

ASSESSMENT OF INVESTMENT PORTFOLIOS OF JORDANIAN BANKS

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Abstract:

The central question of this study is how investors select investments that will give them their required rate of return; they are mainly concerned with the performance alternatives. This study is mainly concerned with the performance of Jordanian Banks in their alternative investments in general and the portfolio investments in particular. Study results revealed that Banks of Jordan adhere to theories of formation of investment portfolios, in terms of diversification, trade-off between return and risk, and policy in the composition of the portfolios. The principle of convenience is applied to ensure the stability of the investor and the capital return. Study also pointed out that Banks of Jordan adhere to the principle of diversification, and are committed to the principle of trade-off between return and risk and comply with the principles of the policy in the composition of the portfolio, and the principle of ensuring the stability of the investor and the capital return.

Keywords: Investment Portfolio, Banks, Bank Operating Resources

1-1 Introduction

Commercial banks are organizations which normally perform certain financial transactions. They perform the twin task of accepting deposits from members of public and make advances to needy and worthy people from the society. However, the nature of banks has changed as the time has changed.

Commercial Banks play a very important role in the economic life of the nation. The health of the economy is closely related to the soundness of its banking system. Although banks create no new wealth but their borrowing, lending and related activities facilitate the

process of production, distribution, exchange and consumption of wealth. In this way they become very effective partners in the process of economic development. Today modern banks are very useful for the utilization of the resources of the country. The banks are mobilizing the savings of the people for the investment purposes. If there would be no banks then a great portion of a capital of the country would remain idle. Importance of commercial banks has emerged through their primary role in the acceptance of demand deposits that can be withdrawn by checks by distributors at any time after the time of deposit. Banks are now the major buyers of debt and other securities. Commercial banks play a dominant role in the money and capital markets. Thus the importance of commercial banks has emerged as a prime component of the financial system and has a large impact on the economy. Banks in addition to the official reserves and to the assets related to monetary policy operations hold other investments in financial instruments and in real estate. Investment portfolios include government bonds and equities. Investment portfolios may include other international bonds and equities and equity funds as well. The objectives of the investment portfolios are income generation and capital preservation, considering the risks stemming from other asset and liabilities and those associated with institutional activities. (Rose, P., 2003) . This study is to assess the proceeds, the scientific principles, and rules in the composition of investment portfolios of Jordanian Banks.

The importance of this study role played by banks in the national economy as reflected in its effects on multiple sectors.

Good management of investment portfolios of the banks will improve their financial position, which in turn will make it better able to serve our customers optimally, leading to increased productivity and effectiveness of banking services and more able to keep up with economic development and global competition. The previous studies are like looking at the issue of the efficiency of the investment portfolios of surplus funds of commercial banks in Europe.

Provide a set of recommendations for maximizing the use of the subject in the development of investment portfolios in Jordanian banks.

1-2 Research Problems:

Importance of commercial banks has emerged through their primary role in the acceptance of demand deposits that can be withdrawn by checks at any time after time of deposit. Thus, commercial banks play an important and vital role in the formation of funds

and their employment. Commercial banks are viewed as saving coffers and large financing channels, and form the most vital component of the financial system. Commercial banks realize their major profits from the difference between the revenues of credits and the cost of deposits; other revenues come through their various channels of investments. This study aimed to look at the foundations and scientific principles in the composition of investment portfolios of commercial banks, through answering the question: What is the extent of applying theoretical and practical principles in composing investment portfolios in Jordanian Commercial Banks?

2- Literature Review

2-1 Theoretical framework for research

2-1-1 Commercial Banks:

Commercial banks are the dominant privately owned financial institutions in the economic system of most major countries. These institutions offer the public both deposit and credit services and a growing list of newer and innovative services such as investment advice, security underweighting, selling insurance, and financial planning .The word commercial implies that banks devote most of their resources to meet the financial needs of business firms. However, in recent years, commercial banks have significantly expanded their offerings of financial services to individuals and groups of investors .The result is the emergence of a new financial institution called “The financial department store”, in order to satisfy the broadest range of financial service needs in the global economy(Rose,P.,2003).

