INVESTMENT FUNDS AND EFFICENT ALLOCATION OF RESOURCES

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Abstract: Investment funds defined as a pool of investment capital that is collected from a lot of investors and then deployed on the markets are one of the largest financial allocators in every state. The fund structures vary but in fact the goal is always the same . It deploys the capital in the most efficient way and gives unsophisticated investors superior returns . Investment funds can allocate the capital more efficiently than ordinary investors because they have advantages in the most important fields of the investment community.
Investment funds have few advantages that generate their superior returns and help effectively capital allocation :

- They have smart professionals who are experts in managing funds
- They have cutting edge technology that helps them analyze assets quicly and exploit profits from tiny discrepancies in terms of value and price
-They have the advantage of economies of scale because they can get attractive capital rates and they only require a small number of employees to manage the funds, so in fact billions of dollars of liquid assets can be managed by a small number of professional investors

With this advantage they are able to get into big positions and concentrate their strategy on few assets they believe are undervalued and extract profits from them . Ordinary investors do not have this opportunity since they operate with little capital and they never take controlling position in a company . On the other side, investment funds do not tend to overdiversify so they know exactly how to achieve the right balance between the risk of losing money and the risk of ineffective capital allocation and mediocre returns . When we analyze the major and the leading investment funds in the world, we can see that their portofios are diversified enough to prevent the loss of money to idiosyncratic risk, but their positions are always managed efficiently. The best strategies of investment funds are not possible for average investors, so many unsophisticated investors find out that their money produces higher returns by giving their money to institutional investors, even after paying the fees. That is why the investment Fund industry today is the pillar of the financial system.

Keywords: investment, funds, experts, capital, allocation.

1. INVESTMENT STRATEGIES OF THE FUNDS

Investment funds have various approaches in their strategies. A number of them are focused on using a quantitative analysis that is sophisticated and helps them to make small changes in the prices of securities, resources or financial derivatives. They often use strategies that use long and short positions, that is, a profit setup on whether securities or other asset prices will rise or fall.

Certain funds use exceptionally long or extremely short positions. But most of these funds are used with two types of positions, and they use a number of sophisticated means to achieve higher returns. An important strategy is the use of a number of different assets or broader diversification.

Average investors use only securities and real estate. But investment funds use only liquid positions or they use securities, but they also add a number of positions in derivatives, resources, currencies, interest rate differences, and the like.

Therefore, they almost always have superior results in terms of average investors, as their investment knowledge is greater. A large number of funds use arbitrage, and particularly superior results are received by the funds that have improved the statistical arbitration, which allows them to profit even from the smallest differences. Often profits are realized in very short time periods up to a few minutes.

But the biggest advantage is actually the ability to take control positions in companies. Because of the capital available to the funds, they can take control positions in the companies, and thus achieve a superior profit due to the possibility of controlling the situation in the companies.

This strategy, which enables the possibility of extracting dividends from companies, which leads to a rise in the share price, enables the funds to have a superior return compared to the average investors. But it must be noted that investment funds are more often on the side of average investors . Namely, if the investment fund takes a position in a company that is significant and asks for an increase in dividends, small shareholders also benefit from this benefit.

But investment funds, because of the capital they manage, technical capabilities, the best analysts and investors have an invaluable advantage over average investors.

They are able with good analysis to find the best chances of investing and through a wide range of investments to enable superior return on capital by reducing the risk profile of the fund.

For average investors, the biggest risk is that they do not know how to manage capital effectively and effectively.

Due to the large volume of capital under management, the funds are aimed at finding tools for the most efficient and effective capital management in order to achieve superior revenues that would force average investors to buy a share in the fund in order to leave the investment of their funds to the professional investors.

Investment funds have access to the best financial options and therefore they are the best way to achieve efficient capital allocation .

Through their size and a branched strategy, they can find the best opportunities, while at the same time reducing idiosyncratic risk and protecting themselves according to systemic risk.

If we look at the performance of the largest investment funds of 2008, we can see that some of them have even achieved positive results, and most of them had a lower level of fall in the value of the falls that the average unscrupulous investors faced.

