

Osama Samih Shaban*
 Ziad Al-Zubi**
 Nawaf Ahmad AlGhusin***

JEL Classification G10, E50
 Original scientific article

THE EFFECT OF FINANCIAL & CASH POLICIES ON THE PERFORMANCE AND RISK ASSESSMENT OF AMMAN STOCK EXCHANGE MARKET

The current study aims to examine the effect of financial and cash policies on evaluating risk associated in stock trading, and measuring stock performance of Amman stock exchange market.

The method used in order to reach the objective of the current study, was through a questionnaire which has been designed for this purpose, and it was distributed randomly to the traders of Amman stock exchange market in the month of January 2017. The number of valid questionnaires analyzed were 180 out of 200 questionnaires distributed. Regression data were analyzed using the statistical program Smart PLS, (Partial Least Square). The Study concluded that financial and cash policies affect the investment environment, and Amman stock exchange market currently revealed that the number of traded shares decreased by 3.3% compared by the same period of last year and the number of executed transactions decreased by 25.3% in comparison with the same period of last year.

Keywords: Amman stock exchange market, Financial policies, Cash policies, Risk Assessment, Stock trading, Stock performance

* O. Samih Shaban, Ph. D. (E-mail: drosama@zuj.edu.jo)

** Z. Al-Zubi (E-mail: ziad.alzubi@zuj.edu.jo)

*** N. Ahmad AlGhusin (E-mail: n.saleem@zuj.edu.jo)

All three authors are from the Al-Zaytoonah University of Jordan, Faculty of Business, Amman, Jordan

The paper was received on May 23rd 2017., it was accepted for publication on Oct 15th 2017.

The authors thank for the helpful comments they received from two anonymous peer - reviewers.

1. Introduction

The current and expected cash and financial policies have direct negative or positive effect on the stock market and the economy at the same time, and the cause of this effect may be directly related to supply and demand reaction in the stock markets. In fact these financial policies formulate the demand and supply in the stock market through cash and financial decisions taken.

The source of financial policy is the government legislation and it aims to control the revenues and expenditures of the state in order to balance the financial budget as a whole. In light of the financial budget, the rate of taxes is formulated to all sectors. The positive effect of the financial policy would be clearly viewed in form of the actions adopted or taken by the treasury to raise demand by raising the rate of expenditures in the country as a whole. The results of high demand created will lead to high demand in the stock of the benefited companies. The amount of military expenditures in the United States reflected by high demand on the stock of companies executing the military contracts is an example of such action. We should note that, the contrary will happen if there are restrictions on expenditures (Davies, 2008).

On the other hand, cash policy has two important missions. First is to maintain a stable value for the country's currency, and second, it is considered an important tool of controlling inflation or depression, and that because cash policy has direct contact by investment market and its conditions, and of course, stock market is one of these investment markets which reflect directly trends of the current and expected cash policies adopted by the government. Portfolio Investors should take into consideration the current and expected trends of both cash and financial policies in order to avoid risk, and grab the right opportunity of investment (Pastor, & Veronesi, 2012).

The current research problem focuses on finding the relationship between financial and cash policies adopted by government to organize the trading transaction and find out the effect of these policies investment opportunities which affect the process of evaluating risk associated in stock trading, and measuring stock performance of Amman Stock Exchange Market (ASE).

In order to stand on study importance and objectives of the current research study, we are going to cover all aspects of both cash and financial policies which govern the investment environment in Amman Stock Exchange Market, and to stand on the factors that helps or constraints the performance of stock investment in ASE, and finally analyzing both risk associated and the effect of these policies on the performance of ASE. From the researchers point of view these two factors are very important and are worth discussion. The current research paper structure is formed out of the research problem, literature review, method adopted to analyze data, statistical analysis, and finally results and findings.

2. Literature Review

Cash or Monetary policy usually refers to the procedures or strategies adopted by a nation's central bank regarding money circulating in the economy, and the exchange rate. The main objective of monetary policy is to achieve long-term economic growth, promote maximum employment, stable prices and moderate long-term interest rates. Monetary policy can be tight, loose, or neutral. When the economy is growing too fast and inflation is moving at a very high rate, then, the central bank may take steps to control these raising short-term interest rates to stimulate growth and get the economy back on track. (Investopedia, 2017)

In other words, the effect of monetary policy on investment is considered direct when it affects the level of interest rates, and it is considered indirect when it affects the level of inflation and its expectations.

