

As we know, all comparisons are unreasonable, but nothing is more unreasonable than the act of comparing the Vietnamese stock market with international ones. Having known the Vietnamese stock market is small and poorly managed, it's necessary to realize how small and poor it is in order to work out a right policy. Many local industries, by comparing with foreign ones, have learned how to overcome their shortcomings and find footholds on the world market (at least in their volume of export). But it is not the case of the stock market. In addition, an exact description of the situation will prevent inexperienced investors from being dazzled by over-optimistic reports and statements.

In this article, the securities market will be examined according to international practices, that is, separating it from other market, especially the bond one. The way in which reports deal with the securities and bond market as a whole is as immature as reporting on export value in "ruble-dollar" many years ago.

The financial year in this article will be from 28 July in one year to 27 July in the next year.

1. Size of the market

Up to July 31, 2005, the total market value of 48 leading of some 90 stock exchanges in the world amounted to US\$38,180 billion. In addition, if most economists consider the distribution of the world GDP among countries as unreasonable, the distribution of equity capital is even more unreasonable. The following figure shows that seven biggest exchanges account for some 75% of the capital market. The U.S. – the country controlling some 30% of the world GDP – holds 45% of the capital market. In other words, the world

The Vietnamese Stock Market in the World

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richest hold most of the world capital.

As for the size of Vietnamese stock market, the market value, up to the end of July 2005, of all securities listed in the HCMC Securities Trading Center was about VND4,500 billion, or US\$286 million (by exchange rate offered by the Vietnam Bank for Foreign Trade). Thus it accounts for only 7.5 millionth of the world market. And it's hard for us to visualize how big this market share is. If the circumference of the above circle is 43 meter long, Vietnam will occupy an arc of one millimeter.

Moreover, the Vietnamese stock market is very small in comparison with the Vietnamese economy. Regarding the GDP, as we know, Vietnam accounts for only a thousandth of the world economy. If the stock market is equal to the economy, it must account for a thousandth of the world stock market and its value must be US\$38 billion – 133 times bigger than its current size. The problem here is how it could reach this size, and when.

Although the situation is not bright as expected, it is not the reason for listing all 200 companies in one year or two (it's worth noting that with the rate at which some six companies are listed every year, it will take 28 years to list 200 companies.) Listing the company is an important stage of development that brings about both advantages and disadvantages. Shareholders should consider it carefully before making decision instead of following the economic trend.

2. Profitability

In this article, the profitability is based on changes in price without taking dividends in cash into account. However, many companies pay dividend in form of new or ordinary shares. This practice makes the price fall in inverse proportion to the amount of shares paid. When calculating the profitability ratio generated by changes in prices, therefore, we should adjust the price in reverse direction to make it more exact.

The Table 2 shows that the stock market devel-

oped well in its first year, fell steadily in the second and third years, rose strongly in the fourth, and stayed stable in the fifth. Except the BTC that had fallen for three successive years, no stocks experienced rises or falls in three years in a row. Taking five years as a whole, 12 stocks experience negative increases and 18 others enjoyed positive increases. Besides the PCN that has just listed in the market, BBT, DPC and BTC all experienced remarkable falls, over 20% a year. Af-

Figure 1: Shares in the world capital market (July 31, 2005)

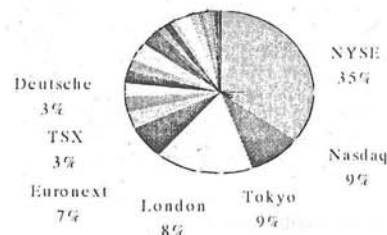


Table 1: Market value of the world's 20 biggest stock markets (July 31, 2005)

Market	Value (USD mill.)
NYSE	13,331,996
Nasdaq	3,598,722
Tokyo SE	3,466,858
London SE	2,920,257
Euronext	2,526,643
Osaka SE	2,233,987
Toronto SX Group *	1,315,316
Deutsche Börse	1,162,042
BME Spanish Exchanges	970,763
Hong Kong Exchanges	938,973
Swiss Exchange	846,391
Australian SE	754,357
Borsa Italiana	753,576
OMX Exchanges	740,045
Korea Exchange	554,065
Taiwan SE Corp.	459,463
BSE, The SE Mumbai (India)	457,452
Johannesburg SE	429,294
National Stock Exchange India	425,585
Sao Paulo SE	363,011

Source: <http://www.world-exchanges.org>

ter four years, DPC lost 69.7% of its value, BTC lost 60.3%. In addition, if somebody invests VND1,000 in the BBT public issue, his/her investment will be worth only VND528 after two years and 47% of its value is lost.