The reason for this is the excellent risk control by institutional investors and the application of the fiduciary responsibility system for the assets of their clients.

Investment funds are more focused on capital preservation and are able to recognize potential risks as opposed to more sophisticated investors, as they have good analysts and risk managers. Newcomer to the investment fund industry since the 1980s and deregulation of markets to today is the creation of various departments in investment funds, of which the department of risk management stands out as quite significant. This department is very important for saving capital in the largest fines a nuisance recession facing today's financial system.

Good financial analysts are decisive in the use of financial instruments in order to manage exposure to different types of risk, operational risk, credit risk, market risk, currency risk, risk volatility, liquidity risk, inflation risk, sector risk, and others .

One of the best strategies is to measure risk sources and create strategies for taking risk prevention measures while at the same time maximizing portfolio value. This is a great strategy because it enables funds by creating quantitative replication models the former movements to realize how the portfolio would be related to adding a little more risk.

Often the funds use econometric techniques to determine the aggregate risk in the investment portfolio.

There are several main strategies that use funds such as :

-Active and passive strategies that focus on whether funds are willing to accept larger transaction costs for higher risk and reward investments or use passive strategies that have a low turnover of the portfolio and low transaction costs

-Member trading where the strategy is focused on selecting investments based on their recent movements

- A long-term investment strategy that consists of buying stocks or equity holdings and holding in the long run, regardless of the financial cycles they pass through. On the other hand, this strategy also reduces the risk of bad timing, as markets average on average in the long run, regardless of volatility

-Strategy of long and short positions that is aimed at selecting a greater number of securities and ranking them through the combined alpha factor. According to the ranking, the upper percentile is used by a long position, and the lower percentile is used with a short position after each period of rebalancing

-Pair trading is a strategy used to identify similar pairs of shares and calculate a linear combination of their price so that the result is a stationary time series. Then a reversion trading technique is used where a short position is used for the asset that making the z-test is the top, and a long position is used for the means which by doing the same test is the bottom .

These strategies and many others endeavor to identify assets (mostly securities due to their liquidity) which consider they have the ability to go up in price or downward. These funds, unlike average investors, can also earn falls in the prices of securities value and other assets because they have the correct knowledge to use price differences and manage risk.

Investment funds are part of an efficient allocation of resources because they often arbitrate with their purchase of those securities which they consider to be underestimated and the acquisition of short positions in relation to those securities that they think are overstated. These are significant part of the ecosystem of the financial system and a significant part of the possibilities for dealing with the problems it faces. The financial system is its appeal maintained in constant efficiency by using these funds and by their efficient and effective allocation of funds received from average investors in order to exploit them best and achieve the best results of their use.

2. LOCATION OF FUNDS IN THE VARIOUS CYCLES OF THE ECONOMY

Perhaps the biggest reason for the superior results of investment funds is their constant investment. Most of the investment funds constantly hold investment conferences and presentations and raise capital from interested investors.

They continue to invest even during the crisis periods, when the average investor retreats. Therefore, in times of crisis, they have the most efficient capital allocation because they buy assets far below their intrinsic value.

Through cyclical changes, we often see investment funds through the impeccable timing of entry and exit from positions, where the most long-term positions are usually for several years, and some of them are speculative assets with a possibility of growth several times over the investment, but with good risk management these funds do not exceed a certain limit of the total number of assets.

When bad cycles appear, these funds focus on the purchase of assets of intrinsic value, most often using the accumulated reserves they acquire in the expansion and growth cycles.

With good quantitative analysis, many of these funds acquire opportunities to make cyclical changes, thus keeping certain assets up to the extent that the price correction threatens, after which the funds that they acquire from their sale of un-sophisticated investors use them to acquire of assets with high intrinsic value in periods of recession.

An example of this activity is the crisis of 2008 and the previous period. A number of financial institutions had great leverage over the assets they bought as derivatives of mortgage bonds. A large number of investment funds bought shares from these institutions after the crisis of 2001 and caused by the terrorist attacks, as well as in 2000 and the fall in the prices of technological actions. Most of the large investment funds divested these shares at the end of 2006 and the beginning of 2007 when the shares of these financial Key institutions reached record levels.

