Introduction

The concept of "Risk management" can be considered as the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events, or to maximize the realization of opportunities.

Risk management concept entered the stock market with a different shape, since investment in Arab Stock Markets including Palestine Stock Exchange had expanded widely in the previous years, to take many forms such as long term investing and speculations whether the executor is a fund portfolio, institution or individual.

In spite of the investor type, Risk management reflects the method of the concept's entrance to the investment portfolio in a way that reflects the investor's degree of acceptance to "risk", which in its turn varies among investors and portfolios. Risk management importance refers to obtain a statistical measure of risk that is reliable to define the investment required rate of return; where to maximize return on the same level of risk or minimize the risk on the same level of return.

Thus, this study aims to raise the awareness of investors in a simple and understandable way in taking the investment decision independently and away from external factors like rumors and inefficiency which affect the investors' decision in such like Palestine Stock Exchange PEX. The study highlights Beta’s for all traded companies in the PEX with Al Quds Index from one side and their sectors from other side.

Al Quds Index

Within its annual revision, Palestine Stock Exchange PEX modified Al-Quds Index sample for the year 2013, after revising the sample used in its calculation, to include 15 companies without any change than 2012- representing 83% of the listed companies’ total market capitalization. After applying the revision criteria, one company has been replaced from 2012’s selected sample, to recently include the shares of The National Insurance Company NIC in the Insurance Sector instead of Ahliea Insurance Group AIG.

In this context, Al-Quds Index constitutes the compass of PEX for several years reflecting its performance and activity, comprehending the profitability of the public shareholding companies, and the confidence of various dealers’ categories in economic future of the country. These periodic annual revision of Al Quds index sample – by computing the optimum companies each time -would contribute in a better and more comprehensive outlook of PEX performance, in parallel with all the procedures and steps to be listed on the emerging and frontier markets indices.
Glossary

Risk Management

The process of identification, analysis and either acceptance or mitigation of uncertainty in investment decision-making. Essentially, risk management occurs anytime an investor or fund manager analyzes and attempts to quantify the potential for losses in an investment and then takes the appropriate action (or inaction) given their investment objectives and risk tolerance. Inadequate risk management can result in severe consequences for companies as well as individuals. For example, the recession that began in 2008 was largely caused by the loose credit risk management of financial firms. Simply put, risk management is a two-step process - determining what risks exist in an investment and then handling those risks in a way best-suited to your investment objectives. Risk management occurs everywhere in the financial world. It occurs when an investor buys low-risk government bonds over more risky corporate debt, when a fund manager hedges their currency exposure with currency derivatives and when a bank performs a credit check on an individual before issuing them a personal line of credit.

Risk

Risk is defined as the chance that an investment's actual return will be different than expected. This includes the possibility of losing some or all of the original investment. Those of us who work hard for every penny we earn have a harder time parting with money. Therefore, people with less disposable income tend to be, by necessity, more risk averse. On the other end of the spectrum, day traders feel if they aren't making dozens of trades a day there is a problem. These people are risk lovers. When investing in stocks, bonds, or any investment instrument, there is a lot more risk than you’d think. In the next section, we’ll take a look at the different kind of risk that often threatens investors' returns.

Systematic Risk

The risk inherent to the entire market or entire market segment. Also known as "un-diversifiable risk" or "market risk."Interest rates, recession and wars all represent sources of systematic risk because they affect the entire market and cannot be avoided through diversification. Whereas this type of risk affects a broad range of securities, unsystematic risk affects a very specific group of securities or an individual security. Systematic risk can be mitigated only by being hedged. Systematic risk influences a large number of assets. A significant political event, for example, could affect several of the assets in your portfolio. It is virtually impossible to protect yourself against this type of risk.

