

INVESTMENT ACCORDING TO GLOBAL DIVERSIFIED APPROACH

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Abstract. The aim of the article is to invest into selected types of investment instruments using psychological analysis on the financial market. Global diversified approach is used. The main problem is that many investors do not have experience with this approach which facilitates investment intentions in a global market environment. The use of the examined approach on investment in financial markets has an impact on investors' psyche because they have a psychological approach that facilitates investment decision-making and reduces the risk of loss in a global market environment. It is necessary to realize that psychological factors on the financial markets dominate and they are presented on the world markets every day, which influences the prices of investment instruments and the behaviours of the investing public in the conditions of globalization. The portfolio of investments built up according to the examined approach, including its evaluation on a model example, spreads the awareness of this investment opportunity. Nowadays, when a number of investments have a global character such as global funds, bonds, and stocks to which an investor can invest from home, it is necessary to use both existing and new approaches. Nowadays people are faced with the fact that they have to put off part of the consumption in order to have decent living conditions at old age. Today it is therefore necessary to implement investment plans by the adult population because social changes have an impact on everyone due to globalization processes.

Keywords: globalization, psychological approach, investor, portfolio

JEL Classification: G1, G11, G15

1. Introduction

Globalization is a phenomenon which daily intervenes in our lives both positively and negatively. Although part of inhabitants can think that globalization processes are none of their concern and that they have no effect to their personal life, the contrary is the case. The positives of globalization, which express oneself in the citizens' daily life, are, for example, the tourism industry. At present, it is possible to travel from one end of the world to another relatively quickly using transportation means. A negative element can be a worldwide poverty, social inequalities, unemployment as well as transport industry which burdens the living environment. It is exactly the transport industry that gave a first pulse for globalization. Globalization elements then began to express themselves in other fields such as financial

markets, too. As a result, a market named FOREX (International Interbank Foreign Exchange) has appeared, and it is the most globalized worldwide currency market, in which it is possible to trade non-stop daily for five days per week, where the main players, according to Contreras et al., (2018), are institutional investors. However, together with the origination of new technologies, this market is being opened for the general public. It contributed, according to Geromichalos and Jung (2018), to a significant development of the trade and investments at the international level. The aim of the paper therefore is to draw attention to the investment in certain types of the investment instruments with the help of a psychological analysis at the financial markets with the use of the Global diversified approach. The main problem is that a series of investors has no experience with this approach which facilitates investment intentions in the global market environment.

Each investor, no matter whether professional or non-professional, who makes a decision to perform investment intentions in the financial markets, has to take into account that each investment has both positive and negative elements; it is emphasized by Myšková et al, (2013) and completed by Turrall et al, (2010), who declares that certain expenses are related to each executed investment, and each investor has to consider those expenses to ensure realization of his/her investment intention. An investor can affect some investment decisions, and one of possibilities is to create an investments portfolio and thereby to reduce the risk of loss, as well as to carry out trades for which there is a minimum recommended quantity of investment, which he/she has to purchase, and a volume of financial means; and by this he/she can reduce his/her expenses and costs. He/she can further choose investment instruments depending on certain aspects which are specified by him/herself depending on financial possibilities and investment criteria. One investor can only prefer real assets, and another one - only financial investments, where he/she, for example, considers the company's dividend policy as a key policy; Sejkora and Duspiva (2015), Jo and Pan (2009) draw attention on it.