Later, the funds were pre-invested during the crisis of 2008 and generated historical profits. By this we can see that one of the biggest advantages of investment funds and effective capital allocation is good timing. These funds are set to profit from the different cycles that emerge in the economy.

But one should not overlook the risk of bad timing, which sometimes happens to the best funds. But, on the average, the largest and best Wall Street funds have only 1-2 years of losses, and over 30 -40 years of successful operation. Therefore, these funds today manage hundreds of billions of dollars in various economic periods combined.

We have an example of the Bridgewater Associates Fund that manages over $ 100 billion and represents the world's largest hedge fund that uses strategies for short and long positions, as well as a strategy known as risky parity, a novelty of this fund since its founding and a recognizable strategy that is based on a quantitative parity between the funds it manages, which achieves a risk balance and good risk management. This fund has been successfully working for more than 30 years.

If we look at the operations of other funds, we can notice that the long-term prospects of these funds are excellent. For this to be considered and understood, it is necessary to make models that show how these funds relate to the long term in relation to a particular benchmark. In America it is the S & P 500. What each fund should do is to have better long-term resultsa movement of the S & P 500 mm.

In order to achieve this, these funds often buy not only securities, but also other assets, but at the same time they invest in securities on multiple markets, make purchases on larger packages of securities from different companies, trade with currencies and derivatives and the like. The working model of these funds is based on giving better results than using an active strategy from a passive investment strategy in the S & P 500 Index Long-Term Fund.

The funds therefore use a strategy of allocating funds that is often targeted at momentum trading, trying to obtain a return on assets that is more attractive than the yield of the S & P 500 Index Fund.

CONCLUSION

Investment funds have large funds that effectively and effectively allocate them in the markets. With their knowledge and the large number of experts at their disposal, they represent an interesting investment, since the acquisition of a share in the fund gives the management funds to some of the best investors of today

The advantages of the investment funds we have listed above and we can conclude that they are an important part of the financial system ecosystem. Investment funds range from funds that hedge positions, to private equity funds, index funds, and other types of funds.

The largest alternative investment company in the world is Blackrock, which has several trillion dollars of capital. The recognition of this company is that it well allocates funds and successfully earns a return on investor funds .

The best data is that it does with excellent risk control and minimal risk. Also one of the best fund managers in the world, Vengard does so by allocating funds in the top 500 companies in the United States known as Standard & Poor's Fund.

All strategies used by the funds are superior to the individual strategies of average investors because investment funds have a number of advantages :
- Qualified staff
-Technological possibilities
-More available capital
-The possibility of wider diversification
-Able to acquire major positions in companies, etc. ...

It should also be noted that they have brokers in their ranks, which reduces the costs of financial intermediation that average investors face. It is therefore better for average investors to entrust the assets of professional investors in order to gain an investment advantage and generate a return that is far above inflation in a tax-efficient way, by reducing the risk and using resources well and effectively allocating them .

It is important to realize that investment funds offer many opportunities and different strategies for the different needs of their clients. It is important for investors to choose a strategy that is good for them and to leave the work of professional investors.

Efficient allocation of resources by investment funds not only receives their investors, but also the economy at the macro level.

Investment funds are important for the financial system to operate smoothly and to be completely liquid, and its solvency must never be questioned. Each country must therefore ensure that it attracts considerable capital from investment funds because they help the economy to work well at the macro level and, most importantly, to be long-term viable and attractive to investors.

These funds are important for the efficiency of the economy because they also use strategies that correct the prices of securities and other assets that they consider to be overstated.These actions, reflecting professional asset management and other more sophisticated participants, get a chance to see where best to allocate their funds.

By doing this, they do not only receive an active role in managing the funds under management, but also a consultative role. Examples of these funds are from a variety of subsectors of the fund industry, such as :
- Private equity funds
-Hedge funds
-Jonal funds
- Index funds
- ETFs
- Funds for risky investments
-Funds for joint venture in real estate

All these types of funds help in efficient allocation of resources because they combine high levels of capitalization and professional knowledge resulting from the numerous experts they employ and the good strategies for attracting capital by investors who later put them in funds for various investments that they prepare and use with various strategies.

LITERATURE

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