



EXPERTS ON MONEY

Financial investment

In the search for answers to questions of whether to step into the world of financial investment at all; in what way; to what extent and which assets to invest in, the theory of financial investment has a sure footing as well as the recommendations derived from the theoretical knowledge of doc. Ing. Vladimír Mlynarovič, CSc., a long-term lecturer at the Department of Operational Research and Economics at the Economics University in Bratislava.

The author's aim is not simply to analyse a specific capital market. His ambition is also to offer instruments that may be used for analyses of specific capital markets, or their sectors. The author is convinced that the integration of these formalised approaches for supporting decision making with the expertise of specific investors can positively influence the quality of their decision making process. It enables the effective realisation of "what if" analyses, in the framework of which the potential investor examines the possible effects of their decision in the case of possible alternative assumptions as regards the environment. Thus in a certain sense they build their confidence in the instrument used and gain arguments for adopting the final decision.

Each investor moves and decides in their own time space; therefore he/she must have at their disposal an understanding of such concepts as current and future value so as to generate on a working basis their own time values. The financial investment industry may be the most competitive industry. In it there exist no opportunities for long-term arbitrage, no effects without costs, and, what the rational investor is interested in, net effects, and thus the concept of net present value. The success of an investor in investing is measured by the yield; the investor must be equipped with a methodology of how to measure the various yields in different fields. The risk and thus the possibility that the actual yield will differ from that expected is the other side of the investment coin. The level of diversification is a starting point in the search for answers to questions as to how to at least partially eliminate this risk. In investing in risky assets the investor always takes on some risk. Different investors are however willing to bear different levels of risk, which is what is described by the concept of classifying investors on a scale as being risk-averse through to risk-seeking.

The reader can learn more of the issue from Mlynarovič's latest book: *FINANČNÉ INVESTOVANIE* (Financial Investment), Bratislava, IURA EDITION, 2001, 293 pgs. In it the author presents and illustrates the results of the now classic modern portfolio theory together with the

capital asset pricing model. There is shown the analytical availability sets of efficient portfolios in the individual type tasks for portfolio selection, which is the starting point for examining the role of portfolio selection as tasks of multi-criteria decision-making. The book confronts theoretical recommendations regarding the selection of an optimal portfolio, with the famous recommendations of financial advisors. Working models of portfolio selection are examined, enabling the investor to make a compromise between the expected yield and the risk accepted. The book also covers approaches transformed into Excel VBA procedures, automatically performing tasks defined in the framework of working models for portfolio selection.

It is shown that the past 15 to 20 years have seen a certain revolution in the way which financial economists see and understand the world of finance and the world of investment opportunities. The results of the new generation of empirical research are summarised in the new modern portfolio theory, which is analysed and illustrated in a later part of the book.

Analysis of the financial markets

A market may be segmented from various aspects. Usually it is segmented into the market for goods and services, the market for factors of production (land, labour, capital), the financial market, the information market (patents, licences, etc.), the ideology market (books, newspapers, art exhibitions etc.)

The financial market lies at the top of the other markets. In contrast to other markets, it is however universal, because its sources and resources are universally usable in all fields.

In developed market economies the financial market reflects the prosperity or otherwise of the economic development of businesses, sectors and industries as well as national economies as a whole; it is a sensitive barometer of international economic as well as international political processes. Its significance grows continually. In the current conditions of the internationalisation of economic life and imbalanced economic development the inflow of foreign capital enables the utilisation of the natural wealth and resources of workforces, facilitates access to cheap and unused factors of production, which in the end leads to the growth of efficient production.

The author, who has for many years specialised in the field of securities at the Department of Business Finance of the Faculty of Business Management at the Economics



University in Bratislava – doc. Ing. Božena Hrvová, CSc. offers expert analysis of the topic, in the publication: *ANALÝZA FINANČNÝCH TRHOV*, Bratislava, SPRINT 2001, 373 pgs. Her aim is to provide information to prospective financial managers on the issue of financial markets, their segments, instruments, prices and institutions, which are intermediaries in fulfilling the main roles of a financial manager – gaining financial resources for financing regular operating needs, financial investment, security against financial risks, and possible speculation

with the aim of achieving a profit from the financial operations.

In other years there has been a huge boom in innovation in the field of financial instruments. At present more than half of all trades in organised world markets are executed by means of financial instruments that did not exist prior to 1973. The author offers a practical guide for orientation in these essential instruments for utilising money.

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