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COMPARATIVE ANALYSIS ON MONET MARKET V/S CAPITAL MARKET

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INTRODUCTION

Investment is the employment of funds on assets with the aim of earning income or capital appreciation. Present consumption is sacrificed to get a return in the future. Ideally, it means employment of funds to achieve additional income or growth in the invested amount over the period of time. Thus, investment may be defined as "a commitment of funds made in the expectation of some positive rate of return". Expectation of return is an essential element of investment. Since the return is expected to be realised in future, there is a possibility that the return actually realised is lower than the return expected to be realised. This possibility of variation in the actual return is known as investment risk. Thus every investment involves return and risk

There are two types of investments, Economic and Financial. When a person invests his funds for the acquisition of some physical assets like building or equipment. This type of investment is known as economic investments. Economic investment can be defined as the investment that contributes to the net additions to the capital stock of the society. When a person invests his funds for the acquisition of some financial assets like shares or debentures. This type of investment is known as financial investment.

The elements of investments are:

1. **Return**

Investments are made with the primary objective of deriving returns out of it. Thus, a good rate of return from an investment is the first and foremost condition for effective investment. The returns may be received in the form of annual incomes as well as capital gain or loss.

2. **Risk**

Risk of an investment is related to the probability of actual returns becoming less than the expected returns. It can be termed as the variability in the expected return. Risk may relate to loss of capital, delay in repayment of capital or variability of returns. Risk and returns of an investment are related to each other. Ideally higher the risk, higher the return expected. Although the degree of risk varies from investment to investment, it is important to determine how much risk is involved in the investment.

3. Safety

Safety in an investment implies the certainty of return of capital without loss of money or time. Safety is another feature which an investor desires from his investment. Every investor expects to get back his capital on maturity without loss and without delay. Investments done with the government assures more safety than with the private sector.

4. Liquidity

Liquidity means marketability of an investment. Liquidity in an investment refers to the ability of an investment to be converted in cash by sale or transfer. In simple terms, liquidity means to get your money whenever you need it. If the investment could be converted into cash without much loss of time, it would help the investor to meet the emergencies.

5. Tax Benefits

The investors may also desire to get the benefit of tax exemption from the investments. Some investments offer tax benefits while others do not. Tax benefits can be available to an investment at the time of initial deposits or on returns generated or when it is redeemed on maturity.

Factors Effecting Selection of Investment Alternatives

There are many factors which directly or indirectly influence capital investment decisions. Some of the factors that influence the selection of investment alternatives are as follows:

1. Interest Rates

Investment is financed either out of current savings or by borrowing. Therefore, investment is strongly influenced by interest rates. High interest rates make it more expensive to borrow. High interest rates also give a better rate of return from keeping money in the bank..

2. Economic Growth

Firms invest to meet future demand. If demand is falling, then firms will cut back on investment. If economic prospects improve, then firms will increase investment as they expect future demand to rise. There is strong empirical evidence that investment is cyclical. In a recession, investment falls, and recover with economic growth. According to accelerator theory, the accelerator theory states that investment depends on the rate of change of economic growth. In other words, if the rate of economic growth increases from 1.5% a year to 2.5% a year, then this increase in the growth rate will cause an increase in investment spending as the economy is on an up-turn. The accelerator theory states that investment is highly dependent on the economic cycle.

3. Confidence

Investment is riskier than saving. Firms will only invest if they are confident about future costs, demand and economic prospects. Keynes referred to the 'animal spirits' of businessmen as a key determinant of investment.. Confidence is often driven by economic growth and changes in the rate of economic growth. It is another factor that makes investment cyclical in nature.

4. Inflation

In the long-term, inflation rates can have an influence on investment. High and variable inflation tends to create more uncertainty and confusion, with uncertainties over thefuture cost of investment. If inflation is high and volatile, firms will be uncertain at the final cost of investment, they may also fear high inflation could lead to economic uncertainty and future downturn. Countries with a prolonged period of low and stable inflation have often experienced higher rates of investment. If low inflation is caused by a fall in demand and economic growth, then this low inflation will not, of itself, be sufficient to boost investment. The ideal is low inflationary and sustainable growth.

