Financial Investments and Stock Markets
Introduction

When the career life of an individual begins, a continuous income begins with it. This income is spent on basic needs and over time it will increase. Subsequently, the ability to save and place these savings in investments will generate more revenues and maintain the purchasing power of the individual’s money which might fall back with the increase in prices.
This is where the need for how to place these savings in investment vehicles increases to help the individual in achieving his life objectives.
Unit One: Introduction

The cycle of one’s life starts by completing his education and entering the work stage where he receives revenue or an income from his work in the form of salary or wage. It is normal for a person to split his income between consumption and saving. Usually, an individual spends most of his income on his consumption needs such as food, clothing, accommodation, a car, educational, health and entertainment services …etc. After meeting those needs, the remainder is accumulated and saved. At the beginning of a career, the income is usually low. Over time, the income improves and the individual gradually begins to increase his savings and employ them in various areas in order to increase his income more and more.

As the individual’s savings increase, his wealth starts to grow. Wealth is defined as the accumulated savings. The individual seeks to place wealth in investments which include tangible and financial assets that bring him greater revenues and income and guarantee that his money purchasing power will be maintained and will not fall back when the prices rise. Tangible investment assets include real estate, lands, goods and others. Financial assets, on the other hand, include deposits in banks, mutual funds, stocks, bonds, foreign currency and others. These investments generate more revenues added to the individual’s income which he in turn utilizes to support any future consumption.

Purchasing power is the capacity of income and money to buy and own goods and services. If prices increase, the individual’s ability to buy decreases. Thus, money and revenues lose part of their value.
ing them and starting a private business or a small enterprise which could increase the individual's income. In the long term, things could change into planning for post retirement to ensure a decent life for him and his family and to leave adequate inheritance for those left behind after his death.

A person should employ his wealth to achieve his goals through appropriate investments that go in line with the capital he has to secure the highest possible return for himself. In investment, it is known that the higher risk, the higher the returns and profits. On the other hand, the lower the risk, the lower the returns and profits. However, individuals handle risk differently. Some risk their money in hope for making high and quick profits while others tend to avoid risk and prefer safety and caution in their investments. In addition, individuals differ in their ability of being patient and waiting to experience lower returns, increasing risks or losses that may happen in the short term. To reduce investment risks as much as possible, one should diversify his investments in financial and tangible assets that have already been mentioned previously. This concept can be reflected by the saying: “Do not put all your eggs in one basket”.

Unit Two: The Financial Market

Members of the society can be economically classified into two groups: Individual investors and savers. Individual investors are those who have the desire to create companies and institutions, and establish different projects, but they may not have the sufficient funds to do so. Individual savers, on the other hand, are those who have the money, but do not have the desire, knowledge or ability to invest it by themselves. Usually, savers belong to different classes of society such as workers, employees and retirees who can save part of their income. Investors tend to use their saved funds to help them to establish companies.

They divide corporate capital into stakes or portions where each portion is known as a share. They offer these shares for sale as each saver buys a number of those shares within the limits of his savings. This makes him a shareholder and a participant in the company’s capital. Therefore, he becomes a part of
its management and decisions according to his stake in the company's capital. In other cases, investors do not wish to share the management and decision making of the company with the savers. Therefore, they tend to get the savers' money through borrowing, then dividing what they need of their corporate funds into portions, known as bonds or sukuk. Savers buy these bonds within the limits of what they want and how much savings they have. In fact, they do this in anticipation for returns from holding these bonds, and then redeeming their value when their maturity is due.

2-1 Definitions

The Financial Market: a market where securities are traded (sold and bought).

Securities include: stocks, bonds and also currency trading. According to this, financial markets are divided into stock markets, bond markets and currency markets. Stocks are ownership instruments to a part of the issuer's capital, while bonds are considered debt instruments on the entity that issued them. When you purchase a stock, you become a participant or a shareholder in the company. On the other hand, if you purchase a bond, you become a creditor to this company. Savers purchase stocks for two reasons: first, to obtain part of the profits generated by the company. This is known as dividends. Second, the prices of these stocks may go up due to higher demand as a result of the company's growth and the increase in its earnings. Thus, the value of stocks owned by the investor increases. This is known as the capital gain.

