

Analysis of Retail Investors' Behavior in the Capital Market

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Abstract: *There are various types of investors in the capital market, but retail investors are a mentionable portion and they behave in the market in different ways. They are of different age, sex, education background and size of the family. They are different on the basis of income level also. Investors' behavior is influenced by demographic, financial and macro factors. This paper examines the various influencing factors of behavior and thereby finds some motivating factors for which investors behave aggressively, moderately and conservatively in the market. Due to imbalanced behavior by some investors, the market price fluctuates extremely. As a result new investors sometimes lose their capital and that is de-motivational for the new as well as potential investors. So the paper is an attempt to study the investors' behavior for finding relevant factors to control the market behavior that will protect the investors' interest as well as to develop the efficient capital market.*

Keywords: Retail Investors, Stock Market, SEC, CSE, DSE, Demography

1. Introduction

The efficient capital market including its related financial sector's infrastructure is necessary to mobilize domestic financial resources more effectively. Capital markets are the complex of institutions and mechanisms whereby intermediate term funds and long-term funds are pooled and made available to business, the

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government and individuals and whereby instruments already outstanding are transferred. In a wider sense, capital markets include all organized market and institutions such as commercial banks, discount houses, stock exchanges, investment corporations etc. dealing in long term loans, mortgages and time and savings deposits. Broadly, capital markets comprise two segments: non-securities segment and securities segments. Non-securities segment comprises of banks and financial institutions. The securities segment is operating through the primary and secondary markets (Chowdhury, Tanbir Ahmed, 2005). The term primary market refers to the original sale of securities by governments and corporations. In a primary market transaction, the corporation is the seller, and the transaction raises money for the corporation. Corporations engage in two types of primary market transactions: public offerings and private placements. A public offering, as the name suggests, involves selling securities to the general public, whereas a private placement is a negotiated sale involving a specific buyer. The secondary markets are those in which these securities are bought and sold after the original sale. A secondary market transaction involves one owner or creditor selling to another. It is therefore the secondary markets that provide the means for transferring ownership of corporate securities (Ross, Westerfield and Jordan, 2002). Stock and bonds/debentures are the major instruments created and traded in the securities segment of the capital market, most commonly termed as securities market. This paper will deal with investors' behavior in the securities market portion of the capital market.

2. Objectives of the Study

The objectives of the study are as follows

- To highlight the retail investors' demographic behavior in the capital market
- To identify the flaws with the stock market operations and investors' behavior.
- To suggest some sound policy measures for ensuring congenial environment in the capital market.

3. Rationale of the Study

Stock market is one of the important vehicles for industrialization and economic growth of any country. The stock market augments the process of economic development through a number of ways: a) bringing together holders of surplus funds and users of such funds; b) offering a broad spectrum for investment and financing choices to both investors and issuers, c) drawing more institutions into investment process, d) attracting foreign portfolio and direct investment, and e) reducing the dependence of industrial enterprises on non-security market for capital. Thus stock market contributes to the development of economy through the development of businesses and industries.

Stock market can perform well to meet the continuous financial needs of business enterprises if there exists a congenial environment for boosting confidence of

both stock market operators and investors. The growth and development of stock market in a market economy largely depends upon the creation of enabling environment for boosting up investors' confidence.

The stock market of Bangladesh has been experiencing an encouraging expansion for the last 11 years since the stock market debacle in 1996. It has great potentiality for contribution to the growth of the economy if it can come to serve as an attractive investment market for both domestic and foreign investors. Stock market in Bangladesh was characterized by the features such as abnormal price fluctuation, small number of products, small capital base, small number of listed companies, price manipulation, low regulatory base, artificial behavior of stock market participants etc. (Jahur, and Uddin, 2007).

It failed to attract mass people in the capital market through a positive change in stock market operations, turnover of firms, regulatory environment etc. This dormant environment has caused a serious damage to the process of industrialization. The study is necessary to analyze investors' behavior for finding some corrective actions to bring investors from the mass people in the capital market and to protect their interest as well as to make the market efficient.

4. Methodology of the Study

The paper was prepared on the basis of both primary and secondary data.

4.1 Secondary Data

For secondary data we have gone through different types of publications and books. These are various publications of CSE, Trade Journals, and Research reports and books.

