KEY INVESTMENT TERMS – KEY DIFFERENCES

IFE Academy
Education Simplified

INVESTORS FINANCIAL EDUCATION ACADEMY

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Successful Investor Secrets

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1
Start with a plan

Look for investments that will help you achieve specific goals.

Consider both the risk and return components of your portfolio.

2
Diversify widely

One of the main goals of investing may be to ensure you have a mix of assets that are likely to perform well at different times – helping you survive any downturn in a specific market or industry sector.

3
Watch your tax

A ' buy & hold' strategy can help you minimise Capital Gains Tax. LTCG rate is lesser than STCG rate. Also you get Rs.1 lakh exemption.

4
Market Timing Risks

Attempting to time the market can be both difficult and dangerous to your portfolio.

5
Don't panic

When share markets retreat, smart investors don't sell long-term investments based on short term volatility. Instead, if you continue to invest during a market downturn, you may be able to buy high-quality investments at a lower price than you could if you waited for markets to recover.

6
Protect your assets

A smart strategy is to ensure you maintain a sizeable cash reserve, and put in place appropriate insurance such as Life insurance and Health insurance. Having appropriate insurances in place can help prevent the need for a 'fire sale' of your investments if there is an emergency.

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About this book

For a new investor, it can be intimidating to invest money because of its associated risks. But arguably, what's even more intimidating is the investing jargon. It is riskier to invest in products which you don't understand without a plan. In order to get started on your investing journey, here are some key investment terms you need to know! These will give you the basics to help you understand the investments available to you and allow you to better understand and consider investment advice in the future.

Happy investing!

Rs.40/-

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GIVES YOUR INVESTMENT THE POWER OF GROWTH & SAFETY
MONEY GROWTH
Company adds benefits like GMB ^ and GA# to grow your savings
CAPITAL PROTECTION*
Keep your investment stable and secure
So start your safe journey towards a rising future today! Along with life cover
Guaranteed Maturity Benefit (GMB)^
Increasing Guaranteed Additions throughout the policy term
Accumulated Guaranteed Additions (GA)# as % of annualised premium
Life cover for entire policy term
Capital guarantee*
TAX
Tax benefit'
The actual asset allocation of ICICI Pru Future Perfect product in Equity is 38.78% as on September 30, 2017.
*Capital protection and Capital Guarantee are in the form of guaranteed benefits at time of Maturity. ^ GMB will be set at policy inception and will depend on age, policy term, premium, premium payment term and gender. The GMB may be lower than your Sum Assured on death. #For monthly premium frequency, 1/12th times GA will be accrued every month on premium payment. For half yearly premium frequency, 0.5 times GA will be accrued on premium payment. Guaranteed benefits are payable subject to all due premiums being paid and the policy being in force. 'Tax benefits under the policy are subject to conditions under Sec. 80C, 80D and Sec 10(10D) of the Income Tax Act, 1961. Goods and Services Tax and Cesses, if any, will be charged extra as per prevailing rates. Tax laws are subject to amendments from time to time.

SAVINGS Vs. INVESTING

- Savings means to set aside a part of your income for future use. Savings do not have any risk of losing money. Examples include savings accounts in banks, post office, co-operative societies, and certificates of deposit.
- Investment is defined as the act of deploying funds into productive uses. In Investing there is a risk of losing money. Examples include the money you invest in securities, mutual funds, and other similar investments.

Savings- How to start with?

- Start saving in tiny amounts. Even a penny gets counted when you get the habit of savings.
- Open a separate savings account. Start saving in that account and start earning interest on your savings account with the bank.
- Pay off your debts as you are unlikely to earn more interest on your savings than you pay on your borrowings, so aim to pay off expensive debts like credit cards and EMIs before you start to save.

Why Savings are important?

- **Creates an Emergency Corpus:** Savings accounts act as emergency fund during the unexpected monetary crises. The liquidity of a savings account makes you withdraw the required fund at any given time. The amount in a savings account is always available to cover the unexpected expenses and keep you free from debts.
- **Easy Bill Payments:** A savings account gives you the freedom to pay off all your bills directly from the account. One can use savings account for paying credit card bills, utility bills, mobile & DTH recharge etc. easily.
- **Easier Loan Repayment:** Most of the modern professionals own one or more loans. The loan repayment becomes super easy if you have a savings account. Lender comes up with a repayment process which is called 'auto debit' process. In this method of loan repayment, the lender debits a prefixed

amount of money from the savings account of the borrower. A savings account lets you enjoy this facility. What the borrower has to do is maintaining a sufficient amount in the bank account.

