DETERMINANTS OF SHORT TERM INVESTMENT DECISION MAKING

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DECISION-MAKING

This study examines the impact of financial literacy, accounting information, openness to experience and information asymmetry on the short-term investment decision-making of the stock market investors. For this purpose 23-item questionnaire was developed and distributed among 185 stock market investors through non-probability sampling. The results indicate that all these factors have a significant effect on the short-term investment decision-making. Results also indicate that individual investors with higher educational qualifications have more intentions for short-term investments as compared to the investors with other qualifications.

Keywords: financial literacy; accounting information; information asymmetry; openness to experience; short-term investment.

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1. Introduction. Real estate and stock market investments have been an important subject in the recent years. More and more people invest in stocks and real estate. The reason for this is to secure the money for future needs like sources of income after retirement etc. Due to recent global financial crisis, investment decisions are considered as the important tasks in daily life. For this reason, it is necessary to understand various factors which prompt individual investors to make investment decisions. The objective of this study is to identify some core factors which affect investors' willingness to invest.

Many researchers have discussed the investors' behavior and tried to enhance the understanding of people managing investments in different ways. If we go through the available literature, it is mainly personal characteristics that influence investment decision-making. The nature of psychological factors and individuals' behavior at the time of investment decision-making have been under discussion. Various research studies on psychology of investment have been conducted (Warneryd, 2001). Various psychological factors like beliefs, preferences and psychological biases have been found (De Bondt, 1998; Daniel, Hirshleifer, & Teoh, 2002; Kahneman & Riepe, 1998; Hilton, 2001;), saving attitudes (Euwals, Eymann, & Borsch-Supan, 2004), risk attitudes (Morse, 1998; Carducci & Wong, 1998). Many private investors keep ethical considerations in mind while making stock purchasing decisions (Webley, Lewis, & Mackenzie, 2001). To date, however, there has been very little work on the impact of financial literacy, accounting information, openness to experience and information asymmetry in the individual investors' investment decision-making. This research study intends to examine the impact of these factors on individual investors' decision-making. The model will help to investigate the relationship between these factors and short-term investment decision making.

2. Theoretical Background:

2.1. Financial Literacy. Financial literacy has been discussed by many researchers from different aspects. Different research organizations have conducted research to identify the level of financial literacy of investment decision makers. A research conducted by the OECD (2005) examined the level of financial literacy in 12 major countries of the world including UK, USA, European countries, Japan and Australia. The research concluded that the level of financial literacy for most of the respondents is very low. Chen and Volpe (1998) in order to further extend their work conducted a research on the financial literacy of nearly 1000 college graduates in different USA universities. They also examined the relationship between financial literacy level and demographic factors, academic disciplines and work experience. The study results pointed that there is significant difference among subgroups of academic discipline, years of work experience and class rank and financial literacy. Students belonging to non-business disciplines, students related to lower classes, and with having little work experience were found to be less literate. The study also found that males were far more literate than females, and also US students were more informed as compared to non-US students.

Volpe et al. (2002) found that in order to succeed at the stock market, the investors engaged in online trading should be more knowledgeable and informed as compared to other investors, because they lack information about what is happening inside the stock market and they may also become the victims of information asym-
Therefore, the researchers investigated the level of investors’ literacy of nearly 500 investors dealing in online trading. They also examined the level of difference in financial literacy among various groups of online investors using the demographic factors and experience in online trading as variables. The research concluded that the level of financial literacy varied in demographic factors. They inferred that the females are far less literate, and older online investors were performing much better than younger ones. Moreover, their research study also concluded that the investors with higher income were more literate as compared to investors with less income.

*Hypothesis 1*: The more individual investors are financially literate the more they intend to engage in short-term investing.

### 2.2. Accounting Information

The study by Mirshekary and Saudagar (2005) examined how investors use the information disclosed in financial statements and also they examined the significance of various information sources on investment decision-making. Their study was based on primary research. They sent their survey to various financial user groups in Tehran — stock brokers, private investors, bankers and institutional investors. They were required to assign ranking to each financial statement. The respondents ranked the companies’ annual audit report as the most influential source of information. After this, oral information was ranked as the second and information published in daily newspapers ranked as the third most influential source of information. Furthermore, advice given by friends, brokers and rumors were ranked as the least influential. The researchers concluded that investment decision makers use annual financial statement of different companies for investment decision making purposes.

Shareholders understand accounting information as an input for investment decisions. Investment analysts often work as the middlemen between corporations as information providers and other users of accounting information. They gather, analyze and deduce accounting numbers and disseminate the results to the users of financial statements data. On the basis of these findings and interpretations, many investment decisions are made. Investment analysts are the most important for the fact that if they become the victims of interpreting financial information wrongly this may lead the others to make wrong investment decisions. This makes investment analysts a very interesting user category for a study.

*Hypothesis 2*: The more individual investors use financial statements the more they intend to engage in short-term investing.

