



BUILDING WEALTH THROUGH INVESTMENTS

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Investment is a powerful tool for building wealth over time, but steering through the complex world of investments can be daunting. When masses consider investment as a mean of wealth creation, the investment opportunities to them include stocks and shares, mutual funds, gold, family business, real estate (plot files), and crypto currency, a focus area for investments lately. Usually social media, newspapers, friends, family, websites form the sources of information about investment opportunities.

Understanding different types of investment products, such as stocks, bonds, and alternative assets, is crucial for making decisions that align with an investor's financial goals. With the increased participation of individual investors in the stock market in recent years, the investment behavior of the individual investors has gained the attention of other stakeholders. The increased participation of individual investors is due to the unprecedented higher asset returns on investments giving opportunity of "making money work", high liquidity of financial instruments and accessibility of a variety of financial assets to individual investors according to their objectives of investment. On the other hand, the wide range of financial assets and services offered by the financial market and lack of information about them has made it more complex and difficult for individual investors to make investment rationally.

The rational investment decision-making process requires complete information regarding investment, rational thinking and proper analysis of information associated with investment. Liquidity, price discovery, time horizon and protection in terms of title are important in making investment decisions. Business cycles (involved in all businesses) are also important to know about when investing in the stock market, real market and other capital markets. Generally, the investor requires perseverance and return both. Individual investors articulate their investment behavior based on projected investment outcomes, expected risks and risk-taking attitude, gains in their investment, social

interaction, emotions, religious faith and financial knowledge. Mostly individual investors are risk-averse and fail to make rational investment decisions due to other influences and confusion about their investment goals.

Information and awareness about investment possibilities could be the most important factor shaping the behavior of individual investors. The risk-taking attitude of individual investors play a fundamental role in their stock market investment intentions. The role of financial knowledge in the development of investment behavior to invest in stocks is crucial. In the stock market, the first principle for a potential investor is to have awareness about tools that is called financial literacy. Over recent years, the need for financial skills has intensified. The development of new financial products through fintech, the complexity of financial markets, and changes in political, sociodemographic, and economic factors, among other influences, have highlighted the importance of improving financial literacy. Furthermore, numerous international aid projects now include elements of personal financial education as part of their efforts to enhance economic prosperity. Developing countries, already facing challenges regarding economic growth and development, poverty alleviation, expansion of financial systems, and financial services, also find it difficult to offer more accessible financial products to individual investors. Financial literacy is a significant determinant of building wealth, improved productivity, and pension investment decisions as it helps individuals to plan their spending and savings. Therefore, financial literacy is an important attribute not only to enhance personal wealth, but also to improve the stability of a nation. According to a recent survey report of the Global Financial Literacy Excellence Center, financial literacy rates differ enormously between the major advanced countries and emerging economies in the world. The financial literacy in Pakistan is about 26% in comparison of 70% approx. in developed countries. Within South Asia, Pakistan is the third ranked country in

terms of low financial literacy scores where the lowest scoring country is Nepal. As financial literacy significantly contributes to more diverse portfolio, the increasing demand for finance in the industrial sector justifies the need for financial literacy in a developing country like Pakistan.

The capital markets and the stock market have two main segments; one is the primary market where new companies come and offer their shares. The second segment is the secondary market where investors can buy shares of companies that are already listed. Both markets are closely linked; primary markets are like vibrant secondary markets. In Pakistan, we have three important institutions in the infrastructure of capital market: Pakistan Stock Exchange, SECPL and CDC which work under the Supervision of Securities Exchange Commission of Pakistan. These ensure safe investments, making few to none chances of fraud or human intervention as custody, transactions, settlements are happening through electronic systems.

