

WHAT IS

INVESTMENT?

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What is Investment?

The meaning of investment is putting your money into an asset that can grow in value or produce income or both. For example, you can buy equity stock of a listed company in the hopes of receiving regular dividends and capital appreciation in the form of the share price.

Your savings become investments when they are put into assets that carry investment risk or a degree of illiquidity. Such investments help you create wealth that can be used as an emergency fund, a retirement corpus, for buying a house, or funding a child's education, etc.

Objectives of Investment

The need for investment will grow as you move ahead in life. Growing responsibilities will demand an increase in investment. The primary objectives of investment are listed below:

- **Safeguard your Money:**

Investing keeps your money safe from immediate and unnecessary expenditures. It also helps you keep your money safe from inflation effects. Inflation erodes the value of your money unless it is invested in an interest-earning asset. Thus, investing will help you automatically keep up with inflation.

- **Grow your Savings**

Investment is the only way to start growing your invested money. It allows your money to earn interest and if you keep the interest invested it will also start to earn interest.

- **Build Funds for Emergencies**

Life is usually a series of ups and downs. Few times you are earning decent and saving money while other times you need a large sum for an emergency. Building investment pools help you on such rainy days.

- **Secures your Retired Life**

Retired life is where you don't have a source of income to sustain your life. Once you have built a retirement corpus, you can experience the freedom that comes with it.

- **Save Tax**

Investment in tax-saving instruments like life insurance plans, ULIPs, PPF, NPS, etc allows you to claim deductions on your taxable income. Thus, investing in specific assets can help you reduce your tax liability. Many of these investments also help you reduce your future tax with tax-free maturity values.

- **Fund Bigger Life Goals**

Your monthly income will not be enough to purchase your next car or build a house for your family. However, if you invest a small sum in a few years both could be possible.

Different Categories of Investments

Depending on the type of asset you invest in you can expect a certain degree of risk and return ratio. You can divide all investments into the following categories:

- **Owner's Equity**

These are some of the high-risk investments as you are directly holding the ownership stake. Owners only earn after paying all the

expenses and liabilities. Ownership stake makes you a party to the profits and losses of the company.

- **Lending**

Lending is considered safer than equity ownership as you secure an obligation from the borrower to pay interest. Thus, you hold the first right to the money over the owners. However, the rate of return will also be lower.

- **Money Market Participation**

Money market investments are short-term debt obligations, which can last up to 365 days or less. Examples include T-bills, Commercial Papers, etc. Even though these investments will earn less, they are safe.

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