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CHANGE IN OIL PRICES AND ITS EFFECT ON SAUDI STOCK  
EXCHANGE (TADAWUL)

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**ABSTRACT**

Behavioral finance significance has been widely accepted. This subject investigates the behavior of public, private sector and individual's investment decisions after the downward movement in oil prices, This study can help understand how sectors react to an international event, such as oil prices since, Saudi Arabia has an oil-based economy, the changes in oil prices can cause a panic and sentimentally driven investment decisions, This study used a self-administered questionnaire for collecting the responses from 47 individuals in the society, also using secondary data analysis to understand the public and private sectors behavioral in the market. Findings confirm that most investors believe oil prices downward movement do affect Tadawul but they didn't react to their invested capital, meanwhile few investors withdraw their money from the market, reduced invested money, injected more money and reposition their investment between different sectors. The purpose behind the descending pattern of TASI since the decrease in oil costs is a result of the frenzy in offering due to hosed financial specialist estimation. As oil costs tumbled, numerous retail financial specialists expected that lower oil costs would incite the Saudi government to moderate or, far more detestable, cut back on consumption, pressing corporate benefits in the more extended term. Developments in the cost of oil impacts speculation by both people in general and private segment, which influence the share trading system, the connection of the TASI to oil costs in the course of the most recent eight years is equivalent to 0.355, or, in other words solid given the reliance of the economy on oil. There has been a reasonable dissimilarity between the TASI and oil costs for a great part of the ongoing past. The period between March 2013 to March 2015 demonstrates a negative connection, despite the fact that it turns out to be progressively positive from September 2014, as oil costs start to decay quickly.

## INTRODUCTION

Behavioral finance is the field that seeks to combine cognitive and behavioral psychological theory with conventional finance and economics so as to offer explanations for why individuals do make irrational financial decisions [1]. It has been discovered that that investors do have an irrational attitude when it comes to investing in the stock market. More so, the fluctuation of stock prices is as a result of new information that has been released and it is evident that when there is a release of new information then there will be a change in the risk and returns related expectations of the investor [2]. It is also evident that decisions that are biased to bring about anomalies and unjustified mispricing in stocks, create higher risks within opportunities, minimize market efficiency and create panic and market bubbles that are likely to affect a number of people [3]. It is also clear beyond a reasonable doubt that a number of studies on the decisions of people and their effect on market and price have been done in markets where people are the minority but not in markets that have many investors [4]. It has also been discovered from that in an economy with risk averse noise trader agents who have a larger amount of risk as compared to traders who are informed do have higher expected returns [5]. In addition, psychological biases and sentiment do make individual investors trade as a group in a systematic manner [6]. It is also clear that the Saudi stock market volatility level cannot be explained with any variant of the efficient market model where the stock prices are formed by investigating the present discounted value of future returns [7]. Saudi Arabia is a predominantly oil-based economy and primary changes in the price of oil are likely to be followed by sentimental and changes in the stock market.

According to Mohd al Najjar [7], there has been behavioral finance significance, which has been widely accepted. In addition, the author shows that investors do have an irrational attitude when it comes to investing in the stock market and thus the article provides a psychological decision-making model that is detailed in trying to understand the irrational behavior of investors while making investments.

According to [8], it is clear that the decision-making process of an individual is influenced by heuristics and cognitive psychology. In addition, decisions that are biased to bring about anomalies and unjustified mispricing in stocks, create higher risks within opportunities, minimize market efficiency and create panic and market bubbles that are likely to affect a number of people. Alquraan, T. Alqisie, A and Shorafa [9] explores the behavioral finance factors that influence the stock investment decision of investors at the Saudi Stock Market as one of the important emerging markets in the Middle East.

Musse, O, Echchabi, A and Aziz, H [10] analyze the issue of behavioral finance and discovered from that investors are affected by social and psychological factors towards their process of financial decision-making with respect to investment and the choice of a certain financial product. According to Al-Kibsi, [11], after the surge in the prosperity over the past ten years that have been brought about by rising oil prices, the economy of Saudi Arabia is at a point of inflection. In addition, due to that, there is an opportunity for the nation to inject new dynamism into the economy through productivity and that could lead to a future growth, prosperity and employment. It is also clear that Saudi Arabia has a number of opportunities, which will transform its economy, and it will become more sustainable and less dependent on oil.

