Investors Attitude towards the Stock Market: A Study in Dhaka City, Bangladesh

M Shahin Sarwar and Charls Darwin

Lecturer, Faculty of Business Studies, Bangladesh University of Professionals (BUP), Bangladesh

Abstract

Theoretically in behavioral finance, demographic and socioeconomic characteristics of market participants influence the investment decision. This study was conducted in Dhaka city to find out investors' attitude towards stock market. And found that there is an association between educational qualification of investors and their attitudes. But in case of other selected demographic and socioeconomic variables (age, gender, income level and investment level) there is no association between these variables and investors' attitude. It indicates the essence of conducting more awareness program about the stock market among investors. In the second part of this study, it ranked different sources investors used for their investment decisions, where study reveals that investors give most importance to FM radio and least importance to television talk show as source of information.

Keywords: Investors Attitude, Behavioral Finance, Dhaka City, Sources of information, Capital Market

Introduction

In Behavioral finance, it is assumed that information structure and the characteristics of market participants systematically influence individuals' investment decisions as well as market outcomes. The behavioral finance mainly focuses on how investors interpret and act on micro and macro information to make investment decisions. Behavioral finance is defined by Shleifer is a rapidly growing area that deals with the influence of Psychology on the behavior of financial practitioners (Shleifer, 1999). The globalization of financial markets has been increasing the retail investors' community over the past two decades by providing a wide variety of market and investment options. However, it makes much more complex in their investment decisions process. The retail investors consider their investment needs, goals, objectives and constraints in making investment decisions, but it is not possible to make a successful investment decision at all times. Their attitude is influenced by various factors such as dividend, get rich quickly strategy, stories of successful investors, online trading, investor awareness program, experience of other successful investors etc (Bennet, 2011). A better understanding of behavioral processes and outcomes is important for financial planners because an understanding of how investors generally respond to market movements should help investment advisors in devising appropriate asset allocation strategies for clients (Hussein and Al-Tamimi, 2006). The various studies have been conducted in other countries but to the best of

researchers' knowledge no similar studies has been found in Dhaka City. Hence this study attempts to find out the association between selected variables and investors' attitude towards stock market. It also attempts to rank of different sources normally investors use for their investment decision.

Literature Review

Various researches have been carried out on behavioral finance. Petter Roger Eiving (1970) carried out a study to identify those factors which motivate or guide the investment decisions of the common stock investors. The study identified the factors: (1) income from dividends; (2) rapid growth; (3) purposeful investment as a protective outlet of savings; (4) professional investment management. Warren *et al*. (1996) studied the lifestyle and demographic profiles of investors based on the value and types of investment holding. Merikas *et al*, (2000) analyzed the factors influencing Greek investors' behavior on the Athens Stock Exchange. The results indicated that individuals base their stock purchase decision on economic criteria combined with diverse other variables. Krishnan and Booker (2002) analyzed the factors influencing the decisions of investors who basically used analysts' recommendations to arrive at short-term decision to hold or to sell a stock. Kannadhasan. M (2006) examined the factors that influence the retail investors' decision in investing. The decision of the retail investors are based on various dependent variables viz., Gender,

age, marital status, educational level, income level, awareness, preference and risk bearing capacity. Sachithanantham *et al*. (2007) studied the relationship between capital market reforms and amount of money invested by the investors. It was found that educative reforms and attractive reforms were statistically significant but they had negative influence over money invested by investors at the Capital Market. Glaser, Schmitz, and Weber (2009) tested whether individual investor sentiment was related to daily stock returns by using vector auto regressive models and Granger causality tests. They found out that there exists a mutual influence between sentiment and stock market returns, but only in the very short-run (one and two trading days). The returns have a negative influence on sentiment, while the influence of sentiment on returns is positive for the next trading day. The influence of stock market returns on sentiment is stronger than vice versa. Plummer (1974) focused on building life style profiles in relation to the stage of products and financial services like commercial bank credit cards. A study conducted by Verma A and Hanspal (1999) revealed that the whole creative process of an advertisement was influenced by the lifestyle the advertiser eventually chose to reach. Studies dealing with the lifestyle characteristics of individual investors are not many in number. Cohn R A et.al (1975) made an attempt to explain the attributes and attitudes of individual investors and also conducted a study to examine the individual investor's risk aversion and portfolio composition. Warren *et al*. (1990) used life style characteristics to differentiate investors by the size and the nature of their investment holdings. They found that the failure to use lifestyle characteristics as segmentation variables omits an opportunity for further segmentation and blurs some real differences between individual investors and their financial service needs. However investor's life style and investment characteristics have been studied by Rajarajan in 2009. On the basis of life style variable he divided investors into three groups viz. active investors, individualists and passive investors.

