

Homework

Finance



WORK, FINANCE AND ACCOUNTING Insert Insert Benefits of company investment and trading securities Investment in securities by companies ensures that there is an availability of funds and store of excess temporary cash. This is because the companies through investment with other companies the company earns a return that leads to smooth running and management of the particular company (John, 2008). Securities in investment also ensure there is the separation of ownership of possession and management of assets. This results of easy transfer and widespread ownership, which leads to the distribution of wealth over investments and professional management those results to wider access to many sources of capital.

Investment in securities by companies leads to the creation of capital markets. This capital market results due to the widespread ownership, which leads to better allocation of resources thus improving the economic growth. Investment in securities such as fixed income securities ensures more of its financing is done through issuing of bonds. This results in an advantage of cash flows to the fixed income securities as the interest payments (John, 2008).

Another benefit of the securities in the investment of a company is that the securities are not limited to physical assets. It ensures the non-liquidity assets are pooled and shares in the diversified pool are then issued. This ensures that the complicated process of investment is simplified therefore making it easy and efficient.

Reasons for investment diversification

It reduces risk by maximizing returns due to invest in different categories that react in a different way to the same happening. This is because if a <https://assignbuster.com/homework-essay-samples-8/>

company has only a portfolio of railway, then all trains are involved in a strike then the railway company will experience great loss but if the company had a diversification of trains and buses only part of the portfolio would be affected (Chris, 2011). There is a possibility that the road stock prices would increase, as the passengers will turn to the buses as alternative means of transportation.

Diversification of different assets classes minimizes risk as they react opposite to adverse situations. Variation in asset divisions such as stocks and bonds, ensures that if there is a negative effect in one it will be counterbalanced by positive results in the other one (Chris, 2011).

References

- Chris, Veld. 2011. Portfolio Diversification Benefits of Investing in Stamps. London. University of Sterling.
- John, Greenwood. 2008. First Class Returns For Alternative Investment. London. Oxford University Press.