Part 1: Understanding the Major Investment Options

Today we will take the first step in this journey to become an Expert Investor. First, let us get an overview of all the Major Investment Options in the following 2 Unique Tables. These tables classify the investment options on the basis of 2 important parameters –**Profit Potential** and **Risk**.

Classifying Investment Options on the Basis of Expected Profit/Returns from them

Profits/Returns from Investment	Investment Options
High (Profit of More than 25% per year)	Share Market
Above Average (Profit Between 15% and 25% per year)	Real Estate Sectoral Mutual Fund
Moderate (Profit Between 10% and 20% per year)	Diversified Mutual Fund ELSS Mutual Fund Index ETFs
Low (Profit Between 5% and 10% per year)	Gold PPF(Public Provident Fund) Equity based ULIP
Very Low (Profit of around 5% per year)	Bank fixed deposit Debt based Mutual Fund Debt based ULIP

Classifying Investment Options on the Basis of possible Risk

Amount of Risk	Investment Options
Zero Risk (No risk to Invested amount or annual profit/interest)	Bank Fixed Deposits PPF (Public Provident Fund) Term Insurance Gold
Low Risk (No risk to invested amount over a long period of time)	Real Estate (House or land)
Moderate Risk (Risk of a loss of up to 20% of the invested amount)	Debt based Mutual Fund Debt based ULIP Share Market for an intelligent investor Index Mutual Fund Index ETFs
Above Average Risk (Risk of a loss of up to 30% of the invested amount)	Diversified Mutual Fund ELSS Mutual Fund Equity based ULIP

High Risk (Risk of a loss of more than 30% of the invested amount)	Sectoral Mutual Fund Share Market for a person investing on the basis of tips from others

Now let us thoroughly understand each of the major Investment Option mentioned in the above tables, like Mutual funds, ULIPs, Gold etc. Then we will move to the most important part of today's installment. We will identify the **'The Best Investment Option for YOU'.** Let's now start this exciting journey.

Gold

The following table shows the Long Term Profit/Returns from investing in gold.

Time Period	Initial Price	Final Price	Rise in Price	Annual compounded Rate of Return/Profit on Investment
10 years (May 1990 to May 2000)	2087	3904	1.87 times	**6.4% per year**
20 years (May 1990 to May 2010)	2087	17500	8.38 times	**11.2% per year**
Economic Crisis (Sept 2007 - Sept 2009)	8700	17500	2 times	**50% per year**

We see that Gold gives only Moderate Profits/Returns over the long term. However Gold gave an exceptional return of 50% during the Economic crisis when the value of all other assets had declined. So, **Gold is the investment option that we should use during difficult times like Economic Crisis or War.**

The different methods available to invest in gold are:

1. Gold Ornaments from jewelers
2. Gold coins/bars from banks
3. Gold Exchange Traded Fund (Gold ETF)

Gold ETFs are mutual fund schemes in which the money collected from the investors is invested in gold. When an investor puts his money in a Gold ETF, he is issued Gold ETF units (this is similar to a mutual fund unit). When the price of gold increases; the value of these Gold ETF units also increases by the same amount.

The main advantage of Gold ETF is that the investors do not have to face any of the problems involved in buying and keeping actual gold. For example, checking the purity of the gold, or facing the risk of the gold getting stolen. It is also very convenient to buy/sell Gold ETF units. It can be traded just like shares. You can buy or sell the Gold ETF units, sitting at home, using your demat share trading account. The following table evaluates the 3 methods available to invest in gold. We can see that Gold ETF is the best method to invest in gold.

Parameters	Gold Ornament	Gold coins/bars from bank	Gold ETF
Extra Charges while buying	**15% - 20%** This is the cost of making the ornament	**15%** This is the fee charged by the Bank for assuring the purity of the Gold	**1.5% to 2.5%** Entry Load.
Tax rate on Profit Earned	30% if sold in first 3 years 20% if sold after **3 years**	30% if sold in first 3 years. 20% if sold after **3 years**	30% if sold in first 1 year. 20% if sold after **1 year**

Bank Fixed Deposit

We all understand this investment option. I just wanted to tell about one of its aspects. The Interest earned from a bank deposit is **Taxable.** So if you invest in a fixed deposit which gives an interest of 10%, then you will actually get only 7% interest. The remaining 3% will go as income tax (Considering the case of a person in the 30% income tax rate category).

Public Provident Fund (PPF)

PPF is one of the safest forms of investment. It gives 8% interest. This interest is not taxable (unlike the Interest from bank deposits). It also reduces tax. The money invested in PPF is deducted from your income while calculating the taxable income.

