Investment environment and investment management process

Investing

The term 'investing" could be associated with the different activities, but the common target in these activities is to "employ" the money (funds) during the time period seeking to enhance the investor's wealth. Funds to be invested come from assets already owned, borrowed money and savings.

By foregoing consumption today and investing their savings, investors expect to enhance their future consumption possibilities by increasing their wealth.

Real investments generally involve some kind of tangible asset, such as land, machinery, factories, etc.

Financial investments involve contracts in paper or electronic form such as stocks, bonds, etc.

Together with the investment the term *speculation* is frequently used. Speculation can be described as investment too, but it is related with the short-term investment horizons and usually involves purchasing the salable securities with the hope that its price will increase rapidly, providing a quick profit.

Speculators try to buy low and to sell high, their primary concern is with anticipating and profiting from market fluctuations. But as the fluctuations in the financial markets are and become more and more unpredictable speculations are treated as the investments of highest risk. In contrast, an investment is based upon the analysis and its main goal is to promise safety of principle sum invested and to earn the satisfactory risk.

There are *two types of investors:*

Individual investors are individuals who are investing on their own. Sometimes individual investors are called *retail investors*.

Institutional investors are entities such as investment companies, commercial banks, insurance companies, pension funds and other financial institutions. As the main reasons for this can be mentioned the fact, that institutional investors can achieve economies of scale, demographic pressure on social security, the changing role of banks.

Retail investors

Many retail investors do not have the time, skill or access to information to assess the many investment opportunities open to them and to manage their money in the most effective manner (although, with the abundance of financial and company information now available on the Internet, more individuals are taking the control of their financial management into their own hands). In practice, few individuals have sufficient money to build up a portfolio which diversifies risk properly. As a result, a variety of organizations, all professional intermediaries or middlemen, have developed a range of investment products and services for retail investors.

Institutional investors

Similar to retail or private clients, many institutions or corporations, large and small, can decide to outsource the management of their proprietary Treasury portfolios, company pension schemes, or client portfolios to a third party. Institutional clients are particularly attractive to professional money management organizations, as they usually represent long-term relationships with clients who invariably possess a large volume of assets.

One of important preconditions for successful investing both for individual and institutional investors is the favorable investment environment.

Direct versus indirect investing

Indirect investing involves financial intermediaries. The primary difference between these two types of investing is that applying direct investing investors buy and sell financial assets and manage individual investment portfolio themselves. Indirect investing relieves investors from making decisions about their portfolio. As shareholders with the ownership interest in the portfolios managed by financial institutions (investment companies, pension funds, insurance companies, commercial banks) the investors are entitled to their share of dividends, interest and capital gains generated and pay their share of the institution's expenses and portfolio management fee. The risk for investor using indirect investing is related more with the credibility of chosen institution and the professionalism of portfolio managers.

Direct investing is realized using financial markets. Contrary, using indirect type of investing investors are buying or selling financial instruments of financial intermediaries (financial institutions) which invest large pools of funds in the financial markets and hold portfolios. Consequently, investing directly through financial markets investors take all the risk and their successful investing depends on their understanding of financial markets, its fluctuations and on their abilities to analyze and to evaluate the investments and to manage their investment portfolio.

Constraints

The management of customer portfolios is an involved process. Besides assessing a customer's risk profile, a portfolio manager must also take into account other considerations, such as the tax status of the investor and of the type of investment vehicle, as well as the client's resources, liquidity needs and time horizon of investment.

Resources

One obvious constraint facing an investor is the amount of resources available for investing. Many investments and investment strategies will have minimum requirements. For example, setting up a margin account in the USA may require a minimum of a few thousand dollars when it is established. Likewise, investing in a hedge fund may only be possible for individuals who are worth more than one million dollars, with minimum investments of several hundred thousand dollars. An investment strategy will take into consideration minimum and maximum resource limits.

