

“Approaches to the formation of an optimal personal investment portfolio in Ukraine”

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APPROACHES TO THE FORMATION OF AN OPTIMAL PERSONAL INVESTMENT PORTFOLIO IN UKRAINE

Abstract

Globalization and IT progress are expanding the possibilities of using various financial instruments to create a personal investment portfolio. The purpose of the study is to differentiate the investment portfolio by the level of income of Ukrainian citizens and its impact on the effectiveness of personal finance management. Analysis of indicators of state and current investment trends allowed identifying the optimal ratio of profitability and risk in financial decisions of individuals by diversifying the investment portfolio, creating personal reserves, localizing investment instruments and minimizing the use of credit resources.

The result of the study is the development and justification of criteria that an investor should meet during the investing. In particular, the formation of an individual investment portfolio depending on personal income allows everyone to justify an effective personal investment policy, taking into account the available investment tools.

The paper covers the approaches to the formation of a person's investment portfolio, depending on the level of his or her income. The paper also examines the need to form an optimal investment portfolio, depending on the real financial opportunities of a person.

Keywords

finance, planning, investments, savings, capital, risks, assets, financial decisions, Ukraine

JEL Classification

D14, D31, G11

INTRODUCTION

The culture of consumption and saving and the relative basic principles of money management are an integral part of social life in Ukraine. The core rules to money management are as mandatory for every citizen as traffic rules or computer/phone skills.

Population's skill to manage and accumulate financial resources plays an essential role in economic processes. The proportion, which represents how the available finances are distributed for consuming and saving, influences not only the economy directly through consumer demand, but also the speed of fixed capital accumulation, thereby providing a long-term perspective for the country's economic growth.

With the development of market relations, investment activity of citizens, including Ukrainians, is becoming more important for stability of national economies. Financial resources of the population make up a significant sector of financial relations, since they accumulate a greater part of social savings. Under conditions of market relations, savings have a distinct economic growth in a form of investment capital. Despite the fact that citizens when investing are guided by personal reasons, their role in providing the national capital gain is quite substantial. Involving the citizens in active investment allows ampli-

fyng the amount of operations on the financial market, which, in its turn, increases the opportunities for economic development.

However, globalization and innovation in financial markets make it increasingly difficult for citizens to make personal investment decisions. For an average person with no relative experience and knowledge, the investment is often a challenging and complicated process. That is why an attempt to gain an understanding of main reasons, instruments and criteria for making diversified investment by a natural person is quite topical.

The starting point for personal investment is the formation of its own investment portfolio, assessment of investment opportunities, investment attractiveness of the external environment. There are also many factors (for example, economic crises, inflation, financial illiteracy, exchange rate jumps, stock market cataclysms) affecting the safety and return on investment. Therefore, the question of how to make an investment portfolio is so important.

The approach to the formation of an investment portfolio deals with the desire to diversify risks as much as possible while maintaining profitability. For each individual, the optimal option is when the maximum effect is achieved in the form of return on investment, and the risk of loss is reduced to zero. However, this situation is not possible under market conditions, so the person should always consider the restrictions on risk or return.

Given this, the main motives, tools and criteria of diversification of individual investment portfolio are relevant today.

1. LITERATURE REVIEW

Nowadays, the ability to manage and accumulate personal resources plays an important role in economic processes, since the financial resources of the population form a significant sector of financial relations in society, and under market conditions, these savings acquire a form of investment capital. Therefore, it is important to take into account the current experience of behavioral models of individuals in making investment decisions.

Notable scientific achievements in economic decision-making by individuals and its influence on economic processes belong to Kahneman (2002). He determined the influence of psychological factors on making investment and purchase decisions. Application of psychological methods to economic analysis allows claiming that investors' revenue on a stock market depends not only on risky operations and faulty decisions, but also reaction to incoming data, evaluation of which depends on psychological perception. The statement about the fact that financial market functioning and investment services spreading considerably depend on people's behavior, preferences and aspirations is no longer hypothetical.

Standard economic models come from a concept that people seek their maximum benefit and minimum expenses. The supporters of behavioral theory (Kahneman et al., 1982) disconfirm some of the traditional dogmas by showing that people often make decisions based on assumptions, emotions, intuition and empirical rules, but not on analysis of revenues and expenses; that markets "suffer from disease of group thinking and herding behavior"; and that investment decision can often be influenced by how the suggested decisions are made.

The global economic crisis has revealed the inefficiency of investment decisions and fallibility of decision-making by separate individuals and financial organizations in the process of their activities, which has led to global economic consequences (Kizyma, 2009). Hence, a dilemma of optimal investment decisions and economic choice as to investment instruments is still topical and needs further research.

"One of the main ideas of behavioral economics borrowed from psychology is a wide spread of excessive confidence. People do the things, which they should have done at all, because they believe

in their success”, says Kahneman in his Nobel lecture. He calls it “unrealistic optimism”, which is one of the driving forces of capitalism because many people are unaware of risks they take. This statement of the scientist is also represented in the book by N. Taleb “The Black Swan”, where it is mentioned that people do not pay attention to very possible consequences of rare but extensive destructive events, which affect our assumptions about the true future.

