

Investors' Structure and Investment Decision Making Factors:

Evidence from Capital Market in Bangladesh

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Abstract

The purpose of the paper is to identify the investors' structure and vital investment decision making factors in the context of capital market in Bangladesh. Total 104 investors have been surveyed in the study with close ended and structured questionnaire. Descriptive statistics and factor analysis have been conducted to analyze the collected data. The results of the study reveal that policy adoption of government together with fundamental analysis and deposit interest rate as alternative of return from share market for investors are vital investment decision making factors of investors of capital market in Bangladesh. The paper is significant for the investors for proper investment decision making and policy makers to work with development of capital market in Bangladesh.

Keywords: investment, capital market, descriptive statistics, factor analysis, fundamental analysis

1. Introduction

Investment refers to putting money into something resulting periodical income and/or capital gain where investment decision has crucial impact on both firm and national level (Northcott, 1995). From the firm's viewpoint, investment can affect its ability to grow, survive and generate profit. However, at national level, a bad investment decision wastes valuable resources of the economy while good investment decision can ensure efficient growth of the economy. It is therefore crucial for researchers to investigate the factors which affect the investment decision of the investors in the capital market (Kengatharan, 2019).

Several companies finance their operations through issuing securities and collecting fund for long term from different investors in the capital market. Bangladesh is in the category of developing country which is quite promising (Afroze et al., 2015). For ensuring proper and consistent economic growth of the country, an efficient and robust capital market is paramount (Alile, 1984 and Mauro, 2000), which, in turn, ensures proper flow of funds to facilitate big projects, production, job creation and standard of living of people (Jaswani, 2008 ; Hossain and Nasrin, 2012).

A number of factors including demographic, economic, market, social and personal affect investors' decision while making investment decision in the capital market. Investors want to ensure financial security and risk hedging while investing in the stock market (Khan et al., 2015). Besides, popularity, performance, expected earnings, dividend payment and stability record of the company over the past years play crucial role (Kengatharan, 2019). Risk elements, volatile natures in investor's mind and changing political situations negatively affect investment decision (Sarbabidya and Saha, 2018). Some researchers argue that investors consider accounting information valuable (Rizvi and Abrar, 2015; Afroze et al., 2015) while others suggest that it is not that important (Akbar et al., 2016).

2. Rationale of the Study

It is a matter of great concern that capital market in Bangladesh is not performing up to the mark facing much vulnerability caused by the irrational behavior and unknown choices of investors (Afroze et al. (2015). Therefore, it is necessary to identify the structure of investors in Bangladesh and their preferred factors during investment decision making to solve this problem so that on the basis of them, the country and its regulatory bodies can reform investment policies and ensure a safe and sound environment for the investors. In this regard, our research attempts to fill the study gap by identifying major factors that are playing significant role in investors' investment decision

making in the capital market. Most studies conducted in the past cover only major countries around the world except Bangladesh. Hence, the research gives a complete picture of investors' investment decision making factors in the stock market of Bangladesh by a comprehensive and rigorous study which was somehow absent in the other studies.

3. Managerial Implications of the Study

The study will add knowledge so that companies can prepare themselves and bring desired result from the capital market. Moreover, concerned institutes of the country can identify the reasons for irrational investment decision of investors and create financial literacy campaign to educate investors and create awareness among investors. This will ensure efficient investment of fund by the investors which in turn will help to build a strong and robust economy.

4. Research Questions

Based on the existing literatures, the research questions to be addressed in the study are:

1. What is the structure of the investors in the capital market of Bangladesh?
2. What are the vital investment decision making factors of the investors in the capital market of Bangladesh?

5. Objective of the Study

- To determine the structure of investors of capital market in Bangladesh
- To identify the vital influential factors of the investors' investment decision making in the capital market of Bangladesh

6. Limitations of the Study

Sample size could not be increased as investors in Bangladesh are not much familiar with answering questions regarding many factors of investment in the capital market. Moreover, some of them do not have the required financial literacy for responding to particular question. Hence, getting answer from them on each question, filling up the questionnaire and collecting data were difficult.

