STOCKS AS AN INVESTMENT OPTION FOR THE INVESTMENT FUNDS

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Abstract: Financial innovations bring for the investors the new choices of investment but at the same time make the investment process and investment decisions more complicated, because even if the investors have a wide range of alternatives to invest they can't forgot the key rule in investments: invest only in what you really understand. Thus the investor must understand how investment funds differ from
each other and only then to choose those which best match his/her expectations. The most important characteristics of investment funds on which bases the overall variety of investment vehicles can be assorted are the return on investment and the risk which is defined as the uncertainty about the actual return that will be earned on an investment. Each type of investment funds could be characterized by certain level of profitability and risk because of the specifics of these financial investments.

Stocks are one of the favourite investments for the investment funds because of their effectieveness,but also because of they are higly liquid on average, bring income through dividends,offer diversification through sectors and every fund manager can find reasonably priced stocks with the required effort.

Investment funds choose stocks because they are a very attractive investment that offers a lot of oportunities for the funds.The basic opportunity is that they are very flexible investment that offers ownership in the companies that the funds invests in.

This gives the fund the oportunity to take participation in the annual shareholders meeting,but also to take board seats.It means that the fund can send representatives that can in turn affect the way the company manages its assets.A lot of companies are open to receive capital from the investment funds because as an investment vehicle they have a lot of liquidity to offer.

Every investment fund is centered on the needs of the investors and tries to combine their individual opinions into one grand strategy.Usualy investment funds allow bigger investors to choose their investments and provide for them special portfolio options.This means that investors gain opportunity to have their own investment portfolio,which they can track for themselves and compare to the market index.

Stocks are a big part of the investment portfolio of every investment fund.They sometimes respresent more than a half of the overall investments of the investment funds.The reason for this lays in their relative simplicity and the lots of ways the investor can profit from this securities.

Keywords: stocks, investments, funds, assets, liquidity

1. EQUITY FUNDS FOCUSED ON MULTIPLE INVESTMENTS

Equity funds are investment funds that invest primarily in stocks.This funds are focused on building up investment portfolios that are comprised of a lot of stocks.The funds are diversifying among a lot of sectors that usually produce greater flexibility for the fund,because they manage the risk of the individual sectors.

From various perspectives, equity funds are perfect venture vehicles for speculators that are not also versed in budgetary contributing or don't have a lot of capital with which to contribute. Value reserves are down to earth speculations for a great many people.

The properties that make equity funds most reasonable for little individual financial investors are the decrease of hazard coming about because of a reserve's portfolio expansion and the moderately little measure of capital required to obtain offers from the funds. A lot of investment capital would be required for an individual investor to accomplish a comparable level of success compared to an investment fund. By pooling investor's capital the fund is able to take big positions in a lot of companies.

The cost of the value support depends on the fund's net resource esteem (NAV) less its liabilities. A progressively enhanced store implies that there is more positive impact of an individual stock's unfriendly value development on the general portfolio and on the offer cost of the value finance.

Equity funds are overseen by experienced proficient portfolio supervisors, and their past execution involves open record. Straightforwardness and revealing necessities for value reserves are intensely directed by the central government.

Another incredible component of equity funds is the sheer number of assets accessible. In the common store field overall, value reserves are the most famous kind of shared assets, and starting at 2016, there were in excess of 9,500 common finances accessible in the market.

Regardless of whether it's a specific market area (innovation, monetary, pharmaceutical), a particular stock trade, (for example, the New York Stock Exchange or Nasdaq), outside or residential markets, salary or development stocks, high or generally safe, or a particular premium gathering there are value assets of each sort and trademark accessible to coordinate each hazard profile and venture target that financial specialists may have.

Some equity funds are likewise partitioned into those seeking after dividends or capital appreciation or both. Equity funds look for stocks that will pay profits, as a rule putting resources into blue-chip organizations. Other investment funds principally look for capital appreciation, or the target that the stocks in the portfolio will go up.Another incredible component of equity funds is that the number of assets is bigger than in the hedge funds. Currently the market value of the investment fund industry is measured in trillions of dollars.

Equity funds are open to investors and their capital with their investment strategies that a lot of times outperform their peers.It is important to remember that equity funds are not only judged on their performans based on the index,but also on their performans compared to their competition.That is the reason why only a handful of funds manage to attract far more capital than their peers.

Equity funds are an important investment alternative for the inexperienced investor,because they are managed by experts and get more specific results than the ordinary investor,because they have the best investment strategies.They know how to manage the risk and how to increase the profit based on that risk.

This makes the equity funds far more attractive than individual investments and this is the reason why a lot of investors prefer to invest in an equity fund rather than invest their assets in individual investments.