5. Productivity of Capital

Long-term changes in technology can influence the attractiveness of investment. In the late nineteenth century, new technology such as Bessemer steel and improved steam engines meant firms had a strong incentive to invest in this new technology because it was much more efficient than previous technology.

6. **Availability of Finance**

In the credit crunch of 2008, many banks were short of liquidity so had to cut back lending. Banks were very reluctant to lend to firms for investment.. A high level of savings enables more resources to be used for investment. With high deposits, banks are able to lend more out. If the level of savings in the economy falls, then it limits the amounts of funds that can be channelled into investment.

LITERATURE REVIEW

Chong et al. (2014) tested the performance of technical trading rules based on Moving Average Convergence Divergence (MACD) and Relative Strength Index (RSI) indicator in five developed countries namely Italy, Canada, Germany, USA and Japan. The profitabilitywas evaluated from January 1976 till December 2002 using daily closing values of their flagship indices.

Derek Leith (2015) analyses that the certificate of deposit fixed volumes and the total volume reduce volatility in the inter-bank money market rate. Besides that, the variable rate certificate of deposit is insignificant suggesting that it does not have an impact on money market rates.

Sehgal and Gupta (2005) conducted a survey to determine the attitude of market participants towards technical analysis in India. The sample size consisted of twenty five respondents having an average experience of nine years in stock market and seven years with technical analysis. The respondents included technical traders, brokers, fund managers and investment analysts. Every respondent was using at least one technical analysis software. The respondents had great preference for classical technical studies namely chart patterns, Fibonacci tools, Elliott wave, trend analysis, moving averages, candlestick patterns etc. rather than modern technical tools (indicators). Also, it was found that there was negligible use of time series econometric tools for technical analysis.

Ackert et al (2016) manually set up keywords reflecting bullish or bearish market sentiments and then used a program to identify the market sentiments reflected in the posts, thereby building an indicator for trends in market sentiments.

Huang et al (2016) utilised the IP data and constructed a quantitative indicator of local bias in investor attention. The indicator directly measures the magnitude of home bias in information exchange.

Objective of Study

1. To study what investment is and how it can be done.
2. To analyse where these investments can be done.
3. To understand the instruments in which investment can be done.To acknowledge completely about the capital market.
4. To recognize the investment opportunities of money market
5.

Scope of Study

1. The study can further be used by investors to properly invest.
2. Investors can understand which instruments of the capital market or money market to invest into.
3. Give awareness about the various financial instruments and markets.
4. Investors can understand the capital and money market completely.

Limitations of the Study

There were certain limitations of this study that are enlisted below:

1. Resources of the researcher were limited, and the investors spread all over the country could not be studied.
2. Geographical expansion of target population as we know that investors are located throughout the country.
3. Time of submission due to academic schedule the researcher had the limited time frame of a month to complete this research.
4. The findings of the current study were applicable only to the investors in Mumbai and Thane.

Research methodology

1. Sample type and size .

Sample types consist of undergraduate commerce students. The sample size is 216 students.Sources of data

The current paper is based on study from primary data collected by using structured questionnaires. Secondary data collected from various reports , articles published one.

2. Sampling method

   The sampling method followed is a simple random sampling.

3. Data collection

   The data is collected from the undergraduate commerce students.close ended questions are included in the questionnaire.

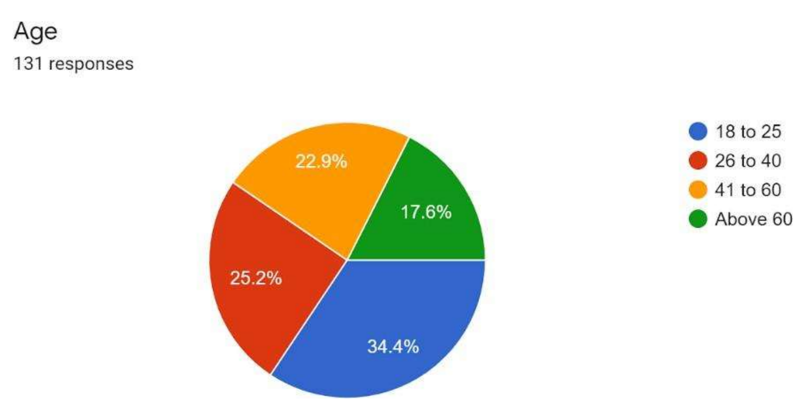
DATA ANALYSIS, PRESENTATION AND INTERPRETATION

Q1) What is your age?

