

Factors Influencing Retail Investor Behavior in Making Investment Decision: A Case of Bursa Malaysia

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Abstract

This study aims to examine factors that influence retail investor behaviour in making investment decision in Bursa Malaysia. Factors that were tested with retail investor behavior include stock price, perceived risk and firm image. Survey questionnaire was used to collect data and yielded 110 responses. The findings revealed that firm image is significantly related to retail investors' behavior in their investment decision. The empirical evidence in this research provides crucial information to investors, firms, brokers, regulators, financial institutions and government in making appropriate decisions to stabilize the market. In addition, it assists investment advisors to plan effective strategies for their clients.

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1. Introduction

The stock market in Malaysia has experienced steady growth since year 1930. The stock market is supervised by Bursa Malaysia. It consisted of a main board and a second board. Investment in the stock market is defined as buying or selling shares of stock by investors. Their aim is to receive dividends and capital gain when the value of the stock rises. Investor normally will use technical analysis and fundamental analysis to make their investment decision. However, there are studies indicated that investor's financial decisions are affected by internal and external behavioural factors [1], [2], [3]. Given the fact that investors may have various economic and behavioural motivations that affect their investment decision making, this study intends to examine factors such as stock price, perceived risk and firm image that influence retail investor behaviour in making investment decision.

2. Literature Review and Hypothesis Development

Retail Investor Behavior

A retail investor refers to non-professional investor who buys and sells shares in a stock market with the expectation of financial return [4]. Retail investor

behaviour is defined as how they forecast, analyse and review the factors for decision making [5]. The factors may include investment psychology, information collecting, critical understanding, research and analysis. It is viewed as that people who invest into the stock market settle on reasonable choices and effectively react to characteristics related to the stock market products. It is expected that choices made by the investors in stock market completely mirror their investment behaviours. Behavioural finance theory and prospect theory were used to explain the investors' investment behaviours in relation to losses and gains and psychological decision processes [6].

Stock Price

Stock price refers to the price of a particular company's stock that is being traded in any stock market at that specific time. Stock prices change according to the demand and supply concepts. There are many factors that can influence the price at which buyers and sellers are willing to exchange stock. Some factors might be related specifically to a company, others might be more general and broad market factors [7]. According to reference [8] that the most influencing factor on investor decision making was stock price. Likewise, reference [9]

explained that stock price influences the investor's investment behaviour where investors would buy the stock at lower price and sell it at the higher price for capital gain. Further it was supported by a study of reference [10], that stock price is significantly related to investment decision. Therefore, it is hypothesized that:

H1: There is a significant relationship between stock price and retail investor behaviour.

Perceived Risk

Risk on any investment can be defined as the uncertainty associated with the end period value of an investment or the variability of possible outcomes which was expected [11]. Risk-averse investor prefers an investment with less risk over investments with more risk, assuming that the two investments offer the same estimated return. Reference [12] postulated that perceived risk in investment decision is understood as the subjective feeling of the level of risk associated with a specific action or alternative choice. In the context of retail investor behaviour, reference [13] claimed that perceived risk often skewed investor's selection. Nevertheless, reference [14] mentioned that there is a connection between investor's behaviour and perceived risk in behavioural decision making. Therefore, it is hypothesized that:

H2: There is a significant relationship between perceived risk and retail investor behaviour.

Firm Image

Firm image of a company consists of values of the firm, firm position in the market, nature of the business and company steadiness. These characteristics were considered by individual investors before making any stock investment decision [15]. Reference [16] claimed that firm image provides basis for investors to make their investment decision. Reference [17] supported the notion that if investors perceive a firm has a good image, it is less risky than a firm which has a bad image although both are recording equivalent financial performance. On the other hand, if both firms are having equivalent risks, investors are willing to invest for their shares in highly reputed firms than less reputed firms [18]. Likewise, reference [19] asserted that firm image is significant associated with investor's behaviour in making investment decision. Hence, it is hypothesized that:

H3: There is a significant relationship between firm image and retail investor behaviour.

3. Methodology

Population, Sample Size and Sampling Technique

This research took place in a securities firm which has a population of 150. According to reference [20], the minimum sample size of this study is to be at least 108 respondents. Simple random sampling technique were used to collect data from the respondents who are retail

investors. The data collection activity yielded 110 responses.

Measures

The measures of retail investor behaviour (6 items) were adapted from the study of reference [21]. The items of stock price (6 items), perceived risk (6 items) and firm image (6 items) were adapted from reference [22]. A 5-point Likert scale was used to measure the level of agreement for all the study variables. The scale was anchored by 1 (Strongly Disagree), 2 (Disagree), 3 (Neutral), 4 (Agree) and 5 (Strongly Agree).

