CHAPTER I
INTRODUCTION

This introducing chapter will provide the reader with an insight into the research area, background of this research and the avail of this study.

A. Background of the study

"Emerging markets" is a term used by investment analysts to specify countries that are in a growing economic phase. Emerging markets are transitioning between the concept of initial industrialization and being fully developed.

With recent trends toward globalization and capital market integration, emerging markets have increasingly become the target of many investors in search for higher returns. Before placing their money abroad, however, investors need to bear considerable challenges in mind. While investments in developing economies can result in spectacular returns, emerging capital markets can be highly volatile, reacting strongly to the international investor sentiment, and economic and political changes.

Every decision regarding investments is based on the relationship between risk and return. Generally the return on an investment should be as high as possible depending on the risk tolerance of the investor. Investing in capital market is surely involved risk and return. High risk can gain high return. Emerging markets are commonly associated with high returns, high volatility, and diversification benefits for investors. (Christopher, John and Rodriguez, 1998).

Emerging markets continue to attract the attention of investors the world over. Economic reforms, the expansion of the European Union, and changing political climates worldwide may create more investment opportunities as well as pose additional challenges and uncertainty in the years to come. A long-term investor with a high tolerance for risk and the need for added diversification may want to explore the potential benefits of making emerging markets a part of their portfolio.

It has been stated by Ody (2012), “The emerging-markets “anthem” is as familiar as “We Are the Champions” and many other author and specialist Goldberg (2011), Frick (2000), Shah (2000) has also stated in different sources, it has long been recognized that emerging capital markets can gain more profit and its growing faster than the rest of the world.

The ‘emerging markets’ are countries with developing economies. They include the Asia (excluding Japan) regions, as well as Eastern Europe, the Middle East and Latin America. The MSCI Emerging Market Index consists of 21 countries, and is a good barometer of which countries are considered ‘emerging’. They are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey.

A big part of emerging capital markets relies on Asian. Nowadays investors are more interested to invest in Asian markets. Stated by Ho, (2012, May 30) “We believe this rear-view mirror on investing in Asia is both simplistic and myopic. Instead, investing in Asia is entering a "golden era" where a diligent fundamental approach guided by a genuine long-term mindset can generate substantial outperformance in spite of likely volatility.

Hsu (2000), also suggested that, Asian capital markets are expected to continue to grow and their market capitalization is expected to increase further, as the Asian economy is expected to recover steadily and require increasing capital to meet its investment needs. Also, in some Asian countries, technology-intensive industries have developed rapidly and hence a large sum of capital is needed.

Now before investing in any capital market it is necessary to do enough research to find out which market can give higher return yet involving higher risk. Recent study has found that, most people are often tempted to obtain high returns from their investment without learning how their investments can give them profit. One thing investor should keep in mind is the risk is another side of investment. As we know higher risk can bring higher return. It is almost certain that there will be no investment that will give very higher returns without carrying any risk at all; hence, it is important for investors to acquire knowledge of proper investment which will help them in maintaining their perceptions, emotions, fear and greed in their investment decision making.

The problems for investors nowadays are how to select which capital market to invest in, how to find risk and return, how to evaluate performance of capital markets and how to build their efficient international portfolio. It will be beneficial for the investors to know which countries capital markets will be best to invest and taking risk will be worthwhile.

A major benefit of the internationalization of capital markets is the diversification of risk. Individual investors, major corporations, and individual countries all usually try to diversify the risks of their financial portfolios. The reason is that people are generally risk-averse. They would rather get returns on investments that are in a relatively narrow band than investments that have wild fluctuations year-to-year. All portfolio investors look at the risk of their portfolios versus their returns. Higher risk investments generally have the potential to yield higher returns, but there is much more variability.

As a commonly held view of emerging stock markets is that, they are characterized by "high returns and high volatility". But the investor must know which markets among Asian emerging markets are much appropriate with this view. The research will use International Finance Corporation's (IFC's) Emerging Markets Data Base (EMDB) to examine the risk and return characteristics of Asian emerging markets and their diversification benefits for portfolios.

After deciding the sector of capital market where investors want to invest in, the next important thing is making an investment portfolio. Investment portfolio helps an investor to know the risk and possible return on each investment sector and a diversification benefits.

The investment portfolio can then be used as a vehicle for managing that risk. To do this properly, an investment officer must be prepared to actively manage the portfolio by rebalancing and restructuring the bonds to achieve the optimal risk/reward profile for the market conditions that exist at the time. (Caughron, 2007)

A major benefit of the internationalization of capital markets is the diversification of risk. Individual investors, major corporations, and individual countries all usually try to diversify the risks of their financial portfolios. The recent surge in international portfolio investments reflects the globalization of financial markets. Specifically, many countries have liberalized and deregulated their capital and foreign exchange markets in recent years. In addition, commercial and investment banks have facilitated international investments by introducing such products as American Depository Receipts (ADRs) and country funds.