Analysis:

Response	No of Respondents	Percentage
18 to 25	45	34.4%
26 to 40	33	25.2%
41 to 60	30	22.9%
Above 60	23	17.6%

Presentation:



Interpretation:

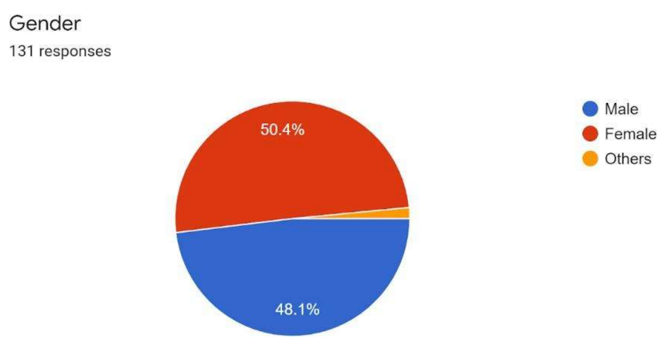
The evidence from the above table and chart shows that 34.4% of the respondents belong to the age group of 18 to 25 years old. Following is 25.2% belonging to the age group of 26 to 40 years old. Then 22.9% of respondents from the age group of 41 to 60 years old. Finally the 17.6% belongs to the age group who are above 60 years.

Q2) What is your gender?

Analysis:

Response	No of Respondents	Percentage
Male	66	50.4%
Female	63	48.1%
Others	2	1.5%

Presentation:



Interpretation:

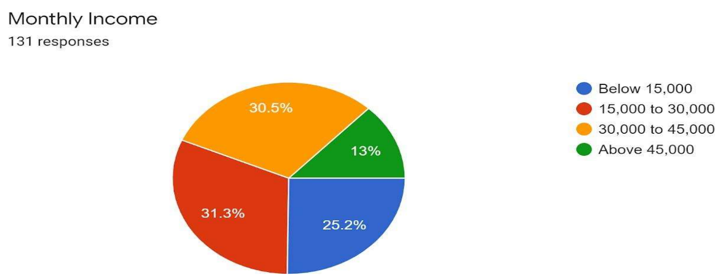
The evidence from the above table and chart shows that 50.4% of the respondents are male, 48.1% are female and remaining 1.5% are other genders.

Q3) What is your monthly income?

Analysis:

Response	No of Respondents	Percentage
Below 15,000	33	25.2%
15,000 to 30,000	41	31.3%
30,000 to 45,000	40	30.5%
Above 45000	17	13.0%

Presentation:



Interpretation:

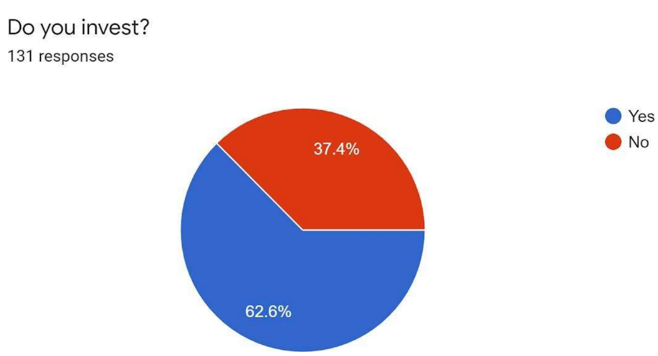
The evidence from the above table and chart shows that 25.2% of the respondents earn monthly income below Rs.15,000. Following is 31.3% of respondents having monthly income in the range of Rs.15,000 to Rs.30,000. Then comes 30.5% of respondents having monthly income in the range of Rs.30,000 to Rs.45,000. Finally the 13.0% of respondents whose monthly income are above Rs.45,000.

