LONG TERM INVESTMENTS AND SUSTAINABLE DEVELOPMENT

Er. R. Malar MARAN
SSIET College, India
r.malarmaran@gmail.com
Alexandru-Mircea NEDELEA
Stefan cel Mare University of Suceava
alexandrun@seap.usv.ro

Abstract: *Long term investors in fast and fragmented financial markets find problems to make investments. The financial risks are obstacles to the financial decisions of long term investments. The long term investments are essential infrastructure development and other development purposes. The reduction of long term investment is encouraging financial stability and the financial crisis is inevitable. There are shocks which affect financial markets and thereby the long term investors are reluctant to make investment. It affects sustainable development.*

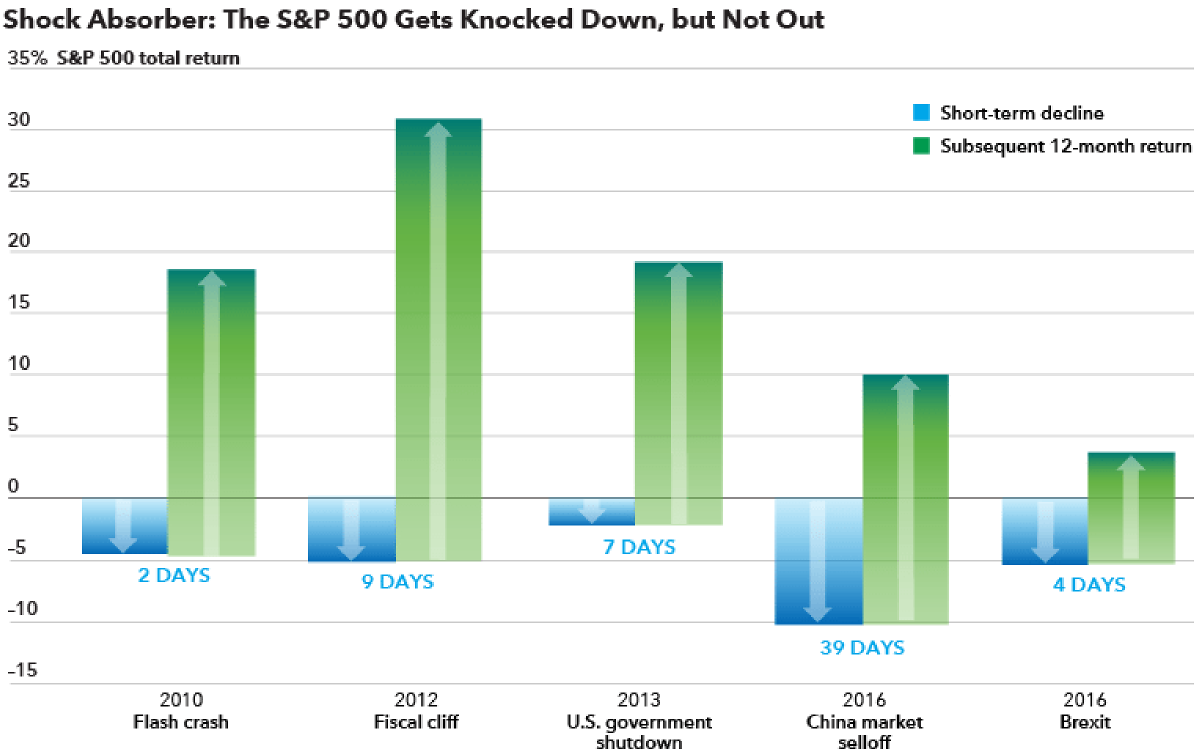
Keywords: *Financial Markets, Financial Crisis, Securities, Long term Investment, Sustainable Development*

JEL Classification: *G1, G10, G11, G15, G16, QO1*

I. LONG TERM INVESTORS IN FAST AND FRAGMENTED FINANCIAL MARKETS

Capital budgeting is done to assess and evaluate the costs and benefits of long-term investments. The cash flows and cash outflows are considered taking into account of the nature of investment expenditures such as expansion, replacement, renewal and other purposes. While making decisions on long term investments the sunk costs and opportunity costs are included in cash inflows and cash outflows. While making international long term investments the political risks have to be considered. It is necessary in certain of foreign direct investments. The initial investments and incremental retunes are mutual considerations of terminal investments and returns. Taxation before and after returns is a guiding principle. .

