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INVESTMENT FUNDS ACTIVITIES AND THEIR STRATEGIES IN FOREIGN COUNTRIES

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Abstract:
The article provides information on the activities of investment funds in foreign countries and examines their distinctive features. Based on the research materials and methods, the experience and current status of investment funds by type in developed countries have been studied, and opinions have been expressed. During the research, index funds were explored in depth, and their effectiveness was analyzed. Conclusions were drawn based on the results of the research and analysis.

Keywords: *International investment funds, stock, index funds, investment strategy, mutual index funds, exchange-traded funds (ETF), benchmark index, tax efficiency.*

INTRODUTION

Investment funds are financial instruments designed to pool the resources of multiple investors to purchase stocks, bonds, or other assets. They provide individuals and institutions the opportunity to benefit from professional management and to diversify risk. Investment funds play a crucial role in the economy of every country. In developed nations, investment funds and international investment funds can positively impact not only the country but also the economic well-being of ordinary people. In this context, index funds have become increasingly significant for many investors, and their activities are currently on the rise. In our country, the practical situation of investment funds is not satisfactory. The financial analysis conducted by the Center for Coordination and Development of the Securities Market has revealed that the stringent requirements for their supervisory boards and reliable managers have created obstacles for many investment funds to operate in our country. As a result, several violations of laws by investment funds that have become joint-stock companies have also been identified by the Center for Coordination and Development of the Securities Market. Such issues necessitate extensive research in this field. Below, we will discuss the problems in this area and their potential solutions.

LITERATURE REVIEW ON THE TOPIC.

There is wide information in foreign literature regarding the theoretical concepts of investment funds and their practical analysis. This article primarily draws from foreign literature and official websites of investment funds in developed countries for its analysis. Specifically, data related to index funds, which currently attract many investors, has been sourced from the official websites of investment funds, and research work has been conducted based on this information. In our legislation, it is explained as: "A joint-stock company that issues shares for the purpose of attracting investors' funds and investing them in investment assets is an investment fund"[1]. Autumn Knutson, founder and lead financial planner of the consulting company "Styled Wealth," as well as one of the top 100 financial advisors selected by Investopedia, explains investment funds as follows: "Index funds are a low-cost way to track a specific investment group, providing broader diversification than individual stocks and being simpler than purchasing each individual asset within the index. They are very popular among people who want to invest in a straightforward and effective manner[2]".

RESEARCH METHODOLOGY.

This article examines definitions of investment funds provided by foreign scholars. The practical situations of existing investment funds in developed countries are studied, along with an analysis of scholarly works and articles by economists that express the role and importance of investment funds in the development of the national economy. The various types of investment funds are explored, and the most optimal types are analyzed. Economic research methods such as classification, economic-statistical analysis, synthesis, and logical reasoning were extensively utilized as part of the research methodology.

[1] The Law of the Republic of Uzbekistan "Investment and Share Funds" from June 29, 2015.
[2] https://styledwealth.com/about/#AboutAutumn

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ANALYSIS AND DISCUSSION OF RESULTS.

Investment funds are strategic tools for achieving financial success, enabling investors to build wealth and diversify their portfolios. Various types of funds, such as mutual funds, exchange-traded funds (ETFs), private equity, hedge funds, and pension funds, cater to different investment strategies and risk tolerances. By understanding the importance of investment funds and considering factors such as risk tolerance, fees, and investment goals, investors can make decisions that align with their financial objectives. The investment fund market is expanding and growing increasingly. As of 2022, the value of assets managed by investment funds worldwide amounted to approximately 61 trillion US dollars, which is equivalent to the combined gross domestic product of China, the European Union (EU), and the United States (US)[3] .

An index fund is a mutual fund or exchange-traded fund (ETF) that tracks the performance of a market index, such as the S&P 500. An index fund achieves this by maintaining a portfolio of the same stocks or bonds, or a representative sample of them, to reflect the index's performance. Funds that track market indices, such as the S&P 500, are called index funds. These funds typically use a passive investment strategy, meaning their goal is to provide returns that are similar to those of the index. However, index funds usually deliver slightly lower returns than the index due to associated fund costs. Simply put, index funds are designed to show results similar to those of a large market index. This indicates that they are diversified across securities within that index and include a variety of investments.

There are many market indices and corresponding index funds. For example, if you want to invest in U.S. stocks, you might invest in a fund that tracks an index like the S&P 500, which encompasses the largest 500 stocks in the market, as well as the Dow Jones Industrial Average. Index investment funds have revolutionized U.S. stock markets and are attracting many investors. In terms of numbers, passive index funds accounted for only 21% of the U.S. stock fund market in 2012[4], but by 2023, passive index funds have captured approximately half of U.S. fund assets[5].

Index funds are very popular among investors as they provide easy access to a broad and diversified portfolio at a low cost. They are passively managed investments, typically distinguished by their low expenses. In rising markets, these funds can deliver high returns when the market is up, benefiting all investors.