Thus, this work is going to shed light on the behavior of public sector, the private sector and individual's investment decisions after the major downward movement in oil prices.

## **METHODOLOGY**

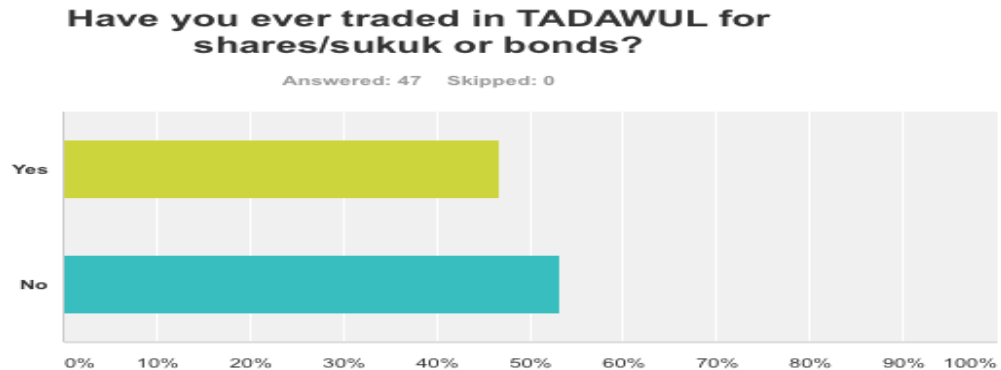
This study is performed via a mixed research approach (quantitative, and the data are collected using primary and

secondary data) Analyzing Jadwa Investment, McKinsey and AL Rajhi capital reports, which are categorized under the secondary data methodology, while distributing questionnaires to 100 random individuals in the society, that represent primary data.

Sampling frame: basically, a sampling frame is a complete list of all the members of the population that we wish to study; this research will study about behavioral of Saudi investors in the Saudi stock market. the target population from 20 to above 30 investors in the Saudi stock exchange, both male and female. Sampling size: The target audience were 100 investors, however only 47 participants were attained, 22 investors and 25 non-investors.

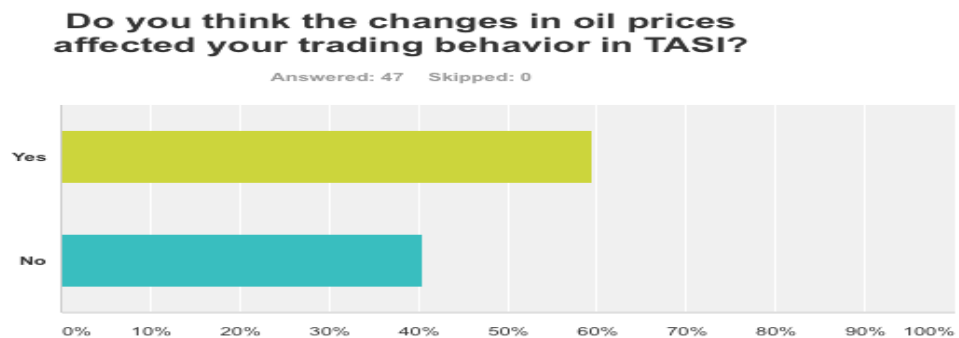
## RESULT AND DISCUSSION

Figure 1 shows the outcome for question on trading in TADAWUL shares. Based on Figure 1, it is observed that 46.81% responses were yes and 53.19% responses were No.



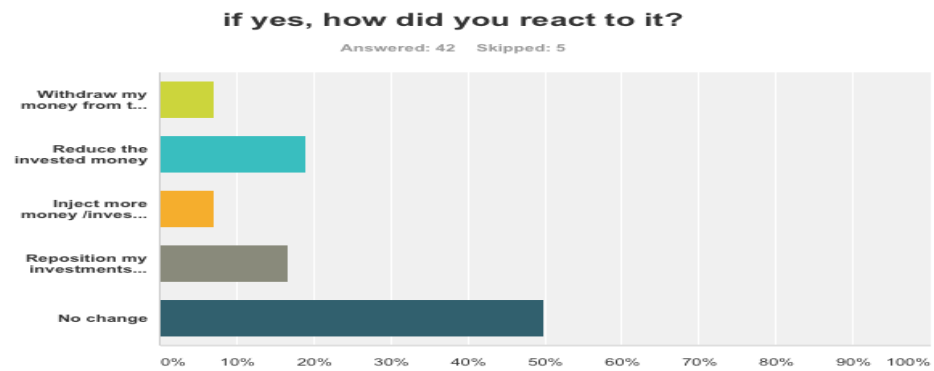
**Figure 1.** Outcome on Tadawul Shares

Figure 2 shows the outcome for question on the changes in oil prices affected the trading behavior. Based on Figure 2, it is observed that 59.57% responses were yes and 40.43% responses were No.