Importance of Commercial Banks: Commercial banks play a dominant role in both money and capital markets, they hold about one-quarter of the total assets of all financial institutions in major countries, they are the principal means of money payments through demand deposits accounts, credit cards, and electronic transfer services. Commercial banks have the ability of creating money from excess reserves of public deposits; they form the principal channel for implementing government monetary policy, they are the major source of consumers’ credits and are the major buyer of debt securities issued by the different government authorities.

2-1-2 The foundations of the commercial bank operating resources

The main objective of commercial banks is to achieve the maximum possible return at the lowest risk possible. In order to achieve high profits, the bank has to work in various fields, and must bear high risk, as the relationship between profitability and risk is directly proportional; i.e. potential return rises with an increase in risk. Bank operating foundations are:

2-1-2-1-Profitability:

Banks seek to achieve profitability through banking services provided to their customers, such as loans and advances, deposits, investments or any other activity or service. And in return for these services banks must get income ,also banks will incur expenses or costs such as interest paid on deposits, and general and administrative expenses paid to their employees. Where the difference between expenses and income is the profit earned or loss realized.

2-1-2-2-Liquidity:

Liquidity for a bank means the ability to meet its financial obligations as they come due. Liquidity represents the capability of a financial firm to maintain constantly equilibrium between the financial inflows and outflows over time. Bank lending finances investments in relatively illiquid assets, but it funds its loans with mostly short term liabilities. Thus one of the main challenges to a bank is ensuring its own liquidity under all reasonable conditions. It is generally agreed that there is a tradeoff between resilience to liquidity shocks and the cost of holding lower-yielding liquid assets as the latter may impact banks' ability to generate revenues, increase capital and extend credit.((Bordeleau,E. and Graham,C.,2010)

Components of bank liquidity:

2-1-2-2-1- Initial Reserves:

Are those monetary assets owned by the Commercial Bank without earning them back, (Sabty, 1990, 16) and comprises bank reserves at the level of one of four components: Cash of local and foreign currencies to meet its banking obligations; cash deposits with Central Bank defined as legal reserves and carries no interest ,however, excess deposits are entitled for interest; cash deposits and checks with other local banks used for clearing and collection of debt, while deposits in foreign banks are to finance the bank's foreign trade.

2-1-2-2-2- Secondary reserves:

Liquid assets which generate a return, they include securities and many kinds of commercial papers discounted, which can be converted into cash when needed, these reserves have multiple benefits which contribute to the strengthening of primary reserves, and contributes to bank profits.

2-1-2-2-3 Major liquidity principles: Basel II has stressed the following principles for liquidity risk supervision.

Principle 1: Supervisors should regularly perform a comprehensive assessment of a bank's overall liquidity risk management framework and liquidity position to determine whether they deliver an adequate level of resilience to liquidity stress given the bank's role in the financial system.

Principle 2: Supervisors should supplement their regular assessments of a bank's liquidity risk management framework and liquidity position by monitoring a combination of internal reports, prudential reports and market information.

Principle 3: Supervisors should intervene to require effective and timely remedial action by a bank to address deficiencies in its liquidity risk management processes or liquidity position.

Principle 4: Supervisors should communicate with other supervisors and public authorities, such as central banks, both within and across national borders, to facilitate effective cooperation regarding the supervision and oversight of liquidity risk management. So the financial manager is always faced with the dil -Intrat of liquidity vs. profitability. He has to strike a balance between the two: a. the firm has adequate cash to pay for its bills. b. The firm has sufficient cash to make unexpected large purchases. c. The firm has cash reserves to meet emergencies, at all times.(Basel II,2008).

2-1-2-3-Collaterals and Default Risk:

The foundation under which a commercial bank extends credit is based on the confidence that the money invested by the bank and lends it to others will come back to it within a specified and agreed time interval.

