

**DEPARTMENT OF COMMERCE AND FINANCIAL STUDIES  
BHARATHIDASAN UNIVERSITY  
TIRUCHIRAPPALLI – 620024  
MBA (Financial Management)**

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**Course Teacher: Dr. M.RAJA**

**Email ID: [drmraja@bdu.ac.in](mailto:drmraja@bdu.ac.in)**

# **Scheme of Presentation**

## **UNIT-IV**

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# Robo -Advisors and Automated Investment Platforms

## Introduction to Robo-Advisors:

Robo-advisors represent a transformative innovation in the realm of financial services, blending technology with traditional investment management.

These automated platforms provide personalized financial advice and investment management services using algorithms and software, often with minimal human intervention.

## Key Features:

**Automated Portfolio Management:** Robo-advisors use algorithms to create and manage diversified investment portfolios based on individual investor profiles, such as risk tolerance, financial goals, and time horizon.

**Cost Efficiency:** They typically charge lower fees compared to traditional financial advisors, making them accessible to a broader range of investors. This is achieved by leveraging technology to streamline processes and minimize overhead costs

## Key Features

**Accessibility and Convenience:** Investors can access robo-advisors online or through mobile apps, allowing for 24/7 account monitoring and management. This accessibility appeals to digital-savvy investors who prefer a hands-off approach to investing.

**Personalized Advice:** Despite being automated, robo-advisors offer personalized investment recommendations tailored to each investor's financial situation and goals. They adapt portfolios over time based on market conditions and changes in the investor's life circumstances.

**Risk Management:** Robo-advisors implement modern portfolio theory and other risk management strategies to optimize returns while managing risk according to the investor's preferences.

In conclusion, robo-advisors represent a significant advancement in democratizing access to investment management, offering efficient, low-cost solutions tailored to individual investor preferences. As technology continues to evolve, their role in the financial landscape is likely to expand, appealing to a broader demographic of investors seeking convenience and competitive returns

# Algorithmic Trading

Algorithmic trading, often referred to as algo trading or automated trading, is the use of computer algorithms to execute trading strategies with speed and efficiency.

It involves the automation of the entire trading process, from market analysis and decision-making to order execution, without the need for human intervention.

## **Key Aspects of Algorithmic Trading:**

**Algorithm Development:** Traders and financial firms develop algorithms based on various factors such as price movements, market indicators, volume, and other quantitative data.

These algorithms are designed to execute trades according to predefined rules and parameters.

## Key Aspects of Algorithmic Trading

**Speed and Efficiency:** Algorithms can execute trades much faster than humans, often in microseconds, allowing for rapid response to market conditions and opportunities.

This speed is crucial in high-frequency trading (HFT) where even tiny price differentials can be exploited for profit.

**Market Analysis:** Algorithms can analyze large volumes of data and identify trading opportunities based on complex mathematical models and statistical analysis.

They can scan multiple markets and instruments simultaneously, looking for patterns or anomalies that human traders might miss.

# Key Aspects of Algorithmic Trading

**Risk Management:** Algorithmic trading systems can include risk management features to control trade size, limit exposure, and implement stop-loss orders automatically.

This helps minimize potential losses and manage portfolio risk effectively.

**Types of Algorithms:** There are various types of algorithms used in algorithmic trading, including trend-following algorithms (which exploit momentum in asset prices), mean-reversion algorithms (which capitalize on price corrections), and arbitrage algorithms (which exploit price discrepancies between different markets or assets).

# Benefits of Algorithmic Trading

- **Speed:** Executes trades quickly and efficiently, reducing latency and slippage.
- **Accuracy:** Removes emotional and human bias from trading decisions, making responses more consistent.
- **Scalability:** Can handle large trade volumes across multiple markets simultaneously.
- **Back testing:** Algorithms can be back tested using historical data to optimize performance and refine trading strategies.



# **Personalised Financial Planning and Advisory**

Personalized financial planning and advisory services cater to individuals' unique financial circumstances, goals, and preferences.

