

INVESTMENT MANAGEMENT

Theory & Practice

Dr. R.P. Rustagi

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The cover features a large, stylized orange 'X' shape that divides the background. The top-left and bottom-right quadrants are dark red, while the top-right and bottom-left quadrants are a lighter orange. The background image shows a hand holding a coin over several stacks of coins, with a small green plant growing from the stacks. The background is a soft-focus green forest scene.

Investment Management

THEORY AND PRACTICE

Dedicated to the
ALMIGHTY
who bestowed on me
the inspiration and strength
to take up this work
and to share my experience
with the readers

Investment Management

THEORY AND PRACTICE

*(For B.Com. (H.) VI-Semester (CBCS) /
Annual Mode of University of Delhi)*

Dr. R.P. RUSTAGI

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Shri Ram College of Commerce

University of Delhi

Eleventh Edition



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New Delhi

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Educational Publishers

23, Daryaganj, New Delhi-110 002

Phones : 23281876, 23243183, 23247051, 23266105, 23277843

E-mail : sultanchand74@yahoo.com; info@sultanchandandsons.com

Fax : 011-23266357; Website: www.sultanchandandsons.com

ISBN : 978-93-5161-168-4 (TC-1058)

Price : ₹ 395.00

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First Edition : 2005

Eleventh Edition : 2021

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Author's Acknowledgement : The writing of a Textbook always involves creation of a hug debt towards innumerable author's and publications. We owe our gratitude and indebtedness to all of them.

Printed at : Sanjay Printers, Shaibabad, UP.

Preface

To the Eleventh Edition

The motivation for the Eleventh Edition of 'Investment Management' has been provided by the enthusiastic response of the readers and reviewers to the earlier editions which, together with reprints, were sold out within a few months of the Publication. The book has been presented as an introductory level text on the theory and practice of investment. It has been accepted by the students of finance preparing for a paper on investment management, particularly the B.Com (H) VIth Semester (CBCS)/Annual Mode of University of Delhi.

The highlight of the Eleventh Edition is the presentation of 'Concept Checks' in the form of "Test-Yourself" at various places in different chapters. This will give an opportunity to the students to apply the concepts which they have read so far. Additional working notes and explanations have been provided at various places through out the book. Comments and suggestions received from students as well as teachers have been duly incorporated. In an attempt to keep intact the basic structure of the book, the chapter plan has not been changed. Nevertheless, sufficient material has been added in Chapter 6, 'Fundamental and Technical Analysis' with a view to provide more insight into technical analysis. Several numerical illustrations have been added in different Chapters at appropriate places.

In view of the requirements of CBCS, investment decision making through EXCEL has been introduced in the Appendix-I. I am indebted to Sh. H.N. Tiwari, Asstt. Professor, Shri Ram College of Commerce for immensely helping in preparation of Appendix I "Investment Decision Making with Excel".

I am thankful to the students and faculty for the well acceptance of the book. Comments and suggestions about this new edition would be gratefully acknowledged. In am also thankful to the publishers for their cooperation in bringing this Eleventh Edition in time.

Dr. R.P. RUSTAGI

To the First Edition

Investment Management and Environment is becoming more and more complex over the years. Types of instruments and financial products, types and number of financial intermediaries and the overall investment process, all have seen a revolution. Financial engineering, Investors' Protection and Transparency have been the buzz words. On-line trading systems in the financial markets, holding and transfer of securities in the electronic mode, significant presence of mutual funds, more active role assumed by the regulatory authorities are some of the features of present day investment environment. More and more linkages and interdependence of different financial systems are giving way to global financial markets and systems.

The subject matter of the present text, **Investment Management** is to explain the investment decision making and investment process. It focuses on the investment analysis. In an effort to link the theory and practice, the entire investment process has been discussed in the context of Indian Financial System. Frequent references to the regulatory mechanism of Securities and Exchange Board of India (SEBI) and the practices prevailing in the Indian Capital Market, have been the focal point of the discussion. It presents the concepts, theories, techniques and practices of investment management in simple, lucid and easy to understand language.

Gradually, several specialized areas have branched out from the financial management, including Investment Management, Portfolio Management, Management of Derivatives, *etc.* The present text deals with the investment in general and limited coverage of the portfolio management and derivatives. The unifying philosophy of the book has been to present the investment decision process in terms of the risk-return perspective of the investor.

Investment management, as an academic discipline, is constantly changing and stimulating. There is always a quest to discuss the subject matter with reference to the practices prevailing. The book has emerged out of the experience of teaching financial management and investment management and other related subjects to a wide variety of students including that of professional courses. The motivation for the book has been provided by the interaction and responses in the classroom.

The book has been designed as a first book on Investment management. The subject matter has been presented in 11 Chapters grouped in 5 Parts each dealing with a particular area.

The book is meant for the students preparing for a course in investment management and other related subjects at the under-graduate/post-graduate level, or for management courses such as MBA, PGDBM, CFA, *etc.*

Finally, I will like to acknowledge the contributions made to the literature by authors and researchers, and my teachers who have helped me a lot in understanding various issues and concepts in finance and related areas. I am thankful to my students who have provided the initiative and stimulus for writing this work. I also feel obliged to all my colleagues and teachers at different management institutes for their suggestions. Messers Sultan Chand and Sons, the Publishers, deserve a deep sense of gratitude to bring out the book well in time and in an elegant style.