Stocks are bought and sold on the market in a regulated and legal manner so dealers do not lose their
rights. Usually, all these operations are made through financial brokerage firms that are authorized by a market regulator, which is the Capital Market Authority (CMA) in the Kingdom of Saudi Arabia.

There are various types of stocks which are traded on the market. There are stocks that give their holder the right to attend the general assembly of the company and express his opinion on the way the company is managed.

There are also bonus stocks: they are free shares granted to the owners of ordinary stocks in order to increase what they own in the company and to increase the company’s capital as well.

As for preferred stocks, they give their owner the right and priority to obtain his rights from the company.

There are two main types of stock markets: the primary market and the secondary market.

The Primary Market: a market where stocks are issued, that is when a company is established and offers its stocks to the dealers for the first time, or when the capital of an existing company is raised. When these stocks are listed in the market, the first buyer of the stock can sell it on a trading market, which is known as the secondary market. In other words, stocks are first issued and sold in the primary market, and then traded (bought and sold) in the secondary market.

2-2 Functions of Financial Market:
Financial markets in general, and stock markets in particular, have great importance given their multiple functions in serving the national economy. These services include the following:

- **Saving Encouragement:** by providing fields to employ or invest funds, especially for those whom their income is higher than their expenses, and do not have enough time to pay attention to investment projects they want to start. Therefore, investing in the stock market provides good investment opportunities that encourage savers to increase their savings, take advantage of investment opportunities in the market and provide adequate capital for com-
companies to make investments and sustain their business.

- **Risk mitigation**: investing in the stock market reduces the risks of losing savings and money if the saver himself invested them in other areas where he does not have enough experience. In addition, one of the investment risks, inadequate liquidity, can be eliminated because the investor can sell his shares easily and quickly. He can also liquidate them whenever money is needed.

- **Increase economic growth**: financing projects and investments listed in the stock market contributes to producing more goods and services and supporting economic growth. This leads to an increase in career opportunities for job seekers.

In addition, selecting shares of stocks in specific projects and companies contributes to steering the money and savings towards more feasible and profitable projects.

2-3 **Characteristics of Financial Markets:**

In general, financial markets have a number of distinct characteristics that distinguish them from other traditional markets like commodity or real estate markets and others. The sale and purchase in traditional markets is available for goods and services in a physical tangible way plus they give benefits to those who consume them. In securities markets, however, there is no need to have tangible Sukuk or securities...etc because the operations are carried out through computer networks. Furthermore, securities like bonds and stocks are not consumed by themselves but rather used to get returns and profits generated from investments. Daily transactions in financial markets are enormous compared to other markets. They can exceed billions in financial markets, while they cannot go beyond millions in other markets. The law sometimes requires dealers in the securities market to buy and sell through a financial broker. In traditional markets, however, there is no obligation to use the services of a broker.
2-4 Efficiency of Financial Markets

The efficiency of financial markets means that the price of a security (stock or bond) is determined according to all the available information about the economy, sectors and companies issuing that security. Financial markets are efficient if the prices of stocks and traded securities are determined correctly. The right price of a security, whether it was a stock or a bond, is the one that reflects all the available information in a timely manner about that security. In order to say that a financial market is efficient, it must have several features. For example, all the important information to judge a stock or bond and determine their right price should be available for all dealers. A good example of this, is the information about companies and their profitability, changes in management or the information about competitors, the contracts they made and other information affecting the purchasing and selling decisions. Moreover, dealers should have the ability to obtain proper analyses of the received information to help in judging the right price for the stocks or bonds. Sellers and buyers should not have – due to their high financial capacity - the ability to influence the right market prices upwards or downwards or impose restrictions on the freedom of selling and purchasing for any trader at anytime.

2-5 Basic Concepts: Nominal Value, Book Value and Market Value:

An investor wanted to establish a plastic company. After studying the project’s cost, he found out that the company’s capital must be ten million Riyals. Since he does not have this amount, he turned to the savers’ money to participate in co-founding the company. Due to the large amount of capital required, he divided it into million shares. Each is worth 10 Riyals. The ten Riyals in this case are known as the share nominal value. Because the expected profitability of the project is high, a growing number of savers accepted to contribute to this project and purchase the issued stocks. The required capital was raised and the company was established. At the end of the
first year, the company have generated a profit of two million Riyals, i.e. two Riyals profit per share of the company’s shares. The corporate management met to decide one of the following options: Distribute profits to shareholders, distribute part of the profits and keep the remaining, or do not distribute the profits of this year at all. Of course, when the decision is to keep the profit or part of it, the retained earnings are used in financing the company’s expansions and investments or in making provisions and reserves to face any emergencies. If the distribution is not made, the value of the company assets in this case will be twelve million Riyals. This includes plots, buildings, machinery, equipment, production supplies available in the company, its money in treasury and in bank accounts, etc… . When the company’s assets increase to twelve million Riyals, the book value of a single share becomes twelve Riyals. (12 million Riyals ÷ one million stocks = 12 Riyals).

