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Classification and Managing of Investments

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Abstract- Finance is the study of funds and management. Its general areas are business finance, personal finance, and public finance. It also deals with the concepts of time, money, risk, and the interrelation between the given factors. It is basically focused on how the money is spent and budgeted. It is one of the most important aspects in handling business. Finance addresses the methods wherein business entities used their financial resources on a certain period of time. It is the application of a set of techniques used by organizations in managing their financial affairs.

I. Introduction

The income and expenditure are emphasized in finance and its differences can easily be indicated. Investing is actual *t*he act of committing money or capital to an endeavor with the expectation of obtaining an additional income or profit. It's actually pretty simple: investing means putting your money to work for you. Essentially, it's a different way to think about how to make money. As most common, definition of investments is considered as investing in fixed and investing in revolving funds. It is part of GDP (Gross Domestic Product) which is not spent in final process of distribution (meaning individual, public or joint consumption), but it is used for replacement of worn-out capacities or for building a new ones.

II. Classification of investments, forms and related groups

Considering the purpose, there are two basic kinds of investments:

- Investments in fixed funds and
- Investments in revolving funds

Investments in fixed funds is venture in objects of permanent nature such as buildings, equipment, long term plantations, harbors, highways, etc. Investments in revolving funds are venture in raw materials, semi products, unfinished products and finished products. All in all, investments in revolving funds are venture in increasing of adequate stock of economy.

The basic economic characteristic of fixed funds is a fact that these funds are exploited in long period of time and many production cycles which are continuously and permanently repeated and during this long period of time they transfer a part of their values in manufactured goods and services. It means that fixed funds have characteristic of amortization. The basic characteristic of revolving funds is that they are exploited in just one production cycles and they have no amortization characteristics. It is impossible to analyze investments without analyzing relevant connected groups which are functionally dependent. Development of production capacities and manufacturing is functionally dependable of investments. Economic development in general can be treated as a form of investments.

The ratio between investments in fixed and revolving funds in global investments is not irrelevant. Even thou doesn't exist any optimal ratio that could be implemented as universal in every economy or fazes of development, it can be said that in regular conditions, investments in fixed funds should be the biggest (the most) part of general investments. In developed and well organized economies, investments in revolving funds are usually around 10 to 20 percents of general investments. That is the result of better social organization of work, bigger efficiency of economic system, better and faster flow of revolving funds which means better economic efficiency and bigger profitability of investments.

Whenever the ratio between investments in fixed and revolving funds is worsening, and investments in evolving funds start to rise that is the sign that in process of economic development exist some problems. Usually, following this is slow of economic progress and fall of social accumulation. So, investments in fixed funds as result have increase of production capacities. Investments in revolving funds as result have increase of raw materials, semi products, products. Overrated increase of stocks leads to certain disturbances in economic system and lowering of economic efficiency of global industrial accumulation.

III. 2. Managing of investments

In theory of investments, the most usually and frequent understanding of investments, is that it's a venture in real gods, for getting certain effects in future for purpose of increase total wealth of social community. The process of investments it self is a set of activities in complete period of planning, preparations and realizations of one project of investments. It is a very complex process consists of many sub processes, phases and single activities, where the whole totality with efficient preparation and realization leads to fulfilling of primary idea and realization of project.

One can say that process of investments consists of following phases:

- Previous analysis pre-study of validity
- Program of investments-study of validity
- Decision of realization of investment
- Development of technical documentation

- Realization of investment-building of investment structure
- Putting into operation –pilot production

The more detailed elaboration of these phases would be:

- Spotting and defining the idea of investment
- Elaboration of idea for investment – goals that can be achieved with realization of investments
- Pre investment study and analysis-pre study of validity
- Overview of previous results and rating of proceeding with realization
- Needed analysis and development of program for Investment(study of validity)
- Consideration program of investment –study of validity
- Establishing of financial construction of investment
- Decision of realization of investment
- Contracting a purchase of equipment, knowledge
- Decision of company which will provide technical documentation
- Making of technical documentation
- Providing needed permits and compliances
- Contracting realization of investment
- Planning of investment structure
- Supervision and control of building
- Delivery and installation of equipment and devices
- Starting of work
- Pilot production
- Serial-regular production

Process of investment has several phases, but generally it can be divided into two sub processes:

- Preparation part
- Realization part

Preparation consider all activities necessary for starting realization process of investments: preliminary and detailed research influential factors and occurrences, pre-study of investment and investment program, providing of necessary resources, making of technical documentation, decision about contractor. Realization is a performing a project itself, and considers all activities needed for such performance to be finalized and operational. Total view on an investment venture considers time division on period of investment and period of exploitation (effective).

Managing of process of investments considers deliberate and effective leading and guidance of this process to defined goal, to effective realization of certain investment project within considering investment process. The managing is considering all parts of process. Preparation, that is planning of investment and part which considers realization of investment and building of investment structure. Managing of investments considers these global phases and general managing process- planning, realization and control.

Managing of investment process is performing with help of different methods. There are many planning methods: net planning, mathematical programming methods, etc. It is very common to use different quantitative criteria's and methods in process of investment which are considering selection between few investment alternatives efficiency evaluation of investment project and making investment decisions.

Selection between few investment alternatives is a part of complete managing of investments. It consists of scientific preparation and making decisions. Selection of Investments within company, considers making investment alternatives among given with the most effectiveness. Necessity is to pick a goal of investment, then criteria for measuring achievement of that goal and to select the investment which will best fulfill goals. But despite all this calculations, decision of investments is most common made by intuition and empiric.

IV. Financing of Investments

Realization of investments considers venture of significant amounts. Procedure of determination of needed amounts for realization of one project and the way of getting them is called financing of investments. Investment project that determine way of realization of planed development, consider among others, determination of expected resources for realization of investment and also determination of source that will provide needed amount. Determination of structure, value and dynamics of expected investments and their coordination with available amounts are big and complex problem. All needed ventures must be covered with respective finances so a project could be realized.

The lack of financial resources for prompt investments can cause the great difficulties in realization-slowing down, loss of certain effects that would bring a prompt realization, even an inability of realization of certain project.

All problems and resolutions considered one investment are included in financial construction. It is usual that financial construction of an investment includes:

- determination of estimated costs of needed resources sorted by purpose and sort and by volume, structure and dynamics
- determination of sources which will provide amounts for financing investments

One of the basic purposes for forming a financial construction is calculation and providing of needed resources from available sources. It is necessary to provide such resources due to an effective realization of project. If resources are unfavorable they can influence to a general realization of investment as unjustified.

The most common participants in investments are:

- Investment companies
- Business banks
- Other interested companies
- Domestic an foreign partners
- Domestic and foreign financial and other institutions
- Domestic and foreign suppliers of equipment and technologies
- Contractors
- Engineering companies

A company can provide financial resources for realization of own investment project, by one of following ways:

1. Self financing
2. Crediting
3. Joint ventures
4. Emission and sell of securities
5. Leasing
6. Concessions

1. Self financing is one of basic and the most used ways of financing of investments. It is also the oldest way of financing and today it is used for opening or extracting of company. In self financing investor provides finances from own resources such as profit and amortization. This is very stabile way of financing investments because it is provided from positive business results of company. It is also the cheapest way of financing investments.

2. Crediting is kind of investments where investor borrows financial resources, under certain conditions, from other subjects that can provide them. Resources are borrowed under established interest rate as price on borrowed amount. Also it is established when the payment of credit begins, sort of payment and time period in which the resources must be paid back. For realization of investments usually is used Long Term Investment Credit with long period of pay back. Such credits can be:

- Financial - paid in currency with established interest rate and period of pay back
- Commercial – credits given in goods, equipment, work and paid back in currency

3. Joint venture with foreign partners is a way of financing investments, where beside investor, occurs one or more partners – co investors, who invest their resources in proposed project and by that, they gain certain rights.

