

**UNIVERSITY FROM CRAIOVA  
ECONOMIC SCIENCES FACULTY**

**DOCTORAL DISSERTATION**

**PORTOFOLIO MANAGEMENT ON  
INTERNATIONAL CAPITAL MARKET**

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## SUMMARY

The importance of the researched theme stands in the fact that it approaches the segment of the capital market, which has developmental theoretic signification and major implications, coming from the complex relations between the allocation of the available resources and the efficient use of capital demand from the economy. The existence and the development degree of capital market have become for our national economy a criterion and a condition, a standard for the evolution and development degree for the functional market economy.

Taking into account the theoretical approaches, any new research in the field of financial theory is important, starting with modern theory of portfolio management (theories of Markowitz, Sharpe and Fama) but also their recent evolution (linear and nonlinear models, Buffet model and behavioral finances).

Practically, for the approached theme, the accomplishment of radiography for the internal capital market is important, in order to present the main problems it has to deal with, its evolutions and perspectives in the context of integration in the unique capital market of the European Union.

In this context, the phenomenon of globalization has been approached, in order to present the changes which have lately appeared in the worldwide economy, reflected in the global liberalization of capitals' flow, in the possibility of a larger access to the external financing sources and for underlining the adjustments which appeared in the structure of titles' portfolio by applying the strategies of international diversification.

The paper is structured in four titles: "Theoretical introduction", "Globalization of international capital market", and "The risk on the international capital market. The management of risks and the management strategies of portfolios" and "Experiences and trends in the portfolio management on the capital market of Romania".

The first title, named "Theoretical Introduction" was meant to be the start point which would ensure the theoretical base necessary to the approach of all elements of theoretical and practical nature within the thesis. Therefore, in the four chapters which form this title, definite theoretical notions have been approached, emphasized and developed: the financial market, the capital market (concept, features, functions, structure), the property market, intermediaries on the capital market, the main researches which form the modern theory of titles portfolio (Markowitz model, Sharpe model, the theory of efficient market), as well as the new evolutions in the

theory of portfolio management (Buffet model, behavioral finances, APT arbitration model, VaR model, and the nonlinear models of capital market).

Thus, it has been noted that in a national economy specialized markets exist and function where the demand and supply of financial assets meet and regulate themselves freely and directly. The existence of demand and supply of financial assets characterizes any economy no matter its development degree since only these may lead to the creation of the resources necessary for the development of goods and services within the companies. In this complex system of specialized markets, the financial market takes an extremely important role. The financial market is the market of long-term capitals, the market where property values are issued and transacted, values which represent the support of capitals' exchange; it is the market where financial assets are bought and sold, without changing their nature.

The circuit of financial assets takes place in the multitude of funds' suppliers, investors and the users, and the final goal represents the satisfaction of the economic needs, the obtaining of a profit.

The investors place the funds in order to use them, mobilize the funds in order to finance their own economic activity. Therefore, we witness a transfer of a part from the existing financial resources in an economy, between the ones who retain them, by offering them, and the economic agents, who use them. A feedback is also born from the users of funds to the initial investors, by distributing the profit obtained as a result of the capitalization of financial resources. The distribution of profit can be replaced in a market economy by distributing the risk when the funds which were the object of the transaction were used unprofitably, and the two partners become "the core of a financial circuit whose finalization may be the profit or the failure".

The financial market consists of three main branches, three distinct markets: the bank market, the monetary market and the capital market.

We have analyzed the concept, the main features, function and the structure of capital market. The capital market represents the assembly of relations and mechanisms by which the available and dispersed capitals from the economy are directed by the economic agents or by any other private or public entities that asks for funds.

The capital market is specialized on the transactions with financial assets on medium and long-term, by them ensuring the transfers of available capitals by the users whose needs overcome the internal possibilities of covering. The main reasoning of a capital market consists in the economy and the placement of property values of the economic agents who look for capital to the possible investors, investors who detain capital surpluses.