However, they also have drawbacks. In particular, there is the issue of lack of protection against declining returns; during long-term downtrends, these funds may perform poorly along with the market. Investors investing in index funds can utilize professional advice to enhance their returns. Although index funds often operate as self-managed investments, the recommendations of investment specialists can help increase the expected amount of profit. "Advisors can assist in building a portfolio consisting of several index funds, such as a U.S. large-cap index fund, an international equities index fund, and an international bonds index fund," emphasizes Knutson.

Currently, the share of index investment funds is increasing year by year, as can be seen in the case of the U.S. In 2010, index funds accounted for 19%, while by 2023, this figure had risen to 52%. Actively managed investment funds are increasingly losing their significance (see Figure 1).

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[3] "Managed assets in investment funds worldwide in 2022, by region", Statista, 12 June 2023, https://www.statista.com/statistics/273704/managed-assets-in-investment-funds-worldwide/; "GDP (current US$) - European Union, United States, China", The World Bank, n.d.,

[4] Statista. "Distribution of Active and Passive Investment Funds in the US in 2012 and 2022." https://www.ft.com/content/faf74f66-c4d6-45aa-bb30-0e73d523c547

[5] Financial Times. Passive Eclipses Active in Us Fund Market as Assets Swell to $13.3tn; https://www.ft.com/content/faf74f66-c4d6-45aa-bb30-0e73d523c547

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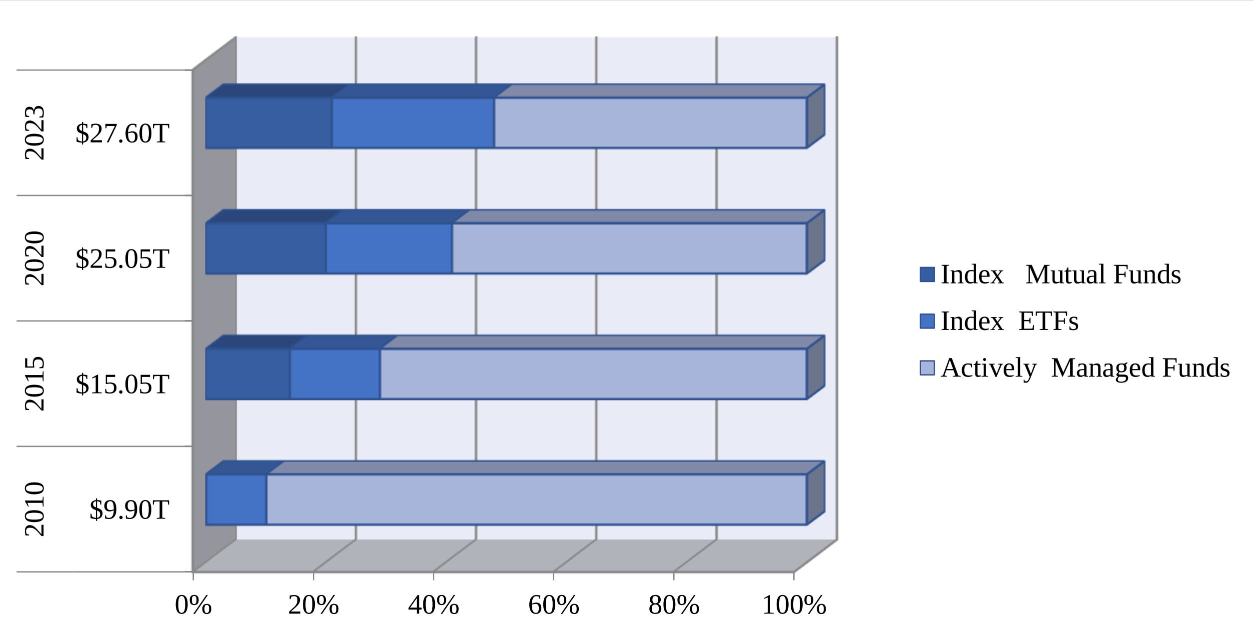

Figure 1. Growth Trends of Index Investment Funds in the U.S. Stock Market[6]

Index fund managers simply aim to replicate the performance of a benchmark index, which means they do not require extensive stock selection, timely trades, or other analytical research. They also do not engage in frequent trading, reducing transaction and commission costs. In contrast, actively managed funds often involve complex and large-scale investments, necessitating a team of professionals, which naturally increases costs.

As a result, index funds can have significantly lower expenses compared to actively trading investors. These funds typically charge low fees, often as low as 0.04%, compared to actively managed funds, which generally have costs of around 0.44% and can sometimes exceed 1.00%[7].

Here are the advantages of index investment funds:

- **Low Costs:** Index funds typically have low expense ratios because they are managed passively.
- **Market Representation:** Index funds aim to replicate the performance of a specific index, offering exposure to broad market indicators. This is beneficial for those seeking diversified investments that track overall market trends.
- **Transparency:** They replicate a market index, so the assets of an index fund are well known and available on almost any investment platform.
- **Historical Performance:** Over the long term, many index funds have outperformed actively managed funds, especially when considering costs and fees.
- **Tax Efficiency:** Index funds generally have lower turnover rates, which usually results in fewer capital gains distributions, making them more tax-efficient compared to actively managed funds.

