

## SUGGESTION OF SPECULATION SHARES PRICING MODEL TO LIMIT FINANCIAL MARKET CRISES

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### ABSTRACT

**T**his study one of every few studies which have investigated speculation share pricing model. It shows speculations up to owning shares for short term and speculation up promising to own shares in future or get shares by loan. It analysis company strength by discuss its assets, liabilities and net profit after tax as way to avoid trickery after choosing shares to be bought. This study found that speculation affect on individuals, companies, government and international relationship. Speculations which are bought by loan or promising need law to avoid its risk as result to increase demand on shares price as rumors affection. There is way to suggest speculation shares pricing model to limit financial market crises. Searcher recommended applying suggestion model as way to examine trickery within 12 cases. Applying suggestion needs suitable environment which limits suggestion by accounting standards to make historical study for more than five years which show the company share price in market, net profit after tax, assets, and liabilities.

*Key words: Speculation, savings, Share Pricing, Ignorance, Financial Market, Model and trickery.*

## 1. Introduction

Shares price is affected by company success but as result to ignorance information's, Speculations become way to get unusual return. Company success depends on managing assets, liabilities and equities within financial system of money and capita markets. It explains suitable key function. (Peter, 2003: 20) explain seven function as rules which include: "generating savings, stimulating the accumulation of wealth, providing liquidity for spending, proving a mechanism for making payment, supplying credit to aid in the purchase of goods and services, providing risk protection services and supplying channel for government policy in helping to achieve each of nation's economic goals" as employment and inflation.

Share market gives share value automatically and continuously provided for us both by management and investors (Steve and Chris, 2001). This rule needs to be discussed as result to differences between a growth company as strategy and its growth share price. (Frank and Keith, 2000) explain that common shares of good companies are not necessarily good investments because share vale depend on market price and aim for buying. It may growth with out distribute return for shareholders.

Buying company shares gives return as result to distribute the company profit after tax in long term or shares gives profit from speculating in short term in financial market. Many savings has been lost as result to speculation buy public shareholders companies. High income persons and middle Income persons became limit income persons. Country lost some resources of tax buyer as result to increasing limit income persons and buys more expenses to solve this problem. Its problem may lead to loss trust between companies, citizens and government and may lead to fight each other rather than developing country. Developing depend on balancing between consuming, saving and investing. Financial tools are developed to cover saving needs and investing after that there were many companies specialized in savings and investing as banks and producing companies. Government builds financial market to cover other needs as financing this organization or helping them to get liquidity or increasing ways of investing. The rule is: " fair consuming will increase saving but increasing savings may lead to increase inflation if it not directed to suitable investing. Successful producing investment lead to cover needs and developing products as result to cover developing needs will lead to developing country". This rule depends on success direct investing depend on covering real needs.

Speculations depend on ignorance in market to get unusual return in short term. It may become enemy to real investing as result to gambling case. Speculators may buy companies shares from financial market up to expecting and decrease its real price as result to rumors which will make bad reputation and decrease suppliers supports as shareholders and creditors. This case happens as result to information ignorance. Almost young shareholders away from managing as result to public shareholders companies' law. Unfair evaluation for shares by speculations will increase its price to loss buyer savings or it will decrease its price to loss seller savings. Almost Speculators in third countries are not expert in financial market and do not understand companies trickery. They imitates large buyer speculators as cattle while large buyer use them to increase price as result to direct their demand up to large buyer speculators then they buy shares with great return from them when shares price become in good price.

### 1.1 The problem:

Shares speculation can be done by citizens, companies and government. Shareholders as supporter to companies may be citizens, other companies and government therefore speculation crises will lead loss citizens, companies and government savings and investing supporting. Our problem is to find speculation

shares pricing model to limit financial market crises to avoid gambling up to rumors.

Problem questions are as follow:

- 1-Can we avoid speculations to protect savings and investing?
- 2- Can we limit Ignorance to limit unfair speculating?
- 3- What are the major factors limit Ignorance to limit unfair speculating?

### **1.2 The Importance:**

The search importance comes from analyses share speculation problem and giving suggestion to accept speculating. It directs speculations by use simple way up to historical data. It is easy to evaluate shares speculation and can be apply practically as rule in financial market to rule speculation. It can also be apply on share selling to get yearly for long term return as speculating return in short term. Search will link share pricing with three factors depend on balance sheet assets growth and income statement net profit growth after tax also it voids trickery of financing growth by liabilities and keep country reputation of investing fairly. It can help government to evaluate supporting companies by sharing or grants in crises because some companies in real default and it will increase loss of general budget also suggestion can be organized to get result of investing for long term investing by change studying share price to study distributed return.

