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Inculcating Equity Investment as Regular Practice

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Abstract: Indian economy is the seventh-largest in the world by nominal GDP and the third-largest by purchasing power parity (PPP). The long-term growth perspective of Indian economy is moderately positive due to its young population and corresponding low dependency ratio, healthy savings and investment rates and increasing integration into the global economy. India is an attractive investment destination for Foreign Portfolio Investors, due to its vibrant economy, high growth potential and well diversified equity markets but domestic retail investors do not consider equity markets as an avenue for long-term wealth creation. The bank deposits as per the recent 2013-14 report of RBI are Rs.6722 billion and investment in Shares and Debentures is Rs.274 billion, indicating that household savings are mostly into bank deposits which yield fixed returns. There is a need to divert the savings of households from bank deposits to direct investments through equity markets. The initiatives of the Government of India and market regulators to promote long term savings and direct investments are yet to reach the masses.

Key Words: GDP – Gross Domestic Product, FPI – Foreign Portfolio Investors, RBI – Reserve Bank of India, BRICS – Joint federation of developing economies like Brazil, Russia, India, China and South Africa, SEBI – Securities Exchange Board of India, LEIPS - Liquidity Enhancement Incentive Program

I. INTRODUCTION

India is one of the G-20 major economies, a member of BRICS and a developing economy with around 7% average growth rate since globalisation. Net financial savings of households, which is the gross financial savings minus financial liabilities, rose by 13% to Rs.8.19 trillion from Rs.7.22 trillion in 2012-13. Savings in deposits by the households rose by 1 trillion (17%) in the year to Rs.6.91 trillion in FY 2013-14 as against Rs.5.91 trillion in 2012-13. They constituted about 59% of the gross financial savings, of which about 53% constituted bank deposits. Savings in shares and debentures dropped by 22% to Rs.337 billion in the reporting year from Rs.350 billion, while savings in the currency declined by 9% to Rs.1.02 trillion from Rs.1.12 trillion. Household savings is the main domestic source of funds to finance equity investment, which is a major impetus for long-term economic growth. Household saving rates vary considerably between countries because institutional, demographic, socio economic differences, availability and price of credit and attitude towards debt also influence individuals regarding savings.

The Indian Equity Market is robust and transparent which has made FPIs to consider it as their investment destination. The steady growth of Indian Equity Market not only allured domestic investors' community but also the foreign investors' groups. Due to FPIs huge investment in Indian stocks, the major part of investment in Indian capital market is attributed to institutional investors among whom foreign institutional investors (FPIs) are of primary importance. The below table depicts the turnover statistics on Equity segment of Stock Exchanges since 2010-11 to December 2014.

(Millions)

Stock exchanges	2010-11	2011-12	2012-13	2013-14	Apr 13-Dec 13	Apr 14-Dec 14
CSE	25970	59910	46140	790	1590	0
BSE	11050270	6674980	5487740	5216640	3750150	6231620
NSE	35774100	28108930	27082790	28084880	20873670	31551620
MCX-SX	0	0	33	11185	10252	0
FPI's	1464380	937250	1683640	516490	-60780	1984830

Fig: Handbook of Statistics on Indian Securities Market 2014

II. Equity Investmnet Versus Other Investmnet Avenues

Equity investment is considered to be the safest and reliable source of long term wealth creation due to its characteristics compared with other investment avenues like Band Deposits, Real Estates, Gold and Silver for retail investors. The study conducted by Jeremy J. Siegel of Warton Business School, USA suggests that long term investment in equity had out performed all other investment avenues during the period 1802 to 2002. The below chart emphasises that investment for long term in equity will reap more benefits than other investments.

