# SYSTEM OF RECOMMENDATIONS FOR FORMING THE PORTFOLIO OF SECURITIES ON THE RUSSIAN AND FOREIGN EXCHANGE MARKETS

[1]*Alexandra Baburina,*
[2]*Tatyana Burtseva*

[1]*The degree of "bachelor", Russia, Obninsk, National Research Nuclear University "MEPhI" (NNIU MEPhI) Obninsk Institute of Nuclear Power Engineering (IATE);*
[2]*Associate Professor of the Department of Economics, Economic and Mathematical Methods and Informatics, Doctor of Economics, Associate Professor, Russia, Obninsk, National Research Nuclear University "MEPhI" (NNIU MEPhI) Obninsk Institute of Nuclear Power Engineering (IATE)*

**ARTICLE INFO**

**ABSTRACT**

There is a comprehensive analysis of selected shares (both foreign and domestic) was conducted on the basis of the methodology for the formation and management of the securities portfolio using up-to-date statistical data in the article. This allowed the author to obtain results that have scientific novelty and practical significance. The research was conducted under the supervision of Professor Tatyana Burtseva, Professor of the Department of Social and Economic Sciences, Ph.D., Associate Professor.

**Introduction.** The relevance of the topic is determined by the growing role of the exchange market in both the formation of the world economy and in the economy of a country. In the Russian Federation, one of the "youngest" securities markets is functioning today, since its inception, due to historical peculiarities, has not yet passed thirty years. During this time, Russian corporations sought to attract foreign investment to finance their projects, which contributed to the inflow of foreign capital into the Russian economy. However, attracting domestic investment is inherently more able to improve the economic situation of the country as a whole, as it will affect not only the well-being of corporations, but also the material situation of the entire investing population.

Unfortunately, in the realities of the Russian Federation, the class of investors is only beginning to develop, because more often people do not understand where to invest their accumulated savings. The most popular investments among the population are bank deposits and foreign currency. Neither of these can seriously affect the development of the corporate sector of the Russian economy. Therefore, it is necessary to create an accessible and optimal system of recommendations for the formation of an effective portfolio of securities. This will help to formulate a positive image of the investor, make investment «fashionable», and most importantly - affordable. Therefore, the topic of this work is relevant.

Since different models of securities portfolios are not permanent benchmarks for an individual investor, it is possible to put forward a hypothesis that in the realities of the Russian economy there is a range of recommendations (taking into account the laws of the domestic market), thanks to which any novice investor will form the most effective securities portfolio (hereinafter SP). Such a SP (or part of it) will

provide a solid foundation to anyone, including a novice investor, and will allow him to start his own way of accumulating capital as easily and comfortably as possible. This is the practical significance of this work.

**Formation of standard securities portfolios.** Most of the SP is formed from shares of large and novice corporations (depending on the type of SP chosen), both domestic and foreign companies. Domestic securities are mainly traded on the Moscow stock exchange, so for the implementation of transactions you need a contract with a broker specializing in this exchange. A similar situation with foreign securities, only there are NASDAQ (National Association of Securities Dealers Automated Quotation) and NYSE (New York Stock Exchange). Each SP consists of securities of up to thirty names. The number of securities used in SP will affect the dynamics of its market value and profitability. [10].

All the shares selected for this work can be conditionally divided into three groups: shares of the world's largest companies, shares of the largest companies in Russia and shares of corporations recently registered on the market. The choice of these three groups is very simple.

The first group has stocks that are steadily growing in price. The probability of the collapse of one of the companies of the first group is critically small in comparison with the shares of other corporations. These organizations have a stable growth in capitalization, which means that their shares are ideal for forming a portfolio of securities growth, a portfolio of conservative securities growth, a portfolio of average securities growth, a portfolio of income (for some types of corporations of the first group), a portfolio of regular income securities, as well as a portfolio of growth and income of securities. One of the types of shares of this group will also participate in the formation of the portfolio of aggressive growth of securities.

The second group is slightly less stable than the first. In the context of the Russian Federation, the shares of the corporations of the second group are the most reliable, but from the point of view of the world scale they are much more unstable. Shares of the largest companies in Russia will be used to form a portfolio of conservative growth, a portfolio of average growth, a portfolio of growth and income.

