

# **Factors of Short Term Investment Decision Making**

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**ABSTRACT:** *Our study examines the impact of accounting information, financial literacy and expected return on the short-term investment decision making of the stock market investors. For this intention 17 items questionnaires was made and distributed among 110 stock market investors through non probability sampling. Results point out that all these factors have significant effect on the short term investment decision making. Results also point out that individual investors with superior experience have more intention for short term investment as compare to the investors with some other experience level.*

**Keywords:** Accounting information, financial literacy, Expected return, Short-term investment

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Stock market investment has been played an important role in the recent year. Most of the people invest in stock. Purpose of that investment is to save their income for future and also after their retirement. In the current situation of financial crises in Pakistan to take investment decisions is most important task in daily life. For that reason it is important to understand the different factors which prepared individual investor to take an investment decision. The purpose of this research is to recognize some core factor that affects willingness of investors to invest. Most of the researchers explain the investor's behavior also tried to increase the understanding of people how to manage their investment in different ways. If we see the available literature, it is define personal features that effects on investment decision.

The nature of psychological factors and individuals' behavior at the time of investment decision making has 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, & BorschSupan, 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).

This is the area in which less research has conducted in Pakistan the impact of accounting information, financial literacy, and expected return and in the individual investment decision making. The purpose of this study is to observe these factors on individual investment decision making. The model will help to examine the relationship among these factors and short term investment decision making

### **Theoretical Background**

Investment analysts are the very important for the detail that if they happen to the victim of interpret financial data mistakenly this may guide the others to compose incorrect investment decisions. This made investment analysts a very interesting user group for a study.

### **Accounting information**

The study by Mirshekary & Saudagarm (2005) observed how investors use the information revealed in financial statements and also they observed the significance of several information sources on investment decision making. Their study was base on primary research. They

send their study to various financial user groups in Tehran-stock brokers, bankers, private investors and institutional investors.

They were a Shareholders recognize accounting information as an input for short-term investment decisions. Investment analysts often work as the middlemen between corporation as information providers and other users of accounting information. They were requisite to give ranking to each financial statement.

The respondents ranked the entities annual audit report as most influential resource of information. After that, verbal information was rank the second and available in daily newspapers rank as third most influential source of information. Moreover, advice given by brokers, rumors and friends were ranked as the smallest influential. The researchers accomplished that investment decision makers use annual financial statements of different companies for investment decision purposes. They collect analyze and deduce accounting statistics and distribute the findings to the users of financial statements facts. on the foundation of these results and interpretation, many investment decision are prepared.

**Hypothesis 1:** The more individual investors use financial statements the more they intend to engage in short-term investing.

### **Financial literacy**

Financial literacy has been explained by many researchers from numerous aspects. Many research organizations have conducted research to recognize the level of financial literacy of investment decision makers. A study conducted on financial literacy by the OECD (2005) examines the level of financial literacy in 12 major countries in the world including UK, European countries' USA, Australia and Japan. The study find out that, financial literacy level is very low mostly for the respondents. Chen and Volpe (1998) Order to more extend their work conduct a study on financial literacy of almost 1000 college graduate students in numerous USA universities. They also examine the relation between demographic factors and financial literacy level, work experience and academic disciplines. The research findings point out that there is vital difference between subgroups experience, years of work experience and financial literacy and class rank. Student of non-business, little work experience and student relate to lower classes, were found to be less literate. The research also found that female were less literate as compare to males And study also found non US students are less informed than US students.

Volpe et al. (2002) find that in order to be successful at the stock market. The investors suffer in online trade off should be more well known and informed than to other investors, due to the lack of information about what is environment inside the market and they also become the victim of information asymmetry. The researchers find the level of investors literacy of near 500 investors dealing in online trade off. They also find the level of difference in financial literacy between numerous group of online investors using the experience and demographic factors in online trade off as variables. The researcher also finds out that level of financial literacy in demographic factors. They infer that females are less literate and point out that older investors are much better as compare to new one and online investors to be performing much better as compare to others. Study also point out that investors with less income are more aware as compare to the investors with high income.

**Hypothesis 2:** The more individual investors are financially literate the more they intend to engage in short-term investing.

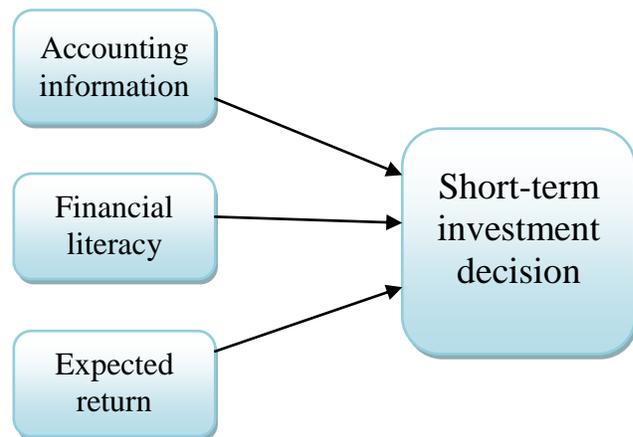
### Expected return

Expected return is a return which an investor expects by making an investment. Expected Return have strongly influence on the short-term investment decision. An investor short term investment decision will be strong as well expected return on an investment will be high. There is evidence that the expected return vary from time to time. (schwert and fama 1977).Keim and stambaugh (1986), shiller and capmbell (1988), and Fama and French (1988, 1989). Finally, schwert, Stambaugh and French (1987) find the part of distinction in stock market returns can be trace to a “discount rate effect” that is shock to expected return and rate of discount that create opposite shock to prices. Measuring the total return difference explained by combination of shock to expected time-varying expected return, cash flow, and shocks to expected return is a reasonable way to judge the effectiveness or rationality of stock price. Although the three source of return variation have been study individually, there is a little proof on their combined explanatory power. Such evidence is a main objective of this paper.

