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THE INFLUENCE OF STOCK ATTRIBUTES ON INDIVIDUAL EQUITY INVESTOR'S BEHAVIOR

Behavioral finance investigates the role of psychological and economic principles on investor behavior, which traditional finance lacks. Although plenty of researches have been conducted on trading behavior of individual investors, research on the influence of stock attributes on equity investor's behavior is sparse. This study bridges this gap by analyzing the stock related attributes that influence the investment behavior of individual equity investor. The study proposes a conceptual model to examine the influence of stock attributes on individual equity investor's behavior.

Keywords: *stock attributes; individual equity investor; behavioral finance.*

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ВПЛИВ РІЗНОМАНІТНИХ ХАРАКТЕРИСТИК АКЦІЙ НА ПОВЕДІНКУ ПРИВАТНИХ ІНВЕСТОРІВ НА РИНКУ

У статті продемонстровано, яким чином поведінкові фінанси вивчають вплив психологічних та економічних факторів на поведінку інвесторів на ринку. Хоча поведінку приватних інвесторів на фондовому ринку досліджено досить широко, вплив різноманітних характеристик акцій та самих об'єктів інвестування на приватних інвесторів практично не досліджено. Дана стаття заповнює цей пробіл шляхом аналізу різноманітних факторів впливу на поведінку приватних інвесторів. Представлено концептуальну модель оцінювання впливу усього набору факторів на поведінку приватних інвесторів на ринку.

Ключові слова: *характеристики акцій; приватний інвестор; поведінкові фінанси.*

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ВЛИЯНИЕ РАЗЛИЧНЫХ ХАРАКТЕРИСТИК АКЦИЙ НА ПОВЕДЕНИЕ ЧАСТНЫХ ИНВЕСТОРОВ НА РЫНКЕ

В статье продемонстрировано, каким образом поведенческие финансы изучают влияние психологических и экономических факторов на поведение инвесторов на рынке. Хотя поведение частных инвесторов на фондовом рынке исследовано довольно широко, влияние различных характеристик акций и самих объектов инвестирования на частных инвесторов практически не исследовано. Данная статья заполняет этот пробел путем анализа различных факторов влияния на поведение частных инвесторов. Представлена концептуальная модель оценки влияния всего набора факторов на поведение частных инвесторов на рынке.

Ключевые слова: *характеристики акций; частный инвестор; поведенческие финансы.*

1. Introduction. Decision-making is a complex process and efficiency of decisions depends upon emotional stability of a decision maker. Investors in no exception are induced by his/her intuitive feelings and emotions in making decisions in uncertain and complex situations. Hirshleifer and Shumway (2003) found an interesting significant correlation between local weather and investor behavior. This can be attributed to the field of behavioral finance, which promotes the integration of psy-

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chological factors on financial decisions at capital markets. Behavioral finance is one amongst the latest developments in the field of finance which is challenging the long held theories of traditional finance that explains the behavior of investor and movements at capital markets. Muth (1961) presented efficient market hypotheses (EMH) which states that financial markets are 'informationally efficient' and an investor cannot earn abnormal returns consistently, and that existing stock prices incorporates all the prevailing information. These theories fail to explain the statistical anomalies of price movements at stock markets and draws unrealistic and narrow view of market participation as described by Malkiel et al. (2005).

This study contributes to the existing literature on behavioral finance. Firstly, majority of existing literature on behavioral finance roam around institutional investors due to their high contribution into financial markets and less focus has been given to individual investors. This study investigates the behavior of individual equity investors. Individual equity investors are very important particularly for those stock exchanges that are known for their speculative bubbles and marketing making practices by large investors. In countries like Pakistan stock exchanges do not follow macroeconomic movements as identified by Ali et al. (2009) and stock exchanges are not considered safe for investment. Secondly, prevailing research in individual investor investigates the effects of cognitive bias on investor decision-making, e. g. Odean (1999) found that an individual investor lean to trade aggressively, take more risks, and make poor investment decisions. Thirdly, there is a need to integrate investor behavior and consumer behavior. An investor being also a consumer of company's products considers the significance of investing in the same corporation. Aspara and Tikkanen (2008) noted that same investors who engage in trading stocks of a particular corporation also adopt behavior of consumption of products of the same corporation.