7. Literature Review

Financial security is the most influential factor in the stock investor's trading life while various market factors, economic variables and hedging materials also have significant impact (Khan et al., 2015). Besides, analyzing annual report and various ratios affect investors' decision in the stock market in Bangladesh. Kengatharan (2019) has concluded that company's stock's, stability, reputation, dividend payment history and expected earnings play a major role on investment decision. Factors like investor's age, gender, marital status, income level and educational level also play an important role on investment decision. Rehman and Arif (2015) found that dividend and gambling play important role in investors' investment decision making as they prefer speculation and good dividend payment but capital gain does not play such significant role in trading decision. Various risk elements including investors' capricious nature, EPS, volatility in political conditions, various macroeconomic variables which are beyond control negatively affect an investor's investment decision (Sarbabidya and Saha, 2018).

Stock investors often focus on low risk investment with short and medium term maturity who pay them good dividend (Rizvi and Abrar, 2015). Financial knowledge and valuable information from financial statements play key roles in investors' decision where age, monthly income, educational qualification also play crucial roles. Investors mostly evaluate accounting information while investing in share market but information reliability of the firm is not so much important to them (Afroze et al., 2015). Akbar et al. (2016) have found that opinions of investment experts, stock brokers, colleagues, friends and family members, unbiased information and firm's reputation are the factors that have impact on trading decision of investors. On the contrary, accounting data, financial goal of individuals and maximizing wealth do not have any mentionable impact (Akbar et al., 2016).

Efficient economy and effective capital market are closely interconnected with each other. Proper and smooth running of the economy depends on how well the capital market is running within the country and assisting the flow of capital from households to corporations. The stock market in Bangladesh has been facing many challenges from the past 30 years. Here, investors are influenced by a variety of factors that result in the frequent inefficient and faulty investment decision. Hence, this study focuses on identifying the vital factors of investment decision making in capital market so that companies and regulatory bodies can reform their policies and create awareness to accompany good investment decisions among investors (Khan et al., 2015).

8. Research Methodology

The study is quantitative in nature and based on primary data only. Simple random sampling has been used in this study. The survey area is Sylhet division in Bangladesh. Total number of sample size is 104 omitting around 96 samples due to incomplete and inaccurate responses from the respondents. Survey has been conducted through close ended and structured questionnaire to identify the structure of investors and take opinion regarding investment decision making factors in the capital market of Bangladesh. The structured questionnaire has been developed with 22 statements on investment decision making factors in the capital market of Bangladesh but only 13 variables have been taken at the end based on the higher factor loading. The research participants have been asked to respond against five- step likert scale for each statement ranging from strongly disagree (1) to strongly agree (5). Statistical tool namely descriptive statistics and factor analysis have been used.

9. Results and Discussions

9.1 Descriptive Statistics

This section discusses results of the questionnaires that were filled up by the respondents.

Therefore, the results and discussions are based on solely primary data sources only.

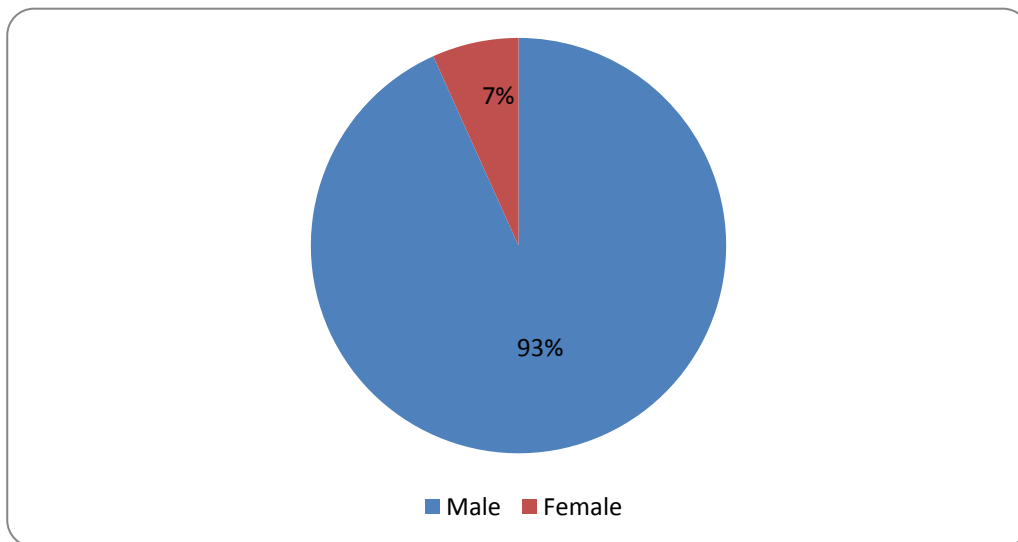


Figure 1. Gender diversity of investors

Among the respondents, 93% male and only 7% female are investors in capital market. Here, majority of the investors are male whereas female is not getting engaged so much in capital market. It may be due to lack of knowledge and awareness about capital market.