- **Income generating account:** Unlike a current account, a savings bank earns interest. The balance earned in a Savings Account helps to improve the individual's income to a certain extent. Some banks offer higher interest rates for maintaining a higher balance, while some offer sweep in facility which helps earn higher interest income.
- **Can help plan your child's financial future:** By opening a Kids Savings Account, you can help your child understand the basics of how to operate a bank account. These valuable financial lessons can help your child manage their finances and learn the value of money.

How to create a Savings Strategy?

- In the way of creating the strategy for savings you should keep in mind the thumb rule of "50/30/20" which is popularized as the budget rule. As per this rule it is to divide income as spending 50% on needs and 30% on wants while allocating 20% to savings.
- **Needs:** Needs are those bills that you absolutely must pay and are the things necessary for survival. These include rent or home loan payments, car payments, groceries, insurance, health care, minimum debt payment and utilities.

- **Wants:** Wants are all the things you spend money on that are not absolutely essential. This includes dinner and movies out, that new handbag, tickets to sporting events, vacations, the latest electronics gadget and ultra-high-speed Internet. This category also includes those upgrade decisions you make, such as buying a SUV instead of a more economical car or choosing between watching television using set top box and cable TV. Basically, wants are all those little extras you spend money on that make life more enjoyable and entertaining.
- **Savings:** Allocate 20% of your income to savings and investments. This includes adding money to an emergency fund in a bank savings account. Savings can also include debt repayment. While minimum payments are part of the "needs" category, any extra payments reduce principal and future interest owed, so they are savings.

Key takeaways:

- Savings refers to the amount left over after an individual's consumer expenditure is subtracted from the amount of disposable income earned in a given period of time.
- Savings can be used to increase income through investing in different investment vehicles.

Investing- how to start with?

- When you start up planning for rent, utility bills, debt payment, groceries, children education expenses and also set aside at least a little cash as an emergency fund, then it is a high time for you to start up with investments.

When is the right time to start up with investing?

- **Better late than never.** As the saying goes it is very much essential to all individual to start up their investments "right now". How you invest and what you should be investing for may vary with age. Any investment is better than none, but you need to choose carefully. Generally, the higher a return offered by an investment, the greater the risk of losing your money. In order to protect your wealth, you want to hold a mix of high- and low-risk investments. In other words, don't keep all your eggs in one basket.

- **For example:** If an individual is 25 years old he has got a few decades before his retirement age. If he is a risk worthy person then he can play with long-term investments such as stocks, mutual funds which yield out with higher return at time of retirement.

Why an investment strategy is important?

- Investing is essential to good money management because it ensures both present and future financial security. Not only do you end up with more money in the bank, but you also end up with another income stream. Investing is the only way to achieve both growing wealth and passive income.
- Everyone have separate goals in lives and will start investing according to the goals to achieve it at the best in the stipulated period. Investing ensures present and future long-term financial security. The money generated from your investments can provide financial security and income.

How to create Investment strategy?

- All you need is the dedication and desire to get it done, and here are a few tips you can use to make your plan more successful.
- **Lay out your goals:** Lay out your short-term and long-term goals and determine your investment personality.
- **Explore your options:** Know what your options are, from the retirement plan at work to an individual retirement account, plan for personal expenses accordingly. Laying out all the available pieces will make it easier to develop a comprehensive investment strategy.
- **Pay yourself first:** Instead of waiting until the end of the month and seeing how much is left to invest, put your investments first.
- **Be smart about diversification:** Diversifying your investments should be part of your investment strategy. If you are investing for retirement and have decades to go, you can probably afford to take more risk. If you need the funds in just a few years, reducing or eliminating that risk can keep your money working without the danger of loss.
- **Keep your costs low:** Investment costs can eat into your investment portfolio, so look for the lowest cost products that meet your needs.
- **Ramp up your savings.** Getting started is often the hardest part of investing, but once you are started, it is just as important to ramp things up.
- **Invest consistently:** Make sure to have a habit of investing consistently without deviating yourself from investing. Ensure to have a check on the investments and do changes as and when required in order to meet up the goals.