There are shocks which cause financial market more volatile. The long term investors in fast and fragmented financial markets are the worst affected and at times it may be that they are the best rewarded. Recently the decision of Britain to leave European Union , the election of Donald trump as the President of USA, instability of China's markets are some of challenges to financial markets that affected the trading of long term investors in fast and fragmented financial markets. There are several strategies to meet such situations and one of them may be a mute spectator. It will give a proper guidance to make investment decisions. Therefore in my research I will create several models of such shocks historically including the data bases available in FMM of Stockholm School of Business so that new solutions will be developed. The loss on account of such shocks is given below:



Sources: Capital Group and RIMES. Decline represents the total loss from the start of the event to the correction trough. Subsequent 12-month return represents the total return from the event trough through the following 12 months. China market selloff and Brexit subsequent returns through September 28, 2016.

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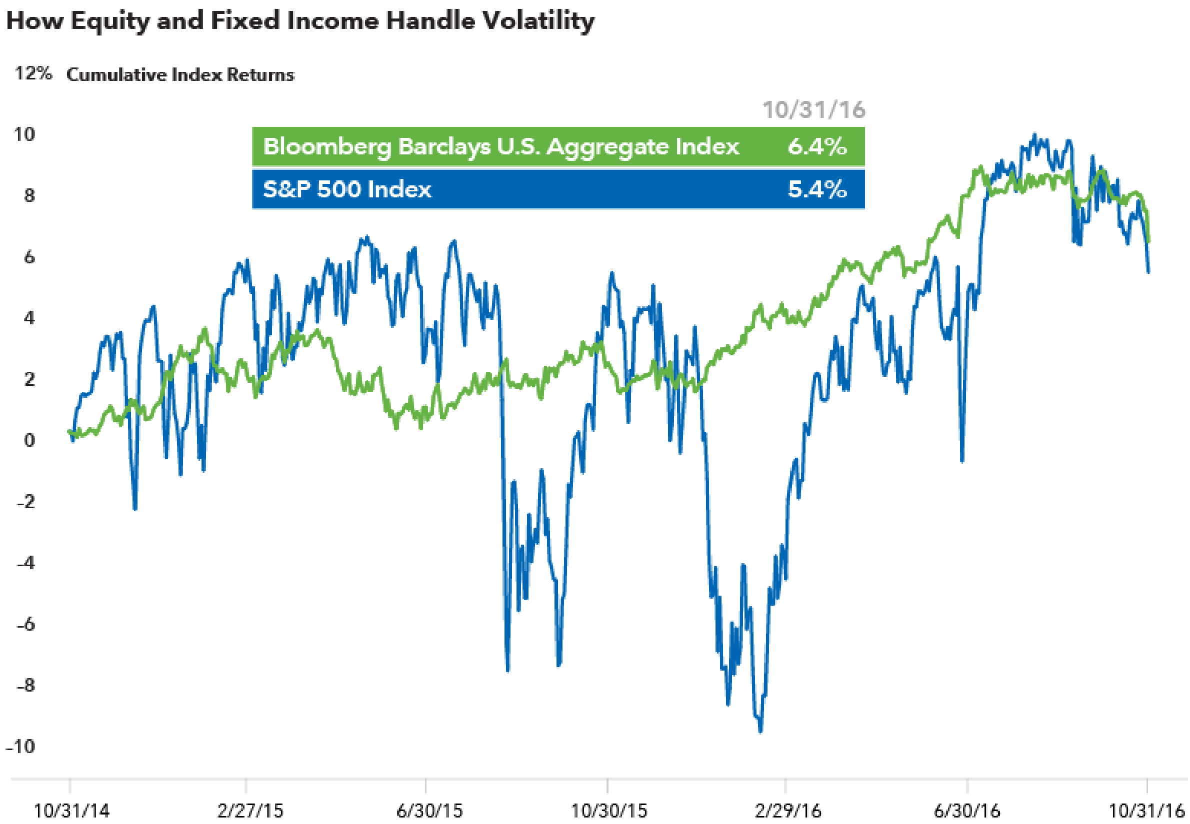
II. Risks and Uncertainties in Long Term Investment