Unsystematic Risk

Company or industry specific risk that is inherent in each investment. The amount of unsystematic risk can be reduced through appropriate diversification. Also known as "specific risk", "diversifiable risk" or "residual risk". Unsystematic risk is sometimes referred to as "specific risk". This kind of risk affects a very small number of assets. An example is news that affects a specific stock such as a sudden strike by employees. Diversification is the only way to protect yourself from unsystematic risk.
Correlation

In the world of finance, a statistical measure of how two securities move in relation to each other. Correlations are used in advanced portfolio management. Correlation is computed into what is known as the correlation coefficient, which ranges between -1 and +1. Perfect positive correlation (a correlation coefficient of +1) implies that as one security moves, either up or down, the other security will move in lockstep, in the same direction. Alternatively, perfect negative correlation means that if one security moves in either direction the security that is perfectly negatively correlated will move in the opposite direction. If the correlation is 0, the movements of the securities are said to have no correlation; they are completely random. In real life, perfectly correlated securities are rare, rather you will find securities with some degree of correlation.

Beta

A measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. Beta is used in the capital asset pricing model (CAPM), a model that calculates the expected return of an asset based on its beta and expected market returns. Also known as "beta coefficient". Beta is calculated using regression analysis, and you can think of beta as the tendency of a security's returns to respond to swings in the market. A beta of 1 indicates that the security's price will move with the market. A beta of less than 1 means that the security will be less volatile than the market. A beta of greater than 1 indicates that the security's price will be more volatile than the market. For example, if a stock's beta is 1.2, it's theoretically 20% more volatile than the market. Many utilities stocks have a beta of less than 1. Conversely, most high-tech Nasdaq-based stocks have a beta of greater than 1, offering the possibility of a higher rate of return, but also posing more risk.
Services Sector is more affected by the systematic risk that represents the political and economic situation than the unsystematic risk that represents the service sector risk itself.

For example, Israeli restrictions to any development in these services (electricity, telecommunications and transportation) exist in order to increase dependence on Israel. PALTEL and WATANIYA face many restrictions by the Israeli such as detention their telecommunication towers on checkpoints and unfair competition with Israeli companies in addition to the non-licensed internet providers.

Also, political instability caused a downturn in tourism which was reflected in the number of service activities: transportation, restaurants and hotels, such as RSR, AHC, and also affect WASSEL and ARE. The Israeli Restrictions and lack of liquidity also affect PEC since its headquarters is located in Gaza Strip.
On 21/10/2012 GCOM’s price was floated due to the GA decision to decrease the paid up capital by 42.68%.
On 20/02/2012 AHC’s price was floated as a result of the GA decision to decrease the paid-up capital by 21.29%.
Services Companies Characteristics Lines - Continued 3

RSR characteristic line (1)

Al Quds Index Return

y = -0.01x + 0.00

-6.00% -4.00% -2.00% 0.00% 2.00% 4.00% 6.00%

WASSEL characteristic line (1)

Al Quds Index Return

y = 0.12x - 0.00

-6.00% -4.00% -2.00% 0.00% 2.00% 4.00% 6.00%

PALAQAR characteristic line (1)

Al Quds Index Return

y = 0.0381x - 0.000

-6.00% -4.00% -2.00% 0.00% 2.00% 4.00% 6.00%
Light insight

Banking & Financial services is most affected by the unsystematic risk that represents the banking and financial service risks themselves.

Banks and financial services sector in Palestine provides many services: commercial banking, Islamic banking, mortgage financing and microfinance banking. All banks in the Palestinian Territories are suffering from a number of obstacles which have forced them to adopt very strict credit policies. Also, the PMA’s continuous plans to raise the banks’ capital has also affected the bank’s operations. For Islamic banks such as: AIB and ISBK, where the cost of financing on average is greater than the cost of financing by conventional banks, the major risk facing them is raising their provisions to prevent the international financial crisis’ results.

For commercial banks that provide all types of financial services such as BOP, PIBC and TNB face an increasing investment risk affected by a lack of political and economic stability in the Palestinian territories due to Israeli occupation. In addition, the absence of a national currency leads to bank surpluses being transferred abroad.

