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Corporate Financial Management

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ABSTRACT. In today's socio-economic era, business management basically focuses on financial management, which has become a consensus among entrepreneurs and economic figures. This article clearly puts forward the importance of financial management in enterprise management. It is pointed out that the index parameters of financial management are an important reference basis for business decision-making. Doing a good job in financial management plays an important role in improving business management and economic efficiency.

KEYWORDS: Financial management, Funds, Management objectives

1. Introduction

Why do people invest? Investment positions are undertaken to earn some expected return. Investors seek to minimise inefficiency deviations from the expected rate of return. Diversification is essential to the creation of efficient investment because it can reduce the variability of returns around the expected return. A single assets or portfolio of assets is considered to be efficient if no other asset or portfolio of assets offers higher expected return with the same (or lower) risk or lower risk with the same (or higher) expected return. The short report provides investors information about diversification and tells them how to choose a company to while managing both risks and return.

2. Forms of Risk

Investment risk refers to the risk taken to obtain an uncertain expected benefit, usually refers to the uncertainty of the expected return rate of enterprise investment (Gort1962).Only when risks and benefits are unified can investment behaviour be adjusted adequately. Investment risk can be divided into systematic and non-systematic two categories. Systemic risk is also known as market risk, also known as non-dispersible risk. Refers to the impact of a particular factor and change, resulting in the stock market all stock prices fall, so that the possibility of stockholders to bring losses. The inducement of system risk occurs outside the enterprise, the listed company itself cannot control it, and the influence brought by it is generally more massive. Non-systemic risk (diversifiable risk) refers to the possibility of influencing the return on a particular asset for a particular reason(Piscitello2004). Through diversification, non-systemic risks can be reduced, and if diversification is sufficiently compelling, such risks can be eliminated.

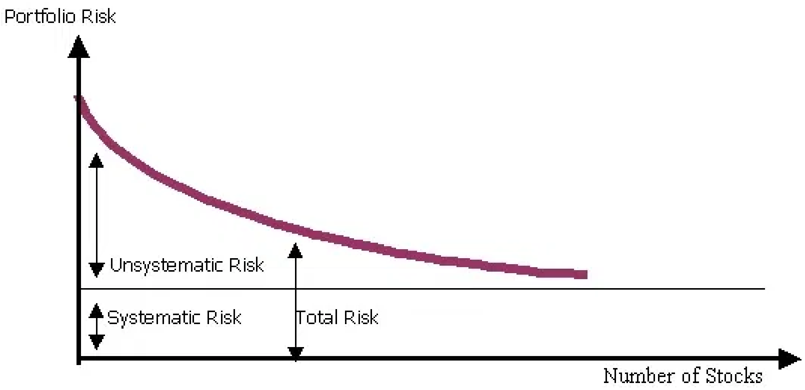

Fig.1 Total Risk=Systematic Risk+Unsystematic Risk

2.1 Systematic Risk

Market conditions change over time, and in the process of change, there will be what we call market risk(Gort1962).Market changes can be according to the laws of the stock go up drop to predict, but does not guarantee its completely accurate, because this change is the outcome of combined action of multiple factors, including human intervention, so all prediction is based on rule and experience, although have particular reference value, but not as a basis. Generally speaking, the market mainly changes with the stage change of the social economy, repeating the process from boom to bust and then from bust to boom, we can analyse the general trend of the whole market, and accordingly to decide how to invest(Piscitello 2004).We can divide the trend of the market into bearish and bullish naturally. Bearish refers to the process when the price of a stock has reached its peak and begins to show a general trend of decline, reaching a historical low or lower in a short time, until the upward trend appears again. Bullishness, on the other hand, is the whole process of a stock moving up from its nadir. Both of these trends are general trends, not straight up or down, so even in a bearish trend, there is still a chance of a return on the investment, but it is riskier. The market changes dynamically with time, so the risk is always there, and investors can adequately reduce the risk in the right way. For example, observe the primary trend of the market, seize the opportunity when bullish, bearish stop the input of funds, also can refer to some successful people to see, so it is not comfortable to appear more substantial losses. Choose the stock of a few large enterprises as far as possible; its will not appear the circumstance that drops considerably commonly, will not have more significant risk so, loss also can control in acceptable limits.

The change of interest rate will cause the price of securities to change accordingly, and the interest that can be obtained from an investment will also appear uncertainty, and the risk will be generated accordingly. When the interest rate goes up, the price of securities will go down. Similarly, when the interest rate goes down, the price of securities will go up. Therefore, the two are in an inverse relationship. When interest rates rise, the money will flow from the securities market to assets in the form of bank deposits, which will inevitably lead to lower prices. When the interest rate is lowered, capital will flow back to the stock market, making more funds available for its operation. Therefore, the price will inevitably arise. Instead, the company's cost will be affected by the interest rate. The profits from the operation would be lower, and the stock would inevitably fall.