2. Theoretical Discussion and Development of Conceptual Model. Ample literature is available on behavioral finance discussing the effects of psychological factors on individual investors' behavior. For instance, the works by Tyevsky and Khneman (1992); Nagy and Obenberger, (1994); Shiller (1999); Hodge (2000); MacGregor et al. (2001); Shanthikumar and Malmendier (2003); and Statman et al. (2008) discussed the role of various psychological affects on investment decisions. However, less work is available so far identifying company-related factors motivating investors to invest ain particular company. Some recent researches, e.g., Frieder and Subrahmanyam (2005); Helm (2007); and Aspara and Takkanen (2010) created the interface between marketing and behavioral finance to test the relationship between corporate reputation, product design, perceptions of a company and its brands with investor behavior. Let us consider the theoretical relationship of individual stock attributes on investor behavior.

2.1. Dividends Yields and Investor Behavior. Lee (1992) and Barber and Odean (2006) held that dividend events induce retail investors attention-driven buying and that retail investors exhibit abnormal behavior following dividend announcement. Lee (1992) also found that small traders buy after earning surprises, weather good or bad and that they react later than large investors do. Shefrin (2000) inserted that investors enthusiastically and actively sought those stocks that offer higher dividend and growth, termed as value stock. Allen and Michealy (2003) asserted that dividend could affect the activity of a stock at a market. Brave et al. (2005) reported that individual equity investors prefer dividend-paying stocks. Current research also hypothesizes that individual equity investors are influenced by higher dividend announcements and yields in their investment decision process.

Proposition 1: Individual equity investor decision-making is positively influenced by higher level of dividends and yields offered by a stock.

2.2. Management Team Competency and Investor Behavior. Management competency is another attribute that individual equity investor may consider in making his/her investment decisions. Competent management holding good skills is indispensable for the growth of business at higher level of success. Competency and commitment of management can be ensured by a share ownership and other performance based inducements. Managers with demonstrated talents having successful career records convey a clear message to investors to take advantage. Murphy and Soutar (2004) investigated the effects of management competency as one of the strongest attributes that influences investment behavior of individual equity investors. Ali et al. (2010a) also stressed the importance of knowledgeable employees to achieve better organizational outcomes.

Proposition 2: Individual equity investor decision making is positively influenced by management competency of corporate managers.

2.3.Industry/Sector and Investor Behavior. Literature supports that industry structure is a key factor for growth and effects firm performance and hence provides an incentive for investors to invest in that industry. Industry structure includes intensity of competition among rival firms. Intense competition in any industry can cause prices go lower than costs and industry wide losses. Factors contributing to intensity of rivalry in an industry include diversity of competitors, firm concentration, entry and exit barriers and excess capacity (Scherer, 1980; Porter, 1980). Dreux (1992), and Wright et al. (2001) also held that growing industries are evaluated as an attractive investment opportunity by equity investors.

Proposition 3: Individual equity investor decision making is positively influenced by growth perceptions of an industry or a sector to which a corporation belongs.

2.4.Knowledge about Company and Investor Behavior. Knowledge about company's products and services and personal experience of consuming corporate products is another important attribute that individual equity investor incorporates in their investment decision-making. Similarly, satisfied and loyal investors purchase more products of the same corporations. Murphy and Soutar (2004) found that investors prefer the stocks of those corporations for which they have personal experience or knowledge, they also play more value for knowing company's products.

Proposition 4: Individual equity investor decision-making is positively influenced by personal experience or knowledge of a corporation's products.