Banking & Financial Services Sector

<table>
<thead>
<tr>
<th>Company</th>
<th>Symbol</th>
<th>15 Months Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Al Quds Index</td>
</tr>
<tr>
<td>Bank of Palestine</td>
<td>BOP</td>
<td>0.78</td>
</tr>
<tr>
<td>Palestine Islamic Bank</td>
<td>ISBK</td>
<td>0.79</td>
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<tr>
<td>The National Bank</td>
<td>TNB</td>
<td>0.75</td>
</tr>
<tr>
<td>Arab Islamic Bank</td>
<td>AIB</td>
<td>0.62</td>
</tr>
<tr>
<td>Al-Quds Bank</td>
<td>QUDS</td>
<td>-0.09</td>
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<tr>
<td>Palestine Commercial Bank</td>
<td>PCB</td>
<td>0.13</td>
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<tr>
<td>Palestine Investment Bank</td>
<td>PIBC</td>
<td>-0.08</td>
</tr>
<tr>
<td>Palestine Mortgage &amp; Housing Corp.</td>
<td>PMHC</td>
<td>0.01</td>
</tr>
<tr>
<td>Palestine Securities Exchange</td>
<td>PSE</td>
<td>-0.02</td>
</tr>
</tbody>
</table>
On 29/04/2012 BOP’s price was adjusted due to 11.67% stock dividends distribution.
On 05/11/2012 PMHC’s price was floated in consequence to non trading activity for a period of 6 months or more.
Investment Sector

In the investment sector in the PEX, PRICO operates a large part of its activities in Palestine. The unstable political and economic situation in the region increases the risk of the company's activities, and negatively affect their performance and ability to recover its assets through their work.

Also the company's assets include investment in the tourism investment company "Al-Mashtal"—where all its assets and operations are in the Gaza Strip. In addition, the company's assets contained Real estate investment in the Gaza Strip. Also the unstable political and economic situation in the region increases the risk of UCI.
On 15/07/2012 UCI’s price was floated due to the GA decision to decrease the paid-up capital by 20%.

On 15/07/2012 AQARIYA’s price was floated due to the GA decision to decrease the paid-up capital by 20%. 

Risk Management (Palestine Stock Exchange)
15 Months Beta (January 01, 2012 - March 31, 2013)
Risk Management (Palestine Stock Exchange)
15 Months Beta (January 01, 2012 - March 31, 2013)
Industry Sector

Industry Sector is more affected by the systematic risk that represents the political and economic situation than the unsystematic risk that represents the industry sector risk itself. In the industry sector in the PEX, companies are affected by several risks due to their operations. AZIZA faces smuggling from Israel, where the company is competing with Israeli products sold in the Palestinian territories. In addition to the Israeli feed that still dominates over 80% of the consumed feed in the Palestinian market. Another main risk could be generated from the poultry diseases. Also, GMC which is considered to be the largest wheat-producing company in Palestine, competes under with the Israeli companies and the imported wheat. Real or actual competition does not exist for GMC, where it is allowed for the Israeli flour to enter freely the Palestinian markets without any restrictions, while it is not allowed for GMC to sell in the Israeli market regarding to the limitations that have been forced from the Israeli side on the Palestinian products. In addition, there are no specific laws or quota that control the imports volumes per periods.

Regarding the Pharmaceutical risk in the industry sector, particularly in BPC, the company is subject to the risks of competition in selling prices with other pharmaceutical companies in Palestine. In addition, BPC implements its main activities in Palestine and partially in Algeria and Eastern Europe, but the instability of the economic and political situation in Palestine may increase the risk of the company and may negatively affect its performance.
Industry Companies Characteristics Lines - Continued 1

