

FACTORS AFFECT THE INVESTMENT DECISION IN EXCHANGE MARKETS IN DEVELOPING COUNTRIES

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Abstract

This study aimed to assess the factors affecting the investment in AEM. This research used a random sample of investors to measure these factors. A questionnaire was used as a tool for data collection. In developing countries different factors affect the investment decision in exchange markets. These factors include internal and external factors.

Keywords: Investment, Exchange Market, Political, Financial, Performance

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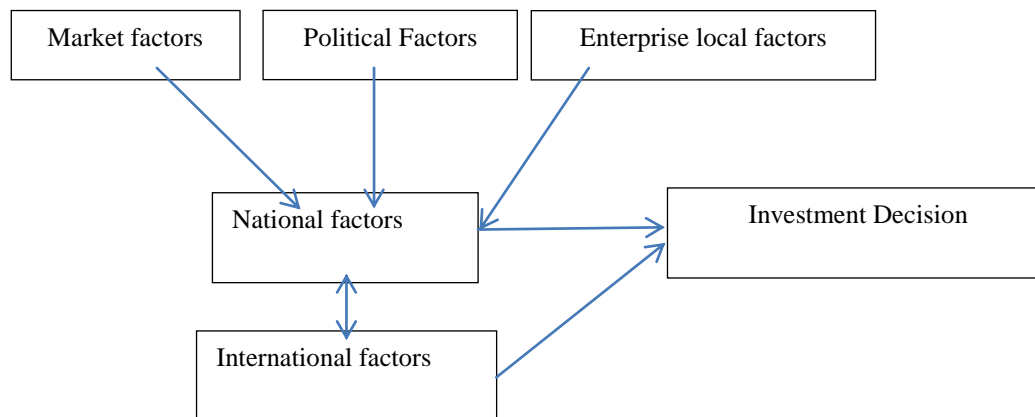
Introduction

The increase of technological development and communication among different economic sectors, the investment in stock exchange markets (SEM) is affected by a wide variety of factors. Strong evidence is the international financial crisis effect on Amman Stock Exchange Market (ASEM). The effect on the investment was in two directions. One direction is the

emotional while the other one is the real effect on the investment decisions.

The factors affect the investment in ASEM can be classified to political, market and enterprise local factors as factors considered nationally. The national factors react with international factor to form the final effect on investment decision in stock exchange markets (Figure 1).

Figure 1. Factors contribute to investment decision



The performance of the enterprise which is measured through the profitability accomplished at the end of fiscal year or the profit distributed on the shareholders. The board of managers plays another important role in deciding the investment in the company stocks.

Market factors concentrates on the news that is distributed among investors if it is true or rumors. The distributed new among investors affect the their attitudes for different listed companies in the market. This research aimed at evaluating the factors that affect the investors' decisions in ASM.

Literature review

Stock markets have been developed widely in developing countries in the last decades (Claessens et al. 2001). Amman Stock Exchange Market (ASEM) as a developing market has been studied widely to determine the factors that affect the investment size. The research about the history of share prices was not enough to give information about the factors that affect the investment in different companies' shares in the market. Stock exchange market in any country reflects its economical activity and economical

growth (Adjasi and Biekpe, 2009). Amman Stock Exchange Market is considered small one compared to other markets in the region (World Development Indicators, 2004). So, the behavior of ASEM market is not well known because of its high sensitivity for the surroundings economical, political and regional variations.

Generally, Adjasi and Biekpe (2009) indicated that the stock markets highly affected by the investments which affect the stock prices. Foreign investments has been shown to affect the stock market investments widely (Claessens et al. 2001; Surz, 2007; Jing, et al. 2010). Bakke and Whited (2010) indicated that firm stock price affect its investment decisions as the firms seeks to improve its performance to improve its stock prices. On the other hand, investors of stock market would search for the companies with high performance for their investments. Surz (2007) has shown the type of company economical activity affects the investment decisions in this company stocks.

Concerning the management of companies, different researches have different results about the management of enterprises. Adams et al. (2009); Villalonga and Amit, (2006) and Anderson and Reeb (2003) found the enterprises managed by family founders are high evaluated than other enterprises. Jayaraman et al. (2000) found that the founder of the company does not affect its performance in stock market. Fahlenbrach (2009) discussed that the found of the enterprise will affect its performance in stock exchange market.