The third group includes the riskiest shares, which can bring the greatest return on investment. For a profitable investment in start-up companies, it is necessary to have a deep understanding of the industry of the corporation under study, to have a good sense of intuition, and connections for gathering additional information. Such actions are ideal for a portfolio of aggressive growth in securities and a portfolio of average growth securities. Some shares of this group can be used to form a portfolio of growth and yield of securities, but this is a situational situation, which is possible if necessary to increase the effect of growth in the market value of this SP. With a large number of securities, the collapse of one company will not affect the value so much, and its growth can give an incredible income from SP, as well as a serious increase in its market value.

**Management of standard securities portfolios.** The final results for the formed portfolios are illustrated in Picture 1 and 2. The portfolio of aggressive growth of securities (+ 370% for 12 years) and portfolio of average growth of securities (+ 370% for 6 years) were the most successful portfolios. Naturally, the portfolio of average growth of securities wins between these two SP, as it took less time to achieve the same result. The most inefficient portfolio was the income portfolio, because high dividends are usually compensated for by a low increase in share price. The same applies to the portfolio of growth and income, as well as a portfolio of regular income, as they included shares with relatively higher dividends.

Portfolios, based on shares selected by the principle of the largest income from dividends (portfolio of income, growth and income, etc.), showed the worst growth in the analyzed period. Thus, it became clear that, if the corporation allows itself to pay high dividends, do not expect a significant increase in the exchange value of shares. Yes, due to this, the corporation is trying to raise the demand for its shares, but they use most of the finance to pay dividends (compared to other corporations) when they could invest in the further development of their corporation.

It is most effective to invest your savings in portfolios focused on capital growth, since this effect in the conditions of a modern fast-growing market (in this case we mean the use of this term in the global sense of the word) is the maximum. Dividend payments should be treated as a pleasant bonus, but a greater emphasis on capital growth and speculative transactions.

In addition to evaluating the classical coefficients of stock and portfolio returns, it is necessary to evaluate information noise that affects stock quotes. Most often, it is the statements at the presentations, the internal restructuring of the company and other events that affect the value of the shares or, in other words, the demand [6].
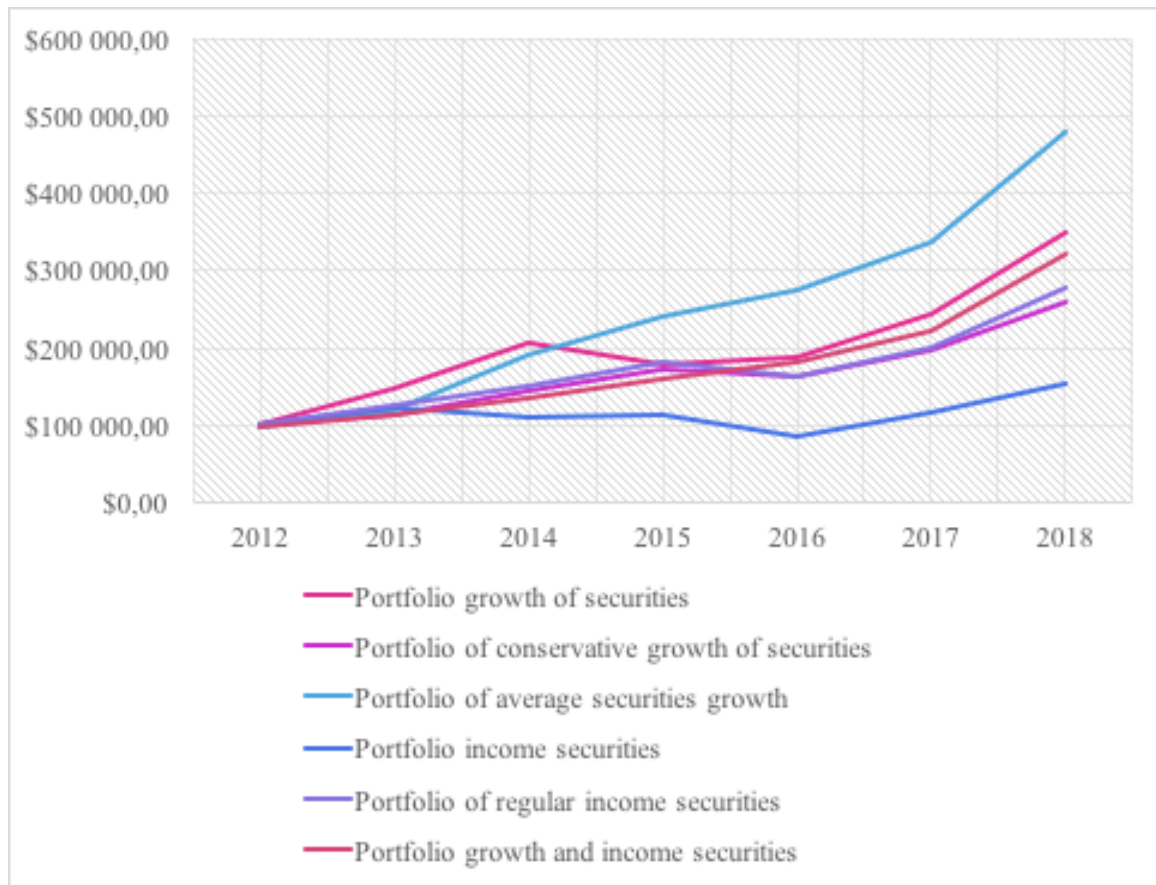
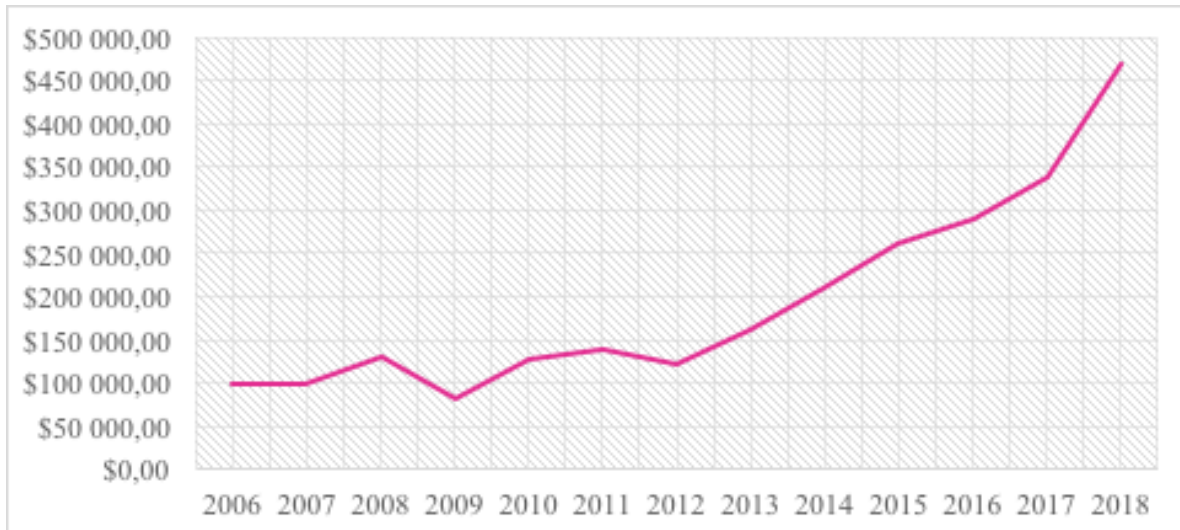*Fig. 1. Results of management of standard securities portfolios*



