

ISSUES OF PORTFOLIO DIVERSIFICATION WHEN FORMING THE FINANCIAL INVESTMENT PORTFOLIO IN ENTERPRISES

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Diversification of the portfolio is important for investors to maximize their investment benefits and reduce risks. **By portfolio diversification**, we understand that investors simultaneously invest in various securities (shares, bonds, short-term assets, long-term assets) and other similar financial assets. Nevertheless, portfolio diversification is not aimed at increasing the expected income from them, but at reducing possible risks and dangers. In our research, we consider 4 main components of portfolio diversification.

Local shares:

This gives the opportunity to increase the expected income from the share in the long term, but on the other hand, it creates the possibility of an increase in the level of risk and a sharp decrease in income in the short term.

Bonds:

Unlike stocks, this security has a low interest rate, but the level of risk is very low, especially state-guaranteed Eurobonds are a clear example of this.

Short-term investments:

These include money market funds and short-term certificates of deposit. Money market funds are conservative investments that offer stability and easy cash flow, making them an ideal option for those looking to preserve principal. In return for this level of safety, money market funds typically offer lower returns than bond funds or individual bonds.

International Stocks:

If you're looking for high-risk, high-return stocks, you should look for corporations outside of America. On the contrary, if you want low-yielding but low-risk assets, then you need to buy stocks from European companies.

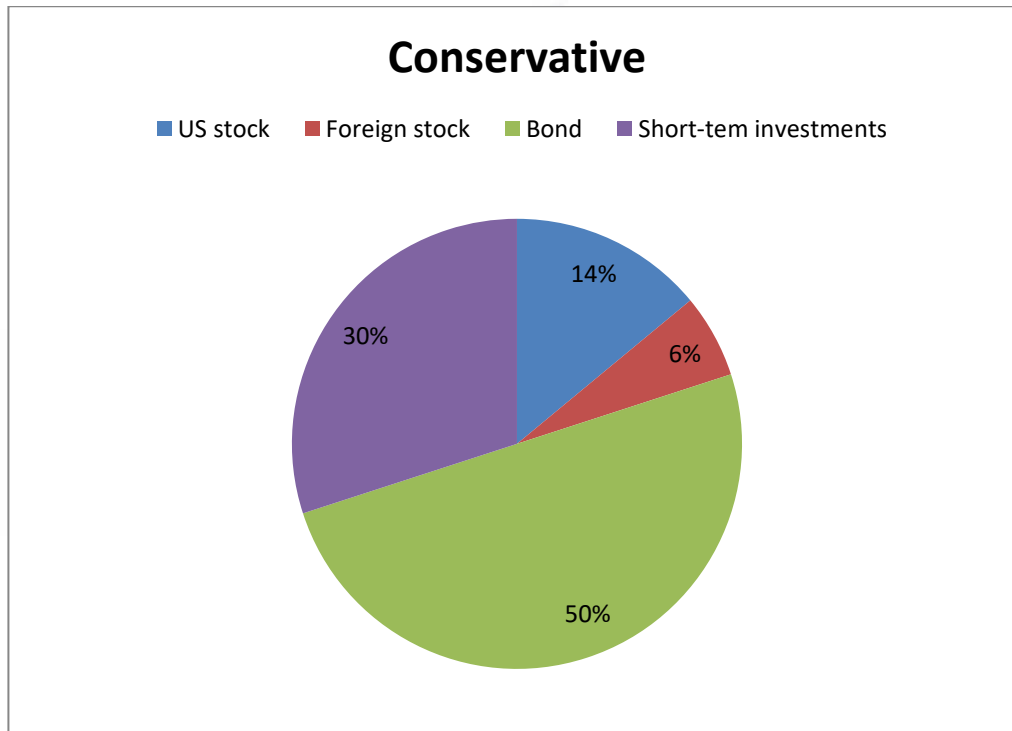


Figure 1: Conservative portfolio diversification

This is conservative portfolio diversification, where we can see that stocks are 14%, bonds are 50%, foreign stocks are 6%, and short-term investments are 30%. A typical portfolio investment consists of 50 percent of bonds because these assets have a very low risk level and provide investors with constant income. From this diagram, we can see that foreign investments with a high level of risk make up 6 percent. The model we will see next is balanced portfolio diversification.

