Relações Internacionais do Mundo Atual – unicuritiba

Submetido em: 19/01/2024
Aprovado em: 25/05/2024
Avaliação: Double Blind Review
ISSN: **2316-2880**

RISK MANAGEMENT IN THE STOCK MARKET TO ACHIEVE THE ECONOMIC SECURITY OF AN ORGANIZATION

GESTÃO DE RISCOS NO MERCADO DE AÇÕES PARA ALCANÇAR A SEGURANÇA ECONÔMICA DE UMA ORGANIZAÇÃO

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ABSTRACT

Objective: The primary objective of this study is to explore the role of risk assessment in the stock market and identify key patterns that define risk assessment in business as essential for achieving an organization's economic security.

Methods: The research employs a comprehensive analysis of existing literature, theories, and concepts related to risk management in the stock market. It focuses on evaluating the effectiveness of various risk management methods such as the scenario method, hierarchy analysis, and diversification.

Results: The study reveals that effective risk management strategies like scenario planning, analytic hierarchy process, and diversification can significantly mitigate risks, especially in environments of economic and political instability. These methods enhance an organization's ability to protect against financial losses and improve the likelihood of achieving profitable outcomes.

Conclusion: Integrating various risk management strategies is crucial for maintaining economic stability and enhancing investor confidence. The study emphasizes the importance of a methodical approach to risk management to ensure the economic security of organizations in volatile markets.

Keywords: Stock market; Financial risk; Risk management; Economic security; Diversification

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RESUMO

Objetivo: O objetivo principal deste estudo é explorar o papel da avaliação de risco no mercado de ações e identificar padrões chave que definem a avaliação de risco nos negócios como essencial para alcançar a segurança econômica de uma organização.

Métodos: A pesquisa utiliza uma análise abrangente da literatura existente, teorias e conceitos relacionados à gestão de riscos no mercado de ações. Foca na avaliação da eficácia de vários métodos de gestão de riscos, como o método de cenário, análise hierárquica e diversificação.

Resultados: O estudo revela que estratégias eficazes de gestão de riscos, como planejamento de cenários, processo de análise hierárquica e diversificação, podem mitigar significativamente os riscos, especialmente em ambientes de instabilidade econômica e política. Esses métodos aumentam a capacidade da organização de proteger contra perdas financeiras e melhorar a probabilidade de alcançar resultados lucrativos.

Conclusão: A integração de várias estratégias de gestão de riscos é crucial para manter a estabilidade econômica e aumentar a confiança dos investidores. O estudo enfatiza a importância de uma abordagem metódica para a gestão de riscos para garantir a segurança econômica das organizações em mercados voláteis.

Palavras-chave: Mercado de ações; Risco financeiro; Gestão de riscos; Segurança econômica; Diversificação.

1. INTRODUCTION

Financial risks are an integral part of any financial activity (Abdullaev et al., 2023; Nesterenko, 2018). They arise as a result of changes in financial market conditions, exchange rates, interest rates, etc. (Ashyrov et al., 2022; Bagratuni et al., 2023; Domashchenko & Finogenova, 2010). Financial risk management is the process of identifying, assessing, and managing risks associated with financial instruments and transactions (Kirillova et al., 2021, 2023).

Financial risk modeling is a process in which mathematical models are created to assess the probability of risks and their impact on a company's financial performance (Rybakov et al., 2022; Suvorov & Repina, 2018). They help companies make more informed risk management decisions but do not guarantee the absence of losses. Financial risk models are used to assess the risks of various financial instruments and determine the optimal risk management strategy (Dashkov & Gabdulin, 2022; Kurdova & Kurbanov, 2019; Raizberg & Starodubtseva, 2022).

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In a market economy, one can observe constant changes in interest rates, commodity prices, and various securities (Degtev et al., 2022). Thus, stock market participants are exposed to risk due to market changes (Balova et al., 2022). These circumstances stipulate the need to insure actions and foresee such situations. Traders, investors, issuers, intermediaries, and risk managers must consider major risks present in the stock market (Bobkov et al., 2020; Vysotskaya et al., 2022). It is possible to avoid risk or an event directly related to risk but avoiding risk also means refusing an acceptable profit (Kochetkov et al., 2023). Thus, this topic remains extremely relevant.

