THE BEGINNING INVESTOR IN THE CAPITAL MARKET AND INVESTMENT PRODUCTS

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Abstract

Investment management focuses on achieving financial goals, not necessarily beating market performance. The main challenge is managing risks and ensuring consistent income, which may be more important than maximizing profits.

Investment is a complex process that involves specialized knowledge. The absence of this knowledge can lead to ineffective evaluations and financial losses, with customers at risk of buying inappropriate or high-risk products. Following some basic principles in this area can make it easy for anyone to become an investor.

In order to become a better investor, it is essential that one learns to manage risks and returns, select an appropriate capital allocation, diversify one's portfolio, maximize one's investments, protect against inflation and constantly monitor their evolution .

Keywords: *investor, capital market, shares, funds*

1. Introduction

The capital market is a section of the financial market where companies obtain funds to meet the needs of investors. The objective of companies on the capital market is to generate additional income to support business development, diversify funding sources or attract investors.

Investing is a personal decision influenced by financial goals, time horizon, risk tolerance and interest in financial markets. Although the markets may seem complicated, there are a variety of investment products tailored to individual investor needs.

There are several categories of investments such as real estate, goods, commodities and securities. Companies often direct their resources toward growth by acquiring other firms, building factories, or purchasing equipment. In all these situations, individuals or companies decide to allocate part of the funds for investments, instead of spending them immediately, with the objective of obtaining an uncertain profit.

An investor is a person or entity that allocates capital in various assets with the aim of generating profit. [1]

An investor is a person who evaluates long-term investment opportunities by focusing on companies' fundamentals, such as sales, earnings and debt levels, to determine an appropriate value.

Equity investors are individuals or organizations that have available financial resources and are looking for profitable investment opportunities in the financial markets. [2]

Investors were formed from the need of entrepreneurs to attract capital to develop their businesses. Although their role is crucial in contemporary society, in reality only a small number of people succeed in becoming investors. [3]

Those who invest need to be clear about their reasons, such as obtaining returns, protecting capital against inflation or saving for retirement. These reasons are essential for the choice of investment strategy and instruments.

2. The beginner investor in the capital market

According to Warren E. Buffett, making long-term successful investments does not require a superior IQ or innovative concepts, but a solid foundation in decision-making and the ability not to allow emotions to affect this process . [4]

A novice investor must acquire fundamental knowledge of the capital market before starting to invest. There are various resources such as books, online courses and seminars that can help in this process. Successful investors constantly improve their knowledge and inform themselves about the latest developments in the field in order to adapt more effectively to market fluctuations.

Setting an investment objective is essential and the investor must choose between short, medium and long term investments. This decision will help in selecting appropriate investment instruments.

In order to carry out transactions in the capital market, it is essential that the investor has an account opened with a broker, who serves as an intermediary in the process of buying and selling securities. It is recommended to analyze the offers of various brokerage firms and select the option that best aligns with the investor's requirements.

The investor draws up an investment plan by determining the amount he is prepared to allocate and by diversifying the portfolio, which helps reduce risks by investing in different financial instruments.

After creating an account with a broker, the investor can start investing by purchasing stocks, bonds or other financial instruments. It is important to follow the evolution of the market and periodically update its investment portfolio.

Emotions have a considerable impact on investing, and keeping calm and avoiding impulsive decisions is crucial given the volatile nature of markets.

There are three categories of investors depending on the size of the investments: institutional investors (commercial banks, investment funds, pension funds, insurance companies and multinational institutions), commercial companies and individuals.

There are three categories of investors depending on the type of investment: strategic investors, who focus on specific economic sectors; portfolio investors, who purchase medium and long-term securities; and speculative investors, who take advantage of short-term price fluctuations.

The world of investing falls into two main categories: active and passive investors, each with distinct approaches, advantages, disadvantages and strategies.

Active investors continuously monitor the market and base their investment decisions on financial information, graphical analysis and expert insights, confident that they can achieve higher returns than the market average due to their skills and research.

Passive investors take a long-term strategy by investing in diversified portfolios, such as index funds or ETFs (exchange-traded funds), without constantly monitoring the market or making frequent trades. [5]

There are a variety of investment strategies available to both active and passive investors. Thus there are:

The value investor looks for undervalued stocks, using fundamental analysis to evaluate the financial statements of companies with the goal of discovering "hidden value" and investing in these stocks.

The growth-oriented investor is looking for stocks of companies that have significant earnings potential or rapid revenue expansion. Stock valuation, particularly in terms of future earnings, is used to determine this potential. While these stocks may be priced higher, investors believe that accelerated earnings growth will justify the higher cost.

The income investor looks for financial instruments that provide steady income, such as stock dividends and bond coupons, which are especially attractive to retirees who need regular income.

The impulsive investor turns his attention to asset prices and their trends, believing that an increase in price will persist. It uses technical analysis, which is based on statistical market data, to detect these trends.

The index investor buys shares that correspond to a certain market index, following a passive investment strategy. This approach gives him the ability to monitor the overall performance of the market or specific segments without the need to select individual stocks.