Taxable income = Total income - money invested in PPF

The maximum amount that can be invested in PPF in 1 year is 70,000 rupees. PPF has a 15 year term, but you can withdraw a part of the invested money from 6th year onwards.

Share Market

It is widely accepted by investment experts that the share market gives the highest Profits/Returns among all forms of investments. However not all investors are successful in the share market. Some investors invest just on the basis of tips that they receive from different sources like brokers, friends, TV experts etc. Such investors usually lose their money.

To make profits from the share market you need to have the **Right Knowledge** and you need to spend 1-2 hours per week to **Monitor Your Investments**. In the remaining 6 installments you will get this knowledge which will make you an Expert Investor in the share market. You will learn –

1. How to identify the shares with good investment potential
2. The correct time and price at which you should buy a particular share
3. How to monitor your investments and sell the shares at the right time

Real Estate

Investments made in assets like land or houses, come under Real Estate. Real Estate assets also give good Profits/Returns on investment over the long term. Let us compare Real Estate with Share Market as an Investment option.

Advantages of Share Market over Real Estate as an Investment Option

Parameters	Share Market	Real Estate
Liquidity	**Good Liquidity:** It can be sold of easily and quickly to get cash.	**Poor Liquidity:** Needs lot of time and effort to sell it.
Maintenance	No maintenance required	Owner needs to spend time, effort and money to maintain Real Estate assets like house or land.
Flexibility	Investor has the Flexibility to invest even small amounts like 10 rupees.	Very large amount of money is required to buy a Real estate Asset
Tax on Profit made by selling the asset	**Zero Tax** on Profit made from selling shares held for more than 1 year.	**30% Tax** on Profit made from selling Real Estate assets, which are held for **less** than 3 years. **20% Tax** on Profit made from selling Real Estate assets, which are held for **more** than 3 years.
Ease of making investment	**Very Easy:** Demat Trading Accounts have made it very easy to do share trading. Investors can buy/sell shares sitting at home, through the internet, at the click of a button.	Buying or selling Real Estate assets involve lot of paper work and procedures.
Cost of making Investment (Taxes and other fees)	**Very Small:** On an average it is only 0.5% of the transaction amount.	**Large**: On an average it is about 10% of the transaction amount.

The last point (Cost of making investment) is a big disadvantage of investing in Real Estate assets. Let us understand this with the help of an example. You buy a house worth 10 lakh rupees (1 million rupees). You will have to pay an additional 1 lakh rupees (10% of 10 lakh rupees) for various processing fees like Registration fee, Stamp duty extra. So your net expense is 11 lakh rupees. Later if you sell the house at 12 lakh rupees then your actual profit is only 1 lakh rupees. Half of your profit was lost due to the high cost of making the investment (10% of transaction amount). This problem is not faced while investing in the share market, as here the cost of making the investment is very low (0.5% of the transaction amount).

Advantages of Real Estate over Share Market as an Investment Option

Parameters	Real Estate	Share Market
Risk	There is very Low Risk of loss in Real Estate investments.	There is Moderate Risk of loss in investments made in the share market.
Utility	We all need a house to live in. So buying a house satisfies this basic need also, apart from being an investment option.	It takes care of only one goal i.e. Investment Option. It does not take care of any other needs.
Tax Saving benefit	You can reduce your income tax by taking a housing loan while buying a house. The Interest and a part of the Principal paid to repay this housing loan are deductible from your taxable income. **Taxable income** = Total income - Interest paid on Housing Loan - Part of Principal repaid on Housing loan	No Tax Saving benefit

Mutual Funds

Mutual funds are a very popular investment option. When an investor puts his money in a mutual fund, he gets Mutual fund units in return. Mutual funds hire top investment experts as their fund managers. These fund managers invest the money collected from investors in various financial instruments like stocks, bonds, debentures extra. If these investments perform well then the value of the Mutual fund units increases. This profits the investor as the value of the Mutual fund units held by him has increased.

Most mutual funds provide the investors with 2 methods to invest their money

1. One-Time Payment: In this case the full amount is invested together in one go.

2. Systematic Investment Plan (SIP): SIP is a useful method for investors who do not have a large lump sum of money available with them. SIP allows them to invest in easy small monthly/quarterly installments.

There are many types of Mutual Funds. The major types of Mutual funds are:

Debt Based: These mutual funds invest in debt based financial instruments like government bonds, corporate bonds, debentures extra. Such Mutual funds have low profit potential and low risk.

