CHAPTER 1
INTRODUCTION

The securities industry in Malaysia began as early as 1870 as an extension of British corporate presence in the rubber and tin industries. However, in the early years, there was no stock exchange, nor was there evidence of a central market place (RRIAM, 1989). Stockbrokers used to gather informally to transact for their clients. Share trading firms bloomed mainly in city areas of Kuala Lumpur, Singapore, Penang, Malacca and Ipoh, especially during the 1910 rubber boom. The first formal organization was only established with the formation of the Singapore Stockbrokers’ Association on 23 June 1930, under the Societies Ordinance of Straits Settlements.

The eighties witnessed the beginning of the growth of the KLSE and securities industry in Malaysia. From highly speculative and little regulated environment in the early sixties, the Malaysian stock market evolved and developed into one that is internationally known and recognized as an emerging tiger’ (KLSE and MGS, 1992).

Since then a great number of changes and development had occurred. In specific, KLSE directed its first survey in 1986 to profile and enumerate Malaysian individuals who own or invest in shares of public listed companies. Questions were asked on individual share ownership characteristics and investment behaviors. The results revealed that almost 1,128,700 individuals or 7.2 percent of the population invest in publicly traded shares (Lim, 1992). More than 70 percent of the investors were male, outpace female investors by a ratio of 3 to 1. Furthermore, the survey revealed that, 80 percent of the respondents had completed at least a secondary education with those having tertiary education on the increase amongst them. It has also disclosed that, the investors based their buying of shares on their own research and not on market rumors. The majority of shareowners were found in the West Coast states of Peninsular Malaysia especially in state capitals and major towns in each state.
Now, Malaysia’s financial markets comprise stock exchanges, options and futures exchanges as well as public and private debt securities market. The two stock exchanges are Kuala Lumpur Stock Exchange (KLSE) and Bumiputera Stock Exchange (Rubi and Sieh, 2000)

Secondary transactions in Malaysia Government Securities (MGS) are conducted mainly through the money market, while secondary market trading of corporate securities is carried out in the KLSE (Lim, 1992)

The growing complexity and sophistication of the stock market had made stock broking a specialized profession. The vast pool of funds that reach out from centers like London, New York, Tokyo, Singapore in search of value investments and the demands these investors make in terms of corporate information, settlement procedures and dealing expertise marked the changed nature of securities trading (Lee, 1989).

In addition, the era of globalization will pose a threat to securities industry in Malaysia. Despite the economic crisis of the late 1990’s, stockbrokers and fund managers from the USA and Europe saw huge opportunities in emerging economies such as Malaysia (Rubi and Sieh, 2000). Entry by foreign shareholders into securities companies in Malaysia was initially limited to 30 percent but this was raised to 49 percent in 2000. Hence, the extent and importance of marketing in stock-broking firms has recently taken even greater significance as the industry enter into a new demanding era. Malaysian brokers have to move fairly rapidly to accommodate these changes in the industry.

Effectiveness as broker or remisier depends largely on the knowledge and understanding of the customers, mainly – how, why, what, and when they invest. In another words, brokers have to fit the product to the customer not the customer to the product. Customer loyalty hinges primarily on the qualities of the individual broker, not on the reputation of the firm (Lee, 1989). In
dealing with individual investors, knowledge of them should include firstly demographics, for example their family circumstances. Here, the investors' needs for example, will be affected by whether they are married or single or approaching retirement. Another factor is like age. The older the investors, whether male or female, the less will be his or her reported interest in short-term capital gain (Lee, 1989). More significantly, the changing age structure of Malaysian population will also result in different growth rates of various age groups. These will also affect financial service marketers' targeting strategies.

To the general public, one broking service is like another (Nocera, 2000). Inevitably, stock-broking firms in Malaysia must find a way of establishing their own unique identities and implanting it to the mind of investor. Also, the role of the broker cannot be limited to merely filling orders (Oh, 2000). Customers are looking to their brokers for sound, professional advise which give them a total of financial planning perspective.

Demographics have long been used as a foundation for segmenting the market for financial services (Warren, Stevens and McConkey, 1990). This study will further help to verify the use of demographics. It also suggest that failure in using psychographics characteristics as variables for segmentation limits the opportunity for further segmentation and blurs some real differences between individual investors and their financial services needs. Thus, the financial services marketer equipped with this type of information of active and passive individual investors segments should be in much better position to predict the needs of their prospective clients.

1.1 OBJECTIVES OF THE STUDY

The purpose of the research is to explore the differences of active and passive individual investors in terms of demographics, psychographics, leisure activities, investment behavior, as well investment characteristics.
In line with these, the specific objectives are:

- To draw the general demographic and investment profile of investors.
- To differentiate Active and Passive investors along demographic variables.
- To study the investment characteristics of Active and Passive investors.
- To explore and differentiate the investment behavior between Active and Passive investors in both bullish and bearish market conditions.
- To identify any underlying dimensions from given lifestyle and activities items.
- To investigate whether there are differences in psychographics dimensions between Active and Passive investors.

1.4 SIGNIFICANCE OF THE STUDY

Demographic characteristics alone may no longer serve as the basis for segmenting individual investors. Demographics profile, though essential, is not sufficient to explain consumer behavior (Lim, 1992). This awareness had led to the development of psychographics research. It focuses on consumers' activities, interests, prejudices and opinions, so as to draw recognizably human portraits of consumers (Wells and Tigert, 1971). The basic premise of psychographics research is that the more you know and understand your customers the more effectively you can communicate and market to them (Plummer, 1974). The effectiveness as a broker depends largely on the knowledge and understanding of the customers (Lee, 1989). By analyzing the characteristics of the investors, brokers in Malaysia will be in a better position to identify the new opportunities.

Hence, the type of information generated in this study is likely to be significant as a supplement to the financial service marketers, such as brokers who will be in a better position to anticipate needs of the prospective clients. It will also enable effective marketing action by distinguishing the potential clientele based on knowledge of investors, grouped into demographic factors (gender, age, income, education and occupation), psychographics factors (social class,
activities, interest and opinions) and behavioral factors (investment characteristics).