Foreign investor can invest domestic or foreign currency, goods, services, property rights and securities. The foreign partner, based on venture, can have rights to:

- manage or share managing of company
- to transfer rights and obligations from contract of investment or decisions of making company onto other foreign or domestic companies
- to participate in profit and freely transfer or reinvest such a profit
- to have returned part of invested goods according to contracted investment or contract of making company
- return of invested goods, rest of invested goods in case of termination of contract, or expiring of contract of investment or closing the company
- to the part of property formed in company
- other rights presupposed by law.

Investments foreign partners in existing company is arranged by contract of investment and when we talk about investment in new formed company, a contract of establishment is to be signed.

4. Emission of securities is one of ways for realization of investments. Emission of long terms securities (bonds, shares) can provide finances for new company or reconstruction and modernization of existing one. Subject with excess of finances, with buying of securities gains rights of ownership over company and goods. Emission of securities is referring only to bonds and shares. With buying shares one is gaining rights to be involved in managing and disposition of profit. Buying bonds doesn't gain rights in managing and they are only kind of loan.

5. Leasing is a venture in expensive and modern equipment (usually), given in rent. Obligations by leasing contract are fulfilled and paid from profit realized with process of production. This is considered as expensive way of financing, because price of renting equipment is bigger than price when buying equipment.

6. Concessions-usually is used with bigger investments in public goods as highways, harbors, railways, etc. In concessions building of investment object is given to interested subject, who builds with his own resources in exchange for getting rights to be involved in disposition of profit.

V. 4. Gross and Net Investments

Gross investments; in theory under the term gross investments considers part of GDP that is not spent(in matter of personal or public spent)but is used for maintenance of existing, replacement of worn out and building of new fixed and increasing of revolving funds.

Net investments; it is a part of new product (or new social product), which is used for building of new fixed funds. New product is a national product without reduction for amortization, but only for amount of replacement. In other words, new product is a part of GDP which in process of final distribution in totally can be spent, with preserving value of fixed funds. Net investments are also a part of national income which is used for building new fixed and increase of revolving funds.Net investments are completely financed from distribution of national income. Statistically, net investments are estimated as gross investments diminished with value of amortization. Net investments can be positive, equal to zero or negative. When gross investments are bigger then amortization than net investments are positive because part of gross investments are financed from national income.

When gross investments are equal to amortization the net investments are zero because no part of gross investments is financed from national income. When gross investments are lower than amortization, net investments are negative. That means that in economy is actual process of disinvestments. The ratio between net investments and GDP is called “Rate of Net Investments” or “Rate of Accumulation”.

New investments can be positive –when gross investments are bigger than replacement, equal to zero when gross investments are equal to replacement and negative –when gross investments are lower than replacement.

VI. 5. Conclusion

Investments are divided and determined by purpose, technical structure, and sources of investments. By purpose the most important division is on investments in fixed funds and in revolving funds.

By sources of investments division is in gross, net and new investments. Investments are related to accumulation (savings) also. When accumulation is bigger than investments than we have saving and when accumulation is lower than investments there is more spent, which increases volume of production, employment and capacities.

Managing of an investment project can be marked as narrow approach to managing of investments, against a wider approach, where realization of certain investment project round up realization of company development. So, wider approach consists of planning, realization of several connected investment projects and realization of certain development goals as development of company.

Managing of process of investments considers deliberate and effective leading and guidance of this process to defined goal, to effective realization of certain investment project within, considering investment process.

Realization of investment projects needs venture of great amount of finances. Investment projects consider determination of necessary finances for realization of investment and method and sources from which the finances will be provided. Lack of finances can lead to inability to realize the project and influence to development of a company.

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