Q4) Do you invest?

Analysis:

Response	**No of Respondents**	**Percentage**
Yes	82	62.6%
No	49	37.4%

Presentation:



Interpretation:

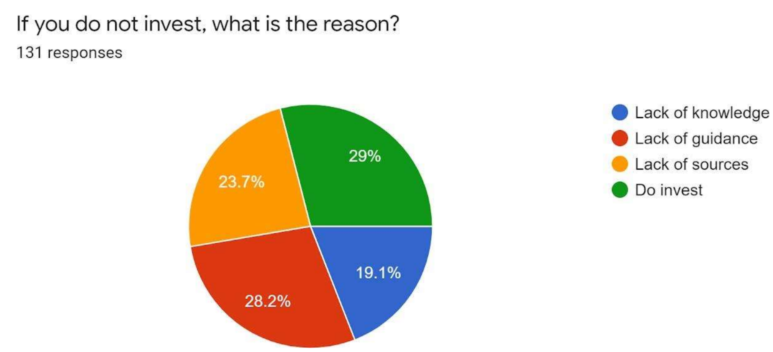
The evidence from the above table and chart shows that 62.6% of the respondents do invest and the remaining 37.4% of respondents do not invest.

Q5) If you do not invest, what is the reason?

Analysis:

Response	No of Respondents	Percentage
Lack of knowledge	25	19.1%
Lack of guidance	37	28.2%
Lack of source	31	23.7%
Do invest	38	29.0%

Presentation:



Interpretation:

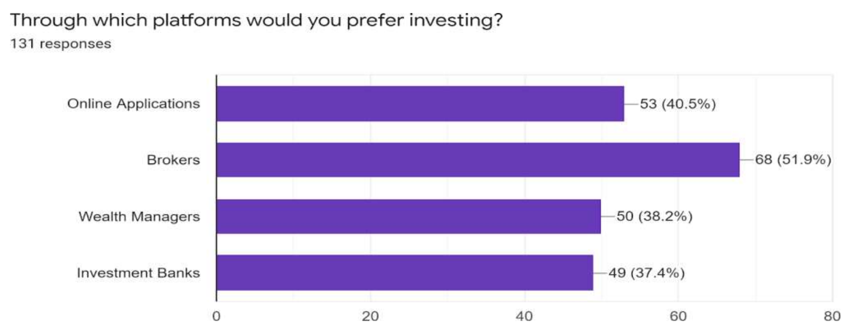
The evidence from the above table and chart shows that 19.1% of the respondents do not invest because of lack of knowledge. Following is 28.2% of respondents who do not invest due to lack of guidance. Then comes 23.7% of respondents who are not investing as there is a lack of sources.Finally the 29.0% of respondents who invest without issues.

Q6) Through which platforms would you prefer investing?

Analysis:

Response	No of Respondents	Percentage
Online Applications	53	40.5%
Brokers	68	51.9%
Wealth Managers	50	38.2%
Investment Banks	49	37.4%

Presentation:



Interpretation:

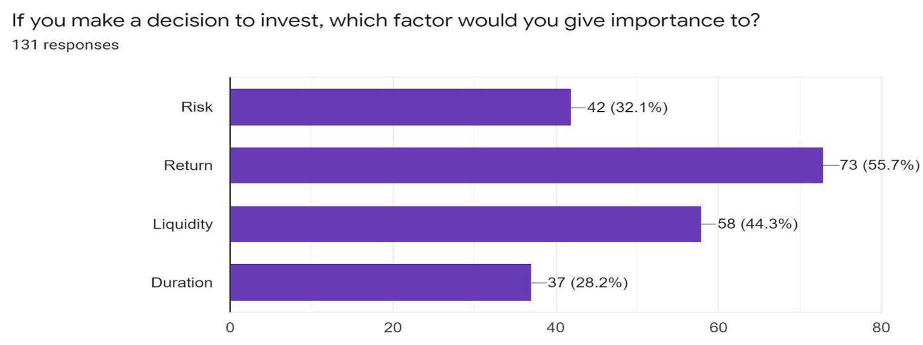
The evidence from the above table and chart shows that 40.5% of the respondents prefer investing through online applications. Following is 51.9% of respondents who prefer investing with the help of brokers. Then comes 38.2% of respondents who prefer investing with the guidance of wealth managers. Finally the 37.4% of respondents who prefer investment banks for investing.