### **2. Suggestion of speculation Shares Pricing Model to limit financial market crises**

Company growth my effects shares price to increase as one of many factors therefore company Strengths, weaknesses, opportunities and threats needs to analysis (Frank and Keith, 2000). Company growth can be analyzed by assets, liabilities and profit after tax. This study is important to avoid company trickery but decision to buy share depend on aim of speculation or long term investing.

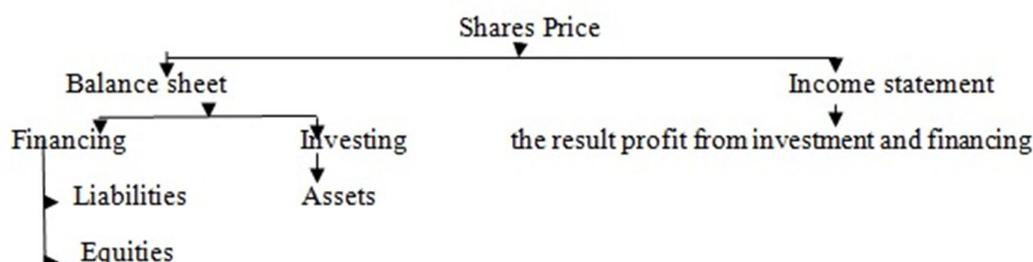
Historical data can show company success. Every company has its balance sheet which explain assets, liabilities and equity also every company has its income statement which explain return and net profit after tax. Every company has its profit from three major resources. It appears by assets growth, net profit after tax growth and reducing of liabilities. See next table:

**Table 1: Balance sheet and income statement for company results**

Balance sheet	Income statement
<p>Assets 100000 Liabilities 40000 Equity 60000 This case show company last year as comparing</p> <p>(Case A) Assets 100000 <u>Liabilities 30000</u> Equity 70000 Suppose this change becomes in current year this mean company success as result to reduce liabilities</p> <p>(Case B) <u>Assets 11000</u> Liabilities 40000 Equity 70000 Suppose this change becomes in current year this mean company success as result to assets value increasing</p> <p>(Case C) <u>Assets 90000</u> Liabilities 40000 Equity 50000 Suppose this change becomes in current year this mean company not success as result to reduce assets value and liability still not decreases</p> <p>(Case D) <u>Assets 11000</u> <u>Liabilities 60000</u> Equity 50000 Suppose this change becomes in current year this mean company not success as result to increase assets value depending on liabilities increasing which mean possibility of trickery</p>	<p>Net sales 10000 Sales cost 6000 Gross cost 4000 Operation cost 2000 Operation profit 2000 Interest 500 Profit after interest 1500 Tax (10% FROM PROFIT AFTERINTEREST) 150 Net profit after tax 1350 This case show company last year as comparing</p> <p>(Case E) Net sales 10000 Sales cost 5500 Gross cost 4500 Operation cost 3000 Operation profit 1500 Interest 500 Profit after interest 1000 Tax (10% FROM PROFIT AFTERINTEREST) 100 Net profit after tax 900 This case show company increase net profit after tax in current year</p> <p>(Case F) Net sales 10000 Sales cost 6000 Gross cost 4000 <u>Operation cost 3000</u> Operation profit 1000 Interest 500 Profit after interest 500 Tax (10% FROM PROFIT AFTERINTEREST) 50 Net profit after tax 450 This case show company decrease net profit after tax in current year</p> <p>(Case G) <u>Net sales 11000</u> Sales cost 6000 Gross cost 5000 Operation cost 4000 Operation profit 1000 Interest 500 Profit after interest 500 Tax (10% FROM PROFIT AFTERINTEREST) 50 Net profit after tax 450 This case show company keeps net profit after tax in current year as last year in spite of increasing net sales 10%. It could be trickery.</p>

To price shares as any investing tools," there must be away to representing the evaluation of the future price of an asset" (Jarrow and Turnbull, 2000:108). Assets effected by its type and pricing in market also it is effected by type of financing and its amount which be financed by liabilities and equities. See next figure:

**Figure 1: factors affect pricing shares**



It is important to understand managing of equity, liability and asset to understand company success also it is important to understand that this success may not appear in market share price because market not reflect all information. There is ignorance of some information which causes speculating. Way of managing asset locally or internationally will affect success. Ex: (Cheol, Bruce and Sanjiv, 2012: 276)" Market capitalization of a most national equity markets in developed countries declined from 2005 to 2009 as a result of global financial crisis". Company assets may become speculation assets. This case will lead to effect company success up to speculation success.

