INTERNATIONAL PORTFOLIO INVESTMENTS AND MODERN TRENDS IN PORTFOLIO MANAGEMENT

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Annotation: *Investment activity is a key element of financial markets and economic development, providing opportunities for capital growth. This article explores the essence, types, advantages and risks of international portfolio investments. It analyzes various strategies for investing in foreign assets, identifies the benefits of portfolio diversity in international investing, and discusses the risks associated with global investing.*

Keywords: *Investment activity, risk, portfolio investments, securities portfolio, international portfolio investments, foreign portfolio investments.*

INTRODUCTION

In today's interconnected world, characterized by globalization, the unpredictability of the global economy and currency fluctuations, portfolio investment has become an integral part of effective financial management. This approach is applicable not only to international investment in securities, but also, to a certain extent, to foreign direct investment, as well as to the deposit and credit policies of banking institutions.

Portfolio investment – acquisition of government and corporate foreign securities within the limits established by national legislation. An investment in corporate shares is considered a portfolio investment if the shareholding does not provide control rights (usually up to 10% of the company's shares).

Foreign Portfolio Investment (FPI) – involve the purchase of securities, such as stocks or bonds, from a foreign company or government. It does not involve management control of the foreign company, and the investor does not directly participate in the company's activities.

The portfolio investment method involves distributing investments between different assets in order to minimize risk and maximize profit. Portfolio diversification allows investors to offset losses from one asset with gains from others. For example, technology stocks can generate high returns but are subject to wild price fluctuations. On the other hand, government bonds are considered more stable but offer lower returns. Combining these assets in one portfolio allows investors to reduce risk without sacrificing potential income. In an unstable global economy, when the economic performance of different countries can change dramatically, the portfolio investment method allows investors to diversify the risks associated with economic and political turmoil in specific countries. In

addition, taking into account fluctuations in exchange rates, the portfolio investment method allows investors to hedge risks associated with changes in the value of currencies by including assets denominated in different currencies in the portfolio. Banking institutions also use the portfolio investment method when forming their loan portfolios. Diversification of the loan portfolio allows banks to reduce the risk of default of one borrower by distributing loan funds between different sectors of the economy, regions and clients. Thus, the portfolio investment method is an important tool for financial management in the context of globalization and instability of the world economy. This approach allows investors and banks to diversify risks associated with fluctuations in asset prices, economic and political shocks, and changes in exchange rates.

Forms of portfolio investments:

Shares: represent an ownership interest in a company and give the right to a portion of its profits.

Bonds: are debt securities issued by governments or companies and provide a fixed income.

Futures and options: financial instruments that allow you to trade the future prices of various assets.

Bank deposits: deposits in banks that provide safety and a certain interest income.

Currency: foreign currency units that can be bought and sold for investment purposes.

Precious Metals: Gold, silver and other precious metals that have value as a reserve asset.

Real investments: investments in real estate, business, startups and other assets that are not securities.

Key differences between stocks and bonds: stocks and bonds are opposites in the securities market in terms of risk and potential return. Stocks are a high-risk investment but can provide significant returns over the long term. Bonds are a conservative instrument that provides stable but lower income.

Investors who own shares share in the company's profits and losses. They must be prepared for significant fluctuations in stock prices.

Bondholders receive a fixed income and have priority rights to payments in the event of liquidation of the company. Bonds are suitable for investors seeking stability and capital protection.

In addition to stocks and bonds, there are other forms of portfolio investing:

Futures and options: complex financial instruments requiring special knowledge and experience.

Bank deposits:a reliable but low-yield investment option.

Currency and precious metals:investing in currencies or precious metals can be subject to high volatility and requires careful market analysis.

Real investments:investing in real estate, business or startups can provide high returns, but also carries significant risks.

Investors should carefully consider all available options and determine which ones are appropriate for their objectives, risk level and investment horizon. Portfolio diversification is the key to reducing risk and achieving satisfactory returns over the long term.

Portfolio investing has both advantages and disadvantages.

Advantages of portfolio investments:

Liquidity: The main advantage of portfolio investments is the ability to quickly return the invested funds. An investor usually buys securities with high or medium liquidity, which makes it easy to sell them if necessary, without a loss or even for a profit. However, this advantage does not work for all assets. Demand for shares of little-known companies may appear several days later, although trading on the stock exchange takes place every second.