**Nominal Value:** The share value when the company is established.

**Book Value:** What shareholders expect to receive if the company were liquidated. The book value can be calculated by dividing the company’s assets by the number of shares.

**Provisions:** Amounts of profit that are retained or cut off from the company’s revenue to be disposed of in one of the specific aspects of actual expenditures (such as buying new machinery or plots to expand the company) or for potential emergency expenditures (such as fire, higher production costs, or decreased company earnings).

**Earnings Per Share:** Profits that are allocated to each share. It is not conditional that earnings should be in cash. They can be bonus shares distributed to shareholders. These profits, or even bonus shares, may also not be distributed, but rather reinvested and consequently the market value of the company’s shares increases.

**Total Return on Stock:** return on the stock plus capital gain.
The company has evolved, the work expanded and the number of customers has increased. At the end of the second year, its stocks were floated in an IPO in the stock market at a price of fifteen Riyals. Due to the good reputation of the company, the market price of the stock has risen to twenty-five Riyals on the first trading day. In other words, the market value of each share rose by ten Riyals from the offering price.

Unit Three: International Stock Markets

Newspaper and media headlines are full of news about international stock markets. As they say: the world has become globalized where the news is spread between its parties easily and simply. The most important news to be published about these markets is the performance indexes which we will define its concept then review some of the international and regional indexes as the following:

3-1 Stock Market Index:
A number that summarizes the price movement of all stocks listed in a market and usually represents the average of those prices. Stocks are not equal in their percentage representation of the index. Representing a company's stock depends on its weight in the market measured by the market value of the company divided by the market value of all listed companies in the market. Stock prices rise and fall due to supply and demand. When the demand for some corporate stock exceeds the supply, the price of this stock rises and subsequently the market in-

*Market value:* the value of the share in the market. It is affected by the supply (the number of stocks available to investors) and the demand (the number of stocks investors wish to buy). The investor can know the market value of a share through the Saudi Stock Exchange (Tadawul) website in addition to other means of mass media.

*Market Capitalization:* it is calculated by multiplying the number of a company’s stocks by the current market price of the stock.

\[ \text{Market Capitalization} = \text{Number of Shares} \times \text{Market Price} \]
A country has created a stock market; three companies offered their stocks for initial sale in each case for a price of 100 Riyals per stock. For clarification purposes, the index of the stock market prices (in this case) is calculated by taking the (simple) average of the prices. That is done by adding up the prices of all the three stocks (100+100+100) then dividing them by the number of companies that issued them (3) to get the index in what is known as the base year (beginning year) and it is 100.

With the start of trading in stocks and with the end of the first period, the share price of the first company rose to 120 Riyals while the share price of the second company fell to 95 Riyals. The share price of the third company remained unchanged (100 Riyals). By repeating the calculation of the index value by taking the (simple) average of the new prices, we get \[\frac{120+95+100}{3} = \frac{315}{3} = 105\]; which means that the index has risen by 5 points at the end of the first trading period.

The rate of change in the index (Market Return) is calculated according to the following rule:

\[
\text{Rate of change} = \left(\frac{\text{current index value} - \text{previous index value}}{\text{previous index value}}\right) \times 100\%
\]

In the example above, the calculations are as follows:

\[
\text{Rate of change} = \frac{105 - 100}{100} \times 100\% = 5\%
\]

Which means that the stock prices in this market increased by 5% between the two periods.

It should be noted that this is a simplified calculation method intended for clarification purposes. But, the actually applied method is different as better statistical and mathematical methods are used.

3-2 The Importance of the Index:
The stock market index reflects the condition of the national economy in general and the economic performance of listed companies in the market in particular. If the demand for the companies’ production increased due to the economic boost, then the sales and earnings of these companies are expected to increase as well as their dividends to shareholders, which in turn pushes the prices of their stocks up and the whole market index. In this case, the market index turns green. However, if the performance in the market declines, the indicator changes its color to red.

