

Factors Influencing the Trading Behavior of Investors in Capital Market: An Empirical Study on Dhaka Stock Exchange, Bangladesh

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Abstract: The investors in different categories have different trading behavior. The main contribution of this study is to analyze the buying behavior of investors in the stock markets. There are many factors that have direct or indirect effect on buying behavior of the investors. After reviewing literature and secondary data the researchers identify some driving factors and primary data have been collected and analyzed based on that factor. From the study, the researchers found that Stock dividend, Company news, Earning per share, AGM and EGM affects the buying behavior absolutely and some factors have no effect and Cash dividend, Margin loan, Placement, Net income and Paid up capital affects significantly. The researchers also found that Islamic philosophy does not play any role with share business.

Key Words: Buying Behavior, Capital Market, Share Business, and Stock

I. Introduction

All the behavior of human beings during the purchase may be termed as 'buyer behavior'. However buyers (investors) are not rational especially in Bangladesh where, sometimes, share price moves without having any recognized reason. All the listed company's shares, which are available to buyers, have a number of alternatives to buy. Investors are faced buying decisions every working day. But not all decisions are treated the same. Some decisions are more complex than others and thus require more effort by the investors to meet their profit ambition. In the share market, buyers may face five types of buying decisions: minor new purchase, minor re-purchase, major new purchase, major re-purchase and only existing share purchase with a view to netting. So, investors should buy the shares systematically by the way of desire to purchase, search for information, analysis alternatives, purchase share, after-purchase evaluation for getting the higher profit and sales of share. At the time of buying share, investors search for information on possible solutions to satisfy own self. The sources used to acquire this information may be from past experience or the buyer may expend considerable effort to locate information from Internet, news, talk show, talk with others or study the different books or articles etc.

Though the share market in Bangladesh is a growing market, it has significant contribution and serving critical needs of raising fund to our most contemporary economy. In the share market, the value of shares purchased equals the value of shares sold. So one parties always in a favorable position to bit the profit or minimize the cost. Without having consciousness and carefulness many investors are investing to this market. For this reason they cannot get proper benefit from it. So this is the time for financial analysis to add their bit to create a sound and competitive investing environment by educating the public on issue to consider when selecting share to purchase. There are many kinds of reasons and factors for increasing and decreasing of share price, some are related with company and some are related with market mechanism. There are two stock exchanges in Bangladesh, Dhaka stock exchange is one of them on which researchers worked. It is a subject of unconditional options that there are lot of factors-economic, political, internal, external, cultural, natural and social have an important role to play in instigating the instantaneous movement that the market experiences. The researchers have conducted this study to find out the influential determinants that affect the buying behavior of investor. This study is about to know whether dividends, Islamic thoughts, retained earnings, AGM, EGM, earning per share, rumors, margin loan, net income, face value, return on investment, goodwill of the company, company news, analysts' report, sentiment, rumors etc. affect the buying behavior. Whether the existing investors consider these determinants before investing or not? The researchers endeavor to find out the best determinants that affect the buying behavior i.e. on what bases investors should select investment portfolio and what is Islamic perspective about share market.

II. Rationale of the Study

Investors have lack of knowledge-fundamental and technical about capital market. As a result, they cannot gain from share market. Beside this, we can't imagine a world where the majority of investors are rational and moral, there investors can make rational behavior and decisions, but they do not have a special ability to do so to buy shares. Yet such irrational behavior may be deeply rooted in the outlook of investor, and attempts to modify such behavior will not succeed easily where investors are more emotional rather than rational. Although it is an important to provide fundamental shares which help meet the investors need, it is also important to educate investors to understand the fundamental concept and practical situation. Thus, it is imperative that investor education be advanced further. There are some determinants which have great impact on share price. How these determinants influence the buying behavior have been shown through the article. Investor buying decision is composed of two parts, buyers owns decision and the factors affecting the decision process. This study has tried to find out logical and practical determinants that affect the buying behavior of investors. Consider the case of a rational investor investing in an active fund which aims to secure a higher rate of return than its benchmarks.