Discussion in the present text is purely academic and neither attempt nor tantamount to expertise/professional service to the readers on the subject. Sufficient care has been taken to ensure the correctness of formulae, equations and calculations. Still, there might be some unintended errors. Further comments and suggestions for improving the quality of the book are welcome and will be gratefully acknowledged.

Dr. R.P. RUSTAGI

Detailed Outline of Syllabus for

“FUNDAMENTALS OF INVESTMENT”

B.Com. (H) Semester (CBCS) / Annual Mode (University of Delhi)
The book "Investment Management – Theory and Practice" covers the complete syllabus of CBCS paper of “Fundamentals of Investment”

Objective: To familiarise students with different investment alternatives, introduce them to the framework of analysis and of investments, valuation and highlight the role of investor protection.

UNIT I:

- 1. The Investment Environment:** The investment decision process. Type of Investments–Commodities, Real Estate and Financial Assets.
Indian securities market, the market participants and trading of securities, security market indices, sources of financial information.
Concept of return and risk. Impact of Taxes and Inflation on return.

UNIT II:

- 2. Fixed Income Securities:** Bond features, types of bonds, estimating bond Yields and Valuation, types of Bond risks, Default risk and Credit Rating.

UNIT III:

- 3. Approaches to Equity Analysis:** Introduction to Fundamental Analysis, Technical Analysis and Efficient Market Hypothesis. Dividend Capitalisation models, and Price-earnings multiple approach to equity valuation.

UNIT IV:

- 4. Portfolio Analysis:** Portfolio and Diversification. Portfolio Risk and Return. Mutual funds.
- 5. Financial Derivatives:** Introduction to Financial Derivatives, Derivatives Market in India.

UNIT V:

- 6. Investor Protection:** SEBI & role of stock exchanges in Investor protection, Investor grievances and their redressal system, Insider trading, Investors' awareness and activism.

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A Glance at the Book

1. **Chapter Theme and Chapter Plan.** Each chapter begins with a theme. The structure of the chapter has been provided to help the readers to have a glance at the contents of that chapter.
2. **Main Body.** Different concepts and procedures relating a particular topic have been examined and explained in a well-knit manner. Sufficient examples have been provided for a better grasp.
3. **‘Concept Checks’ in the form of ‘Test Yourself’** have been provided at different places to provide an opportunity to the readers to apply concepts that they have read.
4. **Points to Remember.** An overview of the chapter has been presented in a capsuled form in terms of Points To Remember at the end of the Main Body.
5. **Graded Illustrations.** In keeping with the view that investment management can be learned only by doing, numerous practical questions including those which have appeared in different examinations have been given (with solutions) in the form of Graded Illustrations.
6. **Objective Type Questions.** Every chapter contains sufficient objective type questions (True/False type). This will help students to quickly recapitulate the application of the concepts. Answers to these questions are given to help them to evaluate their performance.
7. **Self-Review Assignments and Problems.** In order to help the readers in evaluating their level of understanding, Self-Review Assignments contain questions ranging from short concept questions to descriptive essay type assignments. Numerical unsolved questions have also been provided (with answers) so that readers gain sufficient confidence by solving these questions in the examination like environment.
8. **Decision Making with EXCEL.** Investment Decision Making with the help of EXCEL Spreadsheet has been explained in Appendix–I.
9. **Solved Question Papers.** Solutions to the numerical questions of the Question Papers of ‘Fundamentals of Investments’ [B.Com. (H), D.U.] for 2016, 2017, 2018 and 2019 have been provided in Appendix II.

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About the Book

Investment Management has been prepared to meet the requirement of students taking B.Com. (H) and other courses in Finance. The scope of investment decision-making has substantially widened with new concepts appearing on the horizon. Appropriately, the syllabi of the different courses have been updated. Consistent with the objective, the book presents an analytical framework of the related subject-matter in the light of SEBI Rules, Regulations and Guidelines. Numerical examples and illustrations have been used extensively to explain the applications of different concepts.

Salient Features

- Comprehensive and systematic coverage and analytical presentation of the subject matter.
- Chapter Theme and Chapter Plan in the beginning of each Chapter to give the bird's eye-view of the contents of that Chapter.
- Objective Type Questions (with answers) given at the end of each Chapter.
- More than 250 examples and solved illustrations/problems given at appropriate places.
- Solutions to latest Questions appeared in different examinations given for the benefit of the students.
- Latest developments in the Indian Capital Market given in a capsule form.
- Frequent references to SEBI Guidelines, Rules and Regulations.
- Important points, concepts and definitions given in the Side Boxes.
- Extensive use of Charts, Graphs and Diagrams.

About the Author

Dr. R.P. Rustagi is Principal (Officiating), Shri Ram College of Commerce, University of Delhi. He is M.Com and M.Phil. from Delhi School of Economics, University of Delhi and a Fellow Member of the Institute of Company Secretaries of India, New Delhi. He obtained Doctorate from Jiwaji University, Gwalior. He has been teaching Accounting and Finance at Shri Ram College of Commerce for more than 40 Years. He is also associated with Post-graduate teaching in University of Delhi. He is visiting faculty in Executive Development Programmes in Finance arranged by the ICAI, ICSI and other Management Institutes. He is an established author in Accounting and Financial Management.



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ISBN 93-5161-168-X



TC-1058