3-3 Some of the Global Indexes:
Global financial markets have two types of indexes: General indexes that measure the market situation in general, and sector indexes that measure the market situation according to a particular sector such as banking, industrial, agricultural, communications and other sectors. In the following points we address the most important international and regional indexes.
3-3-1 U.S. Market Indexes:
- **DOW Jones**: is a major index that consists of four sub-indexes and the most famous of which is the Dow Jones Industrial Average. The value of the index is calculated based on the stocks of the thirty largest industrial companies in the United States of America.
- **Standard and Poor’s 500 (S&P 500)**: It comprises the stocks of the leading five hundred companies in several areas, including: manufacturing, transportation, utilities, money, banking, insurance, technology and services. These companies represent approximately 80% of the market value of shares traded on the New York Stock Exchange.
- **NASDAQ**: is the largest among all U.S. indexes. It contains the stocks of 3,200 companies, mostly technological.

3-3-2 European Market Indexes:
- **United Kingdom**: 
  Financial Times 100: (FT-100) this index includes the 100 most important UK companies’ stocks in the London market, representing 70% of the total capital of registered companies.
- **France**: 
  CAC 40: this index includes the stocks of the forty most important French companies in Paris market.
- **Germany**: 
  DAX: this index contains the stocks of the 30 most significant companies, representing 70% of the market value of the companies registered in Frankfurt market.

3-3-3 Asian Market Indexes:
- **Japan**: 
  Nikkei Index: contains the stocks of 225 companies...
panies, representing about 70% of the market value of the companies registered in the Tokyo Stock Exchange.

- **Other Asian Indexes:**
  1. South Korea: KCS Index
  2. Hong Kong: HANG SENG Index
  3. Malaysia: KLSE Index
  4. China: Shanghai Index

### 3-3-4 Arab Market Indexes:

Arab stock market are emerging markets due to the great potential of economic growth in Arab countries. The Saudi stock exchange is considered the most significant market in all Arab countries. It represents about one third of the capital value of all Arab markets combined. In addition to Saudi Arabia, there is a number of other important Arab financial markets such as:

- The United Arab Emirates: (Dubai and Abu Dhabi markets).
- Oman: MSM
- Egypt: CMA
- Morocco: MASI
- Kuwait: KSE
- Bahrain: BSE
- Qatar: CBQ

### Unit Four: The Saudi Stock Exchange

#### 4-1 Historical Background

The Saudi stock exchange is one of the newly established emerging markets. Market dealing began when the first joint-stock company (the Arab Automobile) in the Kingdom of Saudi Arabia was established in 1354H (1953).

Stock trading started in the Saudi market in a direct and immediate way between sellers and buyers. With the continuous growth, an electronic system, known as “Tadawul”, was launched in 1422H (2002). The system allows registering, trading, clearing and settling shares immediately. It is directly linked to Saudi commercial banks, and receives orders of selling and buying stocks. Then, it executes transactions and transfers shares ownership in an automated
and accurate way. In 1424H (2004), the Capital Market Law (CML) approval of the financial market has came out and the major features was to establish the Capital Market Authority to assume the functions of regulating the market, develop it, organize the issuance of securities, control it, protect investors, achieve justice, efficiency, transparency, regulate and control the disclosure of information and others. The system also includes the establishment of a market for trading securities under the name of “The Saudi Capital Market”.

“A number of factors and variables effect the price of traded stocks on the market. They include domestic economic conditions, economic growth, as well as the problems the economy may suffer from like inflation and unemployment. The profitability of joint-stock companies and current developments in global stock markets also effect it as well as the domestic economic policies in terms of expenditure and government expenditure on services and projects in addition to the amount of money and liquidity in the economy. The companies listed in the Saudi stock market are distributed to the following fifteen sectors:

4-2 Characteristics of the Financial Market:
The Saudi stock market is new compared to the markets of developed countries such as the U.S., Japan, or the EU countries. It is characterized by the small number of listed companies in the market given the large size of the Saudi economy. The volume of transactions in the market is considered relatively limited compared to the number of issued stocks. This can be defined as a tight market, which leads to large fluctuations in stock prices.