Collateralized loans: A collateral loan is a loan secured by some asset that a borrower owns and promises to hand the asset over to the bank if he\she cannot repay the loan as agreed. By

using a collateral loan, the bank takes less risk in granting loans; Collateral loans are used when banks want some assurance that they won't lose all or part of their money.

2-1-2-4-Investment:

Traditional commercial banks, especially small community banks invest mostly in loans, including mortgage loans, commercial loans, student loans, credit card loans, small business loans, lines of credit etc.yet not all bank funds can be allocated to loans. For one reason, many loans are illiquid as they cannot easily be sold prior to maturity if the bank needs cash in a hurry. Another reason is that loans are among the riskiest bank assets, carrying the highest borrow default rate of any form of bank credit. Moreover, for small and medium-size banks at least, the majority of loans typically come from the local area. therefore, any significant drop in local economic activity weakens the quality of a major portion of the average bank's loan portfolio.Also, all bank loans' income are taxable, which necessitates the search for significant tax shelters when earnings from loans are high.consequently, banks have learned to devote a significant portion of their asset portfolios to another category of earning asset, which is investment in securities. This typically includes government bonds, corporate bonds and stocks. These holdings perform a number of vital functions in bank asset portfolios, providing income, liquidity, diversification which reduces risk and sheltering of at least some portion of bank earnings from taxation. Also investments tend to stabilize bank earnings, providing supplemental income when other sources of revenue decline.

2-1-2-4-1-Investment Risks:

Usually investors are not in favour of taking risks or being exposed to risk, ao they always look for investments that make them the highest returns with the least risk, although the vast majority of investors fall into this category, however, some of them pursue risk hazards for compounding returns. Investors always prefer the less risky securities when other things being equal, i.e. Profits, but they may deal with higher risky securities to earn more revenues which compensate for those risks.

-Types of Investment Risks:

- **Systematic Risk:** The risk inherent to the entire market or entire market segment. It is the risk which is due to the factors which are beyond the control of the people working in the market and that's why risk free rate of return is used to just compensate this type of risk in market. Also known as "un-diversifiable risk" or "market risk," such as interest rates, recession, and wars, these risk factors affect the entire market and cannot be avoided through diversification; this type of risk affects a broad range of securities and can be mitigated only by being hedged. Types of risk under the group of systematic risk are listed as follows:

1. Interest rate risk. 2. Market risk. 3. Purchasing power or Inflationary risk.

- **Unsystematic Risk:** specific risk such as company or industry that is inherent in each investment. It is also known as "specific risk", "diversifiable risk" or "residual risk". This risk can be defined as that part of a risk which is not correlated with general market movements. This risk due to the factors which are controllable by the people working in market and market risk premium is used to compensate this type of risk. This kind of risk can be reduced by diversification. The types of unsystematic risk are:

1- Business or liquidity risk. 2. Financial or credit risk. 3. Operational risk.

2-1-2-4-2-Investment Instruments Available to Banks:

The number of financial instruments available for banks to add to their securities portfolio is both large and growing. Each financial instrument must have different characteristics in regard to risk, sensitivity to inflation and to shifting government policies and economic conditions. Investment vehicles open to banks are two broad groups:

- **Money market instruments:** which reach maturity within one year and are characterized for their low risk and immediate marketability, such as treasury bills, certificate of deposit, international Eurocurrency deposits, and many commercial instruments.

- **Capital market instruments:** which mature beyond one year and are generally noted for their higher expected rate of return and capital gains potential? Such as treasury notes and bonds over one year to maturity, municipal bonds, and all kinds of corporate bonds.

- **Other investment instruments developed more recently:** they are variations on traditional notes and bonds, and new investment vehicles such as:

Structured notes: instruments with adjustable interest rates.

Securitized assets: claims against expected income and principal generated by a pool of similar-type loans.

Mortgage-backed bonds: securities issued against groups of mortgage loans.