A survey evaluate expatiations of return capture real expectations of a large segment of investors, and the investor extrapolate return and act on their belief, as in models of culture, poterba, and Delopng et al.(1990) and summers (1990).

**Hypothesis 3:** The more individual investors have more expected return the more they intend to engage in short-term investing.

### Research Model



### Research Methodology

Methodology for calculations two approaches of probability and non-probability normally used. In drawing statistical or cases related generalization normally probability sampling is used (Hair et al., 2003).

### Questioner design

To collect data here I create 17 items questions. And also some demographic questions like gender, age and experience. And for other questions used the lickrd scale with 5 types of responses are 1= strongly agree, 2 = agree, 3 = neutral, 4 = disagree, 5 = strongly agree.

### Sample & data collection

In this study probability sampling in sued. And 17 items questioner developed for collecting data from different short term investors. 110 questioners distributed among different investors and 100 filled questioner collected from them while 10 questioners is not filled completely so that's why here used 100 questioner for analysis. And we achieved 91% rate of response.

### Dependent & independent variables

In this study the one dependent variable and 3 independent variables are.

- i. **Dependent variable:**  
Short term investment decision
- ii. **Independent variable:**

Accounting information  
Financial literacy  
Expected return

Primary data was collected in qualitative form through semi structured in-depth interviews. Each interview took about 30 to 60 minutes to complete. All interviews were audio-recorded with due permission of the respondents. Interviews were conducted in English and Urdu languages and the taped interviews were translated into English. Researcher had a list of interview questions prior to conducting interviews to be able to maintain uniformity in responses.

All these questions were elaborated to the respondents before to survey, to get the interest of the respondents so that we can get the required response from the respondents.

### Research Findings

After it the data coded and put in SPSS sheet to get final analysis. Here dependent variable is short term investment decision and independent variables are Accounting information, financial literacy and Expected return.

These are calculating by SPSS software. *Reliability, model summary, and coefficient's table* will be apply. For degree of internal constancy and reliability among items, the acceptable limit is 0.60. The most acceptable and wide measures of reliability is the internal scale of consistency of the whole scale. It is collected from the alpha which also regarded as Cronbach's alpha.

Reliability Statistics	
Cronbach's Alpha	N of Items
.625	17

Here total questioner is 100 and the total items are 17, the table shows the overall reliability of the instrument 0.625.

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.457 <sup>a</sup>	.209	.184	.63004

In this model summary according to this study the regression is equal to .457 which is effect on the dependent variable; here the dependent variable is short term investment decision.

And R square = .209, adjusted R square = .184 and the standard error of the estimate is .63004.

Coefficients					
Model	Un standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Constant	.890	.383		2.320	.022
ai_mean	.019	.125	.014	.152	.880
fl_mean	.334	.132	.274	2.526	.013
er_mean	.255	.119	.240	2.146	.034

In this table of coefficients we determine the significant level of the each variable and also the level of depend of independent variable on the dependent variable. Here the significant level of dependent variable is .022, the level of significant of accounting information is .880 which is not affected on the dependent variable, the financial literacy is at .013 significant and it is highly effect on the dependent variable. And the expected return is .034 significant and it is also affected on the dependent variable.

### Conclusions and Recommendations

The reason of this study was to find out the relationship among different factors affecting on the short-term investment. The conclusion of this study is that, investors believe is, these factors are important when they take decisions for short term investments. These results are concluded from the financial literacy, accounting information and expected return which has significant and positive relationship with short term investment intention.

The results of this paper are based on the reactions of the different investors of Pakistan. This research shows that although the factors which are studied and calculated are very important for the investors to take a decision about short term investment. But here are more some factors which are also very strongly affected like day to day changing in policies; the most important factor today is the energy crises, ineffective fiscal policy and the monetary policy. And also the not have a good governance and by the every government to increase the rate of tax. And the increase in the cost of everything in Pakistan and also the increase operating cost for a business.

These are the also very important and major factors which affect the economics conditions and the environment of investment, and also these factors force to the foreign and local investors to move their business and investments to other countries.

This research also conclude that, the investors with high experience generate more ideas and take strong and best decisions to compares to low experience in this field. It is show that here an important relationship among experience and the short term investment decisions. According to the results, some suggestions for the improvement of the short term investment decisions are. Government must support the stock market and industry which automatically improve the level of confidence of the investors and their intention to invest. Also companies increase the dividend that improves the intention of an investor.

### Limitations

Here the dependent variable is Short Term investment and the independent variables are financial literacy, accounting information and expected return. As we see in the coefficients table the financial literacy is highly affected on the dependent variable and also the expected return.

But the accounting information according to this study is not effected on the dependent variable, due to the shortage of time and also the selected area for collecting data is limited so that's way I can't do more research in depth on this variable. So if any researcher wants to study in future on this variable he/she can spend more time on it and select the target area is wide then they found the further results on it.

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