III. Objectives of the Study

The study will be guided by the following specific objectives:

- To ascertain the factors those affect the buying behavior of the investors.
- To examine the connectivity of Islamic philosophy with share business.
- To rank the most active forces and suggest some guidelines to the potential investors.

IV. Literature Review

Literatures provide no unique measure of indicators of stock market development as well as to select some specific factors to buy share. But it can make the relationship with the literature and the research gap. Bayesid and Tanbir (2010) stated in their study that announcement of dividend is considered to be a significant variable for stock price movement. In their study Nasif, (2010) said that the relationship between dividend changes and subsequent earnings is positive but not significant. Both financial analysts and investors commit that dividends are more valuable than capital gains because they are more reliable and hence less risky. The results of the empirical analysis evidences that dividends retained earnings and other determinants have dynamic relationship with market share price.

Hsin and Hsieh (2010) find that attention-driven buying behavior is mitigated by the financial crisis of 2007, which indicates that the buying behavior of investors is less emotional during a period of financial crisis. Beside this the study come across that when investments are running at a loss, rather than realize the loss, investors hold on to their investments in the hope of reducing their losses despite the risk of further losses. Therefore when the price of a security rises and profit is recorded, investors tend to sell the security quickly to realize their profits. However, if the price of a security falls and it is producing a loss, investors tend to postpone the sale of the security and keep holding onto it.

Alemanni and Ornelas (2008) said that after being the major paradigm on finance for a long time, the efficient market paradigm has been challenged by the behavioral approach. One main difference of the behavior approach is that rational investors are often not numerous and powerful enough to keep the market efficient against the so-called noise traders. This type of investor is assumed to have some behavioral biases when trading. Several studies empirically analyze the behavior of investors looking for these biases, grouping them by categories: individual or institutional, foreigner or domestic.

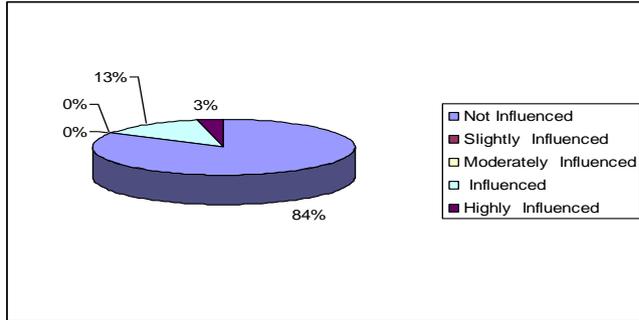
V. Methodology of the Study

This study is empirical and analytical in nature. To investigate the influence of share prices on investment decisions by the buying behavior the study used a simple model five point Likert scale and SPSS to identify some factors and to the measure influenced level. Almost all used data has been collected by designing open ended questionnaire from the 60 respondents by the field survey. And secondary data were collected from Dhaka Stock Exchange and from the internet, published articles & journals.

VI. Findings and Discussion

6.1 Inferences from frequency distribution

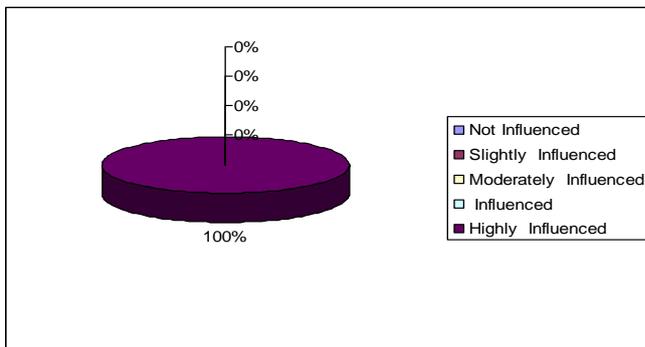
6.1.1 Cash Dividend



It reveals that 84% respondent’s marked not influenced and only 3% respondents marked slightly influenced and 13% are influenced. It is found that cash dividend does not play any vital role for share purchasing behavior.

