government offers tax incentives for investment in specified avenues e.g. Equity Linked Savings Schemes (ELSS). Pension schemes launched by the mutual funds also offer tax benefits. These schemes are growth oriented and invest pre-dominantly in equities. Their growth opportunities and risks associated are like any equity-oriented scheme.

Assured return schemes:

Assured return schemes are those schemes that assure a specific return to the unit holders irrespective of performance of the scheme. A scheme cannot promise returns unless such returns are fully guaranteed by the sponsor or Asset Management Company (AMC) and this is required to be disclosed in the offer document. You should carefully read the offer document whether return is assured for the entire period of the scheme or only for a certain period. Some schemes assure returns one year at a time and they review and change it at the beginning of the next year.

Knowing the performance of a mutual fund scheme:

The performance of a scheme is reflected in its net asset value (NAV), which is disclosed on a daily basis in case of open-ended schemes and on a weekly basis in case of close-ended schemes. The NAVs of mutual funds are required to be published in newspapers. The NAVs are also available on the web sites of mutual funds. All mutual funds are also required to put their NAVs on the web site of

AMFI www.amfiindia.com and thus you can access NAVs of all mutual funds at one place and assess their performance.

The mutual funds are also required to publish their performance in the form of half-yearly results which also include their returns/yields over a period of time i.e. last six months, 1 year, 3 years, 5 years and since inception of schemes. You can also look into other details like percentage of expenses of total assets as these have an effect on the yield and other useful information in the same half-yearly format.

Various studies on mutual fund schemes including yields of different schemes are being published by the financial newspapers on a weekly basis. Apart from these, many research agencies also publish research reports on performance of mutual funds including the ranking of various schemes in terms of their performance. You should study these reports and keep yourself informed about the performance of various schemes of different mutual funds.

You can compare the performance of various schemes with those of other mutual funds under the same category. You may also compare the performance of equity oriented schemes with the benchmarks like BSE Sensitive Index, S&P CNX Nifty, etc.

On the basis of performance of the mutual funds, you should decide when to enter or exit from a mutual fund scheme.

How to choose a scheme from a number of schemes available?

You must study the offer document of the mutual fund scheme carefully. You may also look into the past track record of performance of the scheme or other schemes of the same mutual fund. You may also compare the performance with other schemes having similar investment objectives. Though past performance of a scheme is not an indicator of its future performance and good performance in the past may or may not be sustained in the future, this is one of the important factors for making investment decision. In case of debt oriented schemes, apart from looking into past returns, you should also see the quality of debt instruments which is reflected in their rating. A scheme with lower rate of return but having investments in better rated instruments may be safer. Similarly, in equities schemes also, you may look for quality of portfolio. You may also seek advice of experts.

Information about mutual funds:

Almost all the mutual funds have their own web sites. You can also access the NAVs, half-yearly results and portfolios of all mutual funds at the web site of

AMFI www.amfiindia.com. You can log on to the web site of SEBI www.sebi.gov.in and go to "Mutual Funds" section for information on SEBI regulations and guidelines, data on mutual funds, draft offer documents filed by mutual funds, addresses of mutual funds, etc.

Grievance redressal:

You would find the name of contact person in the offer document of the mutual fund scheme whom you may approach in case of any query, complaints or grievances. Trustees of a mutual fund monitor the activities of the mutual fund. The names of the directors of AMC and trustees are also given in the offer documents. Investors can also approach SEBI for redressal of their complaints. On receipt of complaints, SEBI takes up the matter with the concerned mutual fund and follows up with them till the matter is resolved.

Collective investment schemes

Collective Investment Scheme(CIS) means an arrangement under which investors make
contributions, which are pooled and utilised solely for the purpose of the arrangement, with a view to receive profit/income. All the CIS companies are required to be registered with SEBI.

You should ensure that the Collective Investment Management Company is registered with SEBI and is eligible to raise funds from the public by launching schemes. Such schemes have to be compulsorily credit rated as well as appraised by an appraising agency. The schemes also have to be approved by the Trustee and contain disclosures, as provided in the Regulations and is duly filed with SEBI.

Chapter 5. Investor Grievance Redressal

Despite all precautionary measures taken by you and the regulators, you may have some grievances. The regulator, self regulatory organisations and the entities supervised by regulators have some kind of mechanism to redress your grievances.

Following table presents the kind of grievances and the authority you should approach for redressal. In addition, you have freedom to take up grievance with SEBI and the court of law.

Grievance related to	Whom to contact
Issue/Company	Compliance officer of the issuer company/Lead Manager/Stock Exchange
Trading/Broker/Sub-broker	Investor Grievance Cell of concerned Exchange
Mutual Fund	Compliance Office of Mutual Fund
Depository Services	Investor Relation Cell or Concerned Depository
Corporate Action	Concerned Company/Concerned Exchange
Intermediary	Compliance officer of the intermediary/Affiliated industry association/SRO

SECURITIES AND EXCHANGE BOARD OF INDIA
OFFICE OF INVESTOR ASSISTANCE AND EDUCATION
"EXCHANGE PLAZA" C-1, BLOCK G, 4TH FLOOR,
BANDRA KURLA COMPLEX, BANDRA (E), MUMBAI - 400 051.

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