Role of individual’s financial behaviour in the Spanish Securities Market

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ABSTRACT

The aim of the research paper is to examine and better understand the capacity of individual investors to adequately invest on the Spanish stock market (BME) and how their decisions and choices made in this financial framework along the Behavioural Finance branch of knowledge, can affect and determine a customer’s financial standing. Moreover, the purpose of this work is to determine whether their personal strategies when accessing to markets are effective in earning surplus returns of each transaction executed.

The data collected through the questionnaire showed that the majority of retail investors effectively managed to invest their savings or incomes into the markets and most people’s view of investment was generalized positivism related to them having the adequate and precise money allocated in different instruments.

It also revealed that retail investors have access to their open positions and tends to recognize the investment philosophy adopting a conservative approach, seeking for capital preservation as a primary objective and almost any tolerance to fluctuating returns at the end of the year. This is ultimately supported by the general investment purpose of saving and not to exceed their set priorities before deciding whether to invest in certain product or not.

INTRODUCTION

Nowadays and since long ago, people decided to invest in financial markets, to make money and obtain high returns. And, when it comes to money and investing, we are not always as rational as we think we are, which is why there is a whole field of study that explains our sometimes-strange behaviour (Pareto, 2010). According to Vanguard (no date, p.4), investing can help you to both create and preserve your wealth. By taking an appropriate level of risk you may have the opportunity to earn potentially higher long-term returns. A continuously increasing participation of subjects together with the complexity surrounding the trading, is prompting brokers and practitioners to investigate the determinants of financial behaviour of individuals (Barauska, 2011). As Benjamin, Graham, the Father of Value Investing, stated (Davis Funds, 2012) “individuals who cannot master their emotions are ill-suited to profit from the investment process.”

Objective 1: To ascertain how individual investors invest on the Spanish stock market (BME) in the current financial framework.

Objective 2: How can individuals’ decisions and choices made in this financial framework affect and determine a customer’s financial standing.

RQ: How can investors’ sentiments and behaviours determine their own financial position held on the Spanish Securities Market?

(H1): Experienced men aged above 40 are the ones who most participate and interrelate on the securities market. (H2): As the amount of net worth increases, investors with significant resources put aside money in several financial assets, diversifying their savings across several financial assets. (H3): It exists a direct relation between conservative expositions and the predominance of portfolio diversification and the quest for profitability.

METHODOLOGY

Research Philosophies: A mix aimed to explain the objectives within the most suitable framework: critical realism, positivism and functionalism.

Research Approach: Deductive – deducing a hypothesis from the theory: from Investor Behaviour theoretical patterns to the verification of data searched. Time horizon: cross-sectional.

Research Strategy: Surveys coded as quantitative questionnaires. With good sampling we infer how the entire population in the target segment might act in securities market.

MEASUREMENT

Direct Realism

Deductive

Survey

Quantitative Research (closed ended)

Cross Sectional

Data Analysis and Finding

RESULTS

AGE GROUP

Age group:

Below 20 (1%), 20-30 (13%), 30-40 (19%), 40-50 (27%), 50-60 (31%), 60-70 (7%), above 70 (1%).

Investor’s Experience:

Young (0-2 years) (31%), experienced (2-6) (60%), professional (9%).

Individual’s Net Worth:

Under €50,000 (21%), 50,000-100,000 (9%), 150,000 (3%), 200,000-250,000 (27%), over €300,000 (27%).

Investment Profile Categorization:

Conservative (42%), Balanced (31%), Growth (23%), Aggressive (3%).

Securities currently holding open positions:

Shares (34%), Bonds (7%), Investment Funds (25%), ETFs (4%), Private Fixed Income (13%), Public Debt (9%), Options and Futures (2%), Other (6%).

Factors guiding the investment decision:

Returns (31%), Safety of Principal (34%), Risk (11%), Portfolio Diversification (22%), Progressive/Corporate Values (1%), Other (1%).

Table 3.10: In which securities are you currently holding open positions?

<table>
<thead>
<tr>
<th>Variables</th>
<th>Response (%)</th>
<th>Response count</th>
</tr>
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<tbody>
<tr>
<td>Shares</td>
<td>34%</td>
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</tr>
<tr>
<td>Bonds</td>
<td>7%</td>
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<td>ETFs</td>
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<tr>
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<td>Options and Futures</td>
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</tr>
<tr>
<td>Other</td>
<td>6%</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
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</tr>
</tbody>
</table>

Figure 5.16: Percentage of income invested:

- 0% - 10% [5%]
- 10% - 20% [18%]
- 20% - 30% [23%]
- 30% - 40% [12%]
- 40% - 50% [5%]
- 50% - 60% [3%]
- 60% - 70% [1%]
- 70% - 80% [1%]
- 80% - 90% [1%]
- 90% - 100% [1%]

DISCUSSION

A 45% of investors agreed shares or stocks and investment funds notion represents the greatest awareness of the existence and understanding along the overall issued securities.

Shares remains as the most present product in investors’ portfolios with the 34% of total count and 25% trust more on investment funds. And in subsequent analysis, an outstanding 61% was reliant on the private sector as their preliminary option to start allocating resources.

A majority of people consider safety of principal and profitability offered by products remain key priorities before deciding whether to invest in a security or not. A significant group also opted to achieve maximum profitability trying to minimize this through diversification and monitoring of positions and markets for different products.

A 27% asserted having been part of the investments to set aside money for their retirement, contributing and trying to increase the pensions, while now helping growing and educating their children gains more ground on the social priorities stage as the second saving objective.

Retail investors assign a low percentage of their income or savings to invest. Expectations from investors were not exceeding the 10% of their earnings deposited on financial assets in 34% of the cases, and the 52% of the agents defined their personal investing policy with a maximum expenditure of 30% to 40%.

Sources of advice results prove right the importance of professional advisors, financial planners or portfolio managers from commercial banks in the expert guidance provision and personal strategy’s elaboration tailored on the client. However, only a 24% of the total count are currently working with them, on which efforts would have to be made to encourage economic growth and financial stability.

CONCLUSIONS

In this examination, the aim was to certainly assess how individual retail investors were operating in the markets and whether they were following a structured and own investment policy supported by their professional advisors. Thus, in order to facilitate the provision of assistance tailored to specific needs in every situation, investors would pursue certain actions on the markets, leading to price variations and financial fluctuations which ultimately will affect one’s cash flows, liquidity planning and the overall viability of the investment in accordance with its standing position.

Therefore, we can publicly announce that the traditional Spanish household families encompassed under the retail investors, which are our subject of study, are still competitive and participants with a moderate financial background towards Securities Markets in Spain (Spain), Spaniards would have access to their open positions and could reorganize the investment philosophy adopting a conservative approach, in the direction of the 42% of the total sample, seeking for capital preservation as a primary objective and almost any tolerance to fluctuating returns at the end of the year. Also, they would have to allow relative short period of time before gaining a recovery from any negative years.

Recommendations:

(1) Further research on the relationship individuals-advisors, to consider different issues before taking decisions, and how advisors must be effective when offering investment alternatives to its clients.

(2) Setting limits or margins, being aware of types of orders on the stock market (shares: market order, limit order, stop-loss and stop-limit orders).

(3) Banks and professional advisors: video calls or message texting platforms for retail investors.

(4) Advanced training programmes for investors.

(5) Attract older categories customers to invest more.

REFERENCES


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