Conceptual Framework

It is an analytical research and is related to the analysis of attitude of investors towards stock market. In this paper, investors' attitude means having intention of further invests in stock market. To measure investors' attitude towards the stock market this paper used three level of investors' attitude. Positive attitude means having intention of further invest in stock market. Others are neutral and negative attitude indicate indifferent and no intention to invest in stock market respectively. And to measure the preference of each source, Likert scale (1 to 5) is used. In Likert scale, 1 indicates least preference source and 5-indicates most preference source.

In this study 200 investors had been considered from Dhaka city. But due to the data inefficiency in some questionnaire 181 have been used for data analysis. This paper has used both primary and secondary sources for all data. Mainly questionnaire has been used as primary sources and different journals have been used as secondary sources. The target population area is Dhaka city, Bangladesh and sample data is collected from individual investors in convenience sampling technique through structure questionnaire of 181 investors. A structured questionnaire is developed, using a 5-point Likert Scale ranging from least important (1) to most important (5). The explained variable of this research is investors' attitude towards the stock market and the explanatory variables are Age, Gender, Income level (yearly), Investment level, Educational qualification, Verbal information from Brokers, Verbal information from Merchant bankers, Verbal information from other investors, Printed newspapers, Online newspapers, Facebook, Television news, Television talk shows, Friends, Friends working in Broker house or Merchant Bank, Students studying in Business at University, Research papers published by Brokerage houses, Research papers published by Merchant banks, Research papers published by others (like universities, CPD, etc), International research papers/ Journals, Papers published by Stock Exchanges, Papers published by Bangladesh Securities & Exchanges Commissions, Papers published by Government Agencies (Ministry of Finance, Ministry of Commerce etc), Experts opinions (like university teachers, different business leaders, etc), Verbal information from different political leaders, FM radios.

Hypothesis

H_0: Respondents attitude is independent towards stock market on the basis of demographic and socio economic variables.
H_1: Respondents attitude is not independent towards stock market on the basis of demographic and socio economic variables.

Analysis and findings

Age Vs Investors' attitude towards Stock Market:

This table shows that 40.88 percent respondent attitude toward stock market is positive, 36.36 percent respondent attitude toward stock market is neutral and rest 23.76 percent respondent attitude toward stock market is negative. Among the respondent 43.09 percent are in age group 25 to 39 years.

At 5% significant level with 6 degree of freedom, P-value is 0.969 for Pearson Chi-Square test which is higher than 0.05. It indicates that there is no association between age and attitude toward stock market. Age and attitude toward stock market is quite independent to each other.

Table 1: Age Vs Attitude towards Stock Market

| Age | Attitude towards Stock Market | | | | | | | |
| | Positive | | Neutral | | Negative | | Total | |
	N	%	N	%	N	%	N	%
Up to 25	25	13.81	22	12.15	13	7.18	60	33.15
25 to 39	31	17.13	29	16.02	18	9.94	78	43.09
40 to 55	9	4.97	8	4.42	7	3.87	24	13.26
More than 55	9	4.97	5	2.76	5	2.76	19	10.50
Total	74	40.88	64	35.36	43	23.76	181	100.00

Table 2: Sex and Attitude towards Stock Market

| Sex | Attitude towards Stock Market | | | | | | | |
| | Positive | | Neutral | | Negative | | Total | |
	N	%	N	%	N	%	N	%
Male	63	34.81	48	26.52	31	17.13	142	78.45
Female	11	6.08	16	8.84	12	6.63	39	21.55
Total	74	40.88	64	35.36	43	23.76	181	100.00

Table 3: Income Level (yearly) and Investors' attitude towards stock market

| Income level (Yearly) | Attitude towards Stock Market | | | | | | | |
| | Positive | | Neutral | | Negative | | Total | |
	N	%	N	%	N	%	N	%
Less than 2 lacs	26	14.36	22	12.15	6	3.31	54	29.83
2 lacs to 4 lacs	28	15.47	29	16.02	24	13.26	81	44.75
4 lacs to 6 lacs	10	5.52	9	4.97	8	4.42	27	14.92
More than 6 lacs	10	5.52	4	2.21	5	2.76	19	10.50
Total	74	40.88	64	35.36	43	23.76	181	100.00

