Specific Concept for the Financial Instruments Portfolios

Professor Gabriela Victoria ANGHELACHE, Ph.D.
Academy of Economic Studies Bucharest
Professor Radu Titus MARINESCU, Ph.D
„Artifex” University of Bucharest
Lecturer Mădălina Gabriela ANGHEL, Ph.D.
„Artifex” University of Bucharest

Abstract
Starting with the second half of the previous century the financial markets became a basic component of the word economic system. To notice the fact that, during the mentioned period, the value and the complexity of the transactions involving financial instruments kept on increasing, the financial investment becoming an independent activity. This appeal is generated to a large extent by the value of the gains which may be achieved on the capital market.

Key words: the risk of the legislation changes; the optimal risk of the investment; the business risk; the liquidity risk; the credit risk.

The evaluation of the transactions with financial instruments implies a thorough analysis of the existing connection between the potential gains and the relating risk to a capital investment. Thus, both the theoretical works and the empirical activity are stressing out the maximization of the profit function under the conditions of minimizing the risks related to the analyzed transactions.

Any potential investor intending to act on the capital market must be informed on the fact that its activity is subjects to risks, synthetized as follows:

- The risk of legislation changes which is specific to the states on their way to transition and which refers to the changes on the normative regulations, mainly as far as the financial market is concerned;
- The optimal risk of the investment (specific risk) occurring in the moment the investment is actually done;
- The business risk arising because of the types of the financial instruments existing on the market as well as a consequence of their unfavorable development.
- The liquidity risk implies the impossibility to transform, promptly and without damages, the financial instruments in cash.
- The credit risk (typical for the bonds market) occurs whenever the obligation of buying back or of paying the interest at the forecasted maturities cannot be observed any more.

Minimizing the risks specific to the financial instruments transactions can be achieved through the portfolio investments.

The portfolio concept is a complex one so that, over the time, specialists in the domain, both from the country and from abroad, paid their best efforts in order to identify the elements meant to define this notion.

Therefore, by the concept of financial instruments portfolio it is to be understood “a combination of financial instruments held by an individual or a company with the purpose to multiply the invested capital under the conditions of minimizing the risk by means of diversification”.

„The portfolio represents a combination of financial assets held by an individual or institutional investor with the purpose to diminish the risk through diversification”. The management of the portfolios consists of the setting up “certain groups of assets so that the evolution of their prices on the market secures the achievement of the profitableness targets, respectively the limitations in terms of risk generated by the assets allocation”.

The financial instruments portfolio is representing their combination carried out depending on the investor’s behavior as against the risk as well as on the capital he is decided to invest during a certain period of time. The construction of a financial instruments portfolio is aiming to diversify the investments being made with the final outcome the diminishing of the total risk relating to these ones. Thus, in the case of a mixed portfolio, built up of shares and bonds – in the event that the prices of the held shares are recording decreases – the resulting loss may be partially or totally by the gain achieved from cashing the interest for the bonds making part of the portfolio.

Depending on the variety of the component financial instruments, the portfolios are classified by the following types:

1. Shares portfolios are granting ownership rights on the issuer. At their turn, these shares portfolios can be structured in connection with the investment target: specialized portfolios e (aiming the investment in specific economic entities; growth portfolios (the investment are going to the
commercial companies which are recording a steady and continuous increase, at a higher level as comparatively with the market average; *income portfolios* (in which case the investment is going to the commercial companies recording a high yield of the dividends, this situation being met merely in the finance-banking sector); *portfolios of aggressive increase* (having as target the maximum increase of the capital); “*shadow portfolios*” (which are trying a true modeling of a stock exchange index in order to get yields similar to the one given by the evolution of the stock exchange index).

2. **Bonds portfolios** have as essential feature the fact that their structure is including bonds only being achieved as follows: *government bonds portfolio* (bonds issued by the state and local public administrations); *portfolios of bonds issued by companies* from the public or private sector; *mix portfolios* (bonds issued by the state or by commercial companies).

3. **The mix portfolios** are composed, in different proportions, by at least two of the mentioned financial instruments. Their purpose is to diminish the investment risks and to secure a high level of profitableness.

For most of the cases, the financial instruments portfolios are combinations which include reisk-free instruments (state equities and public bonds) and instruments of high level of risk (onds issued by companies, shares). Lately, it is recomanded that the financial instruments portfolios include also derivative instruments which are considered as a way to diversify the investment.

*The issuers’ country of origin* presents a criterion for grouping the portfolios as follows:

1. **National portfolios** formed by financial instruments issued and transacted in the national currency on the national financial markets;

2. **International portfolios** formed by international financial instruments, such as euro-bonds or foreign bonds.

*The ratio between the risk and the profitableness* taken into consideration by the investor is generating a new classification as follows:

1. **Prudent portfolios** aiming to set up the optimum ratio between the profitableness and the risk at a threshold accepted by the investor;

2. **Non-risky portfolios** (of maximum security) protecting the invested capital through guaranteeing the certain profitableness (the incomes are reduced in the conditions of a low risk);
3. **Classical portfolios** aiming to turn to good account the invested capital, over the average recorded on the market under the conditions of a certain level of risk;

4. **Growth portfolios** are typical for the investors who are placing the capital in financial instruments of high chances of gain but under the conditions of a high level of risk;

5. **Speculative portfolios** producing rapid gains for the investor over a short or medium period of time, under the conditions of a high risk.

The portfolios structure according to the model adopted for their administration shows the following typology:

1. **Individual portfolios** which are administrated by individual investors, who are taking by themselves the decision to buy or to sell various types of financial instruments;

2. **Collective portfolios** which are acquired by the investors in form of fund units, being administrated by management companies;

3. **Mandate portfolios** – managed by the specialists of the domain, while the investors are paying a commission.

The entire theory of the portfolio is meant to create the necessary framework for identifying an optimum portfolio, namely a combination of financial assets meant „to offer the best possible profitableness for a certain level of the risk or to submit the lowest possible of the potential risk for a certain rate of profitableness”.

The concept of optimum portfolio has been used for the first time by Harry Markowitz, in the year 1959. He showed the fact it was possible that different portfolios bear different associated levels of risks and profits. Under the circumstances, any investor must decide the maximum level of the risk which he is willing to undertake, however taking into account the value of the estimated profit for the analyzed investment. Depending on the previously adopted decision, the investor may chose the optimum solution as to the diversification of his portfolio assets.

Depending on the previously adopted decision, the investor may chose the optimum solution for the diversification of his portfolio of financial equities.

**Bibliography**