भारतीय प्रतिभूति और विनिमय बोर्ड

Securities and Exchange Board of India

# Financial Education for

## SCHOOL CHILDREN

भारतीय प्रतिभूति और विनिमय बोर्ड
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## Money Matters: *They really matter!*


### Activity I

Ravi and Mohan are students of class 10 of ABC Public School. One day both of them went into an argument about who is wealthier? The argument peaked up and they started to mention the things which they possessed.

Ravi started first and mentioned the following things available with him:

- Cycle worth ₹ 2250.
- Watch worth ₹ 475.
- Books worth ₹ 1250.
- A Cricket bat worth ₹ 345. He borrowed the racquet from Rajesh for some time.
- 5 Wonderland comics each worth ₹ 35. Out of the five comics, he had borrowed two from Arjun.

Things available with Mohan are as follow:

- Books worth ₹ 750.
- Basket ball worth ₹ 650.
- A Mobile worth ₹ 1000.
- He borrowed two games CD from Chandan worth ₹ 100 each.
- A video game worth ₹ 1250.
- A tennis racquet worth ₹ 1000. He has lent the racquet to Pankaj for few days.

Both of them know the things available with them and their respective prices. But they don't know how to prove who's wealthier. Can you help both of them to know who is wealthier?

Wealth is determined by Net worth

Net worth = Assets – Liabilities

Asset: Something you own

Liability: Something you owe

**ACTIVITY II:**

Let's enhance our understanding of assets and liabilities further:

The information furnished below is of Mr. Pawar. You need to calculate the net worth of Mr. Pawar by identifying the items as assets or liabilities:

**Speaking Money wise:** You are worth your Net worth

| ITEM | AMOUNT (₹.) | ASSET | LIABILITY |
|---|---|---|---|
| Savings bank account balance | 55,000 | | |
| Shares of listed companies | 60,000 | | |
| Car | 3,25,000 | | |
| House | 25,00,000 | | |
| Furniture | 12,500 | | |
| Air Conditioner | 14,000 | | |
| Microwave | 10,500 | | |
| Laptop | 22,000 | | |
| Gold Jewelry | 75,000 | | |
| Life Insurance – Surrender Value | 85,000 | | |
| Car Loan Outstanding | 2,00,100 | | |
| Home Loan Outstanding | 12,00,000 | | |
| Money given to a friend | 15,000 | | |
| Payment to maid not paid | 1,500 | | |
| **Total Assets** | | | |
| **Total Liabilities** | | | |

Net worth = Total Assets – Total Liabilities

Net worth of Mr. Pawar is ₹ ________________

**Planning: *The Mantra of Success!***

We all have Goals in life:

I want to buy a cricket Bat

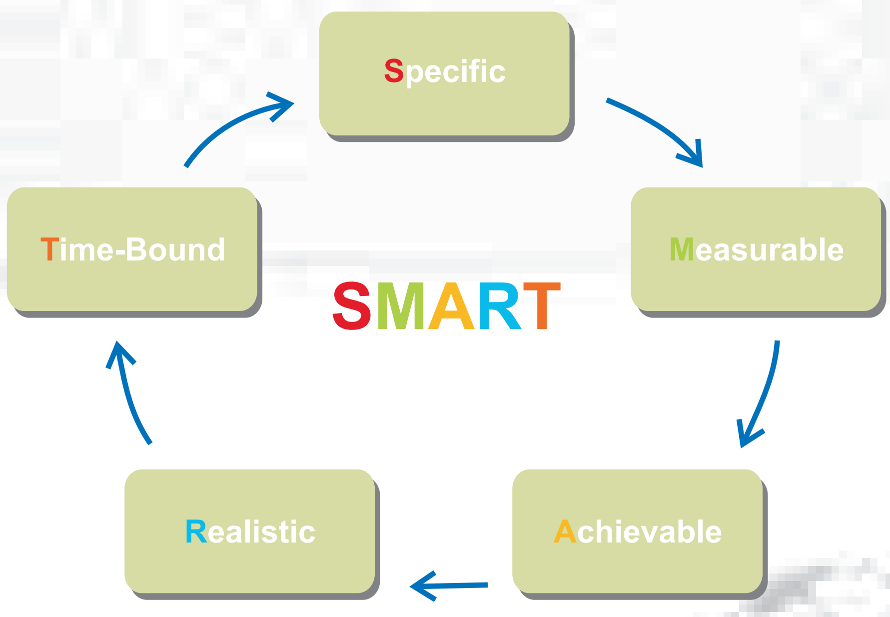
I want to go to picnic

I want to buy a cycle

I want to get admission in ABC College

Have you ever wondered why many of our goals are delayed or worse not fulfilled? Well, simply because we are wishful about our goals and we have no definite PLAN to achieve these cherished goals.

The starting point to achieve any Goal is to have a plan for it. Once you have a plan, it is no more a vague goal, it becomes a SMART Goal.




**Let's see the difference between what is Smart and what is not:**

| SMART | Not Smart | Smart |
|---|---|---|
| Specific | I want to go to picnic | I want to go to Matheran for Picnic |
| Measurable | I will need some money to buy a cycle | I will need ₹ 20000/- to buy a cycle |
| Achievable | I will win the cricket match alone | I will need support of the team to win the cricket match |
| Realistic | By winning the lottery I will buy a Cycle. | I will start saving to buy a cycle. |
| Time-Bound | I will buy a cricket bat some time in future. | I will save 50/- every month to buy cricket bat in 10 months |

**Activity III:**

Below are the goals of some smart kids like you. Now your task is to plan a SMART goal for each one of them so that they can achieve their goals:

1)

Name: Mitesh Jain

Age: 15 years

School: Modern Public School

Passion: Play football

Dream: Wants to buy a football.