Financial policy differs from monetary policy because the financial policy is carried out by government rather than by the central bank whose task is to direct the monetary policy. Governments control the financial policy as it can stimulate economic growth through measures such as cutting tax and increased spending. Such action aims to boost economic activity rather than central bank in an effort for forbidding or controlling financial crisis. After the 2008's global recession, the major central banks in USA, Europe, and Japan took a path of unorthodox monetary policy, such as Quantitative Easing (QE) to create money through buying assets from other banks, hoping that they would extend new loans and sparking an economic resurgence (Fed, 2017)

Investors should have a basic understanding of the current monetary policy, as it can have a significant impact on investment portfolio and net worth.

For each stock market there is a general indicator which measures the degree of progress or decline in that market. One of the famous and known indicators is Dow Jones, New York, which is one of the largest and most important financial and business indicators in the world. Another famous indicator is Nikkei, Tokyo, FT 100, and Hang Seng, Hong Kong. All these indicators are the most watched stock indexes, they represent different sectors of the economy, and they reflect the up and down investment movement in traded stock prices.

At the national level, Amman Financial Market started by the establishment of the few public shareholding companies where they set up their shares long before the setting up of the Jordanian Securities Market. In the early thirties, the Jordanian public already subscribed to and traded in shares; the Arab Bank was the first public shareholding company to be established in Jordan in 1930, followed by Jordan Tobacco and Cigarettes in 1931, Jordan Electric Power in 1938, and Jordan Cement Factories in 1951. The first corporate bonds were issued in the early sixties (ASE, 2017).

As a result, an unorganized securities market has emerged in the form of non-specialized offices. This prompted the government to contemplate the idea of setting up a market to regulate issuance of and dealing in securities, in a manner that would ensure safe, speedy and easy trading, and protect small savers, through a mechanism that would define a fair price based on supply and demand. Successive economic plans called for the establishment of such a market, and various parties started to prepare, with the government's support, for setting up an organized securities market. In 1975 and 1976, the Central Bank conducted intensive studies, in cooperation with the World Bank's International Finance Corporation (IFC), and it became clear therefrom that the size of the national economy and the share of the private sector in it through public shareholding companies and its broad investor base justified such a step. Such a market was perceived as a creator of and caterer for much needed opportunities for economic growth which would stimulate and spurt economic activity. These joint efforts bore their fruit, and Temporary Law No. 31 of the year 1976 was promulgated, and what was known as Amman Financial Market was consequently established. A Cabinet resolution of March 16, 1977 set up an AFM Administration Committee, which immediately went into action; and operation on AFM started on the 1st of January, 1978.

The Jordanian government adopted a comprehensive capital market reforming policy, which aimed at building on the previous 20 years' experience, boosting the private sector, expanding and diversifying the national economy, and improving regulation of the securities market to reach international standards. Among the most important features of the new orientation were institutional changes in the capital market, use of international electronic trading, settlement and clearance systems, elimination of obstacles to investment, and strengthening capital market supervision to reach optimum transparency and safe trading in securities, in line with globalization and openness to the external world.

The enactment of the Temporary Securities Law, No. 23 of the year 1997, was a landmark; indeed, it was a qualitative leap and a turning point for the Jordanian capital market. Its aim was to restructure and regulate the Jordanian capital market, and to complete its infrastructure in consistence with international standards, in order to secure transparency and safe trading in securities. The central feature of this restructuring effort was the separation of the supervisory and legislative role from the executive role of the capital market. The latter was left to the private sector, whereby Amman Stock Exchange/ Securities Market (ASE) and the Securities Depository Center (SDC) played the executive role, and the supervisory and legislative role was entrusted to Jordan Securities Commission (JSC). The Law provided for setting up three new institutions to replace AFM, namely:

1. Jordan Securities Commission (JSC)
2. Amman Stock Exchange (ASE): It is a non-profit legal entity, with financial and administrative autonomy, and it is authorized to act as an orga-

nized market for trading in securities in the Kingdom. Its membership is made up of financial brokers, and it is managed by the private sector. It has started its operations on March 11, 1999.

3. Securities Depository Center (SDC)

Recently, a new Securities Law number 76 for the year 2002 has been issued which authorized setting up other stock exchanges and allowed forming an independent investor protection fund, stricter ethical and professional codes, and a more stringent observance of the rule of law.

