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Investment Risks and Tools for Their Minimization

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Abstract: *The article examines the theoretical and practical aspects of making investment decisions and organizing risk management in the process of investment activity, and substantiates the need to develop an investment risk management system, which should proceed from the fact that risks can have a strategic and tactical basis.*

The authors pay special attention to tools aimed at minimizing investment risks, including methods for reducing them. The levels of implementation of assessing the effectiveness of investment risk management according to relevant indicators are proposed.

Keywords: *uncertainty, risk, risk identification, risk analysis, risk monitoring, general risks, total risk, investment object, investment risks, investment risk management, investment activity, investment decisions, investment investments, investment, economic benefit, level of economic benefit.*

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Introduction. In a market economy, there are various investment opportunities. Carrying out investment activities is always associated with the emergence of a certain overall risk. It is well known that the implementation of most investment programs (projects) on any stock market is associated with a significant risk of losing part or even all of the invested capital, and the higher the level of income expected from the investment, the higher the risk of loss.

In this context, the various stages of the investment decision-making process can be represented as a system cycle. In different organizations or theories, these stages are divided into smaller steps, but the general range of issues and their sequence remain approximately the same. Also, as you know, investing involves the investment of large resources (funds), so their ineffective use can negatively affect the initial financial results of the investor.

In addition, investment activities are often carried out using intermediaries, so the investor, as a rule, is deprived of the ability to control the use of financial resources. In this regard, it is extremely important to have a clear understanding of the system of risks that can be called investment risks, and which include all the risks inherent in investment activity as a whole.

Literature review. The main goal of the investment activity of business entities is to increase income from the activity itself with a minimum level of risk when investing resources. Finding the optimal combination of profitability and risk involves the need to take into account many different factors[1]. Some factors that an investor cannot influence when choosing investment objects include general risks. These types of risks are called systematic, since they are associated with changes in the situation in foreign economic activity and the internal economic environment.

Unlike general risks, specific risks are purely individual for each investor, since they aggregate all types of risks associated with investment activities[2].

In the economic literature, a number of academic economists have explored the essence of investment risk; in many cases, the scientific and theoretical foundations of risk assessment affecting investment activity have been studied in the scientific works of foreign economists and scientists A. Marshall, D. Keynes, F. Knight, W. Sharpe, G. Alexander, D. Bailey[3], as well as economists from the CIS countries P. Vilensky, V. Livshchits, S. Smolyak, etc.[4].

In the scientific developments of economists of Uzbekistan Sh. Abdullaeva A. Vahabov, D. Gazibekov, N. Zhumaev, N. Karimova, F. Mirzaev, K. Khomitova, T. Baimuratova, G. Bekimbetova and others, some aspects of investment risks were studied[5].

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[1] Blank I.L. Fundamentals of investment management in 2 volumes / I.L. Blank – K.: Elga-N, Nika-Center, 2001. T. 1. – 536 p., t. 2. – 512 p.

2 Bocharov V.V. Investments / V.V. Bocharov – St. Petersburg: Peter, 2002. – 288 p..

3 Marshall Alfred. Principles of political economy / A.Marshall. - M.: “Direct-Media”, 2012. - 2 p.; Keynes D.M. General theory of employment, interest and money. //D.M.Keynes. - “Direct-Media”, 2014.-405 pp.; Knight F.H. Risk, uncertainty and profit./ Transl. from English - M.: “Delo”, 2003. - 360 p.; W. F. Sharp, G. J. Alexander, D. W. Bailey. Investments: textbook // W.F. Sharp, G.J. Alexander, D.W. Bailey. - M.: “Infra-M”, 2010. - p.; Damodaran Aswat. Investment assessment. Tools and methods for assessing any assets. Alpina Publisher. 2021. - 1320 pp.; Krui M., Galai D., Mark R. Fundamentals of risk management. - “Urayt”, 2019. - 390 s..

4 Vilensky P. L., Livshchits V.N., Smolyak S.A. Assessing the effectiveness of investment projects: Theory and practice: textbook. allowance. - 4th ed., revised. and additional - M.: “Delo”, 2008. - 485 p.; Investments: Textbook. manual for university students studying in the field of study “Economics” / B.T. Kuznetsov. - M.: "UNITY-DANA", 2017. P. - 623 pp.; Financial risk management: textbook and workshop for undergraduate and graduate students / I.P. Khominich [et al.]; edited by I.P. Khominich, I.V. Peshchanskaya. - M.: “Yurait”, 2019. - 345 p.; Modern commercial bank: Management and operations / V.M. Usoskin. - M.: “Antidor”, 1998. - 319 p.; Financial management: theory and practice / E.S. Stoyanova. - M.: “Perspective”, 2010. - 656 p.; Bocharov V.V. The financial analysis. Short course. 2nd ed. - St. Petersburg: “Peter”, 2009. - 240 s..