The practice in Romania emphasizes the option for the Anglo-Saxon conception, which says that the capital market is a branch of the financial market. The capital market presents itself as a relation mechanism between investors and issuers whose investment decision has two complementary goals: capitalization, that is a high degree of fructifying the capitals and the liquidation, which means the recovery as operative as possible of invested capital. The monetary surplus obtained by the capitalization offers the possibility of new investments in assets with a high degree of liquidity. The improvement of the assets' structure from the economy and the acceleration of the invested capital's rotation represent an increasing capitalization factor.

Further on, the concept of portfolio management has been approached, a concept seen from the perspective of theoretical approach of the complex universe of theories in this field.

The investment process has many faces: it can invest money in liabilities, in common actions, in properties or any other assets; it can imply speculative actions on a developing market or short sales on a decreasing market; it can choose "increasing" or "valuable" actions, liabilities, options, and other financial titles; it can lead to accumulation of funds or dissipation of resources. The diversity and competency are the main attributes of this field.

The portfolio management has an important role, not only in the theoretical aspect but also in the practical one. The individual investors, funds managers and institutional investors have to decide on the objectives that will be followed and according to them, to select from the possible investment alternatives.

The desiderating of the investment document implies some fundamental options. As a part of the control mechanism of risks, the decision must be taken on the basis of selecting multiple assets in order to build a portfolio, which would balance the two fundamental elements, the risk and the profit.

Another element which will determine the success of the investment is the horizon of time; the choice of a short, medium or long-term investment can lead to a profitable result or, if the choice isn't based on theories and management portfolio techniques, to a losing-out.

Therefore, the theory and practice of portfolio management represents the knowledge of personal needs and the individual investors' way of life and recognition of the institutional imperatives of professional investors (pension funds, investment banks, investment funds, etc.). Both categories of investors must know the fact that this complex market demands the

knowledge of control techniques of the risks and appreciation in real terms of capitals.

H. Markowitz and W. Sharpe are at the base of the financial theory in the field of portfolio titles. The scientific works of the two researchers form the modern theory of portfolio, the tough core of financial theory.

During a whole decade, Markowitz and Sharpe have defined two important elements that have formed the modern theory of portfolio (Markowitz, with his idea that the equilibrium between profit and risk depends on diversification, and Sharpe, with his definition about risk). A third element- the theory of efficient market- came from a young junior teacher on finance problems from the University of Chicago, Eugene Fama. New ideas have appeared recently in the field of analysis and selection of financial titles portfolio, ideas that are based on a total different approach, as the Buffet model and the behaviour finances.

The Buffet model emphasizes the term of “focused investment” and it is placed in a strategy that is to offer results more than the medium ones. The basic elements of these strategies are considered as being the following: identifying some remarkable companies using a series of business, management, finances and marketing principles; a focus on the investment by building a portfolio formed of a small number of financial titles (between 3 and 15 titles); using the probability theory for the calculation of the optimal investment proportion; the built portfolio must be kept on a time horizon comprised between 5 and 20 years.

The behavioral finances represent a study that tries to explain the inefficiency of market using psychological theories. Observing that people usually make mistakes and illogical presumptions when it comes to their business, the economic theory began researching the psychological concept in order to explain the irrationalities in people’s mind, basing itself on elements such as: an over-estimation, an over-reaction caused by the influence of some factors, the aversion towards the loss, mental calculation and the tolerance to risk.

In the second title, structured in three chapters and named “the Globalization of Capital Market”, the main features of the globalization process have been analyzed, especially the module where this process modulates and influences the international capital market and the effects of the globalization phenomenon over the worldwide economy.

The international economy is marked by a multitude of mutations of fund, which remodels the interdependence on which it functions. The developing of informational societies and the continuous adapting of the economic structures at the rapid modifications that takes place worldwide

practically, places all the nations in a continuous process of reorganization and transition. Two important forces, dynamic and interdependent, lead this process that is the deepening of globalization process of worldwide economy and the appearance and development of the regional economic arrangements.

The globalization may be defined as being the highest form of internationalization of economic activity. The globalization trends are manifested in the worldwide economy on several plans: that of integrating the international system of production, integrating some goods and services markets, the convergence of economic politics of national economies. The globalization phenomenon presents more clearly the role of information as a decisive resource for the economic development in the present period.

