The information as a shepherd in the herd of investors in the capital market, indeed? / Alon Abramovitz

Abstract:

In recent years, the capital market has become a very significant factor in he everyday life of people in Israel and around the world. With the advancement of technology and accessibility to information, the public can now access domains which have been reserved exclusively for specialists. Masses of information flow in various sources; some of the information is authoritative, some is not, and frequency, an excess of information is created. The typical investor, who is not an expert in information seeking might obtain information from unauthoritative sources and as a result fail to reach the newest and most relevant information. This reliance on unauthoritative sources, such as gut feelings, might instruct the inventor to form unsuitable strategies.

The research in this field consists of two models. On the one hand, there are scholars who employ the traditional model, according to which the capital market investor relies solely on financial data and is not influenced by psychological factors. On the factors interact with the information sought out by the investor.

Initially, most researches referred to the traditional model, however the approach of Professor Daniel Cahanman (who won the Nobel Prize in economics) brought about a significant change in researchers' perceptions. Researchers began to try to comprehend the interfering factors which influence investors. The reliance on the knowledge, which the investor has gathered from various sources, is no longer the sole factor in the process of decision-making.

This paper examines the measure of influence of the psychological factor, which cause the capital market investor to behave irrationally. Causes such as over-confidence, element of regret in which the investor holds onto unprofitable assets in order to prevent future regret, as well as the "flock phenomenon" in which investors base their decisions according to the mass movement of other investors without examining other resources, are examined.

This paper will also inspect the preferences of investors in regard to the sort of information which hey are using. There are sources of information which are considered authoritative such as professional information written by specialists, alongside sources of information which are not as reliable such as friends and the media which do not always deliver information in a proportional manner. This paper focuses on investors who do not engage with the capital market on a daily basis. The paper's assumptions are that investors are influenced by various psychological factors and not only by information classified as authoritative when decision and moreover, the most significant factors in the decision-making process are friends and family with the investor will consult before making a decision.

As part of this research, 130 questionnaires were distributed, 22 of them were disregarded, since they were filled by people holding positions related to the capital market. Most of the participants were men. All of the participants invest or have invested their money in the capital market.

The data collected in this research shows those investors are influences by psychological factors in the process of decision-making; these assumptions are concurrent with the assumption of this research. Moreover, investors are inclined to rely on the press and the internet, which are considered as unauthoritative sources of information, along with professional information, an authoritative source. The friends and family factor is less significant when making a decision, as opposed to the assumption of the research, which suggested that friends and family will have the most effect on investors when making a decision.

The findings show that more that half of the participants rely on their gut feelings and not only the resources of information which have researched. Moreover, the most common source of information which investors rely on is the media, which is considered to be an unauthoritative source of information. In addition there is a positive correlation between the "herd phenomenon" and reliance on the media. In other words, the more the investor relies on the media the more his or her actions will be "herd-like".

As part of this research, the character of the participant was also examined. The findings demonstrate that the more monitored a participant is, the more self-confidence he or she will have. The number of years of education is also a factor, less education leads to more "herd-like" behavior. Another index that was examined is risk taking; the more the investor feels that he is earning, the more risk he will take and his self-confidence will rise. The psychological factors that were examined were over confidence, regret, herd phenomenon, reliance on friends who are not authorized to consult and reliance on the media. The rational factors that were examined are reliance on authoritative sources of information, reliance on past data about the capital market and consulting with professional factors such as investment advisers. In conclusion, many factors are involved in the process of decision-making of the investor in the capital market in addition to the "dry" data and the professional information. This is opposed to the view researchers have used to hold some still do.

The results of this research can contribute to the effort to comprehend the phenomena of market swings and acute crises that have occurred in the past and still occur today. The public of investor relies on various sources of information when making change investment portfolios. However, the investor does not always have the tools to scrutinize the sources of information and their credibility. Moreover, the investor does not rely solely on these sources since there are other factors involved, such as personal considerations and the psychological environment, which influence the decision-making process.

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