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INVESTMENT ATTRACTIVENESS OF SECURITIES: ISSUES OF THEORY AND EVALUATION

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Abstract

Theoretical, methodological and applied issues of the essence and methods for assessing the investment attractiveness of financial assets are widely covered by Russian and foreign authors. However, at the same time, the problem of investment choice, considering modern economic realities and digital technologies, cannot be classified as a solved one both in theory and in practice. In modern conditions, the process of investing funds of private and institutional investors in financial instruments of the Russian stock market has been intensified. This allowed Russian issuers of securities to obtain additional funding and to use the funds received to modernize production processes through the wider use of new digital technologies. In turn, Russian investors ensured an increase in the profitability of their money capital. In this system of investment and issuance activities, the assessment of the investment attractiveness of securities and the investment portfolio is important. This problem has several methods of solution, such as the method of comparison with analogs, the method of discounting the cash flow, the assessment of efficiency using coefficients. The scientific result of the work is the substantiation and generalization of the main theoretical and methodological problems for assessing the investment attractiveness of securities, determining the direction of technical and fundamental analysis in the process of building a system of indicators for evaluating investment activities.

1. Introduction

In modern conditions, the search for alternative sources of investment is accelerating. Investments of free funds in products of the spot and derivatives stock market are taking the leading role. The investment process is extremely important both for the issuers of securities, whom the funds received from outside allow to increase the efficiency of business activities, develop their technological base, and for investors who, by investing free funds, get the opportunity to receive income that exceeds the income from keeping funds on a bank deposit. The main subject of the investment process is the investor, who is faced with the task of selecting the optimal securities that meet his expectations regarding the future amount of profit and the degree of risk from investment (Patel et al., 2019). Criteria of risk and return are the most significant when considering such a concept as investment attractiveness, since their objective consideration by the investor makes it possible to choose a priority when choosing the investment asset in the direction of a security price. Consequently, the investment attractiveness is a key factor when choosing the investment object. Assessment of the investment attractiveness of the security is necessary to reduce the investor's financial risks. For its implementation, there is a developed toolkit for the valuation of the company that issued the security. The final stage in assessing the investment attractiveness of the given security is its consideration as part of the investment portfolio not only at the moment of its acquisition, but also during its periodic revaluation. The need to revalue the investment portfolio is caused by many external and internal factors that can change the return on assets in the portfolio. This makes the study of the essence and methods of assessing the investment attractiveness of the security and the portfolio relevant in demand and with a practical focus (Konovalova et al., 2019).

2. Problem Statement

Today, in the light of the acute political and economic situation, the domestic investment becomes more important. Compared to foreign assets, the yield on domestic securities has some advantages, which, however, are largely due to relatively high risks. Various foreign policy phenomena have recently exerted a strong influence on the Russian economy and on the domestic stock market. That is why it becomes necessary to analyze and consider the whole variety of factors that can directly or indirectly reduce the efficiency of the investment portfolio. The problem of finding and determining the factors that form the process of assessing the investment attractiveness of securities, as well as factors that can potentially reduce the value of the investment attractiveness of securities and the portfolio formed on their basis, seems multifaceted and complex. It includes rather laborious calculations that require correct and objective assessment. In this aspect, various models and coefficients developed by known researchers such as Sharp et al. (2018), Graham and Dodd (2017), Brailey et al. (2019) can help.

3. Research Questions

Considering the problem of the investment attractiveness of securities we need, first, to disclose the basic principles of studying the category of "financial asset". Here it is necessary to highlight three main approaches: fundamental, technocratic, and the theory of "random walk". It is also required to differentiate the concepts of "investment attractiveness" and "rationality of investments" in a particular financial asset.

It is advisable to consider the investment attractiveness as an economic and mathematical model that reflects quantitative and qualitative indicators of the financial and economic situation of the economic entity and the environment in which this entity is located. It is also necessary to consider the investment attractiveness at various levels of the economy. The methodology for assessing the investment attractiveness of securities includes methods of technical and fundamental analysis of the economy and the securities market. They should be carried out with the emphasis on one of them, depending on time opportunities and goals.

