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International Competitiveness and Exchange Rate Management in Southeast Asian Economies
Saadiah Mohamad 407

Comparative Study on Performance Between Local and Foreign Companies in the Kuala Lumpur Stock Exchange (KLSE): Before and During the Financial Crisis
Fadillah Mansor 425

Volume II

Marketing / Consumer Behavior

Consumers’ Perceptions of Advertising Branded Products by Celebrities: A Cross-Cultural Comparison
Md Zabid Abdul Rashid, Jainthy Nallamuthu 445

Are Shocks to Customer Satisfaction Permanent or Temporary? Implications and Evidence from Panel Unit Root Tests
Matthew C.H. Yeung, Lee Chew Ging 459

Women’s Perceptions Toward the Portrayals of Women in Television Advertisements
Ong Fon Sim, Seah Suying 477

Understanding How Malaysian Consumers Formulate Their Ethnocentrism Orientation: Do We Love Our Products?
Safiek Mohlis, Ab Razak Kamaruddin, Md. Nor Othman 491

Marketing Hospitality Services Through The Internet – Which Malaysian Segments to Target?
Aliah Hanim M. Salleh, Chow Sook Woon 505

Influences of Culture on Advertising Types in Taiwan
Jane Lu Hsu, Wei-Ching Hung, Wei-Hsien Chang 521

Marketing Service Quality and Satisfaction in Private Colleges: Students Perspective
Faridah Hj. Hassan, Nooraini Mohamad Sheriff 535

Internet Marketing in Hotel Industry: Potentials and Constraints
Jennifer Kim Lian Chan 557

A Study of Customer Churn Intention in Mobile Phone Service Industry
Dungehun Tsai, I-Chen Lin 565

Marketing Communication for Sabah as a Tourist Destination
Jennifer Chan Kim Lian, Yeoh Ei Leen 581
Passenger Service Evaluation of Asia-Pacific International Airports
Chung-Hsing Yeh, Yu-Liang Kuo 593

Investment Behavior of Active and Passive Investors: A Comparative Study of Kuala Lumpur Stock Exchange Individual Investors
Ezlika Ghazali, Md. Nor Othman 607

International Marketing Strategy for Bumiputera Entrepreneurs in the Tourism Industry
Aida Idris 623

Human Resource Management/ Organizational Behavior

Valuing Cultural Diversity: A Study of Employees’ Reactions to Employers Efforts to Value Diversity in India
Subhash C. Kundu 635

Superior-Subordinate Fit: An Extension of the Supplementary Fit Model
Kamarul Zaman Bin Ahmad 647

Patterns of Training Evaluation Practices Among Training Institutions in Malaysia
Junsaidah Hashim 663

Nur Anisah Abdullah, Mohamed Zain, Retha Wiesner, Jim McDonald 687

MBA Degrees: An Evaluation by Alumni Members of a Malaysian University
Angeline Tay 701

In Search of Complementarity
Oliver H.M. Yau, Raymond P.M. Chow 717

Strategic Management

A Comparative Study of Corporate Culture, Management Style, Competitive Strategy, and Business Performance for Taiwanese, American, and Japanese Firms
Ching-Ho Liu 739

Technological Innovation in the Indonesian Food and Wood Processing Industries
Ilham Said 761

Developing and Selecting Business Strategy, and Prioritizing Strategic Actions for a Tool Steel Company with the Analytic Hierarchy Process
Hary Kintarso, Kirti Peniwati 781

Environment, Formation Motives, Partner Interaction, and Alliance Performance: A Comparison Study of American and Taiwanese Firms
Chung-Jen Chen 791

Daviós Versus the Goliath: Locational Tournament for FDI Among Developing Countries
Bala Ramasamy, Matthew C.H. Yeung 805

How the Firms Select the Scientific Park: An Empirical Survey on the Entry Motivation and Evaluation Criterion Toward the Selection of Scientific Park in Taiwan
Cheng-Nan Chen, David D.C. Tarn, Lun-Chung Tzeng 823
Investment Behavior of Active and Passive Investors: A Comparative Study of Kuala Lumpur Stock Exchange Individual Investors

