

AN ANALYSIS OF PUBLIC INVOLVEMENT IN THE STOCK MARKET

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ABSTRACT

It should be underlined that expanding the country's economic competitiveness and modernizing economic sectors, as well as increasing the population's financial literacy, needs full use of the financial system, including capital markets, and lifting this system to a qualitatively new level. This article examines public engagement in the stock market.

Keywords: finance, financial literacy, financial decisions, stock market, Tashkent Stock exchange, Uzbekistan

INTRODUCTION

Financial literacy is demonstrated by the ability to make sound financial decisions through prudent money management, cash flow analysis, and risk diversification. As a result, a financially literate individual should be aware of the properties of securities and risk management when using them successfully. Naturally, the issue arises as to what security measures are in place in Uzbekistan to accomplish these objectives and their effectiveness. There are two primary categories of securities, according to the Republic of Uzbekistan's Law "On Securities Market" No. 387 of 03.06.2015: shares and bonds. Investors can only invest in these types of assets or in portfolios of these securities. When the qualities of the securities are studied, stocks and bonds are deemed to be long-term in terms of maturity. Long-term securities have a low liquidity level. A financially savvy individual, it is considered, should also ensure the liquidity of their assets.

We classify securities into a group of securities with a high liquidity and low interest rate risk based on the tasks to be performed and the financial literacy of the person performing them.

Exceptional Liquidity Securities: These are primarily short-term securities. This can include government-issued securities as well as corporate-issued securities. Securities issued by the state include the Republic of Uzbekistan's treasury obligations, bonds issued by a body approved by the Republic of Uzbekistan's Cabinet of Ministers, and

bonds issued by the Republic of Uzbekistan's Central Bank. These notes, which will be issued for up to a year, have a high level of liquidity. These are more convenient than holding cash.

Commercial paper is one of the most liquid instruments that businesses issue.

A commercial security is a type of unsecured debt that bears a fixed interest rate. It is often issued by major banks or enterprises to finance short-term financial obligations, such as the repayment of short-term receivables and the funding of new projects. As is the case with other types of bonds or loans, the issuing entity issues both interest and a principal obligation. It is rarely utilized to finance long-term liabilities because alternative choices are more suitable.

The growth of the stock market as an alternative source of capital for firms, financial institutions, and the population is designated as one of the primary responsibilities in the Action Strategy for the Republic of Uzbekistan's five key development sectors for 2017-2021.

The President of the Republic of Uzbekistan's Address to the Oliy Majlis on the Most Important Priorities for 2019 further emphasizes that one of our primary aims in the new economic climate is to grow financial markets, especially the stock market.

As a first step toward reforms in this area, Presidential Decree No. 5630 of 14.01.2019 established an independent state body - the Capital Market Development Agency - tasked with the primary responsibility for the formation, development, regulation, and corporate governance of the securities market. In the field, the implementation of a single state policy.

The Capital Market Development Agency estimates that the entire nominal value of shares issued today exceeds 100 trillion soums, with only 1.5 percent in free circulation. This is less than 1% of GDP, with Singapore accounting for 188%, Malaysia accounting for 112%, and Russia accounting for 34%. This circumstance demonstrates that Uzbekistan's capital market has enormous potential for improving the quality and quantity of intermediaries between investments and money in the country's economy. This involves the establishment of a long-term strategy for capital market development that includes the issue and circulation of securities, a diverse array of measures to attract

investment, the development of corporate governance, and an increase in the population's financial literacy.

This strategy removes impediments to the development of the stock market, harmonizes market-governing laws and regulations with the requirements of developing countries ("frontiers market"), establishes a financial market ecosystem comprised of brokers, pension funds, insurance companies, and banks, and establishes effective institutions used in global practice of attracting idle funds to the stock market.

Notably, in 2019, a draft strategy for the development of Uzbekistan's capital market for 2020-2025 was produced and discussed in public with the cooperation of the European Bank for Reconstruction and Development, the Asian Development Bank, and a number of other foreign specialists. One of the strategy's primary objectives is to enhance the ratio of total securities in circulation to GDP by at least 10-15% by 2025..

ANALYSIS AND RESULTS

The population's engagement in the stocks market in Uzbekistan has increased in recent years, and the population is attempting to shift their idle funds to the securities market.

In 2020, legal entities engaged in the securities market sold 332.1 billion soums worth of shares and purchased them for 375.9 billion soums worth. Individuals purchased shares for 172.3 billion and 128.5 billion soums, respectively. Regardless of the volume of transactions, it is apparent that the volume of individual shares sold exceeds the volume of acquisitions (Figure 1).