2.5.Price Trends and Volatility and Investor Behavior. Individual investors usually buy stocks having upward price trends and sell stocks having downwards trends without having sufficient fundamental and technical analysis, this is called "herding behavior" in behavioral finance. Antonides and Van Der Sar (1990) suggested that investors are less likely to buy stocks with prices moving downward and sell stock whose prices are moving up. Lucey and Dowling (2005) investigated the relationship between equity prices and investor behavior and argued that equity prices have reciprocal effects on investor behavior.

Proposition 5: Individual equity investor decision-making is positively influenced by trends and volatility of stock prices.

2.6. Market Status and Investor Behavior. Market status refers to growth potential of a corporation as compared to its competitors in the same industry; these highly growing stocks are also known as blue chips and are preferred options for investment. Equity investors evaluate the factors that are important for success of a business and discover the areas in which a firm occupies long-term comparative lead on other firms in the same industry or sector. This competitive lead may be towering share at a market, intellectual property, strong brands or technological advantage. The theoretical model of the study is presented in Figure I.

Proposition 6: Individual equity investor decision-making is positively influenced by the competitive status of a corporation at a market.

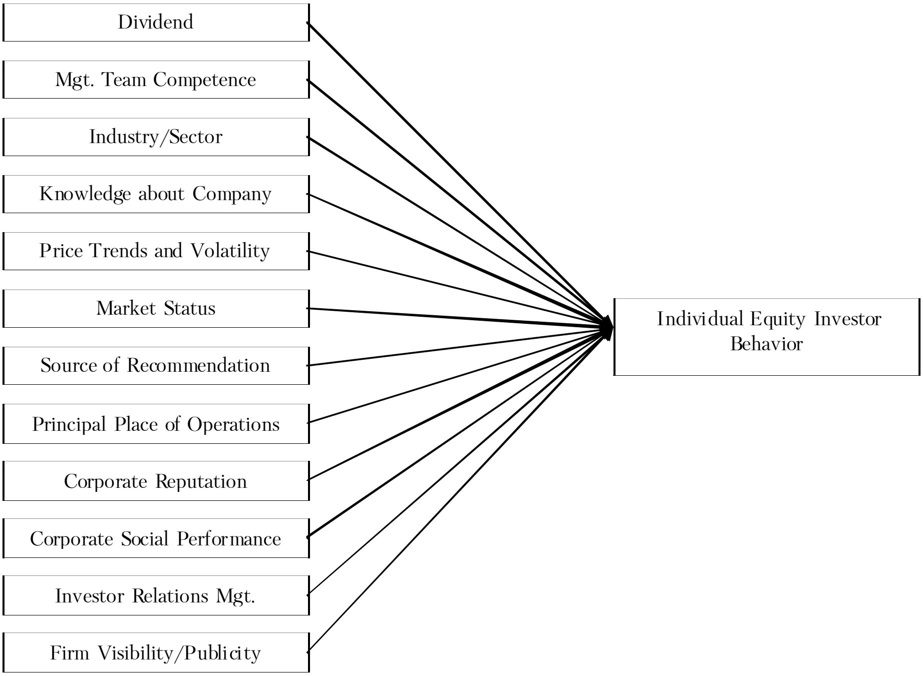

Figure 1. **Conceptual Model**

2.7. Source of Recommendation and Investor Behavior. Theories of behavioral finance assume that individual equity investors are not always rational and do not incorporate industry, fundamental and technical analysis in their investment decisions. This has also been documented by many researches that individual investor mostly rely on recommendations of stock brothers, fellow traders or friends. Stockbrokers are generally the preferred sources of recommendations on which individual equity investors base their decisions. This also separates investors from speculators; investors rely on their own technical or fundamental parameters whereas speculators base their investment decisions on speculations and rumors prevailing at a market.

Proposition 7: Individual equity investor decision-making is highly influenced by recommendations from various sources.

2.8. Principal Place of Operations and Investor Behavior. Another attribute that an individual investor considers while investing his/her money in stocks of any corporation is the principal place of operation of that corporation. Individual investors tend to be more loyal to their economy and avoid investing in those companies which are not based in their homeland. Murphy and Soutar (2004) also found in their survey on Australian investors that an individual investor prefers to invest in the companies based in Australia rather than located abroad.

