

## **ANALYSIS OF SAUDI STOCK PERFORMANCE BEFORE AND AFTER THE SAUDI VISION OF 2030**

**Noha Daghestani, Ghada Almunajem, Nouf Alabdulkarim, Reem Alnuaim and Bassamah Albassam**

Lecturers in Finance Department, College of Business Administration, King Saud University, Kingdom of Saudi Arabia

---

**ABSTRACT:** *The purpose of this study is to explore the effect of the 2030 vision on the performance of Saudi stock market. Changes in investors' behavior will be investigated and compared before and after the implementation of 2030 vision of Saudi. Data is collected using survey method; the number of trades is calculated and compared before and after the implementation of the 2030 vision of Saudi. Findings showed that investors are becoming more cautious and started to have plans for their future income and expenses. Furthermore, they increased their time and efforts to collect information to have a better investment decision.*

**KEYWORDS:** 2030 vision, investor's behavior, stock market performance.

---

### **INTRODUCTION**

Saudi Arabia is considered as one of the most attractive countries for investments. Recently Saudi Arabia has been going through a cultural and economic reform in order to be capable to face some serious economic challenges. Some of the biggest challenges are to lower the reliance on oil revenues, decrease unemployment rates and to increase the non-oil exports. In 25 April 2016 the Crown Prince Mohammed Bin Salman announced the vision of 2030. The implementation of this vision is expected to bring both new opportunities and challenges for Saudis. The vision intends to decrease unemployment rates among Saudis, increase women participation in the work force, increase the foreign direct investment and increase the house holding savings. Furthermore, the vision intends to change the life style of Saudis and as a result their financial decisions, asset allocation and spending habits. The main challenge of implementing the vision is to educate and convince the citizens to adapt to these economic reforms and to start changing their financial habits. This challenge is amplified by the sociable and emotional culture of Saudi Arabia. This study intends to explore the effect of the implementation of the 2030's vision on the investors' behaviors, decisions and investments in the Saudi stock market.

### **RESEARCH OBJECTIVES**

- Analyze the Saudi Stock market performance based on investors' behavior before and after the implementation of 2030 vision.
- Investigate investor's behavior to the implementation of 2030 vision.

## **Problem Statement**

The main purpose of the current study is to investigate the Investors' behavior towards the implementation of 2030 vision. Also, explain the Saudi Stock market performance based on investors' behavior before and after the implementation of 2030 vision.

## **Importance of Study**

The importance of this study is derived from several facts. First, Saudi Arabia is the largest capital market among the GCC countries. Second, Saudi Arabia is going through a cultural and economic reform which expected to affect the stock market performance and the behavior of investors. Finally, behavioral finance is considered as one of the new topics discussed among researchers; however, most the studies found in the literature have been conducted in developed countries such as the U.S and other European countries.

## **LITERATURE REVIEW**

### **2030 Vision**

The 2030 vision of Saudi Arabia has comprehension goals; one of its main goals is to diversify the macro economy by attracting foreign direct investments, lowering the dependence on the government spending and reforming the education system. Another important goal is to lower the dependence of Saudi economy on the energy sector revenues (Fattouh & Sen, 2016).

It is planned to examine the accomplishment of these goal in the year of 2020 and by then the social reaction to the changes will be assessed and changes will be implemented based on the vision's strategic objectives. Throughout the long term implantation of the 2030 it is expected to achieve an equal distribution of fuel, water and electricity and to exploit the young Saudi population (more that 50% of Saudis under the age of 25 years) through an educational system reform to improve its outcomes in order to match the market requirement (Alshuwaikhat & Mohammed, 2017)

To assure a successful implementation, there will be an effective use of the different social media channels to reach out to the Saudi citizens in order to communicate the vision's goals and assure its implantation, understanding and acceptance (Kinninmont & Kinninmont, 2017). It is expected that some methods of implementation will work more than others in achieving the balance between the economic and social goals

The implementation of 2030 vision is expected to face some challenges. For example, Saudis need to be convinced and educated to change their life style, spending habits, investment and capital allocation decisions (Salameh, 2016)

### **Behavioral Finance and Stock Market Performance**

Behavioral finance can be defined as" the study of the influence of psychology on the behavior of financial practitioners and the subsequent effect on markets. Behavioral finance is of interest because it helps explain why and how markets might be inefficient(Sewell, 2011). There are two elements that affect behavioral finance: investors' psychology and limits to arbitrage. Investors' behavior is expected to affect the performance of stock market in several ways. First, differences in investors' personality, education, moods, emotions and background are expected

to affect their decisions. For example, some investors will overreact to the unusual news related to a losing portfolio while others might have no reaction. This overreaction is expected to appear in a situation like when a losing stock has earned about 25% more than a winner stock (Bondt & Thaler, 1985).