4.2 Primary Data

For collecting Primary data we did follow interview method and questionnaire method. The Primary data were collected through face-to-face interview with the investors. These types of data were also collected through participation of the investors during the trading session.

4.3 Location of Survey

The research was performed in the location of Chittagong Metropolitan Area (CMA). The people, who traded individually as single investor within this area, were selected for questionnaire survey.

4.4 Duration of the Study

The duration of the study was from July 2007 to February 2008. But the questionnaire survey was conducted during the period of July—August 2007. The rest of the time was used for secondary data collection, literature review, preparation of the questionnaire, data analysis and report preparation.

4.5 Target Group

The people of Chittagong City who traded in the capital market individually were the target group of the study. Total sample number interviewed of the target group was 370.

4.6 Sampling Technique

The population was divided into groups on the basis of securities firm in the Chittagong City area. In conducting the survey, all the securities firms of Chittagong City were taken as strata. Disproportionate stratified sampling was used to take an equal number of respondents from each stratum (Securities Firm) irrespective of its size.

5. Findings and Analysis

Stock market is considered to be a barometer of the economy. It has two fold advantages. One, it can mobilize small savings with adequate liquidity, on the other it can provide huge fund for large-scale industries. The economic development of a country depends largely on the effective performance of stock market. Now a days a strong capital market backed by efficient secondary market is a prerequisite for development. There is a dedicated regulator, the Securities and Exchange Commission (SEC), since 1993. Equipped with a wide range of relevant rules and regulations and necessary skilled human resources it implements rules and regulations, monitors their implications and continuously amend them to suit the emerging needs in order to operate and develop the capital market. The presence of the regulatory body is well felt during the awareness building, and in the times of crises.

There are two fully equipped stock exchanges, where adequate number of brokers and dealers take active and adequate part. Though exchange Boards are not demutualized with bourse management yet, they have fair share for non-broker independent members who play necessary roles in upholding investors' interests. There are provisions for unhindered participation of foreigners in exchange membership, though foreign brokers are yet to start any operation in the local capital market, largely due to its relatively small size. The exchanges are also equipped with adequate human resources to handle their functions efficiently. There is a judicial Council at the Exchanges for resolving disputes between brokers/dealers and investors (AIMS of Bangladesh Ltd., 2005).

5.1 Retail Investors' Behavior Analysis

There are various types of investors such as retail investors, institutional investors, foreign investors, group investors etc. in the capital market. Retail investors are the individual investors who participate in the market individually and take decision on their own judgments. According to prime bourse of the country, the market basically tends to be bullish due to active participation of the

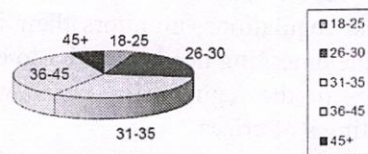
institutions, which is, 60% of the total trade; 20% of it comes from the foreign investors and the rest 20% comes from the retail investors (Ahmed, Abul Ahsan, 2008). Decision theorist Howard Raiffa [1968] introduces useful distinctions among three approaches to the analysis of decisions. Normative analysis is concerned with the rational solution to the decision problem. It defines the ideal that actual decisions should strive to approximate. Descriptive analysis is concerned with the manner in which real people actually make decisions. Prescriptive analysis is concerned with practical advice and help that people could use to make more rational decisions.

The retail investors' behavior have been analyzed on different demographic parameters such as age differences, marital status, family size, educational qualification, occupation, income level, sources of funds of the investors etc. and on some other related factors.

5.2 Age Differences of the Investors

Among 370 investors, 5.68% investors are within the age of 18-25, 21.89% are within the age of 26-30, 31.62% are within the age of 31-35, 34.59% investors are within 36-45 and 6.22% investors are 45+ ages where as no investors are found below the age of 18. This is shown in the following pie chart:

Fig1: Age difference of investors



Source: Field Survey

It is found that only 6.2% investors are above the age of 45, which is very poor participation as compared to other age groups. We know this age group avails the most amount of fund for investment. The reason behind their low participation was investigated. It was revealed that this age group is pessimistic about investment in capital market. They don't like share market. Some of them have a negative mindset from 1996 debacle. But for the development of our capital market participation from this group is very important. So SEC should come to create confidence and awareness among this people.