Table 4: Investment level Vs Investors' attitude towards stock market

| Investment level (Yearly) | Attitude towards Stock Market | | | | | | | |
| | Positive | | Neutral | | Negative | | Total | |
	N	%	N	%	N	%	N	%
Less than 2 lacs	15	8.29	10	5.52	3	1.66	28	15.47
2 lacs to 4 lacs	21	11.60	27	14.92	11	6.08	59	32.60
4 lacs to 6 lacs	22	12.15	20	11.05	19	10.50	61	33.70
More than 6 lacs	16	8.84	7	3.87	10	5.52	33	18.23
Total	74	40.88	64	35.36	43	23.76	181	100

As shown in Table 2, most of the male (34.81 percent) shows their attitude positive, whereas most of the female (8.84 percent) reported that they have neutral attitude towards stock market.

At 5% significant level with degree of freedom 2, P-value is 0.18, which is much higher than 0.05, which shows that there is no relationship between sex and attitude toward stock market.

The income level of the largest group of respondent (44.75 percent) is between two lacs to four lacs, which show that middle income group peoples are the main stock market investors. Among the investors 16.02 percent shows neutral attitude, 15.47 percent shows their positive attitude and 13.26 percent shows their negative attitude towards the stock market within income level group of 2 lacs to 6 lacs.

At 5% level of significant with 6 degree of freedom the P-value is 0.17, which is higher than 0.05. It indicates that null hypothesis may not be rejected. It means that there is no association between income level (yearly) and attitude toward stock market.

The largest group (33.70 percent of the sample) lies in the range of four lacs to six lacs among them 12.15 percent is positive, 11.05 percent is neutral and 10.50 shows negative attitude towards stock market. On the other hand 14.92 percent within the group who invest between two lacs to four lacs is neutral in showing their attitude towards stock market.

At 5% significant level with degree of freedom 6, p value is 0.096, which is more than 0.05, which means that there is no association between investment level and attitude toward stock market.

Table 5: Educational Qualification and investors' attitude towards stock market

Income level (Yearly)	Attitude towards Stock Market							
	Positive		Neutral		Negative		Total	
	N	%	N	%	N	%	N	%
Less than SSC	12	6.63	2	1.10	2	1.10	16	8.84
Up to HSC	20	11.05	28	15.47	10	5.52	58	32.04
Up to Graduation	26	14.36	25	13.81	19	10.50	70	38.67
Masters and Above	16	8.84	9	4.97	12	6.63	37	20.44
Total	74	40.88	64	35.36	43	23.76	181	100

Table 6: Ranking of Sources of Information according to score

Descriptive Statistics							
	N	Minimum	Maximum	Sum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
FM Radios	181	1	5	687	3.80	.086	1.163
Television News	181	1	6	620	3.43	.088	1.188
Printed Newspapers	181	1	5	563	3.11	.079	1.064
Online Newspapers	181	1	5	562	3.10	.071	.957
Facebook	181	1	5	557	3.08	.086	1.152
Verbal Information from Other Investors	181	1	5	552	3.05	.083	1.122
Verbal Information from Merchant Bankers	181	1	5	552	3.05	.086	1.156
Verbal Information from different Political Leaders	181	1	5	549	3.03	.074	.999
Verbal Information from Brokers	181	1	5	528	2.92	.102	1.374
Research Papers Published by Brokerage House	181	1	5	492	2.72	.072	.962
Friends Working in Broker House or Merchant Bank	181	1	5	480	2.65	.068	.916
Research Paper Published by Merchant Banks	181	1	5	476	2.63	.079	1.065
Experts Opinions	181	1	5	472	2.61	.069	.928
Students Studying in Business at University	181	1	5	472	2.61	.068	.910
Papers Published by Stock Exchanges	181	1	5	471	2.60	.085	1.139
Research Paper Published by Others (University, CPD, etc)	181	1	5	465	2.57	.076	1.023
International Research Papers/Journals	181	1	5	463	2.56	.080	1.071
Papers Published by Bangladesh Securities & Exchange Commissions	181	1	5	458	2.53	.082	1.103
Paper Published by Govt. Agencies	181	1	5	450	2.49	.084	1.133
Information from Friends	181	1	5	427	2.36	.070	.948
Television Talk Show	181	1	5	415	2.29	.066	.893
Valid N (list wise)	181						

Within graduate respondents 14.36 percent of respondents show positive attitude, 13.81 percent show neutral attitude and 10.50 percent show negative attitude towards stock market.

