

# INVESTMENT RISK ASSESSMENT

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**Abstract:** Either independent uncertainty or the investor's perspective on capital loss might be used to describe it. The former is brought on by the inability of the external environment to precisely control changes. The investor may be aware of and accept a specific chance of random events, which is also established.

As a result, risk describes the outcomes of decisions made. Interest rate, currency, buying power (inflation), market, default, management, business, financial, bankruptcy, liquidity, price fluctuations, reinvestment, redemption on demand, fungibility, and political risks are distinguished from one another. An investor must measure risks in order to manage them. This may be achieved by calculating price changes, return rates, and risks associated with the intended investment.

**Keywords:** risk, investment, analysis, profit

## Introduction

Nevertheless, it's critical to safeguard your money. Alternative activities can shield your capital from loss should the market scenario develop negatively. To choose an investing plan, risk management is essential. Making educated decisions is made easier and more secure when one has a basic understanding of markets and investing. Determine the hedging stop, or the worst-case scenario that might occur, by the investor. In such circumstances, it is crucial to estimate the probable extent of losses. Setting a leaving date is equally crucial. Identifying prospective risk and reward, then, are the main factors that investors use to make decisions. If the profit/risk ratio is not sufficiently high, the investment is unlikely to provide considerable financial gains. Beginner investors typically do not think clearly or rationally because they are preoccupied with fantasizing about enormous gains rather than taking into account the potential loss of their initial investment.

The investor concentrates on determining the project's investment risks in the initial

stage. He determines whether there is a danger of this kind. If there isn't, he comes to a stop and chooses whether or not to take part in the investment. If there is a danger, he assesses it before making a strategic decision. Every time a scenario changes, strategies should be modified. Choosing an investment involves further investigation. It's critical to identify the circumstances that cause outliers from the norm. All stages of an investment venture's existence must include the risk management process itself. To make the procedure effective, the series of actions mentioned above should occur.

When creating an investing portfolio, investments must be chosen whose risks the investor is willing to take. There are two approaches to managing risks. There is the conventional approach, which entails controlling assets and obligations. On the other hand, the hedging technique entails developing a plan incorporating a derivative that will protect the investment. Both are effective. Their decision is influenced by the investor's personality. When selecting a plan, an investor might adhere to a few patterns. The objective is to make educated investments while minimizing risk. These behavioral tendencies include:

- In the case of mutual funds, 25% of the positions are liquidated or transferred to more lucrative investment certificates if the market drops by 2% in a week;
- Hedge fund involvement is limited to no more than 25% of the total investment portfolio;
- Investing in overpriced and efficient shares of a certain type of company is limited to 4% of the portfolio, and hedging stop orders are utilized if the share price increases by 25%;
- Investments made on recommendations are subject to a risk cap of 1%, with a maximum investment of 4% of the portfolio's value;
- During times of stock price appreciation, no more than 2% of the value of a portfolio should be allocated to undervalued shares of a company's stock; If the share price drops subsequently, up to 2% additional shares may be repurchased;
- You may invest up to 50% of the value of your portfolio in assets that hedge against inflation;
- Treasury bonds, which make up around 10% of the portfolio and are repaid as interest rates rise, should have a maximum risk of 2%;
- You never take a risk in the real estate market greater than the property's buying cost.

The measure of the economic efficiency of the various investment options is the value of capital held. To calculate these variants, the value of the capital expenditure, the annual stream of expenditure and receipts, the financial effect, the discount factor and the capital value will

be used. It is also useful to analyse, the distribution of these capital expenditures, know the rate of return, calculate the total costs and the utility effect.

### **1. Important data needed for investment analysis**

Databases often have a well chosen collection of information depending on sources. They come from the raw materials that are being developed. Information is available from an infinite number of sources online. With their assistance, it is possible to recognize every characteristic of the research field and to fully extract the source information from them.

By evaluating the project's duration, risk, and net benefit, one may determine if an investment will be profitable. The net benefit is the difference between the outcomes of an investment project and the expenditures and expenses associated with its development and operation, according to the definition. When planning to diversify an investment portfolio and assuming that the anticipated investment would be short-term, simple strategies might be applied. Except that discounting techniques, which account for the fluctuation of money over time, are utilized, the notion of net cash flow is applied to net benefits differently. Databases often have a well chosen collection of information depending on sources. They come from the raw materials that are being developed. Information is available from an infinite number of sources online. With their assistance, it is possible to recognize every characteristic of the research field and to fully extract the source information from them.