Ezlika Ghazali* and Md. Nor Othman**

The present study attempts to examine the investment behavior of passive and active investors in the Kuala Lumpur Stock Exchange (KLSE). Comparisons will be made with respect to investment behavior of individual investors. Primary data were collected using self-administered questionnaires. The sample consisted of 243 Kuala Lumpur Stock Exchange individual investors from Kuala Lumpur and Petaling Jaya. The investors were generally from the age group of 26 to 49, working in professional, managerial or executive capacity, and having monthly personal income of between RM2,000 to RM7,999. Male respondents outnumbered female by three to one ratio.

About 37 per cent of respondents were found to be active investors, while 63 per cent were found to be passive. In terms of investment characteristics, the study found that there were significant differences between the two groups with respect to the amount of investment and period of share holdings. In terms of the amount of money invested in KLSE, active investors tended to be heavy investors with investments of RM80,000 or more, while passive investors tended to be light investors with investments of less than RM20,000. In terms of period of share holdings, active investors were generally weekly and monthly holders of shares, while passive investors usually held shares for one year or longer.

When the general investment goals and objectives during bullish and bearish market conditions of the two groups were examined, significant differences were also found. Active investors were found to be hit-and-runners and speculators with the goal of short-term profit during bullish market but turned to fundamental and technical methods with long-term goal during bearish. Passive investors, on the other hand, sometimes used no method at all in pursuing investment. Reminders and brokers are very important to them as source of information and in helping them to make investment decisions. Some marketing implications of the study were also discussed.

INTRODUCTION

The securities industry in Malaysia began as early as 1870 as an extension of British corporate presence in the rubber and tin industries. However, in the early years, there was no stock exchange, nor was there evidence of a central market place (RIAM, 1989). The eighties witnessed the beginning of the growth of the KLSE and securities industry in Malaysia. From highly speculative and little regulated environment in the early sixties,

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the Malaysian stock market evolved and developed into one that is internationally known and recognized as an ‘emerging tiger’ (KLSE and MGS, 1992). Now, Malaysia’s financial markets comprise stock exchanges, options and futures exchanges as well as public and private debt securities market. The two stock exchanges are Kuala Lumpur Stock Exchange (KLSE) and Bumiputera Stock Exchange (Rubbi and Sieh, 2000).

Despite the economic crisis of the late 1990’s, stockbrokers and fund managers from the USA and Europe saw huge opportunities in emerging economies such as Malaysia (Rubbi and Sieh, 2000). Entry by foreign shareholders into securities companies in Malaysia was initially limited to 30 per cent but this was raised to 49 per cent in 2000. Hence, the extent and importance of marketing in stock-broking firms has recently taken even greater significance as the industry enter into a new demanding era. Malaysian brokers have to move fairly rapidly to accommodate these changes in the industry. Customer loyalty hinges primarily on the quality of the individual broker, not on the reputation of the firm (Lee, 1989). These will also affect financial service marketers’ targeting strategies.

In line with these, the specific objectives of this study are: (1) To draw investors into two groups: active and passive, (2) To examine the investment characteristics and investment behavior during bull and bear periods of the two groups of investors. (3) To compare the two groups of investors along investments characteristics and investment behavior between the two groups of investors in both bullish and bearish market conditions.

**LITERATURE REVIEW**

Very few past studies have been conducted concerning individual investors and their investment behavior in Malaysia. Subsequent sub-sections will discuss past literature on investors investment characteristics and investment behavior.

**Demographic Characteristics of Investors**

Past literature, locally and abroad, provide an interesting insight about the kind of people that make up individual investors in Malaysia, Australia and USA.

Sharpe Alexander (1990) reported a study conducted by NYSE in 1985, found that there is no particular age cluster of general investors in the U.S. However, the AASE surveys in 1986 and 1997 showed that Australians are more likely to become investors, as they get older. Osman (1998) found that around one-third of Malaysian individual investors were above 65. However, another Malaysian study by Lim in 1992, reveal that more than half of the investors are below 35 years of age.