Amman Stock Exchange Market (ASE) Financial Performance:

During the month of February, 2017, and during the period of this research study, the following information about the financial activities of the ASE was available: The following is up to date figures of ASE.

	FEB	JAN
Number of Listed Companies	224	224
Market Capitalization (JD million)	17,786.2	17,447.1
Value Traded (JD million)	1035.5	443.4
Average Daily Trading (JD million)	51.8	20.2
No. of Traded Shares (million)	284.9	219.8
No. of Transactions (thousand)	63.3	69.5
No. of Trading Days	20	22
Turnover Ratio (%)	4.2	3.2
Free Float Price Index (point)	2212.8	2161.5
Weighted Price Index (point)	4182.6	4093.9
Price/Earnings Ratio (times)	15.78	15.59
Price/Book Value Ratio (times)	1.28	1.25
Dividend Yield Ratio (%)	4.33	4.42
Non-Jordanian Ownership of Market Cap.(%)	47.7	50.0
Non-Jordanian Buying (JD million)	521.0	183.1
Non-Jordanian Selling (JD million)	905.4	194.6
Net Investment of Non-Jordanians (JD million)	-384.4	-11.5
Market Capitalization / GDP (%)	66.8	65.5
Primary Issues of Shares (JD million)	0.9	1.3
Primary Issues of Bonds (JD million)	481.0	70.0
Primary Issues of Islamic Sukuk (JD million)	0.0	0.0

The following information are about the best performance 10 companies of ASE during the months of January and February, 2017.

Company's name	Market capital (JD million)	% to the total market capital	Closing price	
			This month	Last month
ARAB BANK	4,113.9	23.1	6.42	6.19
THE HOUSING BANK FOR TRADE AND FINANCE	2,704.0	15.2	10.73	10.72
THE ARAB POTASH	1,424.7	8.0	17.10	17.50
AL-EQBAL INVESTMENT COMPANY LTD	762.0	4.3	25.40	23.60
JORDAN ISLAMIC BANK	630.0	3.5	4.20	3.84
BANK OF JORDAN	578.0	3.2	2.89	2.85
JORDAN TELECOM	427.5	2.4	2.28	2.17
JORDAN KUWAIT BANK	379.0	2.1	3.79	3.90
CAIRO AMMAN BANK	345.6	1.9	1.92	1.80
JORDAN PETROLEUM REFINERY	338.0	1.9	3.38	3.40

3. Method

The primary data needed for the study objectives were collected through a survey conducted among different traders in Amman Stock Exchange Market in order to analyze their perception of the cash and financial policies that affected their performance. The traders are usually performing their transaction on a daily basis except Friday and Saturday, which is off days. The research study sample size was 200 traders which were determined using the sample size formula to constitute the study population.

A questionnaire has been designed for this purpose, and it was distributed randomly to the traders taking part in actions and activities at the Securities Depository Center in February 2017. The number of valid questionnaires analyzed were (180) out of (200) questionnaires distributed which constitute 90% of total questionnaires distributed. The questionnaire was designed out of 15 questions only in order to enable the respondent to complete the questionnaire in a short time, knowing that many of them doesn't have the time to fill out the questionnaire. Resolution data were analyzed using the statistical program Smart PLS.

Quantitative data were collected using a self-administered questionnaire, in which the traders were asked to state the likelihood (on a 5-point scale: [5] strongly agree; [4] agree; [3] neutral; [2] disagree; [1] strongly disagree (Likert, 1932).

Other Data is collected from secondary sources i.e. from articles published by the well-known periodicals, books, and dissertations.

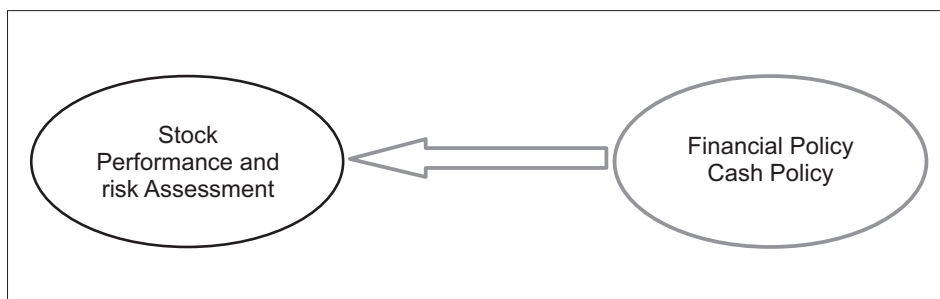
3.1 Statistical Analysis

The Statistical Package for Social Sciences Smart PLS was applied in analyzing the data received; Statistical Analysis tools include the followings:

1. Descriptive Statistics, mainly frequencies and percentages, were used to analyze sample characteristics according to job, educational level, professional certificates, and experience.
2. Correlation, Inter-correlation, Regression, and Path Coefficient were used to analyze and describe study variables from a statistical point.
3. Reliability Test using Cronbach's Alpha was used to test the reliability of the scale.

3.2 Research Design (Exhibit-1)

Exhibit-1



Research design is formed out of three main elements which constitute the research design. The Model in Exhibit-1 shows the effect of cash policy, and financial policy on the performance and risk assessment.

3.3 Study Hypothesis

- H1: There is a statistical effect of cash policy on stock performance and risk assessment.
- H2: There is a statistical effect of financial policy on stock performance and risk assessment.

3.4 Data Analysis and Findings

3.4.1 Reliability test

Cronbach's alpha was used to test the internal reliability of the measurement instrument. According to Uma, Sekrran (2016), a Cronbachs Alpha of 0.70 or higher is considered acceptable. As shown in Table (1) the Cronbach's Alphas (α) ranged from 0.754 to 0.882, thus establishing the reliability of the survey questionnaire. It is obvious that all values of alpha are acceptable and relatively high. This indicates that for each measurement of a variable, the items are correlated and hence highly consistent. Table (1) shows the Cronbach's alpha for each scale:

Table 1:

CRONBACHS ALPHA

	Cronbachs Alpha
Cash Policy & Financial Policy	0.882
Risk Assessment & Stock Performance	0.754

3.4.2 Sample Characteristics

The respondents were 74% male and 26% female; most of them were between the age of 26 years and 45 years. Most respondents had average experience more than 5 years. Most of the Job titles of 67% of the respondents were Office Clark, 19% Deputy Manager, 9% Head of department, and finally 5% were Executive managers. Most of respondents 70% had Bachelors' degree, and the remaining 30% were having other degrees. Demographic data is shown in Table No. 2.

Table 2:

DEMOGRAPHICS DATA FOR STUDY POPULATION

Variable	Group	Frequencies	%
Sex	Male	147	
	Female	33	
Total		180	100%
Age	Less than 25 years	18	
	From 26 years – 35 years	69	
	More than 36 years – 45 years	55	
	More than 46 years	38	
Total		180	100%
Professional Certificate	Bachelors’ Degree	109	
	Other Degree	71	
Total		180	100%
Experiences	Less than 5 years	22	
	From 6 years – 10 years	63	
	More than 11 years – 15 years	77	
	More than 16 years	18	
Total		180	100%

3.4.3 Smart PLS Results

The structural model results are shown in Exhibit 2. Examining the path coefficients; the numbers on Table 3 enable us to determine, that cash and financial policy have the strong effect on risk assessment and stock performance (0.905). The results show that the relationship between the two variables is statistically significant. Based on their path coefficient scores, it would appear that the influence of cash and financial policy on risk assessment and stock performance is significant.

Table 3:

PATH COEFFICIENT

	Cash Policy & Financial Policy	Risk Assessment & Stock Performance
Cash Policy & Financial Policy		0.905397
Risk Assessment & Stock Performance		

Examining the outcomes of R Square which represents the proportion of variation in the responses that is explained by the original model using predictor

values from the test data. Moreover, the constructs explain 78.4 percent of the variance of the endogenous latent construct ($R^2 = 0.819$). According to R square results it is considered high. Table 4 illustrates the R square results.

Table 4:

R SQUARE

	R Square
Cash Policy & Financial Policy	
Risk Assessment & Stock Performance	0.819743

The convergent validity assessment is associated with the Average Variance Estimated (AVE) value. The evaluation of validity criterion in table 4 illustrates that the AVE values of cash and financial policy (0.325), risk assessment and stock performance (0.576), risk assessment & stock performance are above the cutoff point of 0.50. Therefore, it reflects high levels of convergent validity. As for cash policy & financial policy it reflects lower value, and below the cut off point 0.50, and this may be attributed to the responses of the study community, but anyhow it is acceptable and doesn't ruin the study conclusions (Fornell & Larcker, 1981).