SMART goal:

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2) Name: Ankita Singh

Age: 14 years

School: Laxmibai Public School

Passion: Play Cricket

Dream: Buy a Cricket bat

SMART goal:

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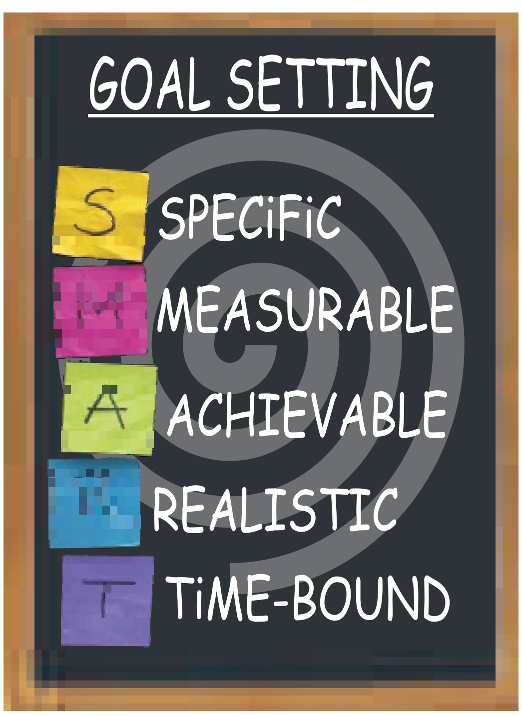


Success Wise : To climb the ladder of success you need to have SMAr T Goals !

## Budgeting: Prioritizing the needs!

**Activity IV:**

Mr. and Mrs. Singh have the following family demands to meet:

1. Purchase a shawl (as it is winter) for Mr. Singh's mother as a present on her birthday
2. Elder son Sahil is demanding a Cycle to commute
3. Younger son Rohan is demanding the latest Video game
4. Gift for the marriage of a friend that Mr.singh has to attend. Gift can be a gold set.
5. The couple also wants their house to be decorated by an interior decorator.

Discuss the demands and prioritize them on the basis of importance and urgency. Then take required action:

| Win with prioritization | Urgent | Not Urgent |
|---|---|---|
| **Important** | I. Urgent and important as well<br>Action: Need to do now | II. Important but not urgent<br>Action: Plan to do it later |
| Not Important | III. Urgent but not important<br>Action: Do it if cash flows allow | IV. Nethier urgent nor important<br>Action: Ignore |

| Demand | Urgent | Important | Action |
|---|---|---|---|
| Shawl for Mr. Singh's mother | Y | Y | **BUY** |
| Sahil's Cycle | N | Y | **PLAN FOR LATER** |
| Rohan's new videogame | N | N | **DON'T BUY** |
| Marriage gift for common friend | Y | N | **BUY A LESS EXPENSIVE GIFT TO THE EXTENT CASH FLOW PERMITS** |
| House decoration | N | N | **IGNORE** |

***Remember***

*Needs are basic necessities one cannot wish away. For example in summer fan becomes a need.*

*On the other hand wants make your life comfortable .An air conditioner makes life more comfortable in summer.*

**Activity V: Write down various needs and wants of your family and suggest action as per prioritization**

| Demand | Urgent | Important | Action |
|---|---|---|---|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |

**Budgeting: Let's first learn few terms about Budgeting**

| | |
|---|---|
| Cash-flow Statement: | A record of your income and expenses. |
| Budget: | A plan for balancing of income and expenditure or a projection of one's income and expenditure. |
| Necessity of Budget: | Optimize savings<br>Traffic signal for vehicle called 'Spending'.<br>Save accurately for a particular short/long term goal.<br>Effectively allot funds to various areas of expenditure in advance. |
| Budget Surplus or Deficit: | Projected income > Projected Expenditure = Budget surplus<br>Projected income < Projected Expenditure = Budget deficit |
| Postponing Satisfaction: | Let go something now for something better/bigger in the future. Eg: giving up the idea to buy video game now to purchase a bicycle in the future. |
| Instant Satisfaction: | Instantly buy something when you want it. Eg: Purchase a video game instantly when you want it. |
| Opportunity Cost: | At a point of time, when you give up something to achieve something else, the forgone opportunity is known as 'Opportunity Cost'. Eg. You have an option to either buy a video game or a bicycle and you opt for the bicycle, then the video game is the opportunity cost for purchasing bicycle. |
| Knowledge of budgeting | Is an advantage for children. Art of budgeting helps a person develop economic way of thinking and problem solving. |

**Activity VI: Plan your Budget**

Himanshu is a 15 year old boy and he stays in Hyderabad with his family. His family consists of his father, his mother and sister Priya.

Himanshu gets ₹ 1500 as a monthly allowance from his parents. Out of ₹ 1500 he has to pay ₹ 600 as school bus fees. He has to pay ₹ 200 for Yoga classes and ₹ 300 for canteen. Out of the remaining amount he uses ₹ 200 for the recharge voucher for his mobile. He is an avid fan of comics and hence he spends ₹ 150 (4 to 5 comics) on comics. Rest of the money he spends on stationary and/or ice cream.

His sister Priya always gives him a birthday present but he never gave anything to her on her birthday. But this year he has decided to give her a surprise gift.Priya's birthday is after 2 months. But as of now he has no savings with him and he does not want to borrow extra money from his parents for the purpose. He didn't want to borrow money from a friend as his parents would get angry if they come to know about it.

He wants to give a dress to his sister which costs ₹ 600. He is unable to find any way to get money to buy it. Can you help Himanshu to attain his goal???