With respect to gender composition, past studies in Malaysia show that male individual investors outnumbered female individual investors by about 3 to 1 (Lim, 1992; Osman, 1988; KLSE, 1986). However, the dominance of male to female shareowners in Malaysia is far lower than in Australian (AASE, 1986), but greater than in US (Sharpe Alexander, 1990). Results of Osman (1988) and Lim (1992) indicate a shift towards investors with better income. The AASE survey reported by English (1997), reveal that individual investors are not necessarily wealthy. In US, the NYSE survey (1985) show that half of the investors earned household incomes between US$25,000 to US$50,000 annually (Sharpe Alexander, 1990).

Past studies in Malaysia show that, in general, individual investors are better-educated (KLSE, 1986; Osman, 1988; Lim, 1992). About 76 per cent have at least some tertiary education, two-thirds of whom had either university or professional qualifications (Mansor and Lim, 1995). This is similar to NYSE (1985) survey which reveal that three-quarter of US individual shareholders have college degree or better education. However, AASE (1997) survey findings suggest that private share ownership is not related to education. Previous findings also reveal that great majority of individual investors in Malaysia hold white-collar job (KLSE, 1986; Osman, 1988; Lim, 1992) and more than half of them are either professionals or working in managerial or administrative capacity (Mansor and Lim, 1995). This is similar to findings in Australia (English, 1997) and in the US (Sharpe Alexander, 1990).

**Investment Behavior**

Very little empirical research exists concerning individual investors and their investment behavior in Malaysia. With regards to methods used to secure investments, Lim (1992) revealed that, speculative behavior is rampant during bullish markets, with more than three quarter of all investors admitting that they are involved in some form of speculative activity. “Speculation” includes trading based on tips, rumors or by just picking stock in random (Mansor and Lim, 1995). Lim (1992) also found that, only about one-third of them use fundamental analysis technique, while only one-sixth use technical analysis technique to secure their investment during bull market periods. The use of technical analysis also increases with less speculation as market moves from bull to a bear market condition. Majority of Malaysian investors, use fundamental analysis during bear periods. Osman (1998) also concluded that individual investors conduct their own information and facts collection with supplementary information based on several analytical method before selling and buying shares during bearish periods.

In terms of investment objectives of individual investors, Lim (1992) found that in bull market period, three-quarter of the investors are after short-
term gains. Likewise during that period, majority of the investors have an average holding period of less than one month. However, during bear market condition, respondents' main objective is long-term gain (about three-quarter of the respondents). He also found that the importance of dividend to individual investors increases in bearish markets than in bullish condition. In addition, under bearish market, shares are held longer. It was found that more trading is done during bull market conditions compared to bear market conditions. Osman (1988) also concludes that media serves as a source of information to investors before making an investment decision.

In Australia, AASE study reported by English (1997) revealed that about 25 per cent of transactions made by individual investors were for less than A$2000 and 30 per cent transacted over A$10,000. In terms of portfolio size, only 10 per cent of individual shareholders have portfolios exceeding A$100,000 and 23 per cent have portfolios under A$50,000. Osman (1988) revealed that, the majority of the investors in Malaysia began their investment with amount less than RM10,000 and then raised the amount over time.

Investors Categories

Few past studies had attempted to classified investors in different ways. Three different ways of categorizing investors had been found. The study by Barnewell (1987) divides investors into two extremes: (1) active or (2) passive. Another survey by Warren et al. (1990) on 600 investors in United States, differentiate investors by size and nature of their investment holdings through the use of quantitative research. They defined individual investors as belonging to either heavy or light category. Heavy investors are those having more than US$30,000 in total investment holdings while light investors are those who have US$30,000 or less in total investment holdings.

In Malaysia, Lim (1992) had attempted to classify individual investors in Klang Valley into ‘light’ and ‘heavy’ segments. Light investors were those who invested less than RM20,000, while heavy investors were those with RM20,000 and above in total investment holdings. Brandweek (1998) reported a study by Yanklovich Partner of New York that categorizes investors in U.S as ‘Strugglers’ and ‘Secures’. Strugglers are those with median household income of US$34,000 per annum and mean investible assets of only US$6,000, while Secures, having median household income of US$75,000 per annum with mean investible assets of US$192,000.