Table 4:

AVE

	AVE
Cash Policy & Financial Policy	0.325955
Risk Assessment & Stock Performance	0.576143

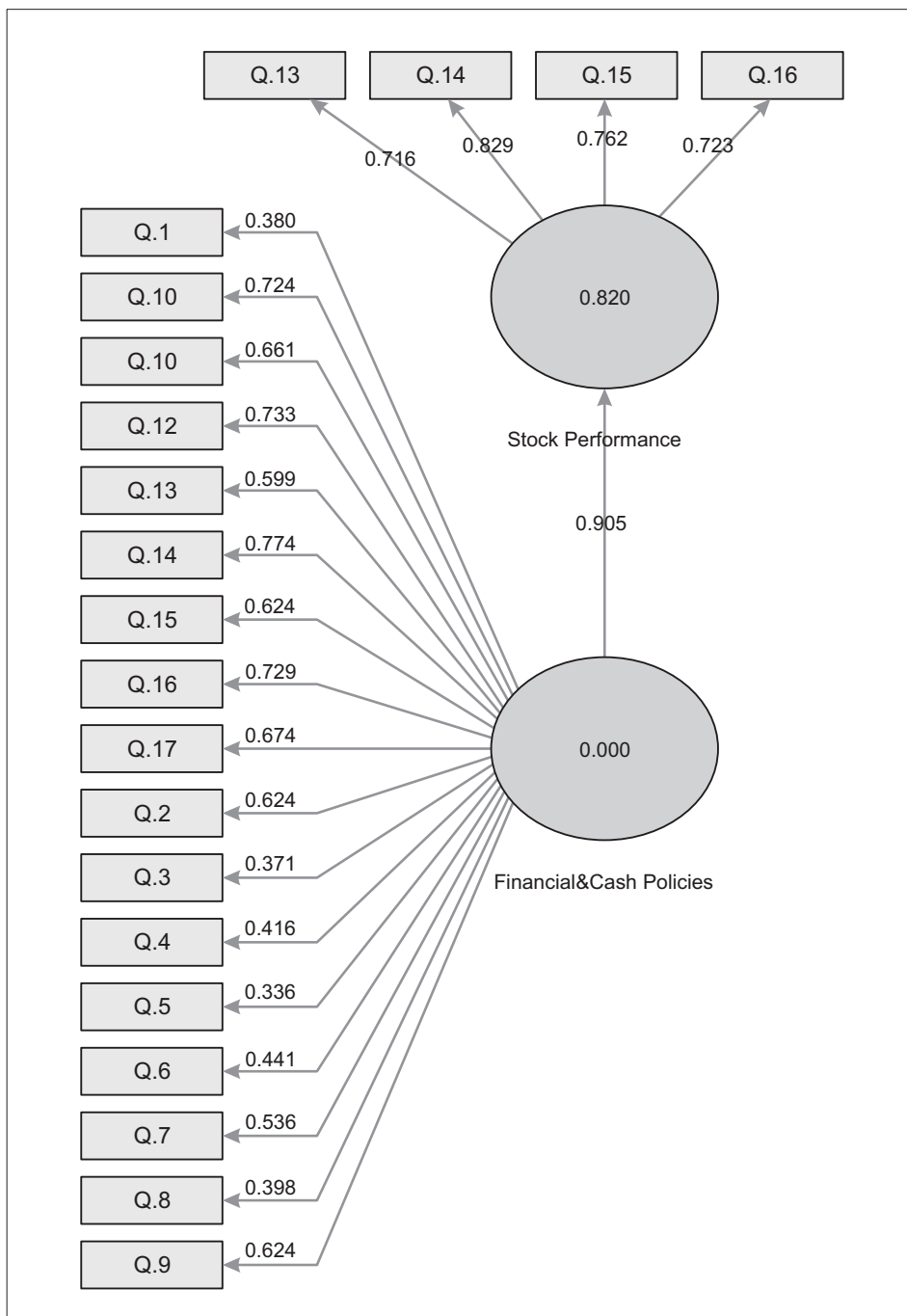
The evaluation of total effect of (t. statistics) tested through bootstrapping test, and it is illustrated in table 5, the effect value of cash and financial policy on risk assessment and stock performance is equal to (53.176), Therefore the study hypotheses shows significance effect of cash and financial policy on risk assessment and stock performance.