Q7) If you make a decision to invest, which factor would you give importance to?

Analysis:

Response	No of Respondents	Percentage
Risk	42	32.1%
Return	73	55.7%
Liquidity	58	44.3%
Duration	37	28.2%

Presentation:



Interpretation:

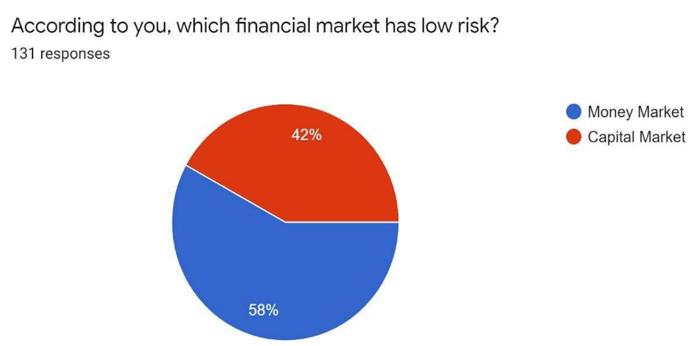
The evidence from the above table and chart shows that 32.1% of the respondents give importance to the risk factor. Following is 55.7% of respondents who prefer returns while investing.

Q8) According to you, which financial market has low risk?

Analysis:

Response	**No of Response**	**Percentage**
Money Market	76	58%
Capital Market	55	42%

Presentation:



Interpretation:

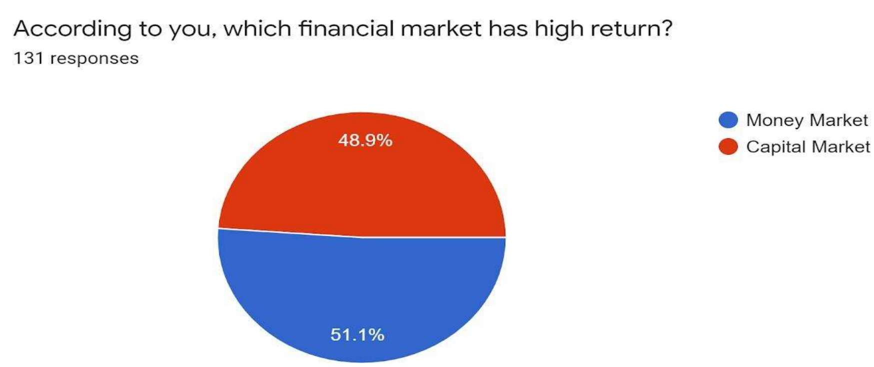
The evidence from the above table and chart shows that 58% of the respondents feel that the money market is the financial market that contains lower risk in comparison to the capital market. Finally the remaining 42% of respondents think that the capital market has low risk.

Q9) According to you, which financial market has a high return?

Analysis:

Response	**No of Respondents**	**Percentage**
Money Market	67	51.1%
Capital Market	64	48.9%

Presentation:



Interpretation:

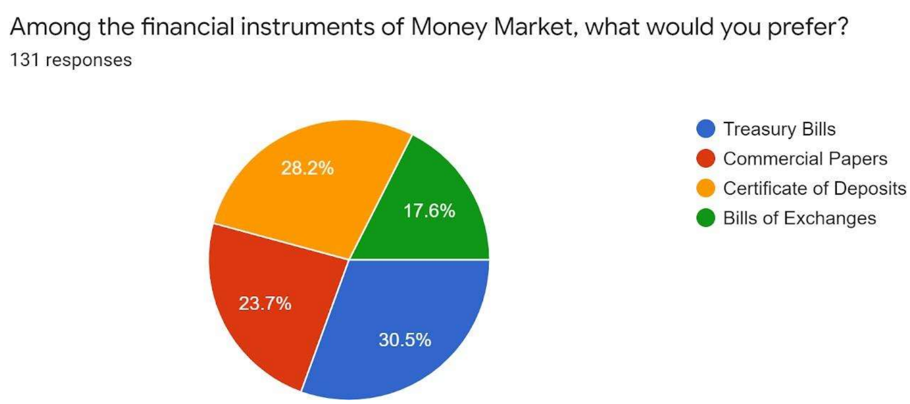
The evidence from the above table and chart shows that 51.1% of the respondents feel that money market is the financial market that contains higher return in comparison to the capital market. Finally the remaining 48.9% of respondents think that the capital market has high return.