Tax status

In order to achieve proper financial planning and investment, taxation issues must be considered by both investors and investment managers. In some cases, such as UK pension funds, the funds are not taxed at all. For these gross funds, the manager should attempt to avoid those stocks that include the deduction of tax at source. Even though these funds may be able to reclaim the deducted tax, they will incur an opportunity cost on the lost interest or returns they could have collected had they not had the tax deducted. Investors will need to assess any trade-offs between investing in tax-fee funds and fully taxable funds. For example, tax-free funds may have liquidity constraints meaning that investors will not be able to take their money out of the funds for several years without experiencing a tax penalty.

Liquidity needs

At times, an investor may wish to invest in an investment product that will allow for easy access to cash if needed. For example, the investor may be considering buying a property within the next twelve months, and will want quick access to the capital. Liquidity considerations must be factored into the decision that determines what types of investment products may be suitable for a particular client. Also, within any fund there must be the ability to respond to changing circumstances, and thus a degree of liquidity must be built into the fund. Highly liquid stocks or fixed-interest instruments can guarantee that a part of the investment portfolio will provide quick access to cash without a significant concession to price should this be required.

Time horizons

An investor with a longer time horizon for investing can invest in funds with longer-term time horizons and can most likely stand to take higher risks, as poor returns in one year will most probably be cancelled by high returns in future years before the fund expires. A fund with a very short- term horizon may not be able to take this type of risk, and hence the returns may be lower. The types of securities in which funds invest will be influenced by the time horizon constraints of the funds, and the type of funds in which an investor invests will be determined by his or her investment horizon.

Special situations

Besides the constraints already mentioned, investors may have special circumstances or requirements that influence their investment universe. For example, the number of dependants and their needs will vary from investor to investor. An investor may need to plan ahead for school or university fees for one or several children

Investment vehicles

Most investment management players will offer their clients collective investment schemes known as unit trusts and investment trusts.
Even if we analyze only financial investment there is a big variety of financial investment vehicles. The ongoing processes of globalization and integration open wider possibilities for the investors to invest into new investment vehicles which were unavailable for them some time ago because of the weak domestic financial systems and limited technologies for investment in global investment environment.

Investment vehicles
Investment in financial assets differs from investment in physical assets in these important aspects:
• **Financial assets are divisible**, whereas most physical assets are not. An asset is *divisible* if investor can buy or sell small portion of it. In case of financial assets it means, that investor, for example, can buy or sell a small fraction of the whole company as investment object buying or selling a number of common stocks.
• **Marketability (or Liquidity)** is a characteristic of financial assets that is not shared by physical assets, which usually have low liquidity. Marketability (or liquidity) reflects the feasibility of converting of the asset into cash quickly and without affecting its price significantly. Most of financial assets are easy to buy or to sell in the financial markets.
• **Holding Period**. The planned holding period of financial assets can be much shorter than the holding period of most physical assets. *The holding period for investments is* defined as the time between signing a purchasing order for asset and selling the asset. Investors acquiring physical asset usually plan to hold it for a long period, but investing in financial assets, such as securities, even for some months or a year can be reasonable. Holding period for investing in financial assets vary in very wide interval and depends on the investor's goals and investment strategy.

• **Information Availability**. Information about financial assets is often more abundant and less costly to obtain, than information about physical assets. *Information availability* shows the real possibility of the investors to receive the necessary information which could influence their investment decisions and investment results. Since a big portion of information important for investors in such financial assets as stocks, bonds is publicly available, the impact of many disclosed factors having influence on value of these securities can be included in the analysis and the decisions made by investors.

The ***main types of financial investment*** are:
• Short term investment vehicles;
• Fixed-income securities;
• Common stock;
• Speculative investment vehicles;
• Other investment tools.

