THE EVOLUTION OF THE BEHAVIOUR OF INVESTORS ON THE CAPITAL MARKET

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Abstract: This work captures the behaviour of investors who are moving away from domestic capital market and radically change their investment options while the role of capital market in financing private companies is really decreasing. Consequently, a shift to bank credit or especially the self-financing is obvious. In 2010, the economic crisis deepened internally, its the effects being reflected particularly in the financial context:capital market activity was carried out with unbearable difficulty, the economic imbalances also affecting the act of investment.

JEL classification: G01, G11

Key words: capital market, investors, estates, economic crisis, Bucharest Stock Exchange.

1. INTRODUCTION

"Investment generally implies the sacrifice of current dollars for future dollars"[1].

Investors place their capital largely available on the financial market, and according to the market model developed by H. Markowitz, they will continually seek to maximize their profits by maximizing profitability per unit of risk taken, either by minimizing the risk to a certain level of estimated profitability. This activity may raise questions about the potential of capital market to finance economic growth.

In practice, it is very unlikely for someone to make forecast on the market developments consistently, year after year. Myth stockbrokers who systematically conquer the market is more a sign of opportunity for each of the winners: there are as many losers that disappear from the market when they have exhausted their capital.

Most times, investors are axiomatically said to make rational investments, counting at least on the market trend, such as features and risk aversion, homogeneous expectations etc., ideas mentioned in any assets evaluation manual and portfolio management, but as John Meynard Keynes stated in his "General Theory of Employment, Interest and Money", "the actual results of a long-term investments are rarely in line with initial expectations"[2].

[1] Sharpe W, Alexander G., Bailey J. Investments Prentice Hall, Englewood Cliffs, New Jersey 07632 - 1995

[2] John Meynard Keynes -Teoria generală a ocupării forței de muncă, a dobânzii și a banilor, București, Editura Ştiinţifică, 1970, p. 216

A direct effect of this increased risk aversion is the change of the investment behavior with a significant impact on the structure of financial portfolios, investors now shifting to less risky financial instruments such as bonds or government securities.

According to the economic theory (law of supply and demand), where the capital market investors face an increasing number of risks (volatility) and decreasing returns, the capital market liquidity is poor, the demand for financial instruments (propensity to invest) decreases significantly which results in higher interest rate and costs of long-term capital raised in capital markets through specific instruments. Hence the automatic effect on cost of capital and the exchange rate.

The capital market expands and simplifies access to all economic entities in terms of necessary financial resources.

“"Efficient market” is that where the price of the traded assets „fully reflect all available information”[3]. Market efficiency requires two conditions: firstly, markets should collect all available information about the future, even with some cost, and, secondly, to process them correctly, that is to be based on principles that are not systematically contradicted by facts.

In the current circumstances, investors, both institutional and individual, increasigly trigger aside from the capital market and radically change their investment options, which has a direct impact on the cost of capital and financial interests.

As a result of change in the behaviour of individual investors, the capital market's role in financing private companies is decreasing and a shift to bank credit, especially to self-financing is obviously expected. Companies heavily dependent on sources will have to rethink development plans and long-term objectives.

2. THE IMPACT OF THE FINANCIAL CRISIS ON THE INVESTOR’S BEHAVIOUR ON THE CAPITAL MARKET

The international financial crisis had a strong effect on the capital market in Romania, resulting in decreased volume of transactions in financial instruments. At the same time, there were records the phenomenon of withdrawal of foreign and domestic capital on the financial market, which has reduced capital market liquidity compared to previous years.

The Romanian economy has been contaminated by the effects through the indirect channels, within the activity of the domestic financial markets due to business that have not registered high-risk transactions such as those that led to the international financial crisis, but the Bucharest Stock Exchange, correlated strongly with the markets global capital in recent years, felt the full shock of the crisis. The financial crisis has generated a range of feelings among some investors, such as fear, panic, fear to hysteria in some cases. The elements that alarm investors are: lower country ratings, volatility in exchange rates and interest rates, reduced direct investments and expansion of various sectors of the economy, rising unemployment, budget deficit and current account deficit.

This still implies very low liquidity on the capital market that will keep institutional investors away, high volatility that will test investors' expectations, delaying several projects related to capital market financing and any initial public offerings or stock market listing

The direct consequences of the crisis were felt in most stock markets. The situation now is that, sooner or later, it is to go off. Recent financial crises have revealed a number

[3] Fama, Eugene F., „Market Efficiency, Long-Term Returns, and Behavioral Finance”; Social Sciences Research Network , June 1997

of issues, demonstrating the fundamental irrationality of speculative activity and potentially destructive and hazardous nature of a totally free international financial market.