Ray (2009) reported that the behavior of investors have been changed widely after the Indian Stock Market Crash 2008. He explained that the composition of investments has been changed despite

that he explained that the change of investors' behavior was unjustified. Moreover, Lai et al. (2009) reported that the liquidity provision affect the investment decision in Taiwan Stock Market.

Research problem

The investment decision in exchange markets is very effective for the business future of the investors in these markets. Investors use different sources to collect information to make decisions. Amman Stock Exchange Market like other exchange markets in developing markets can be affected by local and international factors. Wrong decisions by investors are considered the major factor that would affect their business. This research is trying to figure out which kind of information and sources used to collect information to make decisions in ASEM.

Research questions

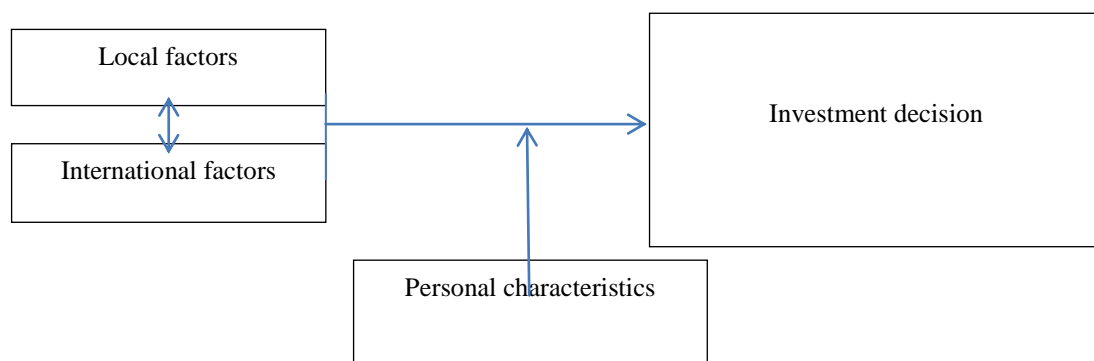
The research will accomplish its objectives through answering the following questions:

1. How the investors evaluate the investment in Amman Stock Exchange Market?
2. What are the factors that affect the investment in ASEM?
3. What is the effect of personal characteristics on the factors that affect the investment in ASEM?

Research model

This research will study the following model which examines the local and international factors on investment decision under the effect of personal characteristics of investors (Figure 2).

Figure 2. Research model



Research hypothesis

This research will test the following hypothesis:

Ho1: There is not significant effect of local factors on investors' decisions in ASEM.

Ho2: There is not significant effect of international factors on investors' decision in ASEM.

Ho3: There is not significant effect of personal characteristics on decision made by investors affected by local or international factors.

Research Methodology

Descriptive survey was used to accomplish the objective of this research. Random sample composed of 120 investors were selected from ASEM.

Questionnaire including three parts was distributed on the respondents. The first part included the personal characteristics of the investor, while the second part included the local and international factors that affect decision making, while the third part included measuring paragraphs about investors' decision making.

Statistical Analysis

The Statistical Package for Social Sciences (SPSS) Version 19 was used to analyze data. Descriptive statistics was used to find out the components of the sample and measuring the attitudes of respondents. Inferential statistics was applied for hypothesis testing.

Results

Table (1) shows the demographic characteristics of respondents. The results show that the most common investors in ASEM are dealing with capital less than JD10,000 with a percentage 65.0%. This indicates that most investors are small ones. The percentage of medium and large investors reached about 30.0% of respondents. Concerning the number of companies' investors dealing with, the results show that most investors deal with one intermediary company with percentage 42.5%, while the percentage of investors dealing with two intermediary investors reached 32.5%. The high percentage of investors dealing with two companies indicates that these investors searching for distinctive service.

Concerning educational level of investors, the results show that most of them carry the bachelor degree with percentage 60.0% and with finance and administrative specialties. This gives information that the dealers with the stock market have previous experience in the financial aspects.