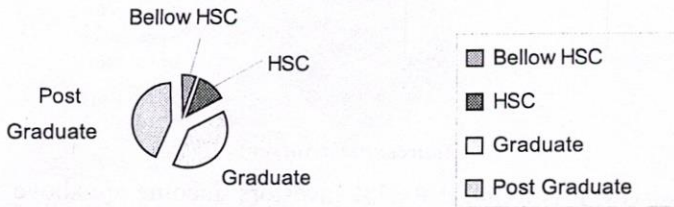
It is also found that 5.68% investors are within the age of 18-25. The probable reason for this is, this age group is mostly students, and they lack both fund and experience to invest in the capital market. But it is also true that some of them have enough funds, which they can invest in the market. They are young and energetic. If they are brought to the market they can play an important role to the current and also to the future capital market. This group waste their money through some unproductive activities such as mobile phone, unnecessary

entertainment etc. So, campaign may be initiated to raise the awareness among this age group to bring them in the market and thereby enhancing market capital, which will fuel the industrialization process of the country.

5.3 Educational Qualification of the Investors

By analyzing the education level of investors in the capital market, investors' qualification, capability to analyze financial performance of the company and to analyze market behavior, ability of risk analysis can be judged. The education level of the investors is shown in the following figure:

Fig 2: Educational level of investors



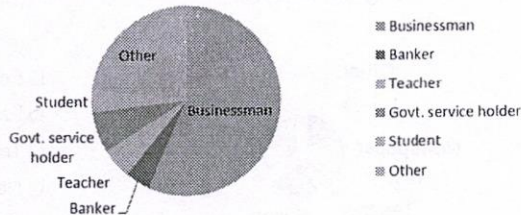
Source: Field Survey

It is found that major portion of the investors in the capital market is highly educated which bears a good signal for the market because highly educated investors can analyze the company's performance and they can avoid rumor for making investment decision which ultimately will help the market not to behave irrationally and thus can help the market to be efficient.

5.4 Occupation of the Investors

Sometimes investors' behavior is greatly influenced by their occupation. The investors who have no other job or engagement devote much time in the market rather than those who have jobs or other engagement. There are various types of professionals, businessmen, retired persons and others in the capital market. The occupation of investors in the capital market is shown in the following table and graph:

Figure 3: Occupation of Investors



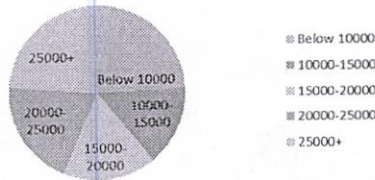
Source: Field Survey

Like businessmen other professionals should come to invest in this sector and for that competent authority should take various programs as talk show, seminar, symposium etc. to bring them in the Capital Market and thereby increasing the market capital.

5.5 Income Level of the Investors

After collecting the data from the investors it is seen that 31% investors' income is above 25000/=, 15% investors' income is from 10000-25000 and 24% investors' income is below 10000/=. The situation is shown below:

Fig 4: Income level of Investors



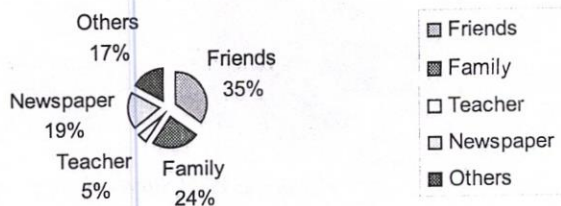
Source: Field Survey

From the survey, it is found that 31% investors' income are above TK.25000 and 24% investors are under the TK.10000 income level and rest of the investors' income are between TK.10000 and TK.25000. From the analysis two extreme income categories of investors are found. One is lower income level people who invest aggressively in the capital market to increase their regular income to maintain their daily family expenditures. Another one is the investor having higher income who takes higher risk to invest in the market but investors who are in middle class do not take risk to invest in the secondary market. If market is efficient then mass people will invest in the capital market rigorously. For making the market efficient, the legal authority has to minimize the chances of insider trading by making legal provision.