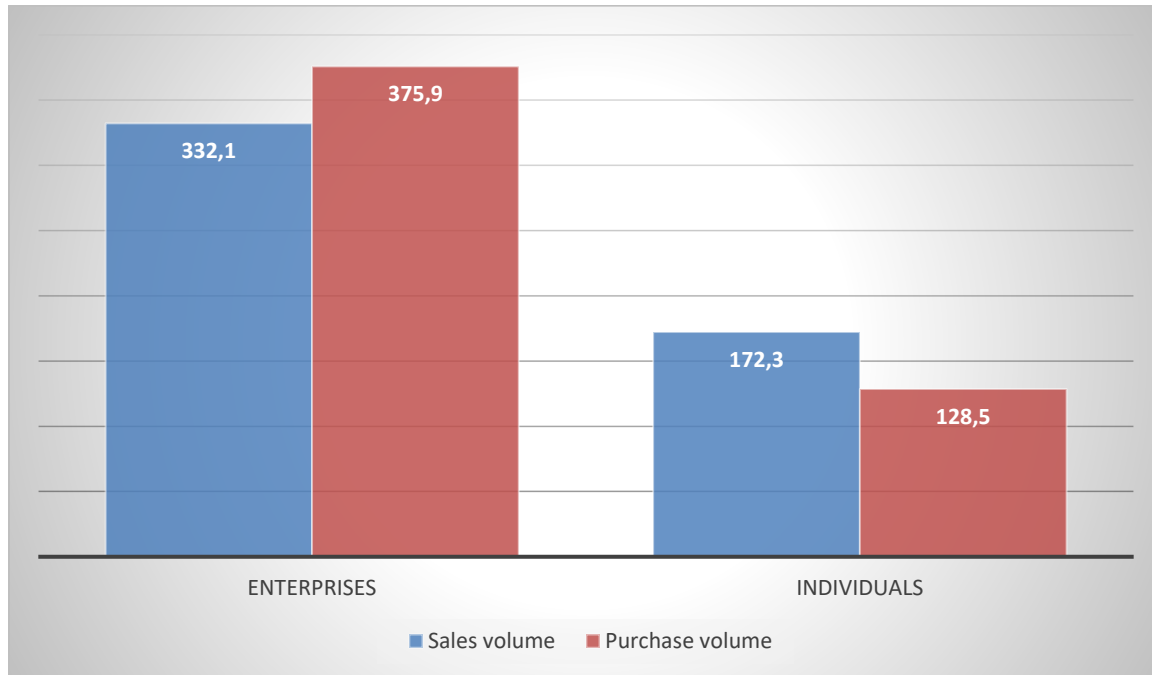


Figure 1. Volume of trades in securities of legal entities and individuals (as of 2020, billion soums)

Source: Tashkent Stock exchange reports

The number of transactions concluded by individuals exceeds that of legal entities. At the same time, the number of transactions in which an investor buys shares (both between individuals and legal entities) is equal to the number of transactions that result in the sale of shares (Figure 2).

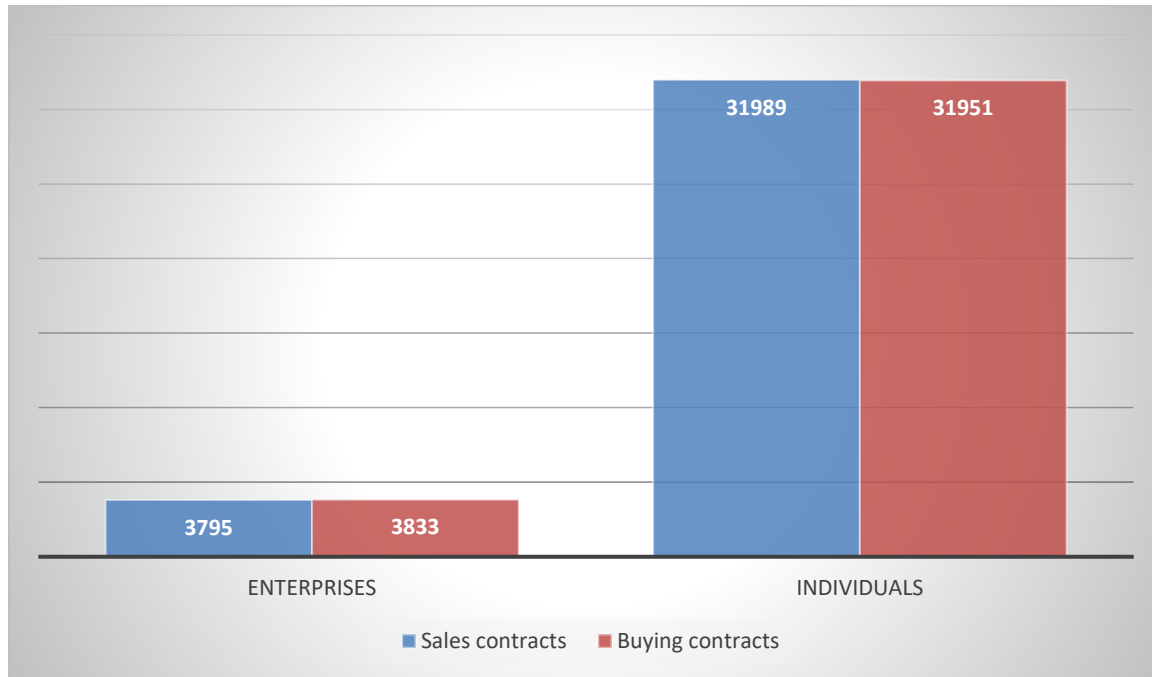


Figure 2. Number of contracts of purchase and sale of securities by legal entities and individuals

