American Journal of Political Science and Leadership Studies, Vol.1, No.8 (Dec, 2024),
E-ISSN: 2997-9420
SemantJournals
American Journal of Political Science and Leadership Studies
https://semantjournals.org/index.php/AJPSLS

| Research Article

Check for updates

The Content and Steps of the Investment Process

Nozimov Eldor Anvarovich
Assistant of the Samarkand Institute of Economy and Service

Abstract: investment involves money, the purpose of investing is to generate a return, investing in tangible assets like property, an investment decision-making process helps you, depending on your needs and risk tolerance, it is important to change your fund, investment process involves the right asset allocation, diversification has the statistical effect.

Keywords: Investment, money, benefits, time period, finance, profit, loss, periodic income, dividend, currency, risk, holders, exchange, stocks, bonds, real estate, cash, account, loan, equity, investors, debit, credit, investment goals, investment returns, investment decision, short-term financial goals, passive investments, risk tolerance, cash flows, market movements, portfolio, market volatility, account holder's home currency.

Investment is defined as the "commitment of resources to achieve later benefits". If an investment involves money, then it can be defined as a "commitment of money to receive more money later". From a broader viewpoint, an investment can be defined as "to tailor the pattern of expenditure and receipt of resources to optimise the desirable patterns of these flows". When expenditures and receipts are defined in terms of money, then the net monetary receipt in a time period is termed cash flow, while money received in a series of several time periods is termed cash flow stream.

In finance, the purpose of investing is to generate a return on the invested asset. The return may consist of a capital gain (profit) or loss, realised if the investment is sold, unrealised capital appreciation (or depreciation) if yet unsold. It may also consist of periodic income such as dividents, interest, or rental income. The return may also include currency gains or losses due to changes in foreign currency exchange rates

Investors generallyexpecthigher returns from riskier investments. When a low-risk investment is made, the return is also generally low. Similarly, high risk comes with a chance of high losses. Investors, particularly novices, are often advised to diversify their portfolio. Diversification has the statistical effect of reducing overall risk.An investor may bear a risk of loss of some or all of their capital invested. Investment differs from arbitrage, in which profit is generated without investing capital or bearing risk.Savings bear the (normally remote) risk that the financial provider may default. Foreign currency savings also bear foreign exchange risk: if the currency of a savings account differs from the account holder's home currency, then there is the risk that the exchange rate between the two currencies will move unfavourably so that the value of the savings account decreases, measured in the account holder's home currency.Even investing in tangible assets like property has its risk. And similar to most risks, property buyers can seek to mitigate any potential risk by taking out mortgage and by borrowing at a lower loan to security ratio.In contrast with savings, investments tend to carry more risk, in the form of both a wider variety of risk factors and a greater level of uncertainty.

In modern economies, traditional investment include:

- ✓ Stocks
- ✓ Bonds
- ✓ Cash
- ✓ Real estate

Alternative investment include:

- ✓ Privite equity in businesses that are not publicly traded on a Stock exchange, often involving venture capital funds, angel investors, or equity crowdfunding
- ✓ Other loans, including mortgages
- ✓ Commodities, such as precious metals like gold, agricultural products like potatoes, and energy deliveries like natural gas
- ✓ Collectables, including art, coins, vintage cars, postage stamps, and wine
- ✓ Carbon offsets and credits
- ✓ Digital entities like cryptocurrency and non-fungible tokens
- ✓ Hedge funds that use sophisticated techniques like:
- ✓ Derivatives, the value of which is determined by a contract and is derived by calculation from the performance of some other sort of underlying investment; these include forwards, futures, options, swaps, collateralized debt obligations, credit default swaps, and Tax Receivable Agreements
- ✓ Leveraged investing, which is the investment of borrowed money
- ✓ Short selling, which typically uses leverage and derivatives to bet that the value of a stock will decline

The investment management process is an essential part of financial planning. It provides an effective investment strategy to meet short and long-term financial goals on time. The goals may include retirement planning, wealth creation, buying a dream house, etc.