Therefore, maybe one of the most important changes manifested at the level of worldwide financial market were those related to the phenomenon of accelerating their integration and globalization. This evolution, directly determined by the liberalization of the national financial markets, the rapid technological progress and the enormous steps from the telecommunication domain, have led at the appearance of new opportunities of investments and financing for the actors of financial markets worldwide. The simple access of corporations or of the individuals on the worldwide financial markets will lead to the optimization of the process of allocating the capital, and to the promotion of prosperity.

The worldwide economic trends appear to have two directions: the disappearance of all barriers in the international trade of goods, financial assets and services; the increase of the role of liabilities in the process of optimizing the capital.

It is clear that not only the shape but also the operational way of the financial systems have suffered profound changes under the impact of the globalization of national economies.

The financial system has suffered considerable mutation under the direct influence of four main factors: the intensification of competitions between the financial institutions; an increase of the competitions between markets; new requirements concerning the transparency and capitalization in the financial industry; the intensification process of reorganization in order to face the pressure determined by the increased competitions.

A first consequence of the process of globalization is materialized in the improvement of macroeconomic efficiency of the financial systems. The free circulation of capitals, the interconnected markets and the opportunities of covering the risks foreseen by the new financial instruments permit the settlement of an optimum equilibrium between the total capacity of finances and the loan demands of corporations or of governments. The level of

interest rate on the market, established on the base of the report between supply and demand and also incorporating the risk, leads to an efficient allocation of the capitals.

Therewith, the lift of the input barriers on the financial markets, the free circulation of information, as well as the bitter competition from these markets drove to the proximity of the financial market with perfect competition. Thus, expanding the financial markets permitted the quick sewerage and transformation of economies in investments. Reducing the finances using the bank credits, this driving to a certain enclosing of the creation of account currency, the financial markets have permitted the financing of the economy in a less inflationary mode.

A second consequence of the process of globalization is reflected in the creation of a new legislative frame concerning the management of monetary politics. The financial settlements conduced to the changes of essence in the approaching of macroeconomic politics. The existence of open economies and the interdependence among financial systems drove to a general revision of the context in which the monetary politics can be implemented. The financial markets can penalize a monetary politics, which has as result the increase of inflation through withdrawals of capital, with immediate effect in increasing the interest rate on long-term and /or the depreciation of exchange rate. In the same time, the mechanism of transmitting the monetary politics became much diversified and complex.

The capital markets from the developed countries are better integrated and more interdependent than 10-20 years ago. The measures taken by different countries for the development and the increasing of efficiencies of their financial systems contributed to the growth of the internationalization of capital markets. In this context, the measures are: the opening of national capital markets to foreign investors; the encouragement of competitors and the liberalization national stock markets; the total or partial renunciation at the auditing currency measures, which encouraged the international investments of portfolio.

The development of institutional investors and their implication on larger scale in investments of portfolio abroad from the desire for the placement diversification perfected this process. The new informative technologies and the progress in the area of telecommunications led to an accelerated rhythm of financial markets reduced the autonomy of national markets and they significantly increased the volatility.

The free circulation of capitals between countries was the first step towards the nationalization of national capital markets, and the measures of elimination of the restrictions of this kind from the national legislation were

taken in many cases at the beginning of the 1980's. The internationally freedom of motion of capital opened new horizons for the economic agents for the arbitration between the national capital markets.

In the conditions of renunciation to the exchangeable fixed courses between the currencies of different countries and the passing to their floating, due to the increase in the volatility courses, the necessity for covering the risks was sensed with the help of the derivative financial instruments.

Some of the most significant shifts were surprised, shifts that have affected the structure of the financial international system, adapting it to the tendencies of globalization of markets: reducing the role of banking systems in the finances of enterprises through the development of market valuable titles; the massive wave of privatization from the occidental economies which encouraged the development of national capital market; the development of institutional investors; the internationalization of financial investments.

The globalization means the integration of the worldwide financial markets in a world international capital market. The nationalization of financial markets must be seen in the context of evolutions which are in progress in the world economy, in connection with process and economic phenomenon, with the growth of interdependencies among the national economies, taking into account the cooperation in production among firms placed in different countries and the amplification of international trade. The development of markets' internationalization is stimulated by the regional economic integration, as well as the revolution in the area of informatics and of telecommunications, whose progress is profitably reflected upon the dynamic of fluxes of capital.