“TASI” is an index which summarizes and measures the level of performance in the Saudi stock market. Its name consists of the first initials of the English name “Tadawul All Share Index (TASI)”. The Index is calculated as the weighted average of stock prices of the companies operating in the market.

“Tadawul” is an electronic system that is characterized with efficiency in stock dealing and trading (selling and buying) in the Saudi market.
Each sector has an index that measures the performance by tracking the prices of companies’ stocks in that sector. The general index, known as “TASI”, is used to measure the overall performance of the entire market and it is a weighted average of the stock prices of the companies in operating the market.

As previously stated, the Saudi market is characterized by being “tight” and “limited” compared to other similar emerging markets (127 companies at the end of 2008, compared to about 350-400 companies in similar emerging markets).

Note that the number of companies has been growing since the inception of the Capital Market Authority (CMA) in 1424H. The market has a “tight” base due to the limitations in trading stocks, especially those of major companies, because government-owned stocks cannot be traded. There is another reason that constrains the amount of traded stocks and keeps potential investors away from these companies which is that some major owners control a substantial ownership stake in companies. The largest ten Saudi companies account for about 60 – 70% of market size measured by any of the usual criteria: volume, trading, or profits.

It is expected that the view on the Saudi stock market remains positive and optimistic in the continuous improvement of the performance of the Saudi economy at the macro level, and the application of all necessary legislations to ensure the regulation of work in the market, increase the number of companies, increase the market capital and the application of the recent government actions to maintain stability.
Unit Five: Financial Investment Strategies:

There are a lot of financial and real investment opportunities for savers. Some prefer the financial investment by putting all of his savings in bank deposits, some prefer owning stocks and bonds while others prefer real investment in lands, real estate or private projects. In the following parts, we will explain the fundamental factors that affect savers’ decisions to invest in a particular area of the above with focus on financial investment.

The most important factor is the expected return on investment. Although the return on investment has many concepts which will be addressed in due course, it is agreed that it is the difference between the value of savings before investment and their value after a certain period of investment in specific areas.

5-1 Types of Financial Investments:

There are three aspects for savings investment: stocks, bonds and mutual funds.

- **Stocks**: investing in stocks is characterized by a high rate of return in the long term with a high chance of risk, which means that the investor may sustain some loss in his invested capital.

- **Bonds**: it is known that private companies need financing and therefore sell bonds to savers to obtain the required funds. Deferring to this tool in the Kingdom for the time being is limited. The government also resorts to issuing bonds to finance projects such as building schools, universities, hospitals, constructing roads, building bridges, power plants and other public projects. Although the government resources come from oil and fees, sometimes it may have to issue bonds in order to secure additional funding.

- **Mutual Funds**: these funds pool savings through a Muniment of title with equal values similar to stocks. They are called investment units. Investors tend to buy stocks of these funds to use some of the advantages that these funds have from the long experience in managing investment. In addition, these funds have the ability to diversify their investments, hence, reducing the risks because of the funds availability.
vestors entrust the entity that manages their mutual funds to take decisions on their behalf. In general, the return on these stocks tend to be more secure with a return of more than the bond’s and less than the stock’s return.

The most important factor that drives investors to investing in a particular type of securities is searching for an investment that generates a high return and have a degree of risk which the investor can tolerate.

The areas of investments in mutual funds are diverse according to the purposes of establishing the fund. In the first place, there are mutual funds in some sectors of the market, IPOs or real estate. These funds have an important role in supporting the capital market in the Kingdom with the extra funding and expertise they offer to the market.

5-2 The Financial Investment Strategy

In general, a strategy is defined as a long term plan to achieve a specific vision and objectives. Any planning for the future begins by analyzing the present situation and determining the vision and objectives, then determining the best way to achieve that vision and objectives. Financial investment objectives differ from one person to another. The maximum profit may be the goal of a specific investor, while the absence of risk might be the most important objective for another, and adequate liquidity could be the objective of a third investor. Therefore, the investor should have the knowledge and skills that help him reach his objectives.

