Management of Investment Risks

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Abstract –Investment activity is oriented towards the future and is associated with a significant uncertainty in the economic situation. It is especially important for investors to identify, analyze and evaluate the possible impact of investment risks on investment activities in a timely manner. Effective investment risk management is a dynamic feedback process, in which decisions made require periodic review and analysis.

Key words: market economy, investment risks, effective management.

I. Introduction

In a market economy, risk is a key element of entrepreneurship. Investment activity is always associated with the emergence of a certain type of risk and is caused by a significant investment cycle duration. Investing is associated with large investments, so their ineffective use may negatively affect the financial results of the investor's activity.

II. Main Results

Investment activity is always focused on the future and is associated with a significant uncertainty in the economic situation [4]. Therefore, it is especially important for investors to timely determine, analyze and evaluate the possible impact of investment risks on investment activities. Investor comes primarily from the understanding of security when investing and only then – from the calculation of future profits. Ukraine has a significant industrial, agricultural, trade, scientific, tourist, and scientific and technical potential and has a high level of investment attractiveness.

Investment risks are the possibility of shortfall of planned profit in the course of realization of investment projects. The object of risk in this case is the property interests of the person – the investor who invests in the project in one form or another.

Investment risks can be classified according to several classification criteria:

1. Depending on the causes of the occurrence:
- specific investment risks;
- non-specific investment risks.
- 2. Depending on the investment object:
- risks of real investment;
- risks of financial investment.

The essence of investing consists in investing own or borrowed capital in certain types of assets, which should ensure future profits. Investments can be long-term and short-term.

Investor can expect a number of problems when investing, namely [3, p. 59]:

1. Incorrect identification of risk and degree of its influence on the investment activity result.

2. Accounting the incomplete number of factors that influence the change in the risk level.

3. Incorrect assessment of the risk level for specific financial assets or the formation of a "non-optimal" investment portfolio.

4. Incomplete and false assessment of risk sources.

5. Lack of funds from the investor to form an optimal investment portfolio or management of risks that arose during the investment activity.

6. Technical issues: false registration of documents; problems with clearing in the trading system; inconsistency of the agreement terms; refusal to pay by the buyer of financial assets; incompetence of project management; refusal to supply securities by the seller; leakage of information; lack of authority from the intermediary or the person who concludes the agreement; errors in the registry; liquidity crisis in the bank or broker / dealer; errors during transfer of funds or transfer of securities, etc.

7. False estimation of the investment system associated with the underestimation of transaction costs, mistaken estimation of dividends, comparison with inefficient systems.

The process of investment risk management includes: anticipation of risks; definition of their probable size and consequences; development and implementation of measures to prevent or minimize risk-related losses.

It is very difficult to completely neutralize the investment risk, but it can be managed by pre-estimating, counting, describing and planning actions that can reduce the probability of occurrence of adverse events during the investment project implementation [1]. Such a activities complex is the content of the risk management process, which enables to assess the degree of negative consequences and reduce losses from their offensive. The process of managing investment risk allows either to completely avoid it, or to reduce the effects of its negative impact. If the internal risks of investment project can be offset and neutralized by improving the management process, then, as for external risks, it is only possible to minimize their negative consequences [2].

In general, the sequence of risk analysis is as follows:
- dentification of internal and external risk factors;
- analysis of their potential investment threat;
- estimation of possible financial losses;
- determine the sustainability of the project to the identified risks;
- establishing the criterion of the permissible level of risk;
- development of anti-risk investment management technology;
- planning of measures to reduce the risk;
- monitoring the behavior of risk factors during the investment;
- making decisions on the neutralization of risk factors in the presence of a real threat to investment;
- changes in investment plans to reduce or counteract the threat of a project;
- planning effective (with minimal losses) forced exit from the project.

An investor can reduce the risk by complex actions, but it is difficult to completely eliminate it. In general, the

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choice of an investment project is a compromise between the attempt to profit and the common sense of the investor (the level of risk and its assessment).

Identification of investment risks should be carried out in the following sequence:

- awareness of the need to identify investment risks;
- collection of information from the external and internal environment in terms of the need to identify investment risks;
- processing received information with further identification of factors that may affect the emergence of investment risks;
- assessment and analysis of the received information on the sources and causes of potential investment risks within the identified factors of influence;
- analysis and selection of investment risk assessment methods with a view to their more precise identification;
- coordination of the obtained results with the tasks set in the context of identifying investment risks.

In developing measures to minimize investment risks, first of all, it is necessary to determine in which of the three risk zones the identified risk is:

1. risk-free zone: the risk is insignificant, there is practically no financial loss, the guaranteed receipt of financial products in the amount of the expected amount of profit from the investment activity;

2. zone of permissible risk: average risk level, possible financial losses in the amount of the estimated amount of profit from the investment activity;

3. zone of critical risk: high risk, possible financial losses in volumes exceeding the expected estimated amount of profit from investment activity.

The most effective methods for minimizing the risks of investment projects are diversification, limitation, insurance, hedging of securities, preparation and certification of employees.

Diversification determines the process of capital allocation between different investment objects that are not directly related to each other. Diversification avoids part of the risk of distributing capital among diverse activities.

Diversification is the most justifiable and relatively less costly way to reduce the degree of investment risk. Diversification can be considered as scattering of investment risk. However, it can not reduce the investment risk to zero.

External factors relate to the entire financial market, that is, they affect the financial activity of all investment institutions, banks, financial companies, and not individual entrepreneurs.

The limitation involves setting a limit, that is, the marginal costs amounts, sales, loan to reduce the size of the loss. `For such activities and business operations that can constantly go beyond the limits of permissible risk, this risk is limited by establishing appropriate economic and financial standards.

The most important and widespread use of risk reduction is risk insurance, since the most serious risks are insured by external insurance. The essence of insurance is expressed in the fact that the investor is ready to give up a part of his income in order to avoid the risk, that is, he is ready to pay for the reduction of the risk to a minimum.

Hedging is a method of reducing the risk of transferring risks to a particular category of participants in the financial market in order to ensure the independence of the company's cash flows from non-core business risks.

Preparation and certification of specialists involves the training of highly skilled specialists in various fields of economy that would possess not only economic and mathematical methods of economic analysis, but also expert risk assessment systems, able to synthesize all available information, and also use system analysis methods. This method takes into account the human factor that provides the ability to manage redistribution and reduce investment risks.

That is why effective management of investment risks is a dynamic feedback process, in which decisions made require periodic review and analysis. Investor must periodically monitor new problems, because in the process of investing and changing the information contour, the problems also change, which leads to the adoption of entirely other management decisions.

Conclusion

Therefore, the widespread use of various forms of prevention and insurance of investment risks makes it possible to significantly reduce the size of possible economic losses in an unstable economy and frequent changes in market conditions. The risk is difficult to neutralize completely, but it can be managed. It is necessary to evaluate, calculate, describe, plan measures in advance, which should reduce the probability of unwanted events during the implementation of the investment project. Such a complex of measures is the content of risk management. It allows you to prepare for unwanted events and reduce losses from them. It is impossible to completely protect against risk.

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