So, individual investment decision can have a direct or indirect influence on other people, and most of the time these decisions are not economically supported and based on personal experience or rational expectations, rather than common sense and mathematical calculations. Such a conclusion plays an important role in practical investment portfolio as people owing to their optimism or being underinformed can make wrong financial decisions, which can negatively affect them or their surroundings. Traditional economic theory states that individuals reach decisions on reasonable grounds. However, in real life people often tend to be irrational when assessing the potential alternatives, since they make decisions based on limited amount of information, which is, moreover, not always reliable.

In this regard, “the prospect theory”, which is based on the theory of “unrealistic optimism”, is considered valuable as it provides a more profound explanation to the rational expectations theory. Therefore, according to “the prospect theory” by Kahneman and Tversky (1982), an average person cannot correctly assess prospective benefits in absolute terms. The results of this research appear to be quite practical when applied to investment decision-making in the middle or long term. However, irrational behavior is not dominant in investment decision-making, since the creation of an investment portfolio requires a deliberate choice of investment instruments and means.

Another obstacle encountered when creating a high-income investment portfolio is asymmetric information. The problem of decision-making under asymmetric market information was examined by Akerlof (1970), the Nobel Prize laureate in Economics. He discovered that when entering into a transaction different subjects have different in-

formation regarding the object of the transaction, which influences their choices. This conclusion is of an immense value for the research of decision-making in the sphere of personal investment under limited information. Insufficient awareness and expertise lead to wrong decisions in personal investment that decreases investment efficiency, and in imperfect market structures can even lead to a limited investment choice by the large masses of people (Akerlof, 1970).

Insufficient awareness, self-assurance, false or out-dated information and stereotypical thinking have a considerable influence on decision-making. One of such manifestations, which is innate to the modern society, is a phenomenon of “herding instinct”, which was introduced into economics by Keynes (1973). The expressions of herding instinct include consumer sentiment, deception, illusions regarding money value and general assumptions about how economy works. One of the fundamental factors determining the structure of investment for citizens is their main reasons for savings and potential expectations. The latter can often foster self-assurance, which blunts the sense of danger and leads to excessive investment in unreliable or quite risky financial instruments. People believe that shares will invariably bring them huge revenue in time that buildings will rise in price every year. It is a kind of a multiplier: more trust means more economic activity. Monthly consumer sentiment index, which is calculated by the University of Michigan in partnership with Reuters and is considered to be the most famous barometer of sentiment, increased in April 2019 to 97.2 index points compared to the previous index 96.9. Moreover, the index is at the level much higher to its historical maximum (111,4 in 2000) than its minimum (51,7 in 1980), which reflects the strong confidence in tomorrow against all social and political problems (World Economic Forum, 2019).

To analyze the process of creating investment portfolio, it is worth considering the thought of Shiller (2005) about the fact that people’s narration about past economic event can also influence consumers’ decisions regarding some financial instruments or institutions. He states that “a serious crisis strikes down the optimism, and the consequences can be perceptible for decades” (Shiller, 2005).

From the standpoint of measuring the institutional quality of the social sector and, hence, the financial capacity of individuals to form their investment portfolio, the study by Vasilieva et al. (2018) on assessing the institutional quality of the social sector is of interest. The authors studied the functioning of the social sphere in the conditions of establishing a market economy in Ukraine by assessing institutional changes and comparing them with the best practices based on existing indicators; they studied the relationship between institutional quality and economic development, assessed the quality of social institutions through the prism of human capital development, which is currently one of the strategic competitive advantages of the country.

When deciding to buy consumer goods, save financial resources or invest them in various types of assets, people form and make investment decisions related to the choice of priority goals and optimization of financial risks. However, this choice is often limited by the financial capabilities of the individual, his level of awareness or selection of optimal investment instruments. In this context, it is interesting to study the standard of living (living comfort) and working environment of the population. Mishchuk and Grishnova (2015) found significant effects of a number of economic and non-economic factors on migration. And this, in turn, affects the ability of individuals to save, acquire real or financial assets (invest), and participate in the formation of financial funds of the state (through tax payments).

The previously referenced theoretical works bear an important practical meaning for realizing the principles of investment made by natural persons and creation of personal investment portfolio since in most financial decisions an individual takes risks and cannot be assured of the results of his/her activity because of being influenced by the postulates of the above-mentioned theories.

In economics, savings are closely connected to investments, in other words, savings are the ground to investment. In this context, personal finance is considered as the primary link of the financial system and as a category that has an important impact on the development of financial processes in the state (Kutsyak, 2012). The source of economic

growth in developed countries is the gross national savings – state, business and personal savings of citizens. But in conditions of economic instability and cyclical fluctuations in the economy, it is the financial assets of the population that are the main potential for social development. The finance of individuals is the primary element of the financial system, which reflects and actively influences the economic processes in the country. They mediate personal consumption and investment in the public and corporate sectors of the economy, thus creating conditions for their development. Thus, the result of the formation of personal finances is the accumulation of resources in the funds of personal consumption and savings and their further investment.