Short - term investment vehicles are all those which have a maturity of one year or less. Short term investment vehicles often are defined as money-market instruments, because they are traded in the money market which presents the financial market for short term (up to one year of maturity) marketable financial assets. The risk as well as the return on investments of short-term investment

vehicles usually is lower than for other types of investments. The main *short term investment vehicles* are:
• Certificates of deposit;
• Treasury bills;
• Commercial paper;
• Bankers' acceptances;
• Repurchase agreements.

Certificate of deposit is debt instrument issued by bank that indicates a specified sum of money has been deposited at the issuing depository institution. Certificate of deposit bears a maturity date and specified interest rate and can be issued in any denomination. Most certificates of deposit cannot be traded and they incur penalties for early withdrawal. For large money-market investors financial institutions allow their large-denomination certificates of deposits to be traded as negotiable certificates of deposits.

Treasury bills (also called T-bills) are securities representing financial obligations of the government. Treasury bills have maturities of less than one year. They have the unique feature of being issued at a discount from their nominal value and the difference between nominal value and discount price is the only sum which is paid at the maturity for these short term securities because the interest is not paid in cash, only accrued.

The other important feature of T-bills is that they are treated as risk-free securities ignoring inflation and default of a government, which was rare in developed countries, the T-bill will pay the fixed stated yield with certainty. But, of course, the yield on T-bills changes over time influenced by changes in overall macroeconomic situation. T-bills are issued on an auction basis. The issuer accepts competitive bids and allocates bills to those offering the highest prices.

Noncompetitive bid is an offer to purchase the bills at a price that equals the average of the competitive bids. Bills can be traded before the maturity, while their market price is subject to change with changes in the rate of interest. But because of the early maturity dates of T-bills large interest changes are needed to move T-bills prices very far. Bills are thus regarded as high liquid assets.

Commercial paper is a name for short-term unsecured promissory notes issued by corporation. Commercial paper is a means of short-term borrowing by large corporations. Large, well-established corporations have found that borrowing directly from investors through commercial paper is cheaper than relying solely on bank loans. Commercial paper is issued either directly from the firm to the investor or through an intermediary.

Commercial paper, like T-bills is issued at a discount. The most common maturity range of commercial paper is 30 to 60 days or less. Commercial paper is riskier than T-bills, because there is a larger risk that a corporation will default. Also, commercial paper is not easily bought and sold after it is issued, because the issues are relatively small compared with T-bills and hence their market is not liquid.

Bankers acceptances are the vehicles created to facilitate commercial trade transactions. These vehicles are called bankers acceptances because a bank accepts the responsibility to repay a loan to the holder of the vehicle in case the debtor fails to perform. Banker's acceptances are short-term fixed-income securities that are created by non-financial firm whose payment is guaranteed by a bank. This short-term loan contract typically has a higher interest rate than similar short –term securities to compensate for the default risk. Since bankers' acceptances are not standardized, there is no active trading of these securities.

Repurchase agreement (often referred to as a repo) is the sale of security with a commitment by the seller to buy the security back from the purchaser at a specified price at a designated future date. Basically, a repo is a collectivized short-term loan, where collateral is a security. The collateral in a repo may be a Treasury security, other money-market security.

The difference between the purchase price and the sale price is the interest cost of the loan, from which repo rate can be calculated. Because of concern about default risk, the length of maturity of repo is usually very short. If the agreement is for a loan of funds for one day, it is called overnight repo; if the term of the agreement is for more than one day, it is called a term repo. A reverse repo is the opposite of a repo. In this transaction a corporation buys the securities with an agreement to sell them at a specified price and time. Using repos helps to increase the liquidity in the money market.