### 3. Factors affection on suggestion of speculation shares pricing model to limit financial market crises

Table 1: shows company changes in balance sheet and in income statement from year to year also shows the major factors effect on company evaluation. Suggestion model of share pricing will depend on these three factors which are Assets value growth, Liabilities decrease and net profit growth after tax. These three factors are the rule to get sure there is no trickery and rumors not effect negatively.

It is important to have fixed standard of accounting Assets, liabilities and profit after tax within historical studies. Ex: Assets must be evaluated up to market price not cost pricing. Suppose company has stores. It costs 2000000\$ but practically it equal in market 1000000\$. To increase assets value to show assets growth, financial manager will show stores equal 2000000\$. Some government obligate every public share company to show balance sheet and income statement up to fixed accounting standards which helps to success the suggest model.

Many shares pricing models which had been developed was related to interest as comparing between investing by shares in financial market with risk or avoid risk by investing in bank deposit. Practically, most pricing models become theoretical way as result to limits. Ex: Capital Assets Pricing Model depend on interest of center bank bonds, market risk and market return regardless affection of tax, commissions and other risks which not systemic risk also it imagine that individual cannot affect the price of stock by his buying and selling action( Edwin and Martin, 1995). Practically, some searcher refuse the model because it can not give expected share price as result to neglect the price of stock to earnings ratio and price of share to book value ratios which are related to future stock returns while other search found no relationship between future security returns and prior beta estimate(Robert, 1994). This mean model must be developed up to factors affection and changing. Now there is need to make model can face trickery as result to the last speculation financial crises. Some countries try to face trickery by fixed accounting standard, rule to avoid selling shares by credit from companies or from broker to avoid false affection of increasing demand on buying shares.

Some companies as Islamic banks avoid dealing with derivatives as result to sell some thing with out catching cash or goods also avoid buying shares which not become real asset to produce as result to avoid selling it value in cash by cash from same currency with increasing which called forbidden interest with out added value to deserve therefore it forbidden selling loans.

**This part of searching shows that speculation has two types which are speculation up to own shares in currently case for short term and speculation up to gambling with out own shares in currently case but up to promising to give shares to seller in future time which increase gambling demand on shares.**

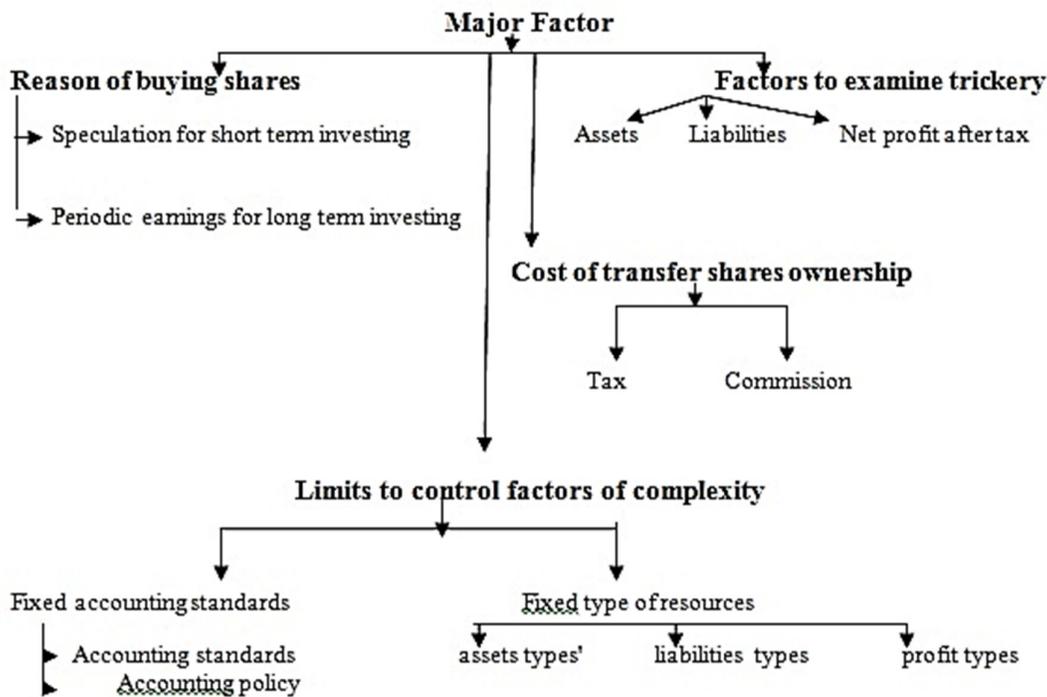
International financial market and local financial market are looking for ward to be organized with fixed accounting standards. It units way of evaluation shares locally and internationally. Some agreements try to apply some standards as Basle agreement to avoid effect evaluation by trickery problems. It studies assets