Source: Field survey, 2015

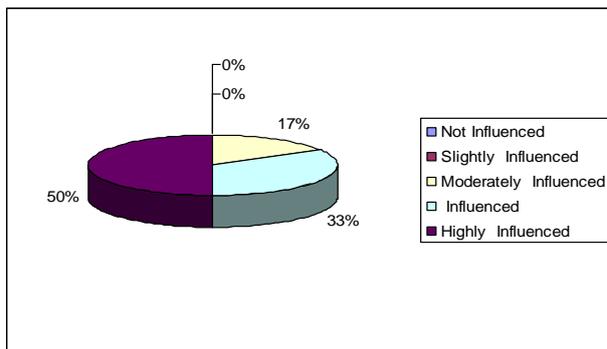
6.1.2 Stock Dividend, EPS, P/E Ratio, Goodwill, Company News, AGM & EGM



It is found that Stock Dividend, EPS, P/E Ratio, Goodwill, Company News, AGM and EGM play a vital role for share purchasing behavior. It reveals that 100% respondent’s marked highly influenced.

Source: Field survey, 2015

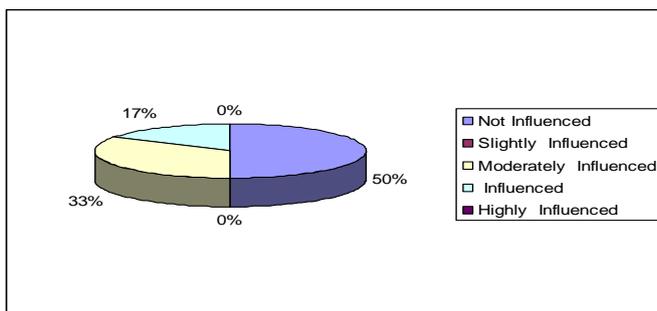
6.1.3 Paid up Capital, Net Income and Growth of the Company



It is found that paid up capital, net income and growth of the company have the effect on share buying behavior. It reveals 50% respondent’s marked highly influenced, 33% respondent’s marked influenced and 17% are moderately influenced.

Source: Field survey, 2015

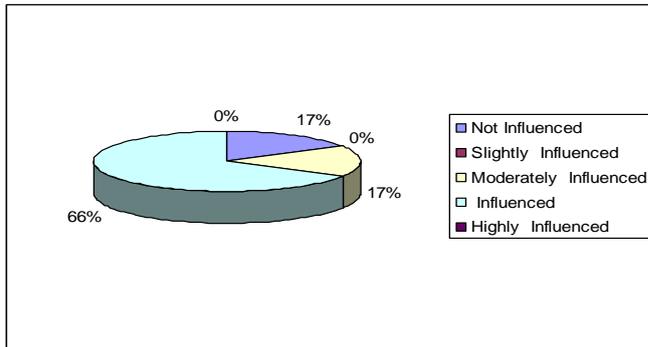
6.1.4 Outstanding Share



It is found that outstanding share does not play any vital role for share purchasing behavior. It reveals that 50% respondent’s marked not influenced and only 33% respondents marked moderately influenced and 17% are influenced.

Source: field survey, 2015

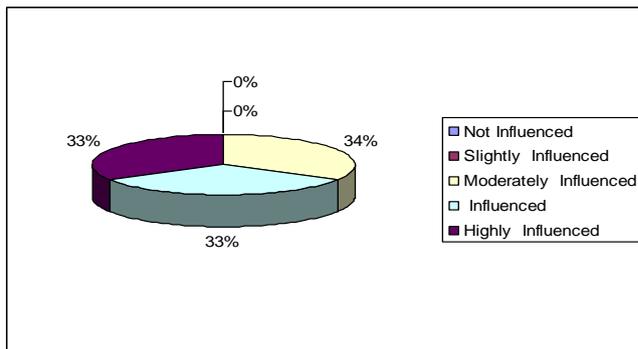
6.1.5 Retained Earnings



It is found that retained earnings have an effect on share purchasing behavior. It reveals that 66% respondent's marked influenced, 17% respondent's marked not influenced and 17% marked moderately influenced.

