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The General Characteristics of an Investor and Their Relationships with Investment Volume Considering Risk-Taking

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A B S T R A C T

Behavioral finance claims that the investor's view of capital market is subject to his/her psychological traits, beliefs, and position on risk. Studies show that multiple micro and macro factors, measurable or unmeasurable, affect the investors' behavior. Furthermore, the investor's outlook on capital market controls his/her volume, duration and horizon of investment and his/her time to trade. In the light of studies done on the issues so far, the study investigates factors influencing the extent to which investors invest in the capital market. Therefore, personality traits of investors and their risk-taking in Tehran Stock Exchange were investigated. Data were collected through a questionnaire and the relationship between variables was measured by using multiple regression analysis. The results suggest that the investor's current yield on the stock market, savings, the years of being listed on the stock exchange, income, investment horizon and the numbers of dependents most affect the investment volume in the stock exchange respectively.

Keywords: Behavioral Finance, Risk-Taking, Investment Volume, Stock Exchange, Investor's Characteristics.

INTRODUCTION

Most economic financial theories assume that investors act in a completely rational manner while making a decision, which is fully consistent with the theory of rational economic man. When investing, they take all aspects into account and make the most rational decision[1]. However, some factors sometimes lead them to behave irrationally and influence their way to make a decision due to the inefficiency of financial markets. Therefore, lack of accurate knowledge leads to perceptual errors. Deviations from long-term decisions may be reduced by identifying investors' personality traits and deviant behaviors and by introducing programs, which reduce the effects of the deviations in behavioral finance, it also helps investors attain their long-term financial goals[2].

Financial advisers and analysts believe that minor investors especially require to be guided thoroughly to prevent the errors caused by human nature. The errors leading to over- or under-reactions can be prevented by programmes planned by advisers[3]. The programmes define the financial goals of clients, determine their risk-taking, examine their assets and strategies thoroughly and estimate their present and future incomes, working life to retirement time, annual savings, and monthly incomes etc[2].

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The theorists of behavioral finance believe that market moves along according to the psychological traits of investors and it is psychological traits that shape market behavior. In addition to psychological traits, other characteristics such as investors' past experiences, education, setting and knowledge are thought to influence their behaviors. Although many researchers investigated the effects of macro, fundamental or technical factors on market, the study investigates other factors mentioned above[4]. Risk-taking is one of the most important mental factors. Investigating the factor not only determines components influencing general market risk but also it greatly contributes to financial agents and advisers to trade stocks or portfolio proportional to investors' risk-taking. At present, when there is an increase in trade volume as well as stock market index in Tehran Stock Exchange, knowledge of market and its risk helps to predict its future trends and consequently its future changes. In recent months, investment has rapidly developed in stock market in turn which risk and price fluctuations increase, as trade volume increases. Therefore, psychological assessment of individuals to understand their position on risk and investment and to know prevailing climate in capital market is very necessary to predict its future trends[5].

Consequently since active stockholders form more than half of Tehran Stock Exchange and considering proposed issues, is it possible to predict market behavior that is investors' behavior in stock market? Is it possible to say other factors in addition to investor's psychological traits affect the extent to which he/she invests?

METHODOLOGY

In this study, the method of questionnaire was used for data collection. In order to design the questionnaire, study literature and background research was done. In this study must be at least 384 samples of unlimited community retail investors in the stock was selection, that this collection was randomly

RESULTS

Data of different variables were described through proportional statistical methods such as frequency, percentage, mean, standard deviation, and distribution indices.

Table 1. Frequency distribution of gender

Variable	Frequency	Percentage	Cumulative percentage
Male	318	79.1	79.1
Female	84	20.9	100.0
Total	402	100.0	

As table 1 shows, 79.1 are male, 20.9 are female and most of the sample is male.

Table 2. Frequency distribution of age

	Frequency	Percentage	Cumulative percentage
>20	3	0.7	0.7
20-30	143	35.6	36.4
30-40	108	26.9	63.3
40-50	51	12.7	76.1
<50	96	23.9	100.0
No response	1	0.2	
Total	402	100.0	

Table 3. Frequency distribution of employment

	Frequency	Percentage	Cumulative percentage
Private or public employee	190	47.3	47.3
Businessperson	154	38.3	85.6
Both	58	14.4	100.0
Total	402	100.0	

As table 3 shows, 47.3% are private or public employee, 38.3% have own business and 14.4% are either private or public employee and have own business.

Table 4. Frequency distribution of investment horizon

	Frequency	Percentage	Cumulative percentage
Short-time	174	43.3	43.3
Long-time	193	47.0	91.3
Both	35	8.7	100.0
total	402	100.0	

As table 4 shows, 43.3% have short-time horizon of investment, 48% have long-time horizon of investment and 8.7 have both short-time and long-term horizon of investment.