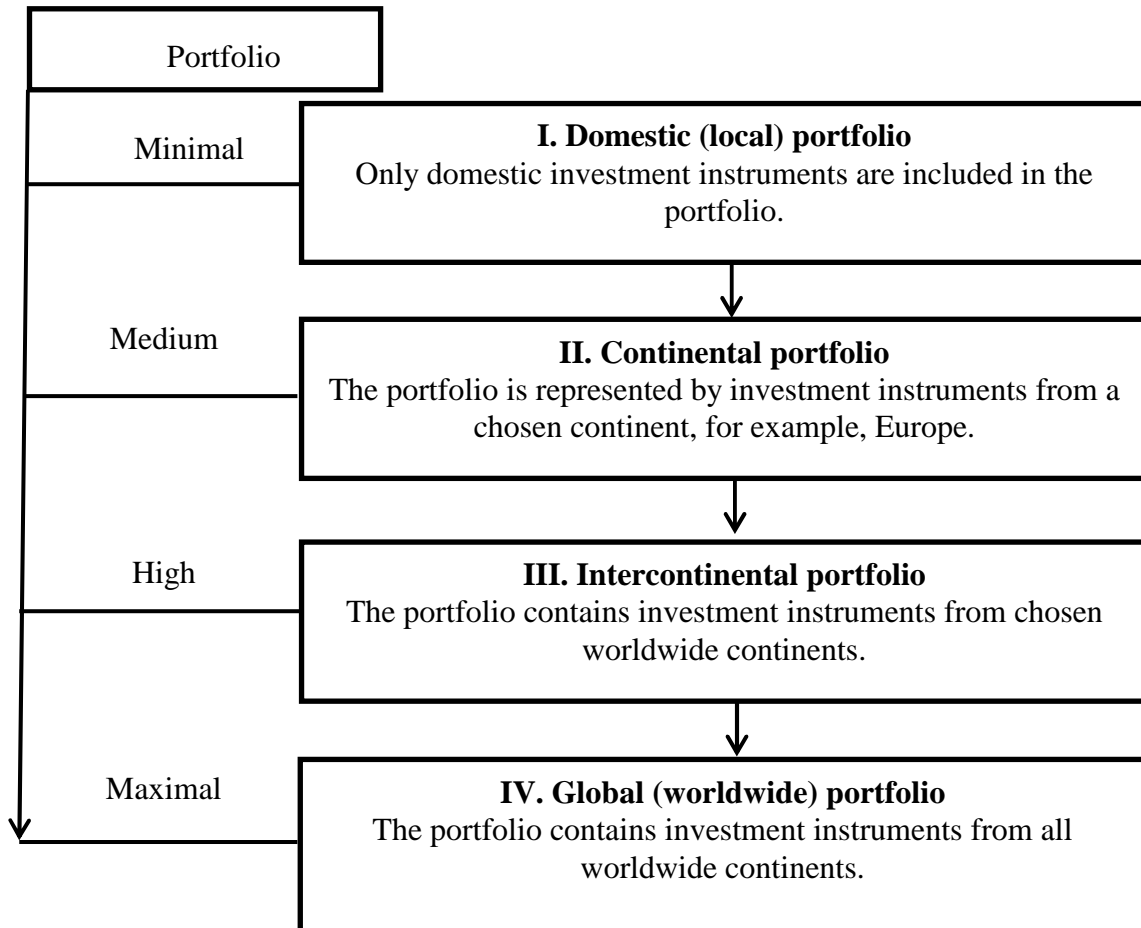
Portfolio compilation and modification is crucial for investors, and it is considerably actual at the present time, because it can be nowadays relatively easy to compile international portfolios, which are global in nature, with the help of securities traders. Poshakwale and Thapa (2011) recommend compilation of an international portfolio from investments in countries where there is a better legal protection of investors. The issue of investments diversification and portfolio compilation at the investment intentions related to stocks in Nigeria is presented by Oloko (2018), and that is on the part of investors both coming from USA and Great Britain. Chen et al, (2018) is also engaged in the matters of international stocks composition of the investments. He is focusing on the analysis of great leaps in so-compiled portfolios. Guerard Jr. et al, (2018) continues to elaborate on this theme. He deals with portfolio compiling in the global environment of the financial markets. Most of countries at the present time is based on the market principles of economy, where the globalization processes accelerate these interconnections between particular countries, and it is also valid for the global financial markets as a whole.

2. Global diversified approach

The Global diversified approach is part of the psychological analysis according to which it is possible to perform investment decision-making in the financial markets. According to Novotný (2018), the main objective of this approach is to maximally diversify risk in the event that the investor makes decision to invest in the worldwide investments and - by this -

creates a global portfolio. Fig. 1 represents the Global diversified psychological approach from bottom to top.

