

COVID-19 and Prospects of Portfolio Management in Bangladesh

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ABSTRACT

Portfolio investment is investments made by investors who are not particularly interested in involvement in a company's management. Portfolio investment is about reducing risk rather than increasing return. Portfolio investment involves assembling a collection of individual securities. Since the capital market is still inefficient or semi-efficient, the Lemon problem rigorously exists in the market where information asymmetry prevails. The perfect market needs information must flow to investors at the same time and in the same way. Removing Lemon problems, growing experts for investments, tightening the capital market rules, and creating new financial instruments can increase the overall prospect of portfolio management in Bangladesh. The outbreak of Covid-19 makes it more challenging for the portfolio investment industry. The paper tries to identify the challenges and prospects of portfolio management in Bangladesh.

Keywords: Portfolio, Covid-19, Economy, Bangladesh

INTRODUCTION

Portfolio management is one of the most important factors to consider when looking at fund investing. Portfolio management can be active or passive (index tracking). Historical performance records indicate that only a minority of active fund managers beat the market indexes. The stock market does not cover sufficient portfolio management firms and investment funds to provide specialized investment services. It is due to a lack of expectation from investors or of sufficient experts to offer this service. People still believe in making a decision based on rumor, and they prefer being a part of other giant investors' game by just following them to invest or disinvest. Currently, the capital market is still inefficient or semi-efficient. The lemon problem rigorously exists in the market where information asymmetry prevails. Another problem is the participation of ignorant people in the capital market, causing illogical ups and downs. The outbreak of Covid-19 also made it quite difficult to flourish the portfolio management services of the country.

Existing Market Challenges

The capital market has a tremendously important role in the private sector development and social and economic prosperity of a country and increases portfolio investment. To Focus and prioritize the country's overall development, various reform measures have been initiated since the beginning of the 1990s (GOB, 2003). However, political unrest, lack of supply of reliable security s and inadequate transparency in accounts and reports have reduced portfolio investment in the capital market. Neither the SEC nor the exchanges have effective automated surveillance systems that can detect, monitor, and prevent market abuses and malpractices. It has affected market confidence, which investors have often cited as the major constraint in developing the capital market.

The expansion of investment can be mobilized by the modernization and development of domestic industries. For example, updating and using modern machines in various industries instead of manual tradition will highly satisfy the investors' domestic sectors. (Baker et al., 2020). Moreover, it is also essential that to provide a hygienic and healthy environment for workers. Thus, investors can be motivated to invest in the existing market structure. In the beginning, government, governmental institutions, and other financial institutions are responsible for creating an investment atmosphere by formulating policies and initiating different financial instruments. Forming many financial instruments can help investors make an efficient and well-diversified portfolio investment. But in Bangladesh, there are not that many financial instruments to create a good portfolio.

Market participants, including brokers, dealers, and merchant bankers, require a license to trade from the SEC. However, there are no professional standards and minimal qualification requirements (e.g., examinations and professional training) imposed by the SEC or the exchanges on any intermediaries. Only qualified and duly licensed personnel should be allowed

to deal with the public in transactions involving securities. There are no institutions in Bangladesh that offer courses specifically related to the functions and regulation of financial intermediaries. The market adjusts the price of a share soon after disclosing any price-sensitive information of that particular share if the market is efficient. But in the country, the data is disclosed to some classed investors and company directors first. The information is disclosed in public, that is why some investors make an abnormal profit while the majority face the rally.

COVID-19 AND PORTFOLIO INVESTMENTS

The outbreak of Covid-19 increased the Cognitive Dissonance behavior in the stock market. Investors believe in market rumors and rely on buying a single or couple of shares. Betting on them completely ignoring that investment in more shares will generate a return with relatively less volatility is generally known as Cognitive dissonance in behavioral finance.

