



Selected economic and financial risks

Topic 6: Investment decision-making and tools to support it





Aim of the topic

- The aim of the topic is to acquaint students with the tools of investment decision-making and its support





Content

- Investment decisions
- Investment classification
- Investment strategy
- Investment financing
- Rules for financial decisions
- Specific criteria for investment decisions
- Methods investment evaluation
- Index net present value as an indicator of investment decision-making
- Internal rate of return as an indicator of investment decisions
- Simple and discounted payback period as indicators of investment decisions
- Investment decisions for several periods
- Interest rate and its types





Investment decision making

- In the national concept, a distinction is made between gross and net investment.
- On investment can be viewed either from a narrower perspective or more broadly.
 - Investment understood in a narrower sense is an asset that is not intended for consumption, but is intended to create other assets that the company resells on the market.
 - OF In a broader sense, investment can be defined as the funds currently being sacrificed to acquire assets that will help a company increase its benefits over time and thus later help the company to gain greater financial effects.





Classification investment

- Basic distinction of groups investment:
 - material
 - financial investment
 - intangible
- Investment according to the relationship to development company:
 - investment renewal,
 - recho
 - regulatory, sometimes referred to as mandatory





Investment strategy

- Magical investment triangle, which consists of:
 - the expected return on the investment,
 - the expected risk of the investment,
 - and the expected effect on the company's liquidity.





Rno longer types of investment strategy:

- Strategies for maximizing annual revenues
- Investment price growth strategy
- Investment price growth strategy associated with maximum annual returns
- Aggressive investment strategies
- Conservative strategies
- Maximum liquidity strategy





Financing investment

- An appropriate method must be chosen to cover investment costs financing.
- The financial resources needed for investment are divided into own and foreign.





Rules for financial decision making

- at the same risk, he prefers a higher return to a smaller one
- at the same return, he prefers less risk to greater risk
- a higher return is required for a higher risk
- money received earlier is preferred to the same amount received later
- The motivation for investing is to expect a higher return than investing in another event
- The motivation for investing is to increase assets





- **Financial management tasks:**

- provide capital for the current and extraordinary needs of the company and decide on its structure
- decide on the location of capital
- decide on the distribution of profits
- forecast, plan, record, analyze, control and manage the economic side of a company's activities to ensure financial stability
- **financing** - acquisition and allocation of funds





Interest rates

- determining the future value of money
- simple - the original amount will bear interest
- complicated - interest is also paid on the principal

$$BH = SH (1 + i)^n$$

BH - future value

SH - current value





Specific investment criteria decision making

- Monetary criteria
- Cost criteria
- Profitable criteria





Evaluation methods investment

- Static evaluation methods investment
- Dynamic investment evaluation methods





Net present value as an indicator of financial decision-making

Net present value represents the difference between the present value of the investment income and the present value of the investment expenditure.





Net present value index as an indicator of investment decisions

- The second criterion is the net present value index, or profitability index, which is calculated as the ratio of the present value of investment income and the present value of investment expenditure.





Internal rate of return as an indicator of investment decision making

- Internal rate of return - (Internal Rate of Return - IRR)
- The internal rate of return can be defined in relation to the net present value as an interest rate at which the net present value is zero.





Simple and discounted payback period as indicators of investment decision making

- **Simple payback period** represents the number of years for which investment income equals investment expenditure.
- **Discounted payback period** is the number of years for which the present value of the investment income equals the present value of the investment expenditure.





Investment decisions for more period

- Annuity calculation and calculation perpetuity.
- The investor can recalculate the value of his current income to their value at some future point and choose the investment that will bring him the greatest total income.
- Next the possibility is to calculate the internal rate of return on individual investments and choose the one that will bring him the highest rate of return
 - here, however, it is necessary to calculate income from different periods to the same moment.
- Two situations can occur:
 - The final number of periods the income is called the lifetime annuity, or annuity
 - an infinite number of periods, the income is called perpetual annuity (perpetuity)





Interest rate and its types

- **Time value of money** - represents a financial method that is used to compare two or more monetary amounts from different time periods.

We distinguish nominal and real interest rate:

- **Nominal interest rate**
- **Real interest rate**
- +
- **Net interest rate**
- **Gross interest rate**





Resources on the topic

- VALACH, Josef. *Investment decisions and long-term financing*. 2., rework. Prague edition: Ekopress, 2006. ISBN 80-86929-01-9.
- SYNEK, Miloslav. *Business Administration*. 3., rework. a dopl. Prague: CH Beck, 2002. Beck's economic textbooks. ISBN 80-7179-736-7.
- MAREK, Petr. *Study guide to business finance*. Prague: Ekopress, 2006. ISBN 80-86119-37-8.
- SOUKUPOVA, Jana. *Microeconomics*. 3rd add. ed. Prague: Management Press, 2002. ISBN 80-7261-061-9.





Tasks and questions on the topic:

1. How do we classify investments?
2. What basic investment strategies do we distinguish?
3. What are the basic rules for financial decision making?
4. What is net present value and how do we calculate it?
5. What is the internal rate of return and how do we calculate it?





Thank you for your attention