5.6 Source of Motivation to Invest in Share Market

Maximum investors got motivation to invest from their friends and their percentage is 35, investors who got motivation from newspaper is 21% and from others is 21%, from family their percentage is 24%. The scenario about the motivators is shown in the following chart:

Fig 5: Source of Motivation



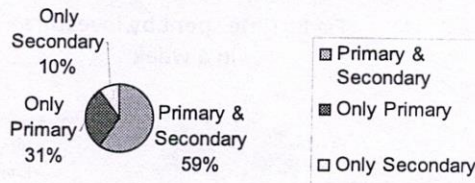
Sources: Field Survey

From the above graph, it is seen that teachers play only 2% role for motivating people to invest in the capital market but they are the most influential persons who can make awareness about the capital market effectively among the investors. SEC, DSE and CSE should sit together with the teachers for finding the ways of increasing awareness about the capital market among the potential investors. Both the stock exchanges should arrange various seminars and workshops by involving expert teachers for making the programs more effective. The government should also introduce some capital market related topics in both SSC and HSC level for all the students rather than only commerce group's students.

5.7 Investors' Choice About Market Investment

It is found that 59% of the investors are interested to invest in both primary and secondary market where as 31% investors are willing to invest in only primary market and 10% investors are willing to invest in only secondary market.

Fig 6: Investors choice of market



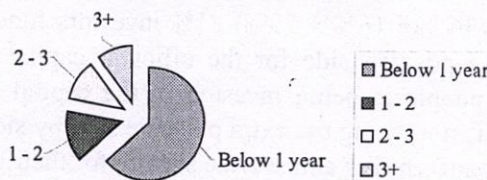
Sources: Field Survey

The investors investing only in the secondary market think that investing in the secondary market is better than investing in the primary market because they do not like the lottery system of allotting shares. According to them it is the unnecessary burden to apply for IPOs in the primary market. If shares are not allotted through lottery then there is a hassle to collect refund warrant. Moreover there is no return on the investment but they can make profit if they did invest in the secondary market. Basically investors who invest only in the secondary market invest for long time to get the capital gain. The investors investing only in the primary market are actually risk averter. They do not want to take risk in the secondary market. Majority of the investors invest in both the markets and they are the experienced ones.

5.8 Investors' Holding Period of Shares

Majority of the investors do not hold their shares for long-time even a year. Only thirteen percent investors hold their shares more than three years and sixteen percent hold shares two to three years. Eighteen percent of the investors sell their shares within 2 years. The following chart shows the scenario of the investors regarding holding periods:

Fig 7: Investors holding period of share



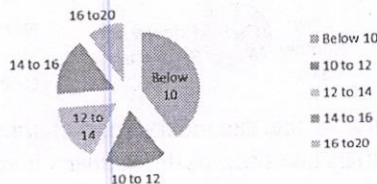
Source: Field Survey

Most of the investors are playing two player games in the market. That is one's loss is the profit of another. They are trading their shares to earn daily profit. Company's performance does not fluctuate daily. They try to manipulate the price for getting abnormal return. For their tendency to make daily profit, market becomes volatile and behaves abnormally. In our market, it is happening now and then. But in the efficient capital market, it is impossible to manipulate the share price and make daily profit. SEC, DSE and CSE should come forward to change the investors' behavior by providing proper information to all for making the capital market efficient one.

Time devotion by the individuals in a week in the securities firms

From the study we find that 40% of the investors devote less than 10 hours in a week, 17% spend 10-12 hours and 12-14 hours, 16% devote 14-16 hours, and 10% spend 16-20 hours in a week in the securities firms out of 100 investors which is illustrated below:

Fig 8: Time spent by investors in a week



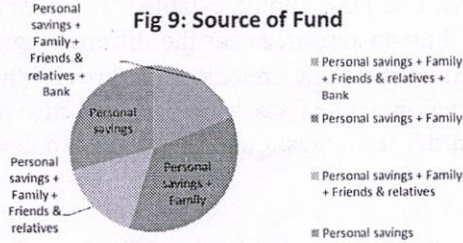
Source: Field Survey

Most of the investors do not devote their time more than two hours in each working day in the securities firms and it indicates that they are taking investment decision instantly without having much chronological information about the market. This may be an unfavorable event on their investment. The investors should devote much time to analyze market trend and to analyze financial performance of the companies for taking prudent investment decisions.

5.9 Sources of Funds of Investors

Investors get fund from many sources such as personal savings, family, friends & relatives, and bank. Nineteen percent of investors' fund consists of all the sources, 36% investors' fund consists of personal savings and family, 16% investors fund consists of personal savings, family, friends & relatives and 29% investors' fund is formed by their personal savings.