Various kinds of Instruments are listed in the stock market including stocks representing ownership shares in a company, Bonds that are debt securities issued by governments, municipalities, or corporations to raise capital. Bonds are safer investments than stocks as they offer fixed income and are less susceptible to market fluctuations but provide lower returns. Mutual Funds and Exchange-Traded Funds (ETFs) pool money from multiple investors to invest in a diversified portfolio of stocks, bonds, or other assets. Alternative assets encompass a wide range of investments, such as real estate, commodities, private equity, and hedge funds. Amongst various kinds of Instruments listed in the stock market, stocks and shares are popular. Stocks have given the highest risk return ratio among any asset Class but require experience (atleast 3-4 years). Investment in Sukuk, government debt securities, and IPOs through the stock market are also some options with low risk. Crypto has a bad record for risk. Before crypto, the biggest interest was in real estate. Many products related to real estate are listed on the stock market called REIT where 20% or more return is expected and is comparatively safer too. One can start by investing in stocks or in fixed interest, but a completely new investor with a very small amount of investment should come through mutual funds. Most individual investors enter the market through mutual funds or through ETFs (exchange traded funds), which are now nine listed in Pakistan's market.

Pakistan Stock Exchange established in 1947, initially worked as 'Karachi Stock Exchange'. Later on, Lahore stock exchange was established in 1970 and in 1989 Islamabad Stock Exchange was established. The three exchanges integrated their operations in 2016, through the Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012 promulgated by the Government of Pakistan, under the new name 'Pakistan Stock Exchange Limited' (PSX).

PSX has more than 500 listed companies distributed amongst more than 35 sectors and 11 Indices. Part of the PSX ecosystem is the CDC (Central Depository Company) through which delivery of shares takes place, and NCCPL (National Clearing Company of Pakistan Limited) through which settlement of shares takes place. Potential Investors are advised to contact a TREC (Trading Right Entitlement Certificate) holder/ licensed brokerage firm for their account opening and trading on the Stock Exchange. PSX prefers investments according to Islamic Sharia principles. Half of the listed companies on the stock exchange and the market capitalization, ETFs (Exchange Traded Funds), mutual funds are Sharia Compliant. PSX has been recognized as one of the best Islamic mutual stock markets in the world.

The Securities and Exchange Commission of Pakistan (SECP) formulated under Securities and Exchange Commission of Pakistan (SECP) Act in 1997. It has investigative and enforcement powers with the mandate to regulate corporate sector and capital market, regulation and supervision of insurance companies among several other powers. The role of SECP as a major regulator is to create awareness among potential investors. In this regard financial planning in terms of financial investment form and mechanism comes as the first task for SECP. Like the focus of new investors toward crypto is due to the technological shift in form of awareness and knowledge about it through social media. The second important thing is how quickly the investors can act. Using the conventional ways of opening a bank account are outdated as no potential investor has that much time to waste. Now this can be done instantaneously by visiting websites or online links and then start trading. SECP along with CDC, NCCP, LSCS have created a centralized gateway portal, under which once the investor, by opening a single account, can invest in mutual funds or invest in an IPO or invest in insurance or in brokerage etc. just by getting onboarding using the e-portal. Even having all these tools available, there is need for awareness. There is a noted lack of awareness among potential investors in Pakistan about these tools although they have access to other legal / illegal assets in terms of financial Literacy and awareness. SECP's prime role as apex regulator is to deal with the issues related to the assets available for investment, their proper disclosure, clearance of companies where investments are to be made, clearance of the books of their accounts in form of proper auditing, frauds, misstatement, and any withheld information. So SECP's focus is on investor's protection in form of financial literacy, on boarding, investor protection. In addition, SECP looks after the corporate democracy in form of observation of board formations and participation in elections, facilitation for annual general meeting and shareholders meeting by using technology for remote shareholders in form of e-voting and its awareness. This enables the protection of rights of minority shareholders in Family-owned companies to keep balanced development and growth of companies in public interest. It is important to use the legal forums which are licensed by SECP.