### 2.3. Openness to experience

The openness to experience is the factor, which also effects the investment decision-making. It is linked to the way how individuals perceive the world. Many facets relating to this factor have been pointed out, like imagination and depth, ingenuity, intellect, competences, reflection, introspection, quickness, creativity (Goldberg, 1999). The fundamental nature of this factor is related to intellectuality and curiosity. Many researchers have tried to focus on this area of psychology. According to some of the researchers, well-educated people feel that technological problems are less risky and they are scientifically better able to understand the complexities of these problems (Pilisuk & Acredolo, 1988). Thus, it could be inferred that open-minded individuals see various issues and problems under different angle as compared to others. The real meaning of this factor which could be the determinant of investment decision-making is that it is close to the notion of open...
mind and the idea of "live and let live." Thus, it could be projected that more open people would be less risky and problematic than others. Thus the following hypothesis is proposed as:

Hypothesis 3: The more individual investors are open to experience, the more they intend to engage in short-term investing.

2.4. Information asymmetry. Flow of information like decisions made by government bodies, media news etc. causes the stock prices to move up or down. Due to this behavior of stock market and due to new information, stock investors make their investment decisions (Warneryd, 2001). Prior to negative earnings surprises, those investors decrease their holdings that have insider information as compared to those investors who don’t have this information. Also the investors who possess private information about future prospects of the firms, trade more actively as compared to the investors without such information (Baik, Kang, & Kim 2010). Information about the firms irrespectively of its sources enables the investors to form opinion about the value of a firm (Nwezeaku, Okpara, 2010). Accordingly, various types of information flowing towards stock markets play a pivotal role for the investment decisions. Many studies have been conducted on finding the impact of information flooding on stock prices both if it is a hidden source or known public source of information (Warneryd, 2001). Information asymmetry (i.e., the situation when some relevant information is known to few people and not to the others) is one of the core factors that could affect the stock market due to the weakness of rules and regulations on the disclosure of financial information (Cheng, 2003). Due to this reason, in this research study, we have included it as an important independent factor affecting the investment decision-making. There are 2 types of risk sources through which information is affecting the value of stocks. These are objective and subjective risks. Subjective risk is what an individual investor perceives as an unwanted event. And objective risk is the actual loss in a given period of time.

Hypothesis 4: Higher level of information asymmetry will lead to higher short-term investment intentions.

3. Methodology
3.1. Sample and procedure. Probability and non-probability sampling are two approaches. In cases related to generalization and/or drawing statistical conclusions, well-known probability sampling is a commonly acceptable mode (Hair et al., 2003).
In the current study, non-probability purposive sampling was used. The questionnaire was distributed among 185 investors of different securities at Pakistani stock exchanges (KSE, ISE & LSE). 150 filled questionnaires were collected while 35 were found incomplete; therefore, 150 were used for analysis. A response rate of 81% was achieved.

Before submitting the survey, all the items were fully elaborated to the respondents in order to create convenience in filling the questionnaires and achieve relevant responses. After data collection, it was coded and entered in SPSS sheet for the analysis. Dependent variable was short-term investment intentions while independent variables were financial literacy, accounting information, openness to experience and information asymmetry. These were computed using SPSS software. Reliability, descriptive statistics, one-way ANOVA and regression tests were applied. For reliability and degree of internal consistency between items, the acceptable limit is 0.60. Internal consistency of the whole scale is the most wide and accepted measure of reliability. It is obtained by coefficient alpha which is also regarded as Cronbach's alpha.

3.2. Instrument and Measures. The questionnaire was divided into 2 parts: the first one was related to the personal information of the respondents including gender, age and educational qualifications. Second section contained the questions that covered the short-term investment intentions as a dependent variable and independent variables were financial literacy, accounting information, information asymmetry and openness to experience. In section 1 nominal scale was used while the scale to measure the second part of the questionnaire was Likert scale ranking (5-point) where 1 was the lowest degree of agreement and 5 was the highest level of agreement. It was an adapted questionnaire; information about each variable is given in Table 1.

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Source</th>
<th>Items</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short Term Investment Intentions</td>
<td>Mayfield et al. (2008)</td>
<td>5</td>
<td>0.736</td>
</tr>
<tr>
<td>Openness to Experience</td>
<td>Mayfield et al. (2008)</td>
<td>5</td>
<td>0.632</td>
</tr>
<tr>
<td>Financial Literacy</td>
<td>Hussein A. Hassan (2009)</td>
<td>3</td>
<td>0.734</td>
</tr>
<tr>
<td>Accounting Information</td>
<td>Omaima Hassan (2009)</td>
<td>5</td>
<td>0.621</td>
</tr>
<tr>
<td>Information Asymmetry</td>
<td>Wang et al. (2006)</td>
<td>5</td>
<td>0.835</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>23</td>
<td>0.927</td>
</tr>
</tbody>
</table>

The table shows the reliability of each dimension and overall reliability of the instrument. The short-term investment intention has 5 items with reliability of 0.736, openness to experience has 5 items with reliability of 0.632, financial literacy (3 items) with reliability of 0.734, accounting information (5 items) with reliability of 0.621 and information asymmetry (5 items) with reliability of 0.835. The reliability index for the instrument (23 items) is 0.927.