Overreaction is expected to appear also when investors conduct short selling, investors will overreact to the money loss which appears as a result misvaluation (Ritter, 2003). Overreaction among investors is facilitated by three important heuristic behaviors: 1. Immediate affect 2. Availability of information, were investors' reaction depends their knowledge and the collected information 3. Similarity, were different investors are making different decisions in similar situations (Sewell, 2007)

Some investors' behavior can't be explained for example; as investors hold different stocks and bear unnecessary costs some investors may hold a losing stock and sell a profiting stock (Barber & Odean, 2013). Investors are expected to behave differently due to differences in their: financial background, information, investment horizon, expected return and rationality (Rehman & Arif, 2015)

The implementation of the 2030's vision is expected to affect the investors' behavior. Due to the different economic reforms such as the value added tax and the plan for equal distribution of water, electricity and oil it is expected that investor will start to have some saving plans and their risk tolerance is expected to change. In a similar situation of tax reform increased the saving rates and among investors and increased the stock prices in the USA (Golob, 1995)

## **RESEARCH METHODOLOGY**

A mixed research design is used to conduct this study. The data of the stock market performance was collected from TADAWUL website. The value and number of trades were analyzed and compared for the period from 25/4/2016 (the release of 2030' vision) until the end of 2017 (31/12/2017). It has been found that there is a decrease in the market performance after implanting the 2030's vision. This finding can be related to the economic reforms implemented by the 2030's vision such as the allowance termination of the public sector for seven months. Another explanation is the application of the value added tax in 1/1/2018 which was announced in the 2030's vision and was reflected negatively on the investors' behavior making them more cautious.

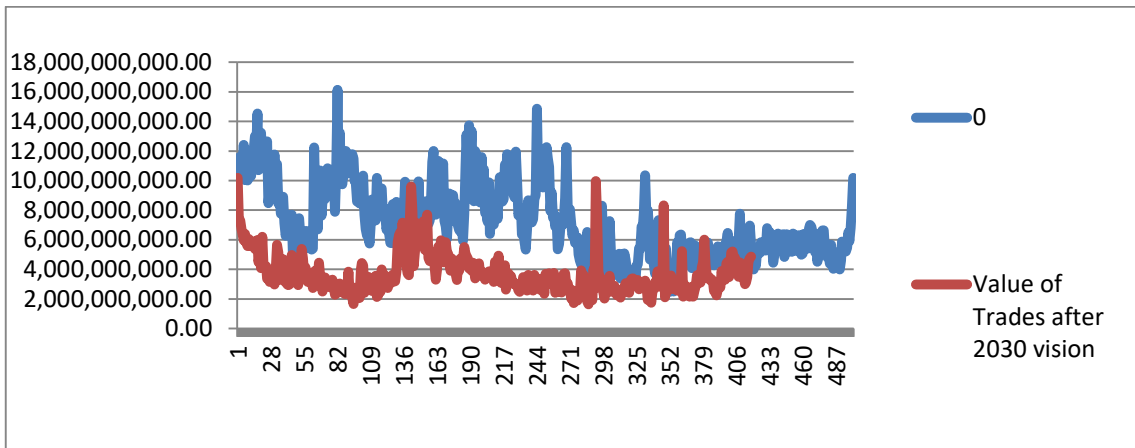


Figure 1. Stock Market performance analysis

The targeted population is the common Saudi investors who have any size of investments in the Saudi stock market. A five points Likert scale questionnaire was distributed among a random sample of investors to assess their behavior. The questionnaire was distributed and collected randomly. 47.5% of respondents' ages ranged between 19 to 29 and 45% from 30 to 44. Most of the sample has high education, 46.9% with Bachelor degree, 33.8% with Master degree and 14.4% with PhD degree. Respondent show that they do their research about both the market and the company's history. The five points ranged from strongly disagree which means that investors have a negative attitude towards the 2030 vision to strongly agree which means that investors have positive attitude towards 2030 vision.

**Research Model**

The current study will based on the following model

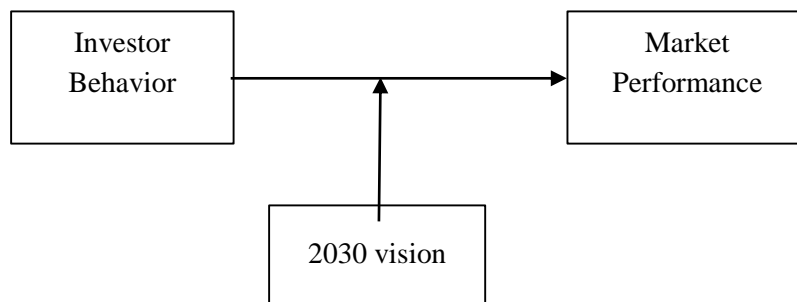


Figure2. Current study model

**RESEARCH HYPOTHESIS**

This study is mainly investigates how investor behavior affects market performance after 2030's vision as proposed in the following hypothesis;

H: Investor behavior affects positively market performance after 2030's vision

## **DATA ANALYSIS**

### **Reliability Analysis**

Cronbach's alpha test was used to check internal consistency. As shown in table (2) an acceptable reliability level of (0.71) was calculated. Table (3) presents the mean and standard deviation values for each questionnaire item. The mean values ranged from 2.74 – 4.36 and the standard deviations values ranged from 0.82 - 1.25.