Fig. 1: Global diversified psychological approach from bottom to top



Source: Novotný (p. 87, 2018)

This Global diversified psychological approach from bottom to top assumes that an investor will implement investment steps deriving from recommendations of this approach. It means that he/she firstly buys investment instruments tradable in the domestic country. It is presumed that he/she buys, for example, stocks of well-known and financially strong companies and then creates a Domestic portfolio, and after some time would extend it with the use of his/her experience which he/she gained by trading with domestic investments. He/she thereby creates a Continental portfolio, which would include investments from the countries that are close to him/her with its culture, language, geographic position and legal environment. After having gained other experience from abroad investments and having reduced a fear, his/her psyche would be strengthened, which can lead to the creation of an Intercontinental portfolio. As a result, the investor starts to invest not only within one continent but he/she includes other chosen continents into his/her portfolio. The last step and the top of investment is creation of the Global portfolio which includes all continents and different investment instruments. This procedure is suitable for a novice and non-professional investor.

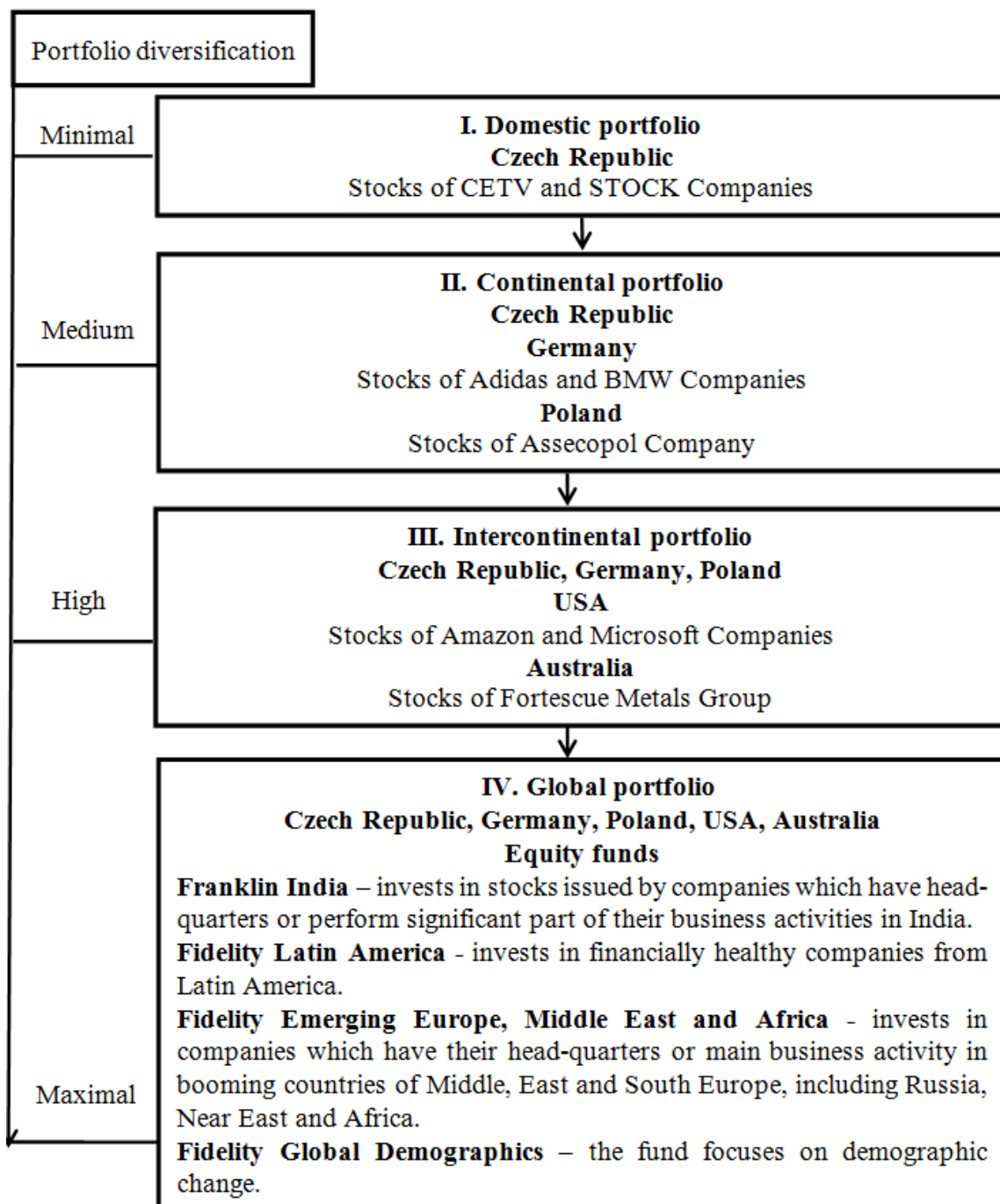
It is also possible to invest and create a composition of the investments depending on this psychological approach absolutely conversely; Novotný (2018) pays attention on it, i.e. from top to bottom. It means that the investor starts with the Global portfolio to keep only the Domestic portfolio later; this procedure cannot be excluded since an investor at the present can make decision either by him/herself or with the help of a knowledgeable trader who would recommend him/her immediately at the beginning and compile a Global portfolio for him/her.

