

Investment management argumentative essay



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Normally any person who earns some income out of any occupation has the following uses for his income: (a) to meet the current living expenses; (b) to provide for the personal requirements and other future expenses and, (c) some part of the income to be saved (Narach Investment). The saving is meant to meet any emergent expenditure or to revitalize the income by employing for some financial returns in future which amount to investing. Thus, 'investment' may be defined as the action to keep aside and employing money in different financial and other instruments.

Such deployment of funds will be done in the present with the objective of obtaining a positive return in the future. To describe briefly investment is a sacrifice being made in the present with the anticipation of a possible future gain. By extension of this definition 'investment management' may be identified as the art of administering the deployment of funds in the financial instruments in the present with an intention to gain a future benefit. A combination of the individual financial instruments in which the investments are contemplated to be made is known as a 'portfolio'. In this context this paper details the investment management process with emphasis on the portfolio management including the performance evaluation of the portfolios. The paper also provides an account of the contribution of the institutional investors to the theory of investment management and practice.

Portfolio Theory The Portfolio theory also called as 'modern portfolio theory' was introduced by Harry Marcowitz. The theory was conceptualized by him in the year 1952 and he published this theory in his paper published in the Journal of Finance (Marcowitz). Before Marcowitz advocated his theory the securities were assessed by the investors on the basis of the risks and

rewards associated with the individual securities while constructing their investment portfolios. A standard investment advise would identify those securities which have less risk and the best opportunities for larger returns and these securities were included in the construction of the individual portfolios.

Marcowitz opposed this principle of selecting the portfolios from securities that individually have attractive risk-reward characteristics. He proposed that the investors should consider the overall risk-reward character of the portfolios rather than selecting the securities which are individually attractive. In short the investors should select only portfolios and not the individual securities. When the single period returns for different securities are treated as random variable, expected values, standard deviations and correlation can be assigned to these securities. Using these variables the expected return and volatility of any portfolio can be calculated.

The risk and reward of the securities can be replaced by volatility and expected return and out of the entire portfolios available there may be some portfolios which will have an optimum risk and reward level. Marcowitz had formulated an 'efficient frontier' that comprises of the portfolios with optimal risk and reward. It is for the investor that he selects a portfolio that is lying in the efficient frontier. The interactions of systematic risk and reward can be understood by using the Portfolio theory. "It has profoundly shaped how institutional portfolios are managed, and motivated the use of passive investment management techniques".

(Risk Glossary. com) The mathematics of portfolio theory has found its extensive utility in studying financial risk management field and was a theoretical precursor for pursuing the observations and analysis of value-at-risk measures.