Nature of Investment Mgt

- Cash has an investment opportunity when you decide to invest it you are deprived of this opportunity to earn a return on that cash.
- When the general price level rises the purchasing power of cash declines- larger the increase in inflation, the greater the depletion in the buying power of cash.
- Some investors buy government securities or deposit their money in bank accounts that are adequately secured.
- In contrast, some others prefer to buy, hold and sell equity shares even when they know that they get exposed to risk.

- Risk is the probability that the actual return on an investment will be different from its expected return.
- Using this definition of risk, you may classify various investments into risk categories.
- Government securities would be seen as risk free investments because the probability of actual return diverging from expected return is zero.

Scope Of Investment Management

- **Identification of Investors' Requirements:-** Investors differ from each other in terms of objectives , preferences and constraints. The foundation of investment management is thus, collection of data relating to investors' requirements. The analysis of this data gives an idea about the assets and securities to be selected.

- **Formulation of Investment Policy and Strategy:-** The policy will lay down the different asset classes of investment viz shares, debentures, bonds etc. and the proportion of funds to be invested in each class. After formulating the investment policy, the next stage is to prepare the investment strategy. Investment strategy will be formulated for income and capital appreciation and for a level of risk tolerance. The investment strategy will have to be correlated with the expectation of the capital market and the individual sectors of industry. On the basis of investment policies, strategy and investors' expectations of the market, a particular combination of investments is selected.

- **Execution of strategy:-** Next strategy is the implementation and execution of investment process. This process requires a lot of research, analysis and judgment. The portfolio thus, constructed may relate to the needs of a given level of income, liquidity, safety, high yielding growth stocks etc. The success of the portfolio would depend upon the initiative, innovation and judgment of the person constructing the portfolio.

- **Monitoring of Portfolio:-** The performance of the portfolio is evaluated and adjustments are made in the portfolio composition from time to time. Thus is called monitoring and risk structuring of the portfolios. This process is an adjustment of the components of the portfolio to improve the performance to make it optimal and efficient. The changes in investors conditions, market conditions and in industry performance are taken into account in the portfolio adjustments.

The Investment Management Process

- **Set Investment policy:-** Investment policy provides the raw material for the Investment management. In this stage various investment assets are identified and their features are connected. The goal of investment policy is to decide which stock to be held in an investment portfolio. The formulation of investment policy requires
  - Determination of amount invested.
  - Determination of investment objectives.
  - Identification of potential investment assets.
  - Consideration of attributes of various investment assets.
  - Allocation of investible funds to various investment categories.

- **Conduct security analysis:-**Its objective is to determine future risk and return in holding various blends of individual securities. It helps in generating efficient portfolio. To determine efficient portfolio expected return level is chosen and assets are substituted until portfolio combination with a smallest variance at that return level is found.