Knowing your risk tolerance is essential to sticking to your investment plan, as a portfolio with an inappropriate risk profile can cause emotional reactions to market uncertainties. So, depending on the investment attitude, there are different styles of investors:

The defensive investor aims to achieve constant returns and moderate growth in value, avoiding significant fluctuations. His main concern is capital protection, and his portfolio tends to slightly outperform inflation, remaining stable from year to year.

The conservative investor aims for a constant increase in the real value of financial resources, seeking regular returns and avoiding large fluctuations. Its priority is capital protection, but it is open to riskier investments, provided the funds are guaranteed. The ideal portfolio should beat inflation by 1-2% annually and not have a decline of more than 5% year over year.

The balanced investor wants to increase the value of his portfolio and obtain constant income by choosing a combination of low and moderate risk financial instruments. Its long-term objective is to outpace inflation by 2-3% annually and limit annual declines to a maximum of 15%.

The dynamic investor holds an evenly diversified portfolio across all asset classes. The base of the portfolio consists of conservative investment instruments, and the superstructure of risky ones, which constitute approximately 40% of the total. The investment time horizon is usually longer and at least 20% of the portfolio is liquid.

The aggressive investor aims to achieve significant long-term profits by using financial instruments with a high degree of risk. He assumes considerable risks, aiming to exceed inflation by 4% or more per year, while at the same time being aware of the possibility of a decrease in the value of the portfolio of more than 30% annually.

3. Investment products

Investment products require patience and calmness, especially during times of declining markets, when investors may experience losses. Investments can be divided according to the time horizon: short-term (up to one year), medium-term (between three and five years) and long-term (five years or more).

An investor who has a longer time horizon takes less risk in the capital market compared to one who invests in the short term. In addition, to reduce the risk of significant losses, those who plan to invest for a period of 1-3 years should refrain from investing in stocks.

Bonds are credit (debt) financial instruments that are often traded on public markets and have a defined maturity period in years. [6] Bonds are divided into two main categories, depending on the issuer: government bonds, which are issued by states, and corporate bonds, which are issued by companies. In addition, they can also be classified according to the rating of the issuer, in investment grade or speculative grade.

A share is a guarantee of ownership that confirms that the holder is a co-owner of a joint-stock company. [7] Shareholders can receive dividends from the profit, determined by the majority in the general assembly, and their value can vary annually. Shareholders can also reinvest profits to increase the value of the company. Shares are part of a company's assets, and their value depends on the market's expectations of future dividends. Unlike bonds, dividend payments are not guaranteed, and stocks have a theoretically unlimited life, making them riskier. They fall into two categories: growth stocks and value stocks.

Shares protect investors from the loss of capital's purchasing power, and companies' profits and dividends reflect inflation through selling prices. [8]

Mutual funds. Investing in funds is a form of collective investment, which involves raising capital from the public to be invested in the capital markets. These activities are strictly regulated by the authorities. Collective investments contribute to the economy by reinvesting capital that would otherwise have been placed in deposit products. Open-ended mutual funds are considered among the safest investment options for retail investors, including common consumers and households.

Many individual investors choose to entrust their capital to professional managers through management firms, who collect small contributions and invest them in various financial instruments according to an established strategy. Each investor owns part of the fund and benefits from the returns generated, having the possibility to join or withdraw at any time, including requesting payment of the value of the shares held.

Funds intended for qualified investors represent investment instruments with a high degree of risk, being designed exclusively for those who have adequate knowledge in the field. These funds have the ability to invest in riskier assets and are not subject to the same regulations as open-end mutual funds.

Knowing the basics of investing in capital markets is crucial to achieving investors' financial goals. This contributes to minimizing risks and making well-founded investment decisions. Investments in assets such as stocks and debt instruments can bring income and increase value over the long term. However, investors should be aware that there are no guarantees of profit and that the value of the capital may fluctuate, especially in the case of short-term investments.

Financial markets are volatile, which can be a risk for first-time investors due to the fear of permanent losses. However, a diversified portfolio such as mutual funds can turn temporary dips into opportunities with a long-term upward trend. Savvy investors take advantage of short-term dips to buy assets at lower prices.

Because the tools of marketing need not be chaotic and lead the chance to achieve those objectives, recourse must be had to their association with managerial practice. [9]

Successful people use their knowledge and experiences of others to manage their wealth, taking a conservative approach to investing. This allows them to protect assets from inflation, generate steady income and ensure moderate growth, with diversification being essential in the process.

4. Conclusions

Investors play a crucial role in finance these days, having the power to influence markets, business trends and the economy through the choices and strategies they adopt.

Determining the type of investor is essential to developing an effective investment strategy, as each style has advantages and disadvantages. It is crucial to choose a strategy that aligns with your personal goals, financial situation and risk tolerance.

Regardless of the type of investment, it is important for an investor to maintain discipline and focus on long-term goals. A well-thought-out strategy and patience can yield satisfying results, and risk awareness and informed decision-making are essential.

Investors play a critical role in the modern economy, influencing the creation of new businesses, technological progress and the health of financial markets.

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