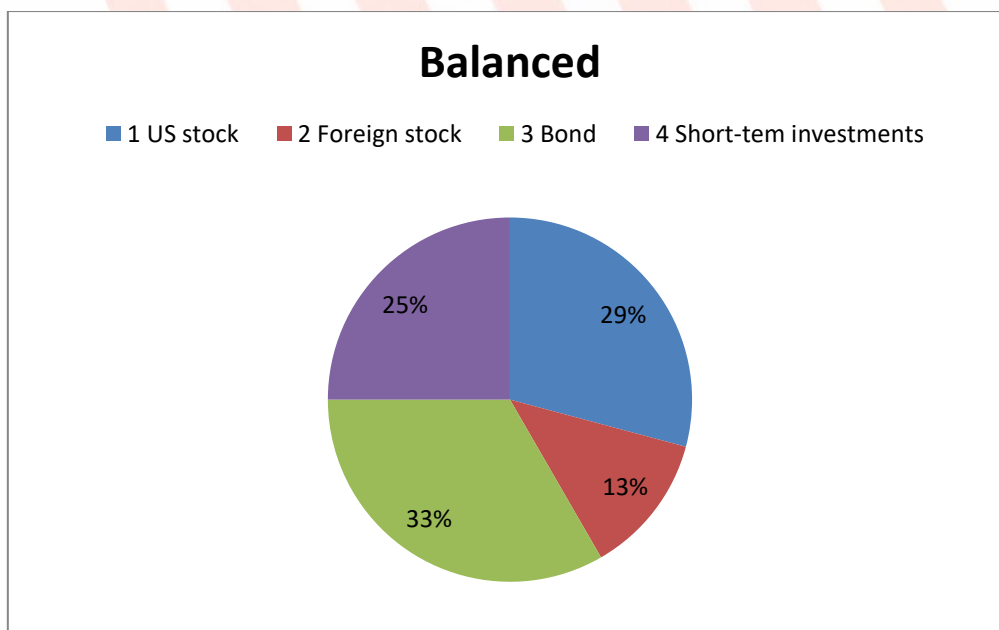


Figure 2: Balanced portfolio diversification

In this model, the share of bonds and shares in the portfolio is almost equal, respectively, bonds make up 33 percent, and shares make up 25 percent.