Table 5:

TOTAL EFFECT

	T Statistics (IO/STERRI)
Cash Policy & Financial Policy -> Risk Assessment & Stock Performance	53.176068

Exhibit 2: RESULTS OF THE STATISTICAL TEST SMART (PLS).



4. Conclusions & Recommendations

4.1 Conclusions

The Study concluded that financial and cash policies have significant effect on stock performance, the investment environment, and eventually on the performance of Amman Stock Exchange Market as a whole. Also the study revealed under the current conditions of ASE that the number of traded shares decreased by 3.3% compared by the same period of last year and the number of executed transactions decreased by 25.3% in comparison with the same period of last year.

4.2 Recommendations

Traders should keep their attention on reforming policies adopted by government in order to reduce risk and at the same time increase the potentials of achieving gains. ASE should work on continuous measures to strengthen capital market supervision in order to reach optimum transparency and safe trading in securities. ASE should encourage technological trading practices that increase the efficiency of stock trading.

4.3 Limitations of the study and results

As we know, all studies have limitations, however, the current research study has some methodological limitations which can be summarized as follows:

Study Sample: The results of the study depends upon the perception of the study sample. The study sample at time of the study may have reacted negatively to the questionnaire as a result of losses occurred on that date, or vice versa.

Lack of Prior Research Studies: As per the knowledge of the researcher, prior research studies under same topic carried on in Jordan are few, as a result it was difficult to form the literature review and to lay a foundation for understanding the research problem and investigation.

4.4 Extending conclusions to other research study

It was mentioned in the previous paragraph that prior research studies carried on in Jordan were rare, so it will be very difficult to extend the research conclusions to other related research studies conducted on similar research sample and conditions.

5. References:

- ASE, Amman Stock Exchange, Accessed on March 20, 2017 at <http://www.ase.com.jo/ar>.
- Davies, H., Green D., 2008. Global Financial Regulation: The Essential Guide. Polity Press, Cambridge, England.
- Fed, Federal Reserve System, Accessed on March 20, 2017, at <https://www.federal-reserve.gov>
- Fornell, C., Larcker, D.F., (1981). "Evaluating structural equation models with unobservable variables and measurement error". *Journal of Marketing Research* 18 (1), 39-50.
- Likert, R. (1932). "A technique for the measurement of attitudes". *Archives of Psychology*, 22(140), 1-55.
- Pastor, Lubos., Veronesi, Pietro, (2012). "Uncertainty about Government Policy and Stock Prices". *The Journal of Finance*, Volume 67, Issue No. 4, pp. 1219-1264.
- Slaughter, A, M., 2004. *A new World Order*. Princeton University press, Princeton, New Jersey.
- Uma, Sekrran (2016), *Research Method for Business: A Skill Building Approach*. 7th Edition, John Wiley and Sons, New York.

UČINCI FINANCIJSKE I MONETARNE POLITIKE NA REZULTATE I PROCJENU RIZIKA NA BURZI VRIJEDNOSNIH PAPIRA U AMMANU

Sažetak

Cilj je ovog rada istražiti učinak financijske i monetarne politike na procjenu rizika vezanih uz trgovanje dionicama i mjerenje rezultata Burze vrijednosnica u Ammanu. Da bi se postigao taj cilj sastavljen je upitnik i distribuiran slučajnim izborom među sudionicima na tržištu kapitala na burzi u Ammanu u mjesecu siječnju 2017. Od 200 podijeljenih upitnika vraćeno je 180 ispravno ispunjenih. Dobiveni podaci analizirani su pomoću statističkog programa Smart PLS (Partial Least Square). Zaključak istraživanja bio je da financijska i monetarna politika utječu na investicijsko okruženje, a iz rezultata burze u Amanu zaključuje se da je broj dionica kojima se trgovalo pao za 3,3% u usporedbi s istim razdobljem prošle godine, a broj izvršenih transakcija opao je za 25,3 % u usporedbi s istim razdobljem prošle godine.

Ključne riječi: Burza vrijednosnih papira u Ammanu, financijska politika, monetarna politika, procjena rizika, trgovanje vrijednosnicama, rezultati trgovanja vrijednosnicama