Investor Groups and Investment Behavior

Warren et al. (1990) concludes that, generally, light investors in US tend to have portfolio investment in instruments other than stock and bonds. Heavy investors, on the other hand, hold heavier concentrations of their portfolio in the form of stocks or bonds. Barnewell (1987) found that, generally, the investment orientation of active investors in U.S is for control, with 70 per cent of their portfolio in higher risk assets while 30 per cent in lower risk assets. Passive investors, on the other hand, are non-control oriented with 70 per cent of their investment in the lower risks and 30 per cent in higher risk assets.

In terms of investment characteristics, Lim (1992) found that, both heavy and light investors in Malaysia seem to have similar preferences in trading strategies. Both prefer to speculate during bullish market periods but revert to using fundamental method of analysis during bear period. On the other hand, light investors tend to be more speculative than heavy investors, in both bull and bear periods. As for investment objectives, he also found that both heavy and light investors tend to have similar goals during both periods. They prefer short-term gains in bull periods and long-term gains in bear period. In bearish periods, however, a greater proportion of light investors prefer short-term gains then heavy investors. In terms of period of share holdings, Lim (1992) assessed that there were no differences between heavy and light investors, in both periods.

RESEARCH METHODOLOGY

The methodology employed in the study are as given below:

Research Instrument

The survey instrument consisted of an eight-page questionnaire. It was prepared in both English and Malay versions to minimize errors arising from different competency in the respondents' command of English language. The questions relevant to this paper were found in three sections.

The first section was designed to collect the information on respondents' investment characteristics and behavior. Characteristics of individual investors were measured by size of the holdings and period of share holdings. Further, this section also attempted to explore individual investors' investments and decision making (investment behavior) by including questions relating to methods of investment analysis and investment objectives or goals during both bullish and bearish market periods. Most of the questions were adapted from Osman (1988) and Lim (1992). Some were modified and developed by researcher following opinion of experts. For example, the “Hit-and-run” and “Depend on remisier / broker / analyzer”.

Second section of the questionnaire was developed to measure how active the respondents were in 'playing shares' in the Kuala Lumpur Stock Exchange (KLSE). The following question was developed to assess this issue:
"How many times in an average month do you have your transaction done in the KLSE?" Six alternative responses were given, from '1 = Less than 1 time a month', to '4 = 3 times a month', and to '6 = More than 4 times a month'. Based on the responses from this question, investor categories (i.e. active and passive investors) would be developed.

The last section was designed to collect the demographic information of the respondents for a more meaningful interpretation of the results. This covered, gender, ethnicity, marital status, employment status, education and income. The demographic section was intentionally designed to be at the last section of the questionnaire. This is to reduce biased responses and minimize unnecessary resistance on the part of respondents to complete the whole questionnaire since demographic particulars (especially income) are considered to be very private or personal and most people can be defensive in revealing it. A preliminary pilot test involving twenty respondents was conducted before the actual survey. The final questionnaire was developed based on the feedback from the pilot test as well as the opinions of experts.

**Sampling Procedure and Data Collection Method**

The survey was confined to individuals residing in the Klang Valley area, in particular Kuala Lumpur and Petaling Jaya. A sample size was 300 was targeted in order to provide an adequate level of confidence in the study. The survey was conducted over an eight-week period starting from early August 2000, using self-administered drop-off method. The drop-off method was conducted by placing 50 to 150 copies of the questionnaires with eight stock-brokering companies in Kuala Lumpur and Petaling Jaya. Respondents comprised both male and female aged 21 and above, who invested in securities of public listed companies traded in the Kuala Lumpur Stock Exchange (KLSE). A key person in each of the stock-brokering companies, normally a senior remisier or dealer, was engaged to act as the contact person, distributing and collecting agent.

**RESEARCH RESULTS**

This section presents the findings of the survey. It begins with a description of the general characteristics of the respondents. This is followed by an examination on the investment behaviors of the respondents. The demographic and investment behavior characteristics between active and passive investors will then be compared.