Data Collection Procedure

Online questionnaires were used in this research because it is an efficient way to collect data from the respondents. The questionnaire is set to be completed by the respondents in 15 minutes. Data obtained was then analysed by using Statistical Package for Social Sciences (SPSS).

4. Results and Discussion

Profile of the Respondents

Among the 110 respondents, 58 were males and 52 were females. The number of responses from both genders are quite balance. Majority of the respondents (46) were aged between 26 to 35 years old which accounted for 41.8% of all the respondents. In terms of marital status, 59 of the respondents were married (53.6%) and 47 (42.7%) were single. In the category of ethnicity, most of the respondents (79, 71.8%) were Chinese. In terms of education background, most of the respondents possessed a bachelor's degree (59, 53.6%) followed by Diploma holders (20, 18.2%). As for monthly income, 43 respondents (39.1%) have an earning of RM3001-RM5000 whereas 30 respondents (27.3%) were having a monthly income of RM5001-RM7000.

Factor Analysis

Factor Analysis was conducted by employing Principal Component Analysis (PCA) to assess validity of the study variables. Based on the results obtained from the Principal Component Analysis (PCA) in Table I, the results indicated that the value of Kaiser-Meyer-Olkin for Measuring of Sampling Adequacy (KMO/MSA) is 0.702 for the independent variables. According to reference [23], values of KMO/MSA above 0.7 are appropriate for factor analysis. Next, Bartlett's test of Sphericity was found statistically significant at $p < 0.001$ and thus supported the factorability of the correlation matrix [24]. Principal component analysis revealed that there were 3 factors with loadings above 0.5. Factor 1 was labelled as firm image (5 items), Factor 2 was named as stock price (4 items) and factor 3 was identified as perceived risk (3 items). Based on the factor analysis results, firm image, stock price and perceived risk have contributed 27.697%, 18.790% and 11.207% of the common variance

respectively with Eigenvalues of 3.324, 2.255 and 1.345. The three factors cumulatively captured 57.695% of the

variance. The factor loading values of the scale were in the range of 0.544 to 0.824.

Table 1: Factor Analysis For The Independent Variables

Item	Description	Factor Loading		
		1	2	3
SP1	I sell the purchased shares if their price has surpassed the maximum price of the previous months.		0.642	
SP2	If stock prices have risen over the last year, I do not like to buy that stock.		0.816	
SP3	To my mind, the stock price is high if it has reached to its maximum in recent months.		0.760	
SP4	I believe that last week minimum and maximum stock price will determine the domain of its volatility in the coming days.		0.720	
PR1	I usually regret buying shares which its price will be reduced.			0.687
PR2	I usually tend to buy stocks which have a relatively guaranteed profit.			0.701
PR3	My buying and selling decisions in the stock exchange are primarily based on my previous expertise, knowledge and experience.			0.724
FI1	I am familiar with the brand of the companies listed in the Bursa Malaysia.	0.824		
FI2	I have a lot of information about the main business of the companies listed in the Bursa Malaysia.	0.796		
FI3	Companies in the Bursa Malaysia enjoy a high reputation.	0.544		
FI4	I usually have trust in operating and investing in the Bursa Malaysia.	0.751		
FI5	When I hear a company's brand in the Bursa Malaysia, a particular product of that company is envisaged in my mind.	0.709		
Eigenvalue		3.324	2.255	1.345
Percentage of Variance Explained (%)		27.697	18.790	11.207
Cumulative Percentage (%)		27.697	46.487	57.695

Note: KMO = 0.702, Bartlett's test of Sphericity; Approx. Chi-Square = 384.375, $p < 0.001$.

Table II shows a scale factor of retail investor behaviour that consists of 5 items. The results showed that the value of Kaiser-Meyer-Olkin for Measuring of Sampling Adequacy (KMO/MSA) is 0.814 for the dependent variable. Next, Bartlett's test of Sphericity was found statistically significant at $p < 0.001$ and thus supported the factorability of the correlation matrix.

Percentage of variance explained for the items is 54.933 with Eigenvalue of 2.747. The factor loading values of the scale were in the range of 0.581 to 0.836. Factors which have eigenvalues higher than 1 and loadings with 0.50 or higher are considered significant in factor analysis [25]. Therefore, the validity of the measurement scales used in this study has been established.