An investment decision-making process helps you decide how much to invest in equity, bonds, real estate, gold, etc. It provides a customised strategy for asset allocation, diversification, risk and portfolio management.

For an effective investment process, you must assess:

- ✓ Your investment goals
- ✓ The degree of risk tolerance
- ✓ Diversification of portfolio
- ✓ Choosing the right assets

- ✓ Investment returns
- ✓ Tax provisions

Evaluation of investment goals Evaluation of investment goals is the first crucial step of the investment process. The purpose of your investment can be wealth creation, income generation or safety. Also, your goals may vary according to age and income.

Usually, young people invest with the aim of accumulating wealth and have a risky appetite. But income generation and retirement planning are the purposes of investment when you reach midlife and later midlife. So, chalking out your investment goals help you hit the right investment asset to generate adequate returns.

- ➢ Evaluation of the present financial situation

You cannot implement an effective investment decision process without disciplined savings. So, after evaluating your long and short-term financial goals, it is necessary to know about your current financial situation. It helps you decide how much to save according to the time horizon of your investment goal. So, before picking an asset, assess your monthly expenses, assets, liabilities, risk-taking ability, etc.

- ➢ Asset allocation

After an analysis of goals and financial situation, the next step is asset allocation. You can choose between equity, bonds, money market instruments, gold, real estate, etc according to your risk appetite and needs.

Diversification of assets is also an essential step to minimise risks. Asset allocation usually depends on your present financial condition. But you can change it according to your risk appetite and needs which might change with income and age. Also, ensure to include liquid and fixed income assets in your portfolio. This helps to meet your urgent financial needs and long-term goals.

Depending on your needs and risk tolerance, you can choose between the following portfolios:

- ✓ Aggressive: The portfolio consists of riskier assets that generate apt returns.
- ✓ Defensive: The portfolio has assets that are less sensitive to market movements.
- ✓ Income: Income Portfolio helps provide regular profit distributions and dividends for the investor.
- ✓ Hybrid: The portfolio has several assets including equity, bonds, real estate, etc.
- ✓ Choose the right investment strategy

An appropriate investment strategy is another crucial step for better and stable returns. The strategies of investment are as follows:

- ✓ Short term: A short-term investment strategy offers returns in a short duration. It may include short-term bonds, cash funds, money market instruments, etc.
- ✓ Long term: This strategy includes investments in stocks, mutual funds, real estate, gold, etc. Long-term investments generate returns over many years and usually offer lesser risk and more returns. While investing in long-term assets remember that the capital is locked in for a longer duration.
- ✓ Active: An active investment strategy involves the active participation of the investor in fund management.

- ✓ Passive: Passive investment strategy doesn't need day-to-day involvement. It allows the investor to sit back while their investment generates returns.
- ✓ Track and manage your portfolio

After following the above investment process steps, it is time to track and manage your portfolio. This step involves reviewing the performance of assets at regular intervals. It ensures that your investments are in line with your financial goals and needs. Apart from this, it is important to change your fund allocation according to performance, market volatility and risk tolerance. You must know when to sell and buy specific assets to generate more returns or avoid losses.

An effective investment process involves the right asset allocation, diversification and timely decisions. You must know when to buy and sell the asset to take advantage of the market opportunities. An investment process thus helps you build and manage your portfolio that is in line with your goals and risk tolerance.

The investment process involves several standard steps that help individuals or institutions make informed decisions about allocating capital and managing investments. The popular concept of the "7 steps of the investment process" has evolved over time to address the complexities of modern financial markets. It draws from decades of research and experience in investment management.

We should remember, that any business process is highly customizable. It can be tailored to particular investors, and various financial goals and opportunities. These steps may be applicable to varying degrees to processes organized by private investors, funds or companies of various sizes.

Step 1 – Setting investment goals

The first step is to define clear investment objectives.

This could include general goals such as achieving a certain level of wealth. Establishing these goals is crucial both for individuals and for companies because they determine the time horizon, risk tolerance, and return expectations.