1. Problem discussion

Why haven't more people taken advantage of these tremendous preface investment opportunities? It's that they don't understand the market, and when you don't understand something you are unsure, maybe even afraid.

We all feel the urge to participate in the capital markets but we don't know where to invest and how much will risk involve and how much we can get in return? The problem with the investing in capital market is bit risky. It needs a proper calculation before investing. General people just depend on others (brokers) to invest in capital market. The main problem in people doesn’t know which company’s share too choose and how? Because of this most people invest in wrong share and they lost all their money instead of getting profit. This paper will give an idea about countries and company's share will be profitable to invest, how much will be the risk and return from each shares.

Most important and first thing to know about a capital market is how risky the investment could be and how much return can gain from that market also to know about the growth of that capital market. An international portfolio is necessary to conduct all those analysis.

In international portfolio, first thing to know is which countries capital market should select to invest. Capital market selection is a very important in case of investing international. Investor should analyze which capital markets are profitable to invest. This research was about making an international portfolio with Asian emerging capital market.

Harry Markowitz's efficient portfolio principles were used as an effective way to measure and compare the risk-return tradeoff among the different portfolios. It was found that emerging markets, though their stand-alone risk is very high compared to developed markets, provide diversification benefits due to low correlation of their returns with developed markets that make their inclusion necessary to optimally diversify an investment portfolio.

2. Problem formulation

a. Which capital markets are eligible to embrace in efficient portfolio amid selected Asian emerging countries?

b. Does selected Asian emerging capital markets' securities worth including in Markowitz efficient portfolio?

c. Does selected emerging capital markets has perfect risk return trader off?

3. Scope of the study

There are many emerging capital markets in Asia that trade their stocks in their capital market. My study will focus on finding indices of those selected capital markets then find the efficient portfolio based on those stocks in selected indices.

4. Originality of the study

This research or study will be done completely by researcher's own knowledge. As the researcher believes no matter how small is someone's knowledge is, applying in a correct form and under good observation can give a good outcome.

B. Objectives of the study

A stock index is a compilation of stocks constructed in such a manor to track a particular market, sector, commodity, currency, bond, or other asset. Indexes are designed to track a particular market or asset.

1. To find indices of Asian emerging capital markets to select or track suitable markets.
2. To find the efficient portfolio based on those stocks in selected indices.

C. Contribution of the study

1. For investors

From this study investors will get an understanding, about which Asian capital markets will be wise decision to invest in according to data from 2006 – 2012. For the development of finance and investment, the outcome of the study, hopefully, will be endowed to bring light to the study of finance in investment, especially in relation to the study of investors.

2. For students

Any students with finance background will be able to catch the importance of capital market analysis and a way to analyze risk and return form different capital markets.

3. Company or brokers of an Investment Company

Capital market research is an essential activity for companies because it enables them to provide products and services that are useful for the targeted consumers. Such a focused and logical approach enhances the profit making possibilities of companies. Sanguinely this study will help any broker or company to suggest their clients about worthwhile Asian capital markets.

D. Outline of study

Chapter 1: Introduction

In the first chapter, it will be clearly discussed about the purpose of the study and explain the study's significance. The significance is addressed by discussing how the study adds to the theoretical body of knowledge in the field and the study's practical significance for communication professionals in the field being examined.

1. **Chapter 2: Literature Review**

The purpose of the study will suggest some theoretical framework to be explained further in this chapter. The literature review thus describes and analyzes previous research on the topic.

2. **Chapter 3: Research Methodology**

This chapter will describes and justifies the data gathering method researcher have used. This chapter also outlines how researcher analyzed those data to fulfill the study.

3. **Chapter 4: Research Finding and Analysis**

This chapter addresses the results from research data analysis only. This chapter does not include discussing other research literature or the implications of your findings. Usually it begins by outlining any descriptive or exploratory/confirmatory analyses (e.g., reliability tests, factor analysis) that will be conducted. Next address the results of the tests of hypotheses (if any). Then discuss any ex post facto analysis. Tables and/or figures should be used to illustrate and summarize all numeric information.

4. **Chapter 5: Conclusion**

The purpose of this chapter is not just to reiterate what researcher found but rather to discuss what researcher findings means in relation to the theoretical body of knowledge on the topic.