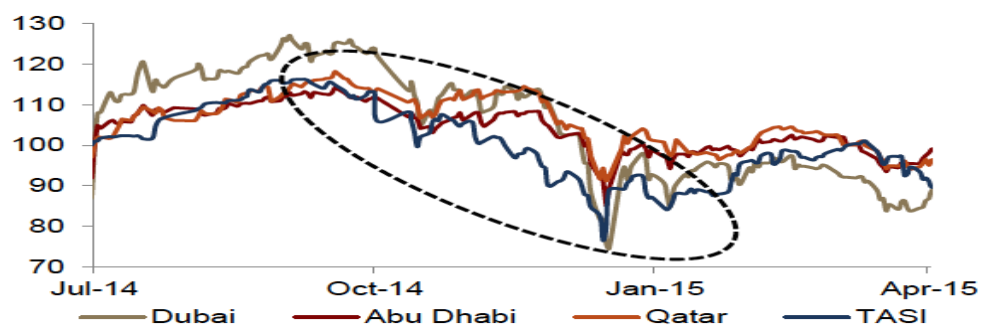
**Figure 2.** Outcome on Changes in Oil Prices and Trading Behavior

Figure 3 shows the outcome for question on the changes in oil prices affected the trading behavior and the reason given. Based on Figure 3, it is observed that 7.14% said that they withdraw the money from the market, 19.05% said they reduce the invest money, 7.14% said they will inject money for more investment, 16.67% said they will reposition the investment and 50% said no change will be taken.



**Figure 3.** Outcome on Changes in Oil Prices and The Trading Behavior.

At the point when a noteworthy descending development in worldwide oil costs happens, this will more often than not be joined by a quick/here and now effect on the share trading system, because of the adjustment in opinion. Since retail financial specialists make up around 90 percent of day by day exchanged volumes, supposition assumes a greater job in venture choices contrasted with more created securities exchanges. This can be featured by late occasions following the lofty decrease in oil costs, by around 50 percent since mid-2014 (Figure 4). On account of the TASI, the descending pattern was not intelligent of market basics, since a decrease in oil costs does not immediaty affect the development of the economy or individual companies. The reason behind the droop was connected more to freeze offering due to hosed financial specialist feeling. As oil costs tumbled, numerous retail financial specialists expected that lower oil costs would provoke the Saudi government to moderate or, far and away more terrible, cut back on consumption, crushing corporate benefits in the more drawn-out term. In any case, financial specialists' apprehensions over lower monetary and business-related spending were mollified when the Saudi government pushed through an expansionary monetary approach toward the finish of 2014. From that point forward the TASI's recuperation has been helped by a smooth Royal progression, two compensation rewards to open part workers, and adjustment in worldwide oil costs. The second longer term genuine impact of oil value changes can be separated by means of two unmistakable yet interrelated transmission ways, one through people in general and the other through the private division.