In the same way, lower interest rates would not cause stocks to rise. In general, interest rates are volatile and therefore unpredictable. However, in order to encourage more capital to flow into the securities market, Banks have taken measures to cut interest rates continuously, and interest rates are being controlled to lower continuously, thus presenting a bullish trend. Therefore, it can be said that now is a good time to invest. Although the current inflow of funds makes the stock continue to appreciate, once the inflow stops, then there will inevitably be an unprecedented decline, which means that the investment in the final stage of people may lose money, so the risk cannot be ignored.

The risk cannot be avoided, but the risk can be effectively controlled, or the possible losses can be minimised, both of which are conducive to retaining their investment advantages, can stop losses in time when problems occur, and carry out the next round of operations in a short time. To control risks, first of all, a detailed plan needs to be made, in which there should be a set of detailed and reasonable principles, and more than one person should participate in the work. Every step of the operation of the investor shall comply with the corresponding regulations given in the plan, to avoid the loss caused by the subjective judgment error and effectively control the risk. These factors often determine whether a person is suitable for investment, or what kind of securities investment should be made. At the same time, in the process of investment, it is necessary to keep abreast of market trends and information of various securities to ensure that one's information is always smooth and to deal with all kinds of subsequent problems skillfully. Noting that although relevant policies stipulate that the market cannot be manipulated to gain benefits, the market is also affected by many human factors, so it should be taken into account when controlling risks to prevent unexpected losses.

2.2 Unsystematic Risk

Operational risk refers to the possibility that the company's decision-makers and managers will make mistakes in the course of operation and management, resulting in a change in the company's profitability level, which leads to a decrease in the expected returns of investors. Business risk comes from both internal and external factors. The internal factors of the enterprise are: First, the project investment decision-making mistakes, not to make feasibility analysis of investment projects, second, do not pay attention to technological updates, so that their competitive strength in the industry decline, third, do not pay attention to market research, do not pay attention to the development of new products, only satisfied with the current market share and competitiveness of the company's products, Satisfied with the current level of profit spending and economic benefits, four is the misdecision of sales decisions, over-reliance on large customers, old customers, did not spend efforts to open new markets, looking for new sales channels. In addition, there are the company's main managers because of the old-fashioned, do not think ahead, the organization is bloated, people floating, the possibility of natural and man-made disasters did not take the necessary preventive measures. External factors are objective factors outside the company, such as the adjustment of government industrial policy, the change of competitor's strength makes the company at a relative disadvantage, and causes the relative decline of the company's management level. However, the main operational risk stake comes from decision-making mistakes or poor management within the company. The company's operating conditions are ultimately reflected in changes in profitability levels and asset values. Operating risk is mainly influenced by changes in profitability. Operating risk is the main risk of the general stock of listed companies, and the change of company's earnings will affect both dividend income and stock prices. When a company's earnings increase, there is an increase in dividends, a rise in the price, and when the company's earnings decrease, the dividend decreases and the share price falls. For individual investors, in the absence of false corporate accounting statements, according to the company's earnings situation to invest is not too risky, but in reality, there are many companies out of their own interests need to whitewash the company's statements, that is: individual investors may suffer a loss of one of the risks.

Market risk is due to the stock market's own price fluctuation law, resulting in the loss of stock price to investors risk. The historical experience of domestic and foreign securities markets shows that the fluctuation of stock price, even in the case of many external and internal factors, will show that there is a rise and fall, there is a rise and fall of the law of the crash. When an investor buys a stock after a sharp rise in the stock price for some reason, he or she is bound to face the loss and risk of a sharp fall in the share price. This is the most common and common risk in the stock market, and it is a risk that many individual investors tend to overlook.

The individual risk of investors refers to the risk of lock-up or asset loss suffered by blind trading of stocks because of the unfamiliarity with the basic operating laws of the securities market. In real life, many investors before entering the market, or in the daily stock trading, do not know or are not familiar with the basic laws of stock price fluctuations, do not understand the basic theory of stock investment (such as the basic analysis of stocks and technical analysis), do not know the entire market or individual stock price historical situation in a given period of time, and blind investment. Their cultural level is not high, investment awareness is not strong, the use of spare time investment, lack of professional training, they can not deeply understand the financial statements of listed companies, do not understand the profound connotation of the company's accounting information, the impact of major events on the company is also lack of correct understanding, They often conduct securities trading based on hearsay market rumors or sentimental experience, and do not pay attention to the collection and analysis of formal channel information. When they buy and sell stocks, they rely on feelings and luck, blindly chasing up and down, often resulting in high prices to buy and tragic loss or lock up. What's more, after some investors buy stocks, even the listed companies where, what to operate, what products are not clear, its high risk is self-evident. Because of the risk from the investors themselves, the severity and harmfulness of this kind of risk are often ignored, and it is also an important blind spot for people to identify the risk of stock investment.

There are a series of decision-making behavior in the stock investment process, each decision is almost related to the interests of investors, the right decision-making may immediately become a millionaire, the decision-making mistakes may be a family fortune, so the stock investment decision is a kind of risk decision-making, and the investor's risk consciousness is closely related. It is of great theoretical significance and application value to study the process of stock investment decision-making and the characteristics and laws of investor's risk consciousness to reveal the psychological law of investment decision-making and to help the majority of stock investors establish rational investment concept and improve the correct rate of decision-making.