Proposition 8: Individual equity investor decision-making is positively influenced by principal place of operations of a corporation.

2.9 Corporate Reputation and Investor Behavior. Many authors in different fashions have defined corporation reputation. Fombrun (1996) believed corporate reputation as a set of collectively held beliefs about a company's ability and willingness to satisfy interests of various stakeholders. Gotsi and Wilson (2001) presented a general definition and stated that corporate reputation is "stakeholders overall evaluation of a company over time". Bromley (2002) held that corporate reputation is a socially shared impression, a consensus about how a firm will behave in any given situation. Corporate reputation can be used to gain favor of various stakeholders including customer, employees, and investors. For instance, Ali (2011) found significant influence of corporate reputation on customer satisfaction and retention in the cellular industry of Pakistan.

Proposition 9: Individual equity investor decision-making is positively influenced by corporate reputation.

2.10. Corporate Social Performance and Investor Behavior. Majority of literature is connecting CSR with improved financial performance of an organization, e.g., Klassen and McLaughlin (1996); Judge and Douglas (1998) argued that corporate environmental considerations improve business performance. Hull and Rothenberg (2008) found strong association between CSR accomplishments and corporate financial performance. Other researches on CSR included the influence of CSR on customer behavior. Researchers found that CSR influences customer purchase behavior, for instance, Luo and Bhattacharya (2006); Ali et al. (2010b) investigated the effects of corporate social responsibility on customer purchase intentions. Studies were conducted to analyze the effects of CSR on employee behavior. For instance, Ali et al. (2010c) also investigated the influence of corporate social responsibility on shaping employee commitment. Ali et al. (2011) found strong association between corporate social responsibility, investor satisfaction and investor loyalty in the context of Pakistan.

Proposition 10: Individual equity investor decision-making is positively influenced by social performance of corporations.

2.11. Investor Relations Management and Investor Behavior. Investor relations management experts believe that good investor relations contribute to fair evaluation of firms by investors. Trueman (1996) and Bushee and Miller (2005) argued that good investor relations are beneficial for attracting investors and they lower costs of capital for corporations. Normally, individual retail investors are considered less important for relationship management and more focus is given to large institutional investors. Bushee and Miller (2005) found in their survey that individual investors are difficult to target for investor relations management services because they are hard to manage due to their large numbers and low quantity of stock holdings.

Proposition 11: Individual equity investor decision-making is positively influenced by investor relations management at a corporation.

2.12. Firm Visibility, Publicity and Investor Behavior. Firm visibility, publicity and advertising are also important factors that influence decision making of individual investors. Companies frequently appear in the media not only to attract customers, but also to communicate important messages to potential investors. The objective is to memorize the name of a corporation by potential investor and build strong image. Barber and Odean (2008) showed that small investors are more prone to buy attention clutching stocks. Grullon et al. (2004) showed significant positive relationship between annual advertising budget with breadth of share ownership and firm's liquidity, suggesting that investors seem to hold shares of those companies with whom they are more familiar.

Proposition 12: Individual equity investor decision making is positively influenced by visibility or publicity of a corporation.

Conclusion. The objective of this study was to propose a conceptual model of stock attributes in individual investment. The theoretical discussion confirms the causal relationship between stock attributes and individual investors' decision-making behavior. The literature survey proves the strong influence of dividend, management team competence, knowledge about a company, industry or sector to which corporations belong, investors' knowledge about a company's products or services, growth trend in share prices, firm's competitive status at a market, investment recommendations by friends, brokers or other sources, firm's principal place of operations, corporate reputation, corporate social performance, investor relations management, and firm visibility in the media influence the investment behavior of individual equity investors. The study proposes empirical investigation of this conceptual model through a structured investor survey and use of structural equation modeling technique to test the propositions quantitatively.

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