

RISKS OF INVESTING IN ALTERNATIVE TOOLS IN MODERN THEORY OF INVESTMENT PORTFOLIO

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Аннотация

Альтернативтік инвестициялар, институционалдық инвесторлардың меншігіндегі барлық тәуекел дәрежесі бойынша мәлішерленген активтер сынды елеулі өзгеістерге әкелуі мүмкін, сондықтан күтпеген жағдайлар орын алуы ықтимал.

Аннотация

Альтернативные инвестиции, как и все рискованные активы в портфеле институциональных инвесторов, могут генерировать непредвиденные изменения значений и поэтому несут неожиданные последствия.

Abstract

This article describes the main risks inherent to institutional investors by investing their assets in alternative investments.

Түйінді сөздер: *альтернативтік инвестициялар.*

Ключевые слова: *альтернативные инвестиции.*

Keywords: *alternative investments.*

Alternative investments, like all risky assets in the portfolio of institutional investors can generate unanticipated changes of values and therefore have unexpected consequences. If we assume that institutional investors are rational in choosing alternative investment shares in the portfolio of investors, and the more competitive is traded asset, the greater the change in the prices of alternative assets can be random and unpredictable. Thus, prices for assets and return on assets traded in competitive markets are typically modeled as random variables, and the frequency distribution of probabilities, therefore, provides a starting point for calculating the return on assets.

Most institutional investors analyze and use objective quantitative indicators that summarize statistics. In this case, the objective quantitative statistical source used for comparison and to mitigate human error which may occur with a subjective analysis of the data, which are random in nature. For example, people tend to show a tendency to exaggerate some risks such as the risk of air and underestimate other risks, such as traveling by car, when using the subjective opinion of a person in this case. This detail is the main purpose for the use of quantitative methods for the synthesis and analysis of random data returned.

Moreover, institutional investors believe that the opportunity to benefit in the future returns and this probability is called "ex - ante" or «expectational», then there is a probability distribution unearned benefits in the future. The most important theme in the same understanding of the analysis of alternative investments in the portfolio of institutional investors is the concept of the differences and connections between the former "ex" and returning "ante" capabilities.

Often forecasts are formed partially or completely based on data analysis "after the fact." For example, using "ex - ante" or reverse the spread of the future values of a stock index such as the S & P 500, it is often assumed that a fairly well approximated by conducting subsequent or historically - back propagation data. Thus, the direct use of past behavior as a predictor of future assets of the potential behavior of assets requires two properties, to be exact. First, the normal distribution of the same indicators should be fixed through all the time to invest in alternative assets, for example, the expected return and variance of the underlying asset should not be changed.

Secondly, the asset from past observations should be weighty enough to be the most likely to form a sufficiently accurate representation of the process. For example, equity returns were very high during the bull market in the 1990s and very low for a bear market in the 2000s. Thus, the use of any of these periods of time in isolation probably overstates or understates the reality of what the long-term stock market returns to the original point of the report.

Taken together, the requirements for the past pose a serious challenge to the future requirements. If the last observation period was long, the sample of historical returns will be great, but it usually leads to a large probability that the oldest observations reflect the different risks or other economic conditions than would be expected in the future. If the asset is limited to the most recent observations, its historical data may be more representative than the future economic events.

In predicting the behavior of traditional investment assets in the portfolio of institutional investors, such as equities large public corporation, it may be the least likely that past behavior is a reasonable asset to render his future behavior. However, many alternative investments are particularly problematic in this context. For example, historical data may simply not exist for venture capital investments in new businesses or institutional investor may be "difficult" to observe or receive in all such cases, reliable information about private equity, where all or almost all transactions are not publicly observed. Especially in alternative investments such as hedge - fund expected normal distribution changes as the Fund's investment strategy and in this case used the leverage changes over time. In these cases and many others, the use of distribution of "ex ante" is possible, but should be based on economic analysis and mathematical modeling, and should not merely act on the available data "after the fact."

Nevertheless, whether it is based on previous observations or economic analysis, the normal distribution is a central tool for the understanding of the investment. The normal distribution is the starting point for most statistical applications in investments.

Standard deviation of return, also known as "volatility" is the most common measure of overall financial risk. If a normal distribution is known, the standard deviation indicates greater portion or even all of the information on the width distribution. If the distribution is not known, the standard deviation is typically the first pass in determining the dispersion. One of the most deficient aspects of the standard deviation is the fact that the distribution is asymmetric. Standard deviation variance includes both the right (usually profit) and left (usually loss) distribution sides. As a result, both sides are identical in the symmetric distribution. But in the asymmetric distribution of the parties would be dispersed, and in case of danger, the analyst is primarily concerned with the left or the descending portion of the distribution.

To sum up, the main risks inherent to institutional investors by investing its assets in alternative investments can be calculated using the normal distribution, and in other cases, the abnormal distribution.

References

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