- **Stripped securities:** Financial instruments that have been transformed from a principal amount with periodic interest coupons into a series of zero-coupon bonds, with the range of maturities matching the coupon payment dates and the redemption date of the principal amount. (Rose,P.,2002)

- **Investment Portfolio:** A group of financial assets such as stocks, bonds and cash equivalents. Portfolios are held directly by investors and/or managed by financial professionals. Investors usually construct their investment portfolio in accordance with risk tolerance and investing objectives. Conservative investors might favour portfolios with large cap value stocks, broad-based market index funds, investment-grade bonds and a position in liquid, high-grade cash equivalents. In contrast, risk loving investors might add some small cap growth stocks to an aggressive, large cap growth stock position, assume some high-yield bond exposure, and look to real estate, international and alternative investment opportunities for his or her portfolio.

- **Portfolio Theories:** Investors focused on assessing the risks and rewards of individual securities in constructing their portfolios. Standard investment advice was to identify those securities that offered the best opportunities for gain with the least risk and then construct a portfolio from these. In order to build a portfolio model, investors had to quantify their risk variable.

- 1 Markowitz had developed the portfolio basic model, he derived the expected rate of return for a portfolio of assets and their expected risk measure. Markowitz showed that the variance of the rate of return was a meaningful measure of portfolio risk under a reasonable set of assumptions, this theory indicated the importance of diversifying the investments to reduce the total risk of the portfolio.
- 2 Capital Market Theory extends the portfolio theory and developed a model for pricing all risky assets in a “Capital Asset Pricing Model”, or (CAPM), this model will allow investors to determine the required rate of return for any risky assets. The importance of this theory is how it explains and helps investors and analysts predict behaviour in the real world but not on the assumptions postulated.

- 3 Arbitrage Pricing Theory: Created in 1976 by Stephen Ross and is defines as: An asset pricing model based on the idea that an asset's returns can be predicted using the relationship between that same asset and many common risk factors, this theory predicts a relationship between the returns of a portfolio and the returns of a single asset through a linear combination of many independent macro-economic variables. Arbitrageurs use the APT model to profit by taking advantage of mispriced securities. A mispriced security will have a price that differs from the theoretical price predicted by the model.
- 4 - Portfolio Asset Allocation: It is the process of distributing the investor's wealth among different asset classes; an asset class is comprised of securities that have similar characteristics, attributes, and risk\return relationships. Asset allocation decision is a critical component of the portfolio management process. The decision for the asset allocation should be done in the light of a range of factors:
 - 5 1 - Relative valuation of different categories of assets with the assumption of stability of macroeconomic factors such as inflation, Macro Economics, and interest rates.
 - 6 2 - The economic cycle, and its effects on interest rates, inflation rates and how they affect the prices of investment instruments.
 - 7 3 - Higher liquidity levels or cash surpluses in the community will lead to rising prices of investment instruments to varying degrees.
 - 8 4 - Technical Analysis, done by analysts or specialists, guided by technical and fundamental indicators will lead to forecast the future prices of financial instruments.

In constructing an investment portfolio, the following decisions are to be made:

- What asset classes should be considered for investment?
 - What policy weights should be assigned to each eligible asset class?
 - What is the allowable allocation range based on policy weights?
 - What specific securities should be purchased for the portfolio?
- 9 Portfolio Management Process: Process of managing an investment portfolio never stops. Once funds are initially invested according to the plan, work in monitoring and updating the status of the portfolio and investor needs begins. Following are the steps for portfolio management process:

- 10 Policy statement construction: usually focuses on investor's short-term and long-term needs, familiarity with capital market history, and expectations.
- 11 Investment Strategy: To examine current and projected financial, economic, political, and social conditions; it focuses on short-term and intermediate-term expected conditions to use in constructing a specific portfolio
- 12 Construct the portfolio according to the plan; it focuses on investors needs at minimum risk levels.
- 13 Feedback and continual monitoring: to monitor and update investor's needs, environmental conditions, and evaluate portfolio performance. (Reily, K. and Brown, K2003)

2-1-2-4-3-Investment Portfolio in commercial banks:

Commercial banks have substantial holdings of various financial instruments, financial or portfolio manager will continuously review the portfolio and decisions are periodically revised. At each decision point, the portfolio manager has an inventory of securities and funds on hand. Based on present credit-market conditions and his assessment of future interest-rate movements and demand for funds, the manager must decide which instruments to hold in the portfolio over the next time period, which ones to sell, and which securities to purchase from the marketplace. These decisions are subject to constraints on total portfolio size, exposure to risk in the sense of realized and unrealized capital losses, and other policy limitations on the makeup of the portfolio. The prime problem in portfolio-planning is the question of what distribution of maturities to hold during the next period. The difficulty of managing an investment portfolio stems not only from the uncertainty in future interest-rate movements but from the conflicting uses made of the portfolio. On the one hand, the portfolio is used to generate income, which argues for investing in the highest-yielding securities. On the other hand, the portfolio acts as a liquidity buffer, providing or absorbing funds for the rest of the bank, depending upon other demands for funds. Many commercial banks manage their investment portfolio using a "laddered" maturity structure, in which the amount invested in each maturity is the same for all maturities up to some appropriate length. Generally, the longer the ladder, the more risky the portfolio is considered. The advantages of a laddered portfolio are: no transaction costs or realized losses, since securities are always held to maturity rather than sold; generally high interest income, since the yield curve is usually rising with increasing maturity; no forecasting is needed and a relatively small percentage of

the portfolio needs to be reinvested each year. Some banks, on the other hand, manage their portfolio using a “barbell” maturity structure, in which the maturities held are clustered at the short and long ends of the maturity spectrum, with little, if any, investment in intermediate maturities. The advantages of a barbell portfolio are usually stated in terms of being more efficient than a laddered portfolio. The securities on the long end provide relatively high interest income, as well as potential for capital gains in the event of falling interest rates, while the securities on the short end provide liquid assets to meet various demands for cash from the portfolio for bank needs.(Bradley,S.P. and Crane,D.B.,1975)

2-1-2-4-4 Policies governing the management of investment portfolio:

Investment Portfolio includes bank loans and securities; loans portfolio achieve a higher return than returns achieved securities, the latter is characterized by a degree of flexibility in the case of emergency situations and there are two policies which govern the management of the portfolio.

1- Allocation of the portfolio:

Bank rests in a time when to achieve the maximum return, wants to achieve a certain degree of safety, allocation of available resources of loans and securities occurs in line with the prevailing economic conditions, in cases of economic recession, the demand for loans is reduced, so the bank will direct part of its resources to stock investments, and the opposite happens in periods of economic booms.

2- Diversification of portfolio components:

It means diversifying the components of the portfolio between loans and securities to reduce the degree of risk faced by the portfolio, and continue to earn a return, and for diversifying the loan portfolio, bank seeks not to limit its loans to a certain number of customers, or in a particular type of activity, also includes diversification the timing of interest payments and diversifying loans’ maturities. Also diversifying securities with certain proportions such as:

- Government securities, or securities guaranteed.
- Securities of non-governmental and fixed interest.
- Securities of foreign companies or foreign governments. (Reily, K.and Brown, K2003)

Portfolio Management Strategies: There are two basic approaches to investment management:

- **Active asset management:** is based on a belief that a specific style of management or analysis can produce returns that beat the market. It seeks to take advantage of inefficiencies in the market and is typically accompanied by higher than average costs. Those who favour an active management approach, stock selection is typically based on one of two styles:

- Top-down - Managers who use this approach start by looking at the market as a whole, and then determine which industries and sectors are likely to do well give the current economic cycle. Once these choices are made, they then select specific stocks based on which companies are likely to do best within a particular industry.

- Bottom-up - This approach ignores market conditions and expected trends. Instead, companies are evaluated based on the strength of their financial statements, product pipeline, or some other criteria. The idea is that strong companies are likely to do well no matter what market or economic conditions prevail.

- **Passive asset management:** is based on the concept that markets are efficient, that market returns cannot be surpassed regularly over time, and that low cost investments held for the long term will provide the best returns. Passive management concepts include the following:

- Efficient market theory - This theory is based on the idea that information that affects the markets is instantly available and processed by all investors. As a result, this information is always taken into account in market prices. Those who believe in this theory believe there is no way to consistently beat market averages.