The degree of globalization of national financial markets is different, depending on the financial resources taken into consideration: on short or long term, currencies, liabilities and actions.

Another dimension of markets' globaliz ation is given by the origin of the participants. If we take this into consideration, we may note the massive implication of investors of American origin in the international issuing. Also, the size of institutional investors is important and the hierarchy would be: on first place - the backgrounds of investment and pensions and the American insurance companies; on the second place – the Japanese ones and on the third place the European institutional investors.

When the individuals select an asset, an important factor in the taking of decisions is the risk that the respective asset presupposes. It is known that people usually have an aversion towards risk. For example, it was



demonstrated that the investors from the currency market base their demand for a certain financial asset on the analysis of the risks involved by that asset (measured through the risk), as well as on the analyses of the expected profit.

If people have an aversion towards risk, they will take the decision of an active being based on the future income waited, as well as on the analyses of the risk related to that profit. Under the influence of its aversion towards risk, for instance, the investors will want to keep the liabilities estimated in different currencies, if the resulted portfolio of financial assets offers the desirable combination between risk and profit, even if the interests offered by these liabilities are misapprehended by the currencies. Generally, one portfolio whose profit fluctuates strongly year-by-year is less desired than a portfolio that offers the same profit every year, with minor fluctuation.

In this context, the conclusion that the international shift of assets can be profitable to both employee parts in this action by the fact that it enables them to reduce the risk of investments was reached. The shift drives to this reduction of risk by the possibility offered to the participants of diversifying their portfolios - of distributing their fortunes on a large spectrum of assets. The reduction of risk is, therefore, the basic reason of international shifts of assets, and one of the functions of capital international market is that of making this diversification possible.

The process of diversification has substantially evolved as a result of the accelerated development of capital international market starting with 1970. Yet, the process of international diversification of portfolios hasn't reached yet, as specialists say, an optimum level. The slow developmental process of international diversification of portfolios is a phenomenon that perplexes us, since the economic theory has demonstrated that major advantages of diversification exist.

In the third title, entitled "The risk on international capital market. The management of risk and the strategies of management of portfolios" and formed of three chapters, the concept of risk was presented, the structure of risk, as well as the categories of risk incident to the activity of investment on international capital market.

The reason for the approach of these theoretical elements described herein is the fact that the basis of classical decisional theories, based on the presumption of certainty, is more and more misapprehended by the real situations which don't correspond to the requirements of complete cognition of all the conditions and effects for producing an event. As a direct consequence of this fact, in the modern theory of decisions absolute certainty is not used anymore, with precise estimations of the evolution of a

certain element or phenomenon, but more uncertain estimations are used, to notions as risk and uncertainty. Most decisions are taken in conditions of risk or uncertainty, the incomplete knowledge of one or more variables being a constant of the economic activity and a cause which explains in a less or higher measure the differences between the capitalization of different business projects.

The conclusion is that the risk is seen as a phenomenon that comes from circumstances for which the arbiter is able to identify possible evolutions and even the probability of their materialization, without being able to specify which of these events will really take place. It can be asserted that the risk comes from the impossibility of appreciation with a certain accuracy which is the possible event, identified by the arbiter and which will really materialize and will cause a certain level of risk. Even if the probability estimated for the real materialization of a certain generating risk factor is high, the arbiter cannot be positive if the one that will be produced and not another one; a phenomenon whose probability was thought as being in a reduced value is possible to appear.

There is a large variety of institutional risks; each of them being determined by certain factors generating the risk, it has certain components and forms of materialization which produce variable effects. It is important for the investors to identify as many aspects as possible in order to have a correct substantiation of investment decision.

The derivative usual products occupy an important role in the management strategies of the investment risk. The transaction of these products and the basic concepts and principles of the derivative usual products are easily understood even if in order to settle the price of some derivative products, complicated mathematical models are being used. The derivative products are used more and more frequently by different players on the market, including the governments, corporations' treasurers, dealers and brokers, as well as by the individual investors.

In the current situation, the management of portfolio seems to be blocked in a decisive fight between two competitive strategies: the active management of portfolio and the investments based on indexes.