In addition to the advantages of index funds, it is also important to consider their disadvantages. First, they lack internal flexibility. Because they are designed to replicate a specific market, they will also lose value when the market declines and cannot change direction with market fluctuations.

Index funds are also criticized for automatically including all securities in the index. This means they may invest in undervalued or fundamentally weak companies, potentially missing out on investments in assets that could yield better returns. However, automated strategies have often outperformed active management.

Another drawback is related to market capitalization weighting, where companies with higher market capitalizations have a greater impact on the fund's performance. This concentration can create a dependence on a few large companies; if these

[6] Prepared by the author based on website information https://www.investopedia.com/terms/i/indexfund.asp
[7] U.S. Securities and Exchange Commission. "Mutual Fund Fees and Expenses. https://www.sec.gov/files/ib_mutualfundfees.pdf

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companies perform poorly, there is a significant risk that it will negatively affect the investors' returns.

Table 1
Differences Between Mutual Index Funds and Exchange-Traded Funds (ETFs)[8]

Feature	Mutual Index Funds	ETFs
Trading	Purchased at the end of the trading day at the net asset value (NAV)	Traded throughout the day on stock exchanges at market prices
Management Style	Generally passively managed	Typically passively managed, but some are actively managed
Minimum Investment	Often have minimum investment requirements	Can be purchased in single shares, making them more accessible
Fees	Generally have lower expense ratios but may have sales loads	Typically lower expense ratios and no sales loads
Tax Efficiency	May have higher capital gains distributions	Generally more tax-efficient due to lower turnover
Investment Strategy	Aimed at replicating a specific index	Aimed at replicating a specific index, but can also include different strategies
Dividends	Automatically reinvested or distributed	Can be reinvested or taken as cash, depending on the investor's choice
Liquidity	Less liquid; transactions occur only at the end of the day	Highly liquid; can be bought and sold anytime during market hours

Index funds have been around since the 1970s but have exploded in popularity over the past decade or so. The fund that started it all, founded by Vanguard chair John Bogle in 1976, remains among the best as judged by its long-term performance and low cost. The Vanguard 500 Index Fund has tracked the S&P 500 faithfully in composition and performance. As of July 2024, Vanguard's Admiral Shares (VFIAX) had a 10-year average annual return of 13.11% vs. the S&P 500's 13.14%—a very small tracking error[9]. The expense ratio is low at 0.04%, and its minimum investment is $3,000.

CONCLUSION AND SUGGESTIONS.

There are various types of investment funds, and it is crucial for each investor to choose a fund that suits their needs. Index funds are a great option for investors seeking low costs, diversification, and passive investment strategies. They often outperform many high-cost actively managed funds. Designed to replicate the performance of financial market indices like the S&P 500, they are ideal for long-term investments, such as retirement accounts.

Index funds are generally safer than individual stocks due to their inherent diversification. By tracking a specific market index like the S&P 500, they encompass a broad array of stocks across various sectors. While a poor performance from one company could negatively impact an investor if it constitutes a large portion of their portfolio, in the case of the S&P 500, that company would only be one of hundreds within the index.

While index funds offer advantages such as lower risk through diversification and strong long-term returns, they can be affected by market fluctuations and may

[8] Prepared by the author based on website information https://www.investopedia.com/terms/i/indexfund.asp

[9] Vanguard. "VFIAX 500 Index Fund Admiral Shares, https:// advisors.vanguard.com/investments/products/vfiax/ vanguard-500-index-fund-admiral-shares#performance

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lack the flexibility of active management. Despite these limitations, index funds are often preferred for their stable results and are currently a significant component of many investment portfolios. Investors should pay special attention to their investment goals and risk tolerance when selecting an index fund.
Investing in index funds is straightforward for both experienced and new investors. To start investing in these funds, one should follow these steps:

- **Choose an Investment Platform:** First, select an online broker or investment platform. The best platforms offer strong customer support, robust research, and analytical tools.
- **Open an Account:** This typically involves providing personal information, setting up login credentials, and completing a questionnaire about investment goals and risk tolerance. After that, funds need to be deposited, usually through a bank transfer.
- **Select an Index Fund:** Research different funds to understand their historical performance, management fees, and the index they track. These funds should provide diversification for your portfolio.
- **Open an Account and Fund It:** After selecting a platform, consider investing in several index funds for your account.
- **Buy Shares:** Once your account is funded, you can purchase shares of your chosen fund. Most platforms allow you to buy directly through their websites or apps with just a few clicks.
- **Monitor and Make Adjustments as Needed:** While index funds are generally long-term investments, it's advisable to periodically review your portfolio to ensure it aligns with your financial goals.

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