Key takeaways

- Before investing make sure to do a fitness check on your finances.
- Analyze the risk tolerance capability you have in investing the investments.
- Plan the goals accordingly in such a way that it does not clash with other and this helps in having efficient time to review and re-plan the goals as and when required.

INVESTING & TRADING

- Before you start trading, it's important to first understand a key difference between investing and trading, and that's time.
- Investing is geared toward longer-term goals that may be years away, like saving for retirement. These goals can be achievable through ongoing investments, a proper investment mix, and compounding returns.
- Trading typically focuses on a shorter-term strategy for goals that may be short or long-term—for example, frequent buying and selling of stocks to potentially outperform the market. To do this, and do it successfully, you must have the time to develop a strategy and the conviction to follow through on it.

Trading – how much to start with?

- If you are interested in actively trading, you should also think strategically about how much of your portfolio you're comfortable trading. As an investor, you may not want to actively trade with all or most of your investment funds.
- Instead, you may want to consider first building a diversified portfolio that aligns with your objectives, constraints, and risk tolerance. Then if you're comfortable, having a plan will help you determine what percentage of your funds you believe is appropriate to use to trade.

Why is a trading strategy important?

Trading strategies are critical to being a competent trader whether you are trading stocks, ETFs, or other types of investments.

Having a strategy can help you to:

- Define rules to bring discipline to your trading
- Understand your risk
- Align your goals over different time horizons

How do you create a trading strategy?

Successful traders know that their greatest enemy can be their own minds. Often, emotions and loss aversion can get in the way of making good trading decisions.

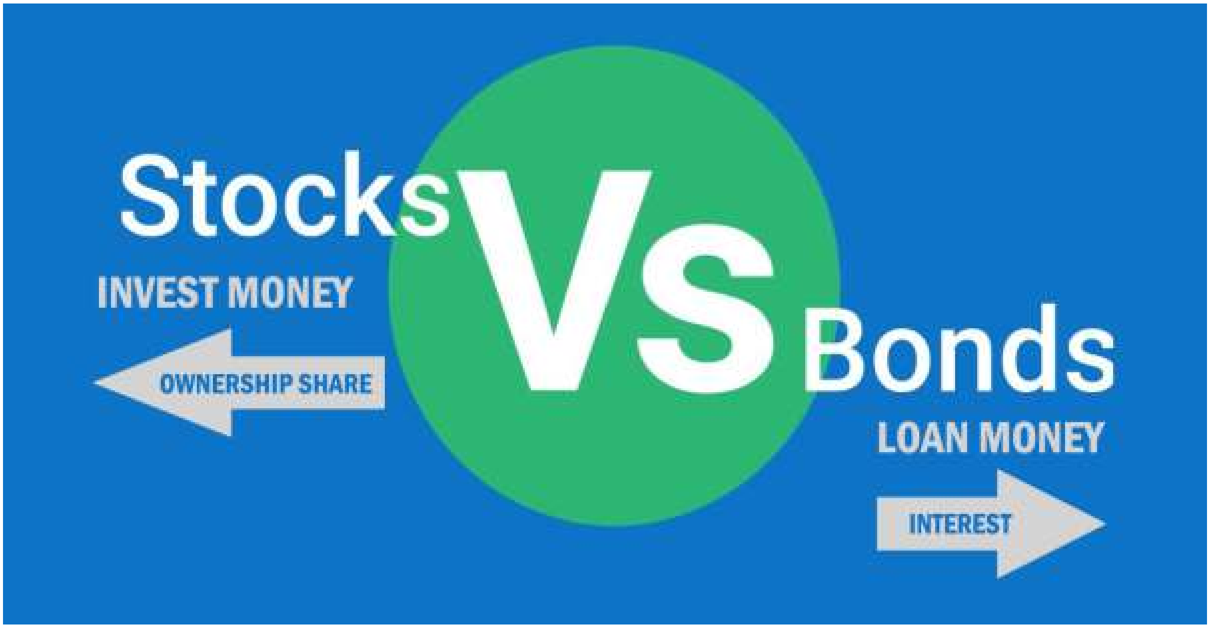
Here are some points you should consider when crafting your strategy:

- **Set realistic profit targets:** Start small and track your performance
- **Set a risk level for your portfolio:** Evaluate if it's worth the risk you're taking
- **Be informed:** Know what you're trading and why you're trading it
- **Take notes:** Track your progress and review at the end of each trading session

Key takeaways

- Learn to be an investor first, and then set aside a portion of your account to trade.
- A trading strategy can help you to bring discipline to your trading, understand your risk, and align goals over different time horizons.
- When creating a strategy consider setting realistic profit targets, set a risk level, stay informed, and monitor your progress.