3. Investing with the help of the Global diversified approach

We are going to presume in the following model example that a novice investor has made decision according to the Global diversified approach, and that is from bottom to top considering that it is a non-professional investor. The investor will gradually include selected investment instruments into his/her portfolio depending on recommendations deriving from the analysis of the chosen approach. The next assumption is that he/she, always starting from the first purchase till a half of the year of the purchase, buys other investment instruments so that he/she creates a global diversified approach of his/her own investments during two years and - by this - reduces the risk. It is the influence of the risk that has an impact on the investors' psyche.

The first executed investment was carried out by 8/19/2016, when the investor has bought stocks of CETV and STOCK Companies on the Prague Securities Exchange (BCPP, 2018) and has then created a Domestic portfolio. In half a year from the first purchase, he/she has extended his/her composition of the investments and then created a Continental portfolio, where he/she has included stocks of German companies, Adidas and BMW, and also stocks of Acecopol Company from Poland. During the next half a year, he/she has later bought stocks on an American exchange, namely stocks of Amazon and Microsoft (Akcie, 2018), as well as invested at the same time in Fortescue Metals Group, the stocks of which are tradable on the Australian exchange (Australian Securities Exchange, 2018); this decision resulted in the creation of an Intercontinental portfolio. After the elapse of six months from the creation of the Intercontinental portfolio, he/she has made decision to invest in equity funds that are offered by ING Podílové fondy Company (2018) and thereby created a Global portfolio, into which he/she included the following four funds: Franklin India, Fidelity Latin America, Fidelity Emerging Europe, Middle East and Africa, and Fidelity Global Demographics. The portfolio composition is presented in Fig. 2, where you can see which items have been bought by the investor.

Fig. 2: Portfolio composition according to the Global diversified psychological approach



Source: our own processing

While investing, the crucial moment is when and at which cost a particular investment instrument was purchased, because it influences results of the total portfolio as well as the investors' psyche. Each proper investor must be interested in his/her own investments as well as evaluate and perform other investment decision-making. It is the regular evaluation of the achieved results that is important for the time of sale. The Table 1 below represents evaluation of the portfolio compiled according to the Global diversified psychological approach. It is presumed that the investor has only purchased one stock or one allotment certificate, and on 8/17/2018, he/she has made decision to sale the whole portfolio. Considering the fact that the portfolio is compiled from investments which are offered in different currencies (EURO,

Polish Zloty, US Dollars and Australian Dollars), there was used recalculation to Czech Crowns by the date of purchase and sale according to the Exchange List of the Czech National Bank (2018).

Table 1: Evaluation of the portfolio composition compiled according to the Global diversified psychological approach