Fixed-income securities are those which return is fixed, up to some redemption date or indefinitely. The fixed amounts may be stated in money terms or indexed to some measure of the price level. This type of financial investments is presented by two different groups of securities:
• Long-term debt securities
• Preferred stocks.
Long-term debt securities can be described as long-term debt instruments representing the issuer's contractual obligation. Long term securities have maturity longer than 1 year. The buyer (investor) of these securities is landing money to the issuer, who undertake obligation periodically to pay interest on this loan and repay the principal at a stated maturity date. Long-term debt securities are traded in the capital markets. From the investor's point of view these securities can be treated as a "safe" asset. But in reality the safety of investment in fixed –income securities is strongly related with the default risk of an issuer. The major representatives of long-term debt securities are *bonds*, but today there are a big variety of different kinds of bonds, which differ not only by the different issuers (governments, municipals, companies, agencies, etc.), but by different schemes of interest payments which is a result of bringing financial innovations to the long-term debt securities market. As demand for borrowing the funds from the capital markets is growing the long-term debt securities today are prevailing in the global markets.

Preferred stocks are equity security, which has infinitive life and pay dividends. But preferred stock is attributed to the type of fixed-income securities, because the dividend for preferred stock is fixed in amount and known in advance.

The main difference between preferred stocks and bonds is that for preferred stock the flows are forever, if the stock is not callable. The preferred stockholders are paid after the debt securities holders but before the common stock holders in terms of priorities in payments of income and in case of liquidation of the company. If the issuer fails to pay the dividend in any year, the unpaid dividends will have to be paid if the issue is cumulative.

If preferred stock is issued as noncumulative, dividends for the years with losses do not have to be paid. Usually same rights to vote in general meetings for preferred stockholders are suspended. Because of having the features attributed for both equity and fixed-income securities preferred stocks is known as hybrid security. Most preferred stock is issued as noncumulative and callable. In recent years the preferred stocks with option of convertibility to common stock are proliferating.

The common stock is the other type of investment vehicles which is one of most popular among investors with long-term horizon of their investments. Common stock represents the ownership interest of corporations or the equity of the stock holders. Holders of common stock are entitled to attend and vote at a general meeting of shareholders, to receive declared dividends and to receive their share of the residual assets, if any, if the corporation is bankrupt. The issuers of the common stock are the companies which seek to receive funds in the market and though are "going public".

The issuing common stocks and selling them in the market enables the company to raise additional equity capital more easily when using other alternative sources. Thus many companies are issuing their common stocks which are traded in financial markets and investors have wide possibilities for choosing this type of securities for the investment.

Speculative investment vehicles following the term "speculation") could be defined as investments with a high risk and high investment return. Using these investment vehicles speculators try to buy low and to sell high, their primary concern is with anticipating and profiting from the expected market fluctuations. The only gain from such investments is the positive difference between selling and purchasing prices. Of course, using short-term investment strategies investors can use for speculations other investment vehicles, such as common stock, but here we try to accentuate the specific types of investments which are more risky than other investment vehicles because of their nature related with more uncertainty about the changes influencing the their price in the future.

Speculative investment vehicles could be presented by these different vehicles:
• Options;
• Futures;
• Commodities, traded on the exchange (coffee, grain metals, and other commodities);

Options are the ***derivative financial instruments*.** An options contract gives the owner of the contract the right, but not the obligation, to buy or to sell a financial asset at a specified price from or to another party. The buyer of the contract must pay a fee (option price) for the seller. There is a big uncertainty about if the buyer of the option will take the advantage of it and what option price would be relevant, as it depends not only on demand and supply in the options market, but on the changes in the other market where the financial asset included in the option contract are traded. Though, the option is a risky financial instrument for those investors who use it for speculations instead of hedging.

Futures are the other type of derivatives. A future contract is an agreement between two parties than they agree tom transact with the respect to some financial asset at a predetermined price at a specified future date. One party agree to buy the financial asset, the other agrees to sell the financial asset. It is very important, that in futures contract case both parties are obligated to perform and neither party charges the fee.

There are two types of people who deal with options (and futures) contracts: speculators and hedgers. Speculators buy and sell futures for the sole purpose of making a profit by closing out their positions at a price that is better than the initial price. Such people neither produce nor use the asset in the ordinary course of business.