Table 1. The demographic characteristics of the investors in ASEM

Character	Freq.	Percentage
Size of investment		
Less than JOD10,000	104	65.0
JOD10,000-JOD100,000	44	27.5
JOD100,000-JOD500,000	8	5.0
JOD500,000- JOD1,000,000	0	0.0
>JOD1,000,000	4	2.5
Number of intermediary companies		
One	68	42.5
Two	52	32.5
Three companies	28	17.5
Four companies	96	5.0
More than four companies	36	2.5
Educational level		
High school diploma or less	28	17.5
Bachelor	96	60.0
Higher studies	36	22.5

The attitudes of investors for the factors that affect the investment decision in ASEM

The effect of market factors

The investors have shown positive attitudes for the factors included concerning the share introducing

company. The investors' decisions are affected by the different factors included in the company as a cause of investment decision with mean 3.82 and standard deviation 1.10. The low standard deviation indicates the very close attitude for investors concerning these factors (Table 2).

Table 2. Means and standard deviation of the investors' attitudes for the effect of market factors on investment decision

Paragraph	Mean	Standard Dev.
Company reputation in market	4.45	0.93
The expected profit distribution	4.24	1.15
Positive information about the company published formally	4.18	1.11
High demand on company shares	4.15	0.83
Low price of shares despite and access limit to buy	4.08	0.97
The distributed profits to share market value	4.05	1.05
The future expectation for profitability of share	4.00	1.19
Continuous increase of share price in the last week	3.95	1.05
Share book value to market value	3.70	1.04
The share market value to book value	3.69	1.13
Intermediary recommendations	3.47	1.39
Dealers recommendations	3.10	1.21
Positive information about the company through word of mouth	2.88	1.26
Total	3.84	1.10

Company reputation in ASEM forms the first rank in investment decision in stocks market with mean 4.45 and standard deviation 0.93. This gives indication that the company reputation in stock market contributes largely for the investments in its stocks among investors. The expected distributing profits is the second factor affect the investment decisions with mean 4.24 and standard deviation 1.15 (Table 2).

The data collected about the company was in the second rank in affecting the investment decision in ASEM with mean 4.18 and standard deviation 1.11. The demand on a company shares was the fourth cause for investors' decision with mean 4.15 and standard deviation 0.83. The decline of stock price and its access to attractive limit to buy was another causer for investors' decisions in ASEM with mean 4.08 and standard deviation 0.97. The ratio of distributed profits per share to the share market value forms a strong initiative for investors' decision in ASEM with mean 4.05 and standard deviation 1.05. The future expectation for the distribution of profits by the company is another strong factor that affects the investment decision in stock exchange market in Jordan (Table 2).

The rest factors were of less importance for the investors' investment decisions in ASEM. The

continuous increase of share price in the week before making the investment decision contributes positively with less effect on investment decision with mean 3.95. The standards of measuring the share risk affect the decision of investment in ASEM. The ratio of share value to the share book value is another factor affects the investment decision with mean 3.69 and standard deviation 1.13. The recommendation of intermediaries' individuals and companies affect the investment decisions in ASEM with mean 3.47 (Table 2).

The recommendations of investors in the market and the positive unpublished information distributed by them have a negative impact on investors' decisions with means 3.10 and 2.88; respectively (Table 2).

The effect of company factors

The effect of company listed in ASEM itself was higher on investors' decision with mean 4.20 and standard deviation 0.93 (Table 3) compared to market factors with mean 3.70 and standard deviation 1.04 (Table 2). The continuity of distributing profits on shareholders was in the first rank to affect the investment decisions with mean 4.43 and standard deviation 1.01 (Table 3).

Table 3. Means and standard deviation of the investors' attitudes for the effect of company factors on investment decision

Paragraph	Mean	Standard Dev.
The company size (market value of company)	4.33	0.80
The profits per share (company profits to number of shares)	4.33	0.89
The continuity of profit distribution	4.43	1.01
Company liquidity	4.23	0.70
Company debts	4.18	0.85
Company sector	4.15	0.95
Board reputation and company administration	3.75	1.26
Total	4.20	0.93

The company size (market value of the company) and the profit per share (company profits to number of shares registered in company) were the second factors that affects the investors' decision in ASEM with mean 4.33 and standard deviation 0.80 (Table 3). The company liquidity forms the third factor that affect the investing decision with mean 4.23 and standard deviation 0.70 (Table 3).