The new information and state of economy will be useful for making decision of long term investment in fast and fragmented financial markets. There are problems to establish the correct sources of information. Several wrong information are circulated by michievemongers deliberately and insiders of other companies. It is very difficult to deduct correct information. No information is genuine always and rumours are circulated regularly by vested interests or casually. Thus it is very difficult to take decisions on making long-term investments in fast and fragmented financial markets. This is equally applicable in case of bonds, mutual funds and other securities.

It is equally important to make financial decision taking into account of cash inflows and cash outflows. The best decisions and strategies have blundered in recessions and financial crisis. It does not mean that decisions and strategies are undesirable for making long term investments. There are uncertainties and there are global calamities. Yet there are financial decisions towards long term investments in fast and fragmented financial markets. There is uncertainty in returns on year by year as shown in several studies. The new information and state of economy will be useful for making decision of long term investment in fast and fragmented financial markets. But the principles as discussed are found inaccurate and ineffective as shown below:



Sources: Bloomberg Index Services Ltd. and RIMES.
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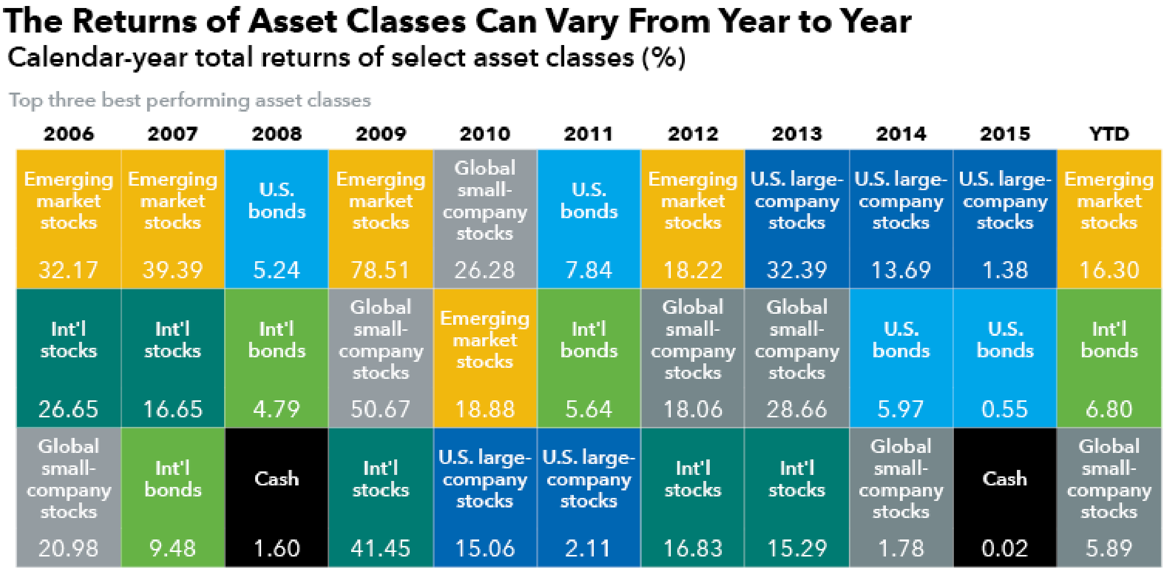
The annual returns in long term investments are varying from sector to sector. In real estate trust the annual returns of 20 year long term investment are the best with 11.5% comparing to S&P 500 Index which offers only 9.5% . Sometimes the average of S&P returns is around 8.6%. During the recession of 2008 the returns of real estate performed better despite housing collapse (Investopedia (2016).