**What should be Himanshu's SMART goal?**

______________________________________________

______________________________________________

**Analyze the needs /wants of Himanshu:**

| Description | Amount | Need | Want |
|---|---|---|---|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |

**Planning and reworking on Himanshu's budget:**

______________________________________________

______________________________________________

______________________________________________

______________________________________________

**Note:**
**Income:** Money earned from various sources
**Expenditure:** Money that is spend for need and wants
**Cash-flow statement:** Record of income and expenditure

**Activity VII**

Jai is a 14 year old boy who resides in Pune with his family. His family consists of four members, his father, mother, younger sister and himself. One day he along with his younger sister Disha decided to go for a family trip to Manali. When he discussed their desire to his parents, they liked the idea but kept it in the backseat as there were some urgent needs that were supposed to be fulfilled in the year. Understanding the problem of his parents, he decided to save money from household expenses and plan the trip with the savings. He discussed this strategy with his parents and they were very happy and appreciated this apt decision of their wise son. They also promised to spare ₹ 15000 for the trip. Rest was dependent on the savings. The plan for the trip was 6 months from now. Jai enquired about the expenses of the trip and came to know that total trip will cost approximately ₹ 30000. He collected the details of monthly expenditure of family in a chart along with the additional details which are as follows:

- Every Sunday, family goes for an outing. They watch movie in the theatre which costs them ₹ 150/person.
- After movie they go for a long drive which costs them ₹ 300/Sunday. Dinner in a restaurant which costs them ₹ 550/Sunday.
- His father uses his car to commute to his office which costs them ₹ 150/day. His father also possesses a bike which when used to commute to office will cost them ₹ 50/day. He works 22 days a month.

Following are the list of other monthly expenditure of the family: Help Jai to meet his requirement by suitably modifying the family budget for him.

| Area of Expenditure | Current Expenditure/ months | Scope for curbing | Proposed saving | Savings in 6 month |
|---|---|---|---|---|
| Medical & emergency Reserve | 2500 | | | |
| Electricity bill | 1000 | | | |
| Phone bill | 1800 | | | |
| Movie & Popcorn at Multiplex | | | | |
| Dinner at a restaurant | | | | |
| Long drive expenses | | | | |
| Grocery | 5500 | | | |
| Father’s vehicle fuel charges | | | | |
| Misc | 800 | | | |
| **Total** | | | | |
| **Expected Saving** | | | | |
| **Total Saving** | | | | |

**Activity: VIII**

**Prepare your family's monthly budget & find out monthly surplus/deficit**

| Area of Expenditure | Current Expenditure/month |
|---|---|
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| **Total Expenses** | |

| Area of Income | Current Income/month |
|---|---|
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| **Total Income** | |

**Income – Expenses= Surplus/(Deficit) = ______________________**

## Investments

***Keep your money safe and make it work !!!***

**Once upon a time at a bank:**

**Ankush went to a bank along with his father**

**Banker: (to Ankush),** Son do you have a piggy – bank?

**Ankush:** Yes Sir, and it is almost full and I plan to buy another one.

**Banker:** why don't you put the money in the bank?

**Ankush:** I have ₹ 150 with me, but why should I give it to your Bank? Will you return my money?

**Banker:** What if I say, I not only will return your money but give you additional ₹ 10 at the end of the year

**Ankush:** I would let you know after asking my father.

Ankush is wondering Why would the banker return ₹ 160 if he is giving only ₹ 150?

What is this extra ₹ 10 that Banker is offering to Ankush?

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**Three pillars of Investment!**

Ankush later at home asks his father, why the banker offered him extra 10 Rupees. Father replied, its called return on investment and in this case it is named as interest. There are three aspects to investment you must know:

**Safety:** If you lend 100 rupees to someone, will he give it back to you i.e. is your capital (₹ 100) safe?

**Liquidity:** Will you get your money back if you need it immediately?

**Growth:** What is the return you will get on your investment? It could be in the form of income or appreciation or both.

## Activity: IX

**Real Bank Vs. Piggy Bank: Let's compare them on 3 crucial features:**

| | Piggy Bank | Real Bank |
|---|---|---|
| Safety | | |
| Liquidity | | |
| Growth | | |

Write down at least three different avenues of investment you can think of:

1. ________________________________________

2. ________________________________________

3. ________________________________________

## Banking:

However, what is a Bank?

Bank is an institution where people park their surplus money (Deposit) and earn some return called interest. At the same time people who need money can borrow from bank for a cost (again interest). Therefore, bank is an institution involved in the business of borrowing and lending money. It charges higher rates of interest while lending and pays lesser interest to depositors. The difference between lending and borrowing rate is called its Net interest margin (NIM)

For any country, banks play a vital role for the financial needs of Individuals and companies, enabling smooth Economic activity

**Types of bank Accounts:**

**Savings Account:** It is useful for depositing your surplus money and withdrawing money needed for expenses. One needs to keep a minimum balance usually. Banks pay lowest interest rate on the money kept in this account.

**Current Account:** This account is for basically business transactions. Banks do not pay any interest on the money kept in this account.

**Term deposit account or fixed deposit amount:** As the name suggests in this account money is deposited for a fixed and predetermined term. One deposits money which is not required immediately in this account. Interest rate is higher than savings account.

**Activity: X**

1. **What is ATM?**
2. **What is a cheque?**
3. **What is a Demand draft?**
4. **e-banking ?**

## INVESTMENT MANTr AS

### 1. Time value of money

**Sunny:**

- Starts investing ₹ 100 every year from the age of 15
- At the age of 25, he stops investing
- He does NOT withdraw a single penny from this money

**Bobby:**

- Starts investing ₹ 400 every year from the age of 25.
- He continues to invest the same amount till the age of 35.
- He does NOT withdraw a single penny from this money.

**Given:** Both earn 15% per annum return on their investment.

Who do you think will have accumulated more wealth at the age of 35?