**Characteristics of the Respondents**

A total of 240 usable questionnaires were used. It was found that the male respondents outnumbered the females by almost 3 to 1. An equal proportion of respondents (28.2 per cent each) fell in the 26-29 and 30-35 age groups. Almost 15 per cent of the respondents fell in the 36-39 years age group, followed by those in the 40-49 years group, which made up 13.9 per cent of the total. Only 6 per cent of the investors fell into the 50 and above age category.

More than half of the respondents (60.8 per cent) were married. This was followed by 34.8 per cent of the total respondents who were single and the rest (4.1 per cent) were either divorced or widowed. Malays comprised the largest ethnic group (48.8 per cent), followed by the Chinese (40.6 per cent) and Indians (8.6 per cent).

Three-quarters of the investors earned a monthly personal income of RM2,000 - RM5,999. About 15 per cent of respondents earned a personal monthly income of between RM6,000 - RM7,999, while 12.4 per cent earned less than RM2,000. Those earning RM10,000 and above represented 7.5 per cent of the total respondents. In terms of monthly household income, 29.7 per cent of the respondents had a monthly household income of RM2,000 - RM4,999, followed by those in the RM8,000 - RM9,999 income range (25.9 per cent). Those respondents with a monthly household income of RM10,000 - RM12,999 represented 13.4 per cent of the total. Slightly more than 10 per cent of the respondents earned a monthly household income of RM8,000 - RM9,999.

Respondents in the administrative/managerial level and professionals (doctors, engineers, etc.) made up the majority of the respondents, representing 26.2 per cent and 23.4 per cent of the total respectively. Those in the sales and marketing made up 15.6 per cent and business owners 11.9 per cent. With regards to educational background, three-quarters of the respondents (69 per cent) had a University or Professional degree. Those with a college diploma represented 15.9 per cent of the respondents.

**Active Versus Passive Investors**

After examining the frequency distribution of the responses on the number of times in an average month the respondents made their transactions in the KLSE, the study decided to divide active and passive investors based on the following: active investors were those who transacted in the share market at least three times in an average month. Passive investors, on the other hand, were those who transacted in the share market less than three times in an average month. Based on this categorization, the study found that 37.5 per cent of the respondents were active and 62.5 per cent of them were passive.

**Investment Behaviors of Active and Passive Investors**

The study compares the investment behaviors of the two groups of investors. Variables studied were: amount of investment, average period of
share holdings, method of analysis to secure investment during bullish and bearish market, and objectives of investment during bullish and bearish market.

**Amount of Investment:** The study found that there were differences between the active and passive investors with respect to the amount of investment in the KLSE ($p = 0.000$). Please refer to Table 1. As shown in the table, active investors tended to have a larger investment than passive investors. For example 35.6 per cent of active investors invested more than RM80,000 as compared to only 9.5 per cent amongst the passive investors. Vice-versa, larger proportion of passive investors invested less than RM20,000 (62.4 per cent) when compared to active investors (18.8 per cent).

<table>
<thead>
<tr>
<th>Amount of Investment</th>
<th>Active (%)</th>
<th>Passive (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than RM20,000</td>
<td>18.8</td>
<td>62.4</td>
</tr>
<tr>
<td>RM20,000-RM39,000</td>
<td>15.6</td>
<td>17.4</td>
</tr>
<tr>
<td>RM40,000-RM79,000</td>
<td>30.0</td>
<td>10.7</td>
</tr>
<tr>
<td>RM80,000 and above</td>
<td>35.6</td>
<td>9.5</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

$\chi^2$ significant, $p=0.000$

**Average Period of Shareholding:** When the average period of shareholdings was examined, the two groups were found to be different. The active investors had a greater tendency to hold shares for a shorter period of time when compared to the passive investors. For example, half of the active investors held shares for two weeks or less as compared to 14.8 per cent amongst the passive investors. Only 5.5 per cent of the active investors held shares for more than 9 months as opposed to 40.3 per cent amongst the passive investors.