The Returns of Asset Classes Can Vary From Year to Year

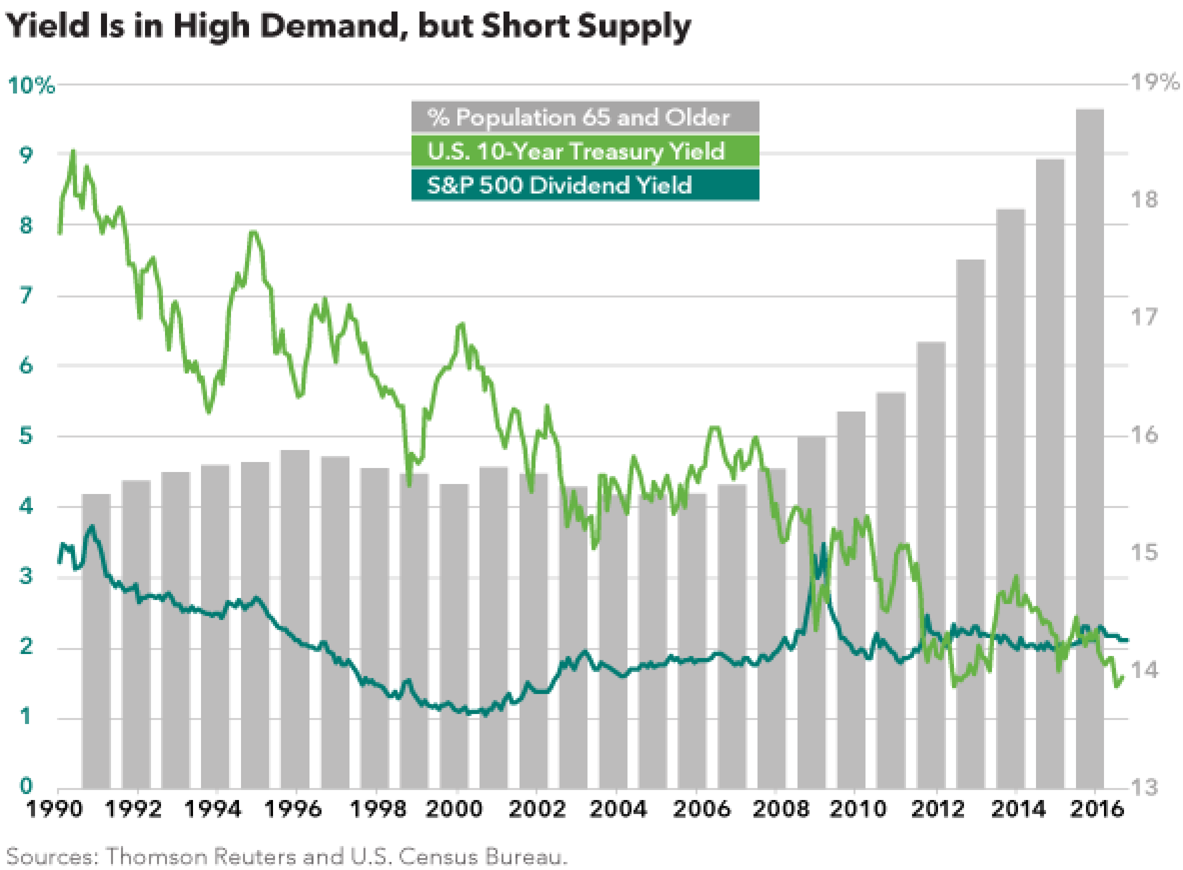
Calendar-year total returns of select asset classes (%)

Top three best performing asset classes

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	YTD
Emerging market stocks 32.17	Emerging market stocks 39.39	U.S. bonds 5.24	Emerging market stocks 78.51	Global small-company stocks 26.28	U.S. bonds 7.84	Emerging market stocks 18.22	U.S. large-company stocks 32.39	U.S. large-company stocks 13.69	U.S. large-company stocks 1.38	Emerging market stocks 16.30
Int'l stocks 26.65	Int'l stocks 16.65	Int'l bonds 4.79	Global small-company stocks 50.67	Emerging market stocks 18.88	Int'l bonds 5.64	Global small-company stocks 18.06	Global small-company stocks 28.66	U.S. bonds 5.97	U.S. bonds 0.55	Int'l bonds 6.80
Global small-company stocks 20.98	Int'l bonds 9.48	Cash 1.60	Int'l stocks 41.45	U.S. large-company stocks 15.06	U.S. large-company stocks 2.11	Int'l stocks 16.83	Int'l stocks 15.29	Global small-company stocks 1.78	Cash 0.02	Global small-company stocks 5.89

