

STRATEGIC ANALYSIS OF INVESTMENT PORTFOLIO MANAGEMENT

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Abstract

This article discusses strategic analysis methods for managing investment portfolios, the processes involved in portfolio management, the passive portfolio strategy, and active-passive strategies. It reflects on the importance of forming the necessary information for constructing a portfolio. At the end of the article, relevant conclusions and recommendations are provided.

Keywords: Portfolio management, portfolio monitoring, active portfolio strategy, passive-active strategy, portfolio analysis, financial audit, CAPM (Capital Asset Pricing Model), beta coefficient, liquidity.

Introduction:

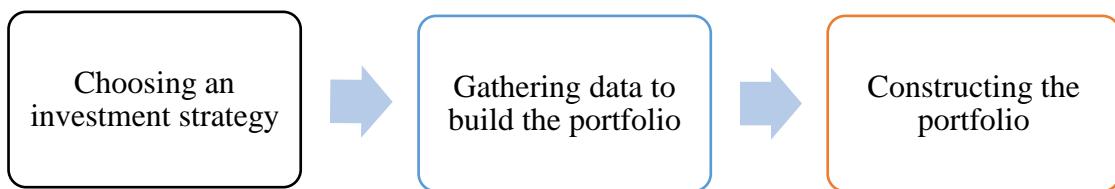
One of the most important issues for investors today is the effective management of their portfolios. In global practice, there are several methods of portfolio management. Generally, there are different types of investment portfolios, including: conservative portfolio, moderate or balanced portfolio, aggressive or growth portfolio, income-generating portfolio, passive or inactive portfolio, and international portfolio. The choice of portfolio type depends on the financial strategies of companies or investors. Portfolio management is also crucial in investment portfolios, as effective portfolio management can increase expected returns. Managing a portfolio means managing money and assets. Large investors typically entrust the management of their investment portfolios to financial managers, and these professional managers make investment decisions by analyzing the portfolio, evaluating investment opportunities, and calculating the level of risk.

Literature Review on the Topic: The foundation of modern portfolio theory (MPT) was laid by Harry Markowitz (1952), who introduced the mean-variance optimization model, emphasizing the trade-off between risk and return. This theory was expanded by Sharpe (1964) through the Capital Asset Pricing Model (CAPM), which provided a linear relationship between expected return and market risk (beta). The Arbitrage Pricing Theory (APT) by Ross (1976) further generalized asset pricing by including multiple risk factors. While MPT assumes rational investors and normally distributed returns, critics such as Mandelbrot (1963) and Fama (1970) challenged these assumptions, leading to the development of the Efficient Market Hypothesis (EMH) and later the Behavioral Finance school. Behavioral theorists like Kahneman and Tversky (1979) introduced cognitive biases and heuristics that influence investor decisions, impacting portfolio strategies. Strategic portfolio management involves long-term asset allocation decisions and is often contrasted with tactical or active management. Strategic analysis tools include: Top-down and bottom-up approaches: Top-down strategies focus on macroeconomic analysis, while bottom-up strategies analyze individual securities (Bodie, Kane & Marcus, 2014). Asset allocation models: Strategic asset allocation defines a fixed portfolio mix, rebalanced periodically. Models like the

Black-Litterman model (1992) improve on Markowitz's framework by integrating subjective views with market equilibrium. Risk-based strategies: These include risk parity, minimum variance portfolios, and value-at-risk (VaR) frameworks (Maillard, Roncalli & Teiletche, 2010).

Analysis and Results:

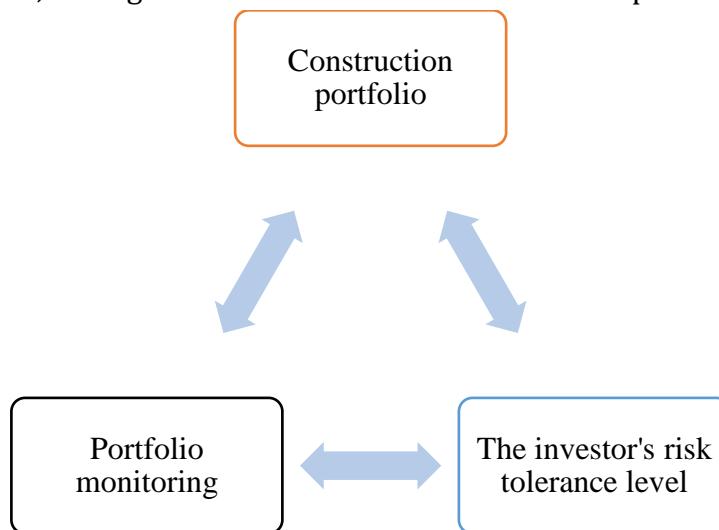
Defining investment objectives begins with analyzing investments. Generally speaking, investors are divided into individuals or companies engaged in investment activities. These two types of investors differ significantly in terms of their goals. An investment portfolio strategy includes the following stages.



Picture 1: The investment portfolio strategy includes the following stages:

Portfolio strategies are generally divided into two types: active (alpha) and passive (beta) strategies. A passive portfolio strategy involves minimal changes and diversifies assets based on market indicators. The term "beta" refers to well-diversified assets according to market benchmarks. An active portfolio strategy, on the other hand, involves not only asset diversification but also the use of available information and anticipated forecasts.

It builds its portfolio using available information and expected forecasts. What all active strategies have in common is that they directly influence the assets. For example, a simple stock strategy includes expected returns from future stock growth, the amount of dividends, and earnings per share. Active portfolio strategies also take into account foreign securities, changes in domestic interest rates, and exchange rates. In general, managers divide the structure of an active portfolio into three stages:



Picture 2: The structure of an active portfolio into three stages

Gathering data to build the portfolio – In an active portfolio strategy, forming the portfolio involves using internal information and forecasts related to securities, which can impact the entire portfolio. For example, factors that determine the expected return from the portfolio's assets and the covariance structure of the portfolio. Some influencing factors reflect historical market data, while others incorporate anticipated market prices.

Portfolio Structuring – When structuring a portfolio, the investor may face certain constraints. For instance, the investor might be significantly influenced by a concentration limit or by exposure to a specific market sector or issuer. Portfolio risk measures estimate the sensitivity of the portfolio's performance to changes in key influencing factors. However, investors do not view risk impact as a single fixed value.

Portfolio Monitoring – Systematic monitoring of the portfolio structure is essential. Monitoring consists of two parts. The first part involves tracking market changes and studying their impact on portfolio construction. The second part is overseeing the performance of the portfolio itself.

In conclusion: In conclusion, strategic analysis in investment portfolio management plays a vital role in achieving long-term financial goals by aligning investment decisions with an investor's objectives, risk tolerance, and market conditions. By selecting between active and passive strategies, investors can tailor their portfolios to either seek outperformance through market predictions and asset selection or to maintain stability through broad market exposure. The strategic process involves several critical stages, including defining objectives, choosing a strategy, collecting and analyzing relevant data, constructing the portfolio, and continuously monitoring and adjusting the portfolio's structure. Ultimately, a well-executed investment strategy ensures optimal allocation of assets, minimizes risks, and maximizes returns over time. Regular analysis and adaptability to market shifts are essential for maintaining portfolio health and achieving sustainable growth in a dynamic financial environment.

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