Generally, the average rise in price in the past five years was 19.6% a year. If the inflation rate is taken into account and the profitability ratio of dividend is added, the rise is very small. Comparing with the average rise of 7.33% in the world market, the rise in the Vietnamese stock market is very promising. Why does such a profitability ratio fail to attract foreign capital? Why doesn't the water flow to low land? Firstly, there are many barriers to foreign financial investment (limit on foreign investment in a local company; some industries closed to foreign investment; low convertibility of the VND, etc.) Secondly, there are many restraints on foreign dealers. Thirdly, there are too many risks involved in securities trading in Vietnam.

In addition, when the world market tended to recover after the "dot.com" crisis, the Vietnamese stock market changed in the opposite direction. In the last four years, the world market increased by 12.66% a year, the Vietnamese market fell by -13.94%. This explains the lack of attraction of the local market after some eight months it came into operation.

3. Risk of price fluctuation

We define the risk of price fluctuation as the standard error of the weekly profitability ratio, and work out its value for the year by multiply the weekly standard error by the square root of the number of trading sessions in a year. We should calculate everything on a weekly basis because the trading center authority

Table 2: Profitability of stocks by appreciation after five years (July 2000 – July 2005)

Stock	1 st year	2 nd year	3 rd year	4 th year	5 th year	Average
REE	331.3%	-52.61%	-44.04%	92.62%	12.64%	19.9%
SAM	273.5%	-53.86%	-0.17%	94.87%	-0.26%	27.3%
HAP	587.5%	-64.00%	-18.99%	25.52%	1.83%	20.7%
TMS	542.9%	-58.33%	-25.07%	14.95%	4.18%	19.2%
LAF	311.8%	-70.57%	6.31%	0.46%	50.00%	14.2%
SGH	38.9%	-54.57%	-20.75%	9.52%	0.72%	-11.2%
CAN		-19.93%	-30.88%	3.33%	-6.45%	-14.5%
DPC		-54.57%	-33.33%	-5.66%	6.00%	-25.8%
BBC		-27.04%	-52.28%	58.51%	4.03%	-13.0%
TRI		-7.59%	-30.60%	22.58%	2.19%	-5.3%
GIL		13.16%	-16.28%	40.83%	-8.28%	5.2%
BTC		2.28%	-25.45%	-10.18%	-42.00%	-20.6%
BPC		-12.80%	-29.36%	26.62%	-20.00%	-11.1%
BT6		-11.49%	-22.60%	96.27%	-5.70%	6.1%
GMD		-1.65%	-20.81%	63.14%	10.63%	8.9%
AGF		-4.00%	-16.32%	57.68%	-18.95%	0.7%
SAV		-21.60%	-16.84%	93.25%	-8.57%	3.6%
TS4			-20.91%	-2.30%	8.82%	-5.6%
KHA			-12.51%	-43.86%	35.16%	19.4%
HA5			-9.30%	51.28%	-5.31%	9.1%
VTC			-2.38%	78.05%	-11.78%	15.3%
PMS				9.66%	-11.32%	-1.4%
BBT				-36.11%	-17.39%	-27.4%
DHA				-20.78%	16.72%	-3.8%
SIC					10.53%	10.5%
NKD					40.00%	40.0%
SSC					17.86%	17.86%
MHC					5.26%	5.26%
PNC					5.00%	5.00%
TNA					-22.00%	-22.00%
VF1					-14.85%	-14.85%
VN INDEX	345.4%	-56.04%	-23.75%	61.39%	1.37%	19.6%
World	-11.62%	-9.05%	12.86%	23.89%	26.7%	7.33%
VN (4 year)						-13.94%

Source : <http://www.ssc.org.vn>, <http://www.chungkhoandenhat.com>

set the band for price fluctuation every day, so calculating things on a daily basis could distort results because of this regulation. The results are shown in the Table 3 (there is no result of the TNA because this stock has been just traded for some sessions in the fifth year.)

The Table 3 shows that the risk increased in the second year, fell in the third, rose in the fourth and stayed under the average in the fifth. In the fifth year, the risk degree was 27.49%, twice as high as the WFE average of 11.74%

The second remark is that the risk degree tended to change in parallel with the profitability ratio. To check this remark, we calculate the correlation coefficient between the profitability ratio of companies and the standard error of this ratio in the past five years.