Q10) Among the financial instruments of the Money Market, what would you prefer?

Analysis:

Response	No of Respondents	Percentage
Treasury Bills	40	30.5%
Commercial Papers	31	23.7%
Certificate of Deposits	37	28.2%
Bills of Exchanges	23	17.6%

Presentation:



Interpretation:

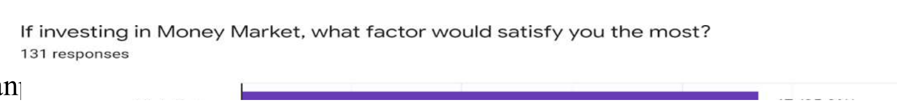
The evidence from the above table and chart shows that among the four instruments of money market, 30.5% of the respondents prefer treasury bills, 23.7% of respondents prefer commercial papers, 28.2% of respondents prefer certificate of deposits and 17.6% of respondents prefer bills of exchange.

Q11) If investing in the Money Market, what factor would satisfy you the most?

Analysis:

Response	No of Respondents	Percentage
High Return	47	35.9%
Low Risk	54	41.2%
Quick Liquidity	59	45.0%
Tax Benefit	44	33.6%
Safety Ensured	40	30.5%

Presentation:



Interpretation:

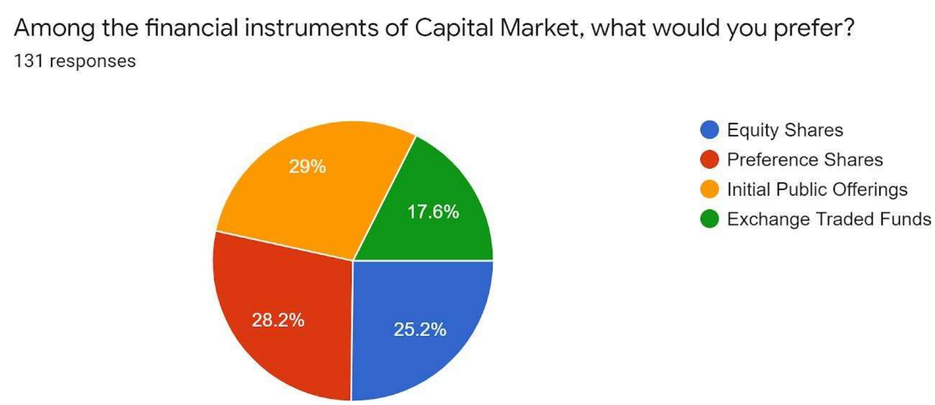
The evidence from the above table and chart shows that when respondents invest in money market, 35.9% of the respondents are satisfied by receiving high returns. Then 41.2% of the respondents are satisfied by getting low risk. Then 45.0% of respondents are satisfied by having quick liquidity. Then 33.6% of respondents are satisfied by obtaining tax benefits. Finally comes 30.5% of respondents who are satisfied by acknowledging safety is ensured.

Q12) Among the financial instruments of the Money Market, what would you prefer?