Table 5. Frequency distribution of the numbers of dependents

Variable	Frequency	Percentage	Cumulative percentage
None	193	48	48.1
One	52	12.9	61.1
two	27	14.2	75.3
Three	65	16.2	91.5
Four	26	6.5	98.0
Five	8	2.0	100.0
No response	1	2.0	
Total	402	100.0	

Table 5 indicates that 48% have no dependent, 12.9% have one dependent, 14.2% have two dependents, 16.2% have three dependents, 6.5% have four dependents and 2% have five dependents.

Table 6. Frequency distribution of education

	Frequency	Percentage	Cumulative percentage
High school	118	29.4	29.4
Undergraduate	193	48.0	77.4
Postgraduate	91	22.6	100.0
Total	402	100.0	

Table 6 indicates that 29.4% have high school diploma, 48% have associate's or bachelor's degree, 22.6% have Master or doctorate degree.

Table 7. Frequency distribution of the way to trade in stock exchange

	Frequency	Percentage	Cumulative percentage
Agency	170	42.3	42.3
Personal	156	38.8	81.1
Both	76	18.9	100.0
Total	402	100.0	

Table 7 shows that 42.3% trade their stocks through agency, 38.8% trade personally and 18.9% trade both through agency and personally.

Table 8. Frequency distribution of return on investment

	Frequency	Percentage	Cumulative percentage
0-10%	104	25.9	27.2
10-25%	100	24.9	53.4

25-50%	104	25.9	80.6
50-75%	24	6.0	86.9
75-100%	22	5.5	92.7
<1	28	7.0	100.0
No response	20	5.0	
Total	402	100.0	

Table 8 shows that 25.9% earn 10% rate of return on their investment, 24.9% earn 10-25% rate of return on their investment, 25.9% earn 25-50% rate of return on their investment, 6% earn 50-70% rate of return on their investment, 5.5% earn 75-100% rate of return on their investment and 7% earn more than 100% rate of return on their investment.

Table 9. Frequency distribution of risk-taking

	Frequency	Percentage	Cumulative percentage
Risk aversion	104	25.9	25.9
Moderation	247	61.4	87.3
Risk- taking	51	12.7	100.0
total	402	100.0	

As table 9 indicates, 25.9% are risk adverse, 61.4% are moderate and 12.7% are risk-taking.

Table 10. Correlation matrix of the relationship between gender and risk-taking with investment volume in stock exchange

		Investment volume	Risk-taking
Gender	r	-0.160	0.005
	p	0.000	0.46
Age	r	0.168	-0.334
	p	0.000	0.000
Monthly income	r	0.379	-0.073
	p	0.000	0.085
Savings	r	0.390	-0.014
	p	0.000	0.000
Employment	r	0.225	0.051
	p	0.000	0.158
Investment horizon	r	0.204	-0.059
	p	0.000	0.123
The numbers of dependents	r	0.225	-0.206
	p	0.000	0.000
Recent return on investment	r	0.805	0.031
	p	0.000	0.000
Way to trade stocks	r	0.302	0.279
	p	0.000	0.000

Results show that there is no significant relationship between gender and investment volume and r is -0.160 at level 0.05. The relationship between risk-taking and gender is not significant either. There is no significant relationship between age and investment volume and r is 0.168 at level 0.05. The relationship between risk-taking and age is significant. It implies that risk-taking decreases as age increases.

There is a significant relationship between monthly income and investment income and r is 0.379 at level 0.05. The relationship between risk-taking and monthly income is not significant. There is a significant relationship between savings and investment volume and r is 0.390 at level 0.05. The relationship between risk-taking and savings is not significant.

There is a significant relationship between employee and investment volume and r is 0.225 at level 0.05. The relationship between risk-taking and employee is not significant. There is a significant relationship between investment horizon and investment volume and r is 0.204 at level 0.05. The relationship between risk-taking and investment horizon is not significant.

The relationship between the numbers of dependents and investment volume in stock exchange is significant at level 0.05; therefore, null hypothesis is rejected. Furthermore, the relationship is positive and direct. There is also a significant relationship between the numbers of dependents and risk-taking. There is a significant relationship between the way to trade stocks and investment volume and r is 0.302 at level 0.05. The relationship between risk-taking and the way to trade stocks is not significant.

CONCLUSION

To investigate the factors influencing investment volume of minor investors in stock exchange, variables were first selected that it was thought they affect investment volume in stock market. Before doing study, it was thought that income, savings, return, age, gender and the numbers of dependents would influence investment volume. Other variables such as short-term or long-term investment horizon, employee, the way to trade stocks and the years of being listed on the stock exchange were investigated assuming that they would also affect investment volume. However, it was not clear which kind of employee or investment horizon may most affect. It will be interesting to investigate which kind of latter variables has most influence because their effects on investment volume of minor investors have not yet been investigated in Tehran Stock Exchange. Furthermore, another factor was used in the study. In addition to mentioned factors, it was thought that it may affect investment volume. In the view of behavioral finance, risk-taking may affect investors' behavior including their investment decisions and property allocation like other psycho-behavioral factors. Therefore, it is not possible to investigate variables related to investors' personality traits in the best way without at least a factor of behavioral finance. However, investors' personality traits were once investigated irrespective of risk-taking and once more considering risk-taking.

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