

ICICI BANK CUSTOMER FIRST SERIES

A consumer education initiative

TIMES BUSINESS ASSOCIATE COMMUNICATION

Investments Income And Growth



When it comes to investment options, there are many who would like to have the protection of invested capital, regular income, higher return, and growth in value of the assets, all at the same time. If such an investment is liquid and can be withdrawn at any time, that would be an added advantage. However, every investment may not provide all these benefits, and this makes the trade-off tough for an investor.

Income



Some investment options such as bank deposits can generate a regular income. If the asset is an appreciating asset and has the ability to generate cash flows, investors can get periodic income. Debt instruments usually are income-generating in nature.

Growth



Some assets do not generate periodic income, but grow in value over time. For example, gold as an asset class does not generate periodic income. Some assets like equity and real estate generate income in the form of dividends and rent, but a major chunk of return comes from growth in value over time.

Value



The value of a growth asset is subject to change from time to time. If the market for these assets is not liquid, selling them

off to realize the changes in value may be difficult or expensive. Therefore growth assets like equity that have a large and liquid market tend to be easier to buy and sell, than assets like property that are not as liquid.

Risk



It is not as if an income-oriented asset has no risk. The interest rates in the market can move up or down. Suppose an investor buys a three-year bond that pays 8% interest per annum. After a year of buying the bond if interest rates in the market move up to 10% p.a., the value of the bond will fall. This is called interest-rate risk. There is also the default risk in a bond, that the issuer may not pay the interest or principal on time.

Needs



Investors choose income or growth assets depending on their need for income and preference with respect to time period and

SMS CONTEST

Question

Mutual funds offer _____ options

Answer

- A. Only income
- B. Only growth
- C. Income and growth

To answer, SMS DISHA A, B or C to 53030 and win a 2N 3D holiday.* Contest open for the day of publication.

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risk. Typically long-term investors who can assume risk choose growth products and short-term investors who do not like to take risks tend to choose income products.

Tax



Income tax rules acknowledge the difference between income and growth. Therefore the taxability of interest income is different from the taxability of gains or losses from selling an asset. Sometimes the choice between a growth product and an income product depends on the taxability of the income.

While most investors prefer to receive periodic income, more as a signal that their investment is doing well, they may be bet-

DID YOU KNOW?

An investment plan should allocate at least three months of income to readily available liquid assets to tide over any emergency for funds.

FAQs

Is an income-oriented asset less risky?

Yes, an income-yielding asset like a deposit generally features both lower return and lesser risk than a growth-oriented asset like equity.

Is a mutual fund growth or income-oriented?

Mutual funds offer both types of products. They have equity and income funds. Within these categories, they also offer growth and income options so that investors can choose as per their need.

er off accumulating the income over time if they did not really need it. The choice between income and growth is a crucial one, and our long-term returns depend on it.

Centre for Investment Education and Learning

We welcome your questions, suggestions and feedback on this column. Please write 'Smart' in the 'To' field at www.icicibank.com or send an SMS to 53030. Please include your full name, address and ph one number. Your comments may be edited for clarity and space.

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