Comparing the two strategies, the conclusion that the active management of the portfolio, as it is used today, has weak chances of exceeding the performances of an index has been reached. The basic theory of this strategy is: we buy today everything we foresee that may be bought soon with a profit, no matter what this is. The weak point of this theory is that taking into consideration the complex nature of financial universe, the forecasting are impossible. What complicates this unsure theoretic base is

the effect of inherent costs which appear together with this high level of the transaction – costs that decrease the clear profits of the investors.

Since it doesn't offer equivalent expenses, the report at the indexes is better than the portfolios actively administered from several points of view. But even the best mutual fund reported to an index, which maximally functions, will attract only a net profit equal to the profit of global market. The investors, who report themselves to an index, cannot win more but the market.

From the investors' point of view, the basic attraction of the two strategies is the same: decreasing the risk using diversification. Holding a great number of actions, representing more industries and market sectors, the investors hope to create a protecting covering against the major loss which may appear if they had all the money invested in a certain domain, which suffered a disaster. In normal circumstances (in accordance with the theory), specific actions from a diversified fund will decrease, and others will increase and let's hope that the latter will compensate the loss. The active managers consider that chances are higher since the number of actions from the portfolio is also raised.

The synchronization with the market has been one of the biggest problems for the investors. The acquisition in a higher price of the financial titles limits the profit that may be obtained; the sale of financial titles from the portfolio at a small price, may lead to loss. But, the prices of financial titles fluctuate, and the behaviour of the investors makes that sometimes their reactions to be in total opposition with the activities that they are supposed to engage in order to obtain profits from these fluctuations. Ideally, the investors should buy when prices are low and to sell when the prices of financial titles raise. When the prices of financial titles are very high, the investors hesitate to sell since they will want a maximization of their profits and they feel that prices will increase more in the future. A special discipline is necessary in order to buy when the prices of financial titles are low and the pessimism is present on the market and in order to buy, when the prices of financial titles are high and an exaggerated optimism is present on the market.

Many investors are well disciplined and they may be engaged in such activities, respecting the conditions described above, only if they know the future fluctuations of financial titles. But, these fluctuations have proved to be almost impossible to predict. Because of this, the so-called mechanical techniques for the management of portfolio have been developed which would simplify the problem of synchronization with the market and which would minimize the emotions involved in the investment activity, techniques

which have also been approached in the present work.

These techniques start from the premises that the fluctuations of prices of financial titles are cyclic. The empirical evidences seem to demonstrate the fact that these cycles exist and that they are bond to the evolutions recorded in the economic activity. Moreover, these techniques start from the premises that the investors cannot foresee the direction of the next fluctuation of prices. The mechanical techniques try to exploit these fluctuations and to make from these sources of profit for investors.

The mechanic techniques have as goal the determination of some rules related to the moment when the sale or a purchase should be made and what quantity of financial titles should be sold or purchased. These techniques eliminate the emotions of the decision because they have predetermined action rules. These rules will often lead to actions which are contrary to the activities of the majority of investors in the market.

In the fourth title, entitled “Experiences and tendencies in the management of portfolio from the capital market of Romania” structured on 6 chapters, the realization of a radiography was tried, a radiography for the capital market in Romania, presenting the main problems it has, the evolutions and the perspectives of the market as well as the influence of the globalization phenomenon upon the capital market in Romania. In this context, the analyses was extended to the investment environment in Romania as well as to the problem of management of titles’ portfolio on the capital market in Romania.

The pass to the economy market implies the reestablishment of the main market institutions, among which we can note that of stock and values market. This process towards a competitive economy implies the route of a long-term period, with individual steps, distinctive ones, with strategies, objectives and proper tactics.

The transition must be planned and the reform and restructuring process doesn’t have to meet syncope.

The strategic objective of the transition society is the formation and development of specialized markets, together with all the connections asked by the economic laws, as well as the specific mechanisms for functioning, in accordance with a coherent development model and adapted to the realities of our country.

