STOCK MARKET VOLATILITY AND RISK OF INVESTMENT IN MUSCAT SECURITY MARKET OMAN

1Naushad Alam, 2Md Shabbir Alam, 3Mohammad Noor Alam

Corresponding author: Md Shabbir Alam

1Assistant Professor, Department of Finance and Economics, College of Commerce and Business Administration, Dhofar University, Salalah, Sultanate of Oman Email: nalam@du.edu.om
2Assistant Professor, Department of Finance and Economics, College of Commerce and Business Administration, Dhofar University, Salalah, Sultanate of Oman, Email: shabbir.alam28@gmail.com
3Assistant Professor, Department of Accounting, College of Commerce and Business Administration, Dhofar University, Salalah, Sultanate of Oman, Email: malam@du.edu.om

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Abstract

The current research work is aimed to determine the factors influencing investment risks in securities in Muscat Securities Market, Oman. The sample of this study covers Bank Muscat, Bank Nizwa, HSBC Bank and AlIZZ Bank. Out of the four banks considered for study three banks are conventional bank and one is Islamic bank. The study covers a period of five years from 2013 to 2017 where financial data were gathered from the company's annual report. The result of the study shows that the total number of shares of all the banks under study has declined over the years. The EPS for Bank Muscat is the best whereas for the Alizz Islamic bank it is the worst as for it has negative EPS for all the period under the study. This is also true for the volatility measure of Alizz bank as it is the most volatile having beta value of 1.71 and bank Muscat least volatile having beta value of 0.873. The study also confirms that there is risk in investment in Muscat Security Market.

Key Words: Investment, beta, eps, stock market, banks.

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INTRODUCTION

Foundations and nature of economic development vary according to the economic framework adopted by each country. However, no matter how different economic approaches and systems differ in terms of its philosophy and frameworks, they seek to achieve the same goals, which is to raise the standard of living, and this can only be achieved by raising and diversifying the investment which is considered as the cornerstone of a full-scale and sustainable development process. Financial market is a tool for interaction and meeting place of different investment forces. It is also an effective financing channel for developing countries to finance their economy.

The establishment of the Muscat Security market in the midst of economic and financial reforms initiated by the public authorities in the Sultanate of Oman. This was part of the trend towards a market economy, in order to bring about the development process. The stock market provides appropriate channel for providing finance to the required industry. It helps in the allocation of funds in various areas to maximize economic and financial productivity, and it also plays a positive role in accelerating development. However, it faces problem of investment by the investors. This is largely attributed to the lack of savings and lack of knowledge of the stock market. This can only be achieved through an integrated structure of financial institutions and organizations capable of properly channelizing these savings for productive investment. Financial investment is based on forecasts and expectations which are necessarily subject to risk. Therefore, the investor should study the variation in the results due to the circumstances surrounding the investment.

Investment in securities is a sensitive activity due to the volatility in the share price. The risk in security can be minimized by offering dual class share which are less sensitive idiosyncratic risk (Caixe, Kalatzis and Castro, 2019). The risk in stock market can also be averted by developing a technique to identify suspicious index (Richardson, 2009). Investment in security is subject to some risks, where this study aims to find out what are the various risks of investment in the security market and how are they measured and how can they be minimized? This research work will study the investment risk in securities in the Muscat Securities Market in Oman.

LITERATURE REVIEW

Willkinson (2013) added that the definition of investment risk is the risk of a certain investment. Moreover, the assessment of an investment risk commonly includes diverse forms extended from risks of rate of interest to risks of currency. Moreover, Amadeo (2019) added that securities are the investments that are traded in the secondary market. Securities enable people to possess assets without taking ownership. Gorbunova, N. A. (2016) in his study examined what determines equity securities risk and return. This research based on an analysis of opinions on equity securities risks among Russian and foreign researches. Findings in this work showed that various methodological approaches adopted to equity securities analysis. This study proved that the measure of ratios of securities risks leads to help investor in decision making in investment in securities. It is clear also from results that investment risks in securities depends upon the country economy. Agic-Sabeta, E. (2017): The aim of this study was to determine the strategies used to identify the risks in portfolio insurance. This study sought to investigate advantages and disadvantages of portfolio insurance strategies. Based on recent research articles in the field, some theoretical models are reviewed. Secondary data source used were presented and analyzed via tables and graphs. Findings showed that implementation of strategies of portfolio insurance contributes in
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The study found that the earnings per share, price earnings ratio, net profit margin, price to book value and systematic risk had significant influence on the security price. Mansoorian & Moghadam (2018) in their study confirms a positive and significant relationships between the stock market return and the VAR at the level of 5%. Vinh Vo (2018) in his study examined the stock price crash of emerging economy. Based on the study concluded that foreign investors are positively associated crash in the stock market also highlighted information asymmetry in emerging economies. Iqbal (2017) investigated gold acting as a hedge against the stock market risk in three countries, Pakistan, India and USA. The result of his study shows gold successfully employed in minimizing the exchange rate risk in India and Pakistan. On the other hand the use of gold as hedging tool for stock market risk is not identical across all the three markets undertaken for the study.

