CHAPTER 5
CONCLUSION AND RECOMMENDATIONS

This chapter essentially presents the summary of the research results, conclusion as well as the implications of the study. Finally, the possible areas for further research are also discussed.

5.1 OVERVIEW OF THE STUDY

The present study attempted to profile Malaysian individual investors in terms of demographics, investment behavior and characteristics and psychographics. Further, it intends to identify the underlining differences between active and passive investors that will be vital especially in terms of marketing perspectives. A review of past studies on investors, locally and abroad, indicated that there are differences in terms of demographic and psychographics profiles of the active and passive investors. 245 respondents in Klang Valley were collected from several brokerage firms and analyzed through an instrument of eight-pages self-administered questionnaire.

5.2 MAJOR FINDINGS

This research is only confined to individual investors of the Kuala Lumpur Stock Exchange, residing in Kuala Lumpur and Petaling Jaya areas. Eight demographics and ten lifestyle and activity dimensions were identified for analysis, evaluation and comparison. The ten psychographics dimensions were extracted from 16 lifestyle statements and 18 activity statements through the application of factor analysis.

Demographically, the survey results revealed that, in general, investors were aged 26 to 49 years old, significantly male dominated with the ratio of 3 to 1, working as professionals, in managerial levels or having their own business and tend to be married. This ratio of male investors concurs with the findings of KLSE (1986) and Lim (1992) but is far lower than the Australian AASE
(1986) findings of 6 to 1 and greater than the 1 to 1 ratio revealed by the NYSE 1985 (Sharpe and Alexander, 1985) survey. This might be due to several different factors including cultural, social and economic.

Those investors with a higher personal income and monthly household income were generally found to be more active as compared to those with lower incomes who were generally passive investors. They are no significant different in terms of educational levels, ethnicity and marital status.

Even though 91 investors self-claimed to be active investors, in reality 90 were found to be active, based on the definition of active investor (transaction of three times and above in a month). In total there were 37.5 percent active investors and 62.5 percent passive investors.

In terms of investment characteristics, there is a significant difference between active and passive investors in terms of the total amount invested and period of share holdings. Huge majority of active investors invested much higher with the amount skewed towards RM80,000 and above, as compared to more than half of passive investors invested less than RM20,000. Here, we may conclude that active investors tend to be heavy investors and passive investors tend to be light investors as well.

In terms of period of investment held, the results also revealed that active investors tend to hold each of their shares not longer than a fortnight while passive investors tend to hold on for an average of nine to ten months and above.

Active and Passive investors differed in terms of investment behavior during bullish and bearish market periods. The method of analysis of both active and passive investors tended to be based on speculation and technical method during bullish market conditions reverting to using more fundamental and technical method during bearish market.
Even though it was found that there was no significant different between the two groups of investors in term of degree of dependency on remisier/broker/analyst to make investment decision, almost one-third of the investors state this as one of the important method during both bullish and bearish market conditions. This is a new finding and thus no previous literature exists for comparison.

However, during bearish markets, it was found that very small numbers of passive investors did not use any method whatsoever to secure the investment. The findings were almost similar to that of Lim (1992) and Osman (1998), who revealed that the Malaysian investors actually collected their own information and facts, with the supplementary information based on several analytical methods prior to selling and buying the securities during bearish market conditions.

The result of this study further revealed that individual investors in Malaysia also conducted their own research besides speculating in the bullish market. Here, it can be concluded that there is increasing sophistication and knowledge of individual investors. The typical individual investors, is no longer “a little old lady in tennis shoes who uses Quija board for counseling” (Lee, 1989). Today, the individual investors are generally better read and better informed than ever before.

This study also showed that, in terms of investment goals, most of the active investors were hit-and-runners especially during bullish market as compared to passive. This is somehow quite disturbing since it may not be consistent with the promotion of informed investment, which is a necessary condition for capital market efficiency (Mansor and Lim, 1995).

Psychographically, the ten dimensions extracted are given as below:

**Psychographics:**

1. Self-confidence/Independent
2. Careful Spender
3. Risk Oriented/Innovative
4. Debt Avoider
5. Low-Risk Innovator

**General After-Work Activity:**
6. Knowledge Seeker
7. Outdoor Lover
8. Outgoing/Entertainment Lover
9. Adventurous/Risk Taker

With regards to psychographics or lifestyle, Malaysian individual active investors in general could be considered as risk oriented and innovative individuals. Active investors also have a positive attitude towards gaining knowledge with regards to business, finance, computer or education. In addition, they tend to be relatively more social and physically active, outgoing and outdoor oriented. Active investors have money to travel and like to have fun. In contrast, passive investors appear to be the opposite in terms of above-mentioned characteristics. This findings have a closer resemblance to the findings of Yankelovich Partners of New York (Brandweek, 1998), which revealed that the financially secure investors who tend to be active investors, are mostly information hungry and open to expert advise.