Equity Based: These mutual funds invest their money in the share market. Such Mutual funds have higher profit potential and higher risk. There are many sub categories of Equity based Mutual funds. Let us understand each of these subcategories

1. **Sectoral Mutual Funds:** These mutual funds invest their money in only one specific sector of the share market, for example Banks, Consumer Goods, Technology extra. As

Sectoral mutual funds concentrate on a single sector, their Profits/Returns can show extreme variation. If the sector performs well then the investor will get huge profits. On the other hand if the sector performs poorly then the investor can suffer severe losses.

2. **ELSS (Equity Linked Saving Scheme):** In India tax payers can get a deduction of up to 1 lakh rupees (100,000 rupees) on their taxable income by investing in certain specified long term investment options. ELSS i.e. Tax saver mutual funds are one of these specified tax saving investment options. ELSS mutual funds have a minimum lock in period of 3 years. Apart from this constraint of 3 year minimum lock in period; ELSS mutual funds are similar to Diversified Mutual funds in all other aspects.

3. **Diversified Mutual Funds:** In diversified mutual funds the fund managers have the freedom to invest in any sector, or company. Diversified mutual funds are the most popular form of mutual funds and manage very large amount of money. So the fund managers with the best track records are assigned to manage the diversified mutual funds. Diversified mutual funds usually perform a little better than ELSS mutual funds. Better fund managers and greater flexibility allows diversified mutual funds to earn higher profits.

4. **Index Mutual Funds:** It was observed that in spite of the efforts of the best fund managers, very few mutual funds actually perform better than the benchmark index (like sensex, nifty). In developed economies like USA, it has been seen that the benchmark index like S&P 500 performed better than 90% of the mutual funds.

   This observation led to the creation of a new form of mutual fund – the index mutual fund. The aim of these funds is to replicate the movement of a particular index. The value of an index is calculated by taking the weighted average of the share price of certain chosen shares. For example the value of BSE Sensex is calculated by using the weighted average of the share prices of 30 largest and most actively-traded companies in BSE. An index mutual fund on BSE Sensex will simply buy these same 30 shares in the same weightage.

   The usual asset management fee for mutual funds is 2.5% per year. In case of Index mutual funds it is only 1% per year. The cost of managing index funds is low as they do not require highly paid analysts and fund managers to pick stocks. So an Index mutual fund has lower costs and gives better performance than an average mutual fund.

Index Exchange Traded Funds (Index ETFs)

ETFs are financial instruments which can be freely traded in the stock exchange like shares. There are many types of ETFs, for example Gold ETFs, Index ETFs etc. Index ETFs are similar to Index Mutual funds. They also try to track the performance of a particular index. Some of the Index ETFs available in the Indian stock exchange are Nifty BeES, Junior BeES, Nifty Bank BeES extra. Index ETFs have certain advantages which make them a better investment option than Index mutual funds. The following table has a comparison

Parameters	Index ETFs	Index Mutual Funds
Asset Management Charges	Very Low 0.2% – 0.8%	Moderate 1%

Trading Cost	Very Low. Same as the cost of buying/selling shares	Moderate cost
Short selling	Might be allowed in the future. Request has been sent to SEBI. If short selling is allowed then investors will profit in falling market also.	Not allowed
Benefit from Intraday variation in Index value	Investor can benefit from intraday change in Index Value	Investor can NOT benefit from intraday change in Index Value

Let us understand the last point more clearly with the help of an example. The BSE Sensex rises by 500 points during a day and then falls steeply. It closes with just a small gain of 40 points. Index mutual funds can be traded at only End of Day NAV, so they do not give investors the opportunity to benefit from such intraday rise. The NAV of Index ETFs varies throughout the day as per changes in the value of the index. So Index ETFs give investors an opportunity to benefit from the intraday rise in the value of the index.

Term Insurance

In Term Insurance schemes a person pays a yearly premium to get Life Insurance Cover. If the holder of a Term Insurance policy dies then his nominee receives the specified death benefit amount. Term Insurance schemes are the **best investment product to get insurance cover**. You can get an insurance cover worth 10 lakh rupees (i.e. a death benefit amount of 10 lakh rupees) by paying an annual premium of just 4000 rupees.

ULIP (Unit Linked Insurance Plan)

ULIPs are long term investment products which provide both insurance cover and a return on investment. A person investing in an ULIP policy has to pay a yearly premium. In return for this money, the investor receives units of the ULIP. The fund managers of the ULIP, invest the money collected from investors in various financial instruments like stocks, bonds, debentures extra. If these investments perform well then the value of the ULIP units increases. This profits the investor as the value of the ULIP units held by him has increased.

