



Preface to Third Edition

Investment is a skill and mastering its tools and techniques requires lots of efforts in this VUCA (Volatile, Uncertain, Complex and Ambiguous) environment surrounding investment. Investment in financial assets has seen unprecedented growth especially in the last two decades despite turbulent financial environment. Growth in securities market has been parallel to the growth of economy. A larger portion of household savings is now being invested in financial instruments to provide the much needed capital for growth. Securities markets have also witnessed a number of innovations in terms of innovative financial products, innovative financial practices and conducive policies at domestic and global level.

The main motivation of writing this book has been my students, many of them are now teachers and investment professionals. I have been teaching the paper of Security Analysis and Portfolio Management at post graduate level for about 17 years and doing research in various areas of Investment management including market efficiency, stock market anomalies, mutual funds, derivatives, socially responsible investing etc.

The present book “Fundamentals of Investments” is written with objective of providing the user a comprehensive understanding of the investment environment and investment decision process. It explains various concepts, tools and techniques related with investment in financial assets with lively examples and suitable illustrations. The focus of the book is investment management. There is a comprehensive discussion on the concept of risk and returns, their sources and measurement, valuation of securities, approaches to security valuation, portfolio analysis, selection and management including performance evaluation. The book takes to the reader on a journey of investment process.

The book comprises of 12 chapters :

Chapters 1 & 2 discusses the investment environment. The entire discussion presented in Chapters 1 and 2 revolves around the types of investment alternatives, risk return trade off and structure and trading in Indian Securities Market. Special attention has been given to the role of SEBI and prohibition of Insider Trading. Latest developments like Algorithmic Trading and Direct Market Access are also discussed along with the reforms initiated in the past three decades. The updated information in Chapter 2 is provided.

Chapter 3, Security Analysis, provides at one place the concepts and measurement of various types of returns and risks in financial investment. The reader will definitely have an enriching experience and will have a better understanding of risk and returns concepts which are largely misunderstood.

Chapter 4, presents a comprehensive explanation of fixed income securities, various types of fixed income securities, valuation of bonds and convertible debentures, and various types of bond yields. Advanced concepts such as Bond Duration and Immunisation have also been discussed.

Chapters 5 to 8 provide various approaches to equity analysis such as - Fundamental analysis, Technical analysis and Efficient Market Hypothesis with suitable examples. An attempt has been made to provide the necessary skills and tools for Fundamental Analysis as well as Technical Analysis. The reader can apply these models and tools and techniques in real life decisions. Equity valuation models have also been explained with suitable illustrations.

Chapters 9 & 10 deal with portfolio management & portfolio analysis, portfolio construction and portfolio selection. Capital market theory is also elaborated. Further these provide detailed explanation of CAPM (Capital Asset Pricing Model), the most popular model of asset pricing in finance as well as explanation of need and measure of portfolio performance evaluation such as Sharpe index, Treynor's Index and Jensen's alpha.

Chapters 11 & 12 explain Financial Derivatives and Investor Protection in India.

The salient features of the text presented in this book are:

- 1. Learning outcomes** - Every chapter begins with a list of learning outcomes which the reader will achieve after successful completion of the chapter. It sets the broad framework for the chapter.
- 2. Main Text** - Various concepts and techniques have been explained in a lucid and well knit manner. Wherever required the explanation is supplemented by suitable illustrations and examples.
- 3. Solved Problems** - Each chapter provides sufficient number of solved problems for better understanding and application of the concepts explained in the main text.

4. **Summary** - *Each chapter provides summary points to recapitulate the concepts and tools explained in the chapter. It helps the reader to glance over the entire discussion presented in that chapter.*
5. **Test Yourself** - *Every chapter provides a variety of assignments to test the knowledge of the reader. It comprises of True/False statements, theory questions and numerical problems.*
6. **Project work** - *The topic of Investments is very lively and the reader may want to apply various concepts and techniques in real life. For this “project work” is provided at the end of every chapter. Project work helps the students and other readers of this book to actually apply various concepts of investments in real life.*

Sufficient care has been taken while preparing the manuscript for the book. However there may be some unintentional errors. Readers are welcome to send all comments & suggestions at vanitatripathi.dse@gmail.com

Happy reading !

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