Chapter 11

Help Me Invest: Investment Tools and Security Risks

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ABSTRACT

Making an investment is very important. According to a recent study, people used to hold a commodity for about 8 years, but now the time period has reduced to about 4 months. The market is really volatile; with the help of internet, news travels really fast and is reachable to everyone in every part of the world. Buying any commodity cannot be easier, as the number of options available is very large. Different investment options bring different types of profit and risk. One of the major issues involved is the security in using such tools and applications. A good investor always makes an investment decision by calculating and analyzing various factors that could affect his profits. The advancement in artificial intelligence and computation plays an important role while analyzing these factors. Few simple lines of code can analyze the market and help evaluate various investment options. Most of these tools are available online, but they all come with security issues associated with them.

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INTRODUCTION

What is an Investment?

Investment is basically acquiring/buying an asset in order to generate income or profit/appreciation (Nakamura 2001). In economics, investment is defined as the purchase of goods not for consumption but for future profits. There are various types of investment options available for example- land, gold, stocks, fixed deposits, mutual funds etc. Each type of investment brings its own perks and drawbacks.

There is always a risk involved in the investment, generally, higher risk leads to higher profit. It is the responsibility of the investor to make an informed decision. Investments such as fixed deposits are less risky thus are not very profitable whereas investing in stocks can lead to huge amount of profits in a short period of time but it can also lead to huge losses thus are risky investments.

What is the Importance of Investment?

Warren Buffett bought his first stock at the age of 11 and now he is among the richest person in the world (Buffett & Clark 2006). Investment is basically giving up a little of today to earn a lot for tomorrow. There is a famous saying “put your money to work”, Lets understand the importance of investment using a simple example:-

There are two friends ‘A’ and ‘B’, both earn ₹10,000 every month. B being an aware investor decides to invest half of his income while A doesn't understand the importance of investment. Each year B earns 10% profit on his investment each year. After 10 years, A will have 5,000 X 12 X 10 = ₹6,00,000 whereas B will have around ₹9,85,869 as depicted figure 1 . This example illustrates the importance of investment

How an Investor Makes an Investment Decision?

There are various aspects involved while making an investment decision, such as are the goods bought tangible, the risk involved, profit margin, government taxation policies etc. The major factors that affect any investment decision are (Masini & Menichetti 2012):

1. **A Time Period of Investment** - Time period is basically for how long an investor wants to invest. Traders invest on a daily basis whereas a regular person prefers to invest for a longer time period.
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