Stocks & Bonds



Bonds are debts while stocks are stakes of ownership in a company. Because of the nature of the stock market, stocks are often riskier short term, given the amount of money the investor could lose virtually overnight. However, long term, stocks have historically proved to be very valuable.

On the other hand, bonds often operate off of fixed interest rates that the entity buys from the investor, which will frequently pay out annual interest to investors while repaying the amount in full at a given time. For this reason, bonds are generally considered a safer investment in the short term or for new investors.

Stocks- how to start buying it?

A stock market is a place where investors go to trade equity securities such as common stocks and derivatives including options and futures. Stocks are traded on stock exchanges. Buying equity securities, or stocks, means you are buying a very small ownership stake in a company.

There are two ways to trade in shares:

- Through a stock broker
- Using services of financial institutions where banking, demat & trading accounts are integrated. Most private and public sector banks now offer this facility.

Buying stocks using a brokerage/online agency

Ensure you research on enough brokers before zeroing on one. The broker you choose must be a registered member of market regulator Securities and Exchange Board of India (SEBI) and any other major stock exchange. The broker will buy and sell shares on your behalf and you will be charged a fee for the same. While it is good to have a registered broker, it's even better to look for one who has solid knowledge-based investment advice to offer.

Using Demat / Trading account

After getting yourself a broker, you need to register for a demat and trading account. A demat account will hold shares in your name. These shares will reflect in your portfolio. You will regularly receive demat statements that will show information on the shares bought and sold.

What is the importance of buying stocks?

Investment Gains: One of the primary benefits of investing in equity is the chance to grow your money. Over time, the stock market tends to rise in value, though the prices of individual stocks rise and fall daily. Investments in stable companies that are able to grow tend to make profits for investors.

Dividend Income: Some stocks provide income in the form of a dividend. While not all stocks offer dividends, those that do deliver annual payments to investors. These payments arrive even if the stock has lost value and represent income on top of any profits that come from eventually selling the stock.

Diversification: For investors who put money into different types of investment products, a stock market investment has the benefit of providing diversification. Stock also adds risk to a portfolio, as well as the potential for large, rapid gains, helping investors avoid risk-averse or overly conservative investment strategies.

Ownership: Buying shares of stock means taking on an ownership stake in the company you purchase stock in. This means that investing in the stock market also brings benefits that are part of being one of a business's owners. Shareholders vote on corporate board members and certain business decisions.

What are the strategies to be kept in mind while buying stocks?

- **Risk:** The amount of risk investors are prepared to assume involves in the "buy-and-hold" strategy, which results in buying quality stocks and holding them for long periods, assumes stock prices will rise over the long term.
- **Growth:** Investors who use a low-risk strategy such as "buy and hold" still want to see a return on their investment. Many opt for steady investment growth by choosing quality companies that have a strong record of profit and revenue growth.

- You can look at the value of companies by checking their price to earnings, or P/E ratio, where price is their stock price. A low stock price with high earnings per share is a good value.
- **Income:** An asset-allocation strategy can also generate income and is not limited to dividend stocks. In this strategy, you divide the stocks you buy into categories such as stable, low-risk, risky and speculative.
- **Time Frame:** The investment time frame you are looking at influences the strategy that is appropriate for your situation. If you are looking at long-term investing that expects results 20 years down the road, buy-and-hold or growth strategies are likely to deliver reasonable returns.
- **Tracking Portfolios:** Before you buy stocks, it makes sense to follow them to get a feel for their movements. You can create portfolios of stocks and get all of their relevant information for free in the financial sections of websites

Key takeaways

- A stock market is a place where investors go to trade equity securities.
- A stock market has central locations or exchanges where stocks are bought and sold.
- Stocks offer the potential for higher returns.

Bonds- how to start buying it?

- Bonds are a type of investment that results in an investor lending money to the bond issuer in exchange for interest payments. Bonds are one of the most important investments available for those who follow an income investing philosophy, hoping to generate regular return.