Elements of the Financial Investment Strategy

A sound financial investment strategy requires determining the following elements:

- Objectives.
- Financial potential available to the investor.
- Time frame necessary to achieve the objectives.
- Expected return on investment.
- Alternatives: any other available investment areas in which the return on investment can be achieved.
The following are considerations that must be taken into account in setting up the financial investment strategy:

- **Realism:** objectives must be achievable and not far away from reality. For example: if we suppose that someone could save (50 thousand Riyals) a year and another person could only save (10 thousand Riyals) a year, and that both of them are planning to buy a house for up to (500 thousand Riyals) after 10 years, it is clear that the first person’s plan is more realistic than the second one.

- **Flexibility:** it means the ability to adjust the objectives and alternatives through the disposal of current investments and replace them with new ones according to any developments in order to achieve the objectives.

- **Familiarity with the basics of financial investment:** It means knowing the investment tools and mechanisms in order to avoid putting the investor at risk and making him able to take the best investment decisions.

**5-3 Basics of Financial Investment:**

The most important basics of financial investment are:

- **Identifying investment characteristics:** For example, share value and return are affected by the level of success and failure of issuing companies. They are also affected by economic fluctuations in the domestic and global economy. It is normal that these fluctuations reflect the share prices especially in the short term. In the long term, however, investing in stocks is considered one of the investments that generates high returns compared to other financial securities. As for the bonds, the return tends to be stable as the government ensures that the bond holder can get the return stated in the bond at the time of maturity. In addition, companies that care about their position and financial reputation guarantee the bonds issued by them. Participating in mutual funds for young investors ensures stability in the value of their savings due to the
experience these funds’ managers have.

- **Identifying risks associated with investing:** Risks in the simplest sense means the possibility that an investment can achieve an actual profit after a period of time that is less than the expected profit, or the investor suffers from loss in his capital. Investment varies according to the ambiguity associated with the achievements of expected profits. There are investments associated with high risks and others associated with low risks. The investor in stocks must know that the rate of return on investment is associated with risks in a direct (positive) relationship. In other words, the investor can achieve higher return if he is willing to tolerate higher risks. Also, he must accept lower rates of return if the risk is lower. It must be noted that the investor’s ability to tolerate risk varies depending on the available possibilities as well as the investor’s age and nature which reflects his personal preference to take risks. An investor who avoids risks prefers to acquire portfolios which achieve assured small returns. On the contrary, an investor who loves taking risks prefers to have financial portfolios which generate higher returns with higher risks.

**Risks that face investors can be classified into three categories:**

- **Company-specific risk:** the source of risk is from inside the company that issued the securities. The sources of this type of risk are numerous and result from the nature of the company’s business, being trapped in debts, having inadequate liquidity to conduct the business, bankruptcy and liquidation. In this case, the priority is to pay out the company’s obligations to the creditors, not the shareholders.

- **Market risk:** it is linked to the economic conditions facing all companies at the same time. In cases of recession, the demand for all goods in the market declines which adversely affects companies’ earnings. This makes the value of stocks declines. Political factors also influence the market’s stability.

  **Recession** is a decline in the level of economic activity accompanied by a drop in the output of goods, services and an increase in unemployment.

- **Concentration risk:** it is where a financial portfolio is undiversified and consists of one stock or a few stocks. This means that any potential decline in the performance of the company issuing the stock may lead to great losses. Often
these risks can be overcome by diversifying the areas of financial investment.

Securities portfolio: it is a selected group of number of investment channels or number of securities that achieve the investor’s objectives in terms of return, degree of risk or growth.

- **Investment Preference Criteria:** They are the criteria by which investments are chosen; they include returns, risk, diversification and liquidity.
- **Return:** is the percentage of change in asset value (subject of investment). The investor usually seeks financial investments that achieve the highest possible return.
- **Risk:** measured by the fluctuation of the asset value. In other words, the financial investment degree of risk increases with the increase of price fluctuations between one period and another. Therefore, the investor must choose the types of investments that have acceptable risk limits.
- **Diversification:** diversified investments means that the financial portfolio contains various and different types of securities (various stocks + bonds + mutual funds) with different returns and risk levels. One of the qualities of diversity is that it leads to reducing investment risks which is one of the desired characteristics in any portfolio.

Which one is better? Putting all your eggs in one basket or putting them in several baskets!

- **Liquidity:** the ability to easily convert investments into cash without losses.