<table>
<thead>
<tr>
<th>Average Period of Shareholding</th>
<th>Active (%)</th>
<th>Passive (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fortnightly and below</td>
<td>50.0</td>
<td>14.8</td>
</tr>
<tr>
<td>1-4 months</td>
<td>35.6</td>
<td>24.8</td>
</tr>
<tr>
<td>5-8 months</td>
<td>8.9</td>
<td>20.1</td>
</tr>
<tr>
<td>9-12 months and above</td>
<td>5.5</td>
<td>40.3</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

$\chi^2$ significant, $p=0.000$

**Methods Used to Secure Investment during Bullish and Bearish Market:**

This sub-section presents the methods used to secure investment during bullish and bearish market conditions. The methods identified were: speculation, fundamental method, technical method, no method and "depend on remisier/broker/analyst" to secure investments.

**Bullish Market:** As shown in Table 2, speculation was the most favored method to secure investment. More than half (58.5 per cent) of the respondents utilized this method. This was followed by "depend on remisier, brokers or analysts" (35.3 per cent) and technical method (30.2 per cent). This finding concurs with the finding of Lim (1992) who found that investors are mainly speculators during bullish market period.

<table>
<thead>
<tr>
<th>No Method</th>
<th>Active (%)</th>
<th>Passive (%)</th>
<th>Total (%)</th>
<th>Signif.**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Speculation</td>
<td>71.1</td>
<td>52.0</td>
<td>58.8</td>
<td>0.004</td>
</tr>
<tr>
<td>Fundamental</td>
<td>27.8</td>
<td>30.7</td>
<td>29.0</td>
<td>0.625</td>
</tr>
<tr>
<td>Technical Method</td>
<td>43.3</td>
<td>22.7</td>
<td>30.2</td>
<td>0.001</td>
</tr>
<tr>
<td>Depend on Remisier/Broker/Analyzer</td>
<td>17.8</td>
<td>16.7</td>
<td>17.1</td>
<td>0.478</td>
</tr>
<tr>
<td></td>
<td>34.4</td>
<td>36.0</td>
<td>35.5</td>
<td>0.807</td>
</tr>
</tbody>
</table>

*The respondents were allowed to tick more than one response.

**Significant using chi-square statistical test.

The study found that the two groups of investors were different in their usage of two methods. Greater proportion of active investors was found to be speculators (71 per cent) when compared to the passive investors (52 per cent). This result is somewhat different from that of Lim (1992). Lim found that light investors tend to utilize the speculative method when compared to the heavy investors.

The chi-square results indicated that there was a significant difference ($p=0.001$) between the active and passive investors with regards to the use of the technical method. A greater proportion of active investors used this method (43.3 per cent) when compared to the passive investors (22.7 per cent). This finding is quite similar to Lim (1992) who found that three-quarters of investors that used technical method are heavy investors. However, Lim (1992) found out that, technical method was not a popular method of analysis during bullish as the investors prefer the fundamental method more.

**Bearish Market:** The study also the methods used during bearish market condition. The study found that the most common method was the fundamental method (51.4 per cent of the total respondents). About a third (33.5 per cent) relied on remisiers, followed by 29 per cent using the technical method (see Table 3). The results resemble closely to the findings of Lim (1992) who found that the least common method used by Malaysian investors during bearish market condition was speculation, followed by
technical method. The most favored method was the fundamental method. Since no previous study has been done on the “dependent on remisiers/brokers/analyst” method, no comparison can be made.

Table 3: Method Used to Secure Investment during Bearish Market*

<table>
<thead>
<tr>
<th>Speculation</th>
<th>Active (%)</th>
<th>Passive (%)</th>
<th>Total (%)</th>
<th>Signif.**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fundamental</td>
<td>28.9</td>
<td>12.7</td>
<td>18.4</td>
<td>0.002</td>
</tr>
<tr>
<td>Technical Method</td>
<td>43.7</td>
<td>56.3</td>
<td>51.4</td>
<td>0.039</td>
</tr>
<tr>
<td>No Method</td>
<td>37.8</td>
<td>24.0</td>
<td>29.0</td>
<td>0.023</td>
</tr>
<tr>
<td>Depend on Remisiers/Broker/Analyst</td>
<td>10.0</td>
<td>20.0</td>
<td>16.3</td>
<td>0.042</td>
</tr>
<tr>
<td></td>
<td>36.7</td>
<td>32.0</td>
<td>33.5</td>
<td>0.459</td>
</tr>
</tbody>
</table>

*The respondents were allowed to tick more than one response.
**Test of significance using chi-square statistical test.