Importance of investing in bonds:

- **CAPITAL PRESERVATION:** Your capital is protected as investment bonds are a less risky investment option.
- **STEADY INCOME:** Although lower as compared to equity, returns on investment bonds are assured.
- **TAX ADVANTAGE:** Some bonds offer Tax free return and is one of the simple options for investors in the higher tax bracket.

Strategies while buying bonds:

- **Credit Ratings:** The biggest factor to look out for is whether the company can actually pay its bonds. You can figure this out by looking at the credit ratings issued by ratings agencies.
- **Duration:** You should also note a bond's duration, represents a period of time, expressed in years, that indicates how long it will take an investor to recover the true price of a bond, considering the present value of its future interest payments and principal repayment.
- **Security :** It is better to invest in secured bond than unsecured bond.

Key takeaways

- Bonds are units of corporate debt issued by companies and securitized as tradable assets.
- A bond is referred to as a fixed income instrument since bonds traditionally paid a fixed interest rate (coupon) to debt holders. Variable or floating interest rates are also now quite common.
- Bond prices are inversely correlated with interest rates: when rates go up, bond prices fall and vice-versa.
- Bonds have maturity dates at which point the principal amount must be paid back in full or risk default.

Mutual Funds & ETF's:

ETF	MUTUAL FUND
Often passively traded and attempt to track an index rather than beat the market.	Typically actively managed in an attempt to beat the market.
Traded throughout the day like stocks.	Purchased at the end of the day at Net Asset Value(NAV).
Minimal Average expense ratio	Average expense ratio in the range of 1 to 2% and typically has a high minimum investment.
Tax efficient, as they generally experience less turn over and incur fewer capital gains.	Less tax efficient, as more capital gains are incurred through rebalancing.

Mutual Funds:

- A mutual fund is a type of investment vehicle consisting of a portfolio of stocks, bonds, or other securities. These give small or individual investors access to diversified, professionally managed portfolios at a low price. They are divided into several kinds of categories, representing the kinds of securities they invest in, their investment objectives, and the type of returns they seek. They charge annual fees (called expense ratios) and, in some cases, commissions, which can affect their overall return. The value of the mutual fund company depends on the performance of the securities it decides to buy. So, when you buy a unit or share of a mutual fund, you are buying the performance of its portfolio or, more precisely, a part of the portfolio's value. Mutual fund units do not give its holders any voting rights.

Exchange Traded Funds:

- Exchange Traded Funds are essentially Index Funds that are listed and traded on exchanges like stocks. An ETF is a basket of stocks that reflects the composition of an Index, like Nifty 50. The ETFs trading value is based on the net asset value of the underlying stocks that it represents. Due to the unique structure of ETFs, all types of investors, whether retail or institutional, long-term or short-term, can use it to their advantage without being at a disadvantage to others. They are passively managed funds that merely replicate an index. These funds usually hold all the stocks in the same weight as they are held by the underlying index. ETF is not actively managed by a fund manager. It just tracks the performance of the index. ETFs are actively traded on a stock exchange and can be freely purchased and sold throughout the trading session.

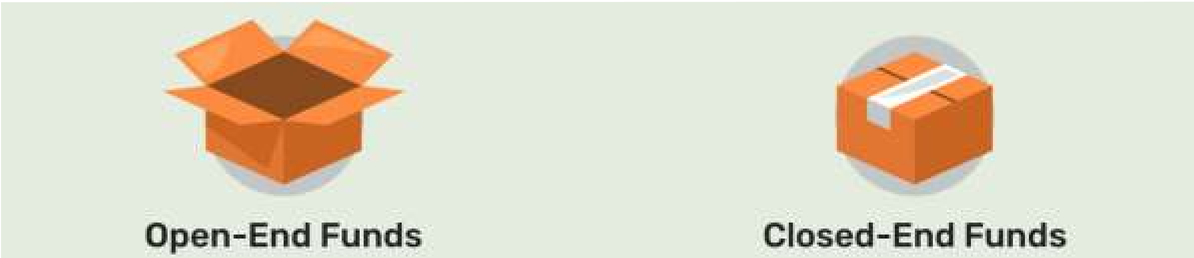
Mutual Funds vs. ETFs

- The decision between a mutual fund and an ETF is one of the major conundrums for an investor while taking an investment decision. Though both these products look quite similar, there are differences between them. Following are the significant differences between Mutual Funds and ETFs.
- **Flexibility: –** ETFs are freely traded in the market and can be bought and sold as per the investor's convenience. Their market price is available in real-time just like ordinary equity shares. Mutual funds units can be bought or sold by placing a request with the fund house/ MFSS platform. NAV indicates price of one unit of a mutual fund.
- **Fees and Expenses: –** As ETFs merely replicate the performance of an index, they do not need active management. As a result, the fees and expenses associated with ETF investments are low. While in the case of Mutual Funds,

the fund manager actively takes investment decisions on behalf of the investors. As a result, the fund management expenses are higher.