The relationship between investment and savings is significantly influenced by factors such as the type of market competition, favorable market conditions, the development of stock and financial markets, and the presence of deferred demand or future expectations of the population.

Sidorchuk (2016) investigates the impact of micro- and macroeconomic preconditions on the formation of personal investment portfolio and investment decision-making. Thus, microeconomic preconditions are due to the ratio of different forms of household wealth during its life cycle and the loss of value for money over time if not used. Macroeconomic preconditions are based on the approach according to which the amount of savings in the country's economy is equal to the investment of all subjects of the economic system, while personal savings become a source of investment for economic entities. Such an investment-saving mechanism has a multiplier effect on the long-term development of the country's economy and is considered as the main method of increasing overall welfare.

The savings generated by the population can be attracted as investment in the domestic market and become a substitute for borrowing by the state in foreign markets. Many researchers are inclined to believe that such savings are a reserve resource of the national economy, which only slightly enters the country's financial market and takes the form of an investment resource. Obstacles in this way are low financial literacy, distrust of the coun-

try's financial system, high poverty, underdeveloped stock market, difficulty opening an account and buying securities, a limited range of financial instruments.

In this context, research is on the investment of individuals as an additional resource for economic growth of regions and the economy as a whole. In particular, Chechetova and Chechetova-Terashvili (2019) consider personal finance as a reserve for the economic growth of regions. According to them, the investment function of cash flows of the population is of great importance for the region's economic growth. Activation of investment processes by attracting such funds is possible subject to the improvement of financial instruments and the formation of incentives from state and regional authorities. To competently and effectively carry out investment activities, it is necessary to know about the possible tools for investing free funds, their features, main advantages and disadvantages. At the same time, in order not to make a mistake when choosing an investment instrument, you need to take into account not only your wishes, but also environmental factors.

There is a close relationship between personal savings and investment. The transformation of savings into investment will provide additional income, which will lead to increased consumer demand and improve the quality of life. Growing consumer needs will encourage businesses to increase production, which will lead to increased payments to the budget, in addition, tax liabilities of individuals will increase due to the increase in the object of taxation, which will also increase the revenue side of the budget (Nosova, 2015).

An interesting approach is to study the investment capacity of the population through the processes of de-shadowing of the economy and the development of the system of non-banking financial institutions (Lavryk, 2018). The investment opportunities of the population are developing in close connection with the national investment trends, and their growth is constrained by many problems. But positive changes have been made towards reformatting the population into an active strategic investor, which, in turn, will lead to a reduction in the shadow economy. Among the main areas in which investment activities can be intensified,

raising the general standard of living of the population, raising real wages, and creating additional jobs were recognized that. Particular attention is paid to non-bank financial institutions, which have a strong potential to return shadow capital to the economy, provided that they are trusted and ensure the reliability of their work.

It is summarized that in developed countries, the main areas of investment for individuals are deposits in corporate securities and insurance funds, and in Ukraine – deposit accounts of commercial banks or lending to housing construction (Lavryk, 2018).

2. GENERALIZATION OF THE MAIN STATEMENTS

The dynamics of investment sentiments of the population reflects the economic, political and social situation of the country, as this sector of the economic system is most sensitive to the development of favorable or, conversely, negative phenomena in the economy and society (Figure 1).

Analyzing the dynamics of people's asset increment, one can notice that the most dramatic decline was in 2014 and in 2019, which was a period of political and economic crisis. The decline in the financial and real sectors of investment happened simultaneously. A greater correlation with the political situation was represented by financial assets, which during the crisis decreased from UAH 110,888 million to UAH 27,868 million, which is almost 4 times, and in 2019 decreased from 35,805 to UAH -95,017 million, while non-financial assets gradually declined. The decrease in the growth of financial assets is due to inflation in the economy, the devaluation of the national currency and the crisis in the banking system of Ukraine, as commercial banking services are most popular with the population and other financial market instruments are less popular due to low financial literacy. This situation allows formulating a hypothesis that investments in the financial economy are more dependent on the social and political situation in a country than investments in non-financial assets.

Source: Compiled by the authors based on the data from the State Statistics Service of Ukraine.