Setting investment goals includes the following:

Defining corporate objectives: In this initial stage, large corporations and institutions set clear investment objectives that align with their strategic goals. These objectives revolve around capital allocation for business expansion, innovation, mergers and acquisitions, or optimizing financial performance of the company and its projects.

Determining investment horizon: Companies establish their investment time horizon based on the nature of their projects. Whether it's a short-term capital injection for a product launch or a long-term investment in research and development, the time frame is critical.

Quantifying financial targets: Precise financial targets are assigned to each investment goal. Large companies use these targets to formulate comprehensive financial plans, which detail the amount of capital required and the expected returns on investment.

Step 2 – Risk assessment

After setting investment goals, it's essential to assess the risk tolerance. This involves evaluating your willingness and ability to take on risk. Factors such as financial situation of the company, and market trends play a role in determining your risk tolerance.

High-quality risk assessment helps guide asset allocation decisions:

- ➢ Evaluating risk tolerance: Large corporations assess their risk tolerance in a corporate context. This involves gauging their willingness and capacity to withstand some financial fluctuations and market uncertainties. It's a critical aspect of strategic planning.

- Business life stage: The stage of a company's lifecycle plays a role in determining risk tolerance. Start-ups may embrace higher risk for rapid growth, while mature corporations may adopt a more conservative approach to protect assets and shareholder value.

Step 3 – Asset allocation

Asset allocation involves determining how to distribute capital among different asset classes, such as stocks, bonds, real estate, and so on.

The allocation should align with your investment goals and risk tolerance. Typically, higher-risk assets like stocks are favored for long-term goals, while lower-risk assets like bonds are chosen for short-term objectives.

There are two elements to an asset allocation strategy in the context of the investment process:

- Strategic diversification: Large companies strategically allocate their resources among various investment categories, including research and development, capital expenditures, market expansion, and cash reserves. Diversification is a key to balance risk and reward.
- Balancing growth and stability: Asset allocation for corporations considers the trade-off between growth and stability. High-growth investments may involve product development or market expansion, while stable investments could include maintaining cash reserves for operational needs.

Step 4 – Security selection

Once the company have decided on asset allocation, the next step is to choose specific investments within each asset class.

For example, if you've allocated a portion of your portfolio to stocks, you'll need to select individual stocks or equity mutual funds. Research, analysis, and due diligence are crucial in this step to identify investments that align with the company's goals and risk profile.

Security selection in the context of investment process includes the following:

- In-depth investment analysis: Large corporations conduct comprehensive due diligence when selecting investments. This may involve evaluating potential acquisitions, assessing the feasibility of new projects, or scrutinizing partnerships and joint ventures.
- Risk management strategies: Corporations comprehensively assess risks associated with each investment. Factors such as market volatility, regulatory compliance, and operational risks are meticulously considered to safeguard corporate assets.

Step 5 – Portfolio construction

After selecting specific securities or funds, company builds a diversified investment portfolio.

Diversification helps spread risk by investing in different assets or securities to reduce the impact of poor performance in any one investment. Portfolio construction aims to achieve a balance between risk and return based on previous asset allocation decisions.

Portfolio construction principles for large companies:

- Strategic capital allocation: Large businesses construct portfolios by allocating capital to various projects or initiatives. These projects may encompass infrastructure development, technology upgrades, or diversifying into new markets or industries.
- Optimizing risk exposure: Portfolio construction involves strategically managing overall corporate risk. Understanding how different projects or investments interact with each other helps corporations optimize risk exposure across their portfolio.

Step 6 – Monitoring and rebalancing

Once the portfolio is established, it requires ongoing monitoring.

This involves regularly reviewing the performance of specific investments to ensure they remain aligned with your goals and risk tolerance. If market movements cause your portfolio to deviate from your target asset allocation, company may need to rebalance it by buying or selling assets to bring it back in line.