If an investment will be successful, it may be determined by weighing the duration, risk, and net benefit of the project. According to the definition, the net benefit is the difference between an investment project's results and the costs and expenses related to its development and operation. Simple tactics could be used when making plans to diversify an investment portfolio and assuming that the projected investment would be short-term. The concept of net cash flow is applied to net benefits differently, with the exception that discounting procedures, which take into account the fluctuation of money over time, are employed.

Planning your finances is a fascinating task. It is made to satisfy the need for individualized financial guidance. Assessing the investor's existing financial condition, setting financial goals, and presenting a written plan to accomplish them are often all parts of the financial planning process. There are many resources that might be useful, but the majority of them place more focus on investment products than on the customer.

Specifically, indicators are used to evaluate the effectiveness and profitability of investments. Others look at the current developments, while some gauge the amount of wealth.

Advance economic indicators, trailing indicators, and converging indicators are the three composite indexes that have evolved. These provide the most precise economic ups and downs forecasting. Trends and turning moments are identified by the index of key economic indicators. On the other hand, the index of trailing indicators verifies if events have occurred, whereas the index of converging indicators detects patterns.

It is crucial to determine the size of the company and whether it receives financing in the form of loans and credits. Repayment issues might arise if the project's implementation is reliant on foreign borrowing. It is important to consider the terms and payback requirements of such a loan.

Technical, fundamental, and portfolio analysis are the three essential types of investing analysis. The repeatability concept is relevant to technical analysis. Information about the industry and the sector is used to make decisions. No consideration of monetary or fiscal policy is made. Technical analysis simply establishes a stock's prospective worth in the market; it does not define value. It shows symptoms that eventually cause a transformation. Comparing graphs of share prices, trading volumes, and other technical indicators, such as stock indexes, is the main objective. It is important to keep in mind that market supply and demand determine the share price. Bar charts, line charts, and candlestick charts are the three types of charts that technical analysts utilize. The portrayal of support and resistance is the foundation for the chart forms. The former is the reversal of a price decline by raising interest in a particular share. Contrarily, resistance entails increasing supply in order to halt the upward trend of the share price. After that, one may decide whether to buy right away or wait till the decrease after an upward trend is identified. The danger of loss will be greater and the orders will be farther out in a short transaction. Look for equities to purchase and avoid selling into a "short" position if the trend line is heading higher. It seems appropriate to take short positions and then refrain from purchasing fresh if the line is moving downward. A climb to the prior peak's level presents a fantastic chance to sell short. On the other hand, you can be ready to buy the stock with little risk if the decrease in the price rallies to the previous low. Apply common sense and perseverance to your financial strategies while analyzing charts. It is best to avoid such a transaction if you are unfamiliar with technical analysis and what is occurring on the chart. The focus of fundamental analysis, on the other hand, is on the stability of the economy and the PW issuer. Ratios are useful in this situation, as well as prospectuses, studies, and reports. For this, indicator analysis is employed. This is accomplished by using indicators like profitability, liquidity, and activity. The investor already makes decisions about the future based on knowledge about the past, which is crucial for this research. The foundation of portfolio analysis

is the calculation of the future yield moments of the relevant instruments. It seeks to identify the best investment given the hazard of failure. It is up to the investor or knowledgeable broker which one to base it on. Another option is to trust one's instincts and make a decision based on facts found on the Internet while hoping for a satisfying outcome.

## **2. What makes profit and loss?**

Understanding the company's financial situation requires analysis of the income statement. It's important to determine where the firm gets its funding, how it makes money, and how it controls expenses. The fact that the corporation makes the majority of its money from non-operating operations is concerning. Therefore, there is a risk associated with the potential for future profit. Therefore, rather of only relying on current findings, it is useful to analyze previous data.

There are inherent dangers associated with any financial endeavors. This is brought on, among other things, by macroeconomic and industrial shifts. It is rated on a scale from hardly perceptible to extremely high. The risk and return of an investment are definitely correlated. Capitalists enjoy calculated risk. They must be aware of each investment opportunity's potential. More can be gained, but there is also a chance of loss the bigger the risk. The yield is risk-free in the case of treasury bills, which have a set interest rate of just 4%. The expected return is calculated for other investments in which there is neither a set interest rate nor a promise of dividend payments. It may also be used to determine standard deviations. Future profits are frequently unpredictable because of the intricacy of the operations that go into an enterprise. The covariance between the returns on one financial instrument and the returns on another can be calculated for an investment portfolio. The correlation coefficient is used to guide this decision. One stock's profitability may be directly related to another stock's profitability or may be negatively proportional. Combining a portfolio of shares won't lower the risk of an investment. The NBP's interest rates and the status of the economy both often have a significant impact on the value of stock. As the collection of opportunities that can potentially result in a profit, an investor will often stay to the efficient frontier. The challenge is figuring out how likely each profit and loss component is. There are two approaches to approach management in order to lower investment risk. The first step is to acquire a lot of data about risk, including categories of risk and risk-prone places. The second method of lowering risk involves deliberately exposing the endeavor in issue to a certain kind of danger. These two methods work well together.