The stock exchange in Romania must mainly respond to the demands of mobilization of capitals in order to finance the national economy, the public or private enterprises, and in order to ensure an advantageous placement of the available funds in the large rows of population. The passing to privatization and the development of firms with foreign capital can be

achieved on the judicial base of the anonymous company. The stock represents the exact market where these financial titles may be commercialized, it confers them the quality of value papers and gives them a price – the stock rate. The essential role of capital market is that of a main mechanism of the transfer of property from the state sector to the private enterprising. The creation of an organized capital market permits the functioning of the system of specific relations in order to have a market economy, which would offer safety and transparency in the issuing and distribution of credit and participation titles. The stock exchange may constitute the financial guarantee of the finalization process, and, by this, the stimulant process.

The most important condition in order to create a value stock is the existence of large firms which use an important volume of capital, formed in the shape of financial titles, that is actions and obligations. The property of these value papers must be placed for a great number of shareholders and creditors, such as the transactions with the specified values to need a concentration market for demand and supply – the stock exchange with its intermediaries.

The stock exchange is also an important absorption channel of foreign capital, which, by its placement together with the Romanian capital, contributes to the straightening of national economy and constitutes a mechanism of allocating the capital towards the real capitalized activities in the economy. The stock is also the one, which establishes a rigorous system of reporting real data concerning the financial results of the firms whose actions are at the stock exchange.

The existence and the development degree of value exchange in a national economy represent a standard of the degree of evolution and development of market economy from that country. The Romanian capital market is not at the level of our expectations, and its development is confronted with various problems, problems that I have tried to present parallel with a review of the premises necessary to the future development.

The capital market must be seen in Romania as an alternative for the bank system in the mobilization of the funds necessary to the enterprises. This thing becomes as evident as possible in the case of very large firms, for which prudential bank norms which relate the bank to one debtor become an inconvenient.

It was observed that the capital market in Romania doesn't have the role of financier of Romania, the most telling proof being the small sums attracted by the Romanian companies in 2001-2003, by issuing public actions. The main reasons of the fact that the capital market in Romania that

remained behind the surrounding countries are the result of the economic development and the problems with which it has to deal continually.

Another problem is related to the information circulation. This problem necessary to the taking of investment decisions on the capital market in Romania is not at a right level. Concerning the information about the prices of actions, things stand well, these information being immediately accessible (inclusively through Internet), but we cannot say the same thing about the information about the firms, in Romania we are able to talk about an informational asymmetry. The informational transparency and the informed market are concepts that exist in our legislation and in the economic theory and less in practice. There are also firms about which we have sporadic information concerning the situation of firm and its evolution, a fact which has negative effects on the right substantiation of the investment decision, especially in the case of individual investors.

Another obstacle in the way of capital market development in Romania is the culture of population in matter of investments. The culture of population in matter of investments on the capital market hasn't been a major preoccupation in our country, the capital market being unknown for a major part of population. This phenomenon is observable on the capital market and on the market of mutual funds, the shifting between the penetration level of instruments from the capital market and that of the insurance and bank products continuing to be very high in 2001-2003.

With all these problems, the next evolution of capital market in Romania is announced as being favorable. The diminishing of interests used in the banking system and the delineation of a descending profile of efficaciousness accepted by the Ministry of Public Finances at the auctions for the estate titles issued this year, the decreasing efficacy of foreign currency placements, the deposits in banks or in state titles made that a greater number of investors to search investment alternatives in order to fructify as efficiently as possible the financial resources they had. Another factor which influences the development level of capital market in Romania is the one related to the legislation in matter. Serious efforts have been made recently concerning the modification of the legislative frame which governs the capital market in Romania, efforts which had as result the acceptance of the Law of Capital Market, a law inspired from Europe, which will ensure a favorable development environment. By the appearance of Law 297/2004 concerning the capital market the reach of a specific and absolute necessary objective represented a goal, taking into consideration the process of integration of Romania in the European Union, that is the lining-up of our legislation to the standards of European Union. Therefore, on one hand a

series of European directives were taken over, and on the other hand the legislative European model was taken over that is the global settlement of market. The new law brings a series of datum which will lead to a favorable evolution of capital market: the entrance of banks in the segment of duty financial states, the right use of the financial investment firms, the organization of the fund for compensating the investors, modifications in the activity of mutual funds which will ensure a more efficient management of resources and the simplification of procedures concerning the attraction of investors, simplifying the finance procedures on the capital market. The third factor that will positively influence the future evolution of capital market is the future fusion between The Stock Exchange Bucharest (BVB) and The Electronic Stock Exchange RASDAQ (BER).