Company's debts and the sector of company has close effect on the investment decision with means 4.18 and 4.15; respectively. The least factor affecting the investment decision was for the reputation of board of directors with mean 3.75 and standard deviation 1.26 (Table 3).

The effect of international factors

The impact of international factors on investment decision in ASEM was in the first rank compared to market and company factors with mean 4.33 and

standard deviation 0.71 (Table 4). The international financial aids as supports for the economical sectors considered the first initiative for the investment decision in ASEM with mean 4.83 and standard deviation 0.94. The international financial crisis became one the major factors that affect the investment decisions in ASEM with mean 4.73 and standard deviation 0.91 (Table 4).

The performance of other stock exchange markets in developed countries affects the investors' decision in ASEM with mean 4.61 and standard deviation 1.10. Also, the regional political conditions affect the investors' decisions with means 4.53 and standard deviation 0.86. The company's nationality plays a role in the investment decision with mean 3.80 and standard deviation 0.73. The least effect was for foreign direct investment attractiveness (FDI) with mean 3.50 and standard deviation 0.81 (Table 4).

Table 4: Means and standard deviation of the investors' attitudes for the effect of international factors on investment decision

Paragraph	Mean	Standard Dev.
International financial aids	4.83	0.94
International financial crisis	4.73	0.91
The performance of developed countries stock markets	4.61	1.10
Regional political conditions	4.53	0.86
Company's nationality	3.80	0.73
Foreign direct investment attractiveness	3.50	0.81
Total	4.33	0.71

Table 5. The effect of personal characteristics on investment decision in ASEM

Personal characteristics	F value	Probability
Size of investment	0.679	0.571
No. of intermediary companies investor deal with	0.855	0.500
Investors' education level	1.523	0.232

The effect of investor personal characteristics on investing decision

The testing results indicated that the personal characteristics do not affect the investment decision in ASEM. The probability of size of investment, no. of

intermediary companies investor deal with, and investors' education level was <0.05 .

Discussion and Conclusion

Amman Stock Exchange Market is one of the emerging markets. The size of market exchange is smaller compared to other markets in the region such as Cairo Stock Exchange Market or Dubai Stock Exchange Market (World Development Indicators, 2004). Most of the investors in ASEM are small to medium investors which makes them very cautious when taking their investment decisions to minimize the stock risks. Some of the investors follow up wide variation in portfolio and invest in stocks with high trust to minimize their investment risk. The ownership structure of the company plays a major role in attracting investors in ASEM. The companies with high trust owner usually will attract more investors than companies with new registration in the market. Similar results were found by Fahlenbrach (2009). This attitude of investors in ASEM makes the stock market value of some companies less than the book value of these stocks.

Amman Stock Exchange Market passes long period of low exchange size as the investors of the market play the role of observation more than being real investors in these periods. The factors that would affect the decline of investment are sourced from financial crisis happened some place in glob or as a result of some political or economical changes occurred locally. These results were found similar to that found by Ray (2009) at Indian Stock Exchange Market after its crash in 2008.

Amman Stock Exchange Market activity is highly affected by the small investors who invest is based on strong formal information regarding the different companies stocks listed in the market. In some occasions ASEM witness some unusual activities at time of new registration of new company in the market has been announced by founders of good reputation. After short period of time, these activities will be declined sharply and the market returns to its normal conditions.

In some cases, the investors' decisions may rely on wrong information distributed by one or more investors to direct the market for their own benefit. This gives indication that the investment in ASEM may witness polar direction of market without the existence of justification for these directions.

The market factors as mentioned before are considered highly motives for the market investment activities. The sources of market factors may results of formal published information about the companies or resulted from other unauthenticated resources which distributed information. On the other hand, the enterprise factors that may be used by the investors to make investment decisions came from real published sources by the enterprise or through previous experience of these investors with this enterprise.

In conclusion, ASEM investment decision is highly affected by the company, market and international economical and political factors. This makes a rapid modification of the market policies crucial to direct the influence of these factors for the benefit of investments other than the use of these factors to disturb the balance in the market by some investors.

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