3. Dividend Yield Ratio

The investment income of stocks mainly comes from cash income and capital appreciation, that is, the dividend distribution of listed companies and the appreciation of share price, the former is the company's return and commitment to shareholders' investment. Whether dividends are paid, and how much is paid, depends largely on the company's operating conditions, development plans and financial plans, which are part of the company's finances and are usually not tied to the level of development of the stock market. “The latter is the market's assessment and pricing of the company's operations, whether the stock can increase, and how much, depends on the company's own financial position, but also on the overall level of the stock market and industry, but also on the psychological factors of investors, and their expectations for the company's future.” Therefore, dividend income is more predictable and risky, while the uncertainty and agnosticness of stock price appreciation in the stock market make it contain greater risk.

The distribution of dividends by companies is measured mainly by two indicators: the dividend payout rate, which shows the company's cash dividend as a percentage of its total earnings by the ratio of the shares to earnings per share over the past 12 months, i.e. how much of its after-tax income is used to pay back investors in the form of dividends; The second is the yield on interest, which measures the return on investment that shareholders receive in the form of cash dividends, as compared to the current market price of the dividends paid by the stock over the past 12 months.

Since dividends are a return and commitment to their shareholders, only large companies that are well-run, financially well-being, cash-rich and confident about future growth are willing and willing to do so. Cash dividends are an important prerequisite and tool for the correct analysis of share prices. For example, the famous “dividend discount”

The deduction model is divided into three types, namely, “dividend does not grow”, “dividend growth stable” and “dividend floating growth” according to the changing status of dividends in stocks, in order to determine the normal price of stocks. Since cash dividend income can provide a buffer against stock price fluctuations and stock market downturns, and can make the stock's return on investment relatively stable, the establishment of a higher stock dividend ratio can ensure the attractiveness of the company's stock to shareholders and the company's competitiveness in the stock market, and thus ensure the interests of investors.

Judging from the progress of stock development, the stock market for hundreds of years of history for us to paint a completely different picture than today presented in front of investors. Dividend income accounts for an average of 40 per cent of investment income, rather than the current 10 per cent, and if reinvested after cash dividends are paid, the direct and indirect returns of dividends account for nearly half of total income. The role and status of stock dividends are not only neglected, but also greatly underestimated in our country at this stage. While the dividend yield may temporarily deviate from its long-term average, this situation should not and will not last too long. In other words, it should be only a matter of time before dividend yields will gradually rebound and rebound in equity investments.

No strong stock market will not last forever, there will always be tides running, once the stock market into a period of depression, lingering, the rapid appreciation of the stock price will become a bubble, then dividend income will become an important compensation for investors' earnings. At the same time, the fall in stock market prices can also lead to a rise in the stock market dividend yield, so for many investors who focus on cash income and adopt conservative strategies, the amount of dividend income is still an important factor in their investment strategy. The growing dividend has both a very positive investment implication and an important message to shareholders and investors, reflecting the company's healthy financial performance on the one hand, and the hope and confidence of the company's executives for the company's future.

It is not hard to see from the formula that the dividend yield is calculated as the annual rate of return per share, and this rate of return is the actual profit of the investor. When the dividend yield is higher than the one-year time deposit rate, it is better to invest in stocks than to invest in one-year time deposits, regardless of the investment risk. Because the income of deposit is fixed, and stock besides can obtain afore-mentioned fixed interest, still can obtain spread, compared with deposit time many one kinds of profit pattern. The dividend yield is not only related to the investor's investment return and the company's financing cost, but also an essential factor affecting the normal and orderly operation and development of the securities market.

4. Capm

The capital asset pricing model (CAPM): is a model that can be used to calculate a cost of equity and incorporate risk. It values financial instruments (shares) by measuring relative risk. The B(beta) factor: is used to measure systematic risk(market risk),how sensitive a security(share) is to market conditions. The B factor of the market as a whole is 1.

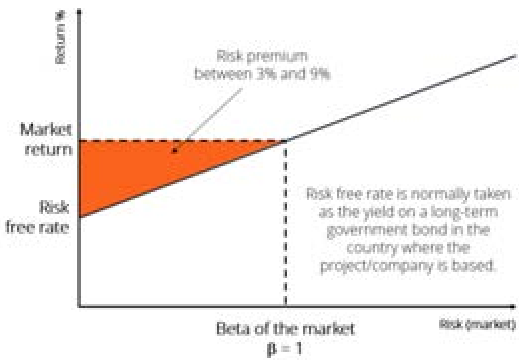

Fig.2 Capital Asset Pricing Model

Research has shown the CAPM to stand up well to criticism, although attacks against it have been increasing in recent years. Many other models have been developed which are used these days like Fench and Fama Model extensively. However, the CAPM remains a handy item in the financial management toolk it.

5. Conclusion

Investors in the investment must recognize the company's risk; this can significantly reduce the risk of investment. Diversification introduces an essential change to the principle of equivalence of risk and return (Correia2012). An essential advantage of diversification over a single portfolio investment is that diversification can reduce risk without reducing return. It also means that by diversifying, we can improve the risk-return ratio.

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