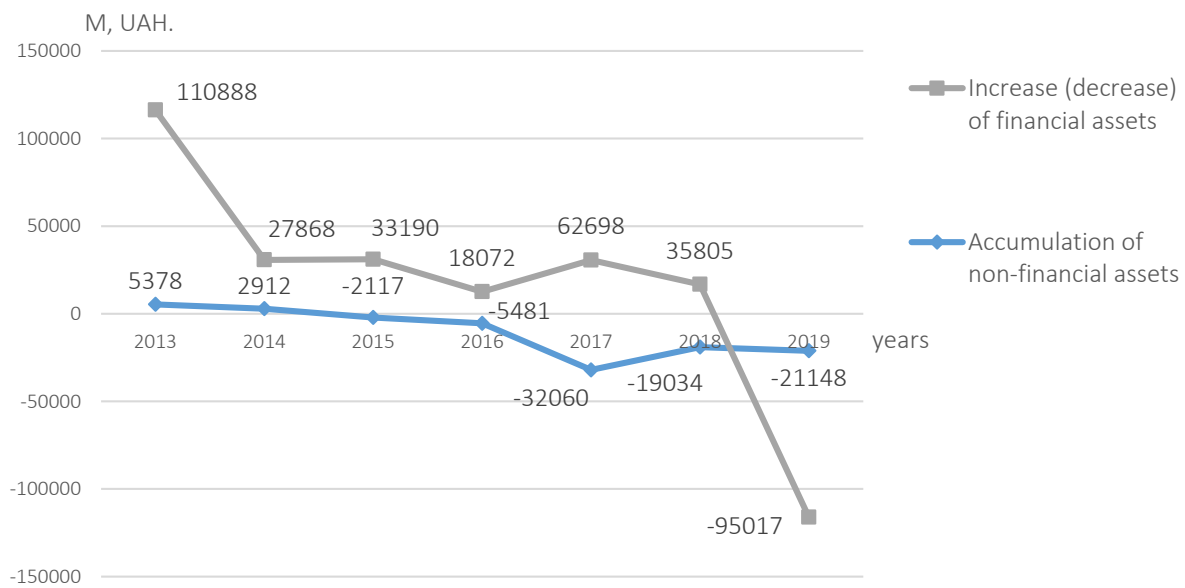


Figure 1. Dynamics of the increase (decrease) of people's assets in Ukraine in 2013–2019, UAH mln

According to the dynamics of people's assets increment in the period of stability, there is an inversely proportional dependence between correlating the financial and non-financial instruments of investment. The year of 2017 clearly shows a noticeable increase in financial investments and a decline in non-financial operations, while the next year illustrates the inverse correlation of these two indicators. Thus, a conclusion can be drawn that the population in a crisis period prefers cash in national or foreign currency.

Quite the opposite is the situation during periods of the economic growth and recovery of business activity. Some percent of the country's population wishing to prevent savings depreciation and profit from accumulated financial resources, invests in different instruments according to personal convictions and the type of sector that develops on the country's financial market. Under these conditions, individual investment activity includes investment of temporarily free funds in a great amount of investment objects generating a certain type of their diversified combination that enables evening out the decline in profitability of some assets by the increment in profitability of other ones. Such investment system is traditionally called an investment portfolio.

Figure 2 shows the structure of investment instruments most used by Ukrainians.

The maximum percentage of gross capital formation by households goes to deposits and cash (49%); this indicates that in general the population finds it easier to invest savings in cash (mostly in foreign currency and short-term deposits). Investment in fixed capital (31%) is popular due to high reliability and greater profitability compared to deposit accounts.

Due to a number of circumstances, other financial instruments are not fully used by Ukrainian citizens for investment. According to statistics, financial instruments are used by less than 20% of respondents, while in case of availability of excessive funds, 49% of respondents prefer saving money in cash at home. Such situation clearly demonstrates the problematic aspects in this field. Domestic citizens do not have a financial opportunity or sufficient information for investment (that option was chosen by 76% of respondents), while 14% of respondents mentioned the lack of trust in financial institutions as a main obstacle to invest.

Thus, in market conditions, individuals, when saving their money, have a variety of financial instruments. The formation of organized savings is a clear indicator of a stable economy and confidence in the country's financial system, because the accumulation of cash from the population does not allow attracting this resource into the financial system.

Source: Compiled by the authors based on the data from the State Statistics Service of Ukraine.