DATA AND METHODOLOGY

To fulfill the need of the study the data were collected from annual financial reports and companies' guide from MSM market for a period covering 2013-2017. The sample of this study consisted of three conventional banks which are Bank Muscat, Bank Nizwa and HSBC Bank and one Islamic bank which is Alizz Bank. The investment risks in securities of these banks were analyzed to assess the risks involved in these banks. The beta value is ascertained using the following technique.

\[
\text{Beta (β)} = \frac{\text{Covariance (MSM Return,Share Return)}}{\text{variance (MSM Return)}}
\]

The market return and the share return are calculated as shown below.

- \(\text{Market Return} = \frac{(\text{MSM index Year } i - \text{MSM index Year } (i-1))}{\text{MSM index Year } (i-1)}\)
- \(\text{Share Return} = \frac{(\text{Share Price Year } i - \text{Share Price Year } (i-1))}{\text{Share Price Year } (i-1)}\)

ANALYSIS AND RESULT

The present part will present an overview on the descriptive statistics of investment in Muscat Securities Market such as share price, market index, earning per share for bank Muscat, Alizz bank and HSBC bank during the period from 2013 to 2017. The investment risk in stock market will be measured through the beta which measures the volatility of stock in relation to the market.

<table>
<thead>
<tr>
<th>Year</th>
<th>Bank Muscat</th>
<th>HSBC Bank</th>
<th>Alizz Bank</th>
<th>Bank Nizwa</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Share Traded</td>
<td>Earnings Per Share</td>
<td>No. of Share Traded</td>
<td>Earnings Per Share</td>
</tr>
<tr>
<td>2017</td>
<td>249,217</td>
<td>6.4</td>
<td>52,098</td>
<td>1.0</td>
</tr>
<tr>
<td>2016</td>
<td>250,327</td>
<td>6.7</td>
<td>260,008</td>
<td>0.8</td>
</tr>
<tr>
<td>2015</td>
<td>365,735</td>
<td>7.7</td>
<td>1,094,688</td>
<td>0.6</td>
</tr>
<tr>
<td>2014</td>
<td>386,673</td>
<td>7.5</td>
<td>169,518</td>
<td>0.6</td>
</tr>
<tr>
<td>2013</td>
<td>335,596</td>
<td>7.2</td>
<td>128,387</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Sources: official website of Muscat Security Market.
The table-2 above shows the beta value of all the selected security listed in Muscat Securities Market for the study. From the table it is clear that the Alizz bank, Islamic bank is more volatile while the Bank Muscat representing the conventional bank is the least volatile.

<table>
<thead>
<tr>
<th></th>
<th>BETA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>1.350</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>0.424</td>
</tr>
<tr>
<td>Std. Error Mean</td>
<td>0.212</td>
</tr>
</tbody>
</table>

It is inferred that the Mean value is 1.350 which greater than 1 and the Standard Deviation is 0.424.

Hypothesis Test
To test the hypothesis that there are no investment risks in securities of Muscat Securities Market the mean value and Standard Deviation of BETA are used. The table below represent the output of this test.

<table>
<thead>
<tr>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
<th>Mean Difference</th>
<th>95% Confidence Interval of the Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.651</td>
<td>3</td>
<td>.197</td>
<td>.35047199</td>
<td>-.324897 - 1.025841</td>
</tr>
</tbody>
</table>

The Sig. (2-tailed) = 0.197 is greater than 0.05. This proves that this hypothesis is not accepted, which reveals that there are investment risks facing MSM. The risk in the security market need to be minimized to encourage investments. Further, investor current risk compensation has a positive effect on the stock return and past risk compensation has got negative effect. (He, He & Wen, 2019). The security market plays a great role in the economic growth as found by Al Nam and Hussein (2019) in their study.

CONCLUSION
The study is aimed at measuring the investment risk in securities listed in Muscat Securities Market (MSM) of Oman. The author collected data from guidance of companies from MSM’s website during 2013 to 2017. Results attained from this study shows that HSBC ranked the first place in number of traded shares where it reached 1,094,688 in 2015. In recent years bank Muscat witnessed an increase in EPS value compared to HSBC and ALIZZ banks. In all years of the study, ALIZZ bank registered a loss in stock investment where EPS varied between -0.3 and -0.5. The risk is measured using the beta value. The beta values for each bank of the sample (except bank Muscat) are greater than 1 which indicated that price of stocks, swings more wildly than most stocks.

The study clearly indicates presence of volatility in the Muscat Security Market. This risk factors need to managed than only the overall increase in the volume of shares traded will take place and investors’ confidence in the market will increase.

REFERENCES


