

WHAT INDIVIDUAL INVESTORS THINK AND DO

Chang-Kyun Chae & Hong-Rae Cho

(ckche@hri.co.kr & hrjo@hri.co.kr)

Individual Investors Matter

Since the outbreak of Daewoo's workout program, apparent outflow of liquidity from the financial markets including the stock market has made economists to worry over the possibility of another crisis in the economy. Even though some of the once-invested capital went out of the country, a huge amount of cash that left the stock market still remains in the domestic economy in the form of very unstable "floating fund," which watches the overall situation and waits until the market risks disappear. According to a BOK statistic, the amount of 'floating fund' of this nature plus the balance of demand deposits including accounts of less than 6-month maturity is estimated to reach 100 trillion won as of the end of September. Being almost a third of the entire money supply, this is a more than enough size of cash that can shock the entire economy, depending on the direction of the movement. Therefore, while many institutes forecast that the Korean economy will continue to grow by 6% or more next year, no prudent policy-makers can be so sure of this forecast unless the capital movement becomes stabilized.

What consist of this "floating fund"? There is

no statistically supported answer. But the composition of stock investment (or transaction) and the psychological nature of "floating fund" indicate that at least 60% of it belongs to individual investors¹⁾. Stock market experts estimate that at least 50%~60%²⁾ of daily stock transaction belongs to individual investors. Furthermore, individual investors' decisions tend to show a "herd behavior" rather than to be based on sound long-term strategies which are employed by institutional and professional investors. Thus, one might say that it is the individual investors who share not only at least 60% of the "floating fund" but also the most part of psychological instability among themselves. Studying their patterns as well as attitudes regarding the investment of financial assets, therefore, would shed some light on the way out of the current unstable situation.

Basically Conservative Investors

Hyundai Research Institute's recent survey³⁾ of 1,005 individual investors revealed some interesting points about individual investors' managing means of their idle funds. First of all, trading in stocks is still not a leading form of investment among

1) Individual investors means investors that are not foreigners nor domestic institutional investors such as banks, investment trust companies, securities firms, mutual funds, pension funds, business companies, etc. In the Korean stock market, they are often referred to as 'army of ants.'

2) Before the IMF regime, the number used to be up to 70%~75%. The decrease of average households' cash balance and the emergence of mutual funds as an excellent way of indirect investment, however, seems to have contributed to the significant decrease of individual investors' market portion.

3) This survey is a phone poll which was conducted from September 14 to 16 for a randomly chosen sample of 1,005 adult men and women.

individuals. 58.6% of respondents said they had assets invested in banks, investment trust firms, insurance, bourse and real-estate. Of the many means of asset management, 63.5 % had bank or trust accounts, followed by stock (15.6 %), insurance (14.9 %), real-estate market (3.7 %) and indirect stock investment (1.4 %).

Therefore, demand for stocks may be increased in the future depending on the market situation. Actually, 12.5 % of those who do not invest in the bourse said that they intend to jump into the stock market, whenever their level of disposable income allows. Also, according to the survey, it is also possible that idle funds would flow into the real-estate market in the near future.

Not Good But Optimistic Players

Generally speaking, the surveyed investors are good players in the stock market. More than 35 % of

individual investors suffered losses in their investment. Notably, in spite of the explosive rise in local stock prices reaching 1,000 points at one period of time this year, they only managed to yield an average return⁴⁾ of less than 5 %. Those investing in the stock market yielded an average return of 4.6 % on their investment. Market experts generally agree that based on the entire transaction records, individual investors' average earning in the market this year would not exceed 5% so far. Even the holders of bank accounts have been able to receive a minimal return of 6 %, considering the current time-deposit interest rate of 8 %, Contrary to a widespread perception, individual investors failed to properly capitalize on this year's record stock market surge, earning returns below the time-deposit rate.

By age group, stock investors in their 20s recorded the highest return of 14.7 %, followed by those in their 30s (4.9 %) and 40s (2.7 %). Investors aged over 50 lost 9.2 % of their stock investment this year alone.

Table 1. Means of Property Management

bank or trust accounts	indirect stock investment	direct stock investment	insurance	real-estate	others
63.5	1.4	15.6	14.9	3.7	0.8

(%)

Table 2. Investment of Idle Funds in the Future

bank or trust accounts	indirect stock investment	direct stock investment	insurance	real-estate	others
66.2	4.7	7.8	3.3	15.7	2.3

(%)

Table 3. Profits or Losses from Stock Investments

making profits	suffering losses	breaking-even
63.8	35.1	1.1

(%)

4) From the beginning of this year to the point of the survey.

Even if their experienced earning rates of stock investments were lower than expected, however, those who said they are involved in the stock market still expect that stock prices would rise. Optimistic perspectives are prevailing. Their expected the average KOSPI is nearly 1,000 points at the end of this year. Over 60 % of respondents said that the KOSPI would pass beyond the 1,000-point level by the end of this year.

While optimistic on the market prospect, they are not so aggressive nor equipped with enough cash balances. Only 20% of those involved in the stock market answered that they will increase direct stock investment. While 45.3 % answered that they will maintain

the present level, 27.4 % will curtail the size of stock investment. To policy-makers, they should remain as friendly (or at least not hostile) market players as long as they can earn appropriate level of profits. This is not an easy task. A possible way is to induce them to make indirect investment in the long run. However, this also should be based on the belief on their part that the market will recover in a smooth manner. How to install such optimistic expectation in their minds is a remaining task for policy-makers in the months to come. **VIP**

Table 4. An Earning Rate of Stock Investment

(%)

all	4.6
male	4.5
female	4.6
20~29 yrs. old	14.7
30~39 yrs. old	4.9
40~49 yrs. old	2.7
50 yrs. old or older	-9.2
less than 1.00 million won	-2.1
1.01 ~ 1.50 million won	1.1
1.51 ~ 2.00 million won	5.3
2.01 ~ 3.00 million won	-2.7
3.01 million won or more	14.4

Table 5. Outlook of KOSPI by the Year-End

(%)

700~899	900~999	1,000~1,099	1,100~1,199	1,200~1,299	1,300	average (points)
5.9	30.6	51.8	2.4	7.1	2.4	999.8

Table 6. Direct Stock Investment in Future

(%)

expanding	maintaining present level	curtailing	don't know
20.0	45.3	27.4	7.4