

PERSONAL INVESTMENTS IN INVESTMENT FUNDS LISTED ON BANJA LUKA STOCK EXCHANGE

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ABSTRACT

The goal of this research is to determine possibility of investing individual personal financial assets in investments funds in Republic of Srpska and does households have financial assets that can be invested. In this research capital market of Republic of Srpska is represented, the structure and organization of Banja Luka Stock Exchange, and legal framework for investment fund management companies. The volume of activity in investment funds is shown in presentation of activity Banja Luka Stock Exchange, following with the assumed reasons of current status.

Keywords: Banja Luka Stock Exchange, investment funds, Republic of Srpska, personal investments, personal finance, savings, capital markets

INTRODUCTION

Personal finance is of great importance for the life of each individual. Decisions on personal finance are those about acquiring (earning), spending, and investing money for personal and family needs. Decisions are important because they affect the quality and security of the present and future life. This research will give an answer to a question: Does individuals have enough financial assets that can be invested in investment funds?

Investment funds are considered to be important form of collecting fragmented retail savings. They should be more liquid than other savings organizations and bear higher interest rates. They are closely related to personal finance, since they are greatly dependent on the individual investment. Saving is the basis of any investment, although the investment can also be made with borrowed funds (if we invest borrowed funds in capital that will bring us higher interest than the one, we pay on borrowed funds, we will achieve positive cash flow and income). On the other hand, the development of investment funds increases the level of savings, and it further affects the increase in gross domestic product. With the increase of the gross domestic product, the market economy and the standard of living also increase.

Another advantage of investing or saving in investment funds is that the individual does not need to have any special financial knowledge and skills, the individual should only decide in which type of investment fund to invest. The regulation governing the operations of funds and the capital market protects an individual from the potential misuse of his or her invested capital. However, an individual bears risks

because of this type of investment, and it is reflected in the probability that the return on investment will be insufficient or even negative. The primary risks are:

- market risk reflected in the probability that changes will happen in the market which will result in the decrease in value of the fund's assets (change in interest rate, change in the price of securities, etc.),
- credit risk of this investment is a probability that the issuer of securities will not be able to settle its contractual obligations at maturity, which negatively affects both the liquidity and the value of the fund's assets, and
- operational risk that is always present due to the possibility that an error will be made by an employee, during inadequate internal procedures, etc.

CAPITAL MARKET IN REPUBLIC OF SRPSKA

Capital market is an institutionally organized space in which the supply and demand of long-term securities are connected. In this area, trade is done according to the rules established by law which aim to protect all participants. The market in which capital is issued for the first time is called the primary capital market, while the market in which long-term securities have been already issued is called the secondary capital market.

The capital market in Republic of Srpska is organized on one stock market – Banja Luka Stock Exchange (BLSE). There is an official stock market (OM) and a free stock market (FM) in Republic of Srpska. Participants can trade with shares, bonds, funds, T-bills and other securities. Participants in the capital market are the following: investors - owners of capital, companies, investment funds or entrepreneurs - users of capital, brokers - banks, other specialized brokers and state - as regulator and controller.

Investors are owners of capital that want to invest their capital by purchasing a

particular financial instrument. An investor can be an individual investor (natural person - the individual, company or someone outside the economy) or an institutional investor (investment companies, pension funds, insurance companies, banks, etc.). In personal finance, an investor is an individual (natural person) who wants to invest his/her own or loaned money in long-term securities. The user of capital is the buyer of the offered capital by the investor. The user of capital is the entity that issues and sells securities.

Brokers are entities that take funds from the investors and further invest them according to instruction of the individuals. On capital market they participate in the name of the individual and for its profit, and brokers profit they earn based on provisions. Brokers can also be banks, savings banks, savings and loan associations, investment funds, pension funds, insurance companies, etc.

The state has a special place in the capital market because it is the market regulator and controller and provides protection for the interests of both investors and users of capital. The state adopts legislation and establishes appropriate commissions and bodies that supervise the capital market. This is especially important for young markets where it is necessary to gain the confidence of participants.