Openness: Entry to the securities market is available to almost everyone. Various pricing mechanisms are used, and sales volumes are not limited. There is no need to take into account statistics when determining the value of securities, as in the real estate market. This information is publicly available, for example, on the Moscow Exchange website. Openness allows even inexperienced investors to study price dynamics, investment volumes and spreads (the difference between the buying and selling rates of shares).

Transparency: Unlike other types of investments (real estate, business projects, investment funds, bank deposits), pricing in the securities market is transparent. Prices depend on supply and demand, not on unknown factors. This allows you to evaluate the effectiveness of portfolio investments.

Disadvantages of portfolio investments:

Risks: Portfolio investing involves risks. The value of securities may fluctuate depending on various factors such as economic conditions, news and events. An investor may lose some or even all of their investment.

Limited income: The return on portfolio investments is usually lower than that of other types of investments, such as real estate or business projects. This is because securities are considered a less risky investment.

Necessary knowledge: Successful portfolio investing requires knowledge of the securities market and an understanding of the factors that influence asset values. Without this, the investor risks losing his investment.

Modern trends in portfolio management:

In the rapidly changing global financial landscape, an adequate portfolio must be balanced and include negatively correlated investments that have high growth potential and therefore a higher level of risk. The efficiency frontier represents the optimal combination of assets of different quality with given parameters of risk and return.

When creating a portfolio, the following fundamental principles are taken into account:

1. Investment security: stability of investments to market fluctuations.
2. Stability of profitability: regular income generation.
3. Investment liquidity: the ability to quickly convert assets into cash without significant losses.

Since no investment vehicle can have all of these properties at the same time, portfolio construction involves trade-offs. The main task of the investor is to achieve the optimal balance between risk and return. An appropriate mix of investment instruments should minimize risk and maximize return.

Classic conservative portfolio.

To form a low-risk portfolio, the following principles are adhered to:

1. The principle of conservatism: the ratio between reliable and risky assets is maintained in such a way that the return on reliable investments with a high probability covers possible losses from risky investments. The investment risk in this case is not the loss of fixed capital, but the receipt of insufficiently high profits.

2. The principle of diversification: diversification reduces risk by compensating for possible low returns on one investment with high returns on others. Risk minimization is achieved, for example, by including in the securities portfolio companies from different industries that are not closely related to each other and, therefore, are not subject to synchronous cyclical fluctuations in business activity. Spreading of investment occurs not only across industries, but also across asset classes such as stocks, bonds, real estate and commodities.

3. Principlesufficient liquidity: investments are made gradually, not all at once. This allows you to smooth out market fluctuations and reduce the risk of significant losses in the event of a market decline.

Risk-appetizing portfolio

Recently, a risk-appetizing portfolio has been gaining popularity, which is formed taking into account the individual risk profile of the investor. This type of portfolio is characterized by:

1. Higher risk: Focuses on investments with high growth potential but also higher volatility.
2. Customized Approach: The portfolio is tailored to each investor's specific financial goals, investment horizon and risk tolerance.
3. Dynamic Rebalancing: The portfolio is regularly reviewed and rebalanced to maintain the desired level of risk.

In the portfolio investment market, there are two main types of investment strategies that directly correlate with the type of portfolio chosen: active and passive.

Active control strategy:

- an active investment strategy aims to maximize market opportunities by closely monitoring the market and immediately acquiring instruments that meet the portfolio's investment objectives;
- it involves constant monitoring and prompt changes in the composition of stock instruments in the portfolio in order to acquire the most profitable securities and get rid of low-yielding assets;
- In active management, a manager must compare the cost, return, risk and other investment characteristics of newly acquired and sold securities, taking into account the potential impact of these changes on the overall portfolio.

Passive control strategy

- a passive investment strategy, unlike an active one, does not involve direct intervention in the operation of the portfolio;
- The emphasis in passive management is on diversification by allocating funds among different asset classes (stocks, bonds, commodities, etc.);
- passive investors typically monitor market trends but do not actively trade. Instead, they take a long-term approach, relying on stable market developments and gradual growth in portfolio value.