Harry Markowitz (1952) proposed one of the earliest solutions to this problem by suggesting that investors' attitudes of different amounts gambles were implicitly compared to their customary wealth. The gambles for large quantities of customary wealth are treated more conservatively. In other words, a willingness to gamble depends very much on the status quo. His Model implies that investors' utility function is convex in some places and concave in others- quite different from the typical assumption of everywhere concave utility. Investors concave utility personality and processes really don't originate the necessity to hedge the risk endowed from taking too many risks of buying risky securities. (Bhalla, 2008). That is why the emergency to form a portfolio with optimum weight to foreign securities is no longer required. However, the investors often face loss taking the unjustified risk because of heuristics (Malik, 2021).

Capital markets all over the world were very resilient during the pandemic period. The Broad Index of Dhaka Stock Exchange (DSEX) rose by 21.31% to 5402.07 points in 2020 year-end compared to 4452.93 points in 2019. The DS30 index, also known as the blue-chip index, also increased by 36.41% to 2078.95 points in 2020. Market Capitalization of the Dhaka Stock Exchange went up by 32% as of December 2020 compared to the same period in 2019 (Dhaka Stock Exchange, 2020). Market turnover increased almost four folds during the period. The change in the country's capital market regulatory body also transformed the investors' confidence and attracted new investments. The trading volume in both stock exchanges increased substantially. The portfolio investment in foreign currencies in the July-November'2021 period was - \$164 million (approx.), which demonstrates foreign investors are willing to keep liquidity in the pandemic period. (Ahamed, 2021).

Implementation of portfolio management can be effectively handled in a staged or phased manner, starting with areas of greatest need. Quick wins (cheap, easy, and achievable initiatives) can help demonstrate a portfolio management approach's value. Whatever an organization's current level of maturity, this guide will provide advice and insights to assist the design of an appropriate roadmap reflecting accepted good practice and the experience of those who have already successfully adopted portfolio management. The potential benefits are real and significant research from the public and private sectors, in the Bangladesh and abroad, has identified that organizations which adopt a portfolio management approach can realize benefits in terms of: More of the 'right' programs and projects being undertaken Removal of redundant, duplicate and poorly performing programs and projects

More effective implementation of programs and projects via consistent approaches and improved dependency management, More efficient resource utilization, Better management of risk at a collective level is critical. Greater benefits realization and return on Investment Enhanced transparency, accountability, and Corporate governance Improved engagement and communication between senior management and staff. This last point is significant portfolio management facilitates collaborative working in pursuit of the organization's strategic objectives. In so doing, portfolio management ensures that limited funds and other constrained resources are allocated to optimize strategic impact and then coordinates delivery and maintains strategic alignment (Pandya, 2013). Finally, portfolio management is concerned with ensuring that the organization realizes the full potential benefits from its investments and that lessons are applied to new investments. The market is already approaching to a market semi-efficient in nature where market adjustment seems rational for a couple of months. Government must come forward with strong regulation so that market goes smoothly and error-free with a minimum number of price givers and a maximum number of institutional investors.

CONCLUSION

Portfolio investment is the best way to invest in assets. The portfolio helps to diversify the risk and gives a good return in terms of risk. Portfolio investment moves away from merely individual security selections; it employs a systematic investment approach that is supposed to benefit the investment portfolio owner in the long run. Bangladesh is an emerging market, so it needs the investor should construct a portfolio for investment. In this way, the unsystematic risk can be

diversified away. However, the lack of professional portfolio managers and the investors' lack of knowledge makes it difficult to invest in a diversified way. The construction of the portfolio is also costly and needs lots of analysis. The increasing number of financial analysts and experts make it easy for investors to construct a portfolio according to their risk-bearing capacity at a very low cost. From the problems above, it can be concluded that the prospect of optimum utilization portfolio management services depends on the improvement of investors knowledge of the capital market and the tendency to behave rationally along with the availability of undistorted accounting data about different listed firms so that any portfolio with optimum weight to each security can be constructed and any security from the portfolio can be eliminated to sustain the optimization of the portfolio.

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