At 5% significant level with degree of freedom 6, p value is 0.019, which is lower than 0.05. It indicates that null hypothesis is rejected. It is concluded that there is an association between educational qualification and attitude towards stock market.

Ranking of Sources of Information according to score

Table 6 shows the ranking (according to score) of different sources from where the investors collect their information. In this table highest possible value is 905 (181 × 5 = 905) and lowest possible value is 181 (181 × 1 = 181). FM radio is in the highest position with 687 score. There are eight sources those mean value is more than 3,

which is the average score for each sources. It indicates that investors give more than average value on these eight sources. These are (according to the rank) : FM radios, Television news, printed newspapers, online newspapers, facebook, verbal information from other investors, verbal information from merchant bankers, verbal information from different political leaders. On the other hand investors give their least preference on television talk show and score for it is 415. Mean value for television talk show is 2.29. It indicates investors give below average importance on the information coming from television talk show.

Conclusion

This research study on "Investors' attitude towards stock market: A study on Dhaka city" is found that age, gender, income level (yearly), investment level have no

association with the attitude of investors towards stock market. But educational qualification has an association with the investors' attitude towards stock market. People think FM radio as the most important source and television talk show as the least important source. This study carries out only the general attitude of the investors within Dhaka city towards the stock market. In this study six demographic and socio economic variables have been used to find out the association with investors' attitude.

Further Research

Pearson Chi-Square test is used to find out the relationship between selected variables and attitude. But the type of relation and intensity of the relation are the matter of further research. To rank the sources of information, this paper used Likert scale only but the reasons behind it is also matter of further research.

References

[1]. Bennet. E, Selvam. M, (2011), Investors' perception towards the influence of SPERTEL risks on the value of equity shares: A Study conducted at Coimbatore City, *International Journal of Research in Computer Application and Management*, vol. 1 (2), pp. 61-65.

[2]. Cohn. R. A., W. G. Lewellen, R. C. Lease, G.G. Schlarbaum. (1975), Individual investors risk aversion and investment portfolio composition, *Journal of finance*, PP. 605-620

[3]. Glaser, M., Schmitz, P., and Weber, M., (2009), Individual investor sentiment and stock returns-What do we learn from warrant traders? Retrieved from SSRN: http://ssrn.com/abstract=923526, (Access date: 10th January, 2015)

[4]. Kannad hasan, M., (2006), Risk appetite and attitudes of retail investors with special reference to capital market. *The Management Accountant,* pp. 448-453

[5]. Krishnan, R., and Booker, D. M., (2002), Investors "use of analysts" recommendations. *Behaviour Research in Accounting,* Vol. 14, PP. 129-158

[6]. Merikas, A. A., Merikas, A. G., Vozikis, G. S., and Prasad, D., (2000), Economic factors and individual investor behavior: The case of the Greek stock exchange. *Journal of Applied Business Research,* Vol. 20(4), pp. 93-97

[7]. Petter, R. E., (1970), Motivating factors guiding the common stock investor. *Dissertation Abstracts International,* Vol. 31(5)

[8]. Plummer Joseph T., (1974), The Concept and application of lifestyle segmentation. *Journal of Marketing*, PP. 33-38

[9]. Sachithanantham. V, Sayed Jafer, Raja. J, Suresh Kumar A., (2007), Investors Perception towards Capital Market Reforms in India. *SMART Journal of Business Management Studies,* Vol. 3(1)

[10]. Shleifer, A., (1999), Inefficient markets: An introduction to behavioral finance. *Oxford University Press*

[11]. Warren William C. Robert. E. Stevens, C. William Meconky. (1996), Using Demographic and the Life Style Analysis to Segment Individual Investors. *Financial Analyst Journal.* PP. 74-77

[12]. Warren William E, Steven Robert, Mc Conkey C William. (1990), Using Demographic and lifestyle analysis to segment Individual investors. *Financial analyst Journal*, pp. 74-75