The higher the average yield of a security, the higher the risk since there is a direct relationship between the level of yield and the level of risk in the stock market. Financial risks can lead to negative, zero, or positive economic results (Degtev et al., 2022). However, there are various risk management measures to predict the occurrence of risks and reduce their impact (Tolkaneva et al., 2023). Financial risks can have serious consequences for a company, including financial losses and bankruptcy (Ketova & Ovchinnikov, 2024). Therefore, a financial manager must determine the most significant financial risks for a company (Iskajyan et al., 2022).

In economics, risk is an event that may or may not occur and is accompanied by uncertainty (Grabovyi et al., 1994). Despite the entrepreneur's efforts, risk is always present to some extent and cannot be calculated or considered in advance. In a risk event, three economic outcomes are possible: loss, neutral result, or profit. Although some authors have not paid sufficient attention to risk in entrepreneurship theory, risk and uncertainty analysis has become an integral part of research in this area.

2. LITERATURE REVIEW

The concept of risk has many definitions and is found in almost all spheres of life. However, philosophers have not reached a common opinion on the definition of risk.

The formulation of the risk concept can be traced in the international standard on risk management. It states that "risk is an effect of uncertainty on an objective" and "risk is a statistically expected value of an unexpected action" (Kiseleva, 2002, p. 119). This definition is clarified in the following manner:

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- Different goals can be reflected at different management levels (at the organizational and tactical levels, at the process and project levels);
- The relationship of risk with events and possible consequences or a combination of these factors is possible;
- Risk as a combination of the consequences of events with the possibility of their manifestation;
- Impact as a deviation that can have both positive and negative effects from the expected result (both opportunities and threats) (Raizberg & Starodubtseva, 2022).

L.P. Dashkov understands risk as uncertainty in the possibility of unfavorable situations and consequences in the implementation and conduct of management decisions (plan, task, project) (Dashkov & Gabdulin, 2022).

S.N. Petrova and P.G. Grabovyi define risk as a threat that an organization would lose part of its resources, not receive income from the implementation of financial activities, etc. (Grabovyi et al., 1994).

V.N. Shenaev and B.S. Irnyazov (1996) understand risk as the probability of something, that some factors would have an unexpected impact on the process, under the influence of which the result may differ significantly from the expected value.

In addition, V.V. Kovalev (1997) understands risk as the amount of economic damage expressed in:

- Uncertainty of the expected result;
- Possibility of failure to achieve the goal;
- Bias in the assessment of the results of the forecast.

The probability of deviation from the chosen goal is one of the main risk factors. In this case, there may be both positive and negative deviations.

Among other things, risk has the following characteristics:

- Uncertainty;
- Complexity;
- Multivariance.

In terms of the financial component, risk refers to the probability that the actual result or return on investment will differ from the expected result or return. Risk includes the possibility of losing the initial investment in full or in part (Okulov, 2019).

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In conditions of uncertainty, the manager's primary responsibility is not to avoid risk but to forecast and minimize it or eliminate any negative consequences. Specific measures aimed at reducing risks are called risk management (Okulov, 2019).

Risk management fulfills several functions:

- Coordination and management as the implementation and optimization of the effective delegation of authority and distribution of responsibility;
- Motivation as a system of professional incentives;
- Planning and forecasting as the development of measures to maintain risk within an acceptable value;
- Monitoring as analysis of the impact of risk reduction measures;
- Organization as the creation of a specific structure for risk management (Simonovich et al., 2016).

The risk management cycle is presented in Figure 1.