resources, liabilities resources and equities resources. It avoids some resources from its value as result to increasing false value to company. Ex: avoid additional assets as goodwill value. Basel tries to evaluate assets, liabilities up to risks classification and its effect on share book value. It reduces assets value up to possibility of loss. Ex: fixed assets as cars to transfer employees may equal 1000000\$ but as result to accidents it will be reduced 30% to be 700000\$. Practically, accidents loss was not happen but decreasing of assets value was up to expecting which not fair for companies. The working group that led by Patricia discussed balance sheet adjustment up to capital ratio which direct bank behavior up to Basle rules to answer the questions: do capital requirement lead banks to increase their capital ratio and how do they achieve this?(Patricia, 1999). Other working discussion paper concentrated on conflict between mangers inside bank and shareholders out side bank as result to increase shareholders by new shareholders to cover needs of applying Basle capital requirement which need to add discloser requirement to Basle (Jukka, 2009)

**This part of searching show that speculation must be organized to face trickery effect and it need developing of rules up to trickery type and problems of rules affection.**

To build pricing model there is need to discuss factors affection on shares pricing. Model must be applicable and easy to be used with accepted cost. To build the model there are needs as in next figure:

**Figure 2: Factors affect on suggestion shares pricing model**



There are four factors affect on suggestion share pricing model which are reason of buying, factors to examine trickery, cost of transfer shares ownership and limits to control factor of complexity. Factor complexity has divided to factors up to resource of complexity. It helps to understand resource of complexity. Limits can be done by governments as result to be the controller. Almost countries that depend on tax returns make standards show way of accounting and acceptance types from assets, liabilities and profit therefore government is responsible on factor of limits to control factors of complexity and cost of transfer share ownership as result to control tax and commissions rules.

**This part of search show that suggestion of stock pricing model must have suitable environment as demand to be apply practically**

#### **4. Conclusion**

This study one of every few studies which have investigated speculation share pricing model. As result to study search found the follow factors:

1- It shows speculations up to owning shares for short term and speculation up promising to own shares in future or get shares by loan.<sup>1</sup>

2-It analysis company strength by discuss its assets, liabilities and net profit after tax as way to avoid trickery after choosing shares to be bought.

3- Speculation affect on individuals, companies, government and international relationship. Speculations which are bought by loan or promising need law to avoid its risk as result to increase demand on shares price as rumors affection.

4-There is way to suggest speculation shares pricing model to limit financial market crises. Searcher recommended applying suggestion model as way to examine trickery.

#### **5. Recommendations**

Searcher recommended to apply Suggestion of Share pricing model after make needs available which limits suggestion these needs are: accounting standards to make historical study for more than five years showing the company share price in market, net profit after tax, assets, and liabilities. See suggestion applying practically next tables.

Speculation depends on share price in financial market. Speculator buys shares which lead to get high return. Speculator has to build table as follow:

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Many investors said that land price would not reduced as result to tax applying to increase its price and demand of using land but when it get in project to be sold as bonds in financial market it would be affected by these bond derivatives speculation which cause the financial crises in the world. Even the good investing by Islamic banks be change to be contract sharing's parts as these bonds as way of sharing in projects it will get same problem in case it be sold by loan or selling up to promising to own as derivatives.

**Table no 2: Expect Companies shares price speculating**

Year	2014	2013	2012	2011	2010	2009	Risk Classification increasing up to increasing result = (Highest price – lowest price)
Company (A) Share Price	3	10	15	10	8	4	15 – 3 = 11
Company (B) Share Price	4	4	4	3.5	3	3	4 - 3 = 1
Company (C) Share Price	8	5	4	5	6	7	8 – 4 = 4

In this case speculator will choose the highest risk to get the highest return which is the company (A). The choosing must be supported by testing trickery.

