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FEATURES OF THE FORMATION AND MANAGEMENT OF THE INVESTMENT PORTFOLIO OF COMMERCIAL BANKS

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Abstract: For a stable and sustainable functioning of the bank, both in the short and long term, the formation of the investment strategy of a commercial bank requires a certain method of solving practical issues created in modern competitive and market conditions. A commercial bank from the position of investment activity carries out its activities with a high share of risk in the financial markets. The article highlights the main goals and principles of investment portfolio management. To assess the bank's portfolio, a methodological plan has been drawn up and criteria for the effectiveness of the bank's investment portfolio have been defined.

Keywords: investment activity of banks, commercial bank, investment portfolio, investment portfolio management, investment attractiveness

Introduction

Over the past ten years, Uzbekistan has seen quantitative and qualitative growth in the investment market. One of the main places among investment funds is occupied by mutual funds that accumulate fixed capital and the potential for the development of collective investments. High volatility in the securities market shows that it is not enough just to buy a block of shares to get a good income and reduce the risk of investment, you need to properly manage your investment portfolio. However, there are restrictions in Uzbek legislation that do not allow investment funds to fully use non-core assets. Despite these restrictions, when the market fell by 60-70%, aggressive investment mutual funds limited losses on portfolios to 30-40%.

An investment portfolio is a certain set of assets formed to achieve set goals for the Manager. Correctly set investment goals are a very important step on the way to creating a portfolio. Increasing profits is the main goal of investment management, and as for creating a portfolio, the goal is to find suitable investment tools and their proportions.

In general, banks and any investor spend their funds that they want to invest on real or portfolio investments, i.e. securities (Fig.1):

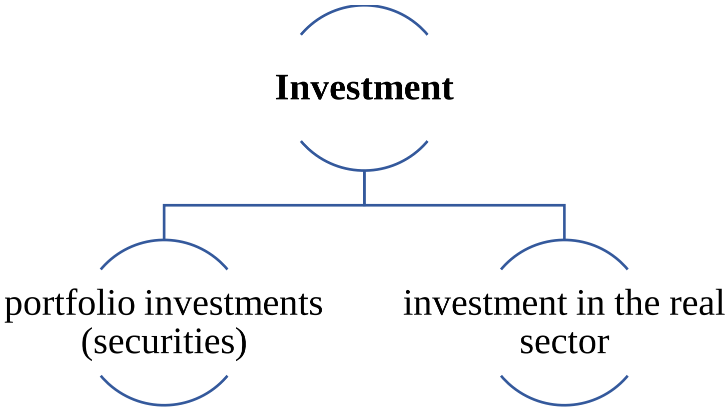

Figure 1. Investment directions

The choice of investment portfolio depends not only on external factors but also on the preferences and capabilities of the investor. The investor's goals are the basis of his entire investment policy. Based on the tasks set, the portfolio structure and management strategy are forming. If we formulate the General goals of investors, we can say that the main goal is to increase the cost of fixed capital, get a stable income above the average market yield.

When creating a portfolio of investments, it is necessary to use such a method of risk reduction as diversification. Since there are a large number of multidirectional trends in the market, asset diversification will help you get income even in times of crisis.

Literature review on the topic

Scientific research aimed at revealing the features of investment activity of banks, as well as theoretical and practical aspects of regulation and management of investment banks has been carried out by foreign scientists, such as J. Rosenbaum, D. Anand, J. Sinkey, W. Sharp, R. Kolb, J. Van Horn, R. Brayley, S. Myers, S. Geffer, H. Davis.

Among the scientists from the Commonwealth of Independent States, T. Adekenov, B. Rubtsov, K. Kochmola, Y. Mirkin, and A. Ramazanov contributed to the study of the problems of organization and improvement of investment banking management.

Problems of organization of investment activity of commercial banks in our country are studied in scientific works of N. Zhumaev, N. Karimov, I. Butikov, D. Rasulev, O. Iminov, U. Burkhanov and others.

Research methodology

Analysis and synthesis, scientific abstraction deduction, classification, generalization, comparative, theoretical interpretation, and analytical methods were used in the methodology of this article, as a result of the bibliographic study, the direct and indirect factors affecting them and the prospects for further development were identified.

Analysis and results

Each investor tries to fulfill three tasks: to get a high profit, to invest their funds with a minimum level of risk, to acquire highly liquid assets in order to be able to cash out the invested money quickly and with minimal losses.

Portfolio profitability is measured by comparing the increase in the value of the portfolio in the current period with the reference period. It is also common to consider changes in profitability by tracking the dynamics of changes in the value of the portfolio from the moment of its formation or over certain time intervals.