Monitoring: the basis of effective management

Monitoring is the cornerstone of both active and passive management. It represents a continuous detailed analysis of the stock market, its development trends, sectors and individual securities.

The purpose of monitoring is to identify securities that have investment properties corresponding to a given type of portfolio.

As part of the monitoring, fundamental indicators of companies are analyzed, such as financial strength, profitability and growth prospects, as well as technical characteristics of securities, such as trading volumes, price charts and indicators of market sentiment.

Information Support

Effective portfolio management largely depends on the quality of information support. Active managers rely on a wide range of information sources, including company financial reports, industry surveys, expert analyst opinions, and market transaction data. Passive indices also require careful monitoring to ensure they are representative and reflect market realities.

The choice of the type and composition of the portfolio depends on a number of factors, including:

1. Individual risk profile - level of tolerance to potential losses
2. Financial goals - determining the investment horizon and investment goals
3. Market conditions - analysis of the current economic and investment climate
4. Available capital - the amount of financial resources available for investment

Effective portfolio management involves constant monitoring and rebalancing. Investors can manage their portfolios themselves or use the services of professional asset managers.

Portfolio formation is a complex task that requires careful analysis, an individual approach and constant monitoring. The principles and factors discussed can help investors create a portfolio that suits their financial goals, risk tolerance and market conditions. An optimal portfolio must be in constant development, adapting to a changing economic and market environment. To create a better investment portfolio, you should have a good understanding of the types of risks and why they occur.

Investment risk – this is an opportunity to deviate from the expected return and not only not receive income, but also lose part of the invested funds.

The existence of risk and uncertainty is an integral part of business activity and serves as a driving force for the financial system. The modern economy in a market environment

functions in such a way that the state of financial activity, the behavior of market entities and the market environment change regularly. A weak and unstable national economy means an increase in the uncertainty of the financial situation, and, accordingly, an increase in risk as an indicator characterizing unforeseen circumstances.

In most cases, investment risk is a source of loss. To avoid loss, the investor must have full information about any possible risks that may have a negative impact on the investor's financial position.

Risk is a financial category that describes the possibility of an event occurring that could result in one of three different economic outcomes: negative, zero or positive.

Among the main investment risks are:

Economic risks: are related to the general state of the economy in which investments are made. They include:

- changes in central bank interest rates;
- changes in inflation rates and exchange rates;
- economic crises such as recessions or depressions;
- geopolitical events such as wars or trade conflicts.

Technological risks: arise due to the introduction of new or developing technologies that may affect the investment project. These risks include:

- outdated technologies that can make an investment project uncompetitive;
- high cost of introducing new technologies;
- lack of necessary infrastructure for the introduction of new technologies;
- cybersecurity problems.

Political risks: are related to the political situation in the country in which the investment is made. They include:

- changes in government regulation that may negatively affect the investment project;
- political instability that could result in loss of assets or profits;
- corruption and lack of rule of law.

Legal risks: are associated with changes in the legislative and regulatory framework that may affect the investment project. These risks include:

- changes in tax laws that may increase the cost of investments;
- changes in environmental regulations that may result in additional costs;
- changes in labor laws that may increase labor costs.

Social risks: are associated with social changes and factors that may affect the investment project. These risks include:

- social conflicts such as strikes or protests;
- changes in population demographics that may affect demand for products or services;
- cultural differences that may lead to management or marketing problems.

Personal risks: related to human factors that may affect the investment project. These risks include:

- incompetence or dishonesty of managers;

- lack of motivation or qualifications among employees;
- problems with communication or interpersonal relationships.

To assess and manage investment risks, investors must take a comprehensive approach that considers all potential risks and develops appropriate mitigation strategies. This may include diversifying investments, carefully analyzing risks, and using hedging instruments such as insurance or futures contracts.

Understanding and managing investment risk is critical to successful investing. Investors who ignore or underestimate risks expose themselves to increased risk of loss.

Thus, the key goal of portfolio investment is to allocate capital in a country and in securities that provide maximum profit with an acceptable level of risk. More than 90% of foreign portfolio investment occurs between developed economies and exhibits growth rates significantly higher than direct investment.

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