[5] Абдуллаева Ш.З. Банк рисклари ва кредитлаш. - Т.: «Молия», 2002. - 303 б.; Вахабов А.В., Хажибакиев Ш.Х., Abdullaeva Sh.Z. Banking risks and lending. - T.: "Finance", 2002. - 303 p.; Vahabov A.V., Khajibakiev Sh.Kh., Muminov N.G. Foreign investments. Study guide. / i.f.d., under the general editorship of Professor A.V. Vakhabov. - T.: "Finance", 2010. - 328 p.; Gozibekov DT. Investment financing issues. - T.: "Finance", 2003. — 250 p.; N.H. Jumayev and others. Ways to attract investment with assessment of investment potential of the regions. International Journal of Economics, Commerce and Management Vol. VII, Issue 2, February 2019; N.G. Karimov and others. Prospects of increasing investment attractiveness in Uzbekistan by creating a favorable investment environment. // Scientific electronic magazine "Economy and innovative technologies". No. 5, October, 2016.; Mirzaev F.I. Types of financial risks, classification, management and evaluation methods. - T.: "Finance", 2006. - 135 p.; Khomitov K. Factors of increasing investment attractiveness in agriculture. / Journal of Advanced Research in Dynamical and Control Systems. Volume 12, Issue 7 Special Issue, 2020, Pages 18-24; Bekimbetova G.M. Improving the effectiveness of investment project evaluation

However, the problems associated with improving the tools for assessing risks affecting investment activities and minimizing the level of risk have not been studied on the basis of a systematically integrated approach. When in-depth studying investment risks affecting programs (projects), it is relevant to develop specific proposals that reflect ways to solve identified problems in this area.

In particular, M. Krui, D. Galai and R. Mark expressed the following opinion about risk: “We understand that risk is not synonymous with the amount of costs or losses. After all, some of the expenses we expect in everyday life are indeed very large when we think about our annual budgets: food, fixed mortgage payments, college tuition, and so on. These costs are large, but they do not pose a threat to our ambitions because they are quite predictable and have already been factored into our plans. The real risk is that these costs will suddenly rise in a completely unexpected way, or some other cost will come out of nowhere and steal the money we have set aside for expected expenses. The risk is how volatile our costs and revenues are."[6].

Prof. V. Usoskin believes: “risk is always accompanied by uncertainty, and uncertainty, in turn, is associated with events that are difficult or impossible to foresee”[7], a according to E. Stoyanova: “Risk is understood as the possible danger of losses arising from the specifics of certain natural phenomena and types of human activity”[8].

For example, Sh. Abdullayeva explains the difference between danger and risk: “Danger is a pre-existing reality, that is, in most cases, danger is primary, risk is secondary. Usually knowing that a hazard exists and deciding how to deal with it creates a risk."[9]. According to A. Vahabov, “Investment risk is a component of general financial risk, which shows the possibility of financial losses and the impossibility of receiving full income from investments or the occurrence of additional investment costs”[10].

Based on the research results, it can be determined that a combination of factors that interrupt the implementation of investment activities, or reduce the effectiveness of the final result, or the possibility of partial or complete loss of investment resources, are called investment risks. Not only do they affect the effectiveness of investment activities, but they can also change the expected return and also interfere with the achievement of performance goals.

In addition to investment risks, it is possible to identify other risks that are inherent to varying degrees in various investment objects as part of the investment portfolio. They should be taken into account when assessing individual investments and the composition of the investment portfolio structures as a whole.

All this leads to the investor’s dependence on one industry or sector of the economy, region or country, on one area of investment activity. When making decisions about investments and financing in business, it is necessary to take into account the risk of loss of financial stability, profitability and liquidity.

Research methodology. The article used methods such as induction, deduction, analysis and synthesis, data grouping, comparison and statistical processing.

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in the context of the development of innovative activities of enterprises. Ph.D. in Economics (PhD) thesis abstract. - T.: TMI, 2019. - 24 p.

[6] Michel Crouhy, Dan Galai, Robert Mark. The essentials of risk management. Copyright © 2006 by The McGraw- Hill Companies, Inc. -P. 2-5.

[7] Modern commercial bank: Management and operations / V. M. Usoskin. - M.: “Antidor”, 1998. -S. 319.

[8] Financial management: Theory and practice: Textbook / Ed. E.S. Stoyanova. - M.: “Perspective”, 2010. - 6th ed., revised. and additional - P. 439.