When the investment behavior of the two groups of investors was examined, some significant differences were found. The study found that active investors had a greater tendency to use “speculation” and “technical method” during the bearish market when compared to the passive investors. The passive investors, on the other hand, had a greater tendency to use “fundamental method” and “no method” during the bearish market when compared with the active investors.

In certain aspects, these findings somewhat contradict that of Lim (1992). Lim found that more light investors were speculators than heavy investors. Lim (1992) also found that in terms the use of fundamental method the heavy and light investors do not differ. With regards to the use of technical method, Lim’s finding is similar to that found in the current study.

As shown in Table 3, from being mostly speculators during bullish market conditions, both groups of investors reverted to the use of fundamental method of analysis during bearish periods.

Investment Goals and Objectives during Bullish and Bearish Market Conditions: The study also examines the investment goals and objectives of the investors during bullish and bearish market conditions. Examples of the goals include: hit-and-run, short-term gain/profit, long-term gain/profit, dividend and bonus/rights issues during both conditions of bullish and bearish market. In the interpretation of the results, only the “Yes” responses were reported. The respondents were allowed to tick more than one response.

Bullish Market: The study found that during bullish market conditions, hit-and-run appeared to be the most popular investment goals of the investors (55.9 per cent). This was followed by the goal of “short-term gain/profit” (50.2 per cent), “long-term gain/profit” (30.6 per cent), and “bonus/rights issues” (19.6 per cent). See Table 4. “Getting dividends” was the least favored goal/objective (17.1 per cent) during the bull periods. The result is similar to that of Lim (1992), where short term gain is the most popular investment objective during bullish market, followed by long term gain objective, bonus/rights issues and lastly dividends. There was no previous study comparing the hit-and-run behavior.

Table 4: Goals and Objectives of Investment during Bullish Market*

<table>
<thead>
<tr>
<th>Active (%)</th>
<th>Passive (%)</th>
<th>Total (%)</th>
<th>Signif.**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hit and Run</td>
<td>77.8</td>
<td>44.0</td>
<td>55.9</td>
</tr>
<tr>
<td>Short Term Gain/Profit</td>
<td>55.6</td>
<td>47.3</td>
<td>50.2</td>
</tr>
<tr>
<td>Long Term Gain/Profit</td>
<td>24.4</td>
<td>34.7</td>
<td>30.6</td>
</tr>
<tr>
<td>Dividend</td>
<td>16.7</td>
<td>18.0</td>
<td>17.1</td>
</tr>
<tr>
<td>Bonus/Right Issues</td>
<td>22.2</td>
<td>18.7</td>
<td>19.6</td>
</tr>
</tbody>
</table>

*The respondents were allowed to tick more than one response.
**Test of significance using chi-square statistical test.

When the two groups of investors were compared on this behavior, only the “hit-and-run behavior” was found to be significant (p=0.000). The study found that active investors had a greater tendency to use “hit-and-run” goal (77.8 per cent) when compared to the passive investors (44.0 per cent). Since no previous study has done on this issue on comparison can be made. With regards to other goals, no significant difference was found.

Bearish Market: The most favored objective/goal during the bear market was found to be the “long-term gain/profit” with more than half of the respondents having this goal in mind (see Table 5). Almost a third (29.8 per cent) of the respondents indicated that getting dividends was their goal of investing during such market conditions. Slightly lower number of respondents (26.5 per cent) believed that holding securities for short term was their goal during such market conditions. This was followed by “bonus/rights issues” and “hit-and-run” represented by 24.1 per cent and 19.6 per cent of respondents respectively. The results were quite consistent with the findings by Lim (1992). Lim found that the most popular objectives of Malaysian investors during the bearish market conditions were “long-term gain”, followed by “short-term gain”. However, in Lim’s study, “getting dividend” was the third favorite goal after “short-term gain”, followed by “bonus/right issues” as the least favorite goal.
Table 5: Goals, Objectives of Investment during Bearish Market*