___________________________________

**What did you understand from the above?**

_______________________________________________________________________________

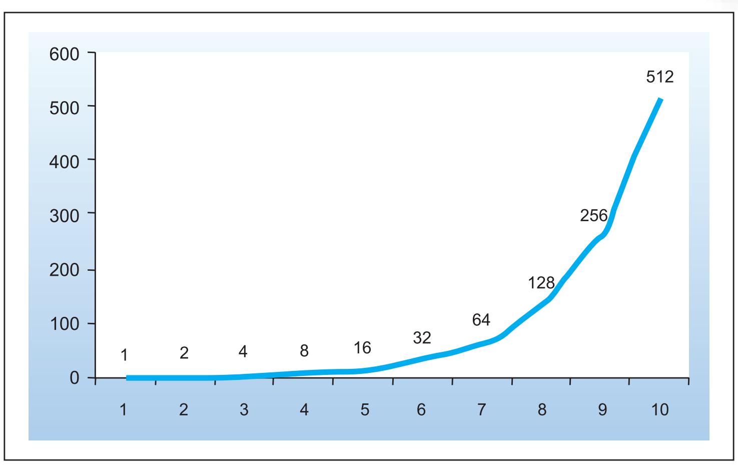
_______________________________________________________________________________

### 2. What is the eighth wonder of the world?

Once upon a time there lived a wealthy king. He was revered for his intelligence and as a true patron of innovation. One day a man brought to him a new board game that the man had invented. He called the game 'chess'. The king played the game with the man and he was so impressed that he asked him to choose a reward for himself. The man asked for one ashrafi (gold coin) for the first square of the chess board, 2 ashrafis for the second, 4 for the third, 8 for the fourth and so on for all the 64 squares on the chess board.

The king found it a very easy reward. But till the 64th square, the man had managed to gather 18,446,744,073,709,551,615 ashrafis!!!! The king had given the man his word so he had to stick to it. So even after having emptied his entire treasury, he could not pay the man's full reward.

**Power of Compounding!!!**




The story underlines the concept of Power of Compounding.
What did you understand from this?

LEARNING

### 3. How many years are good enough! What rate is good enough?

The table below shows you how a single investment of ₹ 500 will grow at various rates of interest.

| Years | 5% | 10% | 15% | 20% |
|---|---|---|---|---|
| 1 | 525 | 550 | 575 | 600 |
| 5 | 638 | 805 | 1006 | 1244 |
| 10 | 814 | 1297 | 2023 | 3096 |
| 15 | 1039 | 2089 | 4069 | 7704 |
| 25 | 1693 | 5417 | 16459 | 47698 |

**Can you interpret the above table?**

### 4. Never ever give up!

Harsha and Varsha, twins, decide to invest ₹ 3000 every year when they are 25 years old. Harsha just gave up at the age of 30 whereas Varsha continued to invest regularly. A few years later, Harsha decided to make up for all those years so she invested a lump sum of ₹ 20,000 when she turned 35 and again invested ₹ 25,000 at the age of 42. Thus by the age of 45, both Harsha and Varsha had invested ₹ 63000 each. Assuming a growth rate of 15%, Harsha had ₹ 4 lakh whereas Varsha had ₹ 3.8 lakh.

**Why did Varsha lose?**

### 5. The magic of number 72!

**Magic With 72!**

State Bank offered an interest rate of 8 % on deposits. Mr. Patil wants to know when his money would double. Can you help Mr. Patil?

Simply divide 72 by the given rate i.e. 72/8 = 9 years. It also works for finding out rate earned when money is doubled in given years.

**The Rule of 72:**

| Rate of interest | Years required to double your money | Years to invest | Rate required to double your money |
|---|---|---|---|
| 10 | | 6 | |
| 8 | | 9 | |
| 12 | | 10 | |

### 6. Skating Away!!!!!

Leena is 15 and has just passed her class IX exam. She has been attending skating class regularly for last 2 years and she is recognized as one of the best in the group. Recently she heard from her master that INLINE Skates are becoming popular, winning the competition in INLINE Skates can get her admitted to one of the best colleges 3 years later under sport quota. Since then she has been obsessed with the idea of getting an inline skates and practice with it. Leena goes to the store selling the best Skates in the city and finds out that the equipment would cost her ₹ 40,000!

Heart-broken, she goes to her skating teacher and tells him about the inline skates. Her teacher is a young and talented skater himself. He listens carefully to Leena.

**Teacher:** “What is the trouble then?”

**Leena:** “Sir, are you making fun of me? How can I afford that?”

**Teacher:** “Leena you play really well for your age but I suggest you continue playing the normal skates for 4-5 years. We can then consider inline skates”.

**Leena:** “Sir I know I don’t need it right now but I would like to have it at least in next 5 years so that I can participate in the competition. But the price is so high; there is no way I will be able to afford the equipment even after 7-8 years. After all, I am going to be studying all along. I won’t be earning. Right now I save about 400 rupees per month but this paltry sum can never get me that skates.” The teacher smiled with a glint in his eyes. He said, “Leena please don’t think that I am making fun of your situation. Not at all. In fact you took me 10 years back in time when I made a similar decision to buy my own skates when I was merely 14!”

Leena got a little excited. She said, “Really sir, did you succeed? You must have really pinched yourself to save so Much money!”

**Teacher:** “You see that skates, that’s the one that I bought when I was exactly 21!”

**Leena:** “How did you manage such an amazing feat?”

**Teacher:** Just regular saving and investment. I did not have to sacrifice much either. I just saved and invested a small amount regularly and did not stop till I got what I wanted. I also started saving about 150 rupees every month for the last two years in high school and then saved more and more as I grew up and earned a little bit of money.

**Leena:** Do you think I will be able to buy the skates too, on my own... that is... I don’t want to bother my dad.

**Teacher:** Of course you will be able to! Get a pen and paper and let’s make you a plan!!

| Amount per month | Period of Investment | Principal Amount | Possible rate of Interest | Final Amount |
|---|---|---|---|---|
| Rs.200 | 8 years | 19,200 | 10% | |
| Rs.300 | 6 years | 21,600 | 9% | |
| Rs.400 | 5 years | 24,000 | 8% | |
| **Total** | | | | |

### 7. The Inflation Termite: Beware!

At what price did you buy your school bag last time? Will you get it for the same price today? The answer is probably no. This means the price of things keep on increasing. This phenomenon of price rise is called Inflation.