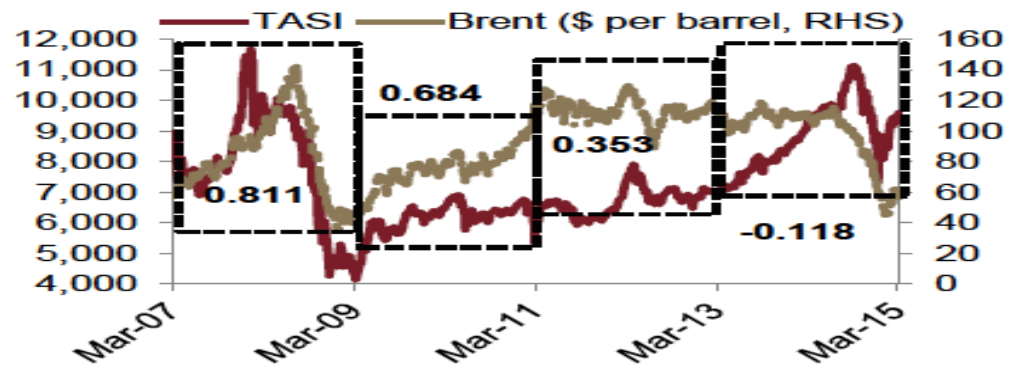


**Figure 4.** GCC Stock Market Performance Since July 2014.

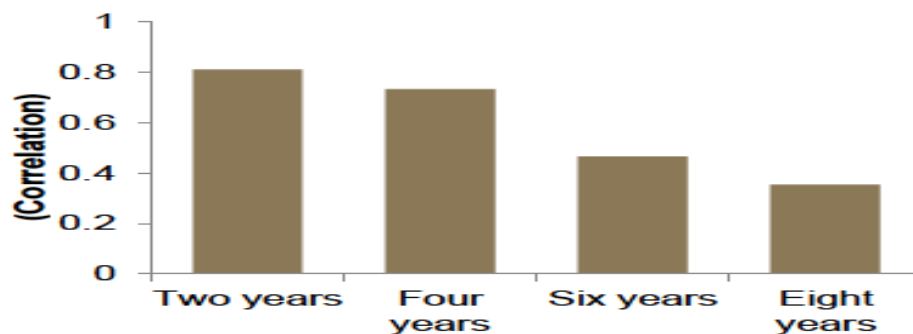
Developments in the cost of oil will impact speculation by both the general population and private part, which will, thus, influence money markets. Nonetheless, all together decide a more exact nature of the connection between the oil cost and the TASI we mapped the relationship of segment share costs with Brent unrefined petroleum costs utilizing day by day information in the course of recent years (Table 1). The relationship of the TASI to oil costs over this period is equivalent to 0.355, or, in other words solid given the reliance of the economy on oil, in General. There has been a reasonable difference between the TASI and oil costs for a great part of the ongoing past, with relationship following a dynamically descending pattern. In the two years between March 2007 to March 2009, a connection was at 0.811, yet diminished to rise to 0.355 in the eight years between March 2007 to March 2015 (Figure 5). Connection between's oil costs and the TASI was the most astounding amid March 2007 to March 2009 and March 2009 to March 2011, yet bring down in the two years from March 2011 and March 2013. Truth be told, the period between March 2013 to March 2015 demonstrates a negative relationship (Figure 6), in spite of the fact that it turns out to be progressively positive from September 2014, as oil costs start to decrease quickly.

**Table 1.** Oil Prices and Stock Market Correlation by Sector

Sector	Correlation
Petrochemicals	0.672
Industrial Investment	0.499
Cement	0.435
TASI	0.355
Utilities	0.348
Telecoms	0.270
Agriculture and Food	0.201
Retail	0.199
Transport	0.168
Hotel and Tourism	0.140
Insurance	0.098
Banks	0.080
Media and Publishing	0.074
Multi investment	0.058
Building and Construction	0.038
Real Estate	0.026



**Figure 5.** TASI's Declining Correlation with Oil Prices Since 2007



**Figure 6.** Correlation Between TASI And Brent Oil Prices Over Two-Year Periods

## CONCLUSION

This work has shed more light on change in oil prices and its effect on Saudi stock exchange (Tadawul) and it has been discovered that 47 respondents, 46.81%, which accounts for 22 respondents are trading in the Saudi Stock exchange (Tadawul), the changes in oil prices affected 59.57% investor's trading behavior. More so, the other 40.43% of investors who trade on the Saudi stock exchange believe that oil prices have no impact on their trading behavior. Meanwhile, 53.19%, which account for 25 respondents are not trading in the Saudi Stock exchange (Tadawul). In addition, when a noteworthy descending development in worldwide oil costs happens, this will more often than not be joined by a quick/here and now effect on the share trading system, because of the adjustment in opinion. Since retail speculators make up around 90 percent of every day exchanged volumes, opinion assumes a greater job in venture choices contrasted with more created securities exchanges. It has additionally been found that developments in the cost of oil will impact venture by both the general population and private part, which will, thusly, influence the stock exchange.

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