Source: field survey, 2015

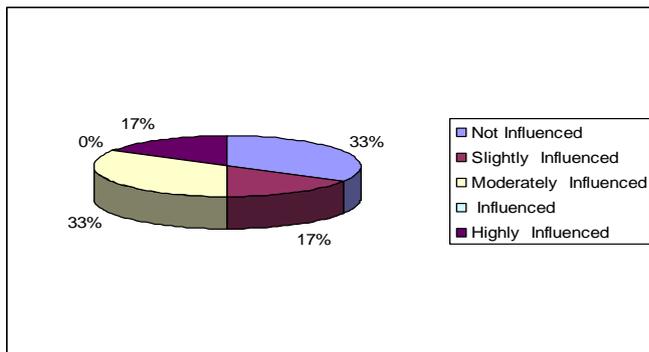
6.1.6 Face Value



It is found that face value has effects on share purchasing behavior. It reveals that 33% respondent's marked influenced, 33% respondent's marked highly influenced and 34% marked moderately influenced.

Source: field survey, 2015

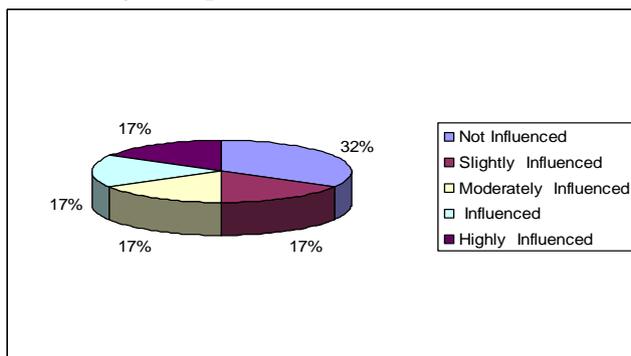
6.1.7 ROI



It is found that ROI has mixed effect on share purchasing behavior. It reveals that 33% respondent's marked not influenced, 17% respondent's marked slightly influenced, 33% marked moderately influenced and 17% marked highly influenced.

Source: field survey, 2015

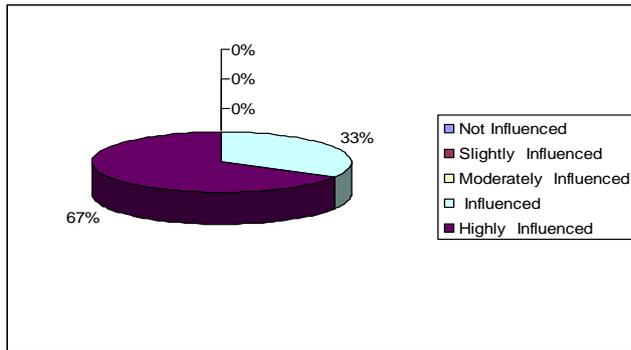
6.1.8 Analysts' reports and Rumors



It is found that Analyst Report and Rumors have mixed tendency on share purchasing behavior. It reveals that 32% respondent's marked not influenced, 17% respondent's marked slightly influenced, 17% marked moderately influenced, 17% marked highly influenced and 17% marked influenced.

Source: field survey, 2015

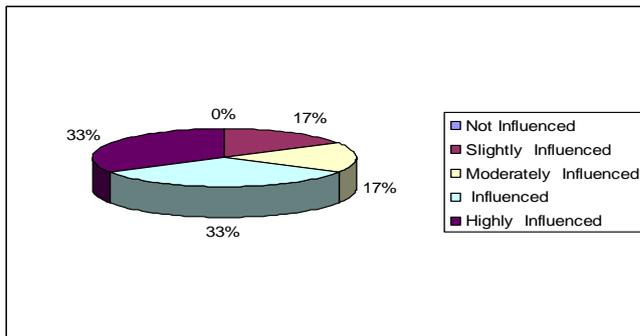
6.1.9 Record date



It is found that Record date has effect on share purchasing behavior. It reveals that 67% respondent's marked highly influenced and 33% marked influenced.