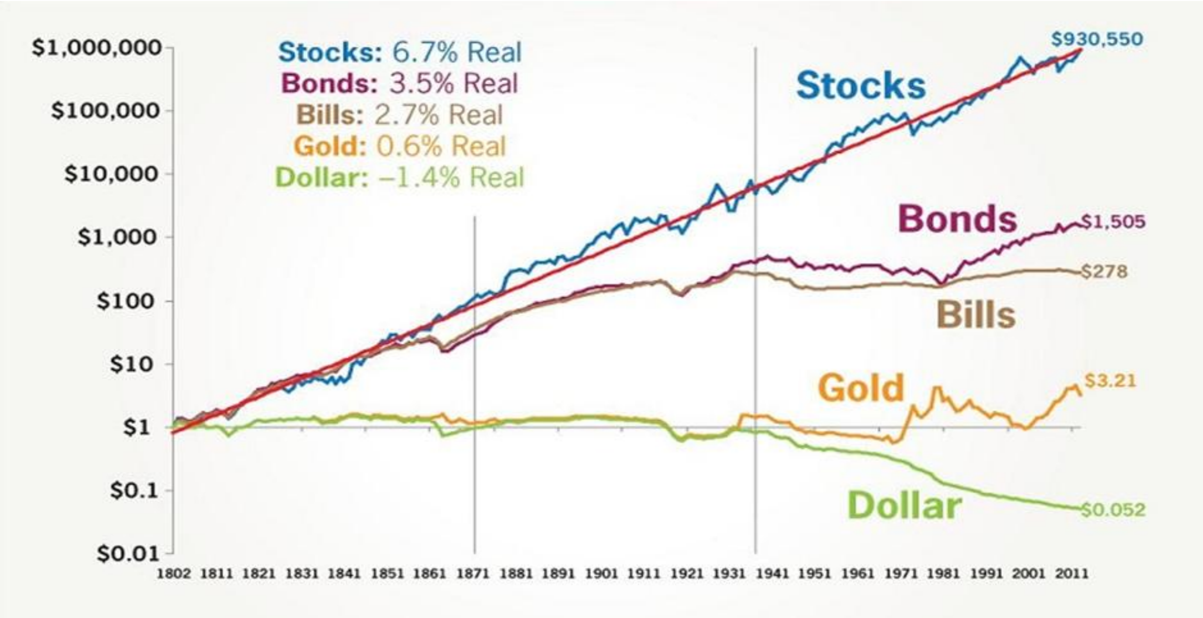

Fig: The Equity Premium: Stock & Bond Returns since 1802

III. Benefits Of Investing In Equities

Equity market investment reaps great benefits and can help investors in savings for long term goals. The investor has the liberty to buy even 1 share of any listed company in any stock exchange. Investors can be better-off by investing at least a part of their savings in equity market because of the given below reasons.

Characteristics	Benefits
Capital Appreciation: Is an increase in the price or value of Equity Shares of companies held by an investor	The change in share price helps the investor to buy at a lower price and sell at a higher price from the previous trading price
Liquidity: Equity shares can be easily bought or sold in the market. In other words, the shares can be converted into liquidity cash quickly.	The investor can liquidate their holdings in a fraction of time during the market hours. The transaction is guaranteed by the Stock Exchange so that the money will be credited into investors' accounts on time.
Dividend: A sum of money paid by a company to its	Investors are share owners of the company and hence, they are

equity holders out of its profits	entitled for profits earned. The dividend is credited into investors bank accounts within 7 days from the announcement in the Annual and Extraordinary General Meetings of the company
Bonus: Free equity share given to the current holders in a company, based upon the number of shares that the equity holder already owns	Additional benefit in the form of equity shares to the investors when the company earns more profit than expected.
Tax Benefits: Tax advantages under Section 80CCG while filing Income Tax, if the investor holds it for a long term	The investors can enjoy tax benefits, if their investments are for a long term and also in tax limits
Investment Preference: Allotment of shares to a selected group of investors on a preferential basis	The existing investors will be given priority of investment when the same company comes out with FPO (Further Public Offerings)

Source: www.investopedia.com

IV. Initiatives By Regulators To Promote Equity Investments

Equity investment whereas needs to be promoted in India. Equity investments are a reliable source of long-term wealth generation. In Europe and the Americas, households prefer to put in 25-50% of their savings in equities. In India, the share is dismally low at around 3-4%. RBI expressed the hope that the measures announced in the Budget 2015 would help improve both investment and savings. The Budget has raised the personal Income Tax limit to Rs.2.5 lakh, which will increase disposable income and lead to a rise in investment limit under section 80C of the Income Tax Act, 1961.

The Government of India introduced a new scheme “Rajiv Gandhi Equity Savings Scheme” in the year 2013 to the first time investors in Equity and Mutual Funds. Under the scheme, the investors who wish to invest maximum of Rs.50000 in Equity or Mutual Funds who have annual incomes of less than Rs.10 lakhs can claim tax exemption under 80 CCC under the Income Tax Act, 1961. SEBI issued a circular dated June 02, 2011 incentivizing Market Intermediaries in order to bring more investors into equity markets. Subsequent to the above SEBI circular, BSE Ltd (formerly known as Bombay Stock Exchange Ltd) being the Oldest Stock Exchange in Asia introduced LEIPS (Liquidity Enhancement Incentive Programs) for market intermediaries to attract more household investments in equity market.

V. Conclusion

Indian equity market is well diversified with high growth potential for all types of investors. The household savings flowing in domestic equity market is practically negligible as the investments by retail investors have come down to less than 1.5 % of total population and FPIs holds more than 40% of market. The opening up of economy to the world and modernisation of markets attracted FPIs rather than the Retail Investors. NIFTY had grown 20 times higher since the opening of economy which gave good returns to all types of investors. Time has come to rethink on the investment policies. There is a huge gap between retail investors and policies, which needs to be addressed by way of educating investors, creating friendly environment for retail participation. The initiative to bring retirement funds has not found their way into equities so far, despite the government allowing investing a part of it in equity market. The government can play its part by giving additional tax incentives on retail investment through a systematic approach. Simultaneously, funds lying idle in various investor education or protection funds can be utilised for creating awareness on equity markets. Households should be to start long-term equity investment provided the Government and Stock Market Regulators need to move towards Investors.

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