Top leisure activities of active investors were watching television, reading and surfing for information on the net, but also skew towards affluent activities, for example, dining out and weekend getaways. In addition, active investors preferences are usually information intensive and were heavy newspaper and magazine readers with content preference towards news, business, finance, computer and education. Thus, in terms of leisure activities, Malaysian active investors are somewhat similar to those of New York (Brandweek, 1988). However, it is interesting to note further that, active investors in Malaysia are
also entertainment lovers and lead a more socially and physically active life as compared to passive investors.

Finally, the summarization and conclusion of the findings are as represented and condensed in Table 5.1.

**Table 5.1**

**PROFILES OF KLSE INDIVIDUAL INVESTORS 2000.**

<table>
<thead>
<tr>
<th>INDIVIDUAL INVESTORS IN MALAYSIA</th>
<th>ACTIVE</th>
<th>PASSIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Demographic</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Who are they?</td>
<td>Majority males, married, age 25 and above but below 50.</td>
<td>Males and females, lower income, married, with lower to middle level of education.</td>
</tr>
<tr>
<td></td>
<td>Much higher income earner and somewhat better education level.</td>
<td>Most retirees age 50 and above are under this group.</td>
</tr>
<tr>
<td></td>
<td>Work in professional/managerial capacity or business owner</td>
<td></td>
</tr>
<tr>
<td><strong>Psychographics</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>What are they like?</td>
<td>More likely to be risk oriented and innovative.</td>
<td>Tend to be risk averse and less innovative.</td>
</tr>
<tr>
<td></td>
<td>Accept risk in return of potential rewards.</td>
<td>Less sure on how to invest their money.</td>
</tr>
<tr>
<td><strong>Leisure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>What do they do?</td>
<td>Mentally, physically and socially active. More outdoors personality, outgoing and love seeking knowledge.</td>
<td>Generally, more passive activities like watching TV.</td>
</tr>
<tr>
<td></td>
<td>Top activities: reading, surfing the net, traveling, dine out, attending parties and social functions and also watch TV.</td>
<td>Less online usage.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tend to avoid business and financial publications.</td>
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<tr>
<td><strong>Behavioral</strong></td>
<td></td>
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</tr>
<tr>
<td>What are their investment characteristics?</td>
<td>On average tend to be heavy investors with general investment RM80,000 or more on shares.</td>
<td>Tend to be light investors with less than RM20,000 amount invested on average.</td>
</tr>
<tr>
<td></td>
<td>Tend to be hit-and-runners and speculators during bullish market period but revert to fundamental and technical method during bear.</td>
<td>Sometimes uses no method in pursuing investment.</td>
</tr>
<tr>
<td></td>
<td>However, remisier is still important as adviser.</td>
<td>Remisier or broker is very important as source of information.</td>
</tr>
<tr>
<td></td>
<td>Weekly and monthly holders of shares.</td>
<td>9-12 months or above and one year holder of shares.</td>
</tr>
</tbody>
</table>
The application of discriminant analysis, to the eight demographics data as well as the ten extracted lifestyle and activity factors, reveals that certain characteristics (variables) are relatively more important than others, in discriminating between active and passive investors. With regards to level of importance, personal monthly income ranks the highest, followed by occupation and "Outgoing/Entertainment Lover" factor of activity items.

Based on the results, the investor groups under study were somewhat demographically and psychographically distinct. The findings suggest that they are psychographically distinguishable especially with respect to their favorite activities during non-working hours and also demographically different in terms of income earning as well as occupation.

5.3 IMPLICATIONS OF THE STUDY

There is a growing recognition among marketing academics and practitioners of the invaluable information and insight that may be obtained from lifestyle research for more effective marketing action. The results of the study reveals that there are some differences between active and passive investors in terms of demographic, psychographics, activities, investment characteristics as well as investment behavior. These findings can have an important bearing on advertising, communication and promotional program since one of the most important factors of effective marketing program is to know your client.

Among the most significance implications to emerge from the study was the fact that being active or passive investor is very much a direct function of personal circumstances. The dominant elements that were derived from the study are personal income, gender, age, household income and occupation, essentially in that descending order of importance in Malaysia. These characteristics override ethnicity, marital status and educational background as significant influences of becoming active or passive investors. For example, individual clients' ability to use various financial services often depends on their means and on the structure of their present financial
situation. Age and risk taking are often inversely related and the older the client, the less likely he or she will be active, as from the result of the study, active investor are those risk takers, speculators and hit-and-runners in the market. Thus, to be able to be prospect-conscious, as a broker will depend largely on his or her knowledge and understanding of the clients, this includes their demographic profile. Furthermore, 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.

