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Investment Fundamentals: Types, Classifications, and Principles in a Dynamic Financial Environment

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Abstract

Investment activity is a cornerstone of economic, social, and scientific-technical development, driving financial stability, profitability, and competitiveness. This article explores the multifaceted nature of investments, their classifications, and their critical role in both macro and microeconomic contexts. It examines the diverse forms of investments, including real, financial, and intangible assets, and highlights the risks and uncertainties inherent in investment decisions. The article also discusses the factors influencing investment processes, such as private investor participation, state policies, and global economic conditions. Furthermore, it underscores the importance of creating a favorable investment environment to attract both domestic and foreign investments. By analyzing the definitions and perspectives of prominent economists, this article provides a comprehensive understanding of investment strategies and their impact on economic growth and development.

Keywords: Investment strategy, economic development, investment risks, financial instruments, real investments, financial investments, investment attractiveness, foreign direct investment (FDI), investment environment, profitability, entrepreneurship.

The Role of Investment in Economic Development

Investment activity is a fundamental driver of economic, social, and scientific-technical progress. It ensures the financial stability of economic entities, enhances profitability, and improves the competitiveness of

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products and services. Investments involve the allocation of resources—financial, material, and human—to generate future growth and returns. These resources can be directed toward tangible assets, such as real estate and equipment, or intangible sectors, such as advertising, licensing, and education.

The investment process is inherently tied to risk and uncertainty. Entrepreneurs must make decisions about resource allocation in the face of unlimited needs and limited resources. Investment attractiveness, often quantified through risk assessment, reflects the probability of losing invested funds due to social, political, and economic factors. A comprehensive evaluation of these risks is essential to determine the feasibility and efficiency of investment projects.

Definitions and Perspectives on Investments

Economic literature offers various definitions of investments. Nobel Prize winner W. Sharpe describes investing as sacrificing money today to gain more in the future, emphasizing two key factors: time and risk. Sharpe categorizes investments into:

1. **Real investments**—tangible assets like buildings and equipment.
2. **Financial investments**—securities, stocks, and similar instruments.

L. Gitman defines investment as "the process of placing money in specially selected financial instruments to increase their value or generate income," highlighting personal or private interest. Meanwhile, Gortney and Stroup emphasize the connection between investments and savings, viewing investment as the acquisition and development of capital resources.

Functions of Investments

At the macroeconomic level, investments:

1. Facilitate large-scale reproduction policies,
2. Accelerate scientific and technological progress,
3. Ensure proportional development across sectors,
4. Establish industrial raw material bases,
5. Promote social development in education and healthcare,
6. Address unemployment.

At the microeconomic level, investments:

1. Expand production,
2. Prevent depreciation of fixed assets,
3. Improve product quality and competitiveness,
4. Enable acquisitions of securities and assets,
5. Maximize profits.

Classifications of Investments

Investments can be classified based on various criteria:

1. **By Object of Activity:** Real sector, financial sector, and intangible investments.

2. **By Organizational Forms:** Individual, project-based, and portfolio investments.
3. **By Duration:** Long-term, short-term, and medium-term investments.
4. **By Ownership:** Private, state, foreign, and joint investments.
5. **By Nature of Participation:** Direct (e.g., FDI) and indirect (portfolio) investments.
6. **By Direction of Activity:** Initial, efficiency-enhancing, and market-positioning investments.
7. **By Region:** Domestic and foreign investments.
8. **By Risk Level:** Low-risk and high-risk investments.
9. **By Source of Funds:** Own funds and borrowed funds.

Factors Influencing Investment Processes

Investment activity is shaped by a combination of private and state factors:

Private Investor Participation:

- Availability of funds,
- Savings rates,
- Tax burdens,
- Production efficiency.

State Participation:

- Budget allocations for capital investments,
- Refinancing rates,
- Social policies and living standards,
- Foreign economic policies,
- Economic and political stability.

Foreign Investments

When domestic investments are insufficient, governments often seek foreign investments, which can be:

- **Direct investments:** Tangible assets in underdeveloped or transitioning economies.
- **Indirect investments:** Financial instruments in developed economies.

Investment Attractiveness

Key indicators of investment attractiveness include:

- Property rights development,
- Ease of starting a business,
- Investor protection,
- Tax system efficiency,
- Access to loans,

- Political stability.

Profitability and Investment Decisions

The ultimate goal of investment is profit generation. Entrepreneurs consider the expected net profit rate and real interest rate when making investment decisions. Higher profitability increases investment incentives, while factors like taxes, equipment costs, and technological changes influence demand.

Conclusion

Investments are a vital driver of economic growth and development. By understanding the diverse forms, functions, and risks associated with investments, policymakers and entrepreneurs can create strategies to enhance investment attractiveness and foster sustainable economic progress. A favorable investment environment, supported by sound policies and institutional frameworks, is essential for attracting both domestic and foreign investments.

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