Now let us assume, the price of your school bag was ₹ 200 last year and it costs ₹ 210 this year, the inflation rate therefore is 5% (=10/200 *100= 5%). Now if you had saved ₹ 200 last year and expected to buy the bag this year with your saving you would be short of ₹ 10. Therefore, it very important that savings are invested at a rate which is higher than inflation.

For example, if you have invested ₹ 100 at the rate of 10% and the inflation is 5%, then you have actually earned only 5%. (10%- 5% = 5%). This 5% is your real rate of return and 10% is called as nominal rate of return.

## Activity: XI

**Smart Guide for your family Activity:**

✓ Identify the sources of income
✓ Find out if there is a surplus or deficit
✓ Build Cash flow statement and plan for budget
✓ Calculate savings that can be invested for returns
✓ Show benefits of Investments

### Choosing The Right Investment Options

The choice of the best investment options will depend on personal circumstances as well as general market conditions. An investment for one's objective may not suit the needs of the other. Right investment is a balance of three things: Liquidity, Safety and Return.

### Liquidity

This will cover the ease with which the investment can be converted to cash to meet expenses. Some liquid investments are required to meet exigencies that arise in the normal course or otherwise.

### Safety

This is about the risk factor of the investment. The worst case is losing all the invested money. The milder case is losing on the income or low income growth or investment growth. Inflation is also a risk, as the purchasing value of money reduces.

### Return

Income generated by investments is another factor to consider. Safe investments offer steady but lower income and risky investments offer high returns or no returns at all.

There are several short-term and long-term financial investment options available, some of which are given hereafter:

Thus, there is a staggering variety of investments to choose from. In the following chapters we will focus on these and explain about them.

### Asset Allocation Strategy

Every Asset class has its own risk and returns. Equity Investments are considered to be risky investments as they might lead to erosion of entire capital invested, whereas government bonds are considered to be risk free as you can be confident that the government will not default on its interest payments.

This is where asset allocation plays a crucial role. Asset allocation is a technique for investing your money into various asset classes that would suit your income and risk appetite.

Asset allocation involves tradeoffs among three important variables:

# Your time frame
# Your risk tolerance
# Your personal circumstances

Depending on your age, lifestyle and family commitments, your financial goals will vary. While allocating your funds to various assets, it is important to see that you distribute your funds across various assets to benefit from diversification.

Normally, in an age based asset allocation, the amount allocated to equities is based on the Investor's age. The premise of using this model is "as the investor gets older, his portfolio should be more conservative". However, as this is just a thumb rule, an investor is the best judge of what suits him the most.

### Savings And Investment r elated Products

#### BANKS

Bank deposits are safe investments as all bank deposits are insured upto a maximum of ₹ 100,000 under the Deposit Insurance & Credit Guarantee Scheme of India. Banks are subject to control and regulated by the Reserve Bank of India. They offer various types of deposits, depending on the needs of the customer. Bank deposits are preferred more for their liquidity and safety than for the returns thereon. It is possible to get loans up to 75 - 90% of the deposit amount from banks against fixed deposit receipts.

#### Types of Deposits and Key Features

**Savings Bank Account**

- Often the first banking product people use
- Low interest however, highly liquid
- Suitable for inculcating the habit of saving among the customers

**Bank Fixed Deposit (Bank FDs)**

- Involves placing funds with the banks for a fixed term (not less than 30 days) for a certain stipulated amount of interest
- The ideal investment time for bank FDs is 6 to 12 months, as normally interest on bank for less than 6 months bank FDs is likely to be low
- The time frame assumes importance as early withdrawal may carry penalty

**r ecurring Deposit Account**

- Some fixed amount is deposited at monthly intervals for a pre-fixed term
- Earns higher interest than Savings Bank Account
- Helps in the saving of a fixed amount every month

**Special Bank Term Deposit Scheme**

- This is the Tax Saving Scheme available with banks
- Relief under Section 80C of the Income Tax Act, available
- Term deposit of five years maturity in a scheduled bank is mandatory

#### GOVEr NMENT SCHEMES

**Tax Savings Schemes***

The Government of India has launched Income Tax Saving Schemes including:

- National Savings Certificate (NSC)
- Public Provident Fund (PPF)
- Post Office Scheme (POS)

Besides, Equity linked savings scheme (ELSS) offered by Mutual Funds and Infrastructure Bonds of Financial Institutions / Banks also offer tax benefit.

The incomes from the investment are exempt from Income Tax and the investments in these schemes are deductible subject to certain limits from the taxable income.

**National Savings Certificates (NSC)**

- Popular Income Tax Savings scheme, available throughout the year
- Interest rate of 8%
- Minimum investment is ₹ 100/- and with no upper limit
- Maturity period of 6 years
- Transferable and a provision of loan on the basis of this scheme

**Public Provident Fund (PPF)**

- Interest rate of 8.6% p.a
- Minimum investment limit is ₹ 500/- and maximum is ₹ 100,000/-
- Maturity period of 15 years
- The first loan can be taken in the third financial year from the date of opening of the account, or upto 25% of the amount at credit at the end of the first financial year. Loan amount can be returned in maximum of 36 installments
- A person can withdraw an amount (not more than 50% of the balance) every year from the 7th year onwards

**Post Office Scheme (POS)**

- It is one of the best Income Tax Saving Schemes
- It is available throughout the year
- Post Office schemes depends upon the type of investment and maturity period, which can be divided into following categories:
  - Monthly Deposit
  - Saving Deposit
  - Time Deposit
  - Recurring Deposit

**Equity Linked Savings Schemes (ELSS)**

- Mirror image of a diversified equity fund, however, with tax benefit U/S 80 C
- Lock in period of three years
- Dividends are also tax free
- On sale of these units, benefit can be obtained of long term capital gains, on which no capital gains tax is to be paid
- Minimum investment is ₹ 500 and then multiples thereof
- Investor can opt for systematic investment plan (SIP)

**Infrastructure Bonds**

- Lock in period of three years
- Tax benefit U/S 88 on investments upto ₹ 20,000
- Any redemption prior to maturity nullifies the tax exemption

* *Investors are advised to see latest Income tax provisions and other provisions from relevant sources*

LEARNING

**Bonds**

A Bond is a loan given by the buyer to the issuer of the instrument, in return for interest. Bonds can be issued by companies, financial institutions, or even the Government. The buyer receives interest income from the seller and the par value of the bond is receivable by the buyer on the maturity date which is specified.