It is seen that (36% + 16% + 29%) 81% investors fund is formed without bank loan which is a positive side for the efficient capital market because the idle money of the people is being invested in the capital market and there by the money market is not facing the extra pressure side by side banks are investing the funds in the manufacturing and service sectors for their growth.



Source : Field survey

5.10 Factors Influencing Investment Decision

The investors take investment decision in many ways. In the survey it was found that 58% of the investors don't analyze the financial performance of the company rather their decision is highly influenced by market trend and friends whereas 35% of the investors consider financial performance of the company, market trend and opinion of the friend circles. But 7% investors only consider the financial performance before making the decisions of investment in the capital market. So it is seen that market trend and friends are the vital influential factors that is not a good sign for the development of efficient capital market. So SEC should take proper and timely steps to change the mindset of the investors so that investors consider the financial performance of the company before making investment decision which will enable the investors to enjoy better return on investment as well as to the development of efficient capital market. This in turn will help to cut the price manipulation of securities.

Fig 10: Factors influencing investment decision



Source: Field Survey

6. Conclusion

In an efficient capital market, the investors behave rationally. On the other hand, without having proper environment the investors do not behave rationally. But it is seen that in our capital market the investors' behaviour is somewhat irrational. There are some factors which lead to such irrational behavior such as lack of proper educational background, lack of awareness about the different variables of capital market, shortage of capital, tendency to earn daily profit, some policies of SEC, the dividend decisions of the companies etc. The size of the capital market is increasing day by day. So this is the high time to take steps so that the retail investors behave rationally, which is very essential for ensuring a strong capital market and thereby also protecting the interest of the investors. SEC in

cooperation with CSE and DSE should establish a training institute for research and development of human resources in the different level of security industry. The study has identified different impediments through the analysis of investors behavior for the development of stock market, and also suggested some policy measures in this regard. The suggestions are expected to develop capital market.

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Appendix

Table: 1-Age differences of Investors

Age	No. of respondents	Percent
18-25	13	3.51%
26-30	118	31.89%
31-35	44	11.89%
36-45	104	28.11%
45+	91	24.59%
Total	370	100%

Table: 2-Educational Level

Education Level	No. of respondents	Percent
Bellow H SC	22	5.95%
HSC	44	11.89%
Graduate	141	38.11%
Post Graduate	163	44.05%
Total	370	100%

Table: 3- Occupation of investors

Types	No. of respondents	Percent
Businessman	209	56.49%
Banker	16	4.32%
Teacher	19	5.14%
Govt. service holder	26	7.03%
Student	13	3.51%
Other	87	23.51%
Total	370	100%

Table: 4- Income Level of Investors

Income level (TK.)	No. of respondents	Percent
Bellow 10000	89	24.05%
10000-15000	56	15.14%
15000-20000	63	17.03%
20000-25000	74	20.00%
25000+	88	23.78%
Total	370	100%

Table: 5- Sources of Motivations

Type of Motivator	No. of respondents	Percent
Friends	129	34.86%
Family	89	24.05%
Teacher	19	5.14%
Newspaper	70	18.92%
Others	63	17.03%
Total	370	100%

Table:6- Investors' Choice about Capital Market

Market	No. of respondents	Percent
Primary & Secondary	218	58.92%
Only Primary	115	31.08%
Only Secondary	37	10.00%
Total	370	100%

Table: 7- Investors' Holding Periods of Shares

Year	No. of respondents	Percent
Below 1 year	233	62.97%
1-2	55	14.86%
2-3	45	12.16%
3+	37	10.00%
Total	370	100%

Table 8: Time Spent by the Investors

Hours in a Week	No. of respondents	Percent
Below 10	148	40.00%
10 to 12	63	17.03%
12 to 14	63	17.03%
14 to 16	59	15.95%
16 to 20	37	10.00%

Table 9: Source of Fund

Source	No. of respondents	Percent
Personal savings + Family + Friends & relatives + Bank	70	19%
Personal savings + Family	133	36%
Personal savings + Family + Friends & relatives	59	16%
Personal savings	108	29%

Table10- Factors influencing investment decision

Decision influenced by	No. of respondents	Percent
Market trend & friends	215	58%
Financial performance, Market trend & friends	129	35%
Financial performance	26	7%