- **Commissions: –** As ETFs are traded like any other share on the exchange, investors need to pay commissions on sale and purchase of units as per the prevailing rules. While in case of mutual funds, there is no need to pay any commission for the sale and purchase.
- **Management: –** Mutual funds are more likely to be managed actively by an experienced fund manager who takes all the investment decisions on behalf of the investors. While in the case of ETFs, the funds merely track the market index. There are some actively managed ETFs also, but they have a higher expense ratio.
- **Lock-in Period: –** ETFs do not have a minimum holding period, and the investors are free to sell the investment as and when they like. Mutual funds like ELSS (Equity Linked Savings Scheme) come with a lock-in period of 3 years. During this timeframe, it is not possible to liquidate the investment.

Open-ended & Close-ended Mutual Funds



Open ended mutual funds:

- Open-ended funds are what you know as a mutual fund. They don't have a limit as to how many units they can issue. The NAV changes every day because of the share/stock market fluctuations and bond prices of the fund.
- Open-ended mutual fund units are bought and sold on demand at their Net Asset Value or NAV which is dependent on the value of the fund's underlying securities and is estimated at the end of every trading day. Investors buy units directly from a fund / stock market. The investments of the open-ended fund are valued at the fair market value, which is also the closing market value of listed public securities. These funds also do not have a fixed maturity period.

Close ended mutual funds:

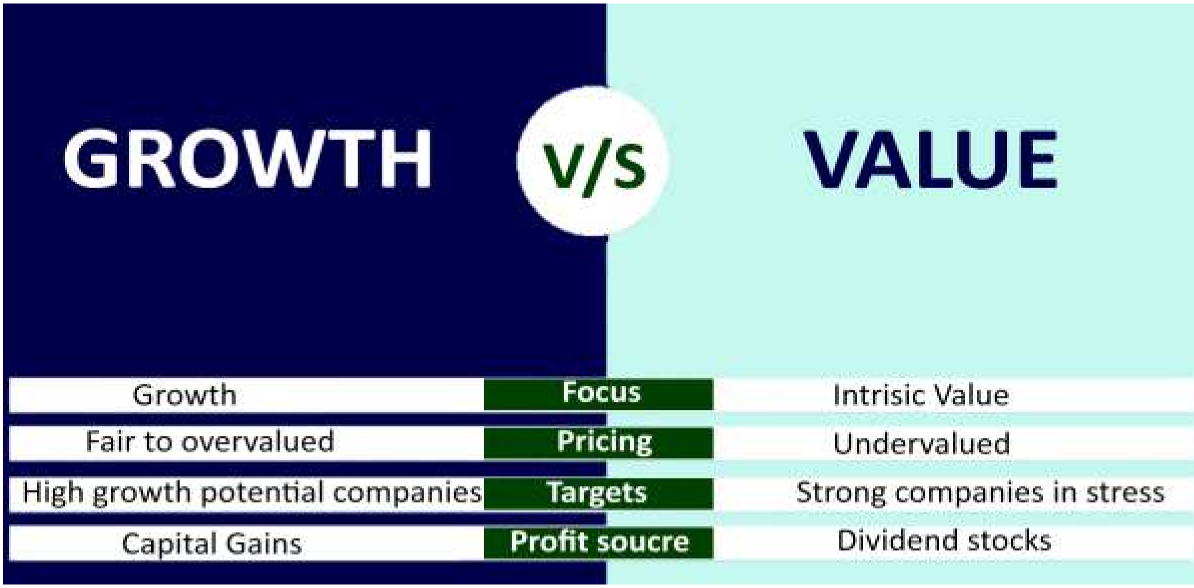
- Closed-ended funds are launched through New Fund Offer (NFO) to raise money. Unlike in open-ended funds, investors cannot buy the units of a closed-ended fund after its NFO period is over. However, to provide a platform for investors to exit before the term, the fund houses list their closed-ended schemes on a stock exchange. Though the value of the fund is based on the NAV, the actual price of the fund is proportional to supply and demand as it can trade at prices above or below its real value. Hence, closed-end funds can trade at premiums or discounts to their NAVs. These funds also have a fixed maturity period.