There are 97 pairs of number. The resulting correlation coefficient is +0.354. Statistical data show that there is certainly a directly proportional relation between the profitability ratio and risk degree. In other words, the riskier the stock, the higher the expectation of profitability ratio, and vice versa. It's necessary, however, to affirm that this test didn't confirm a causal relation between the two variables.

Thirdly, although the VF1 Fund has suffered losses since its establishment, it still played a role in distribution of risk, that is why its risk degree is

lower than those of all securities. The 6th and 7th columns of the Table 3 are real risk degrees of securities and this fund in the fifth year. Because some securities and the fund came into existence in less than a year, the last column estimates their risk degrees as though they were traded in all 50 weeks of the year, even so, the risk degree of the VF1 Fund was still lower than those of other securities.

4. Liquidity

The following Table 4 shows the volume of securities and VF1 traded in the past five years. The last five rows describe the total trading value of the market.

The liquidity in the 5th year was poor absolutely and relatively. The rela-

tive liquidity of the whole market fell from 45% per year in the 4th year to some 27% in the fifth. This means that the time for capital turnover increases from 27 to 45 months. As for the absolute value, the average volume of securities traded in a year fell from 232,000 in the fourth to 176,000 in the fifth year, and the average value of a trading session fell from VND6 billion to some 4.2 billion in the same period.

Although the Vietnamese market is small, this is not the reason for a high relative liquidity. On the other hand, the world average liquidity is twice as high as the Vietnamese one. The reason is apparent: in the local market, ordered are matched twice a session, or 502 times a year while an order could be handled within 22 seconds in developed ex-

changes, or 1,473 times a day. This means that within seven days these exchanges trade the same volume as one traded in the Vietnamese one in 20 years.

In the fifth year, of 24 stocks listed before the fifth year, only four (HAP, LAF, BTC and KHA) had their absolute liquidity improved. Some others, such as SGH had only 477 shares traded per session, equaling 6.78% a year (this means that it takes 14 years 9 months for all issued shares to change hand.) There are also stocks that gained high liquidity, such as MHC (124% a year) and BBT (104%).

The figure 2 shows the world's busiest stock exchanges. The American one accounted for 50% of the world stocks traded, and the top six (the U.S., U.K., Japan, Germany,

Spain and Euronext) accounted for four fifth of the world value of stock traded. The proportion of total trading value to the market value of all stock exchanges in the WFE shows that their average liquidity topped 120%. The Table 5 presents 15 stock exchanges with high liquidity.

5. As a conclusion

Five years are long enough for experts to understand nature of a market.

Investment consultants also take five-year periods as a basis for their analyses of profit and risk before giving advice to potential investors. Many exchanges have made long steps forward within five years. What prevents the Vietnamese one from gaining such an achievement?

Vietnam has succeeded to some extent in attract-

ing foreign direct investment and it failed to attract indirect one although this source of finance is very promising. Vietnam also succeeded in encouraging domestic investment with hundred thousands of companies that came into being within several years. The volume of domestic investment is many times higher than the financial investment and local investors are reluctant to buy stocks. What led to such a situation? Perhaps the climate of direct investment has been improved remarkably making it more attractive and competitive. The climate of financial investment that could attract both foreign and local investors also needs such improvements otherwise it will stay small and unattractive. ■

Table 3: Risk of price fluctuation based on the standard error of profitability ratio