<table>
<thead>
<tr>
<th></th>
<th>Active (%)</th>
<th>Passive (%)</th>
<th>Total (%)</th>
<th>Signif.**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hit and Run</td>
<td>30.0</td>
<td>14.0</td>
<td>19.6</td>
<td>0.003</td>
</tr>
<tr>
<td>Short Term Gain/Profit</td>
<td>37.8</td>
<td>18.7</td>
<td>26.5</td>
<td>0.001</td>
</tr>
<tr>
<td>Long Term Gain/Profit</td>
<td>55.6</td>
<td>58.0</td>
<td>56.3</td>
<td>0.711</td>
</tr>
<tr>
<td>Dividend</td>
<td>32.2</td>
<td>29.3</td>
<td>29.8</td>
<td>0.638</td>
</tr>
<tr>
<td>Bonus Right Issues</td>
<td>31.1</td>
<td>20.7</td>
<td>24.1</td>
<td>0.069</td>
</tr>
</tbody>
</table>

*The respondents were allowed to tick more than one response.
**Test of significance using chi-square statistical test.

When the two groups of investors were examined on this issue, the study found that two of the goals were significant. The goals were “hit-and-run” and “short-term gain/profit”. Active investors were found to have a greater tendency to set these goals when compared to the passive investors. Since no previous study has examined the goal of “hit-and-run”, no comparison can be made. However, with respect to the “short-term gain/profit” goal, Lim (1992) found that light investors tend to have this goal in mind as compared to heavy investors.

With regards to the other three goals or objectives examined during bear market conditions, namely “long-term gain/profit”, “dividend” and “bonus/rights issues”, no significant difference was found between the two groups of investors.

CONCLUSION AND RECOMMENDATIONS

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 Osman (1988), KLSE (1986) and Lim (1992) but is far lower than the Australian AASE (1986) findings and greater than the ratio revealed by the NYSE 1985 (Sharpe and Alexander, 1990) survey. This might be due to several different factors including cultural, social and economic.

With regards to amount of money invested in KLSE, significant difference was found between the two groups. Majority of active investors invested much higher than passive, with amount skewed towards RM80,000 or more, as compared to majority 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 shareholding period, the study also revealed a significant difference between the two groups. 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 months or longer.

The study also found that, active and passive investors behave differently 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 there was no significant difference 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 factor 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 small proportion of passive investors used no method whatsoever to invest. The findings were almost similar to that of Lim (1992) and Osman (1988), 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. It can be concluded that there is increasing sophistication and knowledge of individual investors, as suggested by Lee (1989). Today, the individual investors are generally better read and better informed than ever before.

This study also showed that 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).

IMPLICATIONS OF THE STUDY

The results of the study reveal that there are some differences between active and passive investors in terms of 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.

The study reveals the ratio of male and female participations in the stock market was 3 to 1. This presents new opportunities for financial services marketers and more communication campaigns should be directed to female investors. This can be explained by the fact that females tend to have risk averse behavior, do less investment research than males and are little
unsure on investing their assets (Lee, 1989). 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 advice 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 too and earn less income. Remisiers and brokers have a vital role to play, especially in assisting passive investors in their investment decision. 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 further reveal the importance of publications as a source of information for analysis and investment. Investors also increasingly depend on the net for information and Malaysian stockbrokers must realize that Internet and e-commerce represent a very important opportunity in the future. Brokers that ignore this important development, do so at their own peril. This supports an article written by Govind (2000).

One interesting finding is that, even though 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. This may be inconsistent with the government’s call for informed investments, which is a crucial condition for capital market efficiency. Hence, there may be a role for the government in further educating the public 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. This may be good news for stock broking companies, since active and heavy investors (who carry out regular transactions 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 bad news for public listed companies who prefer passive but heavy shareholders (shareholders who hold onto their shares for a longer period and who invest more).

REFERENCES