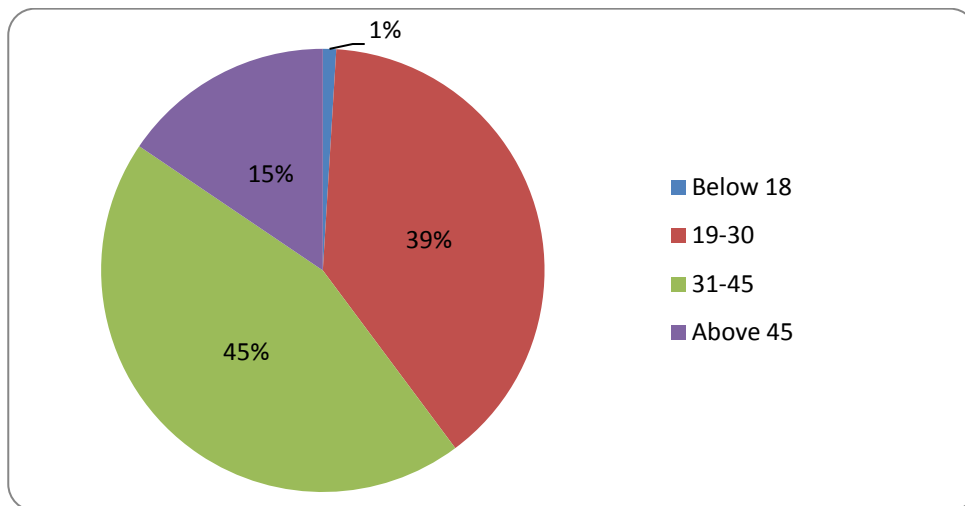


Figure 2. Age diversity of investors

Most of the investors belong to the age range of 31-45 years, about 45%, and next significant age range is 19-30 years (39%). The fewer portions belong to the age range of above 45 years (15%) and age below 18 years (1%).

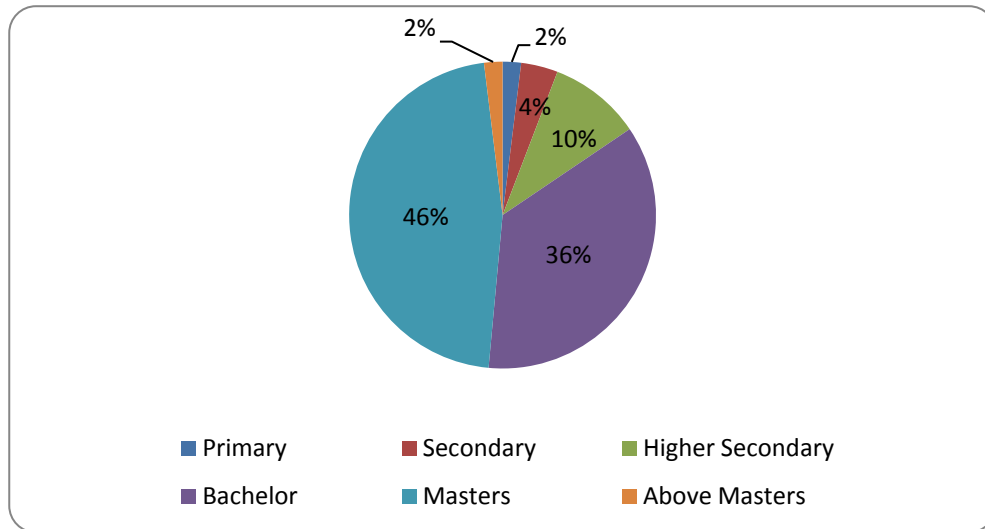


Figure 3. Educational level of investors

Among the respondents, very high percentage of investors obtained master’s degree (46%) and bachelor degree (36%). Besides, investors with educational qualification of HSC and SSC are 10% and 4% respectively. However, above masters degree holder and primary passed investors are the lowest in number, only 2% each.

