GLOBAL JOURNAL OF COMMERCE & MANAGEMENT PERSPECTIVE
(Published By: Global Institute for Research & Education)
www.gifre.org

INNOVATIVE CONTENT IN THE MANAGEMENT OF CERTAIN TYPES OF RISKS IN THE STOCK MARKET

Alashbayeva Nursulu Mukhanbetovna
Senior lecturer, Magister of the "Finances" Chair,
Kazakh University of Economics, Finance and International Trade,
The Republic of Kazakhstan.

Abstract

In this article considered some innovative questions of risk reduction in asset management process. Considering the importance of effective risk management in today's financial market, the article content can be used as a teaching material in the studying and teaching the course "Management of financial risk". It is known that the current crisis appeared in the market of structured products, based primarily on mortgage bonds, which perform an essential function, transfer and redistribution of financial risk.

Keywords. *Financial crisis, market economy, financial resources, financial risks, Stock market.*

Risks in the Stock Market

The global financial crisis that began in the second half of 2007 is persived by many researchers as a systemic crisis of the globalized market economy. In these situations of the financial market emerges specific risks. Form and methods of their control are diverse.

Decline in bank crediting has a negative impact on the availability of financial resources, in general on the state of financial market. In these circumstances, consideration should be given to the conduct of financial companies and to their managers, who should eventually achieve effective management of financial risks.

Total volume of assets, under the control, is not the main factor of success in financial companies. The bigger the company, the more it focuses its activities on turnover because it is at the mass market, and here asset managers lose their significance in favor of marketing activities. Managers of large companies also face the fact that their massive sales operations can negatively affect on share prices and worsen their situation. The large companies are trying to organize a trade in special areas in order to minimize the negative consequences of risk of the specified operations, by splitting their orders between brokers and keeping own plans in secret with a purpose to bring income to a company.

However, the average profit of an asset controller in asset management reaches usually 40% of assets profitability. This is partly due to the lack of price competition, because managers try to persuade customers to choose their fund by presenting earlier results' recommendations. All of these agents have their persentages in the commission therefore they are not interested to recommend the less expensive alternative investments.

So customers are involved in an expensive game on finding a better manager, though, by nature, they are doomed to loss because after deduction of all costs the manager will inevitably lag behind the market. Therefore, in the agents' work, in today's financial markets, must be taken into account the possible risks.

It should be noted that historically the attractiveness of governing firms was the results of two components: risk reduction due to the diversification and the ability to choose the right asset. Diversification as a method to overcome the risk was developed with the emergence of funds focused on the movement of financial market indices. Clientele gained access to the capacious equity portfolio of companies. In general, rapidly spread usage of indexes significantly changed asset management business.

Originally indexes were conceived as a means of assessing the condition in the stock market. Then investors realized that indexes can be used to evaluate the performance of fund managers. With the growth of temptation, investors had an idea of opportunities to outrun the market by taking a big risk. Making a profit from operations considering the risk involved a combination of return on assets volatility. Like that was born an instrument, alpha, for measuring the skill of managers. Alpha defined how the ability of the manager provides higher incomes considering the risk. Subsequently, investors found out that most of these incomes could be obtained simply by aggregate market conditions, so-called beta. Then the evidence of high professionalism was the increase in indicator of the market's average profitability.

In other words, if the index S&P 500 rose by 8% and the fund manager provided the yield at the level of 10%, then the investor receives 8% from the beta and 2 from the alpha. Thus, we can assume that the investor has to pay a commission for an additional 2 percentage points of income, as 8 points he could get with significantly lower costs in funds focused on the movement of financial market indices.

Investors attempt to separate alpha from beta many times in different forms. So, the basic part of means was placed in an index fund, and another part was transferred to managers with a strong reputation, able to outpace the market. The first part of the fund was directed by manager for development, mature markets, and the second for emerging markets where the chances was higher to outpace the market for a manager. It is known that clients directed most of their risk budget to the stock market, guided by the notion that returns on share would be higher than on bonds, in particular due to the additional risk premium for equity. Now it is clear that they should focus on Alpha because it proceeds less correlated with the situation on the market and can give the best ratio of profitability and risk.

Another approach of gaining alpha is to provide managers with more opportunities for deviation from the index. The idea was about the acquisition of managers the best shares regardless of their weight in the index. This has contributed to the growth of income in the long-term prospects, although it might restrain the yield on the index in the short-term period. This focuses on additional risk contributed to the development of the asset management industry, as managers have the freedom to the creativity. At the same time, this freedom turned to be the actual commitment of a manager to outperform the market on income. Somewhat this circumstance explains the distribution of commission payments according to the received result. The Manager receives a modest commission to cover its regular expenses, but in the case of using Alpha its commissions dramatically increase.

Unrestricted low cost access opportunities to financial markets investors received due to the emergence of exchange-traded funds. This instrument in the stock market is an alternative choice to index mutual funds. The portfolio of the exchange fund in its structure corresponds to some stock index or a basket of shares, selected according to some criterion.

Exchange-traded funds have achieved success in the American market, which has traditionally focused more on remuneration based on the results of operations, and not for the payment of commissions for financial advice. In other markets, small investors should independently seek the required Exchange-traded funds.

Exchange-traded funds are purchased by institutional investors, such as pension funds and even hedge-fund. One of the reasons for this is the opportunity with their help to get quickly and cheaply idea of a particular asset class. So if a hedge - fund manager counts on the rise of the Japanese market, it is easier for him to buy exchange-traded fund, associated with the appropriate Japanese index, instead of doing himself a serious research and be at risk to choose the wrong asset.

Thus, exchange-traded funds, giving investors the opportunity to create their own investment portfolios of any structure can be used to copy the style of work, which is often mistakenly viewed by alpha manager as a way to a big achievement. Hedge-funds use aggressive investment strategies and exposed to a systemic risk in an insignificant extent. The average index of hedge-fund income has a positive correlation with the level of remuneration, with the asset size of the fund and the period during which the manager is obliged to redeem the share at the request of the investor. In general, hedge - funds are not high-yield vehicles and their investments differentiate by low-risk, also they behave quite risky. This is due to lower than banks level of transparency of hedge - funds. At the same time hedge - funds are more motivated to provide a more serious risk management compared with banks. Today hedge – funds sector recovers in the global economy, the demand for investment in these funds is increasing from investors. On the whole, the perspectives of emerging markets can be viewed as a long-term relating to the development of new and unprecedented trends.

In the past 20 years, economic activity in countries with emerging markets got a steady trend to isolation from the situation in developed countries. Contradictions in the globalization and isolation development processes are not noted. Above mentioned theoretical and practical issues that are taking place in the asset management company's financial organization, should be considered when determining the financial operations and related risks.

References

1. Address by the president of the republic of Kazakhstan, leader of the nation, N.Nazarbayev "strategy kazakhstan-2050": new political course of the established state", *14.12.2012*.
2. A.A. Nurumov, ZH.M. Bulaqbai. Financial management. Textbook. Astana, 2013.
3. G. Soros. New paradigm of financial collapse. Moscow, 2008.
4. P. Bernstein. Fundamental ideas of the financial world: evolution. Moscow, 2009.
5. G.A. Mauina. Exchange business. Textbook, Astana, 2013.
6. A.A. Suetin. Financial Economy: rise, stability, decline. Moscow, 2014.