**TYPES OF BONDS**

**Tax-Saving Bonds**

Tax-Saving Bonds offer tax exemption up to a specified amount of investment, depending on the scheme the Government notification. Examples are:

- Infrastructure Bonds under Section 88 of the Income Tax Act, 1961
- NABARD/ NHAI/REC Bonds under Section 54EC of the Income Tax Act, 1961
- RBI Tax Relief Bonds

**regular Income Bonds**

Regular-Income Bonds provide a stable source of income at regular, pre-determined intervals. Examples are:

- Double Your Money Bond
- Step-Up Interest Bond
- Retirement Bond
- Encash Bond
- Education Bonds
- Money Multiplier Bonds
- Deep Discount Bonds

**Key Features**

- Rated by specialised credit rating agencies like, CRISIL, ICRA, CARE, Fitch etc. The yield on a bond varies inversely with its credit (safety) rating
- Suitable for regular income. Interest is received semi-annually, quarterly or monthly depending on type of bond
- Bonds available in both primary and secondary markets
- Market price depends on yield at maturity, prevailing interest rates, and rating of the issuer
- One can borrow against bonds by pledging the same with a bank
- Minimum investment ranges from ₹ 5,000 to ₹ 10,000
- Duration usually varies between 5 and 7 years
- Can be held in demat form

## Debentures

### Key Features of Debentures

- Fixed interest debt instruments with varying period of maturity, similar to bonds, but are issued by companies
- Either be placed privately or offered for subscription
- May or may not be listed on the stock exchanges. If they are listed on the stock exchanges, they should be rated prior to the listing by any of the credit rating agencies designated by SEBI
- Maturity period normally varies from 3 to 10 years

### Types of debentures

- There are different kinds of debentures, which can be offered. They are as follows:
- Non convertible debentures (NCD) – Total amount redeemed by the issuer
- Partially convertible debentures (PCD) – Part is redeemed and part is converted to equity shares with or without the option to investor.
- Fully convertible debentures (FCD) – Whole value is converted into equity. The conversion price is stated when the instrument is issued

## Company Fixed Deposits

### Key Features

- Fixed deposit scheme offered by a company. Similar to a bank deposit
- Used by companies to borrow from small investors
- The investment period must be selected carefully as most FDs are not encashable prior to their maturity
- Not as safe as a bank deposit. Company deposits are 'unsecured'
- Offer higher returns than bank FDs, since they entail higher risks
- Rating can be guide to their safety

### Mutual Funds

A mutual fund pools money from many investors and invests the money in stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. The combined holdings the mutual fund owns, are known as its portfolio. Each unit represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate.

### Salient Features of Mutual Funds

- Professional Management – Money is invested through fund managers
- Diversification - Diversification is an investing strategy that can be neatly summed up as "Don't put all your eggs in one basket". By owning shares in a mutual fund instead of owning individual stocks or bonds, the risk is spread out
- Economy of Scale - Because a mutual fund buys and sells large amounts of securities at a time, its transaction costs are lower than what an individual would pay for securities transactions
- Liquidity - Just like individual shares, mutual fund units are convertible into money by way of sale in the market
- Simplicity - Buying a mutual fund unit is simple. Many banks have sponsored their own line of mutual funds and the minimum investment amount is small
- Investors should examine each of the above features carefully before investing in mutual funds

### Types of Mutual Funds

Each fund has predetermined investment objectives that tailor the fund's assets, regions of investments and investment strategies. At the fundamental level, there are three varieties of mutual funds:

- Equity funds (stocks)
- Fixed-income funds (bonds)
- Money market funds

All mutual funds are variations of these three asset classes. For example, while equity funds that invest in fast-growing companies are known as growth funds, equity funds that invest only in companies of the same sector or region are known as specialty funds.

Mutual Funds can also be classified as open-ended or closed-end, depending on the maturity date of the fund.

### Open-ended Funds

- An open-ended fund does not have a maturity date
- Investors can buy and sell units of an open-ended fund from / to the Asset Management Company (AMC), at the mutual fund offices or their Investor Service Centre's (ISCs) or through the stock exchange.
- The prices at which purchase and redemption transactions take place in a mutual fund are based on the net asset value (NAV) of the fund

### Closed-end Funds

- Closed-end funds run for a specific period
- On the specified maturity date, all units are redeemed and the scheme comes to a close
- The units shall be listed on a stock exchange to provide liquidity
- Investors buy and sell the units among themselves, at the price prevailing in the stock market

### Money Market Funds

- Invest in extremely short-term fixed income instruments
- The returns may not be very high, but the principal is safe
- These offer better returns than savings account but lower than fixed deposits without compromising liquidity

### Bond/Income Funds

- Purpose is to provide current income on a steady basis
- Invests primarily in government and corporate debt
- While fund holdings may appreciate in value, the primary objective of these funds is to provide a steady cash flow to investors

### Balanced Funds

- Objective is to provide a balanced mixture of safety, income and capital appreciation
- Strategy is to invest in a combination of fixed income and equities

### Equity Funds

- Invest in shares and stocks
- Represent the largest category of mutual funds

LEARNING

- Investment objective is long-term capital growth with some income
- Many different types of equity funds because of the different types of investment objectives

**Foreign/International Funds**

- An international fund (or foreign fund) invests in the equity of the companies which are outside the home country

**Sector funds**

- These are targeted at specific sectors of the economy such as financial, technology, health, etc.