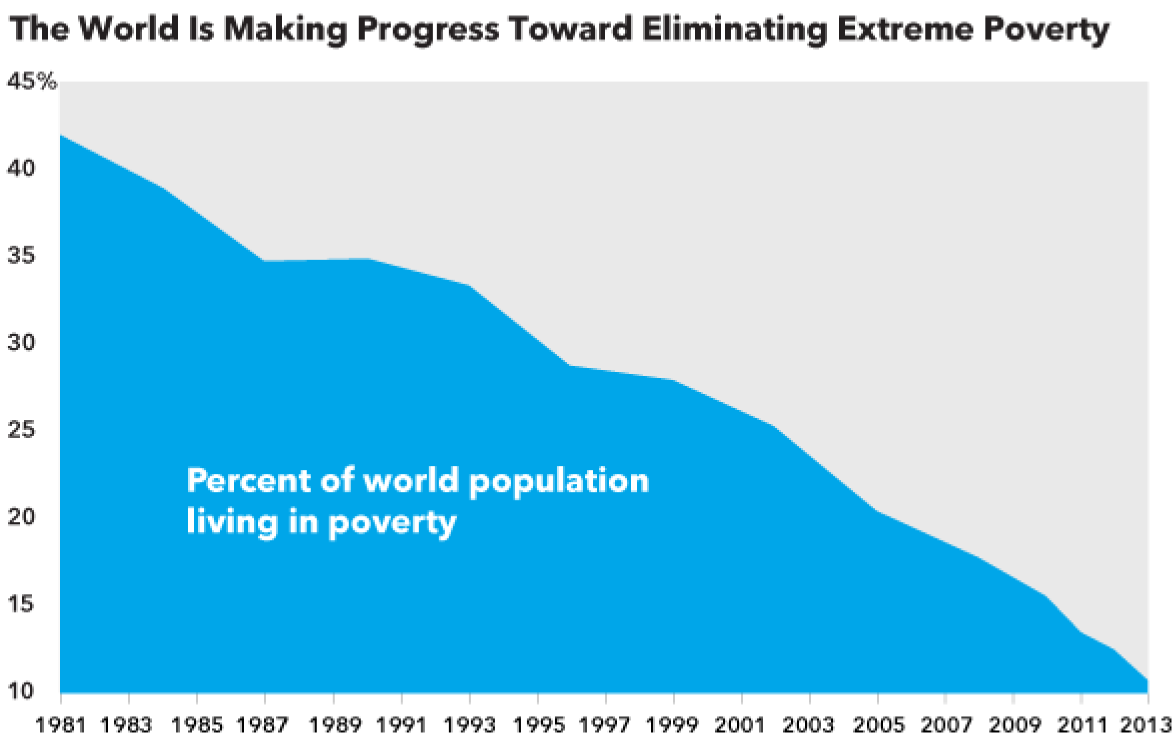
Sources: Standard & Poor's 500 Composite Index (U.S. large-company stocks), MSCI All Country World Small Cap Index (global small-company stocks), MSCI All Country World Index ex USA (international stocks), MSCI Emerging Markets Index (emerging market stocks), Bloomberg Barclays U.S. Aggregate Index (U.S. bonds), Bloomberg Barclays Global Aggregate Index (international bonds) and 30-day U.S. Treasury Bills, as calculated by Ibbotson, (cash). Year-to-date (YTD) results are as of October 31, 2016. Results for the MSCI indexes reflect net dividends. The market indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index. Unlike mutual fund shares, investments in U.S. Treasuries are guaranteed by the U.S. government as to the payment of principal and interest.