- **VOIC characteristic line (1)**
  \[ y = 0.30x + 0.00 \]
- **VOIC characteristic line (2)**
  \[ y = 0.65x + 0.00 \]
- **GMC characteristic line (1)**
  \[ y = 0.78x - 0.00 \]
- **GMC characteristic line (2)**
  \[ y = 0.58x - 0.00 \]
- **JCC characteristic line (1)**
  \[ y = 0.65x + 0.00 \]
- **JCC characteristic line (2)**
  \[ y = 0.47x + 0.00 \]

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On 30/04/2012 JPH’s price was adjusted due to 20% stock dividends distribution.
Industry Companies Characteristics Lines - Continued 3

- APC characteristic line (1): $y = 0.11x + 0.00$
- APC characteristic line (2): $y = 0.113 + 6E-05$
- LADAEN characteristic line (1): $y = -0.03x + 0.00$
- LADAEN characteristic line (2): $y = 0.08x + 0.00$
- ELECTRODE characteristic line (1): $y = -0.06x + 0.00$
- ELECTRODE characteristic line (2): $y = -0.16x - 0.00$

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The insurance sector is less affected by the systematic risk since it is less correlated to the market index. Meanwhile, it is more affected by the unsystematic risk which represents the insurance risk itself. Some of these problems result from practices implemented by the insurance companies themselves, including price "wars" which led to prices being reduced much below the market value at the expense of the quality of service provided. Also, insurance companies may fail to abide by the regulations of the insurance controller.

Companies may have either fail or being late in supplying accurate reports, data, and financial statements necessary for supervision by the controller, particularly concerning their accounts. This has prevented companies from having their performance monitored or measures taken against them to halt mistakes or violations. Control over the activities of insurance companies is poor; In addition, insurance tenders for projects granted by the Palestinian National Authority (PNA) have lacked clarity and transparency. Also, the lack of an insurance culture among individuals and institutions has resulted in low purchasing of insurance services, particularly car insurance, work accident insurance, and life insurance.

### Insurance Sector

<table>
<thead>
<tr>
<th>Company</th>
<th>Symbol</th>
<th>Al Quds Index</th>
<th>Insurance Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Insurance</td>
<td>NIC</td>
<td>0.21</td>
<td>1.99</td>
</tr>
<tr>
<td>Ahliea Insurance Company</td>
<td>AIG</td>
<td>0.32</td>
<td>1.64</td>
</tr>
<tr>
<td>Global United Insurance</td>
<td>GUI</td>
<td>0.31</td>
<td>0.19</td>
</tr>
<tr>
<td>Al-Takafal Palestinian Insurance</td>
<td>TIC</td>
<td>0.21</td>
<td>0.19</td>
</tr>
<tr>
<td>Trust International Insurance</td>
<td>TRUST</td>
<td>-0.05</td>
<td>0.08</td>
</tr>
<tr>
<td>Palestine Insurance</td>
<td>PICO</td>
<td>0.02</td>
<td>0.02</td>
</tr>
</tbody>
</table>

### Insurance Companies Characteristics Lines

- **NIC Characteristic Line (1)**
  
  \[ y = 0.21x - 0.00 \]

- **NIC Characteristic Line (2)**
  
  \[ y = 1.64x - 0.00 \]

- **AIG Characteristic Line (1)**
  
  \[ y = 0.32x - 0.00 \]

- **AIG Characteristic Line (2)**
  
  \[ y = 1.99x - 0.00 \]
On 01/04/2012 NIC’s price was adjusted due to 20% stock dividends distribution.

On 02/05/2012 AIG’s price was adjusted due to 19.405% stock dividends distribution.

On 20/03/2013 GUI’s price was adjusted due to 12.5% stock dividends distribution.
Risk Management (Palestine Stock Exchange)
15 Months Beta (January 01, 2012 - March 31, 2013)

Insurance Companies Characteristics Lines - Continued 2

PICO Return
Al-Quds Index Return

PICO Characteristic Line (1)
$y = 0.02x - 0.00$

PICO Characteristic Line (2)
$y = 0.02x - 0.00$

Insurance Sector Return
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