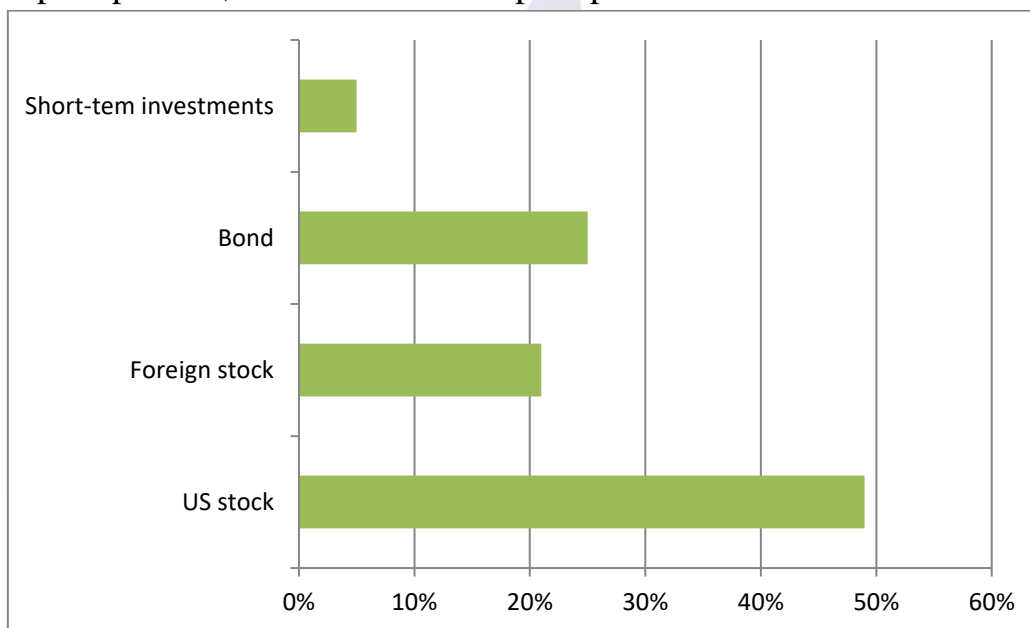


Figure 3: Growing portfolio diversification

Growing portfolio diversification is 49% of stocks, 25% of bonds, 21% of foreign stocks, and only 5% of short-term investments.

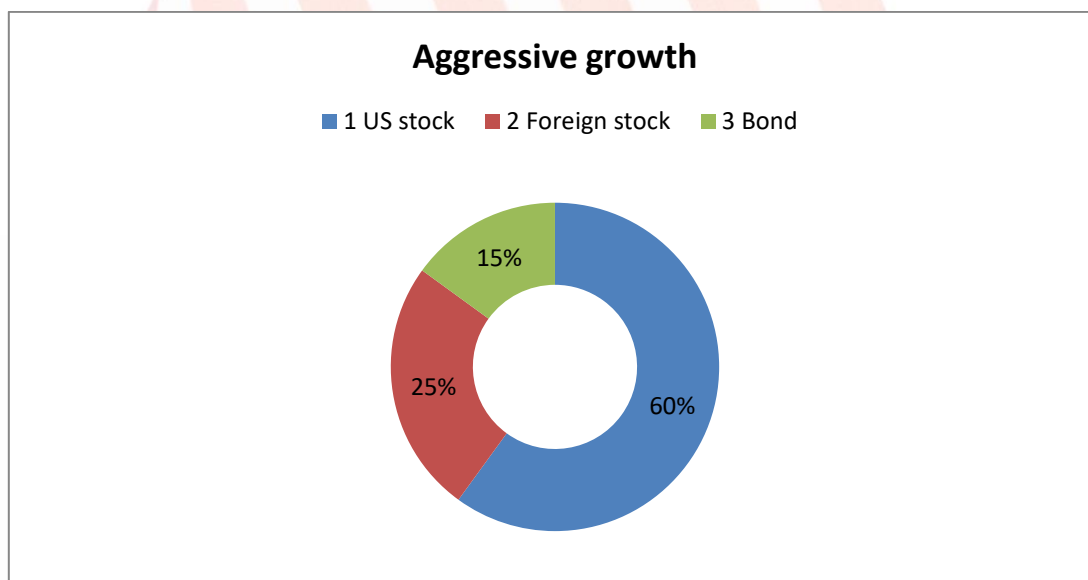


Figure 4: Aggressive growth

Stocks dominate this portfolio diversification, respectively, stocks make up 60 percent, foreign stocks make up 25 percent, and bonds make up 15 percent.

Table 1: Annual return %

Average annual return	5.75%	7.74%	8.75%	9.45%
Worst 12 month return	-17.67%	-40.64%	-52.92%	-60.78
Best 12 month return	31.06%	76.57%	109.55%	136.07%
Worst 20-year return	2.92%	3.43%	3.10%	2.66%
Best 20-year return	10.98%	3.84%	15.34%	16.49%

This chart shows us the total average return from this portfolio diversification, the worst 12-month return, the best 12-month return, the worst 20-year return, and the best 20-year portfolio expected returns.

In conclusion, we can say that an investor must make deep calculations before forming his personal portfolio. Only then, the investor will be able to make a profit from the investment project he made.

References

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