- Indexing - One way to take advantage of the efficient market theory is to use index funds. Since index funds tend to have lower than average transaction costs and expense ratios, they can provide an edge over actively managed funds which tend to have higher costs.

Evaluation of Portfolio Performance: Investors are always interested in evaluating the performance of their portfolios. Banks and financial institutions must determine whether their effort is worth the time and money invested in these portfolios. There are four main portfolio performance evaluation techniques called the “Composite Portfolio Performance Measures”:

Treynor's Composite Performance Measure: a risk-free asset to be combined with different portfolios to form a straight portfolio possibly line. Treynor showed that rational risk-averse investors would always prefer possibility lines with larger slopes, as high-slope lines would put investors on higher profit curves.

Sharp Portfolio Performance Measure: it is a composite measure of portfolio performance which seeks to measure the total risk of the portfolio by including the standard deviation of returns rather than the systematic risk factor(beta). However Treynor's and Sharp's performance measures provide complementarity.

Jensen Portfolio Performance Measure: it is based on the capital asset model (CAPM). In this model, the expected return and the risk-free return vary for different periods. This model pretends that portfolios are perfectly diversified as it uses the market systematic risk factor (beta) for the individual security or portfolio.

The Information Ratio Performance Measure or the appraisal ratio: it measures the portfolio's average return in excess of that of a benchmark portfolio (comparison portfolio) divided by the standard deviation of the excess return.

2-1-2-4-5-Composition of the investment portfolio:

Money market instruments with short maturities and durations include:

Treasury bills, large negotiable CDs, bankers acceptances, commercial paper, security repurchase agreements, and tax anticipation notes.

- Capital market instruments with longer maturities and duration are classified by the issuer as: Long-term U.S. Treasury securities, obligations of U.S. government agencies,

Obligations of state and local governments and their political subdivisions labelled municipals, Mortgage-backed securities backed both by government and private guarantees, corporate bonds, and foreign bonds.

- Investment risk: there is no investment that is risk free. A good distinction between the different types of investment opportunities can be made by comparing capital risk to income risk. Before starting investing you should carefully consider the level of your risk tolerance. In the short-term, risk can be defined as price volatility or variability, whereas in the long-term perspective, risk is viewed as the possibility of being unable to financially meet your goals due to insufficient capital.

Previous Studies:

3-1-Study of Barber, B., Lehavy, R., and Trueman, B., 2004. Study compared the profitability of security recommendations issued by investment banks and independent research firms. During February 1996 - June 2003 period. Research proved that the average daily abnormal return to independent research firm buy recommendations exceeds that of the investment banks by 3.1 basis points, or almost 8 percentage points annualized. In contrast, investment bank holds and sells recommendations outperform those of independent research firms by 1.8 basis points daily, or 4½ percentage points annualized. Taken as a whole, these results suggest that at least part of the underperformance of investment bank buy recommendations is due to a reluctance to downgrade stocks whose prospects dimmed during the early 2000's bear market, as claimed in the SEC's Global Analyst Research Settlement.

3-2-Study of Aldaihani,M.,and Aldeehani,T.,2004Researchers studied the optimal portfolio selection of stocks in Kuwait Stock Exchange as an emerging market. A mathematical model for portfolio optimization is developed to balance the trade-off between the expected return and risk. Moving Average and Random Walk techniques were used to determine the expected return, while standard deviation and correlation between the selected stocks in the portfolio were used to measure the portfolio risk. A quarterly basis strategy and an annual basis strategy were applied to test the model by using real data from Kuwait Stock Exchange (KSE) for the years from 1994-2001. Results indicated that there is a room for optimization in KSE, if the model uses the annually basis strategy.