Table 2: Factor Analysis for the Dependent Variable

Item	Description	Factor Loading
		1
RIB1	I have sufficient knowledge of the market trend.	0.833
RIB2	I think my portfolio is better than other people's portfolios.	0.836
RIB3	I derive pleasure in buying and selling shares.	0.715
RIB4	I have the ability to handle difficulty situations in stock market.	0.836
RIB5	I believe that successful people always take risks.	0.581
Eigenvalue		2.747
Percentage of Variance Explained (%)		54.933

Note: KMO = 0.814, Bartlett's test of Sphericity; Approx. Chi-Square = 166.981, $p < 0.001$.

Reliability Test

The reliability test results for the independent variables and dependent variable were indicated in Table III. The reliability coefficient (Cronbach's Alpha) for firm image,

stock price and perceived risk were 0.790, 0.751 and 0.532 respectively whereas the Cronbach's Alpha for retail investor behaviour was 0.786. Perceived risk was removed from subsequent analysis as its reliability

coefficient recorded 0.532 which is below 0.7. Other variables were deemed reliable as they achieved the alpha value beyond 0.7 as suggested by [26].

Table 3: Reliability Statistics

Variables	Cronbach's Alpha	No. of Items
Firm Image	0.790	5
Stock Price	0.751	4
Perceived Risk	0.532	3
Retail Investor Behaviour	0.786	5

Correlation Analysis

The results tabulated in Table IV show that firm image ($r=0.512$, $p<0.01$) was significantly correlated with retail investor behaviour, whereas stock price ($r=0.120$, $p>0.05$) was found not significantly correlated with retail investor behaviour. The results indicate that there is a positive correlation between firm image and retail investor behaviour.

Table 4: Correlation Analysis Among the Study Variables

	Stock Price (SP)	Firm Image (FI)	Retail Investor

Table 5: Multiple Regression Analysis for the Independent Variables and Retail Investor Behaviour

Independent Variables	Retail Investor Behaviour				Hypothesis	Result
	Beta, β	Sig.	B	Std. Error		
Stock Price (SP)	0.023	0.787	0.021	0.077	H1	Not accepted
Firm Image (FI)	0.506	0.000	0.553	0.092	H3	Accepted
F value	19.020					
R Square	0.262					

The results of hypothesis testing show that there is a significant positive relationship between firm image and retail investor behaviour ($\beta=0.506$, $p<0.001$). It indicates that the better the firm image, the higher the retail investor behaviour in making investment decision. This finding is supported by the studies of [27] and [19] where they revealed that firm image has impact towards investor's decision putting resources into the stock market. Reference [28] further asserted that firm image has high intensity in affecting retail investor's decision making. Therefore, the management of the companies have to build a good firm image and should at least maintain their status in the industry to obtain good reputation from its stakeholders [29]. As long as the company has good reputation and strong financial position, retail investors will have faith to purchase the company's shares. On the other hand, stock price was found not significantly associated with retail investor behaviour ($\beta=0.023$, $p>0.05$). This finding is in contrast

			Behaviour (RIB)
Stock Price (SP)	1		
Firm Image (FI)	0.192*	1	
Retail Investor Behaviour (RIB)	0.120	0.512**	1

**Correlation is significant at the 0.01 level (2-tailed).

Multiple Regression Analysis

To conduct hypothesis testing, multiple regression analysis was used to determine the relationship between stock price, firm image and retail investor behaviour. Table V indicates that 26.2 percent ($R^2=0.262$) of the variance of retail investor behaviour can be explained by the two independent variables. The analysis shows that only firm image ($\beta=0.506$, $p<0.001$) has a significant positive relationship with retail investor behaviour. Stock price ($\beta=0.023$, $p>0.05$) was discovered not significantly related to retail investor behaviour. Therefore, hypothesis H3 was accepted and H1 was not accepted.

with previous study of reference [8] where they mentioned stock price has a significant effect on retail investor behaviour. However, the empirical evidence between stock price and investor's investment decision is mixed. Reference [30] found that stock price plays a minor role in predicting fundamental determinants of investment decision. Nevertheless, management should take into consideration that historical stock price maybe useful to predict future stock price. Past stock price information is able to serve as a reference for the investors to make right investment decision.

5. Conclusion

The study has been successfully conducted and it provides empirical evidence to the firm management that firm image is a significant factor that influences retail investor behaviour in making investment decision in the Malaysian context. Therefore, it is essential for a firm to build good reputation with strong financial background as

investors tend to invest more in firms with a positive image [31]. A specific training function has to be established in the firm to provide necessary skills and knowledge to deal with firm image matters [32].

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