There is no single reason to believe that the returns will remain the same in fast and fragmented financial markets. The pension fund investment is a long term investment but the period of term does not remain endless. As the population of above 65 ages are increasing more in the world the fund is consistently available. In 1990 the returns of investment were higher than market investment returns of S&P 500 Dividend yield but after 10 years the return of pension fund/Treasury yield is declining. During recession in 2008 the Dividend yield of S&P 500 is higher than the Treasury Yield. Subsequently from 2012 onwards mostly the earning of S&P 500 is higher than the Treasury Yield of pension fund as shown below:



III. SUSTAINABLE DEVELOPMENT AND LONG TERM INVESTMENT

Long term investment has to be encouraged to achieve sustainable development. Lydenberg (2009) has made three suggestions for promoting long term investments such as holding stocks for longer time, adoption of Environmental, Social, and Governance (ESG) and propensity to long term investments. Long term investment has two objectives of risk management strategy and exploiting emerging opportunities in the market (Emerson & Little (2005). In order to promote long term investments the corporate performance reporting is necessary. The corporate performance reporting indicates long term success of companies in support of above suggestions of Lydenberg. The professional skills of investment managers need to be trained and convinces the benefits of long term investments so that their decision making skills are imparted towards long term investments. European Commission and national governments have shown interests in promoting long term investments in financial markets and accordingly national governments prefer to introduce mandatory procedures. Among several mandatory procedures the most important procedures are the pension fund portfolio management in accordance with long term issues, provision of tax breaks for long term strategy to a sustainable economy, declaration of voting rights exercised by investors and transmitting it to pension fund trustees, and mandatory reporting of asset management. To remove .unexpected risks of retail investors and to improve transparency the European Commission has introduced Key Information Document (KID) in 2012. The disclosure of environmental, social and governance (ESG) on retail investment is noteworthy initiative in the right direction (Andreas Endl (2012) Encouraging long term investment results in reduction of extreme poverty as given below:



Sources: The World Bank (poverty headcount ratio at $1.90 a day, 2011 PPP, percentage of population), Luxembourg Income Study (LIS) Database and government statistical agencies. As of October 2015, the new global poverty line was set at $1.90 in 2011 PPP (purchasing power parity). PPP helps put each country's income and consumption data in globally comparable terms.

In 1981, the extreme poverty was 42% and it has declined to 12% in 2013 due to long term investment towards sustainable development. The extreme poverty indicates the population is living with less than $ 1.25 per day or less as per 2010. The maximum populations living under extreme poverty in 2010 were 414 million in Sub-Sahara regions of Africa accounting for 48.5 % (World Bank (2014). According to UNICEF-World Bank (2016), 385 million people were living under extreme poverty in 2013 of less than $ 1.90. Unfortunately 9 out of 10 people under extreme poverty are living in 20 countries and most of them from Africa and South Asia. In Sub-Sahara the people under extreme poverty account for 49% in 2013. The percentage of extreme population has increased in Sub-Sahara comparing to 2010 to 2013. Due to political instability and lack of investments the extreme poverty has been persisting in Africa. Unless global long term investment increases the eradication of poverty remains a challenge.

"New Generation' of investment policies has emerged for sustainable development. It aims to integrate in development strategies. It fosters growth with corporate social responsibility (CSR). It conforms to the institutional environment. The new generation investment policy has travelled towards the formation of 'Investment Policy Framework for Sustainable Development' (IPFSD). The main purpose of the IPFSD is to promote investment for economic growth and development that meets the needs of the present without compromising the needs of future (UNCTAD (2015). 'New generation' investment principles advocate inclusive growth and sustainable development. It has three core principles such as: 1. facilitate national investment policies; 2. negotiate international investment treaties; and 3.mobilize funds for sustainable development. The political wisdom and economic practices form international investment policy. Investment protectionism is functioning from the recipient nations and investors. The recipient nations propose various incentives and thereby there is discrimination between domestic investors and international investors. At the same the recipient nations discourage foreign investment. The integration of investment policies into national policies and responsible investment behaviour build stronger

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