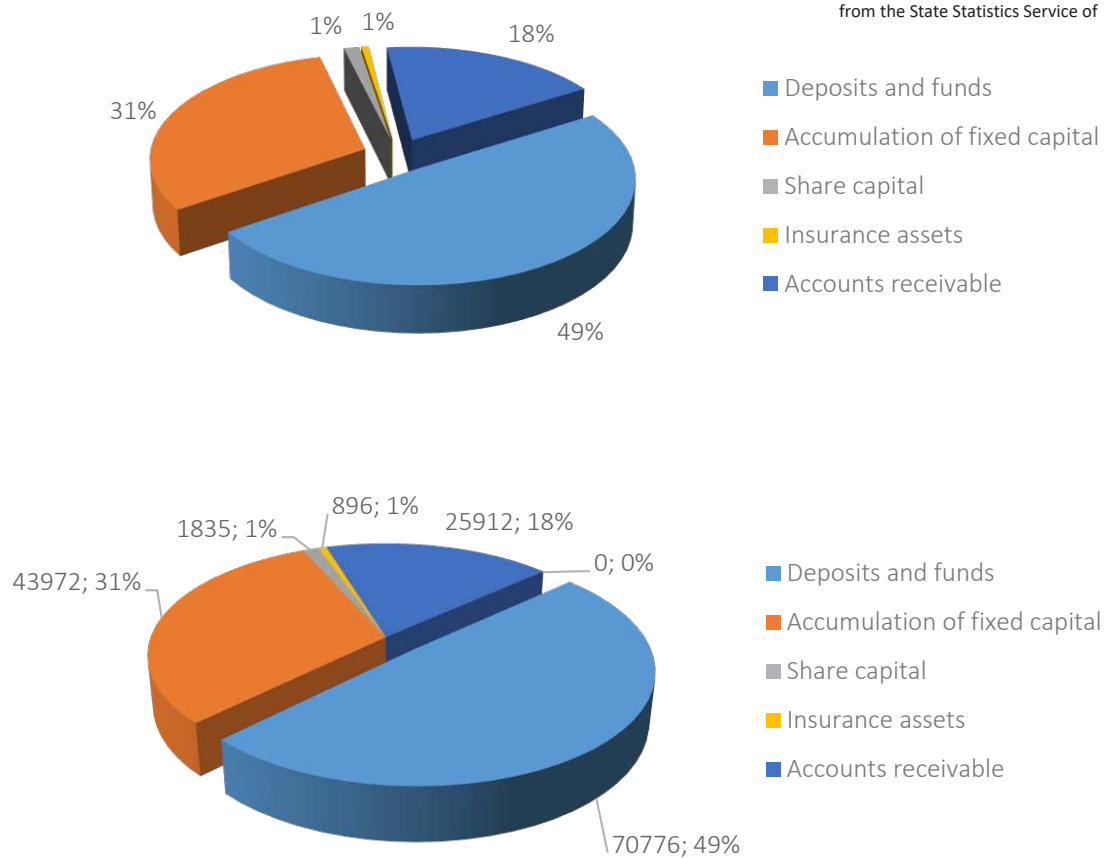


Figure 2. The structure of asset acquisition by households in Ukraine in 2019, %

When deciding on the forms and methods of investment, an individual is influenced by many both internal and external factors (micro- and macro-economic preconditions). This makes it impossible to form a universal solution for all individual investors. However, trends and the optimal structure of a personal investment portfolio may have common features for investors, which are ranked by income level, age, national traditions, etc.

In this regard, the results reveal the fragmentation of investment behavior of the population according to people’s revenue level. In the “poor” countries, people turn to instruments that are more conservative; for example, bank deposits that reach the mark of 63%, while for the “rich” countries the same instrument constitutes only 28% (2019). Furthermore, a great share of investment in “rich” countries is aimed at securities, insurance and pension programmes (Figure 3).

In general, the world population tends to invest their free funds in securities (35%), bank depos-

its (33%) and insurance properties (30%). Other means of investment are represented by only 2%.

One of the reasons for low investment activity in the non-banking sector of the economy in Ukraine and some other European countries is the fact that people do not invest their savings owing to non-confidence in financial institutions, financial illiteracy or undeveloped financial market of these countries. That is why the study of “hidden” savings can be a marketing possibility to economic growth.

Apart from classical financial investments, in “poor” countries, a purchase of house by natural persons can be considered investment expenditure as they are operated largely by savings and can form added value. According to experts, investing in real estate (construction of housing, office space) was and remains the most attractive area for temporarily free funds of private investors.

For example, in the context of unstable national currency and economic and political crisis in

Source: Compiled by the authors based on the data from the State Statistics Service of Ukraine.

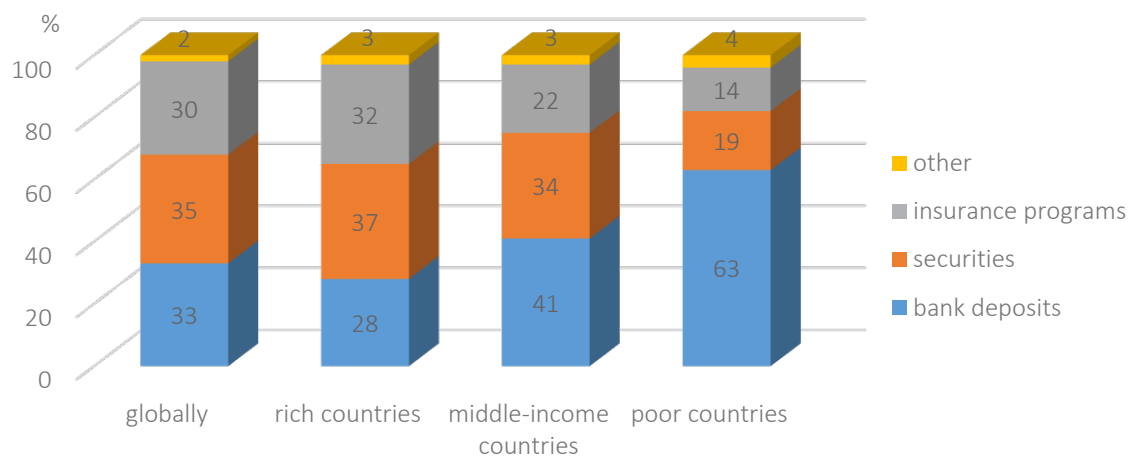


Figure 3. The share of different types of assets in the general structure of world savings in 2019, %

Ukraine, estate property is one of the most attractive objects to invest for private investors. In terms of risk, investment in real estate is low-risk, because in the case of economic growth in the country, housing prices are gradually rising, and real estate can always be sold or rented. Thus, the same as quotation of shares and bonds, the value of estate property can decrease under some conditions. However, it can never reach zero, and in real life it means that an owner of the estate property will never be left with some depreciating bonds on hand.