In contrary, hedgers buy and sell futures to offset an otherwise risky position in the market. Transactions using derivatives instruments are not limited to financial assets. There are derivatives, involving different commodities (coffee, grain, precious metals, and other commodities). But in this course the target is on derivatives where underlying asset is a financial asset.

Other investment tools:
• Various types of investment funds;
• Investment life insurance;
• Pension funds;
• Hedge funds.
Investment companies/ investment funds. They receive money from investors with the common objective of pooling the funds and then investing them in securities according to a stated set of investment objectives. Two types of funds:
• Open-end funds (mutual funds),
• Closed-end funds (trusts).

Open-end funds have no pre-determined amount of stocks outstanding and they can buy back or issue new shares at any point. Price of the share is not determined by demand, but by an estimate of the current market value of the fund's net assets per share (NAV) and a commission.
Closed-end funds are publicly traded investment companies that have issued a specified number of shares and can only issue additional shares through a new public issue. Pricing of closed-end funds is different from the pricing of open-end funds: the market price can differ from the NAV.

Insurance Companies are in the business of assuming the risks of adverse events (such as fires, accidents, etc.) in exchange for a flow of insurance premiums. Insurance companies are investing the accumulated funds in securities (treasury bonds, corporate stocks and bonds), real estate. Three types of Insurance Companies: life insurance; non-life insurance (also known as property-casualty insurance) and reinsurance.

During recent years *investment life insurance* became very popular investment alternative for individual investors, because this hybrid investment product allows to buy the life insurance policy together with possibility to invest accumulated life insurance payments or lump sum for a long time selecting investment program relevant to investor‘s future expectations.

Pension Funds are an asset pools that accumulates over an employee's working years and pays retirement benefits during the employee's nonworking years. Pension funds are investing the funds according to a stated set of investment objectives in securities (treasury bonds, corporate stocks and bonds), real estate.

Hedge funds are unregulated private investment partnerships, limited to institutions and high-net-worth individuals, which seek to exploit various market opportunities and thereby to earn larger returns than are ordinarily available. They require a substantial initial investment from investors and usually have some restrictions on how quickly investor can withdraw their funds. Hedge funds take concentrated speculative positions and can be very risky. It could be noted that originally, the term "hedge" made some sense when applied to these funds. They would by combining different types of investments, including derivatives, try to hedge risk while seeking higher return. But today the word "hedge' is misapplied to these funds because they generally take an aggressive strategies investing in stock, bond and other financial markets around the world and their level of risk is high.

Alternative investment vehicles, such as hedge funds and private equity, are also an option for certain qualified players). With these products, the professional money manager manages larger funds comprised of money pooled from a large number of smaller investors

Investment environment

Investment environment can be FNdefined as the existing investment tools in the market available for investor and the places for transactions with these investment vehicles.

Financial markets

Financial markets are the other important component of investment environment. Financial markets are designed to allow corporations and governments to raise new funds and to allow investors to execute their buying and selling orders.

In financial markets funds are channeled from those with the surplus, who buy securities, to those, with shortage, who issue new securities or sell existing securities. A financial market can be seen as a set of arrangements that allows trading among its participants. Financial market provides three important economic functions (Frank J. Fabozzi, 1999):

1. Financial market determines the prices of assets traded through the interactions between buyers and sellers;
2. Financial market provides a liquidity of the financial assets;
3. Financial market reduces the cost of transactions by reducing explicit costs, such as money spent to advertise the desire to buy or to sell a financial asset.

Financial markets could be classified on the bases of those characteristics:

• Sequence of transactions for selling and buying securities;
• Term of circulation of financial assets traded in the market;
• Economic nature of securities traded in the market;
• From the perspective of a given country.

By sequence of transactions for selling and buying securities:

- Primary market
- Secondary market

All securities are first traded in the primary market, and the secondary market provides liquidity for these securities.

Primary market is where corporate and government entities can raise capital and where the first transactions with the new issued securities are performed. If a company's share is traded in the primary market for the first time this is referred to as an initial public offering (IPO).