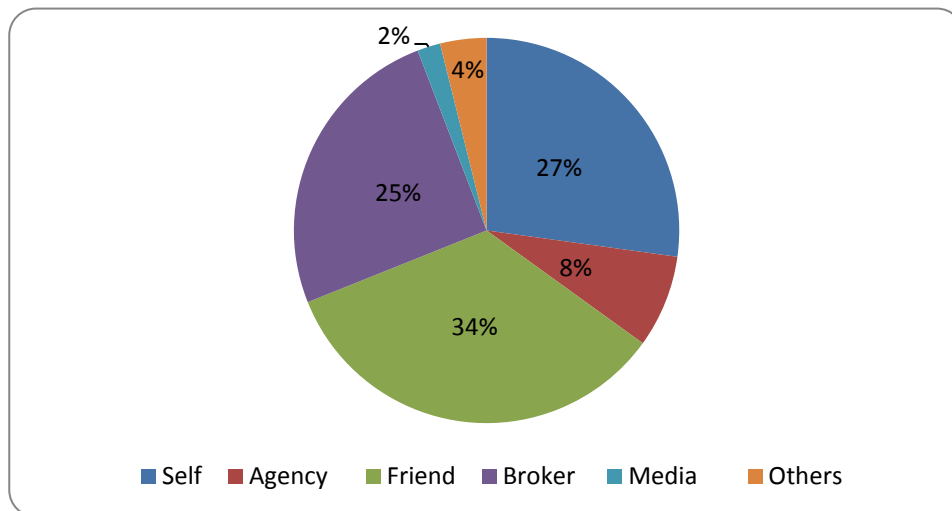


Figure 4. Investors’ entrance in the stock market operations

Most investors (34%) entered into the stock market through friends’ recommendations. Then, self-motivation (27%) and broker (25%) were two most influential factors in starting investment of investors while agency (8%), media (2%) and others (4%) seem do not have much impact in this context.

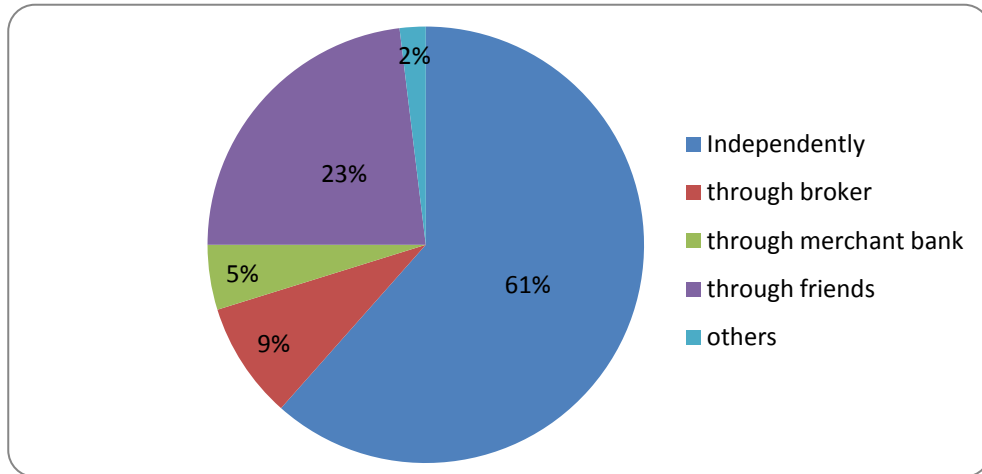


Figure 5. Investors’ decision to invest in particular security

Very high percentage of investors (61%) takes decision independently to invest in a particular security and 23% investors depend on friends. However, lowest influential parties are brokers (9%), merchant banks (5%) and others (2%).

