



Chapter 14

Maximizing Returns Through Investment Analysis: An Overview of Analytical Tools

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ABSTRACT

Investment analysis is a systematic process of evaluating various investment opportunities and choosing the best solutions. It involves the analysis of financial metrics such as past performance, earnings, cash flows, and market trends to make informed decisions. Analytical tools such as financial ratios, time value of money calculations, capital budgeting techniques, and portfolio analysis are used to simplify complex financial data, identify trends, and make informed investment decisions. Financial ratios offer a straightforward and uncomplicated approach to analyzing the financial performance of various investments. Investors can estimate the future value of an investment and its prospective return using time value of money formulas. Long-term investments are assessed for viability using capital budgeting. Portfolio analysis helps investors to diversify their investments and manage risk by analyzing the relationships between different investments. This chapter proposal aims to provide an overview of investment analysis and the various analytical tools used in this process.

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INTRODUCTION

The act of committing money or other resources with the hope of receiving a return or benefit in the future is referred to as investing (Rapp et al., 2023). This is frequently done with the intention of creating income or building wealth over time. Investments come in many different forms, such as equities, bonds, commodities, mutual funds, real estate, exchange-traded funds (ETFs), and more. Each type of investment has its characteristics and level of risk, which can impact potential returns. Investing money is the smartest choice but the world of investments is vast and complex. Knowing about investing and exploring different investment opportunities is not solely important for established companies, who want to multiply their profits to continue their economic growth, but also for individuals who might have just landed their first job, in turn gaining financial independence and want to grow their savings, or for someone who had inherited a significant amount of money and is afraid of losing their money if not conserved properly (Rosenfeld et al., 1997). Investing can be a complex process, but it can also be a valuable tool for building wealth over time. It is important to research and understand different types of investments, and to seek the guidance of a financial advisor or investment professional when making investment decisions.

Investment analysis is an essential tool for making informed investment decisions. By understanding different analytical tools and their limitations, one can make smart investment decisions that help one grow their wealth and achieve their financial goals (Hammond et al., 2015). Risk management, on the other hand, is the process of identifying, assessing, and mitigating potential risks associated with an investment. This involves developing strategies to minimize the impact of risks on the investment, as well as monitoring and managing risks throughout the investment lifecycle. Investment analysis and risk management form a critical part of investment decision-making, as they enable investors to make informed decisions based on a thorough understanding of the potential risks and rewards associated with an investment. Effective investment analysis and risk management can help investors to maximize returns while minimizing potential losses and can help to ensure that investments are aligned with their overall investment objectives and risk tolerance. Investing also requires patience, discipline, and a willingness to learn, but with the right analytical tools and knowledge, anyone can become a successful investor.

“The intelligent investor is a realist who sells to optimists and buys from pessimists.” (Graham B., 2016), this is what Benjamin Graham, the father of value investing, believes in. “Invest in what you know, and don’t invest in what you don’t know.”, this is the approach followed by Peter Lynch, a former mutual fund manager who achieved great success at Fidelity Investments. He advises investors to invest in companies whose products they are familiar with. He also emphasizes the importance of doing thorough research and analysis.

The objectives of this chapter are:

- To introduce the concept of investment analysis and its importance in finance
- To provide an overview of the different analytical tools used in investment analysis
- To discuss the application of these analytical tools in practice
- To highlight the limitations and drawbacks of using these analytical tools

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