Liquidity can be characterized by several indicators (absolute and relative characteristics), or by a single aggregate indicator. Liquidity is a very important component when choosing objects for investment.

The reliability of investments is directly related to the level of risk. Usually, reliability means getting a low, but stable income with a small level of risk. Assets with high reliability are usually long-term government bonds or bonds of large companies and bank deposits.

When forming a long-term investment portfolio, you need to take into account two main principles: the principle of asset diversification across various sectors of the economy and the principle of changing the price of the portfolio over time.

The main goal when forming an investment portfolio is to achieve the most optimal combination of risk and income.

If we consider the classical (low-risk) model of portfolio formation, then the main principles of its construction will be as below (Fig.2).

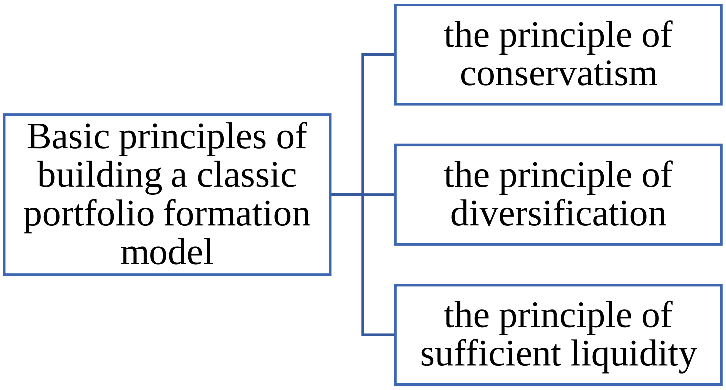

Figure 2. Basic principles of building a classic portfolio formation model

The principle of conservatism. This approach reflects the fact that the ratio between high-risk and high-risk shares should be maintained at such a level that possible losses from the share of a portfolio with high-risk assets are overwhelmingly covered by income from reliable assets. Investment risk, therefore, does not consist in the loss of part of the principal amount, but a decrease in the level of income.

The principle of diversification. Investment diversification is the main principle of portfolio investment. The essence of this principle is to diversify investment objects as much as possible. The meaning of this trailer can be expressed by an old English saying:

"don’t put all your eggs in one basket." Only such restraint will avoid catastrophic damage in the event of an error.

The principle of sufficient liquidity. The essence of this trailer is to maintain the share of highly liquid assets in the portfolio at least a certain level, sufficient to conduct unexpected urgent high-yield transactions and meet the needs of customers in cash. Practice shows that it is more profitable to keep a certain part of funds in more liquid (even less profitable) securities but to be able to quickly respond to changes in market conditions and individual profitable offers.

The emerging problem of quantitative correspondence between profit and risk should be solved promptly, taking into account the goals of investors and the structure of already formed investment portfolios.

To effectively reduce the risks of investors, it is necessary to diversify the investment portfolio not only by the number of investment objects used, but also by their quality. The first step in the process of portfolio diversification can be the selection of securities from various sectors of the economy. Moreover, it is desirable to select securities in those sectors of the economy whose industry indices show dynamic growth higher than the average for the economy, and at the same time, these industries should show good dynamics in terms of resistance to a decline in industry indices. Also, in the process of portfolio diversification, it is worth remembering that you should not invest more than 10% of your available funds in one asset.

It is also worth remembering that the process of analyzing the financial market and selecting potentially suitable securities for investment should not stop even if all available funds are already invested. The investor needs to monitor the state of the market, conduct technical and fundamental analysis to identify potentially interesting securities for investment, as well as to track the securities already in the portfolio. In this case, if necessary, the investor can replace securities that do not show the necessary dynamics with securities that are more suitable for the investors’ goals. This analysis process should be continuous, as markets are often characterized by unstable levels of volatility.

The main principle of portfolio management is the principle of gradual selection of securities in the investment portfolio. This principle means that you should not include securities in the portfolio at the same time. The introduction of securities to the portfolio should be carried out gradually, at those moments when the tracked stock indexes are in the desired trend for the investor, and the securities of interest are approaching their supports and begin to grow. The reason is simple – this behavior reduces the risk of free fluctuations in the stock price within the trend. Therefore, the purchase of securities at the time of drawing up the investment portfolio will be a mistake. To track the right time to purchase securities, a portfolio investor needs to use the methods of stock market analysis.

Another principle of portfolio management is the principle of combining multidirectional positions within the portfolio. Adding short positions to the portfolio helps the investor create an investment portfolio that can generate more balanced returns. Including short positions on certain securities in the portfolio at the time of their local highs makes it possible to generate profit even at times of market decline, when long positions do not show growth. It is worth noting that the opening of "shorts" can be made not only for the main securities, but also for derivatives. Following this principle is important at a time of instability in financial markets and high external risks.