2. STOCKS AS A SOLID INVESTMENT

Stocks are one of the most successful investments in history.They have outperformed every single assets class in the last 100 years.By choosing stocks investment funds try to get the best possible results,because they can profit from the dividends that stocks pay or the increase of the stock prices.

There are a lot of other possibilities for profit for the stock investors especially when we consider the possibilities of arbitrage during mergers,stock splits etc…We can see a lot of changes in the stock markets in the last decade because of the growing automation.The markets are more focused on speed and efficiency and there are a lot of new brokerages that focus on providing the fastest and the most efficient service they can for the investors.

The investment funds on the other side also have this type of technology and they use it to purchase and sell stocks and other investments quickly and without a loss caused by time lapse.Before we could see that the funds lost on average 1% of their possible gain by time lapse.In the realm of high liquidity stocks we can see a lot of changes in a couple of moments.This is caused by the huge investment volume they produce and the interest of the general public to invest in these stocks.

The stocks are a brilliant investment because of the following reasons:they produce a lot of chances to earn,they increase the liquidity in a portfolio and they have a variety of options to trade.

From the past we have seen tremendous changes in the stock markets and we can say that a lot of them were positive.The stock markets rose a lot of consecutive years and they had tremendously positive effects for the investors.There is a huge gap between stocks and other financial assets in terms of earnings and long-term stability.

As with any other investment there are a lot of risks that the investor must take into account.For an example the risk of timing the market can be a huge shift towards losing money because the funds on average are not very good at timing the market.

The active funds that are constantly shifting from investment to investments generally lose more money than the passive funds also known as index funds.

The famous professor,author and investor Ben Graham has a very beautiful quote about investing money at the stock market: „Investors should purchase stocks like they purchase groceries,not like they purchase parfume'.This quote helps us to understand that in investing money we must pay attention to the correct price and stray away from „popular investments'' that the stock market gurus promote in the media.

This advice is followed by a lot of investment funds,because they understand that paying attention to detail and having certain criteria for choosing stocks is the correct way to get into the market.Stocks can be very beneficial to every investor because they offer a lot of options for earning.But there are also a lot of risks to consider because the financial markets are a dangerous place for investors with undefined investment strategies.

Stocks are generally the first investment that comes to mind for almost everyone.The reasons for this are multiple: stocks are accessible for the ordinary investors,more predictable than sophisticated derivative investments and they are easily purchased and sold.
The costs of getting into the stock market are getting lower and lower.

The investors are aware of the qualities of the stock market and it is one of the reasons of the large trading volume in the stock market.The markets are changed through the years but the rational basis of buying

stocks is the same.They offer a wealth of possibilities for the investors and they remain the favourite assets for a lot of investors across the globe.

3. INVESMENT FUNDS AS VEHICLES FOR DIVERSIFICATION

Investment funds are vehicles that invest in a lot of companies to achieve diversification.They are structured in a way that disables the possibility of concentrating large part of the investment funds on a particular investment.

They are generally structured to protect the assets of their clients and provide reasonable opportunity to profit from their investments.The investment fund industry is divided into many sub-sectors but the main sector the investors are pooling their money is the mutual fund industry.The funds are mainly divided into stock funds or equity funds and bond funds or fixed income funds.

The funds are structured to diversify their investments as one of their main goals.Because they work with investors that are more or less risk-averse,they have more humble and less risky strategies than the hedge funds industry.Equity funds mainly work with low net worth and middle net worth individuals,while hedge funds work with high net worth investors.

Both types of funds use stocks as an important part of their portfolios because there are a lot of opportunities in stocks that are absent in a lot of other assets.

Stocks are widely used as a an asset that brings value to the funds through the increases of the price,but there are also investment funds that focus on the dividends as the main value of the stock.

The investment powerhouse Fidelity Investment has a fund that is focused mostly on dividend stocks.The main difference between the various types of funds is in the domain of diversification vs concentration.

Hedge funds can have a far more concetrated portfolio than mutual funds.This is because of their investment philosophy.While hedge funds work with people that can contain the damage of their bad investments and proceed,the mutual funds work with people that cannot contain the damage of their bad investments and it could be disastrous to them.

That is the reason the mutual fonds usually diversify and the hedge funds concentrate.

There is a beautiful quote by the investment legend Bill Gross of PIMCO and JANUS CAPITAL: ,,Do you really like a particular stock? Put 10% or so of your portfolio on it. Make the idea count. Good [investment] ideas should not be diversified away into meaningless oblivion.– Bill Gross"

His opinion is shared by a lot of investment legends like Carl Icahn,Daniel Loeb,Israel Englander etc...They all concetrate their portfolios on a handful of stocks and bonds with emphasis on their stock investments.

They are trying to profit from the price changes of the few stocks they have in their porftolios.They often focus on the various changes in the companies like mergers,acquisitions,stock splits etc...On the other side managers of mutual funds try to pick a lot more stocks and try to find rational balance between diversification and the possibility of earning from their investments.