4.   Purpose of the Study

The purpose of the study is to analyze the investment attractiveness of securities. It includes the definition of the criterion for the investment attractiveness of issued domestic securities. Based on the established criteria, it is possible to form a portfolio of issued domestic securities with an average degree of risk. The presented approach makes it possible to analyze the factors affecting efficiency. Combining approaches to disclose the investment attractiveness of securities, one can note the expediency of operating with this category in the process of determining the significance and effectiveness of investing money in the investment asset, or with a rational choice among alternative options. It is possible to assess the investment attractiveness of the issuer by analyzing the combination of indicators characterizing the hypothetical profitability of investing free funds in securities. A well-grounded methodology for evaluating securities makes it possible to analyze factors that can potentially reduce the investment attractiveness of the investment portfolio.

5.   Research Methods

The most important methodological tools for studying the investment attractiveness of securities are a set of methods used in scientific analysis. The main research methods in the study are: the method of formal and dialectical logic, the systemic and structural approach, the economic and statistical method. The abstract-logical method is applied in the conceptual-categorical apparatus used in the process of investing in financial assets. The study of the investment attractiveness of securities is based on the systematic method. It allows you to identify the integral system of investing in financial assets, to identify the most important subsystems, their elements and connections between them. The investment attractiveness of securities is considered from the standpoint of technical and fundamental analysis. The authors used the method of economic and statistical modelling.

6.   Findings

The key link in the investment process is the investor's choice of the most effective and attractive financial asset. There are several fundamentally different aspects of considering the concept of the financial asset. These are: a fundamental, technocratic approach, as well as the theory of "random walk". Fundamentally, the financial asset has an intrinsic value that is determined by discounting the expected cash flows that it generates. The formation of the reliable and accurate forecast of future receipts is put in the first place. Proponents of the technocratic approach propose to analyze previous data on the value of the asset with the subsequent construction of price time series and trends to determine whether the current

price corresponds to its intrinsic value. Based on the theory of "random walk", it is assumed that the current prices of financial assets already reflect all information about the present and future state of the market. Thus, the term "investment attractiveness" must be used in the context of assessing the significance and effectiveness of investing money in the investment asset, or with a rational choice among alternatives.

The problem of making the effective investment decision can be simplified by considering the rating position of the security issuer. Based on the financial characteristics and reports on the financial condition of the issuer, the rating agency assigns a certain rating class to the economic entity and its securities. Ratings are the most popular way to assess the financial position of the issuer of exchange-traded securities. Objective data on the rating of the financial asset gives the investor the opportunity to accurately and adequately choose the object for investment and reduce potential investment costs. So, it can be determined that the investment attractiveness is inherently not so much as an economic model that reflects quantitative and qualitative indicators of the financial and economic situation of the economic entity and the environment in which this entity is located. In this perspective, the attractiveness factor should be considered at macro and micro levels. Within the framework of the macro level, the economy, or its separate sector, is analyzed. At the micro level, the analysis parameters are narrowed down to assess the investment attractiveness of the issuer of the investment asset.

It is possible to assess the investment attractiveness of the issuer by analyzing the combination of indicators characterizing the hypothetical profitability of investing free funds in the investment of the security. From the point of view of the investor, there are two main vectors for assessing the investment attractiveness, each of which has its own methods for determining the investment attractiveness of the issuer and its product. These vectors are fundamental and technical analysis. Due to technical analysis, the trader or investor may not perform a comprehensive industry or microeconomic analysis of their firm. It is enough to construct a graph of price changes for the previous time lag and, based on this, draw a conclusion about the trend of the market movement: towards an increase or towards a decrease. Methods of technical analysis are mathematical (based on price calculations preceding a specific point in time to determine the period of purchase or sale of the financial asset), as well as a graphical method (price analysis based on the construction of graphical patterns that characterize the period of the change or continuation of the trend).