**Index Funds**

- This type of mutual fund replicates the performance of a broad market index such as the SENSEX or NIFTY
- An index fund merely replicates the market return and benefits investors in the form of low fees

**Equity Shares**

Ownership interest in a company of holders of the common and preferred stock

A stock market is a public market for the trading of company shares at an agreed price, these are securities listed on a stock exchange.

The shares are listed and traded on stock exchanges which facilitate the buying and selling of stocks in the secondary market. The prime stock exchanges in India are The Stock Exchange Mumbai, known as BSE and the National Stock Exchange known as NSE. The purpose of a stock exchange is to facilitate the trading of securities between buyers and sellers, thus providing a marketplace. Investing in equities is riskier and definitely demands more time than other investments.

**There are two ways in which investment in equities can be made:**

- Through the primary market (by applying for shares that are offered to the public)
- Through the secondary market (by buying shares that are listed on the stock exchanges)

Having first understood the markets, it is important to know how to go about selecting a company, a stock and the right price. A little bit of research, some diversification and proper monitoring will ensure that the investor earns good returns.

**Ponzi scheme**

A Ponzi scheme is a fraudulent investment operation that promises high rates at little risk to investors. The scheme generates returns for older investors from their own money or money paid by subsequent investors, rather than any actual profit earned. The perpetuation of the returns that a Ponzi scheme advertises and pays requires an ever-increasing flow of money from investors to keep the scheme going.

The system is destined to collapse because the earnings, if any, are less than the payments to investors. Usually, the scheme is interrupted by legal authorities before it collapses because a Ponzi scheme is suspected or because the promoter is selling unregistered securities. As more investors become involved, the likelihood of the scheme coming to the attention of authorities increases.

**How to Spot one?**

The Ponzi scheme usually entices new investors by offering returns other investments cannot guarantee, in the form of short-term returns that are either abnormally high or unusually consistent. In other words it seems too good to be true.

**The ultimate unraveling of a Ponzi scheme**

- As more investors become involved, the likelihood of the scheme coming to the attention of authorities increases.

- The promoter will vanish, taking all the remaining investment money
- The scheme will collapse under its own weight as investment slows and the promoter starts having problems paying out the promised returns
- External market forces, such as sharp decline in the economy will cause many investors to withdraw part or all of their funds not due to loss of confidence in the investment, but simply due to underlying market fundamentals.

**DEPOSITOr Y SYSTEM**

In order to invest in shares, it is necessary to understand the term "Dematerialisation of Shares", as almost all shares now are in "Demat" form. Earlier, there used to be physical share certificates issued, which are now converted to Electronic form. For this, an understanding of the depository system becomes essential.

A depository is an organisation which holds securities (like shares, debentures, bonds, government securities, mutual fund units etc.) of investors in electronic form at the request of the investors through a registered Depository Participant. It also provides services related to transactions in securities. It can be compared with a bank, which holds the funds for depositors.

At present two Depositories viz. National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) are registered with SEBI.

A Depository Participant (DP) is an agent of the depository through which it interfaces with the investor and provides depository services. Public financial institutions, scheduled commercial banks, foreign banks operating in India with the approval of the Reserve Bank of India, state financial corporations, custodians, stock-brokers, clearing corporations /clearing houses, NBFCs and Registrar to an Issue or Share Transfer Agent complying with the requirements prescribed by SEBI can be registered as DP. Banking services can be availed through a branch whereas depository services can be availed through a DP.

It is now compulsory for every investor to open a beneficial owner (BO) account to trade in the stock exchange or apply in public issue. Therefore, in view of the convenience as listed below, it is advisable to have a beneficial owner (BO) account.

However to facilitate trading by small investors (Maximum 500 shares, irrespective of their value) in physical mode the stock exchanges provide an additional trading window, which gives one time facility for small investors to sell physical shares which are in compulsory demat list. The buyer of these shares has to demat such shares before further selling.

**Benefits of availing depository services include:**

- A safe and convenient way to hold securities
- Immediate transfer of securities
- No stamp duty on transfer of securities
- Elimination of risks associated with physical certificates such as bad delivery, fake securities, delays, thefts etc
- Reduction in paperwork involved in transfer of securities
- Reduction in transaction cost
- No odd lot problem, even one share can be traded
- Nomination facility
- Change in address recorded with DP gets registered with all companies in which investor holds securities electronically eliminating the need to correspond with each of them separately
- Transmission of securities is done by DP eliminating correspondence with companies
- Automatic credit into demat account of shares, arising out of bonus /split /consolidation /merger etc
- Holding investments in equity and debt instruments in a single account

**POINTS TO REMEMBER**

- Participants range from small individual stock investors to large fund traders, who can be based anywhere
- One of the most important sources for companies to raise money
- Allows businesses to be publicly traded, or raise additional capital for expansion by selling shares of ownership of the company in a public market
- Stock market is often considered the primary indicator of a country's economic strength and development
- Stock prices fluctuate, in marked contrast to the bank deposits or bonds
- The reasons for investing in equity must also be reviewed periodically to ensure that they are still valid
- Sometimes the market seems to react irrationally to economic or financial news, even if that news is likely to have no real effect on the value of securities itself
- Over the short-term, stocks and other securities can be battered or buoyed by any number of fast market-changing events, making the stock market behaviour difficult to predict.

**INVESTMENT PHILOSOPHIES**

- Evaluate risk of every investment
- Have clarity on short term and long term needs of the family
- Decide the investment based on the needs
- Do not invest in any scheme that you do not understand
- Do not invest on trust. Have everything backed up by documents
- Take into account tax implication of every income
- Do not blindly follow market tips and rumours
- Anything that appears unnaturally high or low will have some 'catch' disguised
- Do not follow schemes where you may protect the interest but lose the principal
- Invest with knowledge after understanding the product well

# ABOUT STOCK MAr KET

**What is a Stock Exchange?**

A 'stock exchange' is an organization constituted for the purpose of assisting and carrying out buying, selling or otherwise dealing in securities.

