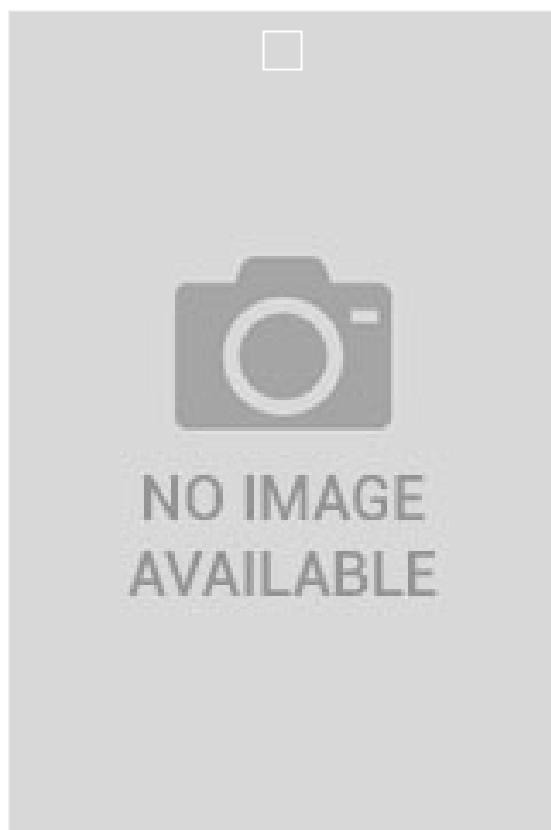


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Economic Practicability Substantiation of Financial Instrument Choice

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Author(s): Mikhail Evgenievich Kosov, Ravil Gabdullaevich Akhmadeev, Olga Alekseevna Bykanova, Vladimir Sergeevich Osipov, Ksenia Valerievna Ekimova, Svetlana Viktorovna Frumina

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Summary/Abstract: When forming investment portfolio of a sovereign fund it is very important to choose the goals which allow taking into account any risks, preferences and restrictions, principles and financial instruments which consider the requirements to the portfolio managers. While substantiation of regulation about the risk level reduction by investment fund portfolio diversification there is developed a hypothesis. The portfolio modern theory defines the practicability of



operations with financial assets by two interrelated characteristics “profitability – risk”. To decrease the characteristics of risk there are implemented investment decisions which consider portfolio diversification taking into account redistribution of invested sum between different kinds of assets. But for all that it is possible to consider the following statement to be wrong: if every portfolio asset is determined by dispersion of profitability, then the profitability of the portfolio has dispersion which depends on its composition. On this hypothesis there is developed an assumption: while portfolio forming, an investor can choose any combination of investment decisions, whereby expected return and standard derivation (risk) of the portfolio are the best. To proof it there were carried out researches of used financial instruments diversification (three groups): assets of the biggest world companies which are in the rating FT Global 500, precious metals which have London Gold Market Fixing Ltd. quotations and property in Germany, Russia, Spain, Switzerland and the USA. Structured common portfolio of investment fund on financial assets of three groups corresponds to profitability rate 4,18% from the biggest world companies shares, 0,13% from gold and 0,82% from property in Germany. Criteria of accepted risk vary from 0,093535962 to 0,006718239 and fulfill conditions of efficient equity frontier parameter adherence. The most important factor while estimation of sovereign funds management is the principle of maximum actions transparence. At the same time, it has to be implemented to all kinds of world sovereign funds. In the world economy, the majority of investment transactions are imposed by revenue-based levy (capital gain), thereby it increases operational expenses, besides levy can influence expected profitability level of investors. The differences in assets levy in different countries stimulate investors to choose the portfolios with grace variant of levy.

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