The extent to which the commercial real estate market is developed in a certain country can be judged by the number and activity of investment funds as they are main owners of functioning objects of commercial estate property that bring regular income.

At the same time, real estate market is characterized by the lack of convenient investment instruments. A high input threshold of this market makes it almost inaccessible to direct private investment. In this situation, the presence of real estate investment funds is quite topical. This new instrument of indirect investment in estate property is transparent, efficient and attractive in terms of taxation and liquidity, so it provides an essential increase in investment flows from natural persons into a real estate market.

It is worth mentioning that besides financial factors, people's lack of knowledge in savings man-

agement has a considerable influence on investment disproportions. Moreover, the population hardly ever turn to investment facilities, i.e. institutions, which, judging from their functioning, could significantly simplify the process of efficient savings management for average citizens.

According to the data on global competitiveness provided by the World Economic Forum in 2018, Ukraine lost its position and held 81 place among 140 countries. Defining competitiveness as a set of institutions, policies and factors, a country's rating is determined on the basis of a combination of publicly available and own specialized data on 12 dimensions – components of competitiveness, which together are a comprehensive assessment of economic competitiveness. The underdevelopment of financial markets is the second reason after macroeconomic instability, which causes such low ratings of the country. The main regression, according to the WEF report, was recorded in the financial system, in which Ukraine's rating is 136th. That is why the lack of a proper institutional environment limits people's choice to invest.

In case of people forming some savings, especially in the context of instable market conditions and globalization, it is worth considering non-financial investments into "human capital assets". This is the total cost of investment in a person, which is aimed at the formation, accumulation, implementation of its knowledge, abilities, skills and abilities, which provides value growth and income.

The peculiarity of investing in human capital is that they depend on human life cycles and are subject to rational and irrational influences on the economic behavior of the individual, family, firm, state as institutional investors in human capital. Research on the role of human capital in shaping the financial potential of households showed that one of the main and priority tasks of the concept of human capital development management in Ukraine should be the recognition of its great social value and driving force of economic growth. This will allow forming a high level of well-being of the population and will positively affect their financial potential. The level of reproduction of national human capital depends on the investment choice (Kizima, 2009; Nosyk, 2015).

Based on this, the study analyzes investments that can improve people's financial condition in future and bring them extra benefit:

- 1) investment in health (It is worth allocating savings to health improvement, for example, disease prevention or purchasing a gym membership. It is important because not only is it a high priority for a living being, but also, in case of health state deprivation, unexpected expenditures can considerably aggravate a person's financial situation);
- 2) investment in education (Acquisition of new knowledge requires both time and money. Education expenditures are justifying only if obtained knowledge can be applied in real life). Thus, for many people under 30, it is more beneficial to invest in oneself rather than in financial instruments;
- 3) innovations (investment in technologies is investment of financial resources in decisions that allow one to shorten daily expenditure on life of both one person and a whole family);
- 4) investment in assets (i.e. purchasing certain objects, which can benefit, including monetarily, in time.

Creating an individual investment portfolio, one needs to develop one's own strategy of actions and specify the channels for investment. Firstly, it is necessary to focus on investors' activities on

a financial market, in other words investing in financial resources, which are riskier and require a higher level of financial knowledge, but can still generate greater revenue.

A generally accepted distribution of investor types and main strategies of their behavior is as follows: conservative, moderate and aggressive. It is believed that along with an increase in the investor experience level, there is a transition from one type to another, and therefore a change in investment strategy. Nevertheless, such possibility tends to appear with an increased level of person's financial literacy, his/her expertise and past positive investment experience.

However, for individuals involved in investment decision-making, this study shows that the person's level of revenue, acceptable risk and the purpose of the investment are decisive. Table 1 represents an average return on investments of separate financial instruments, which can be seen as determinant in creating a certain type of investment portfolio.

Table 1. Average investment return according to financial instruments in Ukraine in 2019, %

Source: Compiled by the authors based on the data from the State Statistics Service of Ukraine; UN (2019).

Financial instrument	Return
Shares	From 30.0
State securities	10.5
Deposits	14.5
Gold	23.3
Estate property	16.5
Foreign currency	11.5
Investment facilities	9.5

Furthermore, when choosing the most acceptable source of investment, people have to consider other criteria, amongst which the most important are their liquidity, stability, riskiness and fiscal characteristics.

Based on Table 1 and the above-mentioned criteria, it is possible to design a typical investment portfolio of an individual with low, mean and high income.

The data shown in Figure 4 confirm that low-income people invest in the least risky instruments

Source: Compiled by the authors based on the data from the State Statistics Service of Ukraine.