**Stock Exchanges in India**

The oldest stock market in Asia, BSE stands for Bombay Stock Exchange and the largest stock exchange in India and the third largest in the world in terms of volume of transactions, NSE stands for National Stock Exchange which is largest in India by daily turnover and number of trades and MCX-SX stands for MCX Stock Exchange which is newly formed stock exchange in India. All of them are Mumbai-based stock exchanges. A number of other regional exchanges also exist, NSE, BSE and MCX-SX are the most significant stock exchanges in India, and are responsible for the vast majority of market transactions.

**What are securities?**

Securities are financial instruments and include instruments such as shares, bonds, debentures of a company or body corporate or a government. Thus, a stock exchange provides a trading platform, where buyers and sellers can meet to transact in securities. A stock exchange could be a regional stock exchange whose area of operation/jurisdiction is limited to a region or a national exchange permitted to have nationwide trading.

# ABOUT SEBI

The function of the securities market is to allow companies to raise capital from public (primary market) and to enable trading in the shares of public companies (secondary market). Securities and Exchange Board of India (SEBI) is a body set up by the Parliament in 1992 to protect investors, and to regulate and develop capital market. It started operations in 1988 through an order of Government of India. It is head quartered in Mumbai with regional offices in Delhi, Kolkata, Chennai and Ahmedabad.

Companies who want to raise capital (money) from public have to disclose their full details as per rules made by SEBI. Subsequently, these companies are required to publish information periodically for the benefit of the investors. In case of take-over of a company, the rules made by SEBI have to be followed so that the interest of shareholders of the company is protected.

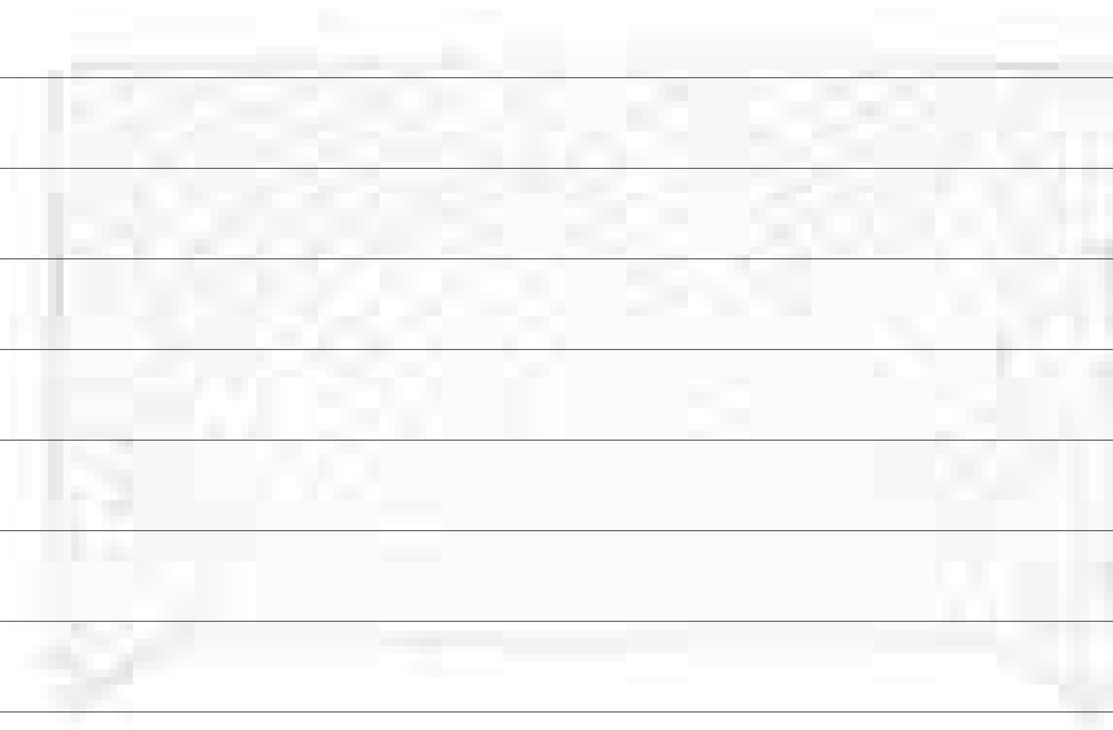
Buying and selling of shares takes place in the stock exchanges through stock brokers. These entities can function only if they have SEBI license. They are also required to follow rules laid down by SEBI, to protect the investors. Similarly SEBI also regulates other participants in the capital markets like, sub brokers, depositories, depository participants, portfolio managers, merchant bankers, share transfer agents etc.

Mutual funds collect money from public under various schemes and invest in the market on behalf of investors and are also governed by rules formulated by SEBI. Mutual Funds have to disclose details of the scheme, where they will invest money, the fees charged from the investor etc. They also have to make periodic disclosures for the benefit of investors as mandated by SEBI

SEBI also educates investors, facilitates redressal of their grievances and protects them by introducing consumer-friendly disclosure norms from time to time.

For more information please visit www.sebi.gov.in

# Notes



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# Notes

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Securities and Exchange Board of India

For future financial education programs on any of the following modules:

1. School Children
2. College Students
3. Middle Income groups
4. Executives
5. Retirement Planning
6. Home Makers
7. Self Help groups

OR

Any of the following topics on securities markets namely:

1. How to read an offer document ?
2. How to invest in the primary market through stock exchanges ?
3. How to trade in securities/guide to investors ?
4. De-mat account and depositories
5. Mutual funds-Dos and Don'ts
6. Collective investment schemes- Dos and Don'ts
7. Buy back of securities, delisting of shares
8. Takeover regulations
9. Investor grievances-how to resolve it?

Please write to SEBI at: feprogram@sebi.gov.in

Or

**GENERAL MANAGER**
Investor Awareness Division
**Securities and Exchange Board of India**
SEBI BHAVAN
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* Investor can lodge their complaints with SEBI at: http://scores.gov.in
* Investor can approach SEBI for any assistance at: asksebi@sebi.gov.in

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