Investment diversification in the middle east

Finance

Diversification Diversification is an investment technique which reduces the risk by allowing investment in different financial instruments, companies and other categories. The objective of this practice is to maximize the return on investment by investing in various areas that responds differently to a specific event. According to Roos(2011) " Investment diversification is the equivalent of playing a lot of different numbers in roulette. Instead of investing all of your money in a single stock, you invest in a variety of stocks, bonds and other securities". The investors in Middle East have different choices in diversification in investment practice. Despite the politically fragile state of Middle East, investors can still enjoy the advantages of diversification in investment. For this, they should focus on integrating various asset classes in order to enjoy maximum benefits. Investors in Middle East should largely focus on developing markets like Jordan, Saudi Arabia, Bahrain Kuwait, and Oman. The biggest free economy in Middle East is Saudi Arabia and it stand as the most influential and biggest stock market in Arab world. In terms of capitalization, it holds a 11th position in the world. Jordan is also an important investment area as it stands at a unique position where Middle East, Europe and Africa intersect. The strategical geographical location of Oman with a stable political system and free economic market makes it a valuable investment arena. Oman has raised the confidence of domestic and international investors due to its stable stock market. The Middle Eastern population has the significant opportunity to invest wide across these developing markets Practically all asset classes are available in Middle East for Investors with stocks and real estate being the major ones. Although all asset classes are at disposal for Middle Eastern investors, few markets are more mature comparing to others. Bonds, equities, currency deposits, real estate are all available option for Middle Eastern investors. The rapid increase in the economy of Arab world has enhanced the diversification in the investment practice. In the article, Bozer(2011) “ The Middle East and North Africa (MENA) is a rapidly diversifying, entrepreneurial, and globally connected business region. It saw 5% annual growth for nearly a decade before the global recession, and the International Monetary Fund reports that it's growing strongly again — about 5% in 2011”. Even though the economies are maturing in emerging markets the stock volatility remain higher among them. Volatility can corrode the value of investment in the long term period due to “ risk drag”. For this, the solution is that the investors can diversify their investment in other potential beneficiaries like stocks and currencies. The investors in Middle East can reduce the volatility by investing in bonds and currency as they benefit from the growing economy of emerging markets like Saudi Arabia, Jordan and Oman. Some countries in Middle East do not a proper stock exchanged and this has turned out be a benefit in stock market. According to Ahmed,(2011, pg. 45-49)“ In the case of the Middle East and North Africa (MENA) region, the lack of stock exchanges in several flashpoint countries may well turn out to be a blessing in disguise. Syria, Libya and Yemen, the scene of ongoing unrest, do not have functioning stock exchanges”. However, the investors in Middle Eastern region can invest separately in different alternatives or they could integrate them in a dynamically managed portfolio. By integrating them, the potential on risk can be minimized along with maximum returns. The investors in Middle East should take a holistic and unconstrained approach for investing in an emerging Arab markets with aid of multi -asset portfolio. By practicing such a method the investors can acquire many potential benefits. The primary benefit of diversified investment is the utmost flexibility that it offers. The investors have the opportunity of investing in stocks, bonds, currencies and real estates of various countries throughout Middle East. As per Mansourfar,(2010, pg. 4167-173) " A detailed examination of causality relationships among six Middle Eastern stock markets: Bahrain, Kuwait, Oman, Qatar , Saudi Arabia and UAE showed that some decrease in the risk reduction benefits of regionally diversified had occurred due to integration among Middle Eastern equity markets". It is also observed that some Middle Easter markets show less linkage with other and hence is a better option for risk reduction. Interestingly, the Middle Eastern investors can achieve maximum gain by investing regionally and globally. When the investment is diversified in to the top stock markets like USA, Japan and Germany the return benefits can be relatively high. References Ahmed, I, 2011. Middle Eastern stocks: increasing earnings, diversification or troubles?. The Journal of Investments & Pensions, 16/7, 45-49. Bozer, A. C. 2011. It's Time for Big Investments in the Middle East. [ONLINE] Available at: http://blogs. hbr. org/cs/2011/12/its_time_for_big_investments_i. html. [Accessed 15 December 11]. Mansourfar, G, 2010. A review on international portfolio diversification: The Middle East and North African region. African Journal of Business Management, 4/19, 4167-173. Roos, D. 2011. How Investment Diversification Works. [ONLINE] Available at: http://money. howstuffworks. com/personal-finance/financial-planning/diversification. htm. [Accessed 15 December 11].