

## Investment in stock market

With the growth of Iran's stock market and the development of economy, the Stock market Authorities have gradually relaxed these limitations on foreign investors.

As of April 2010, the process for investment by foreign investors in the stock markets was changed from the 'permit' system to the 'repatriation' system. This simplified the application procedures for foreign investment on the TSE.

### Investment Options

There are a couple of options each with their own pros and cons which will be covered in more detail below:

- Investment with direct involvement
- Nominee Accounts
- Managed Accounts
- Mutual Funds

### Investment with direct involvement:

In order to invest directly on TSE, investors, individuals and entities, must have a valid investment license and also a trading code through a brokerage firm. Therefore choosing a stock broker is the first step of the procedure. You will find all the information you need regarding the issuance of a trading license in Fig 1.

Once the license is issued and you obtain a trading code, orders can be placed through one of the following methods:

- In person\*
- Via phone\*
- Via email\*
- Online trading (individual investors only)\*\*

\* Please note that through the first three methods, a signed trading order sheet is necessary before any order gets executed.

\*\* Online Trading: Investing online, is where individual investors and traders buy and sell securities over an electronic network (trading platform), through a brokerage firm. However, you should know that as the infrastructure required to provide comprehensive data and customer support in English is still in its early days.

### Nominee Accounts

Nominee accounts, as we call them, allow investors to own shares and securities without becoming involved in any of the associated administration or paperwork that is indispensable when transacting in the market. An investment license is still required from the SEO. The investor is supposed to place the order himself through one of the approved channels that are provided by and available through the broker. The investor can also expect in-depth company specific reports in English to support his investment strategies. Using nominee accounts, you are not required to sign each order sheet before execution nor are you required to be present in Iran to execute the paperwork after it is prepared.



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## **Managed Accounts**

Managed Account, as it is clear from the name, refers to investment accounts that are owned by an individual investor and looked after by a retained professional money manager. This is the most advanced account a broker can provide for its high net worth clients. In contrast to mutual funds (which are professionally managed on behalf of many mutual-fund holders), managed accounts are personalized investment portfolios tailored to the specific needs of the account holder. With this type of account, the client is required to enter into a legal contract with a broker called “portfolio-management contract” and at the same time he/she should apply for an individual portfolio-management code from the Securities and Equities Organization (SEO) which is again obtained through a broker.

The procedure for obtaining a managed account is straightforward and starts with signing a contract between the investor and a broker. Investors must have an official investment license in order to own a portfolio account as explained above. Company specific reports in English along with routine performance reports are also provided with each managed account.

## **Mutual Funds**

A mutual fund is an investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are managed by money managers, who invest the fund’s capital and attempt to produce capital gains and income for the fund’s investors. A mutual fund’s portfolio is structured and maintained to match the investment objectives stated in its prospectus.

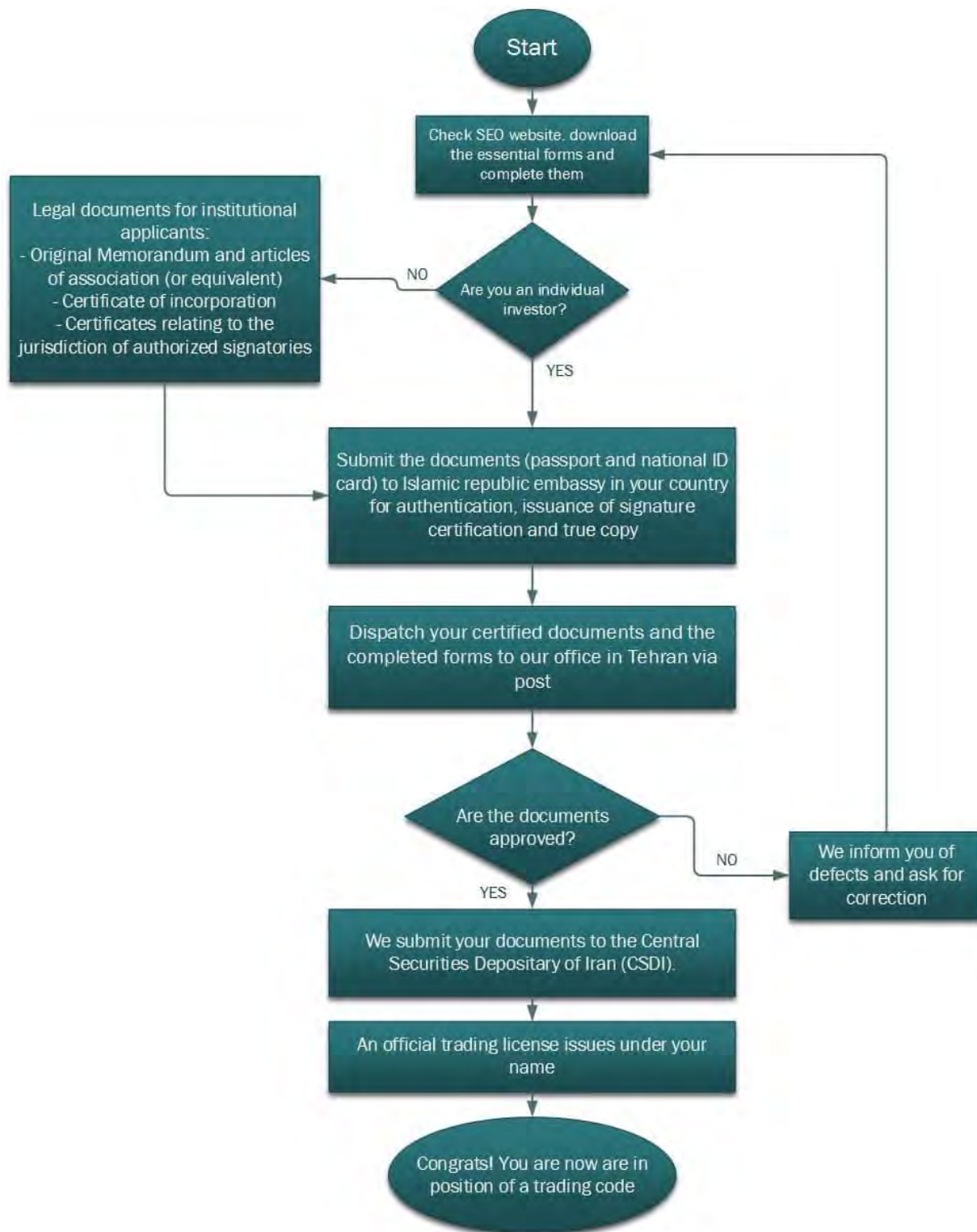
## **Advantages & Disadvantages:**

Mutual funds have advantages over investing directly in individual securities.

- Increased diversification: A fund normally holds many securities; diversification decreases risk.
- Daily liquidity: Shareholders may sell their holdings back to the fund at the close of every trading day at a price equal to the closing net asset value of the fund’s holdings.
- Professional investment management: Mutual funds hire portfolio managers to supervise the fund’s investments.
- Ability to participate in investments that may be available only to larger investors.
- Government oversight: Mutual funds are regulated by the SEO
- Ease of comparison: All mutual funds are required to report the same information to investors, which makes them easy to compare.

However, mutual funds have disadvantages as well, including

- Less control over the timing of the recognition of gains
- Less predictable income
- No opportunity to customize



If you are a fan of mutual funds, which is the best first step we believe, you can find the procedure in figure 2.