The study also reveals the ratio of male and female participations in the stock market was 3 to 1 as opposed to US investors' ratio of 1 to 1. This can be regarded as new opportunities for financial services marketers and more communicational campaign should be directed to female investors in Malaysia. More significantly, from the results, females tend to be more passive than males in terms of investment. This can again be explained by the fact that females tend to have risk averse personalities do less investment research than males and are little unsure on investing their assets (Lee, 1989). In other words, females like to play safe. Again, the roles of remisiers, brokers or financial analysts are important to satisfy this segment. In particular, they must be able to give sound, professional advise which give females a total of financial planning perspective. This is important to eliminate the fear of taking risk in the share market.

The results revealed that, generally passive investors, tend to invest less in the stock market, earn less income, are less adventurous and innovative but love watching TV. Communication with them should be kept simple to avoid any confusion. This is due to the fact that, passive investors in general tend to avoid serious publications like business and finance as was revealed by the results. The results also show that in general, passive investors used the Internet as a source of information, less frequently than their active counterparts. Thus, to communicate with this segment, traditional media such as television will be important. Apart from that, remisiers and brokers have a vital role to play, especially in assisting passive investors in their investment
decision as the findings indicate that they are risk-averse. Furthermore, they are less sure of how to invest their money. Passive investors sometime use no method whatsoever to secure their investment. They blindly invest in whatever they feel like.

The findings of investment behavior (such as investment goals and method used in securing investments) and general-after-work activities of the two groups for instance, further reveal the importance of publications as a source of information for analysis and investment. In particular, the preferences of active investors are information intensive as was revealed by the fact that they were interested in heavy business, finance and information technology publications. In the future, I believe that the importance of the Internet would rise with investors increasingly depending on the net for information. Thus, marketers should consider penetrating this segment online. In addition, Malaysian stockbrokers must realize that Internet and e-commerce represent a very important opportunity in the future and brokers that ignore this most important development, do so at their own peril. This supports an article written by Govind (2000).

One interesting finding from the study is that even though the majority of share investors in Malaysia have come to the stage that they make reasonably informed investments, many of them are still speculators and hit-and-runners in the market, especially during bullish market conditions. It is quite disturbing due to the fact that this may be inconsistent with the government’s encouragement to go for informed investments, which is a crucial condition for capital market efficiency. Hence, government must play a role in further educating the public on the importance of informed investment. This is with regards to the adverse effect of speculation, hit-and-run and rumor driven investment behavior on the overall economy, both local and global.

Another important finding which is worthy of note is that Malaysian passive investors tend to be light investors whereas active investors tend to be heavy
investors as well. This can be considered as good news especially to stock broking companies since active and heavy investment shareholders (who carry out regular transactions and with high amount of investments) are preferred over passive shareholders with light investment as it means more business for them. On the other hand, this is a bad news to local public listed companies who prefer passive but heavy shareholders (shareholders who hold onto their shares for a longer period and who invest more).

Demographics have long been used as a foundation for segmenting the market for financial services. This study further helped to verify the use of demographics in distinguishing between the two types of investors. It also suggests 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. Therefore, both psychographics and demographic information should be employed to segment investors as the financial services marketer equipped with this type of information would be in much better position to predict the needs of their prospective clients. Table 5.1, profiles these groups.

5.4 RECOMMENDATIONS FOR FUTURE RESEARCH

The topic of stock market investors in Malaysia can be analyzed in several other ways, especially to improve the findings and generalizability of the results. In particular, future studies need not only larger samples but better coverage nationally.

Secondly, the study was done during recovery period of the Malaysian market where most active investors during bullish market period have become passive now. Thus, at present, there are more passive investors as compared to active. In other words, as the market is still in the process of recovering from the Asian crisis, many investors have not regained their confidence (or market confidence is still not up to pre-crisis levels). This may lead to less accurate results. This is also related to the political conditions in the country,
which are external factors and may need different analysis methods. For example, just before the elections many investors preferred to wait and see who would come to power and as a result the stock market was affected. Thus, further studies should be conducted when market conditions are more stable and investor confidence has returned. Longitudinal studies might produce a clearer picture and better results.

Finally and most significantly, further studies need to be performed on other lifestyle and activity variables not tested here, in order to find the dimensions that most accurately discriminate between active and passive investors in Malaysia. This is important since the lifestyle and activity dimensions tested in this study are developed by foreign researchers and may not be accurately applied in Malaysian multi-racial context.