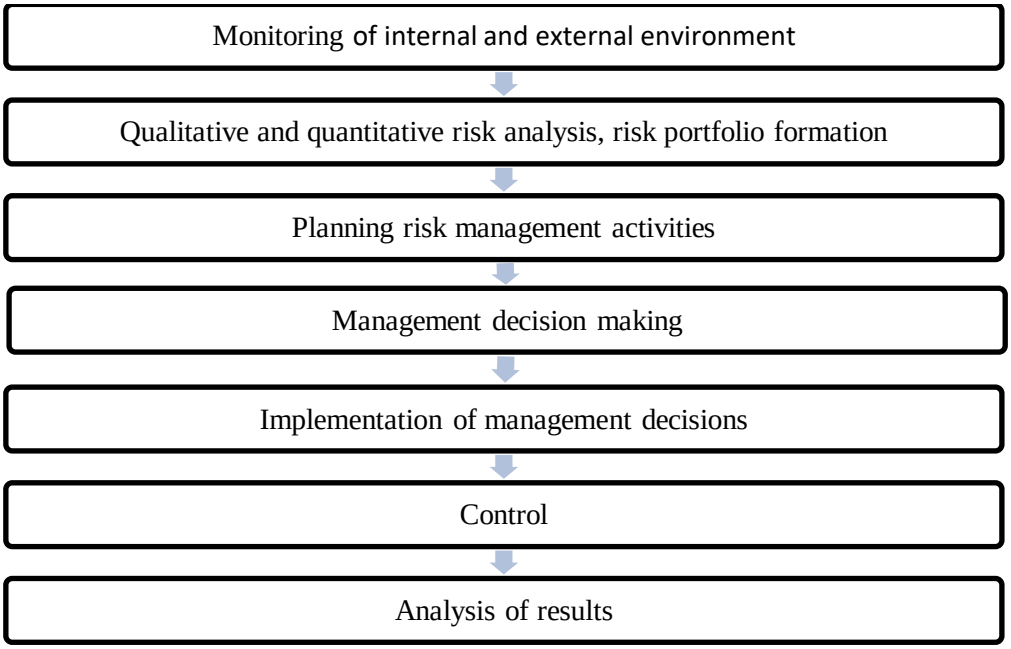

Figure 1. Risk management cycle

There are many methods for risk identification but in practice different methods are used to solve such problems (Khokhlov, 2003; Kosov et al., 2016; Shapkin & Shapkin, 2013).

This article aims to study the role of risk assessment in the stock market and identify fundamental patterns that characterize risk assessment as crucial for achieving economic security.

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3. METHODS

The research methodology includes an analysis of existing literature, theories, and concepts related to risk management in the stock market. A qualitative approach was adopted to study various methods of risk management used in economic analysis. The study examines the effectiveness of scenario analysis, the analytic hierarchy process, and diversification as strategies to mitigate risks in conditions of economic and political instability in Russia.

Data were gathered from scientific articles, books, and online sources that identify key risk management tools and methods used in the stock market. The study also includes a comparative analysis of different types of economic risks and the corresponding management techniques applied in practice.

4. RESULTS

4.1 Risk assessment methods

Many financial transactions, such as venture capital investments, stock purchases, and credit transactions, involve a high level of risk. To make decisions in such situations, it is necessary to analyze the degree of risk, determine the probability of loss, and its possible amount.

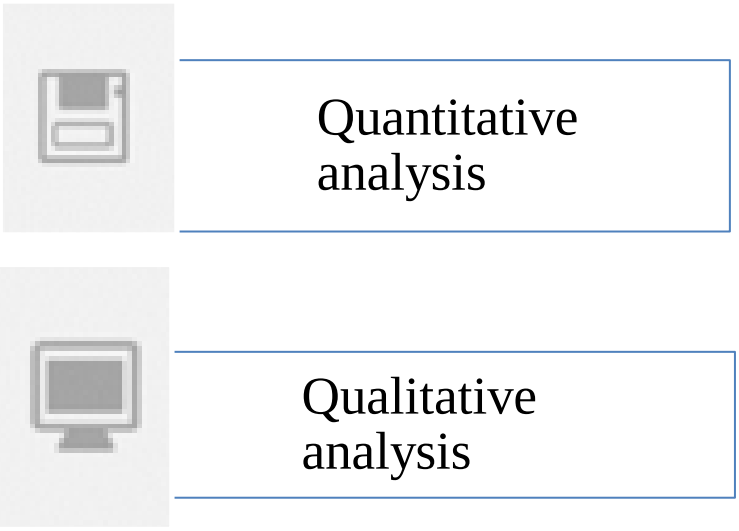

Figure 2. Risk assessment method

Quantitative analysis determines the amount of monetary damage that can be caused by each type of financial risk. Qualitative analysis may include an assessment

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of the impact of internal and external factors on the company's activities and financial indicators.

Although qualitative analysis requires more time and effort, it can more accurately assess the impact of various factors on financial risk. It is important to pay due attention to the methods of quantitative analysis of financial risk since their application requires specialized knowledge and skills.

Risk in the financial sector can be defined as potential losses expressed in material or monetary terms. However, a more precise definition of risk involves measuring it in relative terms. Such measurement allows the receiving party to assess the degree of risk and decide whether to accept or reject it.

When assessing risk, it is necessary to consider the probability of losses (which may be random). Probability can be determined using objective methods and based on subjective assessments. Risk assessment can be expressed as a percentage relative to the estimated cost or profit (Gubanov, 2014; Morrow et al., 2007).

4.2 Concept of the stock market

The stock market is a part of the financial market (along with the gold market, the currency market, and the capital market). Its main function is to regulate the circulation of securities by buying, exchanging, or selling. In addition to shares, the exchange trades bills, derivatives, and bonds. The stock market is characterized by uncertainty and volatility. As the stock market grows, so do the financial instruments. Attracting investment for companies is the purpose of this increase in the stock market. In other words, the stock market is a securities market (Kurdova & Kurbanov, 2019).

The essence of the stock market is that by issuing securities, companies can attract investment, and investors can benefit from owning shares. It is also an integral part of the country's economy and ensures the development of infrastructure. If we consider the market economy as a set of different markets, the role of the stock exchange is crucial since it allows capital to be transferred from one country to another, from a less profitable industry to a more profitable one.

Income from securities is constantly changing. Its volatility affects the performance of public organizations, the share of profit paid out in dividends, capital investments, and other factors. Thus, there is a close connection between profitability and risk in the stock market: the higher the risk, the higher the profitability.

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Securities are a popular investment tool and a means of financing the activities of market representatives, which is what led to their emergence and widespread use in the economic system.

Securities are enforceable documents that are executed in a specific form and provide the owners with unilateral standardized rights in relation to the persons providing these documents, the ability to transfer these documents to another person on established terms, but without the consent of the issuers, and the rights included in them (Raizberg & Starodubtseva, 2022).

We can highlight the main functions of the stock market:

1. The main instrument of state fiscal policy is the stock market;

2. The stock market regulates flows and provides the company with an optimal resource management structure;

3. Sensitivity of the stock market to current and expected changes;

4. The stock market guarantees large-scale investments.

4.3 Classification of risks in the stock market

Risks associated with transactions on the securities market are potential losses due to the high degree of uncertainty of the results of these transactions and the influence of several financial and other factors that cannot be foreseen.

There is always a huge risk in the securities market that inevitably affects trading capital, but there is always an opportunity to reduce it. To attain this end, we need to understand what risks are present in the market.

There are two categories of risk in the stock market divided into systematic and non-systematic (Figure 3). Depending on the situation, a certain risk category is determined.

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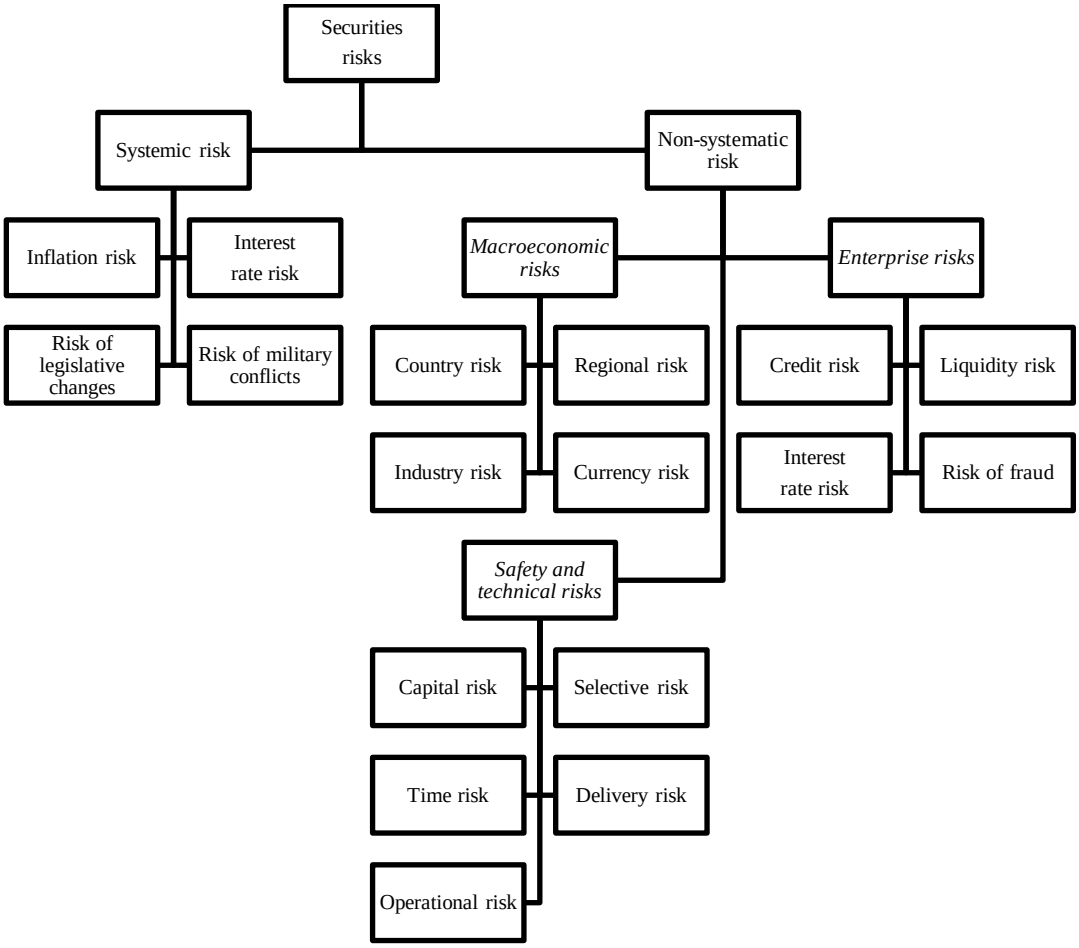

Figure 3. Classification of risks in the securities market

Systematic risks, or market risks, have a negative impact on financial assets, leading to non-systematic risks and volatility in the stock market. Systematic risks are explained by the structure of the stock market and are also associated with the collapse of the entire market. Systematic risks apply to all investors, regardless of investment. These may be changes in legislation, market cycles, etc. One of the important factors of this risk is a change in the price of the traded financial instrument. Non-systematic risks are local, while systematic risks are global (Bstudy.net, 2021; Foss, 2007; Gubanov, 2014).

These include:

– Inflation risk. For example, when buying securities, the investor-bank suffers from the effects of inflation, as a result, the income received from the securities loses its significance in terms of real purchasing power, and the investor incurs losses;

– Interest rate risk. It is a risk of losses for investors due to changes in interest rates;

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– Risk of legislative changes. In society, there is a possibility of radical changes, especially when electing a president, government, or parliament. Thus, the government can postpone the fulfillment of previously agreed obligations regarding securities;

– Risk of external conflicts. When conflicts occur in any area, this can lead to disruption of the stock exchanges.

Non-systematic risks are associated with a company, specific industry, and investor. This risk can be reduced by dividing the capital; thus, it is called diversifiable. This type of risk also includes obligations that are associated with provisions that relate to specific financial assets or the issuing company.

We considered the main types of risks presented in the stock market. Trading is a risky business, but its presence is not a reason to refuse trading.

4.4 Risk management system in the stock market

Risk management is systematic work that analyzes risks and develops and takes appropriate measures to reduce them.

The risk management system allows not only to protect against unplanned losses but also to reduce costs.

The main functions of risk management are the identification, classification, and assessment of risks, the selection of a risk management tool and its implementation, and the assessment of the results obtained.

Risk identification consists of determining the risk to which the object of analysis is exposed. This requires a complete understanding of the risk, conditions, sources, and factors contributing to it. The key stage in risk identification is the assessment of acceptable limits.

Risk assessment is a quantitative assessment of the costs associated with their types, identified at the first stage of risk management.

Risk management principles are as follows:

1. Access and transparency to reliable information that allows independent risk assessment bodies to objectively assess real risks;

2. A systematic approach to risk management.

The risk management system is presented in Figure 4.

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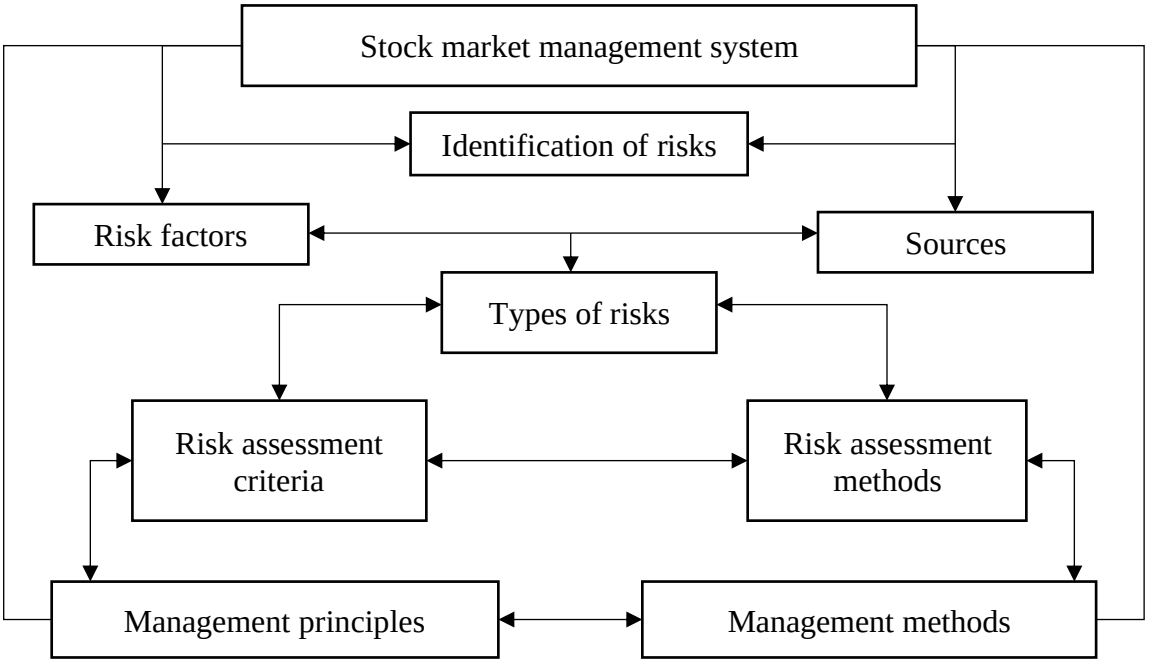

Figure 4. Risk management system

On the stock exchange, risk assessment is carried out by credit rating agencies. The result of the assessment is the rating assigned to an issuer.

Selecting the right measures to reduce and prevent risk plays an important role in the risk management system, which largely determines its effectiveness. This includes mitigation techniques and special permissions to reduce risk.

4.5 Insurance

In insurance, risk management includes the following measures:

1) If a company cannot determine and identify possible risks, or they do not have the capital to insure them, the company can use the services of an insurance company. The trader gives up part of the profit to reduce non-market risks by paying for the services of the insurance company. One of the conditions of insurance is aimed at creating cash funds and using their resources to cover losses in certain cases.

2) Redistribution of losses between different entrepreneurs exposed to the same risk, i.e., self-insurance. When an investor opens their position, they form a certain reserve (without investing all capital) to cover losses on individual securities and maintain the required amount of the position, they can arise due to systemic risks.

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4.6 Hedging

Hedging is a measure aimed at eliminating or limiting the risks of future financial transactions due to unfavorable changes in exchange rates, commodity prices, interest rates, etc. Forward transactions, swaps, options, etc. are designed to protect against risk. These are measures associated with investing in market assets.

Hedging is based on differences in the dynamics of commodity prices and futures contracts. This type of risk management includes covering losses on existing securities during the period of opening positions in the futures market associated with derivative financial instruments and establishing a correlation or dependence with the price of securities in the portfolio. Hedging consists of transferring the risk of price changes from one person to another. Hedging protects the hedger (the one who insures their assets in the futures market on the spot market) from losses but also deprives the hedger of the opportunity to benefit from favorable market conditions.

Companies have many options: to hedge nothing, to hedge risks by choice, or to hedge all risks. In addition, there can be either conscious or non-conscious speculation.

This is the protection of a particular portfolio under certain market conditions that have a negative impact on investments.

During hedging, potential profits in the securities market are reduced since a large profit is deliberately rejected for the benefit of a more predictable series of events.

This method is expensive as minimizing potential losses also means abandoning profits from positive dynamics of the securities' price in the portfolio to reduce risk.

Thus, to minimize risks, the use of hedging is important as it is a strategic process of implementing investment mechanisms that guarantee a reduction in costs due to lower prices.

4.7 Diversification

Diversification involves selecting securities for a portfolio whose prices are not tied to each other to reduce risk and loss of income. In simple terms, this is risk distribution, i.e., "not putting all eggs in one basket". This measure helps investors protect their portfolios from negative events in one industry. It is assumed that losses

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from one group of securities will be covered by income from another group of securities.

The essence of diversification is to reduce maximum losses in one transaction and increase the number of controlled risks.

Diversification is manifested in the ownership of risky assets, rather than concentrating all investments in one of them. Thus, diversification limits risk propensity associated with the same type of assets.

Investments are diversified both with the help of an individual investor through the stock exchange and private capital.

When a company uses a diversified portfolio model on the stock market, this helps reduce the chances of losing income.

When a portfolio is diversified, it is possible to completely reduce the risk of any random fluctuations that do not depend on the potential of a single asset. To ensure real diversification, it is necessary to collect a portfolio of shares from different industries and countries to minimize risks, i.e., to reduce industry- and country-specific risks.

4.8 Limiting

Limiting is the introduction of strict quantitative restrictions on certain elements. This requires the creation and establishment of certain boundaries and the definition of limits. Setting limits is one of the ways to reduce the level of risk. The limiting circuit provides for a certain type of limit based on each type of risk. Limits can be imposed both from above and from below. For example, maximum trading loss, setting a target percentage of the transaction, etc. Limits can also be imposed on securities, terms, structure, shares, and bonds shares of a company in the investor's portfolio.

Applying a limit means making a transaction that is subject to a limitation related to the transfer of money to the bank account of another contracting party or the bank's obligation to make such a transfer under specific conditions.

4.9 Derivative financial instruments

In contrast to bonds and shares, whose existence is conditioned by the needs of the reproducing entity, the existence of derivative financial instruments is the result of the need to redistribute price risk. Their main economic function is to provide

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mechanisms for protecting the economic entity, i.e., hedging against price changes in the capital market.

Derivative financial instruments usually refer to the so-called forward instruments, whose execution time is assigned to the future. Thus, the term “forward market” is used often to denote a place of issue of most derivative financial instruments (Foss, 2007).

Derivative financial instruments (also called derivatives) are stock market instruments, whose prices are determined as derivatives of the prices of other instruments (currencies, stock indices, assets). They are also known as underlying assets.

Currently, there are the following derivative financial instruments:

- Futures contracts;
- Forward contracts;
- Swaps;
- Option contracts.

Derivative financial instruments can be produced by issuers (for example, warrants) or artificially created by market participants regardless of the interests of the issuer (options, futures contracts, etc.).

Let us take a closer look at each of the derivative financial instruments.

4.10 Futures contracts

A futures contract is a current standardized exchange contract for the delivery of underlying assets or the settlement of liabilities over a specified period of time, established at the time of the contract and adjusted with a variation margin relative to the change in the quoted (market) price.

The underlying asset is the tradable asset (financial instrument or other asset) that is offered or whose value forms the basis for the settlement of a standardized contract.

Margin is a general term for collateral whose value depends on the current state of the market participant (variable margin) or the new state that the market participant wants to enter (initial margin).

The standardization of futures contracts means that trading is only possible with trading contracts on terms set by the exchange. Each futures contract has a standard quantity of underlying assets, which is determined by the stock exchange.

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There are deliverable and cash-settled futures contracts.

4.11 Forward contracts

A forward contract is one of the simplest instruments in the futures market, in which one party agrees to deliver at a certain time in the future, and the other party agrees to pay a certain amount of a commodity or financial asset at a certain set price.

A forward contract differs from a spot contract in only one way: the delay in its execution, therefore, a forward contract is a forward transaction.

A forward contract is a transaction in which a commodity is purchased/sold at a price set at the moment, with execution in the future. The same definition is given for a futures contract, but we will compare the characteristics of a forward contract and a futures contract (Table 1).

Table 1. Comparative characteristics of a forward contract and a futures contract

No.	Comparative characteristics	Forward contract	Futures contract
1	Contract terms	Determined by the counterparties when concluding the transaction	Standard (determined by the exchange)
2	The main purpose of the contract	Purchase/sale of an asset, hedging	Hedging (insurance); speculation (playing on price differences); arbitrage
3	Possibility of cancellation of the contract	It is difficult to liquidate (close out) the position on the contract before the fixed delivery date	On any day before the delivery (settlement) date, one can liquidate (close) the position under the contract
4	Contract results	Gain or loss is determined upon the delivery of the asset	Daily recalculation of “profit” or “loss” (variation margin)
5	Contract security	The conclusion does not require additional costs	A deposit of collateral is required to open a position (initial margin)
6	Secondary market	Almost absent	Must be highly liquid
7	Guarantees of performance	Direct participants in the transaction	Clearing organization (exchange)
8	Place of conclusion of the contract	Off-exchange (confidential, through direct negotiations)	Exclusively stock market
9	Counterparties	The transaction is concluded between two counterparties	The clearing organization acts as a third party to the agreement (mandatory centralized clearing)

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4.12 Swaps

This is an agreement to exchange debt obligations that is a favorable bilateral payment exchange that benefits both parties to the transaction.

As a rule, a swap is an over-the-counter product that involves exchanging risks or existing economic benefits for one party in one market for the benefit of another party in another market.

A swap is the purchase or sale of the same underlying asset or liability for the same amount, where the exchange of financial terms provides a certain return to both parties that would otherwise be unavailable to them.

According to the terms, a swap is classified as a medium-term or long-term obligation.

An equity swap is an agreement between two parties whereby one party pays interest based on a stock market index on specified dates during the term of the agreement. The other party pays fixed or variable interest rates or based on another stock market index.

An equity swap is a transfer of an asset without physically buying or selling shares or other financial instruments.

Despite the limitations and difficulties associated with conducting real transactions abroad, equity swaps are an effective way to access foreign equity markets.

The advantages of swaps are as follows:

- Risk hedging (risk exchange);
- One-off transactions (coverage of low-risk derivatives for 10 years, including low costs and organizational burden);
- Flexibility;
- Reduced financing costs (access to the foreign exchange market at an interest rate set in the domestic currency).

However, there are some disadvantages, such as significantly higher credit risk, since the counterparties in the transaction do not have any performance guarantees other than fixed and option contracts.

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4.13 Option contracts

An option contract is a standard agreement to exchange rights (but not obligations) in exchange for the payment of a premium to buy or sell the underlying asset at a specified strike price at a specified time.

Option contracts are divided into:

1) By rights:

- Option to buy a certain asset (call option);
- Option to sell a certain asset (put option);
- Double options (put-and-call option) are the purchase of put and call options on similar securities with similar prices and execution conditions. Execution of one option means that the other option is left unexecuted. Double options are not so widely used.

2) By terms:

- The European option is an option that the buyer can offer for execution only during a certain period of time;
- The American option is a put or call option that the buyer can offer for execution at any time before the expiration date. Delivery or settlement is made at the strike price at the expiration date of the contract.

4. CONCLUSIONS

Financial risk is the possibility of losing money (e.g. decreased profits, losses, loss of capital, etc.) under uncertain conditions of a company's financial activities. It is associated with financial, credit, and stock exchange operations and operations with securities on the stock exchange.

We concluded that risk management on the stock exchange is a key component for the implementation of operations and trading. Trading securities is a risky business that can cause huge material damage to the investor in case of an incorrect attitude to trading.

The proper use of risk management tools on the stock market can help a trader increase their chances of making a profit. An experienced investor should have multiple strategies to save money and ensure profit. Thus, all the risk management measures discussed above can help the investor.

Submetido em: 19/01/2024
Aprovado em: 25/05/2024
Avaliação: Double Blind Review
ISSN: **2316-2880**

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ISSN: **2316-2880**

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Aprovado em: 25/05/2024
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