Answer on Question #50665, Management, Other

No Investment Decisions are made without calculating risk." Do you agree? As an Investment Manager of a firm, discuss the various steps involved in the investment decision making process.

Explanation:

In order to properly answer the question it is necessary to understand the essence of the investment decision as a whole.

Investment decision is the result of a balanced assessment of all the information about the object of investments, opportunities and risks that come with it, and this is a compromise, and a single solution to all participants of investment activity.

It should be understood that the key factor in the decision regarding of financial resources is competent risk assessment of the possible use or non-use of the resource. Therefore, the first determination step and we can conclude respond affirmatively that all investment decisions based on the risk assessment.

Investment decisions are an integral part of the financial policy of any dynamic business entity whose management is aimed at the welfare of the company in the long term. The number of people involved in making investment decisions, is very wide. The more information that is required to make a decision, the more people involved in this process. Investment decisions, thus is a complete solution, requiring collaboration of many people with different skills and views on investment. Gathering of the information, discussion and consensus are indispensable steps of making any investment decisions.

The process of making investment decisions includes the following basic rules:

- Investing money in the production or securities makes sense only when we can get a net profit higher than that from keeping money in the bank;
- Investing makes sense only when the return on investment is greater than the rate of inflation;
- Investing makes sense only in the most cost-effective projects with discounting.

Investment planning should be guided by the principle that every investment decision should enhance enterprise value.

The key points for decision-making on investments are:

- Prospects for increasing demand for an enterprise of goods or services;
- The desire of the company to develop and expand their own business through the development of productive activities or the development of new activities;
- Desire to strengthen its market position and increase the competitiveness of goods through the introduction and commissioning of new production lines, equipment, etc., thus reducing production costs.

Each new investment decision should be made on the basis of calculations, namely comparing future expenses with a possible return on investment in the future.

As we can see, the results of investment decision making are closely related to their degree of riskiness. Therefore, it is very important risk analysis. The main investment risks are:

- The possibility of a total loss of the investment;
- Partial loss of capital;
- Non-payment of expected income on funds invested;
- Depreciation of the investment;
- Delays in the payments of interest on the invested capital.

The risk of the investment project is a possibility of adverse situations for the project participants. The role of risk analysis in the analysis of projects is to determine the probability characteristics of performance and feasibility of the project and finding ways to reduce the impact of unfavorable conditions in the project. World experience shows that it is often high risks do not stop investors, if they are considered in the development of the project and the project is quite effective.

Investment risk can be controlled using a variety of methods to predict the risk event and reduce potential losses. Effective risk management is largely dependent on its proper quantification consisting primarily determine the degree of risk. The degree of risk is the probability of its occurrence, as well as the amount of possible damage from it. Risk can be described quantitatively the expected value of the maximum income or loss. The greater range with equal probability of its receiving will provide the higher the risk.

In addition, the degree of risk depends on an indefinite of the economic situation, this mean from the political and economic situation and prospects for change in these conditions. Risk the higher when the situation the more an indefinite. Risk is defined mathematically expressed likelihoods of loss or profit that relies on statistical data and can be calculated with a high degree of accuracy.

The information used in decision-making, regardless of its source is affected by random factors and therefore should be treated as stochastic. The plurality of possible outcomes can be expected with a certain degree of reliability - all this leads to the fact that the economic result varies widely. In a quantitative risk assessment takes into account the possibility of simultaneous occurrence of both favorable and unfavorable outcomes, defined by objective or subjective methods.

Strategic planning is most relevant part of the investment decisions, as to ensure the harmonization of long-term objectives of the company and the use of resources. Manpower businesses also play an important role in the relationship between investment decisions and other stakeholders of the company.

The risk will be reduced significantly in any planning by providing a more accurate and comprehensive account of the relationship and the influence of the functional areas.

The process of making a capital investment decision includes the following stages:

- Identification of the situations suitable for investment;
- Formulation, the primary analysis and selection of investment proposals;
- Evaluation, analysis and investment decisions;
- Implementation and realization;
- Monitoring of the implementation process of investment and its control.

The main influence on investment decisions has capital structure. For example, if the company plans to issue additional securities to increase the authorized capital. In this case, the investment decision affects the authorized capital, but rather to say its size. Investment decision to increase the capital stock depends on the retained earnings of the organization.

An investment decision by investment in fixed assets is directly dependent on the company's long-term commitment, preparation and formation of current assets is dependent on short-term liabilities.

In order to make a positive investment decision, the object of investment must satisfy the following requirements:

- A high degree of profitability;
- Low risk;
- Short-term return on investment.

So, we note that a necessary component of a positive investment decision is a low risk.

The purpose of risk analysis is to provide potential investors with project data required for making a decision on whether to participate in it and to identify measures to protect against possible financial losses. Risk analysis usually starts with a qualitative analysis, the purpose of which is to determine risks, which are carried out as follows: identify all possible risks that characterize the investment project, description of the risks, classification and grouping risks and analysis of assumptions.

Risks inherent in investment projects can be classified on the basis of their appearance on the stage or another of the investment project. In accordance with this, we can highlight the risks of the investment phase of the project, which may arise as a result of under-funding of projects to increase the cost of capital, the timing of the project, the technical infeasibility of the project; risks of the production phase of the marketing; and complex risks, which include managerial, administrative, financial, regional, legal and other types of risks.

In most developed countries, investment policy put at the forefront of all decisions made at the macro level: the volume of investment is considered as the most important criterion for sustainable development of the national economy, and the dynamics of investments as an indicator of the state of effective aggregate demand as a factor to affect the volume of national production, employment and consumption.