They try to buy more ten stocks and try to balance them in a way that no single investment can have a detrimental influence of the portfolio as a whole.This balanced and rational approach helps them to mitigate the risk of particular sector of company.

On the contrary hedge funds are becoming more and more vulnerable to sectorial changes.We have seen the damage the healtchare sector imposed on the hedge funds investors because they relied on it's growth too heavily.That move made them lose 15% of their funds on average.

The problem with the concentration policies of the hedge fund is that they make the stock market look more dangerous to the individual and inexperienced investor than it is.When they try to time the market or concentrate their portfolio on just a few stocks,their losses may look extraordinary.

The mutual funds on the other side have less spectacular results,but far more balanced approach.They choose stocks with a more cautious approach and try to balance their influence in the financial markets.

The conclusions for this part of the paper should be:

Some of the investment funds are a great vehicle of diversification,while other are not,some of the funds choose to concentrate their investments and can expose the individual investor to a lot of losses.
Individual investors in funds must learn about the strategy of the fund they are investing in and
Individual investors must calculate the possible losses of each investment strategy.

4.THE STOCK MARKET INDEXES AS BENCHMARKS FOR INVESTMENT FUNDS

The market indexes serve as benchmarks for investment funds to measure their success.A lot of investment funds are focused on this benchmark although they have numerous other investments.For an example a hedge fund that invests in a wide array of assets still measures it's performans on the S&P 500. The

stock market indices are a great way to show the investment fund how it fares compared to the overall market,but also to measure how it fares compared to its competitors.

A lot of invesment funds try to outperform the market(especially hedge funds) with a lot of investments that are sometimes comprised with stocks,but a lof of times their strategies are focused on market derivatives such as options or futures.Mutual funds rarely purchase these derivatives and when they do,they focus on protecting their assets rather than trying to profit from the stock derivative.It is important to note that the stock market investments can ensure great opportunities for the cautious investors but they can impose losses on the investors that are taking the market loosely.

The most sophisticated investors in the market choose their stocks by using complex alghoritms and computer systems.These investors include David E.Shaw and James Simmons.Their firms employ a lot of the most intense intellectuals on Wall street and they try to profit from the tiniest changes in the stock prices.

They usually outperform the market by a huge margin,but sometimes even they lag the market indices.A lot of sophisticated investors are outperforming the markets in the periods of crisis when they are the only ones that have a positive result.Stock market expers are trying to mimic these trades,but they are tough to follow and require an analythical rigour and expertise.

Trying to outperform the market indices is a tricky task so a lot of investors are focusing more on keeping track with the market indices.In this category we can see the index funds that are designed to keep track with the market indices.They have low entry fees and are one of the most magnificient opportunities ordinary investors have.

If investment funds focus on outperforming the market they can incur losses for their clients,beucase they have to adapt their strategy on more risky investments and more concentrated portfolio of investments in order to achieve better performance than the market as a whole.For an example they have to choose the stocks that are going to gain more than the market as a group and avoid the stocks that are going to lose more than the average loss for the losing side of the market index.

In the conclusion we would like to note that the risks of trying to outperform the market are always high,because the strategies of the funds trying to achieve this are always very risky.

CONCLUSION

Stocks are one of the favourite assets classes for institutional investors because they have all of the ingredients for success.It is worth noting that the strategies that instutional investors use when choosing stocks vary and some of them are more risky than the others.

Some of the investment funds choose to concentrate their stocks and some of them choose to diversify.Mutual funds on average diversify futher than their hedge fund counterparts.The quest for concentration on a handful of stocks is based on the premise of outperforming the markets.

The market forces are making it difficult,because the investment funds that invest in stocks and try to outperform the market must choose carefully which is not always an easy task.

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There are a few problems with trying to outperform: It is a hard task,It is expensive,It is risky,
It is especially tough when the market is efficiently priced,It is tought to choose the correct stocks that will gain more than the market and for the losing side of the portfolio to choose the stocks that will loose less than the market as a whole and the risks of speculation are too big.

For the task of outperforming the indices the investors usually create a portfolio that is hedged between stocks they buy and stock they sell short.But although short selling is frowned upon it is a way to balance the market and lower the prices of the companies the experts consider weak and overvalued.In the financial markets it is important to have the ability to predict the future market movements,but for the professional investors it is far more important to stay disciplined and understand market gyrations.

Every investor,especially the professional ones must understand the stock market as a great way to increase their chances of earning money,but also to learn about the pitfalls of stocks and their risks.Sometimes even the most sophisticated investors make mistakes and it is completely normal because the markets are unpredictable and fluctuate all the time.

The financial markets are more and more inclined towards change because of the following factors: they are more open to any type of investor,they are a great way for any investor to earn money and they are governed by high technology which is very efficient.

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