Stock	1 st year	2 nd year	3 rd year	4 th year	5 th year	Average	Note
REE	42.28%	42.56%	18.34%	45.42%	17.58%	33.24%	
SAM	38.12%	40.14%	11.29%	39.70%	10.46%	27.94%	
HAP	33.40%	44.14%	15.43%	37.84%	13.12%	28.78%	
TMS	47.21%	42.85%	15.87%	28.03%	14.86%	29.76%	
LAF	32.90%	48.11%	23.42%	27.87%	29.59%	32.38%	
SGH		37.23%	20.63%	33.92%	14.92%	26.67%	
CAN		19.52%	20.91%	39.24%	14.98%	23.66%	
DPC		17.16%	23.40%	34.82%	30.55%	26.48%	
BBC		15.84%	20.90%	48.78%	12.52%	24.51%	
TRI		14.29%	24.05%	31.43%	21.65%	22.86%	
GIL		14.52%	21.47%	36.79%	21.92%	23.68%	
BTC		12.52%	39.16%	31.81%	29.99%	28.37%	
BPC		13.02%	20.63%	30.35%	18.16%	20.54%	
BT6		14.59%	18.82%	40.41%	17.99%	22.95%	
GMD		7.21%	15.59%	28.92%	15.94%	16.91%	
AGF		7.55%	18.53%	23.28%	14.11%	15.87%	
SAV		10.31%	21.29%	37.75%	17.33%	21.67%	
TS4			20.80%	31.01%	20.95%	24.25%	
KHA			17.10%	33.16%	19.25%	23.17%	
HAS			10.08%	33.09%	17.16%	20.11%	
VTC			10.11%	39.62%	19.95%	23.23%	
PMS				27.42%	17.40%	22.41%	
BBT				16.63%	26.27%	21.45%	
DHA				8.00%	17.11%	12.55%	
SFC					27.50%	27.50%	30.0%
NKD					9.85%	9.85%	12.7%
SSC					8.19%	8.19%	13.0%
MHC					14.07%	14.07%	24.1%
PNC					8.90%	8.90%	44.5%
TNA							
VFI					10.15%	10.15%	12.1%
VN INDEX	36.99%	37.64%	11.73%	29.84%	21.25%	27.49%	

Source: <http://www.vsc.org.vn>, <http://www.ssc.org.vn>, <http://www.chungkhoandenhut.com>

Table 4: Trading volume of securities in the five years (July 2000 – July 2005)

Stock	1 st year	2 nd year	3 rd year	4 th year	5 th year	Average
REE	23,953	35,557	27,510	68,245	33,216	37,696
SAM	49,187	31,325	8,770	24,916	8,324	24,504
HAP	8,413	4,684	1,665	4,805	7,065	5,326
TMS	7,363	8,005	1,145	4,237	2,381	4,626
LAF	3,752	2,606	845	1,973	9,830	3,801
SGH	233	4,191	989	1,062	477	1,390
CAN		3,845	1,656	3,893	2,546	2,985
DPC		4,426	1,290	2,704	898	2,330
BBC		23,794	10,300	27,552	15,731	19,344
TRI		11,377	1,835	6,902	5,620	6,434
GIL		4,778	2,366	6,970	2,392	4,127
BTC		3,454	724	725	1,125	1,507
BPC		5,505	1,409	2,047	1,358	2,580
BT6		9,587	5,225	12,745	2,232	7,447
GMD		6,340	4,307	9,393	6,061	6,525
AGF		19,594	5,235	7,045	2,583	8,614
SAV		12,625	9,166	18,493	4,479	11,190
TS4			549	1,042	779	790
KHA			3,851	6,190	11,550	7,197
HAS			1,498	1,928	1,837	1,754
VTC			1,523	1,912	912	1,449
PMS				4,932	1,456	3,194
BBT				32,721	24,148	28,434
DHA				5,050	4,995	5,022
SFC					3,774	3,774
NKD					7,953	7,953
SSC					6,710	6,710
MHC					33,099	33,099
PNC					20,961	20,961
TNA					53	53
VFI					56,544	56,544
Average/securities	90,898	139,828	90,174	232,258	175,955	145,823
Value/securities(VND mill.)	4,472	4,818	1,833	5,946	4,239	4,261
Liquidity ratio	45.30%	53.83%	19.12%	44.48%	26.61%	37.87%
Average/securities +Q					244,238	244,238
Value/securities +Q (VND mill.)					5,064	5,064

Source: <http://www.vse.org.vn>, <http://www.ssc.org.vn>, <http://www.chungkhoandenhat.com>

Table 5: Exchanges with high liquidity (August 2004 – August 2005)

Exchange	Relative liquidity
Nasdaq	251,1%
Istanbul SE	178,5%
BME Spanish Exchanges	164,7%
Korea Exchange	160,5%
Borsa Italiana	147,2%
Deutsche Börse	136,4%
Taiwan SE Corp.	129,8%
OMX Exchanges	115,4%
Euronext	113,5%
London SE	111,8%
Shenzhen SE	111,5%
Oslo Bors	108,8%
Swiss Exchange	107,4%
NYSE	93,1%
Tokyo SE	91,9%

Source: <http://www.world-exchanges.org> www.world-exchanges.org

Figure 2: Shares of exchanges by the trading value in 2005 (to the end of July)