Investment banks play an important role in the primary market:

• Usually handle issues in the primary market;
• Among other things, act as underwriter of a new issue, guaranteeing the proceeds to the issuer.

Secondary market - where previously issued securities are traded among investors. Generally, individual investors do not have access to secondary markets. They use security brokers to act as intermediaries for them. The broker delivers an orders received from investors in securities to a market place, where these orders are executed. Finally, clearing and settlement processes ensure that both sides to these transactions honor their commitment. Types of brokers:

- Discount broker, who executes only trades in the secondary market;
- Full service broker, who provides a wide range of additional services to clients (ex., advice to buy or sell);
- Online broker is a brokerage firm that allows investors to execute trades electronically using Internet.

Types of secondary market places:

- Organized security exchanges;
- Over-the-counter markets;
- Alternative trading system.

An organized security exchange provides the facility for the members to trade securities, and only exchange members may trade there. The members include brokerage firms, which offer their services to individual investors, charging commissions for executing trades on their behalf. Other exchange members buy or sell for their own account, functioning as dealers or market makers who set prices at which they are willing to buy and sell for their own account.

Exchanges play very important role in the modern economies by performing the following tasks:

- Supervision of trading to ensure fairness and efficiency;
- The authorization and regulation of market participants such as brokers and market makers;
- Creation of an environment in which securities' prices are formed efficiently and without distortion. This requires not only regulation of an orders and transaction costs but also a liquid market in which there are many buyers and sellers, allowing investors to buy or to sell their securities quickly;
- Organization of the clearing and settlement of transactions;
- The regulation of the admission of companies to be listed on the exchange and the regulation of companies who are listed on the exchange;
- The dissemination of information (trading data, prices and announcements of companies listed on the exchange). Investors are more willing to trade if prompt and complete information about trades and prices in the market is available.

The over-the-counter (OTC) market is not a formal exchange. It is organized network of brokers and dealers who negotiate sales of securities. There are no membership requirements and many brokers register as dealers on the OTC. At the same time there are no listing requirements and thousands of securities are traded in the OTC market. OTC stocks are usually considered as very risky because they are the stocks that are not considered large or stable enough to trade on the major exchange.

An alternative trading system (ATS) is an electronic trading mechanism developed independently from the established market places – security exchanges –and designed to match buyers and sellers of securities on an agency basis.

The brokers who use ATS are acting on behalf of their clients and do not trade on their own account. The distinct advantages of ATS in comparison with traditional markets are cost savings of transactions, the short time of execution of transactions for liquid securities, extended hours for trading and anonymity, often important for investors, trading large amounts.

By term of circulation of financial assets traded in the market:

- Money market;
- Capital market

By economic nature of securities, traded in the market:

- Equity market or stock market;
- Common stock market;
- Fixed-income market;
- Debt market;
- Derivatives market.

From the perspective of a given country financial markets are:

- Internal or national market;
- External or international market.

The internal market can be split into two fractions: domestic market and foreign market. ***Domestic market*** is where the securities issued by domestic issuers (companies, Government) are traded. ***A country's foreign market*** is where the securities issued by foreign entities are traded.
The external market also is called *the international market* includes the securities which are issued at the same time to the investors in several countries and they are issued outside the jurisdiction of any single country (for example, offshore market).
Globalization and integration processes include the integration of financial markets into an international financial market. Because of the globalization of financial markets, potential issuers and investors in any country become not limited to their domestic financial market.

INVESTMENT MANAGEMENT PROCESS
The investment management process describes how an investor should go about making decisions. Investment management process can be disclosed by ***five-step procedure***, which includes following stages:

Setting of investment policy is the first and very important step in investment management process. *Investment policy* includes setting of investment objectives. The investment policy should have the specific objectives regarding the investment return requirement and risk tolerance of the investor. For example, the investment policy may define that the target of the investment average return should be 15 % and should avoid more than 10 % losses. Identifying investor's tolerance for risk is the most important objective, because it is obvious that every investor would like to earn the highest return possible. But because there is a positive relationship between risk and return, it is not appropriate for an investor to set his/ her investment objectives as just "to make a lot of money". Investment objectives should be stated in terms of both risk and return.