One of the very important institutions of the Capital market is National Clearing Company, which provides clearing and settlement services. It settles whatever is traded in the stock exchange. Its major function is to manage and reduce risk, play the role of CCP in every trade that happens, capital gains tax and a role in online account opening facility through its website. When people buy and sell shares then that transaction takes place in Stock Exchange managed by Pakistan Stock Exchange. The settlement of the shares is done in that department called NCCPL but the purchased shares are kept with Central Depository Company as custodian. As the world kept moving towards digitization, need was felt that share transaction should be done in electronic form, so for this in 1997, the Government of Pakistan passed a Central Depository Act under which the Central Depository Company came into existence. The main purpose of the Central Depository is to provide custody of the physical form of shares in electronic form. All traded securities need to be eligible under the CDS system in the central depository company which has the rules and regulations for eligibility of that security. If it is a public listed company, then it will be available in the stock exchange as tradable. For investment in the stock market, the first step is to identify the broker, as they provide facility to make purchases in stock market. After purchasing e.g a security, to become its owner, CDC (Central Deposit System) provides account opening facility. That is, whoever wants to purchase shares must park those shares in his CDC account. CDC accounts are mainly of two types, one is direct. Whenever you are opening an account with a broker then you must be opening that CDC account there. Whenever you purchase shares through that broker then your trading mechanism ecosystem of the stock exchange will be marked on the backend and the shares you have purchased will automatically come and park in your CDC investor account. At the time of selection of broker, investor should verify that whether he is registered with the CDC and an eligible broker of the stock exchange, only then make investment. On account opening, the broker must provide the investor with a CDC account number only then the shares will come and park in that account within the transaction plus two days. After purchase of shares, the National Clearing System does a clearing. To mitigate this risk of verification of trade done, firstly the National Clearing System has alerts in the system. Secondly, to verify whether the shares purchased in your CTC account are available or not, CD access facility for investors has been provided through CDC account. Investors can access their account anytime round the clock by going to our CDC access.com and register and can verify whether the shares purchased are available in the account or not. When shares are transferred from CDC account, an email and

SMS alert about the number of shares/ securities transferred is sent to investor. Investors usually maintain their CDC accounts with brokers as a mandatory; however, to secure the custody of their shares, CDC allows accounts in the form of CDC investor account. This facility allows investor to move the shares parked with CDC broker in CDC sub account to CDC investor account for their direct access where no broker can access. The value of securities in the CDS system at present is around 7 trillion. CDS system since its formation, 25 years ago, has not faced a single erroneous transaction, or cyberattacks due to strong IT structure and use of firewall.

CDC is also a trustee custodian of almost all (value of approx. Rs. 3trillion) the mutual funds available in Pakistan capital market. For mutual fund investment, one option is to directly approach mutual fund while another product namely Imala portal connects the investor with the mutual funds. Through Imala web portal investors can directly invest in mutual funds. CDC works under the supervision of SCCP and make regulations after seeking approval from SCCP.

The focus areas of PSX, NCCPL, and CDC are identification of availability of products in form of their listings, form, and the risk attached to them. PSX, SCCP and NCP have worked to make easy provision. Online accounts, Roshan Digital accounts provide investment opportunities to overseas Pakistanis sitting anywhere in the world can open accounts in the stock market. People can go online and buy through brokers, almost 70-80 brokers offer online account opening now. In addition, to increase financial literacy, Pakistan stock exchange (PSX) website run regular and online courses guiding how to invest, making posts across social media tools, they also have a virtual portfolio game whereby taking real investment decisions to learn without making any investment. Regulators claim that our markets are very well governed.

It is a crucial life skill to learn how to save and invest. Moreover, it is important to start at an early age as a wider time horizon will give the ability to write out the risk. young investors enjoy better risk reward ratio. One should understand that every investment has some risk and the best way to manage is to diversify. The goal of the individual investor should be to have savings, then investments and some return on investment too but most important is that investment should also be secure.

Diversification is a fundamental principle of investment strategy that involves spreading the investments across different asset classes to reduce risk. By diversifying one's portfolio, one can mitigate the impact of individual

investment losses and improve the overall risk-adjusted return.

Additionally, maintaining an appropriate asset allocation based on one's risk tolerance, investment horizon, and financial objectives is essential for achieving long-term wealth accumulation while managing volatility.

CONCLUSION

One should save and invest otherwise inflation would depreciate the money value.

Building wealth through investments requires careful consideration of various factors, including risk tolerance, investment objectives, and time horizon. By understanding the characteristics of different investment options, implementing a diversified portfolio strategy, and regularly reviewing and rebalancing investments, one can navigate the complexities of the financial markets and work towards achieving their financial goals. Opting diversified investment avenues help in managing risk at the maximum level. Consulting with a qualified financial advisor and gaining financial literacy can provide personalized guidance and help in making informed decisions tailored to your individual circumstances. Operating a Bank account and having a debt card doesn't reflect the depth and effectiveness of financial literacy.

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