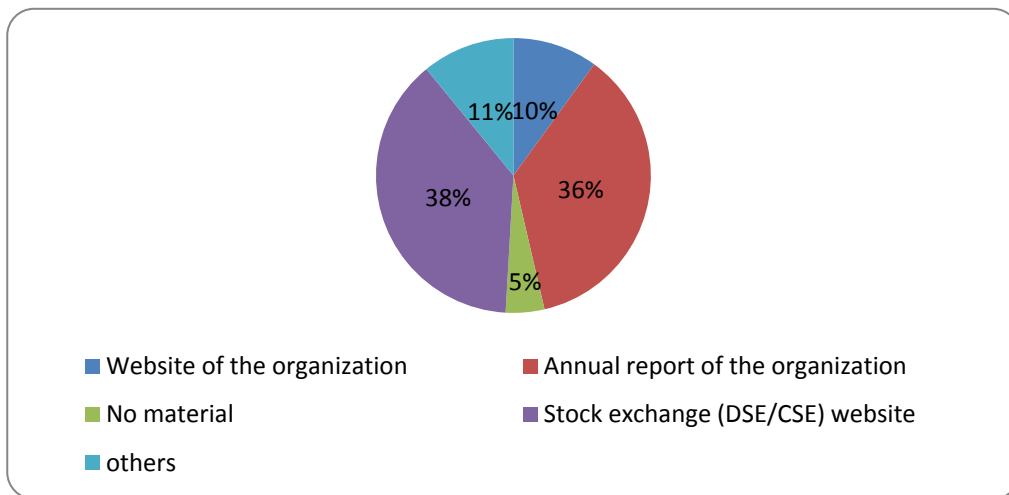


Figure 6. Material that investors analyze

Stock exchange (DSE/CSE) website (38%) and annual report of the organization (36%) are the two key materials that investors analyze to decide to purchase any security. Besides, website of the organization (10%) and other materials (11%) play role in this context. Only 5% investors do not use any material at all.

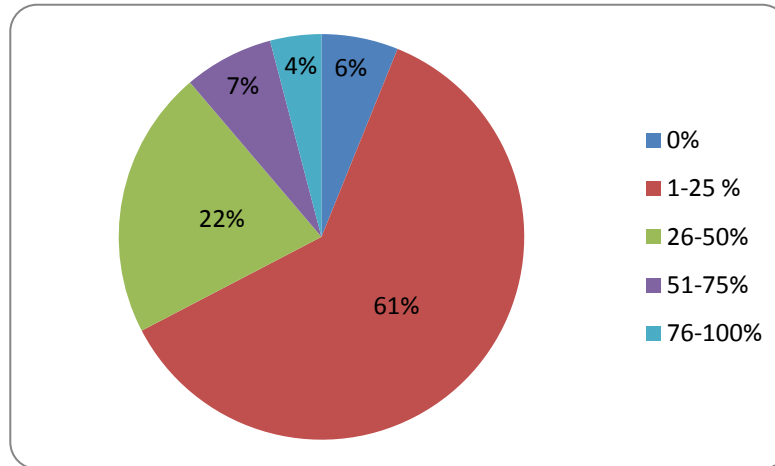


Figure 7. Percentage of income from capital market allotted for reinvestment

Sixty one percent investors keep 1%-25% of their income from capital market for reinvestment purpose. Besides, 22% investors keep 26%-50% of their income for reinvestment. Very few investors reinvest more than 50% of their income from the capital market.