3-3-Study of Wildmann,C.,2010Researcher studied portfolio investment decisions of German banks in 30 emerging capital markets. He used monthly data from 2002 to 2007extracted from the External Position Report provided by Deutsche Bundesbank, which covers German banks assets and liability positions vis-à-vis foreign countries. He used the determinants: indicators of financial market development, portfolio-calculus of investors, specific characteristics of investors, and the macroeconomic environment. He traced a significant evidence for German banks along with their various financial market dimensions of development in their portfolio investment decisions and anticipating the special risks inherent in emerging markets. The implication for policymakers would be to foster financial market development in order to attract and sustain international portfolio investors. However, there is additional evidence for the investor's domestic market environment and global risk aversion exerting a significant influence in times of financial chaos.

3-4-Study by Parthapratim, Pal, 2006 Researcher examined the impact of Foreign Portfolio Investment on India's economy and industry. As Foreign Portfolio Investment essentially interacts with the real economy via the stock market; the effect of stock market on the country's economic development will also be examined. Findings showed that the perceived benefits of foreign portfolio investments have not been realized in India. Results of this study showed that the mainstream argument that entry of foreign portfolio investors will boost a country's stock market and consequently the economy does not seem to be working in India. Also, the surge in foreign portfolio investment in the Indian economy has introduced some serious problems of macroeconomic management for policymakers. Results of this research can be used to draw lessons for other developing countries which are at the same or similar level of development.

3-5-Study of Al-Ali, A, Researcher aimed to analyse investment characteristics of common stocks traded at Amman Stock Exchange (ASE) and explore the impact of constructing efficient portfolio on the expected return and risk levels, In addition, the study aimed to determine the investment attractiveness in this emergent market. Beta Model has been used in return generating process and to measure risk levels. Simple Ranking Model has been used to determine the efficient portfolio. A set of portfolio performance evaluation criteria including Jensen, Treynor; Sharpe and (CAPM) have been used to compare the performance of the efficient portfolio with a traditional one, the findings of this study indicated a high performance of the efficient portfolio. Additionally, the possibility to implement the modern concepts relating to investment management in emerging market has been emphasized. This indicated that investment environment of (ASE) is a suitable environment to attract National and Foreign capitals.

1-2-1 Study Hypotheses:

- 1- H_{01} : Banks are not committed to diversification
- 2- H_{02} : Banks should not swap risk and return
- 3- H_{03} : Banks are not committed to their policy in composing their investment portfolios.
- 4- H_{04} : Banks are not committed to the principle of convenience.
- 5- H_{05} : Banks do not ensure the stability of the investor capital and the capital return.

5-Study Population and Data Collection:

1-5-1-Study Population: The study population consists of 14 Jordanian banks. A questionnaire will be distributed to each Investment Department in each bank as it is the body concerned with investment portfolios. (20) Questionnaires were identified valid for statistical analysis.

1-5-2-Data Collection:

Includes a questionnaire which covers all the dimensions of each of the variables of the study .Questionnaire will be distributed to members of the study population and data will be collected, analyzed and outcomes on the relationships between variables of the study will be realized.

Consists of Information ready and available in library books, periodicals and articles related to the research and that will be relied upon in determining the theoretical framework for the study.

4-Study Results:

Data from questionnaires have been compiled; the mean and standard deviation have been extracted to describe the views of respondents. Results are summarized in the following table:

Question #	Arithmetical Mean	Standard Deviation
1	3.8500	1.08492
2	3.9000	1.05006
3	3.8000	1.05631
4	4.4000	1.09119
5	4. 1000	1.03999
6	3.8500	1.08094
7	3.7000	1.09333
8	3.6500	1.31389
9	3.4000	1.05006

10	3.4500	1.08094
11	3.7000	1.17429
12	3.7000	1.27733
13	3.5000	1.13671
14	3.6500	1.12858
15	3.7000	1.09872
16	3.7000	1.05131
17	3.5000	1.23438
18	3.4500	1.03999
19	3.6500	1.45458
20	3.3000	1.07115
21	4.1000	1.09881
22	4.1500	1.09904
23	4.0500	1.06808
24	4.6000	1.09234
25	4.3003	1.00525
26	4.2000	1.19097
27	3.9500	1.09904
28	3.9500	1.09904
29	3.8500	1.42441

We notice from the table above that the study sample shows a positive trend towards the paragraphs in the questionnaire, this is evident from the arithmetic means calculated are greater than the means measured (3).