4. Results and Discussions. The main objective of the study is to analyze the effect of various factors on short term investment decision making. Several tests have been applied; summary of the results is given in Tables 2 & 3.

In Table 2 ANOVA is used to identify different preferences. The results reveal the significant difference between these groups on the basis of educational qualifications. P-value is less than 0.05 and F-test is 3.281. Mean difference of master degree investor is higher than graduate, undergraduate or other. It shows that an investor with higher education has more intention for short term investment as compared to the investors with other qualifications.
Table 2. **ANOVA (Measure difference for short-term investment intentions between groups with respect to qualification of the investors: (N=150)**

<table>
<thead>
<tr>
<th>Qualification</th>
<th>Mean</th>
<th>F-Square</th>
<th>P-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undergraduate</td>
<td>3.1241</td>
<td>3.281</td>
<td>0.023</td>
</tr>
<tr>
<td>Graduate</td>
<td>3.3161</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Master</td>
<td>3.3401</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>3.1389</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 3. **Regression coefficients, standard errors in parentheses, t-values in brackets and p-values in italics**

<table>
<thead>
<tr>
<th>Constant</th>
<th>Financial Literacy</th>
<th>Openness to Exp.</th>
<th>Information Asymmetry</th>
<th>Accounting Info.</th>
<th>R-Square</th>
<th>F-Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.910</td>
<td>0.253</td>
<td>0.140</td>
<td>0.169</td>
<td>0.435</td>
<td>0.8414</td>
<td>192.901</td>
</tr>
<tr>
<td>(0.123)</td>
<td>(0.053)</td>
<td>(0.043)</td>
<td>(0.053)</td>
<td>(0.052)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[0.317]</td>
<td>[4.806]</td>
<td>[3.263]</td>
<td>[3.173]</td>
<td>[8.371]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.713</td>
<td>0.000</td>
<td>0.001</td>
<td>0.002</td>
<td>0.000</td>
<td>0.000</td>
<td></td>
</tr>
</tbody>
</table>

Table 3 depicts the results of the regression analysis for the investors’ short-term investment intention. The results demonstrate that a model is significant (p<0.05) showing a significant relationship between investor short-term intentions and various independent factors (R-Square=0.8414 and F-value=192.901) in which R-Square shows the fitness of the model as independent variable account for 84.14% variation in dependent variable. In other words, it means that independent variables contribute 84% in short-term investment intention and remaining 16% are the other factors. When variables are investigated individually, significant (p<0.05) and positive relationship is found between all the variables associated to the short-term investment intention. Accounting information and financial literacy are the main factors with the coefficient of regression 0.435 and 0.253 respectively. The regression coefficients for openness to experience and information asymmetry are 0.140 and 0.169 respectively, which suggest these variables contribute almost 31% to the short-term investment intention. Therefore, accounting information is the most inferential variable for the short-term investment intention; though, financial literacy is also a considerable factor for the long-term investment.

The results of the regression analysis propose that all 4 independent variables have positive and significant impact on short-term investment intentions. These results validate all the hypotheses (H1, H2, H3, and H4) established for short-term investment intention, financial literacy, accounting information, investor openness to experience and information asymmetry are critical.

5. **Conclusions and Recommendations.** The purpose of the present study is to find the relationship between various factors affecting the short-term investment intentions of stock market investors. This study concludes that the investors consider these factors important for the short-term investment. It is obvious from the results that financial literacy, accounting information, investor openness to experience and information asymmetry have positive and significant relationship with short-term investment intentions. The results from Baik, Kang, & Kim (2010); Coleman and Eccles (1997); Ragab and Omran, 2006) are consistent. However, investors think financial literacy and accounting information are the critical factors as compared to openness to experience and information asymmetry. The results of this study are based on...
response of the investors from different stock exchanges of Pakistan. This study reveals that although the factors highlighted are important, still investors are not satisfied with investment atmosphere in Pakistan due to political instability, changing economic policies, increasing energy crisis, inefficient monetary and fiscal policies, lack of good governance, and increasing operating costs for business. These problems ultimately affect the overall economic conditions and investment environment and force the local and foreign investors to move their investments from Pakistan to other countries. Due to this, investors are not willing to invest in the long term and are more prone to short-term investment. This study also concludes that higher educational qualification has impact on short-term investment. It is found that there is a significant relationship between qualification and short-term investment intention.

On the basis of the above results, few suggestions on the improvement of the short-term investment intentions are given. Government should support the industries and stock market which automatically enhances the confidence level of the investors and their intentions to invest. Education and awareness of the investors are the areas which can improve these intentions. Companies should increase the dividend that can also improve the investors’ intentions as the constructive dividend policy contributes towards shareholders’ wealth and gets attention of the investors in the long term. 4 independent variables and short-term investment intention professed that there is a significant and positive relationship between them and encourages for future research. Effects of the other factors like investment knowledge, corporate reputation, corporate governance, risk perception etc. should also be studied to formulate the planned investment behavior increasing the sample size of a study on the long-term investment intentions.

References:


