

ABSTRACT

Investment funds, as specific financial intermediaries, have been present in the Montenegrin financial market for a short time, even if we speak of a special type of investment funds – privatisation investment funds. The importance of investment funds in developed financial markets and their role in innovating investments is very significant, and therefore interesting from the aspect of potentially giving impetus to the Montenegrin financial market development and overall economic growth. Starting from this premise, this book deals with an analysis of the position and the role of investment funds in financial markets of developed financial systems, and provides guidelines for potential improvement of the existing position of investment markets in Montenegro with a view to enhancing their influence on the development of the financial market and the financial system in the Republic.

The theoretical-hypothetical concept of the research, that is, the starting point of the book is that the main postulates of the establishment and the functioning of investment funds, applied in a developed financial market, can and should be applied to the Montenegrin financial market as well, and all that with a view to providing a quality basis for the effective operation of investment funds as specific financial intermediaries. This is a necessary prerequisite for the creation of new mechanisms for generating „small“ savings and their profitable use for financing domestic economy on a capital, and not on a loan, basis.

The main aim of this book is to show the potential methods of the organisation of investment funds in developed financial markets and in Montenegro, and to point to the necessity of protecting investors' ownership interests in investment funds through providing quality legislation governing investment funds, as well as those areas that deal with the protection of creditors' rights, and providing other conditions for high quality functioning of the financial market.

This book is comprised of four parts. The first part, entitled „Financial Markets“, shows the structure of developed financial markets. The point is to present the characteristics of certain types of market material traded in financial markets which also represents the assets of investment funds, as well as the type of participants in these markets whose existence is crucial for the development and functioning of investment funds.

The second part of the book provides a detailed description of open and closed investment funds in the USA which are used as the base model for both a theoretical and practical overview of this type of financial institution. The aim of this part is to show the internationally accepted and widespread mechanisms of the mutual funds pool, their investment in various types of market material, and different investment policies followed by investment funds in the capital market and the money market with a view to generating profit. For the purpose of comparison and showing alternative concepts, which serve as the basis of the business logic of investment funds, investment funds in the capital market and the money market in France are also shown.

The third part, entitled „The Financial System and Financial Markets in Montenegro“, shows the position of financial markets in the Montenegrin financial system, their development phase and their interposition, especially in relation to investment funds. The aim of this part is to show both the macroeconomic and the system environment in which the investment funds in Montenegro should develop their business operations, with a special emphasis on the capital market, privatisation as the prerequisite and the generator of its development, legal framework, institutions and their efficiency, as the basic prerogatives for a successful development of investment funds as specific participants in the capital market.

The last part, entitled „Investment Funds in the Montenegrin Financial Market“, shows the privatisation funds as the forerunners of investment in Montenegro, regulations governing investment funds in Montenegro, the proposed structure of investment by a hypothetical investment fund. This part also provides the conclusion containing estimates and recommendations for the quality operation of investment funds in Montenegro.

The main conclusion of the book is that in Montenegro, unlike in developed markets, investment funds are, and for some time in the future they will be, a mechanism for investing not small, but large capital. However, it can be considered that the structure etiology of equity capital of investment funds will not be a problem with regard to the financial market as long as the capital of these funds is used as a quality source of external financing for companies in Montenegro.

However, as long as there are legal opportunities for most of the capital of investment funds to be invested abroad, the funds will be an alternative source of income for domestic investment. Therefore, there is no danger that owners of Montenegrin investment funds may be left without any income if we have faith in the capabilities of the funds' managers to manage portfolio properly. What may and will represent a problem in the lack of a developed stock market, corporative bonds, and a money market is that by investing abroad, the funds will take substantial capital out of Montenegro. In that case, the domestic economy will be left without this capital as an external financing source. However, one can hope that the traditional orientation of the domestic economy toward bank loans, as well as an inflow of foreign direct

investments in the mobile world of capital will compensate for potential capital outflows that could occur due to investment abroad by Montenegrin investment funds.

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