

# Chapter 08

## *Investments*

This chapter discusses the followings.

8.1 Introduction to investment

8.2 Factors to be considered when selecting an investment method

8.3 Different types of investment methods

8.4 Returns of different investment methods



## 8.1 Introduction to investment

If a person does not spend the entire income earned, a portion of the income is be saved. If such saved money is kept as cash in hand, no return would be earned on that money. Hence, different investment methods are useful for investing the saved money in order to earn a return.

Accordingly, investment means any individual investing a certain amount from her/his earned income as savings in an effective method with an expectation of earning an economic return.

## 8.2 Factors to be considered when selecting an investment method

The following factors are considered when selecting an appropriate investment method among different investment avenues.

- ▶ The aim of the investment  
The aim of the investment is considered when investing money
- ▶ Risk of the investment  
Whether the invested money could be obtained back and the expected return is certain is considered
- ▶ Return from the investment  
Whether the return on the investment is sufficient is considered. An individual expects a reasonable return.



*Figure 8.1*

## 8.3 Different types investment methods

The below mentioned are several investment methods among different investment methods available for an individual to invest in.

- ▶ Depositing money in a savings account
- ▶ Opening a fixed deposit
- ▶ Purchasing properties
- ▶ Investing in shares
- ▶ Investing in treasury bills
- ▶ Starting and maintaining one's own business

## 8.4 Returns of different investment methods

### Depositing money in a savings account

As an investment method, an individual can deposit his/her excess money in the savings accounts at banks or at other financial institutions.

You have already studied the characteristics of a savings account and how to open a savings account. The following are the benefits by investing in a savings account.

- W Earning an interest income on deposits
- W Ability to earn an additional return through gifts or lotteries

### Opening a fixed deposit

An individual opening a fixed deposit by depositing a certain amount of money at a certain interest rate for a certain period of time is also considered as an investment method.

You have already studied the characteristics of a fixed deposit and how to open a fixed deposit. The following are the benefit that can be earned by depositing money in a fixed deposit.

- W Earning a relatively higher interest rate compared to a savings account
- W Ability to withdraw money at maturity or if required, before maturity
- W Ability to obtain a loan by providing the fixed deposit certificate as a collateral
- W Being a safe investment method

### Purchasing properties

Investing money to purchase properties such as land, vehicles and houses is also considered as an effective investment method.

An individual can earn following benefits by spending money to purchase such properties.

- W Ability to utilize properties by being an owner of properties
- W Ability to earn an income by renting, by leasing or by mortgaging properties
- W Ability to sell properties and obtain cash, if money is required
- W Ability to earn capital gains by selling the properties at a higher price than the purchased price
- W Ability to present as a collateral when obtaining a loan amount

## Investing in shares

The capital of a company could be divided into equal portions and one such portion is known as a share. A company raises capital by issuing shares. When investors buy shares of a company, their money is invested in companies. A company issues different types of shares. Ordinary shares are the most common category among those different types. Investors buying ordinary shares receive an ownership in the company.



*Figure 8.2 - Scenery of a share market*

Accordingly, an investor becomes an owner of a company by purchasing ordinary shares and receives the voting power for selecting directors as well.

### **The benefit received by investing in ordinary shares are as follows.**

The investor has the ability to

- W Receive dividends
- W Earn capital gains by selling at a higher price than the purchased price
- W Sell ordinary shares at any time and obtain cash
- W Present as a collateral when obtaining loans
- W Appoint directors by using the vote
- W Contribute to the decision making of a company by being appointed as a director

When issuing shares of a company, the share market is the market created for investors to purchase them and to sell such purchased shares to others when required. Accordingly, when purchased shares from a company are exchanged with others, such market transactions are conducted via the Colombo Stock Exchange.

This is also known as the Colombo Stock Market.

## The Securities and Exchange Commission of Sri Lanka

In order to monitor and regulate the Colombo Stock Exchange transactions, the Securities and Exchange Commission of Sri Lanka has been established by an Act of Parliament. The prime objective of this body is to protect the investors by maintaining in a fair manner.

### Purchasing treasury bills

Treasury bills are short term instruments issued by the Central Bank of Sri Lanka on behalf of the government in order to fulfill short term financial needs of the government. The Central Bank of Sri Lanka firstly issues Treasury Bills to the registered primary dealers. An investor will be able to purchase Treasury Bills from these primary dealers. Often licensed commercial banks act as primary dealers. Treasury Bills are issued with maturity periods of three months, six months and one year.

The characteristics of Treasury Bills and the benefits received by investing in Treasury Bills are as follows.

- W Ability to earn an interest income at a fixed rate
- W Ability to convert into cash at any time
- W A full guarantee from the government is given that the invested money will be paid back



### Activity 01

*Mr. Kamal Ranathunga is a retired officer of a government corporation. He is to receive his provident fund in due course. He does not have any savings and he does not have any other income generating source as well. He expects to invest his provident fund in an investment method which will provide a reliable and higher monthly income as well as which will ensure the safety of his invested money.*

*Provide answers to the following questions by analyzing the above information.*

- 01. Suggest an appropriate investment method to Mr. Kamal Ranathunga to invest his provident fund.*
- 02. Explain the reasons for suggesting that investment method.*



### Activity 02

‘It is more beneficial to spend money to purchase properties than depositing money in a fixed or savings account.’

Provide facts to propose on oppose the above statement.



### Activity 03

Read the following statements and insert (✓) sign in the most suitable column regarding the accuracy of those statements.

No.	Statement	Ordinary shares	Treasury bills
01	Issued by public limited companies.		
02	Issued by the Central Bank of Sri Lanka.		
03	Dividends are received as the return on investment.		
04	An investment method having complete security from the government.		
05	Can earn an interest income on the investment.		
06	By investing, one becomes an owner of a company.		
07	The return on investment is not at a fixed rate.		
08	Matures within one year or less than that.		

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