

## Chapter 20

# International Stock Investment Portfolio Management Strategies for Emerging Economies

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### **ABSTRACT**

*People or companies canalize their money to consumption or retain it for the future. Their desire to use their savings to obtain extra income gave birth to the concept of investment. They do this in a frame of expectations about the future. Expectations are the foundation of all investment decisions. This chapter focuses on how an investment and portfolio management process should be and explains different portfolio management strategies. It also includes different types of stock investments. The chapter intends to teach how one can choose a stock and manage money effectively. For this aim, the chapter includes value investment style, growth investment sytle, technical investment style, momentum investment style, fundamental investment style, and beyond. It is very important to know which strategy best fits your aims and your characteristics, so you will be able to learn this through this chapter. In addition, it is important to know how these strategies can used together effectively. In this chapter, an investor will find answers to questions about stock investment.*

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## THE CONCEPT OF INVESTMENT AND INVESTMENT PROCESS

People either canalize their money to consumption or retain it for the future, and their desire to use their savings to obtain extra income gave birth to the concept of investment. In this context, investment can be defined as superseding present consumption with other consumption opportunities in the future (French, 1989, p. 4). The concept of investment has different forms varying from individuals to companies and state policies. In its broadest sense, investment refers to all types of instrument supplies executed with the expectation of rise in value or positive return, and these instrument supplies are performed by the means of savings and idle funds (Gitman & Joehnk, 1988, p. 4). In other words, investment is sacrificing a certain present value for an uncertain future value (Sharpe & Alexander, 1990, p. 1).

Basically, there are two investment options in which savings can be directed: *financial assets* and *real assets* (Strong, 2007, pp. 2-3). Financial assets are intangible such as bonds, stocks or derived products, but real assets refer to tangible things such as estates, machines, and buildings. While real assets are income-creating properties, financial assets are the properties providing the income shared among the investors (Bodie, Kane, & Marcus, 1996, p. 11). In this regard, investments are further divided into two categories; real investments and financial investments. While real investments include tangible assets such as estates, machines, or factories, financial investments refer instead to intangible properties which provide holding or sharing rights such as stocks or bonds (Sharpe & Alexander, 1990, p. 1; Karan, 2004, p. 3). Today, financial investment rates have reached very high levels, so increasing investment alternatives have brought about the necessity of making better informed investment decisions.

Most investment decisions have three characteristics in common (Dixit & Pindyck, 1994, p. 3):

- Investments cannot be taken back either partly or completely. In other words, the startup cost of an investment, at least partly, is sunk cost and it cannot be reclaimed.
- There is uncertainty concerning to the prospective gains. Thus, the best thing to do is to take all the alternative outcomes (the maximum and minimum profit and loss) into consideration hypercritically.
- The investors can make the investment whenever they want. They can delay the investment decision to collect more information about the future.

The procedures investors must follow in order to make decisions about their investments is called the *investment process*. From a portfolio perspective, this process includes three steps (Stowe, Robinson, Pinto, & McLeavey, 2002, pp. 5-6):

- **Planning:** In this initial stage, the investor clearly defines the investment purposes (including the outcomes concerning to both risks and profits) and constraints (both internal and external).
- **Process:** The portfolio manager associates the investment strategies with the expectations on portfolio selection (portfolio selection decision), and the portfolio decisions are put into effect (the decision of portfolio's putting into effect).
- **Feedback:** The created portfolios are evaluated to determine if they reach the desired goals or not. If not, the necessary arrangements are completed.

Basically, the investment process can be conducted under two categories: securities analysis and portfolio management. The rational investor seeks to gain the maximum profit with minimum risk. Minimizing the risk is possible through a correct portfolio choice and management.

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