Source: Tashkent Stock exchange reports

Taking into account the change in quotations, as well as the dividends paid among the best-selling stocks in 2020, the annual profitability of the stock market is as follows.

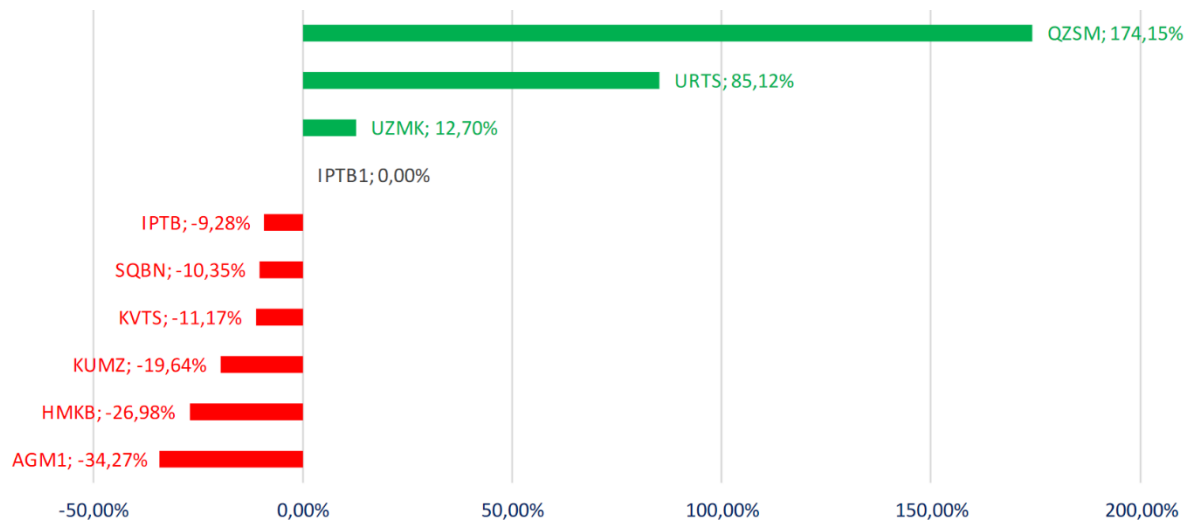


Figure 3. Annual yield rate of Top 10 shares by number of trading contracts

Despite the high number of contracts on shares of the above-mentioned issuers, only 3 of them have an upward trend, ie a good return to the shareholder, and 6 have a decrease in market value and a decrease in shareholders' money.

CONCLUSION

Only three of the Top-10 stocks in terms of transaction volume were positive during the year, while one was zero. Six out of ten stocks had a detrimental effect on annual earnings. The shares of two issuers - JSC "Kyzylkumsement" (QZSM) and JSC "UzEX" - exhibited high yearly yields (URT's). The yearly return on ordinary shares of OJSC "Kyzylkumsement" (QZSM) exceeded 174 percent: the first deal of the year was 1590 soums per share, and the last deal was 3898.99 soums per share. Additionally, 460 soums in dividends were paid on each ordinary share during the year. The first sale of the year involved 17,000 soums worth of ordinary shares of UzEX JSC (URT's). The year ended with the capitalization of common shares, which resulted in the addition of two more shares for each ordinary share owned by the shareholder. As a result, the adjusted price of the first transaction was 5666.67 soums. The final transaction price in 2020 was established at 8,000 soums per ordinary share, which, when combined with dividends paid at 2,490 soums per ordinary share, yields 85.12 percent annually. This could be because the stock buying analysis was not completed properly.

The Central Bank of the Republic of Uzbekistan cut the base rate twice in 2020: on April 15 from 16% to 15% and on September 10 from 15% to 14%. Both interest rate fluctuations have an effect on individuals' long-term investment decisions.

To accomplish the objectives, the investor base must be expanded and diversified; demand for securities must be increased through increased financial literacy; the number of issuers and supply of securities must be increased through new financial instruments; the legislative and regulatory system must be improved; the capital market infrastructure must be improved; and the capital market coordinating body must be institutionalized. Capacity development should be prioritized in the approach. As a result, one of the primary objectives for the coming year is to adopt this strategy and to assure the continued implementation of the actions outlined in it.

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