It is important to collect data years as historical study by balance sheet and income statement. Speculator is interesting in share price in market more than periodic earnings. Simply there is need to build table show reason of buying shares and factors to examine trickery. See next table.

**Table 3: Needs of sharing pricing model data**

Year	2014	2013	2012	2011	2010	2009
Share Price	3	10	15	10	8	4
Assets	100000	100000	100000	100000	100000	100000
Liabilities	20000	20000	50000	20000	10000	10000
Net Profit after tax	10000	10000	10000	10000	10000	10000

Speculators looking for to get unusual return. They choose shares up to the different between lowest price and highest price. This means speculator can get return from this different. Table 2: shows (highest price – lowest price) = (15 – 3) = possibility to get 12 \$ return per share – expenses as commission or tax= profit. This company shares are suitable to be bought but it needs to test trickery by study assets, liabilities and net profit after tax. There is searcher suggestion to success test. See next table:

**Table 4: Test trickery evaluation**

Case of changing in historical study	1	2	3	4	5	6	7	8	9	10	11	12
Assets	+	Fixed	+	-	-	Fixed	Fixed	-	+	Fixed	-	+
Liabilities	-	-	-	+	-	Fixed	-	+	+	+	-	+
Net Profit after tax	+	+	Fixed	+	-	Fixed	Fixed	-	Fixed	Fixed	Fixed	-
Result of acceptance	Accepted as the best case	Accepted	Accepted as good case	Possibility of trickery as covering net profit increasing by liabilities acceptance need more investigating	Avoid as result to creditors pushing until there is proof that percent of assets reduce is less than percent of liabilities reduce acceptance need more investigating **	accepted	Accepted as good case	Avoid as result to increase credit to solve problems with out result	Accepted and it will be good case if there is proof that percent of assets increase is more than percent of liabilities increase	Need investigating to avoid trickery which came from covering profit from liabilities	Trickery of selling assets to cover liabilities and profit	Accepted if there is proof that percent of assets increase is more than percent of liabilities increase*

This Suggestion shares pricing Model has limits to success as follow:

1-It needs company share price data for more than five years which avoid dealing with shares from new companies and avoid buying new shares until it becomes real asset of producing.

2- It needs company assets value, liabilities value and net profit after tax data for more than five years. These factors can show changing of all company business and can be alternative way to avoid problem of estimated up to share book value which may be increased as result trickery and support Basel agreement to choose types of assets, liabilities and equities.

3- It needs fixed accounting standards for assets, liabilities and net profit after tax which must be obligated by government as market controller.

4-It needs law to avoid type of speculation which increase demand on shares without directly owning as selling shares by loan or derivatives

To use this table practically in financial market, there are factors which are aim of speculation concentrate on changing of share price to make return in short term not on distributed return as result to long term investment while the other factor concentrate on key to use table which obligate to organize data of company from financial market report as in table (3) to cover needs of sharing pricing model data then decides the signals up to historical study for assets, liabilities and net profit after tax as in table (4). The last factor to apply the key for explanations as follow:

**First:** (-) means: decrease, (+) means: Increase and (Fixed) Means: no change.

**Second:** Result comes up to comparing in historical study for the shares in the company concentrated on changing or not for Assets, liabilities and net profit after tax as showing in financial market report.

**Third:** there are 12 case study and 12 results. Some results show evaluation for shares from trickery directly but other need investigation as follow:

\*\* Percent of assets reduce is less than percent of liabilities reduce : $(\text{assets } 2014/\text{assets } 2013)$  less than  $(\text{liabilities } 2014/\text{Liabilities } 2013)$

\* Percent of assets increase is more than percent of liabilities increase:  $(\text{assets } 2014/\text{assets } 2013)$  more than  $(\text{liabilities } 2014/\text{Liabilities } 2013)$

To test company data in the example which was shown in table (3) by test trickery evaluation as in table (4), the result can be shown in next table:

**Table 5: Evaluate share buying up to test trickery possibility**

<b>Case</b>	Accept buy share up to market price and speculating reason
<b>Assets</b>	Fixed for all historical study
<b>Liabilities</b>	-
<b>Net Profit after tax</b>	Fixed
<b>Result of acceptance</b>	Accepted as in case 7

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