[9] Abdullaeva Sh.Z. Banking risks and lending. - T.: "Finance", 2002. - B. 206.

Vahabov A.V., Khajibakiev Sh.Kh., Mominov N.G. Foreign investments. Study guide. / i.f.d., under the general editorship of Professor A.V. Vakhabov. - T.: "Finance", 2010. - B. 165.

Analysis and results. Investment activity is always associated with risks. Its successful implementation largely depends on how well the task of finding the optimal balance of profitability and risk and the ability to skillfully manage risks can be achieved.

Based on this, when financing investment programs (projects), the following types of risks must be taken into account:

- lack of elaboration of design regulatory documentation;
- production and technical risk;
- the risk of mismatch between sales directions and requirements for product sales in accordance with the investment project;
- the risk of timely implementation of the project and achieving the expected efficiency[11].

The risks of an investment program (project) according to the time of their occurrence can be divided into three stages:

– risks arising at the preparatory stage;

– risks associated with the creation of the facility;

- risks associated with the operation of the facility.

At the same time, the second and third stages of program (project) implementation are characterized by higher levels of risks. For example, at the second stage, during the creation of an object, risks associated with a delay in commissioning, exceeding the estimated cost of the object, a change in the cost of production as a result of changes in market conditions, for example, an increase in prices for raw materials, materials, and a deterioration in the solvency of the customer, are considered probable. In this context, it should be noted that the third stage is most characterized by risks associated with low quality of management of an economic entity, instability of demand for products, the emergence of competitive products, and insolvency of consumers.

In the process of investment activity, it is necessary to develop an investment risk management system, which should proceed from the fact that risks can have a systemic, i.e., strategic and tactical basis.

In this case, strategic risks are associated with the future of investment activity, and the goal of management is to focus on the long term, conduct fundamental research, diversify technologies, innovative activities, etc.

At the same time, in operational risk forecasting based on a plan, priority is given to the processes occurring during the implementation of investment activities. Based on this, it can be noted that the sequence of actions to manage investment risk includes:

– firstly, the identification of risks arising in connection with investment activities (in relation to a specific investment object, which gives an idea of the risk structure, there is a classification of risks. In accordance with it, the composition and content of risks are identified for individual investment investments, then for groups of investments and for the totality of investments as a whole);

– secondly, identifying the sources and volumes of information necessary to assess the level of investment risks (in this case, it is necessary to have information including statistical and operational data, expert assessments and forecasts, ratings, while the information that is necessary for risk management purposes may be divided into appropriate blocks);

– thirdly, the definition of criteria and methods of risk analysis (which characterize the probability of shortfall in the expected income, i.e. the level is assessed as the deviation of the estimated investment

[11] Vakhrin P.I. Investments: Textbook / P.I. Vakhrin. – M.: Publishing and trading corporation “Dashkov and K°”, 2002. – 384 p..

income from the average or planned value, in this case it is advisable to develop a set of indicators for each investment object based on the identified earlier articles of the risk nomenclature and determine the maximum and optimal values for individual indicators and their complex as a whole[12];

– fourthly, the development of measures to reduce risks and the choice of forms of their insurance (as an optimal functional method, you can use one of the traditional methods for obtaining rating indicators: the index method, the method of distances, relative values, weighted scores, while assessing the role of individual risks, weighting is used; in this case, the calculation of the arithmetic mean or geometric mean is used);

– fifthly, monitoring risks in order to make the necessary adjustments to their values (when monitoring the reliability of risk assessment results using weighting coefficients, it is possible to calculate the overall risk of the investment object by applying the value of the standard deviation calculated based on the possible coefficient of variation in order to make the necessary adjustment decisions made, while flexibility and dynamism of investment activity can be achieved by adjusting investment management as a whole);