Unlike robo-advisors or purely algorithmic approaches, personalized financial planning involves a human advisor who provides tailored advice and guidance based on a deep understanding of the client's financial situation and aspirations.

# Key Components of Personalized Financial Planning

**Comprehensive Financial Assessment:** A thorough evaluation of the client's current financial status, including income, expenses, assets, liabilities, investments, insurance coverage, and tax situation. This assessment forms the foundation for developing personalized recommendations.

**Goal Setting:** Identifying and prioritizing the client's short-term and long-term financial goals, such as retirement planning, education funding, wealth accumulation, major purchases, and charitable giving.

**Risk Tolerance and Time Horizon:** Understanding the client's risk tolerance (comfort level with investment risk) and time horizon (investment time horizon before needing funds) to tailor investment strategies accordingly.

# Key Components of Personalized Financial Planning

**Customized Investment Strategy:** Developing an investment portfolio aligned with the client's goals, risk tolerance, and time horizon. This may involve selecting appropriate asset classes, diversification strategies, and investment vehicles (e.g., stocks, bonds, mutual funds, ETFs).

**Tax Efficiency:** Incorporating tax-efficient strategies to minimize tax liabilities and optimize after-tax returns, such as utilizing tax-advantaged retirement accounts or tax-loss harvesting.

**Estate Planning:** Providing guidance on estate planning strategies to ensure wealth transfer according to the client's wishes while minimizing estate taxes and administrative costs.

**Regular Monitoring and Adjustments:** Continuously reviewing the client's financial plan and investment portfolio to monitor progress towards goals, reassessing risk tolerance, and making adjustments as needed based on changes in the client's life circumstances or market conditions.

# **Crowdfunding and Alternative Investments**

## **Equity Crowdfunding:**

Equity crowdfunding is a method of raising capital from a large number of investors, typically through online platforms, in exchange for equity shares or ownership stakes in a company.

It allows businesses, particularly start-ups and small businesses, to raise funds without the need for traditional venture capital or bank loans, while also giving individual investors the opportunity to invest in early-stage companies and potentially earn returns if the company succeeds.

# Key Features of Equity Crowdfunding

**Online Platforms:** Equity crowdfunding campaigns are conducted through specialized online platforms that connect businesses seeking capital with investors looking to invest in start-ups or small businesses.

**Investment Opportunities:** Investors can contribute relatively small amounts of money (compared to traditional investment methods), which collectively fund the business in exchange for equity shares or convertible notes.

**Diverse Investors:** Equity crowdfunding opens up investment opportunities to a wider pool of investors, including individual retail investors, accredited investors, and sometimes institutional investors.

# Key Features of Equity Crowdfunding

**Regulation:** Regulations governing equity crowdfunding vary by country and jurisdiction. In the United States, for example, the Jumpstart Our Business Start-ups (JOBS) Act of 2012 created provisions for equity crowdfunding under Regulation Crowdfunding (Reg CF), which allows companies to raise funds from non-accredited investors.

**Risk and Return:** Investing in start-ups and early-stage companies through equity crowdfunding carries high risk due to the potential for business failure. However, successful investments can yield significant returns if the company grows and eventually goes public or gets acquired.

**Investor Protection:** Regulations often include investor protection measures such as disclosure requirements by the company, limits on investment amounts based on the investor's income and net worth, and oversight by regulatory authorities to prevent fraud.

# Benefits of Equity Crowdfunding

- **Access to Capital:** Provides start-ups and small businesses with an alternative source of funding that may be more accessible and less restrictive than traditional funding methods.
- **Market Validation:** Acts as a form of market validation, as successful equity crowdfunding campaigns demonstrate investor interest and support for a business idea or product.
- **Diversification:** Allows investors to diversify their investment portfolios by allocating funds to early-stage companies across different industries and stages of growth.
- **Community Engagement:** Engages a community of investors who may become brand ambassadors and advocates for the business, potentially aiding in customer acquisition and market expansion

# Real Estate Crowdfunding

## Real Estate Crowdfunding:

Real estate crowdfunding is a method of raising capital from multiple investors to finance real estate projects, typically through online platforms.