However, for long-term investment, it is considered more effective and attractive to use fundamental analysis to assess the investment attractiveness of the asset. Fundamental analysis of the securities market is a complex analysis, collection, processing and study of several indicators of both the company and the industry which it belongs to. All this allows us to make a forecast and dynamics of the industry development, which means that we can expect similar trends in the stock market. Fundamental analysis includes analysis of three levels: general economic, industry, analysis of specific companies. When the macroeconomic analysis has been carried out, it is necessary to move on to the industry analysis. The main indicators characterizing the industry include:

1. Size of the industry in the total market volume.

2. Competition in the industry.

3. Stage of the life cycle of the industry.

4. Aggregate demand of the total number of buyers.

After conducting a general macroeconomic analysis, analysis of a specific industry, it is necessary to start analyzing specific companies that may have different investment attractiveness. Investment analysis of the company involves the calculation of several indicators reflecting both the overall investment attractiveness and the financial condition of the company. Among them are:

1. EBITDA (profit before interest, taxes and depreciation).

2. P / E (price / profit ratio). This ratio allows you to understand how much cash falls for 1 share.

3. P / B (price / book value ratio).

4. EPS (Net earnings per share).

5. Gross margin - the ratio of the company's gross profit to the company's revenue.

6. FCF (Net Cash Flow) - the difference between operating income and capital expenditures (business investments).

Methods for evaluating investments are: valuation by indicators, discounting cash flow, comparison with analogues. The economic meaning of the method for evaluating indicators is reduced to the analysis of several articles of the report on the financial results of the issuer from different combinations and aspects of the economic life of the joint stock company. The elements of analysis include: revenue, capitalization, net profit, margin, dividend payments, issuer's debt, amortization and costs of the issuer. An important method for assessing the investment attractiveness is the method of discounting cash flow (DCF). In practice, this method should be used under the following conditions: the availability of the necessary amount of information to calculate and explain the size of the organization's future profits, the assumption about the difference between future financial flows from current ones, the existence of seasonal or cyclical fluctuations in profits and costs. The final method in the fundamental assessment of the investment attractiveness is the method of comparison with analogues. Based on the interests of the investor and the conditions dictated by the market, comparison with peers can be made by comparing: industry ratios, investment portfolios or large transactions of similar companies. The last two levels are practically identical in methodology. A distinctive feature is the composition of the initial information and the amount of investment.

The algorithm for carrying out the method of comparison with analogs includes the following stages:

1. Determine the industry and the composition of companies included in the analysis.

2. Conduct financial analysis of selected analogues and the target company using the integrated method.

3. Select and calculate estimated multipliers.

4. Calculate averages and multipliers.

5. Calculate the preliminary cost of the target company.

6. Introduce additional new factors and adjustments.

7. Conclusion

There is an increase in trading volumes and the number of companies listed by the trading organizer in the Russian stock market. The growth in the number of private investors is characteristic, which complicates, exacerbates and popularizes the problem of investment management, acquisition and retention of investment-attractive assets to form the effective investment portfolio. This problem has several methods

of solution, such as the method of comparison with analogs, the method of discounting the cash flow, the assessment of efficiency using coefficients. The application of the system of criteria for the investment attractiveness of equity securities for deciding to purchase the financial asset of the issuer is especially relevant, since the assessment of disparate indicators and factors can form an inaccurate idea of the economic state of the object of analysis for the investor (Ivaschenko et al., 2019; Konovalova et al., 2015). The system of indicators is a set of partially (or completely) interrelated criteria calculated in dynamics for each analyzed issuer. These criteria are: liquidity, profitability, financial stability, financial leverage, as well as investment risk and return (Chung & Chuwonganant, 2017). Risk and return indicators are the priority in forming the investment portfolio. To assess them, it is necessary to calculate the rate of profit growth and coefficients EPS, P / S, P / E, P / B, DY, ROE.

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