

# POSSIBLE PLACEMENTS OF CAPITAL IN CONDITIONS OF ECONOMIC CRISIS

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## ABSTRACT

*The actual world's economic crisis has extended and affected the most various segments of the economical, political and social life. Obviously, the sector of capital placements has also been affected. Despite all these, even in these less favorable economic conditions, there may appear certain opportunities for making some efficient capital placements. In this context, a smart investor may make a convenient capital placement if he knows these opportunities in time and if he uses them as such in his interest. Two areas where the capital placements may be felt, even in these conditions of economic crisis, are the real estate domain and the movable assets domain.*

**KEYWORDS:** *real estates, movable assets, shares, placement, capitalization*

## Introduction

The economic crisis that has burst into the world has affected all the sectors of economical, political and social life.

In this context, those who own liquidities, the capital owners, have to reconsider their decisions regarding the manner of fructifying the available capitals.

This reconsideration refers both to the domains where the investor would like to make the respective capital placement and to the dosages of risk that various investors would like to assume.

On the other side, it is important to mention another aspect, the one that, despite the economic crisis, some investors have speculated the respective conditions in their favor, and they did not lose anything, but they even won.

Therefore, in an economic framework that seems hostile at first sight, some capital owners won and others lost.

There appears a natural question, as follows: where do the capital placements go, towards which areas of activity, so that these might generate gains and obtain a convenient fructification of them?

This is one of the issues we shall try to debate and find some solutions, which, to our opinion, should be taken into account in the actual conditions of economic crisis.

On the other side, as we have mentioned before, we shall try to emphasize on some risks that might appear in the contents of some actual variants of capital placements.

These risks must be seriously taken into consideration, being known the fact that those investors, who will not follow the above indications, will lose their invested capital, partially or totally.

### **Placements of capital in real estates, in the conditions of the economic crisis**

As mentioned before, the economic crisis has had effects on various economic sectors, among which the one of investments in the real estate domain.

For example, in the domain of houses and apartments, the ratio between demand and offer has changed, the offer increasing, and the demand remaining constant, or even decreasing.

Obviously, such a change has immediately been felt in the prices of the respective assets.

Otherwise said, the price of the houses and of the apartments, generally of the dwelling investments, has begun decreasing.

In this new context, to my opinion, there appear some opportunities for those who, in this moment, have available cash.

The reasoning will be the following: the actual economic crisis is not the first and not the last; thus, we may say that the phenomenon is cyclic.

So, we might presuppose that one day, earlier or later, the effects of the economic crisis might diminish or even disappear.

In such a context, we consider it useful to discuss the efficiency of a capital placement in real estates, as those mentioned before.

To buy today a dwelling, no matter the type, is an efficient investment, in our opinion.

This opinion is based on the fact that today's purchase price of such assets is many times very convenient, and later on, when the national and even world's economy recovers, the prices of the respective real estates will increase and the gains earned from their sale at the respective moment will be the same.

Certainly, in order for the investor to fulfill this desideratum, it is necessary to accomplish at least two conditions, as follows: to own a certain volume of capital in cash and to be able to use it for a certain period of time.

The period of time may be longer or shorter, depending on the period of time when the economic crisis is felt.

As regards the risk afferent to such a capital placement, we consider that it is low.

If we still talk of a risk afferent to such a capital placement, this one will be related to the transformation of respective assets into liquidities, into cash.

This must be understood in the context in which an investor on the real estates market has made such a capital placement, waiting for the appropriate conditions to resell the respective real estates, and to obtain a gain.

The respective waiting period, as specified above, may be longer or shorter, but the future gain will be huge and will reward the expectations.

An opportunity that must be taken into account in the same context of the economic crisis in the real estate domain regards the real estates, no matter their type, which have enforceable orders issued by the courts.

Otherwise said, there are certain real estates which were purchased or built, partially or totally, with bank credits.

In this situation, a series of owners of such real estates could not reimburse the respective credits and the banks sued them to recover the claims.

In these cases, the court decisions materialized in issuing enforceable orders based on which the banks could take out for sale the respective real estates.

The opportunity of such a capital placement for those who own liquidities, cash, consists in the fact that many times the adjudication value in auctions of the respective real estates is much lower than the real market value.

This happens, among others, due to the fact that the banks, in their wish to recover fast the loaned capital, start the auctions from very low values, as compared to the market value.

In these conditions, an interested investor who follows carefully such a variant of placing his available capital may obtain a convenient gain which would fully justify the immobilization of the respective capital, reaching at a fructification of capital on the measure of his expectations.

Another area where the capital placement may be made for those who have cash in this moment is the unfinished construction domain.

These constructions, as part of the real estates, may also become the object of some capital placements.

These real estates which are unfinished are interesting for a capital placement, first of all due to the very low price.

Such a low price is due first of all to the general conditions dictated by the economic crisis which has led to a substantial modification of the ratio between demand and offer existent in this segment of the real estate market with direct influence on the price, which decreases.

On the other side, very many developers who have tried to finish a series of constructions with advance money taken from customers, after signing the contracts, have failed.