If we review the volume of securities trade for the 2019 on BLSE, we will notice that investors trade more with bonds than the other securities listed (Figure 1).

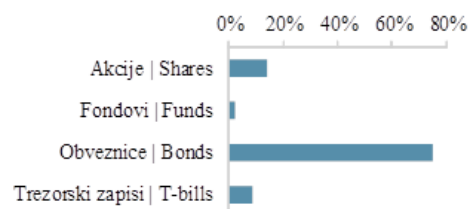


Figure 1. Total turnover structure BLSE for 2019

Bonds are securities with lower risk than other compared and this reflect that investors are not likely to accept risks. Reasons of poor equity trade are lack of

implementation of Standards of corporate governance and low liquidity of companies that are listed. It can be concluded that without the issue and trade of government bonds and T-bills, BLSE would not be able to functionate normally (Žiravac-Mladenović & Đurica, 2018).

Investment fund management companies

The investment fund management company is established in accordance with the Law on Investment Funds - Official Gazette of the Republic of Srpska No. 92/2006 and 82/2015 as a limited liability company or a joint stock company. The subject of business activities is exclusively the establishment and management of investment funds, that is, the investment of funds on its own behalf and on behalf of the owners of shares of open-end investment funds, and on behalf of and on behalf of shareholders of closed-end investment funds, as well as performance other activities in accordance with the mentioned Law. They manage the investment fund by making investment decisions and

performing administrative and marketing operations and activities. Currently, in Republic of Srpska, there are 6 investment fund management companies that manage 18 open-end investment funds and one close-end investment fund (Table 1).

When establishing an investment fund management company, the founder is required to provide share capital which may not be less than BAM 200.000,00 or, if the company manages a fund of net worth exceeding BAM 450 million, the share capital must be 0.02% of the net assets of the fund. The maximum amount of capital of a company may be BAM 15 million.

A fund management company may establish and manage several investment funds, without acquiring investment units or shares of an investment fund it manages, and it is also required to engage a sufficient number of persons with professional knowledge and experience in managing the company's affairs to manage the affairs of the company. The work permit is issued by the Republic of Srpska Securities Commission.

Table 1. List of open-end investment funds in Republic of Srpska, February 2020

No.	Fund	Management company	Type of fund
1.	Opportunity fund	Kristal Invest	open-end equity
2.	Maximus fund	Kristal Invest	open-end mutual
3.	Future fund	Kristal Invest	open-end mutual
4.	Invest nova Bijeljina	Invest nova	open-end mutual
5.	Adriatic Balanced	Polara Invest	open-end equity
6.	Profit Plus	Management Solutions	open-end equity
7.	VB Fond	Management Solutions	open-end mutual
8.	Euroinv.fond	Euroinvest	open-end equity
9.	Balkan Investment	Management Solutions	open-end mutual
10.	Bors Invest	Management Solutions	open-end equity
11.	VIB fond	Management Solutions	open-end equity
12.	Polara Adriatic	Polara Invest	open-end equity
13.	Privrednik Invest	Polara Invest	open-end mutual
14.	Jahorina Koin	Polara Invest	open-end equity
15.	Aktiva Invest	Management Solutions	open-end equity
16.	Kristal Cash Plus Fund	Kristal Invest	open-end cash
17.	Cash Fund	Kristal Invest	open-end cash
18.	WVPPremium	WVP Fund Management	open-end equity

Investment funds in Republic of Srpska

Investment funds in the Republic of Srpska are joint stock companies headquartered in the Republic of Srpska, which, with the approval of the Securities Commission, are established and managed by investment fund management companies. They, as brokers, allow investors to place the surplus of funds in the capital market, in a way that investors do not have to have any special specialist knowledge in investment and effort in analysing investment opportunities, such as previous activities usually carried out while making investment decisions (The Republic of Srpska Securities Commission [SCRS], 2018). Due to this fact, investment funds are a suitable form of investment for natural persons - individuals who manage personal finances. Investment funds collect monetary funds through the sale of their unrestrictedly transferable shares and then invest those funds further, while respecting the principle of risk spreading (Law on Investment Funds [LIF], Official Gazette of the Republic of Srpska No. 92/2006, 2006).

