Factors Affecting Value of Shares

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Every potential investor or dealer could easily notice that the value of some shares in stock markets, nowadays, are booming and increasing or the contrary every morning. As a matter of fact, the increase or decrease in the value of shares in certain companies could happen or could take place many times in one day.

The value of shares, generally speaking, are determined by many factors. These factors could be the general performance of the company, success of certain projects performed by the company or under-the-process, electing or appointing new board of directors, appointment of new management, capital increase, merger and new acquisition policies or adding new assets…etc.

All above factors, inter alia, play an important role in the price or nominal value of certain shares in a particular company or group of companies.

The value of shares in certain banks, for example, could increase due to publication of good profits or returns in newspapers. The value or price of shares in other companies could increase due to the fact that there is good potential in the near future and every investor wants to take part of the cake. However, such publicity should be accurate & monitored by regulatory authorities. Sometimes they are vague, misrepresented and misleading.

On the other hand, there may be other negative factors that could seriously damage the good name and or the image of the company, and accordingly, this could lead to a sharp drop or decline in the value or price of the share in the concerned company.

Of course, no shareholder in a company wants this to happen for the shares in the company wherein he is an investor in the equity shareholding. However, generally speaking there is no guarantee and the drop or decline in the value or price of the shares could happen to any company without any exception in this respect.

The factors influencing drop of the value of shares could include failure of the company in certain major projects, or the occurrence of uncontrolled natural or environmental circumstances as the spread of certain epidemics. Another factor could also include low profits, loss of new projects, conspicuous bad or corrupt management.

Moreover, in certain instances, the factors could come from third parties outside the control of the management and or the Board of the company, such as intervention of governments, other competent authorities, unforeseen competitors, natural hazards directly affecting the production of the company, turmoil or strikes, etc.

As example, we could refer to some companies where there was noticeable drop in the price of shares at certain times, when other competitors or government bodies raised severs cases as anti-trust cases or other big corporate cases.

With reference to the fluctuations of prices, generally speaking, all investors are advised not to run or rush when there is price increase because this increase could happen at certain instances that may not necessarily reflect the real actual price of the share. Also, at the same time, investors should not panic when there is drop in shares price because this drop could be occasional or for temporary reasons.

In all cases the actual reasons for increase or drop in prices should be evaluated and studied carefully before taking the decision to buy or sell. Necessary study will enable potential investors to take most appropriate and wise decision. Investors could be under many physiological reasons at the time of the decision, however, we call for some wisdom. The real wisdom is needed at such times and instances.

The competent authority monitoring stock markets should also take necessary steps to curb manipulation or fictitious prices, which could happen from time to time, because the market will be affected and dangerous situation or consequences may happen

The securities markets laws in Bahrain and neighboring GCC countries, give the management taking care of the markets the legal authority to intervene whenever there is sharp increase or decrease in the prices. Moreover, such laws give the management the authority to take necessary actions when the price of shares is affected unnecessarily or unsubstantially. Such laws provide for this important issue to protect investors and, at the same time, to create a healthy environment for investment in stock markets.