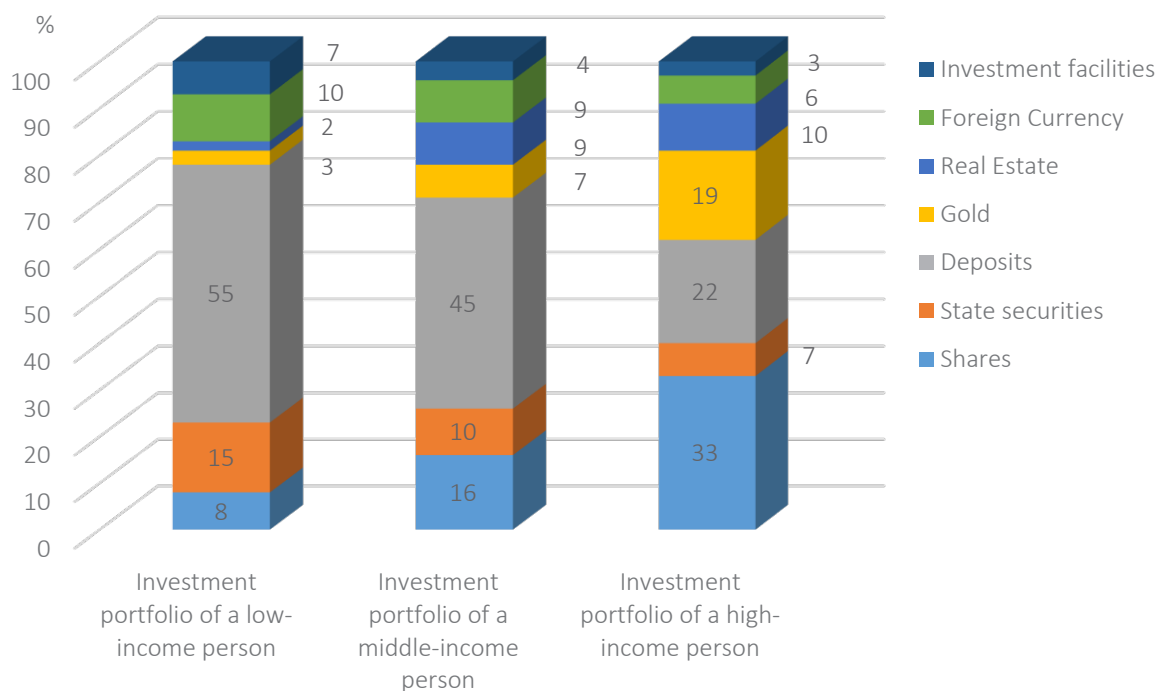


Figure 4. Personal investment portfolio of an individual with low, middle and high income in 2019, %

such as bank deposits and government securities, which provide a relatively high return for people with this level of income. Less efficient and accessible for such people, investment in foreign currency, shares, investment facilities, gold and real estate are considered. For a person with mean income, it is more beneficial to invest in bank deposits. Such people have an opportunity to invest their funds in shares almost doubled. They are prone to invest in state securities, since they are more reliable; however, their profitability is considerably less that of shares and deposits. Less attractive forms of investment are foreign currency, real estate, gold (however, it is still more attractive than for the poor), and investment facilities. High-income people generally invest in shares, which accounts for almost a third of funds in bank deposits, which is approximately 22%, in gold constituting 19% and in real estate being 10%. Investments in investment facilities, foreign currency and state securities for people with such income are 3-7%.

3. DISCUSSION

With free finance at their disposal, almost everyone can choose the most useful investment option, but it may seem that investment portfolio man-

agement is an extremely difficult and incomprehensible task. Most investors fail to achieve their goals, because their actions are not consistent. To regularly get rich on investing, a potential investor must master the principles of sound management of personal finances and use them in practice.

The analysis of scientific papers on this issue allows systematizing the basic principles associated with the effective management of personal finances. When planning to invest, it is necessary to study their alternatives, and when making investment decisions, it is necessary to deeply understand the features of the market segment chosen for investment. It is necessary to analyze the relationship between the risk and return in detail – the higher the probable return, the greater the risk. It is necessary to diversify investments, try not to invest all your savings in one, even the most reliable, financial instrument. Build your own investment strategy to form a contingency fund in case of unforeseen circumstances, and never invest in “doubtful” instruments (Kizima, 2010).

At the same time, the specialists of the investment company LBLV (2020) recommend the following rules when forming a personal investment portfolio and making investments, in order to achieve

success and minimize current risks: invest only free finance, clearly define your goals and intentions, determine the sequence of stages investment portfolio, reinvest earnings, diversify investments.