It is important to consider your possessions. They do not provide a regular source of revenue. They might be reorganized. This entails altering the obligations and assets before reselling the asset at a greater rate of return. Assets can become ones that generate money in this way. The goal is to use this for economic gain.

The golden rule of investing is to keep earnings high and losses low. You must let an investment's gains to exceed its original risk by a wide margin. Profits are to be made while exercising patience. The position will remain open as long as losses are kept to a minimum. The investing plan is less significant than this rule. To achieve continuous and long-term success, a specific plan must be established based on this principle. Losses may be considered an investment expense. They happen often and regularly during investing. The only scenario that should be avoided is one in which the losses sustained do not provide a chance to recover the cash invested. Realising small losses prevents them from compounding and becoming a huge failure. The anticipated rate of return reveals how much can be made from a specific transaction after taking on a specific amount of risk. If it is 0.5, you can earn 50% of the money you invested. Thinking about rewards in relation to investing risk is helpful. Trading expenses are higher and patience is needed more if market signals occur often.

There is a tendency among investors to invest more of their long-term monetary assets in riskier instruments, and those with less capital in short-term and less risky ones. In the short term, more can be lost. In the distant term, short-term losses can be covered and compensated.

How crucial it is to follow specific guidelines and the psychology of investing. It makes sense to hold onto lucrative investments and to liquidate lost ones. Many investors overlook this because they are focused on a brighter future and expected developments that may not materialize. It is wise to put your plan in writing. It will be useful when common sense is outweighed by emotions. A novice investor can make mistakes using a variety of financial market signals and circumstances. Be careful not to let your emotions get the best of you. Such a wager is pointless and frequently has negative financial outcomes. If a profit is realized, there is cause for celebration rather than concern about how another strategy may have performed. The psychological component leaves the investor unsure of what they will do the next day. Loss limitation is conditioned by a positive mindset.

The market for shares of firms with WSE listings is still expanding. Every year, new businesses enter the regulated market. Among other things, the shares of some of the businesses in the Warsaw Stock Exchange's WIG20 index of the 20 biggest listed companies were analyzed. Investment in shares may still be rewarding even in a challenging and unreliable economic environment. This is brought on by changes in their market value and the capacity to

profit from information flow inefficiencies. The study demonstrates that buying shares in firms that produce copper, coal, oil, and military equipment is worthwhile during difficult economic times. According to the study, KGHM Polska Mied S.A. Group, JSW, and PKN Orlen S.A. are the businesses to keep an eye on. Military stores have had a very significant increase in turnover during times of conflict. As a result of the increasing demand, armor producers make more money. This clarifies the whole requirement. Increased turnover will result in skyrocketing share values for the firms, even though customers wish to buy such a basket of items. This is related to a bull market since investor interest is rising. Companies that are listed do so in order to raise money from investors by issuing new shares. Others might be interested just by the signal itself. Dividend rights allow shareholders to receive a cyclical return if the business is profitable. Due to the long-term nature of these financial products, a savvy investor may generate significant returns of up to 30% annually. He or she selects suitable investing methods and determines when to close existing holdings and create new ones.

### **3. Conclusion**

An knowledgeable investor must take these developments into account. In order to eventually exit from the investment in the case of a worsening economic condition, he or she should be adaptable. Shares of companies have been shown to give the chance of profit. To diversify his or her investment portfolio, the investor must select how much cash to dedicate to a certain investment. Crisis situations are a normal part of business cycles. Only their duration and the impact they have on the economy and society are different. Crises strike without warning, but with the appropriate investments, you can protect yourself from them. Additionally, you might benefit from the current unpredictable economic climate by diversifying your investment portfolio by choosing new financial instruments or exiting existing ones. You shouldn't make solely safe investments as part of your long-term investing strategy. Due to the dynamics of arbitrary events occurring in the nation, even low risk investments today may eventually result in a substantial loss of cash.