Analysis and evaluation of investment vehicles. When the investment policy is set up, investor's objectives defined and the potential categories of financial assets for inclusion in the investment portfolio identified, the available investment types can be analyzed. This step involves examining several relevant types of investment vehicles and the individual vehicles inside these groups. For example, if the common stock was identified as investment vehicle relevant for investor, the analysis will be concentrated to the common stock as an investment. The one purpose of such analysis and evaluation is to identify those investment vehicles that currently appear to be mispriced. There are many different approaches how to make such analysis. Most frequently two forms of analysis are used: technical analysis and fundamental analysis.

Technical analysis involves the analysis of market prices in an attempt to predict future price movements for the particular financial asset traded on the market. This analysis examines the trends of historical prices and is based on the assumption that these trends or patterns repeat themselves in the future.

Fundamental analysis in its simplest form is focused on the evaluation of intrinsic value of the financial asset. This valuation is based on the assumption that intrinsic value is the present value of future flows from particular investment. By comparison of the intrinsic value and market value of the financial assets those which are underpriced or overpriced can be identified. This step involves identifying those specific financial assets in which to invest and determining the proportions of these financial assets in the investment portfolio.

Formation of diversified investment portfolio is the next step in investment management process. ***Investment portfolio*** is the set of investment vehicles, formed by the investor seeking to realize its' defined investment objectives. In the stage of portfolio formation the issues of selectivity, timing and diversification need to be addressed by the investor.
Selectivity refers to micro forecasting and focuses on forecasting price movements of individual assets.
Timing involves macro forecasting of price movements of particular type of financial asset relative to fixed-income securities in general.
Diversification involves forming the investor's portfolio for decreasing or limiting risk of investment. 2 techniques of diversification:

- ***Random diversification,*** when several available financial assets are put to the portfolio at random;
- ***Objective diversification*** when financial assets are selected to the portfolio following investment objectives and using appropriate techniques for analysis and evaluation of each financial asset.

Portfolio revision. This step of the investment management process concerns the periodic revision of the three previous stages. This is necessary, because over time investor with long-term investment horizon may change his / her investment objectives and this, in turn means that currently held investor's portfolio may no longer be optimal and even contradict with the new settled investment objectives.

Investor should form the new portfolio by selling some assets in his portfolio and buying the others that are not currently held. It could be the other reasons for revising a given portfolio: over time the prices of the assets change, meaning that some assets that were attractive at one time may be no longer be so. Thus investor should sell one asset and buy the other more attractive in this time according to his/ her evaluation.

The decisions to perform changes in revising portfolio depend, upon other things, in the transaction costs incurred in making these changes. For institutional investors portfolio revision is continuing and very important part of their activity. But individual investor managing portfolio must perform portfolio revision periodically as well.

Periodic reevaluation of the investment objectives and portfolios based on them is necessary, because financial markets change, tax laws and security regulations change, and other events alter stated investment goals.

Measurement and evaluation of portfolio performance. This the last step in investment management process involves determining periodically how the portfolio performed, in terms of not only the return earned, but also the risk of the portfolio. For evaluation of portfolio performance appropriate measures of return and risk and benchmarks are needed. *A benchmark* is the performance of predetermined set of assets, obtained for comparison purposes.

The benchmark may be a popular index of appropriate assets – stock index, bond index. The benchmarks are widely used by institutional investors evaluating the performance of their portfolios. It is important to point out that investment management process is continuing process influenced by changes in investment environment and changes in investor's attitudes as well.

Market globalization offers investors new possibilities, but at the same time investment management become more and more complicated with growing uncertainty.