Analysis:

Response	No of Respondents	Percentage
Equity Shares	33	25.2%
Preference Shares	37	28.2%
Initial Public Offerings	38	29.0%
Exchange Traded Funds	23	17.6%

Presentation:



Interpretation:

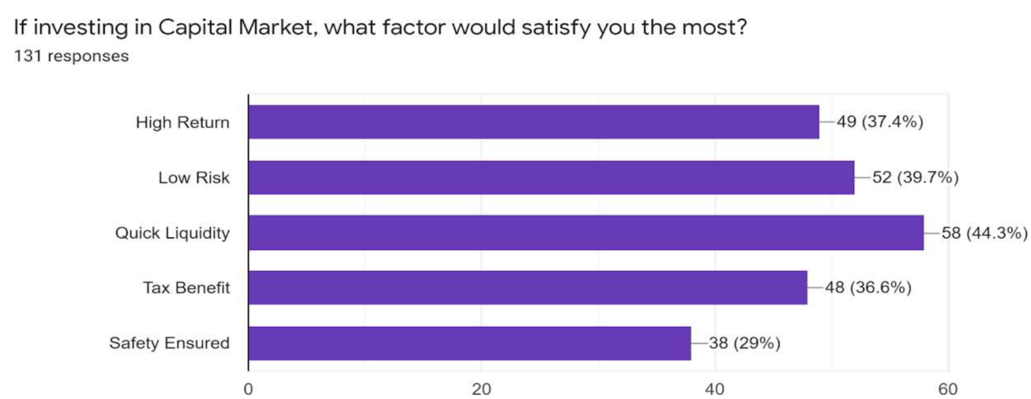
The evidence from the above table and chart shows that among the four instruments of capital market, 25.2% of the respondents prefer equity shares, 28.2% of respondents prefer preference shares, 29.0% of respondents prefer initial public offerings and 17.6% of respondents prefer exchange traded funds.

Q13) If investing in the Capital Market, what factor would satisfy you the most?

Analysis:

Response	**No of Respondents**	**Percentage**
High Return	49	37.4%
Low Risk	52	39.7%
Quick Liquidity	58	44.3%
Tax Benefit	48	36.6%
Safety Ensured	38	29.0%

Presentation:



Interpretation:

The evidence from the above table and chart shows that when respondents invest in the capital market, 37.4% of the respondents are satisfied by receiving high returns. Then 39.7% of the respondents are satisfied by getting low risk. Then 44.3% of respondents are satisfied by having quick liquidity. Then 36.6% of respondents are satisfied by obtaining tax benefits. Finally 29.0% of respondents who are satisfied by acknowledging safety are ensured.

CONCLUSION:

A financial market is a place where buyers and sellers come together to trade in financial assets such as bonds, stocks, derivatives, currencies and commodities. The main objective of a financial market is to fix prices for global trade, increase capital and transfer risk and liquidity. Though the financial market has various components; the two most important components are the money market and capital market. In the money market, only short-term liquid financial instruments are exchanged. Whereas, in the capital market, only long term securities are dealt with.

Money markets are considered safe but they sometimes give negative returns. Thus, investors should study the pros and cons of each financial instrument and the condition of the financial market before putting their money for the short term or long term. In India, money markets serve an essential objective of providing liquid cash to borrowers and fund providers for a small period of time, while keeping a balance between the supply and demand of short-term funds. The important money market instruments in India today cover call money, commercial papers, certificates of deposit, treasury bills, and forward rate agreements.

Capital Market plays a significant role in the growth of a country's economy as it provides a platform for mobilising the funds. Similarly, the money market holds a range of operational characteristics. This article will explain the difference between the money market and the capital market. In this market, the buyers use funds for longer-term investment. The nature of the capital market is risky markets. Therefore, it is not used for short-term funds investment. Most of the investors obtain the capital markets to preserve for education or retirement.

Both are part of the financial markets. The main aim of the financial markets is to channelize funds and to generate returns. The financial markets stabilise the money supply by lending borrowing mechanisms i.e. surplus funds are provided to borrowers by the lenders. Both are required for the betterment of the economy as they fulfil the long-term and short-term capital needs of the business and industry. The markets encourage individuals to invest money to gain good returns.

Investors can tap into each of the markets depending on their needs. Capital markets are generally less liquid but provide good returns at higher risk whereas money markets are highly liquid but provide lower returns. Money markets are also considered safe assets. However, due to market anomalies and inefficiency due to some aberrations above may not hold. Investors try to look for arbitrage opportunities due to such anomalies to get higher returns.

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