Source: field survey, 2015

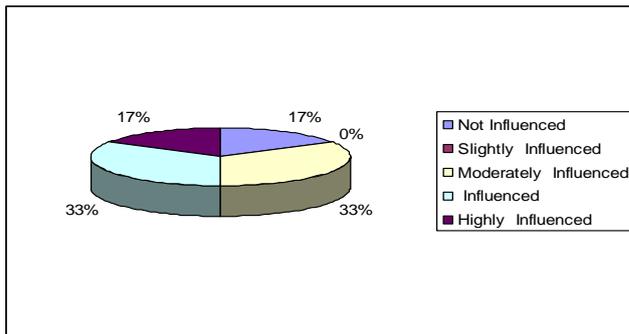
6.1.10 Agent's advice



It is found that Agent's advice has mixed tendency on share purchasing behavior. It reveals that 17% respondent's marked slightly influenced, 17% marked moderately influenced, 33% marked highly influenced and 33% marked influenced.

Source: field survey, 2015

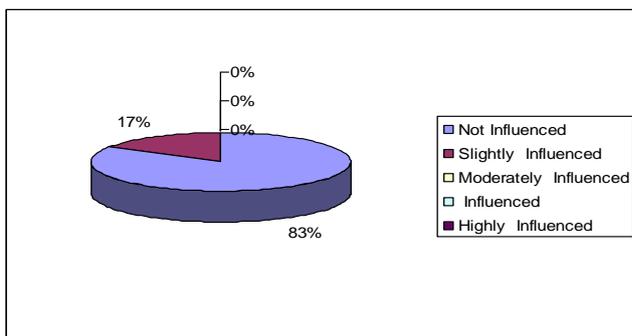
6.1.11 Natural environment



It is found that Natural environment has mixed tendency on share purchasing behavior. It reveals that 17% respondent's marked not influenced, 33% marked moderately influenced, 17% marked highly influenced and 33% marked influenced.

Source: field survey, 2015

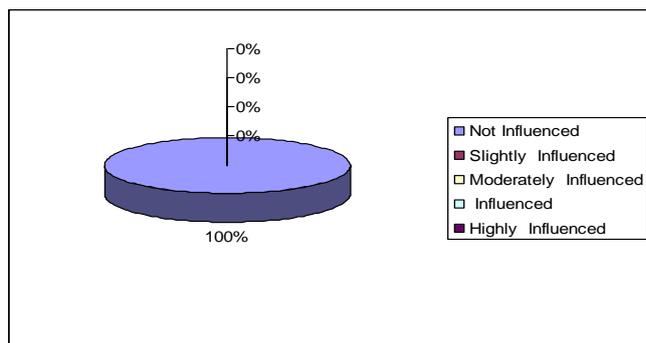
6.1.12 Placement share and Margin loan



It is found that Placement share and Margin loan do not play a vital role on share purchasing behavior. It reveals that 83% respondent's marked not influenced and 17% respondent's marked slightly influenced.

Source: field survey, 2015

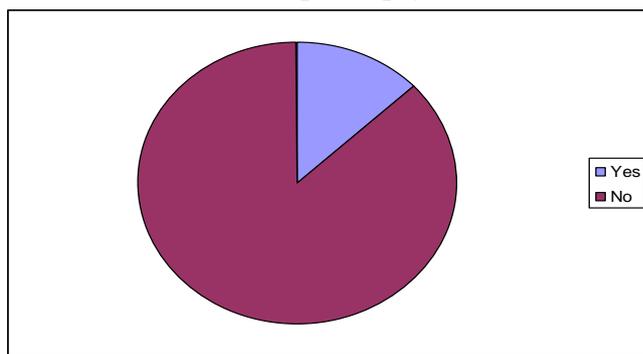
6.1.13 Sentiment



It is found that sentiment has no effect on share purchasing behavior. It reveals that 100% respondent's marked not influenced.

Source: field survey, 2015

6.2 Inference from Islamic philosophy



Islamic Philosophy: All most all the peoples have religious faith and worthiness to their creator. Among them Islam is the best and complete code of life to serve and survives. In this country most of the people are spiritual in Islam and Muslims are the devoted very carefully and completely. So, it is an important factor to the investor for buying the share and to judge, whether the share is shariah complaint or not. Shariah complaint share is strictly prohibited to trade under Islamic perspective.

(a) Do you think Islam is completely adverse with share business?

(b) Do you consider any Islamic thought at the time of purchasing share?