*Fig. 2. Portfolio of aggressive growth of securities management results*

Thus, it is possible to formulate the following system of recommendations on the formation of the particular SP composition (it should be noted that in most cases the investor does not have the opportunity to evaluate each corporation taking into account all the points presented below, but a deeper approach to analytics will help to avoid serious the fall in the value of generated SP):

1. To assess the prospects for the development of various economic sectors, to select for themselves the most promising (in some cases potentially risky) sectors. At best, the investor will guess the revolutionary industry at the stage of initial development.

2. Select the key corporations in the selected industries, which will be most affected by the development of this industry.

3.　Assess the stability of the corporation among competitors. For example, Apple Inc. shares periodically fell in price at the time of growth in the popularity of Samsung shares, but this influence was not strong enough for a serious drop in quotations, which indicates the advantage of the corporation over competitors.

4.　To study top management of the corporation, after all the basic decisions will proceed from the people forming the given skeleton of the enterprise. All large corporations had very prominent CEOs: Steve Jobs, Jeff Bezos, Warren Buffett, and others.

5.　Assess the attractiveness of the product produced by this corporation, or the services provided by this corporation, to the consumer. Many consumers in the future can pay attention to investing in this corporation (because they are sure of it because of their experience).

6.　Calculate the coefficients of P / E and EPS. The higher these indicators, the greater the positive prospects for the stock prices of the analyzed corporations. It also helps to understand how much the stock is overvalued or undervalued. These indicators are suitable both for the valuation of shares in the formation of a new SP, and for further management decisions. As a note, I would like to note that a number of investors prefer to invest in overvalued shares, although this is a rather risky occupation[3].