**Unit Six: Opportunities and Challenges**

Financial markets provide many opportunities that increase the potential of profitability and growth. These markets also face a lot of challenges that reduce their efficiency and increases financial investment risks. In the following section we address the most important opportunities and challenges and conclude with a general advice for investors.
6-1 Opportunities
The tremendous developments in communications and information technology in the past few years have impacted all aspects of life and economy including financial markets. The financial applications of these developments have contributed to creating many investment opportunities and reducing the effort and cost associated with financial and investment operations. That is by:

- Reducing the costs of information access and financial analysis needed by the investor especially with regard to the movement of stock prices or accessing any information about the company’s financial status. Whether at home or office, or even in car, the investor is now capable of knowing different stock price movements at low costs by using communication networks and worldwide web information services (Internet).
- Reducing the cost and effort required to carry out the buying and selling transactions. It became possible for the investor to carry out any transactions directly through the internet or a financial broker in any place of the world.
- Making use of the financial and consulting services offered by licensed financial consulting companies and using their capabilities in managing financial portfolios for the investors’ benefit.
- Benefiting from financial globalization. It is now possible for any investor in the world to take advantage of the investment opportunities that may present themselves in other countries.
- Increasing the investors’ capacity to diversify their investments and take advantage of additional opportunities that are more satisfying for their investment needs.

6-2 Challenges
Financial markets represent the most important channels for transforming savings into investments and help to increase production and economic growth. However, they can be misused one way or the other. They could be a direct reason that causes losses to investors and become a source of threat for the individual fortune and decline in the national economy. The main challenges the investors face in financial markets are explored in the following section:

- Speculation: a speculator is a person who accepts the risk to sell or buy securities in order to achieve quick profits depending on his anticipations for future price movements. To understand how speculation can be risky on the market, there are two types of traded stocks:
investment stocks and speculative stocks. An investment stock is known as the stock that is issued by reputable well-established companies with efficiency and growth prospects. It is normal that those stocks are sold at fair prices. Speculative stocks, on the other hand, are stocks that are issued by small companies. Savers can be divided in a similar way as well where there are Intelligent Savers and Naive Savers. Intelligent savers are those who are unique in their intelligence, skills and their ability to cope with the market’s analysis. Naive savers on the other hand, are not in the same level of deliberation and sense so they buy stocks not based on market realistic analysis but are more likely to walk on the footsteps of the first group as well as follow rumors. The speculation begins when the first group purchase a weak company’s stocks based on expectations that they will later be able to sell it faster and at higher price to the second group. The speculation idea is based on the purchase of stocks even if the price was over the fair value because there will be someone who will buy it at a higher price. The company’s share price increases and other investors think that the price will continue to rise, so they rush to buy it, and consequently the price increases even more. After the second group purchase the stocks they cannot sell it later at a higher price so they rush to get rid of them then the stock price falls more and more so they lose. It could get worse if the second group had financed their purchase of stocks through bank loans. This exposes them to the risk of losing part or all of their invested capital, and they may become debtors to banks. The result is that a small number of the big investors has achieved a fortune in short time by trading speculative stocks, but the majority, most of which are small investors have lost their fortune and become debtors.

• The control of big speculators: it means that a limited number of speculators control the stocks of several companies. Since they own large stakes in those companies, they can push
stock prices up by trading. This will lead small investors to rush and buy weak performing stocks. Big investors make profits at the expense of small investors through speculation on those stocks. This results in financial crises that have a substantial negative impact on the market.

6-3 Tips for Investors:

• An Investor should use his mind, his knowledge and all the available information to make the right investment decision.

• Take a look at the tips and instructions provided by domestic and global securities authorities for investors on selecting and managing investments. For example, the Capital Market Authority in the Kingdom of Saudi Arabia launched a center on its website to educate investors. It also published many brochures and organized various educational events from time to time to raise investor awareness.

• Rely mainly on sources of self funding in the financial investments, and not too much on borrowing.

• An investor should diversify his financial investments after determining the risk levels he can tolerate.

• An investor should determine the type of investment in terms of time to match his goals. Is it a short-term investment or a long-term or in between?

• An investor should regularly assess the feasibility of his current investments, then make changes in the portfolio components to get along with the prevailing market conditions.

• Do not follow market rumors which could be passed only to mislead some investors.

• An investor should not allow sentiments to control his mind, and should have enough courage to bear all the consequences of his deci-
sions; overreacting could increase his loss.

- Stay away from speculation, especially in losing companies.
For more information, please don’t hesitate to contact us on the following address:

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