87% respondent comment they do not think about Islamic thought and they do not think Islam is completely adverse at the time of buying share and 13% comment they think about Islamic thought and Islam is completely adverse with share business at the time of buying share.

Source: field survey 2015

6.3 Descriptive statistics

Table 6.3.1: Descriptive statistics of different variables

Descriptive Statistics					
	Number	Minimum	Maximum	Mean	Standard Deviation
Cash dividend	60	0.00	4.00	0.53	1.21
Stock dividend	60	4.00	4.00	4.00	0.00
EPS	60	4.00	4.00	4.00	0.00
Paid up capital	60	2.00	4.00	3.33	0.75
Outstanding share	60	0.00	3.00	1.17	1.22
Net income	60	2.00	4.00	3.33	0.75
Retained earnings	60	0.00	3.00	2.33	1.11
Face value	60	2.00	4.00	3.00	0.82
P.E /ratio	60	4.00	4.00	4.00	0.00
Return on investment	60	0.00	4.00	1.50	1.40
Co. growth	60	2.00	4.00	3.33	0.75
Goodwill	60	4.00	4.00	4.00	0.00
Co. news	60	4.00	4.00	4.00	0.00
Analyst report	60	0.00	4.00	1.67	1.50
Sentiment	60	0.00	0.00	0.00	0.00
Record date	60	3.00	4.00	3.67	0.48
Rumors	60	0.00	4.00	1.67	1.50
Agent advice	60	1.00	4.00	2.83	1.08
Natural environment	60	0.00	4.00	2.33	1.26
Placement share	60	0.00	1.00	0.17	0.38
AGM & EGM	60	4.00	4.00	4.00	0.00

Margin loan	60	0.00	1.00	0.17	0.38
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From the above table, it was found that the mean value of stock dividend, EPS, P/E ratio, goodwill of the company, company news, AGM & EGM and company news influenced buying behavior of the investor absolutely (scored 4 out of 4). Paid up capital, Record date, Net income and company growth strongly influenced (scored more than 3) buying behavior of investors. The rest of the variables do not influenced strongly.

6.3.2 Inferences from Chi- Square Test

The chi-square test is performed to test to identify which variables have association with the buying behavior of the investors. Details information was also set in Appendix 1 and 2.

Table 6.3.2: Variables association with the buying behavior of the investors

Variables	Chi-Square Result	Asymp. Sig.	Monte-Carlo Sig.	Degrass of freedom	95% Confidence Interval	
					Lower Bound	Upper Bound
Cash dividend	68.40	0.000	0.000	2	0.000	0.049
Paid up capital	10.00	0.007	0.000	2	0.000	0.049
Outstanding share	10.00	0.007	0.000	2	0.000	0.049
Net income	10.00	0.007	0.000	2	0.000	0.049
Face value	0.00	1.000	1.000	2	0.951	1.000
Company news	10.00	0.007	0.000	2	0.000	0.049
Analyst report	6.66	0.155	0.117	4	0.035	0.198
Margin loan	26.66	0.00	0.000	1	0.000	0.049
Placement	26.66	0.00	0.000	1	0.000	0.049
Rumors	6.66	0.155	0.117	4	0.035	0.198
Environment	6.66	0.083	0.063	3	0.000	0.079
Agent advice	6.66	0.083	0.063	3	0.000	0.079
Retained Earnings	30.00	0.000	0.000	2	0.000	0.049
Return on investment	6.66	0.083	0.063	3	0.000	0.079
Company growth	10.00	0.007	0.000	2	0.000	0.049

From the above table, the result of the chi-square shows that face value, return on investment, analyst report, rumors, agent advice, and environment have no association with the buying behavior. Cash dividend, paid up capital, outstanding share, net income, retained earnings, company growth and record date have association at $\alpha=0.05$. Chi-square test is not possible for the variables EPS, P/E ratio, goodwill of the company, company news, AGM & EGM and company news because of constant values.