- Reliability Test: Researchers have been using Cronbach's alpha test to measure the reliability of the measuring tool as the calculated value of alpha = 90.3% which is excellent as it is higher than acceptable value = 60%

- One value Ttest:

The decision rule for the one value T test: accept the premise of null hypothesis (H_0) if, and only if, the calculated value is less than the tabular value, and rejects the hypothesis of null hypothesis if the calculated value is greater than the value indexed

4-1-First hypothesis:

H_0 : Banks are not committed to diversification.

H_{a1} : Banks are committed to diversification.

Test results are in table (1):

Result of null hypothesis	Sig. of T	T From tables	Calculated T
Rejection	0.000	2.093	4.517

From the one value T test, we find that the computed T value (4.517) in table (1) is greater than the tabular value (2.093), and therefore we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_{a1}), which means that Jordan banks are committed to theories in composing investment portfolios.

4-2-Second hypothesis:

H_0 : Banks should not swap risk and return.

H_{a2} : Banks should swap risk and return.

Test results are in table (2)

Result of null hypothesis	Sig. of T	T From tables	Calculated T
Rejection	0.012	2.093	2.767

From the one sample T test, we find that computed T value (2.767) in table (2) is greater than the tabular value (2.093), therefore we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_{a2}), which means that Jordan banks should swap risk and return.

4-3-Third hypothesis:

Ho₃: Banks are not committed to their policy in composing their investment portfolios.

Ha₃: Banks are committed to their policy in composing their investment portfolios.

Test results are in table (3)

Result of null hypothesis	Sig. of T	T From tables	Calculated T
Rejection	0.002	2.093	3.638

From the one sample T test, we find that computed T value (3.638) in table (3) is greater than the tabular value (2.093), therefore we reject the null hypothesis (Ho₃) and accept the alternative hypothesis (Ha₃), which means that Jordanian Banks are committed to the principle of convenience.

4-4-Fourth hypothesis:

Ho₄: Banks are not committed to the principle of convenience.

Ha₄: Banks are committed to the principle of convenience.

Test results are in table (4)

Result of null hypothesis	Sig. of T	T From tables	Calculated T
Rejection	0.000	2.093	7.647

From the one sample T test, we find that computed T value (7.647) in table (4) is greater than the tabular value (2.093), therefore we reject the null hypothesis (Ho₄) and accept the alternative hypothesis (Ha₄), which means that Jordanian Banks are committed to the principle of convenience.

Fifth hypothesis:

Ho₅: Banks do not ensure the stability of the investor's capital and the capital return.

Ha₅: Banks ensure the stability of the investor's capital and the capital return.

Test results are in table (5)

Result of null hypothesis	Sig. of T	T From tables	Calculated T
Rejection	0.000	2.093	3.327

From the one sample T test, we find that computed T value (3.327) in table (5) is greater than the tabular value (2.093), therefore we reject the null hypothesis (Ho5) and accept the alternative hypothesis (Ha5), which means that Jordanian Banks ensure the stability of the investor's capital and the sustained return.

5- Conclusions and Recommendations

5-1- Conclusion:

Jordanian banks are committed to the theories of investment portfolios.

Banks of Jordan are committed to the principle of diversification.

Jordanian banks are committed to the principle of trade-off between return and risk.

Banks of Jordan are committed to their policy in composing investment portfolios.

Banks of Jordan are committed to the principle of convenience.

Banks of Jordan are committed to the principle of ensuring the stability of investor's capital and sustained return.

Recommendations:

As per the results reached, researchers recommend the following.

In composing an investment portfolio, the bank should diversify this portfolio in the sense that the return of any investment tool is appropriate for the degree of its risk, i.e. there will be a trade-off between return and risk.

The bank has to follow a balanced policy when composing an investment portfolio so as to maintain the relation between risk and return at any time. Further studies on this topic in order to develop further understanding of the foundations in the formation of investment portfolios.

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