As discussed above, investment portfolio management is a complex process of constant analysis and manipulation of securities, which does not end and is not interrupted during the entire existence of the investment portfolio. All these activities are aimed at fulfilling the main task of managing the securities portfolio, which is risk control.

A commercial bank can be considered as a financial and credit institution that specializes in investing in financial resources in assets. One of the types of banking assets is portfolio investment. In this case, the assessment of methods for diagnosing the bank's portfolio and reducing investment risks is of great importance. The main task of portfolio management is to maintain a balance between the profitability of the portfolio and its liquidity. Without effective management, it is almost impossible to create high-quality methods for evaluating the bank's portfolio in modern conditions. The ultimate goal of a successful and stable investment climate of a commercial bank is to obtain investment income from the portfolio.

The basic criteria for effective investment activity of a commercial bank are:

- banks must have experienced and professional specialists who are based on the compilation of a securities portfolio;

- banks get the maximum benefit when they manage to distribute their investments in various types of stock values, in other words, diversification of investments. In turn, it is important and appropriate to distinguish investments by types of securities, regional structure, and maturity dates, etc;

- portfolio investments should be highly liquid so that when certain situations arise, it is possible to quickly convert assets into financial assets, in which the bank could instantly return its invested funds.

In Uzbek practice, there is still no clear regulation of methods for calculating the bank portfolio, which allows us to give a comprehensive assessment of the state of the bank investment portfolio.

In the methodological part of the assessment of the state of the bank portfolio, the following methodological plan can be formulated:

1. Formulation of the analysis goals. Analysis of the investment portfolio of most banks has research on the achieved level.

The result of this analysis is the ability of specialists in the bank’s investment department to position their bank for certain securities transactions as an investment-oriented bank, as well as to assess how the investment activity of a commercial bank corresponds to the realities of portfolio investments of other banks. For the sake of correctness, we emphasize that the analysis system can be changed and supplemented based on the market situation in the field of portfolio investment of banks and the objective vision of bank employees for the development of investment activities. If specialists are faced with the choice of following the tactics of the leader bank, then it is worth studying in detail its investment activity in the portfolio structure of securities selection according to such criteria as portfolio selection, diversification structure, issuers, etc.

2. The beginning of modern assessment of portfolio investment is considered to be the American scientist G. Markowitz with the publication of his article "portfolio selection", which in 1952 expanded the boundaries of evaluation and analysis of the formation of a securities portfolio, as well as the principles of its regulation. In the early 60s of the twentieth century, W. Sharp proposed a one-factor model of the capital market, which formulated simplified methods for selecting a portfolio, in the future, the famous "alpha" and "beta" coefficients of securities characteristics. In it, W. Sharp converted a quadratic optimization problem to a linear one. Further development of this theory has developed into a new stage of capital Asset valuation associated with the CAPM model (Capital Asset Price Model). This portfolio model simplifies the vision of the entire market by presenting it as a smaller copy of the investment securities market.

Considering ways to maintain a balanced portfolio, where risk and return will interact with each other, we can identify a tool for optimizing the portfolio structure by sanitizing it, i.e., the least liquid assets should be removed from the asset pool, or at least those assets that do not worsen the overall condition of the portfolio. Note that this method is considered costly from the point of view of financial objectivity. An alternative to this methodology is the portfolio calculation structure, where analytical calculations will be applied directly to the securities portfolio.

3. Forming a quantitative and qualitative assessment is considered as a prerequisite for evaluating the bank’s portfolio. The transition from theory to practice-oriented portfolio valuation is the use of financial instruments, which should result in a fair portfolio price.

The most effective direction of measures to reduce investment risks in the Uzbek stock market, increase investment attractiveness and competitiveness of the national securities market is the actions of the largest public companies to disclose information about themselves, to convince investors of their reliability and ability to fulfill the obligations of the Issuer of equity and debt securities.

Conclusion

Investment activity of banks in the domestic stock market is still low. On the one hand, the imperfection of the securities market of the Republic of Uzbekistan, a high level of uncertainty, and significant state interference in its processes are constraining factors. On the other hand, working with securities complicates the problems of obtaining objective, reliable, up-to-date information and choosing the best tools for managing a portfolio of securities that meet the domestic specifics of banking with securities and the development of the stock market.

In conditions of stock market instability, a necessary condition for ensuring the effectiveness of banks investment in securities is to control the bank’s securities portfolio and optimize it, which will allow timely adoption of adaptive measures to minimize risk and possible losses in an unfavourable economic situation and deteriorating stock market conditions.

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