VII. Recommendations

The researchers have recommended some suggestions to the potential investors that help them to harvest some benefit from the share business. The investors should invest after considering some variables such as stock dividend, P/E ratio, EPS, AGM & EGM, goodwill. Investors should gather proper knowledge about fundamental analysis as well as technical analysis and purchase frequently traded share with portfolio rather than single one. The investors should be watch dog to harvest benefit from share business. To bit the profit at the time of fluctuation, investors will continue to hold securities if a given fluctuation in price produces a higher expected value, and will sell securities if a given fluctuation in price produces a lower expected value.

Literate investors may follow many calculations of corporate performance when deciding to buy the shares. Investment funds should be developed based on an analysis of investor preferences but not be designed blindly. This can be from simple price earnings ratio to more technical analysis compare Net Assets Value with Market Value Relative Strength Index, Price Earnings Ratio, Simple Moving Average, Exponential Moving Average, and Moving Average Convergence Divergence.

VIII. Conclusion

Most of the investors are not in a position to forecast but they have a good sense of which transaction makes them feel better about investing. This study focused on the determination of influential share price factor and debated the buying behavior of individual investors. Although it is emerging market but Dhaka Stock Exchange in Bangladesh is inefficient in weak form. Beside this, the respondents have no proper knowledge about share market. Therefore, it is very difficult to draw a conclusion. Investors buying behavior may be unduly influenced by the prevailing atmosphere. Making spontaneous decisions based on the prevailing atmosphere results in a tendency to purchase at high prices. The researchers concluded that investors have a strong obsession with purchase price, and tend to sell rapidly after maturing when unit price exceeds purchase

price. We also concluded that much investor behavior is irrational, and pointed out that, as such, further investor education is necessary.

The researchers identify some variables such as cash dividend, stock dividend, earning per share, paid up capital, outstanding share, net income, face value, P/E ratio, return on equity, margin loan, placement, rumors, environment, agent advice, goodwill, record date, sentiment, AGM and EGM. From the study, the researchers found that stock dividend, company news, earning per share, AGM and EGM affects the buying behavior absolutely, and face value, sentiment, return on asset, analyst report, rumors, agent advice and environment have no effect, and cash dividend, margin loan, placement, net income and paid up capital affects significantly. The researchers also found that Islamic philosophy does not play any role with share business. When investors expect return on investment to be high, the value of purchases will increase. Conversely, when expected return on investment is low, the value of purchases will decrease. Important buying behavior is that they compare investment profit without having any comparative. However, acting on intuition can only lead to the repeating of failures and mistakes. Simply true that one cannot evaluate the performance of a fund without comparing it to benchmarks and other similar funds. So a fund's unit price is low does not imply that it is performing poorly because fund and unit price are not directly related.

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Appendix-1

(a) Do you consider any Islamic thought at the time of determining the share price?	Yes	No
	13%	87%
(b) Do you think Islam is completely adverse with share business?	13%	87%

Appendix-2

Please select the factors below on the basis of rate of the strength of the factors influence over the buying behavior.[0=Not influenced; 1=Slightly influenced; 2=Moderately Influenced; 3=Influenced; 4= Highly Influenced]

SL. No	Factors	Not influenced (0)	Slightly influenced (1)	Moderately Influenced (2)	Influenced (3)	Highly Influenced (4)
1	Cash dividend	50	0	0	8	3
2	Stock dividend	0	0	0	0	60
3	Earnings per share (EPS)	0	0	0	0	60
4	Paid up capital	0	0	10	20	30
5	Outstanding share	30	0	20	10	0
6	Net income	0	0	10	20	30
7	Retained earning	10	0	10	40	0
8	Face value	0	0	20	20	20
9	Price Earnings (P/E) Ratio	0	0	0	0	60
10	Return on Investment (ROI)	20	10	20	0	10
11	Growth of the industry	0	0	10	20	30

12	Goodwill of the company	0	0	0	0	60
13	Company news	0	0	0	0	60
14	Analyst report	20	10	10	10	10
14	Sentiment	60	0	0	0	0
15	Record date	0	0	0	20	40
16	Agent's advice	0	10	10	20	20
17	Natural environment	10	0	20	20	10
18	Rumors	20	10	10	10	10
19	Placement share	50	10	0	0	0
20	AGM,EGM	0	0	0	0	60
21	Margin loan	50	10	0	0	0