The basic characteristics of the operation of investment funds could be summarized as follows the following (Pušara, 2012):

- funds are not obtained by collecting deposits, signing contracts, but by issuing and selling own securities,
- collected capital is invested in many financial market segments in diversified placements of a large number of different instruments,
- the owners of shares actually own one part of the fund's portfolio,
- they are characterized by a high level of liquidity,
- the portfolio is managed by professional managers with a high level of knowledge and expertise,
- the ability to use advantages of economies of scale and therefore lower transaction costs,
- high level of liquidity and possibility of quick return of funds,
- provision of additional services to shareholders,

- enabled access to the international market, especially to small investors, who without the existence of these investment mechanism, would not have been financially strong.

The Republic of Srpska finished the process of mandatory transformation of closed-end investment funds into open-ended investment funds in 2018, in accordance with the deadline set by law. Out of the total of 13 closed-end funds that had to be transformed, 17 open-end investment funds were formed, and there are still 1 closed-end investment fund. Today we have 18 open-end funds.

Each individual can invest monetary funds in any of these funds. An individual cannot influence a fund's investment decisions, but by choosing the type of fund to invest in, he/she decides on the strategy of his/her investment. Fund's investment decisions are made by its portfolio managers who are highly skilled analysts educated for usage of many financial tools. Cooperation with experts from different sciences is necessary, because any decision previously requires neutral and independent valuation of potential investment (Žiravac-Mladenović & Galić, 2018). Each portfolio must be well diversified. All this is managed by investment fund, so that the individual does not need to have any special financial knowledge and skills, but still can invest.

Article 14 of the Law on Investment Funds stipulates that there are the following types of funds:

- equity fund (share fund or stock fund), which invests funds mainly in shares or interests of targeted share funds,
- bond fund, which invests funds mainly in bonds or, in bonds and interests of targeted bond funds or other forms of listed debt,
- cash fund (money market fund), which invests funds mainly in money market instruments, cash deposits and interests of targeted money market fund

- mutual fund (mixed fund or balanced fund), which has the invested funds in various securities, money market instruments, cash deposits and shares of the targeted money market fund.

Majority investment is that at least 70% of the fund's funds are invested in a particular type of asset. The investment structure of investment funds in Republic of Srpska shows that there is a significant share of equity securities in their portfolios, for which they are predominantly equity funds. Also, the share of bonds, deposits and placements as highly liquid assets is not negligible. Every investment fund is required to prepare a prospectus detailing its portfolio and securities in which it invests. Before making an investment decision, an individual should study the fund's prospectus for which he/she is choosing. Prospectus must include enough information about investment principals, type of property included in portfolio, risks, valuation and type of assets, financial reports.

In order that an individual decides to invest in a certain investment fund, he/she should determine the liquidity of a certain fund. Fund's liquidity is one of the most important characteristics making it attractive for saving (investing) compared to savings and deposit institutions. One of the liquidity indicators is the frequency of trading in shares, expressed by the number of trading days in relation to the total number of possible trading days.

In 2019, the investment funds had turnover in the amount of BAM 9.932.974 (Table 2), which was only 2,10% of the total turnover of Banja Luka Stock Exchange for 2019, amount BAM 472.133.341 (Banja Luka Stock Exchange, 2020). The fact that only 2,10% of the total turnover of the stock exchange for 2019 is invested in investment funds show that that the interest is extremely low. The reason could be available financial assets, lack of attractive funds, liquidity of securities, macroeconomic and microeconomic environment, personal affinities and many other.

