

RESEARCH ARTICLE

Improvement of Investment Strategies of Institutional Investors in The National Capital Market

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Abstract

This article examines modern approaches to improving the investment strategies of institutional investors in the context of the transformation of the national capital market. It analyzes the key factors influencing the effectiveness of investment activities, including macroeconomic instability, the development of financial instruments, and the digitalization of the economy. The study proposes directions for optimizing investment strategies, taking into account portfolio diversification, risk management, and the implementation of innovative technologies.

KEY WORDS

Institutional investors, capital market, investment strategy, diversification, risk management, digitalization, financial instruments.

INTRODUCTION

In today's economic climate, institutional investors play a key role in creating a stable and efficient capital market. This category includes pension funds, insurance companies, investment funds, and banks, which accumulate significant financial resources and channel them into various assets.

In the context of globalization, increasing competition, and high volatility in financial markets, the need to refine investment strategies arises. This is driven not only by the desire to maximize returns but also by the need to ensure sustainability and minimize risks.

Theoretical Foundations of Institutional Investor Investment Strategies

An investment strategy is a set of principles, methods, and tools used to achieve an investor's financial goals. For institutional investors, it is long-term in nature and focused on stable income with a moderate level of risk.

Classical approaches include:

- portfolio theory;
- passive investment strategy;
- active asset management;
- risk hedging strategy.

Modern concepts are complemented by behavioral aspects and the use of mathematical models that take into account market uncertainty and dynamism. The national capital market is characterized by a number of specific features:

- limited liquidity of certain financial instruments;
- dependence on macroeconomic factors;
- underdeveloped infrastructure;
- high share of the banking sector.

These factors significantly influence the choice of investment strategy. For example, low liquidity requires a more cautious approach to portfolio construction, while macroeconomic

instability increases the need for diversification.

Challenges of Institutional Investors' Investment Strategies: An In-Depth Analysis

Despite the active development of financial markets and the gradual improvement of infrastructure, institutional investors continue to face a number of systemic problems that significantly limit the effectiveness of their investment activities. These problems are complex and interrelated, increasing the overall impact on investment decisions and results.

1. High Level of Risk

One of the key challenges remains the high level of investment risk, caused by both external and internal factors. First and foremost, significant fluctuations in exchange rates, which are particularly characteristic of developing economies, should be noted. Devaluation processes can significantly reduce the real return on investments, especially when investing in foreign currencies or when holding foreign currency-denominated liabilities.

Inflation is an additional risk factor, devaluing investors' income and assets. Even with nominally high returns on an investment portfolio, real returns may remain low or negative. This requires institutional investors to more sophisticated capital protection strategies, including the use of inflation-protected instruments.

Political and economic instability also play a significant role. Changes in government policy, tax regulations, or investment legislation can dramatically alter market conditions. In such conditions, long-term planning becomes difficult, and investment decisions are made with increased uncertainty in mind.

Furthermore, liquidity risks pose a serious problem. In conditions of insufficient market depth, investors may face difficulties in quickly exiting assets without significant price losses. This is especially true for large institutional investors, whose transactions can influence market prices.

2. Limited Range of Financial Instruments

Another significant problem is the limited diversity of financial instruments available in the national capital market. Limited asset selection significantly reduces the ability to effectively diversify an investment portfolio.

In developed financial systems, investors have access to a

wide range of instruments, including stocks, various types of bonds, derivatives, exchange-traded funds (ETFs), and alternative investments (hedge funds, venture capital, infrastructure projects). In developing economies, this range is significantly narrower.

The lack of a developed derivatives market limits risk hedging options. Institutional investors cannot fully protect themselves from fluctuations in interest rates, exchange rates, or commodity prices. This increases the vulnerability of investment portfolios to external shocks.

Furthermore, the limited number of high-quality issuers reduces the attractiveness of the market. Low levels of corporate governance and financial transparency also hinder the expansion of investment opportunities. As a result, investors are forced to concentrate their funds in a narrow range of assets, which increases the level of risk. 3. Low Market Transparency

The problem of information asymmetry and insufficient market transparency is one of the most significant. Effective capital market functioning is impossible without timely and reliable disclosure of information by all participants.

In many cases, companies provide limited or untimely data on their financial activities. The lack of uniform reporting standards or their formal adherence reduces the quality of available information. This complicates fundamental analysis and increases the likelihood of errors in investment decisions.

Low transparency also contributes to speculative trading and market manipulation. Insufficient regulatory oversight can lead to abuse, which reduces investor confidence.

For institutional investors managing significant amounts of capital, the reliability of information is critical. Errors in asset valuation can lead to significant financial losses. In conditions of limited transparency, the role of informal sources of information increases, further increasing risks.

4. Technological Lagging

The modern financial market is characterized by a high degree of digitalization and automation. The use of advanced technologies such as big data, artificial intelligence, and algorithmic trading is becoming an important competitive advantage.

However, many institutional investors, particularly in developing countries, face a technological gap. Insufficient digital infrastructure and limited investment in innovation

reduce the effectiveness of asset management.

The lack of modern analytical systems limits the ability to predict market trends. As a result, investment decisions are made based on incomplete or outdated information. This reduces the quality of strategic management and increases the likelihood of errors.

Furthermore, insufficient automation of processes leads to increased transaction costs. Manual data processing and outdated accounting and management systems increase the likelihood of human error and slow down decision-making.

Technological gaps also limit access to international markets and modern financial instruments. Institutional investors who do not use digital platforms and global trading systems find themselves at a disadvantage compared to more technologically advanced market participants. Areas for Improving Investment Strategies

To improve the investment performance of institutional investors, the following approaches are proposed:

Investment Portfolio Diversification

Expanding the range of assets helps reduce overall risk. Including alternative instruments, such as infrastructure projects, real estate, and private equity, helps increase portfolio resilience.

Risk Management Development

Modern risk management methods include:

- stress testing;
- scenario analysis;
- the use of derivatives for hedging.

This allows for a timely response to changing market conditions.

Implementation of Digital Technologies

The use of big data, artificial intelligence, and algorithmic trading technologies allows for:

- improved forecasting accuracy;
- faster decision-making;
- reduced operating costs.

Improving transparency and information quality

Developing a disclosure system and implementing

international reporting standards contributes to strengthening investor confidence and improving market efficiency.

Developing Institutional Infrastructure

The creation of effective regulatory mechanisms, the development of stock exchanges, and depository systems are essential for the successful implementation of investment strategies.

Practical Recommendations

For institutional investors, it is advisable to:

- apply hybrid strategies combining active and passive management;
- consider ESG factors (environmental, social, and governance);
- develop an internal analytical base;
- improve the qualifications of specialists in financial analysis.

CONCLUSION

Improving the investment strategies of institutional investors is essential for the sustainable development of national capital markets. In the context of global economic change, diversification, risk management, and the implementation of innovative technologies are particularly important.

A comprehensive approach to developing investment strategies will not only increase returns but also ensure the long-term stability of the financial system as a whole.

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