All these have contributed to the creation of a favorable economic environment to the economic activities and to the investments (direct investments and the capital transfers have increased in 2003 in comparison with the anterior year with about 25%), including the ones from the portfolio, and the maintaining in 2004 of these positive trends may form a solid support for the increase of activity on the capital market in Romania.

Naturally, the Romanian financial system couldn't escape from the so-called "informational era", characterized by the process of globalization of economy and the accentuation of competency in the financial banking area.

The capital market faced a dynamic and complex process of adapting its structures at the new demands of internationalization.

The attraction of foreign investments will continue to be the main preoccupation of the decision factors in Romania. A country may attract foreign investments using more methods: it can facilitate the entrance of capital flows by modifying the legal – administrative frame in the sense of simplifying the procedures applicable in this domain; it can offer different facilities no matter the kind of foreign capital, no matter the type of investment (direct or portfolio) or can concentrate on only a certain type of investments. Generally, all these measures are used, forming a unitary frame.

The economic attractiveness of a country for the foreign investments resides in the advantages that this country presents for different types of investors. Some foreign investors search to invest in countries with a large and continuously developing market, other investors search for countries with a high potential of natural resources and, finally, there are investors who want to invest in order to lay the bases of an efficient and competitive branch which would export in the whole area the products of firm mother. There are other factors with general character which have a considerable

influence in attracting the foreign investments: the political and macroeconomic stability, a reduced cost for natural and human resources, the existence of a well-developed infrastructure.

The main priority in stimulating the capital market seems to be the one related to the support of foreign investment funds, which represent the main institutional investors on the Romanian capital market.

Related to the acceleration of the internationalization and globalization process which is manifested at the level of capital market in Romania too, one of the most important settlement presented in the consolidated law of capital market is the one which refers to the free circulation of financial investment services, a settlement which will have as effect the participation in the unique market of capital in the European Union. Any S.S.I.F. will be able to have services of financial investments, not only in a member state but also in a nonmember state. On their turn, any of the authorized and supervised intermediaries by the Competent Authority in a member state may perform in Romania, under the limits of the authorization given by the member state of origin, services for financial investments directly or using a branch, using the principle of the free circulation of services without needing an authorization from C.N.V.M.

The new settlements of the consolidated law of capital market as well as the total liberalization of capital account will have special implications upon the portfolio management, especially upon the structure of the portfolio of Romanian investors, physical and judicial persons, but also upon the politics for the administration of risks. It is known that the number and the quality of the property values used at the Stock Exchange Bucharest and on the RASDAQ market justify the low interest of being included in a portfolio.

The free circulation of services presented in the consolidated law of capital market will lead to important modifications upon the investors' portfolios in three steps. In the first one, when searching for higher efficiencies, and having as goal a reduction in the risk by the international diversification, many Romanian investors (physical and judicial persons) will use the reorganization of portfolios through the addition in their structure of the financial titles purchased from the European Stock Exchange, title characterized by a higher stability of efficaciousness and by a reduced risk. In this stage, besides the market risk and the risk specific to the purchased international financial titles, the investors will have to follow and administrate the exchange currency risk; a risk that appears once the portfolio is internationalized. In the second stage, SIF will use an international diversification politic of own portfolios. By this politics, the SIF will follow a reduction in the risks of the portfolios (by diversification)



and the efficacy increase by the possibility of choosing from a large frame of property values and other financial instruments. In the third stage, the number of the investors who will hold in the structure of their own portfolios financial titles bought from the market of European capital will increase, taking into consideration, on one hand the maturation of local investors and, on the other hand, the nonexistence of the foreign currency risk, a risk eliminated by Romania's transition towards the unique coin Euro.

We cannot discuss the effects of the globalization phenomenon on the capital market of Romania without analyzing the extension process of the European Union. The continuation of the process of extension of European Union and the development of transactional technologies may change the configuration of capital markets in the following years. The new trend seems to be the forming of some regional markets, all the European Stock Exchanges analyzing the best solutions.