The majority of respondents found to agree with the fact that the 2030 vision will foster a positive behavior among investors with a mean ranged between 4.21 and 5. It has been found that investors incline to purchase a stock with an expected increase in its value since they are becoming more cautious and having a lower risk tolerance, the highest value of mean was found to be 4.36 and standard deviation 0.82. On the other hand, it has been found that investors' recommendation to each other is not effective this observation may be attributed to the high educated sample. Investors refused to buy a stock based on a friend's recommendation with a mean between 2.74 and 1.21. Overall, it has been found that the investors' behavior towards the Saudi stock market after 2030 vision is in a median level with an overall (3.54) mean which supports the research hypothesis.

## **DISCUSSION AND CONCLUSION**

The main purpose of the current study is to investigate the Investors' behavior towards the implementation of 2030 vision. The results show that the investors' decisions are affected by news, announcements and personal intuition. Most of the sample has long-term investment goals. After the 2030 vision, it has been noticed that investors become more cautious, look for means to decrease their investment risk, collect information to analyze their investment position and they started to plan for their future income and expenses.

### **Limitation and Future Studies**

One important limitation for this study is the short time period of analysis which was almost eight months. The high educated sample is another limitation that may affect the generalizability of the results. Future studies may investigate the effect of the 2030 vision for a longer time period; a comparison between the stock market performance between 2015 and 2020 will give better results. A less educated sample may be considered for a future study. We recommend that other macro level factors may be included to have a better understanding of the issue under investigation.

### **Acknowledgment**

The authors extend their appreciation to the Deanship of Scientific Research at King Saud University, for financing the study through the Research Center of College of Business Administration.

## REFERENCES

- Alshuwaikhat, Habib M, & Mohammed, Ishak. (2017). Sustainability Matters in National Development Visions—Evidence from Saudi Arabia’s Vision for 2030. *Sustainability*, 9(3), 408.
- Barber, Brad M, & Odean, Terrance. (2013). The behavior of individual investors *Handbook of the Economics of Finance*, 2,1533-1570.
- Bondt, Werner FM, & Thaler, Richard. (1985). Does the stock market overreact? *The Journal of finance*, 40(3), 793-805.
- Fattouh, Bassam, & Sen, Amrita. (2016). *Saudi Arabia’s Vision 2030, Oil Policy and the Evolution of the Energy Sector*. Oxford Institute for Energy Studies, Oxford.
- Golob, John E. (1995). How would tax reform affect financial markets? *Economic Review-Federal Reserve Bank of Kansas City*, 80(4), 19.
- Kinninmont, Jane, & Kinninmont, Jane. (2017). *Vision 2030 and Saudi Arabia’s Social Contract: Austerity and Transformation*: Chatham House.
- Rehman, Muhammad Waseem Ur, & Arif, Kashif. (2015). Investment Behavior and Stock Preference of an Individual Investor: Evidence from Karachi Stock Exchange. *Developing Country Studies*, 5(9), 124-131.
- Ritter, Jay R. (2003). Behavioral finance. *pacific-basin finance journal*, 9.
- Salameh, Mamdouh G. (2016). *Saudi Arabia's Vision 2030: A Reality or Mirage*. Browser Download This Paper.
- Sewell, Martin. (2007). *Behavioural finance*. University of Cambridge.
- Sewell, Martin. (2011). *Psychology of Successful Investing*. University of Cambridge February.

**APPENDIX**

This survey was used in 2015 by Abstract M and Arif K in “investment Behavior and Stock Preference of an Individual Investor: Evidence from Karachi Stock Exchange”(Muhammad Waseem Ur Rehman, 2015)

We look forward to receiving your responses to this questionnaire. It has been designed to provide us with a full picture of your views about investment in Karachi Stock Exchange. Please complete the questions as fully and as candidly as possible - we guarantee that this survey is completely confidential and purely for academic purpose.

1. Your age group?

- 18to29     30to44     45to59     Over 60

2. Your marital status?

- Single     Married     Widower

Your level of education?

- Matric     Intermediate     Bachelors     Masters     Above Masters

Please state carefully whether you agree or disagree with the following statements:

statement			Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
4-	a	I will prefer to purchase the shares for a long-term period.					
	b	I will purchase a share whose value will be increased in future.					
5.	a	I prefer the share, which will give reasonable dividend on my investment.					
	b	I also want an increase in dividend in my investment					
6.	a	I think that I can make a profit by purchasing shares before index goes up and sell out before index goes down.					
	b	I think the short selling will be profitable for me.					
7.	a	In my point of view, the accounting information disclosed in annual reports is useful in my investment decisions.					

	b	I analyze the market condition before purchasing share.					
8.	a	I think I have enough experience to judge the profitable share					
	b	I think in coming years I can make a profit.					
9.	a	I have earned a profit previously from the shares, which were recommended by my friend. Now I will purchase shares next time according to his recommendation.					
	b	I prefer to invest in the share of that company which gave me a profit in past.					
10.	a	My intuition will influence me when I make decision to purchase shares of a specific company.					
	b	I think only a particular sector which I prefer will give me a profit					