Given the above approaches, the empirical data on the formation of savings of specific categories of citizens, as well as scientific publications on this issue, an individual, when forming a personal investment portfolio, must take into account and adhere to the following criteria:

- Collect information about the investment object. It is unwise to invest money somewhere under the influence of emotions. If you want to invest, it is necessary to learn about the basic principles and functioning of a financial instrument, consult with experts, review ratings, learn basic information about the activities of the company or organization with which you plan to cooperate.
- Diversify an investment portfolio. In the process of creating an investment portfolio, it is necessary to determine the interconnection between risk and profitability. Any attempt to gain income presupposes risk. The higher the potential revenue, the higher the risk. A fear of risks is an emotional reaction to perceiving the chances to gain revenue and suffer financial losses. Risk decline can be provided by collecting information and lowering a degree of the situation uncertainty, by accumulating investment experience, by diversifying investments in different instruments: deposits, unit investment trusts, real estate, securities, which are the most reasonably to be placed on the markets of different countries. It is reasonable to divide investment resources into two levels of investment: the first level – distribution of investment into different instruments, for example, 25% goes to securities, 25 % to bank deposits, 40% to real estate, and 10% to reserve fund; the second level – diversification in frames of chosen instruments: for example, a half out of 25% for securities is invested directly into shares and another half goes to unit investment trusts.
- Form financial reserves. Investments must not concern the primary needs of a citizen or his/her family, that is why it is necessary to form reserves for at least two months in advance in order to provide a proper amount of funds to pay for the primary needs of a person or a family.
- Minimize the use of borrowed resources. Personal investment is a method of maintaining one's own financial condition in the first place, and only in the second place its task is to multiply one's own wealth. Therefore, the use of speculative methods of enrichment can often lead to unpredictable loss, especially in the context of current Ukrainian realities, like a lack of real planned macroeconomic indicators, exchange rate movements or a change in creditor behavior strategy, it can change the correlation between received and paid interests towards not debtor's benefit.
- Develop your own investment strategy. Market conditions of management require markets specificity, their development through innovation and increasing efficient functioning; therefore, they are quite variable. Under such conditions, it is necessary to constantly learn something new, gain experience in financial decision-making and set one's own priorities that correspond to one's own financial abilities, individual desires and the level of one's reasons satisfaction as a result of such activity. According to personal needs and reasons, a person can determine a strategy of saving money, an opportunity to accumulate funds at low risks or readiness to take risks for potential high revenue.
- The correct choice of the location of the investment object. In the context of globalization, a correct choice of investment object location determines its profitability and stability. Portfolio investments with heterogeneous asset classes and in different countries is complicated and difficult to manage business. Purchasing objects located in different jurisdictions means that one will need to gain an understanding of the peculiarities of local taxation systems and find different contractors to manage the objects. It is reasonable to invest funds in not more than two different assets classes in one or two countries. For

a purchase of profitable objects, it is worth choosing the countries with a reliable political system and strong economy. For example, Austria, Great Britain, Germany, the USA and France can be referred to as such countries.

Given the specifics of personal portfolio investment, it should be noted that, in addition to the amount of income, the structure of the investment portfolio, according to investment strategies, is significantly influenced by financial goals, which are often determined by the investor's age. A young person is more at risk, so the share of stocks in its investment portfolio, even with a low income, will be higher than that of people with the same income, but older. This is due to the "time reserve" of the younger generation to compensate for possible losses and much less social obligations compared to the older generation. If a person is in pre-retirement age, the investment portfolio should consist more of

investments with a fixed rate of return, because older people need a stable income to ensure a decent standard of living in old age.

Of course, it is undeniable that a significant part of the population, due to limited sources of income, low financial literacy, and limited and difficult access to financial instruments, are not able to implement their own investment strategies. However, globalization processes are changing this. Research on activity and quality of management of the population by the personal finances, revealing of objective laws in character and intensity of investment by the population is especially actual in an unstable financial and economic environment in the country, since it allows using the received data for development of measures to stimulate financial activity of the population, as well as in the event of a crisis – to develop measures to protect the population's financial savings.

CONCLUSION

As a result of the study, specific investment instruments have been proposed that can be used in modern conditions to ensure the optimal ratio of return and risk of an investment portfolio. The formation of a personal investment portfolio is a complex process that includes not only financial aspects, but also psychological motives, socio-cultural status of the person. So, financial decision-making is exposed to a number of risks that should be considered and minimized in the process of shaping an investment portfolio through its diversification, formation of reserves, localization of investment instruments, minimization of credit resources and self-development, as well as training and practical investment experience.

Thus, a conclusion can be drawn that the population, when depositing savings, has a fairly wide choice of channelling investment. However, this choice is often limited to financial possibilities of an individual, his/her level of awareness (financial literacy) or availability of instruments for individuals in different countries. Consequently, the study of factors influencing investment choice and the selection of optimal instruments, which enable to use person's available resources in the most efficient way, appear to be important.

Thus, compliance with the above recommendations will lead to economic activity of the population and an increase in their real incomes, reduce the differentiation of the population by income level, and increase the economic culture and welfare of Ukrainian society as a whole. In addition, there are many unresolved issues in the formation and management of personal finances. A significant part of citizens found themselves in a situation of poverty and survival, and only the wealthiest part of the population became a full-fledged subject of the financial market. In this regard, further research should focus on finding ways to increase income and, ultimately, on the formation of the optimal structure of an individual's investment portfolio, which will have a multiplier effect on the financial system as a whole.

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