Portfolio name	Company/Shares Fund name	Purchase date	Purchase price, in CZK	Sale price, by 8/17/2018, in CZK	Absolute revenue, in CZK	Relative revenue, in %
Domestic	CETV	8/19/2016	57.50	78.60	21.1	36.696
	STOCK	8/19/2016	55.90	58.80	2.9	5.188
	In total		113.4	137.4	24	21.164
Continental	CETV	8/19/2016	57.50	78.60	21.1	36.696
	STOCK	8/19/2016	55.90	58.80	2.9	5.188
	Adidas	2/20/2017	4,009.768	5,326.11	1,316.342	32.828
	BMW	2/20/2017	2,298.591	2,094.679	-203.912	-8.871
	Assecopol	2/20/2017	348.582	262.039	-86.543	-24.827
	In total		6,770.341	7,820.228	1,049.887	15.507
Inter-continental	CETV	8/19/2016	57.50	78.60	21.1	36.696
	STOCK	8/19/2016	55.90	58.80	2.9	5.188
	Adidas	2/20/2017	4,009.768	5,326.11	1,316.342	32.828
	BMW	2/20/2017	2,298.591	2,094.679	-203.912	-8.871
	Assecopol	2/20/2017	348.582	262.039	-86.543	-24.827
	Amazon	8/21/2017	21,141.112	42,506.174	21,365.062	101.059
	Microsoft	8/21/2017	1,600.071	2,429.479	829.408	51.836
	Fortescue Metals Group	8/21/2017	101.378	71.004	-30.374	-29.961
	In total		29,612.902	52,826.885	23,213.983	78.391
Global	CETV	8/19/2016	57.50	78.60	21.1	36.696
	STOCK	8/19/2016	55.90	58.80	2.9	5.188
	Adidas	2/20/2017	4,009.768	5,326.11	1,316.342	32.828
	BMW	2/20/2017	2,298.591	2,094.679	-203.912	-8.871
	Assecopol	2/20/2017	348.582	262.039	-86.543	-24.827
	Amazon	8/21/2017	21,141.112	42,506.174	21,365.062	101.059
	Microsoft	8/21/2017	1,600.071	2,429.479	829.408	51.836
	Fortescue Metals Group	8/21/2017	101.378	71.004	-30.374	-29.961
	Franklin India	2/22/2018	983.488	1,044.381	60.893	6.192
	Fidelity Latin America	2/22/2018	254.694	220.320	-34.374	-13.496
	Fidelity Emerging Europe, Middle East and Africa	2/22/2018	505.034	413.481	-91.553	-18.128
	Fidelity Global Demographics	2/22/2018	402.767	437.433	34.666	8.607
	In total		31,758.885	54,918.548	23,183.615	72.999

Source: our own processing

In the case that the investor made decision to sale the whole portfolio by 17th August 2018, it would generate a revenue from the investigated investments in the amount of 72.999 %, which is a really decent result. All his/her portfolios compiled according to the psychological

approach of the Global diversified approach have showed positive overall results. The chosen psychological approach can be considered to be well-founded on the part of the investor, where he/she has firstly compiled a Domestic portfolio which generated total revenues of 21.164 %, which can leave a non-professional investor with a pleasant feeling to continue with investing and to extend the existing investments composition. A Continental portfolio, as a result, was created, where the investor has extended his/her investments by stocks from Germany and Poland, which reached the overall revenue of 15.507 %. After some time, the investor extended the existing portfolio by other stocks from USA and Australia and thereby created an Intercontinental investments composition; this investment decision turned up successful, because the investment instruments were again increased in their value by 78.391 %. Half a year later, the investor have made decision to create a Global portfolio and included equity funds into it, and thereby deepened diversification risks, because he/she has already had not only stocks; it resulted in value increasing by 72.999 %. The practice of the investor according to the investigated psychological approach has proved its substantiation that led to the valuation of the financial means. It is necessary to remember that the model case doesn't include charges, taxes and paying dividends for some of here-investigated investments. It is also necessary to consider the time of purchase and sale, as well as a selection of investments. The authors of the paper draw attention on it, which influences the achieved overall results.

4. Conclusion

Investing in the global environment is not easy at all at the present time with regard to big turbulences and changes which take place round the world. Where one unpleasant event in a particular market can influence behavior of investors on a global scale. It can be beneficial for the investors to invest according to some models or approaches, which elaborates them to make investment decision, and this effects their psyche and other investment decision-making in the future. Investing according to the Global diversified psychological approach proved its substantiation and referred to the importance of investments diversification, but several factors have to be carefully considered. Each investor is different; it is given by his/her relationship to the risk as well as by his/her economic conditions in which he/she lives. The paper also contains a model example, where an investor has only bought one investment instrument from the investigated companies. This step, called an Incomplete Commercial Units Theory, evidently would not be executed by the investor because this method of purchasing is burdened by special charges. Each securities trader has his/her own policy of charges, which - as a rule - derives from the volume of the financial means and a number of the purchased securities. The higher a number and volume are, the lower - in most of cases - charges, or they are even fixedly stipulated without regard to the volume of the financial means and a number of the investment instruments; that's why the authors assume that investors in practice will be and behave rationally.

Acknowledgment (TNR 12pt. bold)

This contribution was made with the financial support of SGS_2018_013.

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