Open-Ended Vs Closed-Ended Mutual Funds

- It is difficult to say, whether open-ended funds are better than closed-ended funds or vice versa. The performance of a fund whether open-ended or closed-ended depends on the fund category, fund management, and investment style.
- Some open-ended fund investors are quick to redeem their units after the NAV appreciates by 5%–10% to book short-term profits. This hurts the investors who remain invested in the funds. Closed-ended funds are better options in such situations because the lock-in period prevents early redemption and protects the interest of long-term investors.
- Open-ended funds can be useful for someone who has less or no knowledge of the markets and desires an annualized return of 15%–20%. As professionals and experts manage these funds, with the NAV being updated daily and highly liquid these get slightly more advantage for investors than the closed-ended funds.

Open ended funds	**Closed ended funds**
Most common	Less common but gaining popularity
No limit to amount of growth	There is a limit to the amount of growth
Purchased from the MF company / stock exchange and redeemed	Once issued they are not redeemable till maturity. For liquidity, can be bought and sold in the market
NAV is based on underlying securities	Purchase price is determined by market demand
Ordered at the future NAV	Traded at market price

Growth Investing Vs Value Investing:



Growth Investing:

These are stocks of those companies that have registered better than the average gains in the market and are projected to continue with the high growth rates. Of course, these are only projections based on empirical evidence and the results are impacted by the market conditions. These emerging growth companies do not have a long history of big earnings but have shown potential for high earnings. These stocks tend to be more volatile than their peers and are accompanied by the possibilities of sharp price drops premised on negative news and market sentiments. This means that these companies continue their high earning performance even in the face of adverse economic conditions. This happens while other companies tend to slow down owing to disappointing market conditions. Growth stocks are also much high priced comparatively as investors are ready to pay a higher price to acquire them with the prospect of selling them at a much higher price as the company grows.

Value Investing:

These are companies whose stock prices are not the real determinants of their worth. Investors with a keen eye for profits seek out these companies that seem to be undervalued in the market, but are backed by strong potential. Such companies can be analyzed by a comparative study of their current market value and their intrinsic value. The intrinsic value of these firms can be calculated by taking into consideration a lot of factors. These are financial statements of the company, its business model, management and its position amongst its competitors in the market. If a company's current market value is lower than its intrinsic value, it is said to be of value.

Value Investing stocks are accompanied with lesser levels of risk as compared to the rest of the market. These are better suited for long-term investment horizons. Prices of value stocks are quoted at rate below similar other companies in their industry. They are no doubt priced lower and cheaper than growth stocks. It is assumed that the stocks of companies with good intrinsic value are capable of surviving unfavorable economic scenarios in the long run and the investor faith will help the company bounce back. Value stocks, as seen from past performances, tend to do well during the period of early economic recovery but post that begins to slacken a bit when the bull market is sustained.

Why should you Save and Invest?

Saving vs. Investing

Saving...

Is a short-term commitment to meet unexpected shortfalls.

- Helps meet short-term goals
- Yields lower return with lower risk

Investing...

Is a long-term commitment to put money away and let it grow.

- Helps meet long-term goals
- May yield higher return with higher risk

Reasons for Saving

- Achieve personal and financial goals
- Build an emergency fund
- Keep funds secure while increasing them

Reasons for Investing

- Plan for long-term goals such as retirement.
- See value increase over time
- Take more risk for possibly more return on investment.

Diversification : Don't put all of your eggs in a single basket.

While investing for Long term, it is better to diversify. Reduce risk by allocating funds among a wide variety of investment options.

Cash

Equity

Debt

About IFE Academy

IFE Academy was established in 2011 as a Not-for-Profit entity to promote Financial Education. IFE Academy conducts Investor Awareness Programs across the country with the support of other market participants. www.ifea.in is a comprehensive website on Financial Education. It has various sections such as Videos, Puzzles & Games, Financial Calculators and Library. It gives a holistic view on financial education combining various aspects such as Savings, Investments, Credit, Insurance and Pension at a single place. IFE Academy periodically publishes Investor Educational materials and distributes it to general public.

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