7.　Calculate the Beta-coefficient as an indicator of the riskiness of the selected assets[5].

8.　Estimate dividend income.

Also, worth noting are the features of investing in foreign and domestic stocks. The summary system of recommendations is presented in Table 1.

Table 1 - Consolidated system of recommendations for the formation of SP on domestic and foreign stock exchanges

| № | SP type | Degree of efficiency in the foreign stock exchange | Degree of efficiency in the domestic stock exchange | A comment | Tips for the domestic investor |
|---|---------|---------------------------------------------------|----------------------------------------------------|-----------|-------------------------------|
| 1 | Portfolio of aggressive growth of securities | High | Low to medium | A sufficiently high degree of risk, therefore it is recommended to choose the corporations of developed countries | It is possible in the presence of an investment account of 6 million rubles (own trading), or due to the services of foreign brokers from domestic investment companies |
| 2 | Portfolio growth of securities | High | Medium | The degree of growth of a corporation directly depends on the development of the country's economy (in which it is located), at the same time it affects the growth of the country's economy | For domestic corporations, the risk is increased, therefore, it is advisable to at least dilute the shares of domestic corporations with foreign |
| 3 | Portfolio of conservative growth of securities | Medium | Low to medium | The more stable the country's economy, the higher the growth of its corporations, including the average growth of blue chips | Tip is identical to the tip for the formation of Portfolio No. 2 |
| 4 | Portfolio of average securities growth | High | Medium | Comment is identical to Comment #3 | Tip is identical to the tip for the formation of Portfolio No. 2 |
| 5 | Portfolio income securities | Low to medium | Medium to high | Domestic corporations are more focused on paying high dividends. This is due to an attempt by domestic corporations to raise demand for their shares (both on domestic and foreign exchanges) | If the purpose of investing is a high periodic income without speculative transactions, then the investor should pay attention to the domestic market |
| 6 | Portfolio of regular income securities | Low to medium | Medium to high | Comment is identical to Comment #5 | Tip is identical to the tip for the formation of Portfolio No. 5 |
| 7 | Portfolio growth and income securities | Medium | Medium | Comment is identical to Comment #2 and #5 | Tip is identical to the tip for the formation of Portfolio No. 2 and No. 5 |

**Conclusions.** The domestic stock market is very young and unstable, so the shares already have a relatively higher risk from investments.

Because of not fully developed economy in the Russian Federation, consumer investment is still not very popular (the minimum volume of opening an investment account for an average broker is 300,000 rubles, not every ordinary man can afford to invest his savings in this way on a sufficiently risky and young stock market ). Therefore, domestic corporations attract investors due to the high dividend yield of their shares (in other words, the receipt of income in the next year or two, and not after five or more years).

Our market attract many foreign investors with their «youth», as some of the shares can bring quite a significant income from speculation (for example, shares of the corporation «Magnet»).

## REFERENCES

1. О рынке ценных бумаг Федеральный закон от 22.04.1996 N 39-ФЗ (ред. от 03.07.2016).
2. Айвазян, С.А. Эконометрика. Краткий курс: учеб. пособие / С.А. Айвазян, С.С. Иванова. – Москва: Маркет ДС, 2013. – 104 с.
3. Алексеев, М.Ю. Рынок ценных бумаг / М.Ю. Алексеев. – Москва: Финансы и Статистика, 2012. – 364 с.
4. Дедкова, М.В. Капитализация компании: теоретический аспект/ М.В. Дедкова. - Журнал «Вестник МГУС». – Москва, 2014. – С. 12-34.
5. Мищенко А.В. Оптимизационная модель формирования инвестиционного портфеля / А.В. Мищенко // Финансовый менеджмент. – 2015. – №5. – С.12-16.
6. Howard Richman. Corporate Income as Personal Income / Howard Richman, Raymond Richman, Jesse Richman // Thinker, – 2015. – №3. – С. 32-34.
7. Howard Richman, Raymond Richman and Jesse Richman, Corporate Income as Personal Income/ Howard Richman, Raymond Richman and Jesse Richman. – Thinker, 2015. – 32 p.
8. John Lintner, Distribution of Incomes of Corporations Among Dividens, Retained Earnings, and Taxes/ John Lintner/ - The American Economic Review, 2012, - 613 с.
9. [Электронный ресурс]. – Режим доступа: http://ru.investing.com/ – Investing.com. – (Дата обращения: 15.12.2016).
10. [Электронный ресурс]. – Режим доступа: http://moex.com/ – Московская биржа. – (Дата обращения: 21.12.2016).