It enables individuals to invest in real estate opportunities that were traditionally accessible only to institutional investors or wealthy individuals.

This form of crowdfunding has gained popularity due to its potential for diversification, access to passive income, and lower barriers to entry compared to direct real estate ownership.



# Key Features of Real Estate Crowdfunding

**Online Platforms:** Real estate crowdfunding platforms facilitate the connection between real estate developers or operators seeking funding and individual investors looking to invest in real estate projects.

**Investment Options:** Investors can participate in a variety of real estate opportunities, including residential properties (single-family homes, apartments), commercial properties (office buildings, retail centers), industrial properties (warehouses, factories), and even real estate loans (debt crowdfunding).

**Diverse Investment Amounts:** Crowdfunding allows investors to contribute smaller amounts of capital compared to traditional real estate investments, which may require significant upfront funds for property acquisition or development.

# Key Features of Real Estate Crowdfunding

**Transparency and Accessibility:** Platforms typically provide detailed information about investment opportunities, including property details, financial projections, risks, and potential returns. This transparency helps investors make informed decisions.

**Risk and Return Profile:** Real estate crowdfunding investments carry varying degrees of risk, depending on factors such as the type of project, location, market conditions, and the financial health of the developer. Returns can include rental income distributions, capital appreciation upon property sale, or interest payments from real estate loans.

**Regulatory Framework:** Like equity crowdfunding, real estate crowdfunding is subject to regulatory oversight, which may vary by country or region. Regulations often aim to protect investors by ensuring disclosure of material information and limiting investment amounts based on investor qualifications.

# Impact Investing and Socially Responsible Investing

Impact investing and socially responsible investing (SRI) are both approaches to investing that prioritize social and environmental outcomes alongside financial returns.

While they share similar goals of aligning investments with personal values or societal benefits, there are distinct differences in their approaches and objectives.

## **Socially Responsible Investing (SRI):**

**Objective:** SRI aims to align investments with ethical, social, or environmental criteria. Investors seek to avoid companies or industries involved in activities deemed harmful or unethical, such as tobacco, weapons manufacturing, or fossil fuels.

**Negative Screening:** SRI often involves negative screening, where investments are screened out based on certain criteria (e.g., environmental impact, labor practices, corporate governance) that do not align with the investor's values.

# Impact Investing and Socially Responsible Investing

**Integration of ESG Factors:** Environmental, Social, and Governance (ESG) factors are integrated into investment analysis and decision-making to assess both financial performance and the broader impact of investments on society and the environment.

**Engagement and Advocacy:** SRI investors may engage with companies through shareholder advocacy, proxy voting, or direct dialogue to promote positive change in corporate behavior and practices.

**Examples:** Investing in renewable energy companies, companies with diverse and inclusive workplaces, or those committed to sustainable supply chains are examples of SRI strategies.

# Impact Investing

**Objective:** Impact investing goes beyond avoiding harm to actively seeking investments that generate positive social or environmental impact alongside financial returns. It aims to address specific social or environmental challenges, such as poverty alleviation, healthcare access, or climate change mitigation.

**Intentionality:** Impact investors intentionally seek out opportunities where their capital can make a measurable difference in achieving specific social or environmental outcomes.

**Measurable Impact:** Impact investing emphasizes measuring and reporting on the social or environmental impact of investments, using metrics such as number of jobs created, carbon emissions reduced, or community development indicators.

# Impact Investing

**Types of Investments:** Impact investments can include investments in social enterprises, microfinance institutions, affordable housing projects, sustainable agriculture, and renewable energy initiatives, among others.

**Financial Returns:** While financial returns are important, impact investors are willing to accept varying levels of financial return, recognizing that achieving impact goals may involve trade-offs with financial performance.