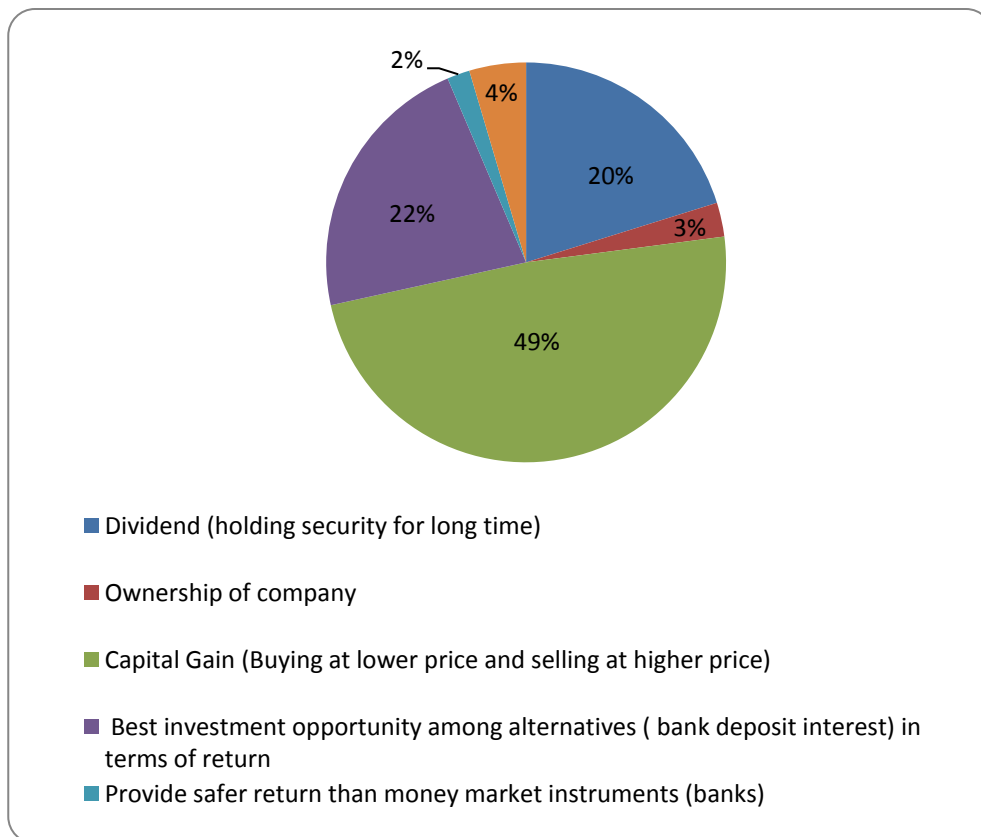


Figure 8. Vital reasons for investment in capital market

Nearly half of the investors invest in the capital market for capital gain. Besides, 22% of the respondents consider stock investment as best investment opportunity among alternatives (bank deposit) in terms of return and 20% do it for getting dividend by holding shares for long term. Other factors do not serve much in this context.

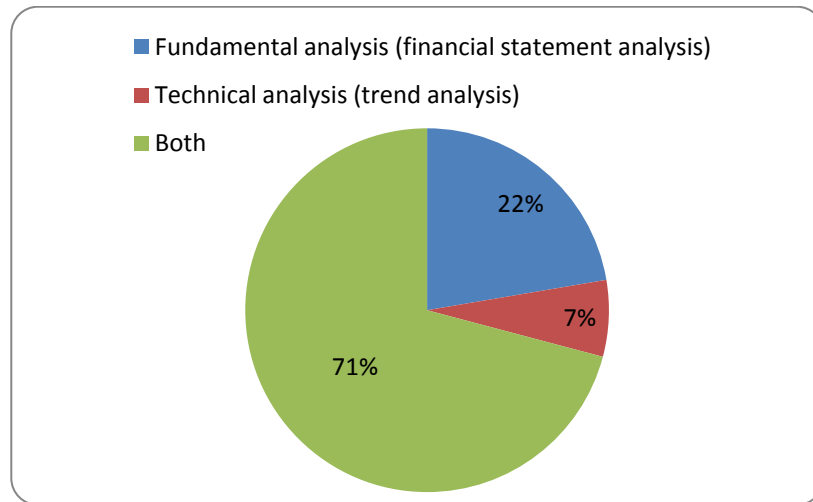


Figure 9. Preferred analysis to take investment decision in capital market

Among the respondents, a higher percentage of investors (71%) prefer both fundamental and technical analysis for taking investment decision. 16% investors said that they use fundamental analysis only. Very few (7%) investors said that they usually prefer technical analysis to take investment decision.

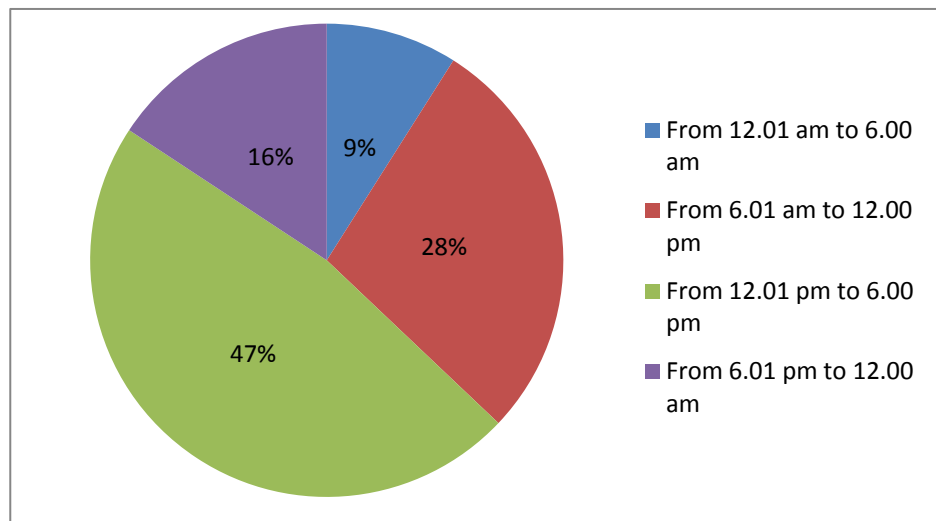


Figure 10. Preferred timing of watching price change in stock exchange

For watching price change in stock exchange, 47% investors prefer the time from 12.01 pm to 6.00 pm. Besides, 28% investors stay alert and updated about the news from 6.01 am to 12.00 pm. Only a few percentages (9%) of respondents prefer news gathering from 12.01 am to 6.00 am.

9.2 Factor Analysis

The factor analysis in this study uses principal component method for extracting the factors with varimax rotation technique (Navidi, 2010). A specific variable has been carefully chosen to include as a factor based on high correlation value (factor loading). The constructs of factor of investor’s investment decision making have been accepted with factor loading more than or equal to 0.50 (table-01). KMO value of sampling adequacy measurement is 0.632 (table-01) which is greater than 0.60 allowing collected data to proceed with factor analysis. The results demonstrate that all the accepted factors have eigenvalues greater than 1 with cumulative percentage of variation ranging from 21.424% to 68.358% (table 01). The study determined 6 main factors with total 13 items as the determinants of investor’s investment decision. These factors are:

Factor I: Government policies in favor of the investors, current market index, current value of the shares of a particular company, ratio analysis, financial statement (fundamental analysis), EPS (earnings per share), interest rate of deposit in bank.

Factor-II: Natural calamity, political instability.

Factor-III: Easy way of earning money as alternative investment opportunity.

Factor-IV: Capital gain.

Factor-V: Liquidity.

Factor-VI: Future of market index.

The respective magnitudes of factor loadings depict the significance of a particular element in a factor and the elements are arranged in order of their magnitudes respectively. The reasons consisting Factor-I are mainly related to *policy adoption of government together with fundamental analysis and deposit interest rate as alternative of return from share market for investors*; Factor-II is related to *natural calamity and political instability*; Factor- III is related to *availability of alternative investment opportunity* and Factor -IV consists of *capital gain* while *Factor-V and VI focus on liquidity and future of market index* respectively.

Table 1. Factor analysis on determinants of investor's investment decision making

| <i>Preferential factors of investment decision</i> | <i>Factor</i> | <i>Factor</i> | <i>Factor</i> | <i>Factor</i> | <i>Factor</i> | <i>Factor</i> |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| | <i>1</i> | <i>2</i> | <i>3</i> | <i>4</i> | <i>5</i> | <i>6</i> |
| Current market index | .670 | | | | | |
| EPS (earning per share) | .585 | | | | | |
| Current value of the shares of company | .636 | | | | | |
| Liquidity | | | | | .559 | |
| Capital gain | | | | .558 | | |
| Easy way of earning money as alternative investment opportunity | | | .624 | | | |
| Government policies in favor of the investors | .686 | | | | | |
| Interest rate of deposit in bank | .541 | | | | | |
| Natural calamity | | .675 | | | | |
| Political instability | | .768 | | | | |
| Future of market index | | | | | | .495 |
| Financial statement (fundamental analysis) | .591 | | | | | |
| Ratio analysis | .606 | | | | | |
| Eigenvalue | 4.713 | 2.465 | 2.006 | 1.837 | 1.578 | 1.178 |
| Percent of variation | 21.424 | 11.203 | 9.120 | 8.351 | 7.174 | 5.355 |
| Cumulative percent of variation | 21.424 | 32.627 | 41.746 | 50.097 | 57.271 | 68.358 |

KMO=0.632 and only factor loadings ≥ 0.50 has been shown in the table

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

Source: Field Survey, January - September 2019

10. Conclusions

Majority portion of the investors of capital market in Bangladesh are male with age range of 31-45 years. Besides, most of the investors are master's degree holders who have entered in the capital market by the influence of the

friends. Investors mainly prefer the website of stock exchange for analysis of the securities and use internet as source of relevant information.

The study evidenced that policy adoption of government together with fundamental analysis and deposit interest rate as alternative of return from share market for investors, natural and political instability, capital gain, liquidity and future market index are the main determining factors of investor's investment decision making in the capital market of Bangladesh. Hence, it is urgent need to put attention to these factors for further development of the capital market in Bangladesh.

Future research direction

Further research can be conducted on how to educate the existing and potential investors to take proper investment decision based on the identified vital decision making factors of investment in the research in the context of Bangladesh.

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