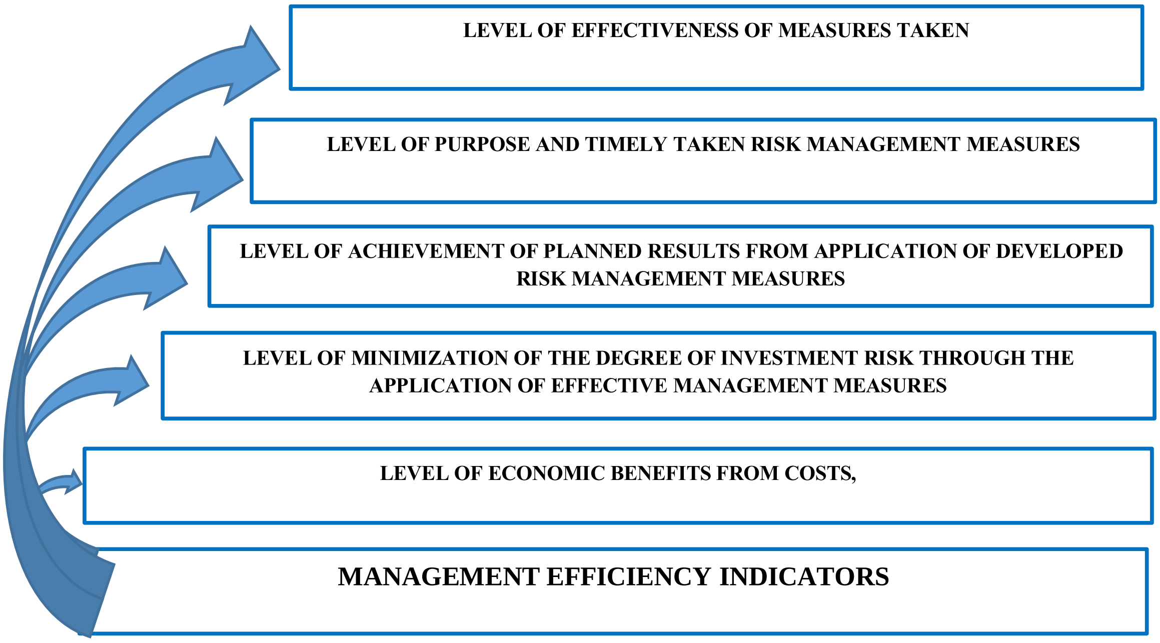
– sixthly, a retrospective analysis of risk management (carrying out such an analysis is quite justified, since it makes it possible to compare the predicted and achieved results of risk regulation, take into account the experience gained to optimize the risk management process in the future).

The main stage of the investment risk management process is assessing the effectiveness of this process. The main purpose of this stage is to assess the consistency between the costs incurred in the risk management process and the result obtained [13].

[12]Deeva A.I. Investments: Textbook. allowance / A.I. Deeva. – M.: Publishing House “Exam”, 2004. – 320 p..
[13]Ovchinnikova M.N. Risk management as an integral part of investment activity // Current issues of economic sciences. – 2008. – No. 1. – P. 364-369.

[13] Strok D., Ladygin D. et al. Development of the authors based on a synthesis of a number of sources, for example, Investment analysis: methods for assessing the effectiveness of enterprises and projects. //https://www.kp.ru/guide/investitsionnyi-analiz.html; Pozdnyakova I., Permyakov D. Stages of investment risk management. // https://elib.psu.by/bitstream/.

It is advisable to assess the effectiveness of investment risk management using the following indicators (Fig. 1):



Rice. Management efficiency indicators
investment risks [14]

– the level of economic benefit from the costs incurred for risk management;

– the level of minimization of the degree of investment risk through the use of effective management measures;

– the level of achievement of planned results from the application of developed risk management measures;

– level of feasibility and timely adoption of risk management measures;

– level of effectiveness of risk management measures taken, etc.

Thus, investment activity is the most important condition for the development of any sector of the national economy and each economic entity.

Conclusions and offers. In conclusion, we note that the most effective method of reducing risk is competent and proper management of the enterprise, starting from the moment of creation and at all subsequent phases of its development. We should never forget that negative situations may occur that are beyond the control of management personnel, but the enterprise must be prepared for such events. This is the essence of the art of management.

It is almost impossible to completely neutralize investment risk, but it can be managed by calculating in advance actions that will help minimize its consequences. This set of measures makes it possible to assess the degree of negative consequences and reduce losses from their occurrence.

[14] Разработка авторов на основе синтеза ряда научных разработок ряда ученых-экономистов. Например, Строк Д., Ладыгин Д. и др. Разработка авторов на основе синтеза ряда источников, например, Инвестиционный анализ: методы оценки эффективности предприятия и проектов. //https://www.kp.ru /guide /investitsionnyi-analiz.html; Позднякова И., Пермяков Д. Этапы управления инвестиционными рисками. // https://elib.psu.by/bitstream/ и т.д.

The use of methods for analyzing and regulating investment risks requires the accumulation of a systemic base of information, means of processing it, the development of theoretical and practical knowledge, and highly qualified analysts. All this makes the risk management process very complex, time-consuming and expensive.

In general, risk management determines the ways and possibilities of ensuring the sustainability of investment activities in unfavorable situations. The existing tools for managing investment risks in the context of corporate transformation largely provide stable conditions for doing business in the future.

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