Monitoring and rebalancing principles are listed above:

- Continuous oversight: Companies maintain constant vigilance over the performance of their investments. This involves regular reviews and financial reports, project milestones, and market conditions to ensure alignment with corporate objectives.
- Strategic adjustments: If market fluctuations or changing business conditions cause a deviation from the strategic plan, corporations are prepared to make strategic adjustments. This may include reallocating resources, divesting from underperforming projects, or pursuing new business opportunities.

Step 7 – Review and adjustments

Periodically, investors should conduct a comprehensive review of their investment strategy. This step includes assessing whether your investment goals have changed, whether your risk tolerance has evolved, and whether the overall investment strategy needs adjustments. Adjustments could involve changing asset allocation or revisiting security selection.

Preferences:

1. Chandler, Simon. "A growth stock is a company expected to rise faster than the overall market, offering bigger gains for investors who don't mind risk". Business Insider.
2. Chan, Louis K.C.; Lakonishok, Josef ."Value and Growth Investing: Review and Update". Financial Analysts Journal.
3. Avnimelech, Gil; Teubal, "Creating venture capital industries that co-evolve with high tech: Insights from an extended industry life cycle perspective of the Israeli experience". Research Policy.
4. Anvarovich, N. E. (2023). Agricultural Insurance and it's Development Today. *Central Asian Journal of Innovations on Tourism Management and Finance*, *4*(4), 17-22.
5. Eldor, N., & Asal, N. (2024). THE ROLE OF INVESTMENTS IN INNOVATIVE DEVELOPMENT. *EUROPEAN JOURNAL OF INNOVATION IN NONFORMAL EDUCATION*, *4*(3), 479-482.
6. Anvarovich, N. E. (2024). THE DEVELOPMENT OF ELECTRONIC COMMERCE IN THE USA. *Web of Semantics: Journal of Interdisciplinary Science*, *2*(5), 227-229.
7. Anvarovich, N. E. (2024). Property Taxes in the System of Taxes and Fees. *Gospodarka i Innowacje.*, *46*, 302-307.
8. Anvarovich, N. E. (2024). Investments in the Development of the National Economy of the Republic of Uzbekistan. *Web of Semantics: Journal of Interdisciplinary Science*, *2*(4), 198-204.
9. Anvarovich, N. E. (2024). POSSIBILITIES OF USING DIGITAL TECHNOLOGIES IN THE BANKING SYSTEM OF UZBEKISTAN. *Gospodarka i Innowacje.*, *53*, 189-193.
10. "Momentum Investing". The Balance.

11. *Murphy, Casey. "The Ups and Downs of Biotechnology". Investopedia.*
12. *ltd, Research and Markets. "AI-based Drug Discovery Market: Focus on Deep Learning and Machine Learning, 2020-2030".*
13. Anvarovich, N. E. (2024). THE ROLE OF INTERNATIONAL FINANCIAL INSTITUTIONS IN THE FINANCING AND FINANCING OF INVESTMENT ACTIVITIES. *Web of Semantics: Journal of Interdisciplinary Science*, *2*(3), 201-204.
14. Anvarovich, N. E., & Nuriddinovna, B. P. (2024). Credit Policy of Commercial Banks in Uzbekistan: Its Formation and Implementation. *Web of Semantics: Journal of Interdisciplinary Science*, *2*(4), 205-209.
15. Anvarovich, N. E., & Shuxrat o'g'li, F. B. (2024). The Role and Influence of International Financial Institutions in the Development of the Financial Market. *Web of Semantics: Journal of Interdisciplinary Science*, *2*(4), 221-228.
16. Anvarovich, N. E., & Parizoda, M. (2024). THE ESSENCE AND FUNCTIONS OF THE CENTRAL BANK REPUBLIC OF UZBEKISTAN. *Web of Semantics: Journal of Interdisciplinary Science*, *2*(5), 230-233.
17. Robert H. Hillman, "Limited Liability in Historical Perspective", Benedikt Koehler, "Islamic Finance as a Progenitor of Venture Capital" *"The 1929 Stock Market Crash"*.