Examining of Amman Stock Market Behavior

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ABSTRACT

Several papers consolidated the fact that correlation through major stock markets have occurred in the last years. There are many reasons for elucidating that the returns and instability of largest equity markets may be related. The economies of the developed countries are related through trade and investment, so that any news about economic components in one country most likely has involvement for the other one. An international share-pricing model shows correlation between stock returns in different countries. Some suggest that thrive financial market integration will increase the degree of correlation between the stock returns of several countries by making portfolio managers in the home market more harmonious to change in foreign markets. So from a portfolio management viewpoint, a higher correlation markets make it uneasy to vary the total risk of portfolio by simply spreading investment across countries. A second logical reason for correlation of stock price changes is market contagion. However the main objective of the present study is to discuss time-varying correlation of current stock price change of ASM with other markets, hence emerging market are subsequent of developed stock markets. The present study find that the correlations of stock price index between markets are not constant over time, it show that correlation has positive trend for 13 countries of 14. This finding suggests that stock markets are getting more integrated; also find that the countries that have positive and significant p value create coherence. Potentially, these findings impose dramatic challenges for shares portfolio managers. The continuously changing correlation sample market makes it very difficult to select an ex ante optimal investment strategy. Last but not least, since there is positive link between correlation and market instability, investors and risk managers do not get the full utility of risk diversification, specially in disordered financial markets, either regional or international.