The crisis has made the number of customers for such assets reduce drastically; on this plan, it is obvious that the advance money the developers were waiting has become unachievable.

On the other side, a series of credits that various developers have called to finish their investments could no longer be reimbursed.

This is why, in such a context, they had to reduce the prices drastically in order to be able to sell the respective constructions in the unfinished status.

In such a moment, it is obvious that those who have cash may purchase these real estates at very advantageous prices, they may later on keep their destination, finish them and sell them at another price, as well as they may change their destination and resell them, obviously earning profit.

Another area where the capital placements can be made in this actual period of economic crisis is the one of buying lands.

The prices of lands in this period have also decreased, reason for which those who have liquidities today should buy such assets, which could be later on capitalized, sold at higher prices, thus, earning profit.

### **Placements of capital in movable assets, in the conditions of the economic crisis**

A domain where the capital placements may be made in this actual period of economic crisis, obviously with a certain increased carefulness, is the one of capital market.

Certain opportunities may appear in this context, on the capital market, which, by well-thought and anticipated capital placements, may lead to a very convenient capitalization of capital.

For example, an investor confronts with very many kinds of placements objects, on the capital market, one of them being the share.

In these conditions of economic crisis, certain companies issuing such titles record decreasing profits and others record even losses.

The capital market receives such things and use them, thus the price of the shares begins decreasing.

On the other side, we must also mention the fact that a series of companies which are in the situation mentioned before, are not bankrupt, but they are in a temporary situation, which sooner or later, will change.

Here comes the skill of the investor on such a market, the capital market.

This investor should anticipate which issuing company, present on the capital market, is bankrupt and which is viable.

If an investor anticipates the bankrupt and the viable companies and wants to buy such titles, he will not fail by using such a capital placement.

The argument brought in such a decision starts from the fact that in the conditions of economic crisis, due to some considerations mentioned before, some shares should decrease.

If we admit that this economic crisis, as other economic crises, has a cyclic evolution, we might assume that in a more or less far future, its effects will diminish and even disappear.

From such a perspective, we assume that the price, respectively the rate or the market value of the shares issued by viable companies, will increase.

Therefore, if an investor is interested in placing his capital in such movable assets, such as shares, he would succeed if he takes into account few aspects.

First of all, such an investor must anticipate exactly which shares from the market are decreasing and why these shares decrease.

In other words, there may be shares on the market issued by bankrupt companies which record low profits or even losses in the conditions of the crisis mentioned above.

A smart investor will have to make a clear distinction between those two categories of shares; the shares of some companies who temporarily may record decreases due to the actual economic situation, which is a temporary situation of the respective issuing company, must be taken into account as a distinct alternative in case of a possible capital placement.

The decision in such a capital placement will not be wrong as much as, later on, it is possible for the respective company to prove to be viable and therefore to redress.

Such a capital placement in shares will practically mean buying them at a very advantageous price and reselling them later on at a price which reflects their market value, much higher.

The difference between these two prices, the resale price at a later moment and the purchase price at the actual moment of economic crisis would generate a profit, which would motivate the investor, due to a convenient degree of capitalization of the invested capital.

A condition for the reasoning mentioned above to be put into practice is for the investor to use the capital attracted in the respective investment, for a certain period of time.

The period of time is dictated as well by the apparition of the good moment when the rate of shares purchased increases.

If the investor needs urgent cash, being forced to sell the shares purchased it is possible for this one to earn a smaller profit or he may even sell them in loss.

Therefore, there appears the problem of choosing with great skill the moment when the respective shares should be sold.

The context of the actual economic crisis creates bigger opportunities for purchasing shares at low prices, afferent to those companies where a certain investor would want to become majority shareholder.

This category of investors should pursue carefully the evolution of the rate of the respective shares and purchase them in the most opportune moments, when their price is decreasing and justifies the respective placement of capital.

### Conclusions

The capital placements in a free market economy are various.

In the brief space of this paper we have discussed two domains which, in our opinion, are interesting, even in the conditions of economic crisis, the one of real estates and the one of movable assets.

Each of the respective domains of placement is interesting both for the degree of capitalization and for the manner of capitalization of the invested capital.

At those mentioned before, we might also add the dosages of risks afferent to the respective placements, which, obviously, are different from those two possible variants to follow.

In these conditions of economic crisis, each investor, depending on the perception of reality of moment and of perspective, will make the appropriate decision; obviously, in order to substantiate the placement decision, the dosage of risk must also be taken into account.

There are situations when the economic crisis creates panic for us and creates opportunities for others, to make efficient capital investments.

Such opportunities, as those mentioned above, both on the real estate market and on the movable asset market must be followed by the interested investors and used properly.

At the same time, we have to mention that the variants of such possible capital placements are not only these few ones presented by us in this paper; there are many and more various variants, even in these less proper conditions, of economic crisis.

What we have tried to do in this paper is that the economic crisis we are talking about in these moments creates big economic difficulties for ones and for others it creates some opportunities regarding the capital placements.

What it is clear is that these opportunities should be known by those interested and should be used properly.

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