ULIPs also provide Life Insurance cover. If the holder of a ULIP, policy dies then his nominee receives the specified death benefit amount. However ULIPs perform poorly both as an investment option and as an insurance option. Here are the major drawbacks of ULIP:

1. Drawback as Insurance Option: A Term Insurance policy with an Annual Premium of 4000 rupees is enough to get an Insurance of 10 lakh rupees (1 million rupees). On the other hand a ULIP policy with an Annual Premium of 1-2 lakh rupees (100,000 – 200,000 rupees) is required to get an Insurance of 10 lakh rupees. So the Annual Premium amount required by an ULIP policy is 25 – 50 times the Annual Premium amount required by a Term Insurance policy.

2. Drawback as Investment Option: ULIPs perform poorly as compared to Mutual funds as investment option. The major factors causing this poor performance are

- High Fees and Charges: A number of high fees and charges are applied on the money invested in ULIPs. After deducting these charges, only the remaining money can be invested to earn Profits/Returns. So as compared to Mutual funds, ULIPs can utilize only a smaller portion of their money to earn profits. So ULIPs make lesser profits than mutual funds.

- Less Skilled Fund Managers: The mutual fund segment is more competitive than the ULIP segment. Due to this competitive environment, the fund managers with the best track records are assigned to manage Mutual funds. ULIP funds are managed by less skilled fund managers. So ULIPs give lesser profits/returns.

The Investment Option which is the Best for YOU

Now we come to the Most Important part of this installment. You will now find out which Investment Option is right for YOU. There can be 3 different goals for making an investment. The following tables will tell you the Best Investment Option available to achieve each of these 3 goals. It takes into consideration your risk appetite, current financial status and preferences.

Goal 1: To Get Insurance Cover

All Investors should use only Term Insurance Schemes to get Insurance Cover. This is the cheapest and best way to get Insurance. It is far better than ULIPs.

Goal 2: To Save Tax

1.	Zero Risk Appetite Has Large amount of money to invest	Buy a House using Housing Loan
2.	Zero Risk Appetite Moderate amount of money to invest	PPF(Public Provident Fund)
3.	Above Average Risk Appetite Moderate amount of money to invest	ELSS Mutual Fund

Goal 3: To Build Wealth by Getting High Return/Profits

Group 1 **Low or Zero Risk Appetite**		
1.	Moderate amount of money to invest	Bank Fixed Deposit PPF (Public Provident Fund) Gold
Group 2 **Ready to put 1-2 hours every week to monitor their investments**		
2.	Moderate Risk Appetite Moderate amount of money to invest	Share Market

3.	Moderate Risk Appetite Has Large amount of money to invest	1. Buy 1 house taking a housing loan 2. Put the rest of the money in Share Market
Group 3 **Not able to put even 1-2 hours per week to track their investments** **Has Large amount of money to invest .**		
4.	All Risk appetites Ready to put the effort required to maintain the House/Land	Buy Multiple Real Estate assets (Houses and Land) Use housing loan to buy 1 of the houses.
Group 4 **Not able to put even 1-2 hours per week to track their investments** **Has Moderate amount of money to invest .**		
5.	Moderate Risk Appetite	ETF on Indices (Like Nifty BeES)
6.	Above average Risk Appetite	Diversified Mutual Fund
7.	High Risk Appetite	Sectoral Mutual Fund
Group 5 **Investing in times of Crisis like Economic Recession or Wars**		
8.	In times of crisis, Gold is always the best investment option	

A Last Minute Chat

Now it is time for a last minute chat. Have you wondered why some people grow Rich while others don't? Any guesses :-) .. Hardwork … Ability … Intelligence … Luck?

None of the above 4 points is the crucial factor. Today most of us have hard demanding jobs. Most of us work 10 or even 12 hours a day. But all this hard work Alone will not help You to become wealthy. Here is what really makes the all important difference.

You don't grow Rich by earning more.
You grow Rich by making the Right Investments.

Today we have taken the first step in the direction of becoming an Expert investor. I promise that by the end of this course you will be transformed as an investor. To become rich you need to be passionate about earning money, about building wealth and learning how to do it. It must be your passion to become an Expert Investor because -

All the wealth in this world flows towards the Expert Investor

In this course I will make your journey to become an Expert Investor, incredibly Easier and Enjoyable.