Table 2 - Comparative overview of investment funds turnover and total turnover on BLSE for 2019

Monthly overview	Funds Turnover	Total Turnover BLSE	Share of funds turnover in total turnover (in %)
2019 Dec	214.046	61.276.177	0,35
2019 Nov	712.154	18.506.532	3,85
2019 Oct	1.005.013	51.554.841	1,95
2019 Sep	2.995.917	10.283.202	29,13
2019 Aug	652.266	45.277.279	1,44
2019 Jul	352.785	17.793.840	1,98
2019 Jun	471.258	50.032.559	0,94
2019 May	776.776	42.328.670	1,84
2019 Apr	271.508	54.297.700	0,50
2019 Mar	829.414	43.166.870	1,92
2019 Feb	1.013.939	49.872.960	2,03
2019 Jan	637.898	27.742.711	2,30
Total:	9.932.974	472.133.341	2,10

According to the Central bank of Bosnia and Herzegovina Statistic report, total household deposits are BAM 13,4 milliards (February, 2020). Money on transaction accounts and deposits on demand are 57,19% of total amount, and short-term and long-term deposits are 42,81%. In structure, deposits in BAM are 44,02%, and deposits in foreign currencies are 55,98% (The Central Bank of Bosnia and Herzegovina, 2020). This represents that households and its individuals have financial assets that partly can be invested in investment funds. With these investments many parties would have benefits, not only individuals. It would deepen capital market and activate companies that are listed on stock (Miletić & Simić, 2018).

To define what investment funds (from Table1) are attractive, share in total turnover can be used. Four funds participate 65,98% in total turnover: Euro-investment Fund (13,94%), Future Fund (30,22%), Kristal Cash Plus Fund (10,53%) and Maximus Fund (11,29). Revising the type of the funds, it can be seen that they are equity, cash and mutual funds.

Market analysts show a lack of concrete supply and demand for a large number of securities on BLSE. The most of listed shares are not interesting to investors (offer), and there is a lack of investors (demand). Without intending to go deeper and explain the already known reasons, we will consider that the market is characterized by a small number of quality stocks and its illiquidity. Insolvency is reflected in number of days without trade, and it was very high for most stocks (Radivojac & Grujić, 2016). Capital market in Republic of Srpska remains the same even today.

Poor macroeconomic indicators and poor credit ratings are also a cause. According to the ratings of two international credit rating agencies Moody's Investors Service and Standard & Poor's, Bosnia and Herzegovina has a credit rating of B3 with a stable outlook (rating confirmed on 16 February 2018, Central Bank of Bosnia and Herzegovina, 2019)

and B with a positive outlook (rating confirmed on 28 February 2020, Central Bank of Bosnia and Herzegovina, 2019). Ratings B3 and B are in the non-investment (speculative) group with high credit risk. With these ratings, Bosnia and Herzegovina has the worst credit rating compared to other countries in the region. Therefore, the Republic of Srpska's financial system is extremely bank-based type (SCRS, 2018).

Mentality and personal affinities have effects on investment decisions, especially at those that individuals make. Looking back in time, capital market in Republic of Srpska is established in 2002 as a ground for privatization process. Bosnia and Herzegovina decided that privatization of government capital will be done by voucher privatization model. The model implied that the value of government capital was divided into vouchers and vouchers were given to individuals. After that, the individuals were selling vouchers, mostly under the price and didn't have any benefit of it. Many analysts find this as crucial reason that individuals don't „believe“ in capital market (Bojat & Rebić, 2018).

CONCLUSION

Personal finances concern every individual regardless of its source of income, personal and family expenses. They also include investments in order to secure a better future. As Bosnia and Herzegovina is rated as a country exposed to high credit risk with speculative creditworthiness, the decision on selection of savings and investment of individual has special weight. In such conditions, investment funds are imposed as one of the suitable solutions since they are considered the safest form of investment. Through the diversification of its portfolio, each investment fund creates the optimum between risk and return and provides the investor with the opportunity to invest at lower risk. Also, it does not require any specific knowledge of the capital market business and its tools, which greatly simplifies the investment. In addition, with the proper application of

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legal regulations, it provides the individual with security against misuse of his/ her money.

Although household deposits are high enough that can aggregate investment of individuals in investment funds, guided by the bad experience during privatization process, they simply do not decide for this type of savings. Still, I would conclude that there is possibility to motivate potential investors to invest its financial assets in investment funds what will multiply long-term benefits from many aspects.

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