Paul Krugman warned, ten years ago, the problems caused by unregulated financial entities in 2003, Warren Buffett has called financial derivatives "financial weapons of mass destruction".

This financial crisis clearly shows that the financial industry is unable to regulate itself.

I endorses Daianu's opinion according to which "it is necessary to regulate the use of financial instruments, so that market transparency be restored and investors are adequately informed about the risks assumed"[4].

To maintain free financial markets so that they should not cause significant direct or collateral damages, it is necessary these markets benefit from rigorous and efficient regulations, in a similar way suggested by Joseph E. Sliglilz according to whom "liberalization of financial markets, accompanied by an adequate set of regulations that almost lead to economic instability"[5].

The financial innovation in recent decades boosted financial intermediation, but it decreased transparency of financial markets. Financial innovations can increase the efficiency of transactions, but the opacity of markets and produces instability increases uncertainty, emphasizing systemic risks.

Without financial transparency, the possibility of correctly assessing the risk of a transaction or no real attempt to overcome the blatant conflicts of interest, financial markets lost confidence in economy, ultimately.

3. Structure of investment on the capital market in Romania

"The main role of capital markets is to allocate the ownership of capital stock available to the economy"[6]. In general terms, the ideal is represented by a market in which prices provide accurate signals for resource allocation useful: it is a market in which companies can adopt production and investment decisions and investors can choose between titles of ownership of business results, on the assumption that financial asset prices reflect "completely" at any time all available information.

The capital market of Romania, part of the European financial market is sensitive to economic and financial affairs and displays features of an emerging market: limited number of entities issuing low liquidity, low number of investors, high vulnerability to external shocks, increased fragmentation.

In 2010, Romania's disappointing economic performances caused a great deal of non-resident investors to adopt a general strategy of waiting, which was followed to a large extent by local investors.

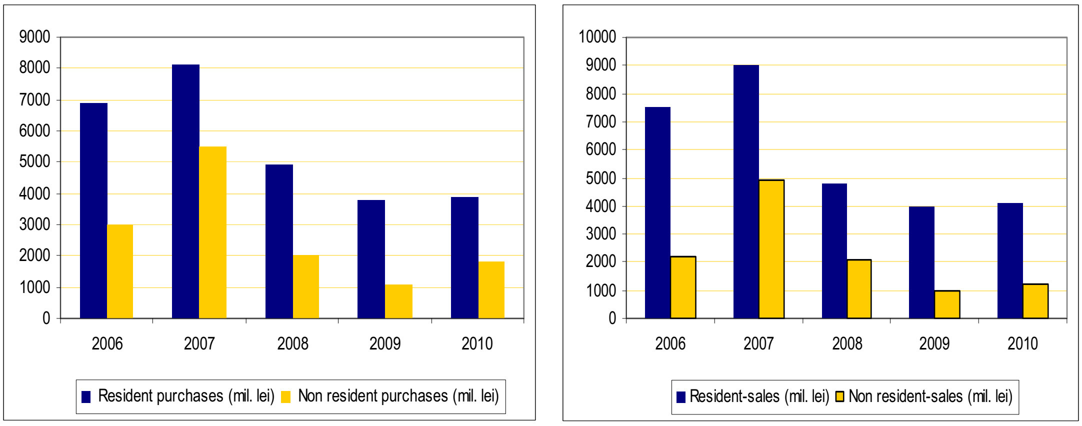
However, the percentage of non-resident investors who chose to purchase in 2010 was about 29%, higher than 23% in 2009 and for sale, a percentage of 23% was recorded

[4] Daniel Dăianu, Capitalismul încotro? Criza economică, mersul ideilor, instituții, Editura Polirom, Iași, 2009, p. 141

[5] Joseph E. Sliglilz. Globalizarea. Speranţe şi deziluzii, Editura Economică, Bucureşti. 2005. p. 140.

[6] Fama, Eugene F.- „Efficient Capital Markets: a Review of Theory and Empirical Work"; The Journal of Finance, may 1970.

compared to 19.5% in 2009. Evolution of investor accounts on the B.S.E. during the period 2006-2010 is shown in Figure no. 1.



Source: Bucharest Stock Exchange.

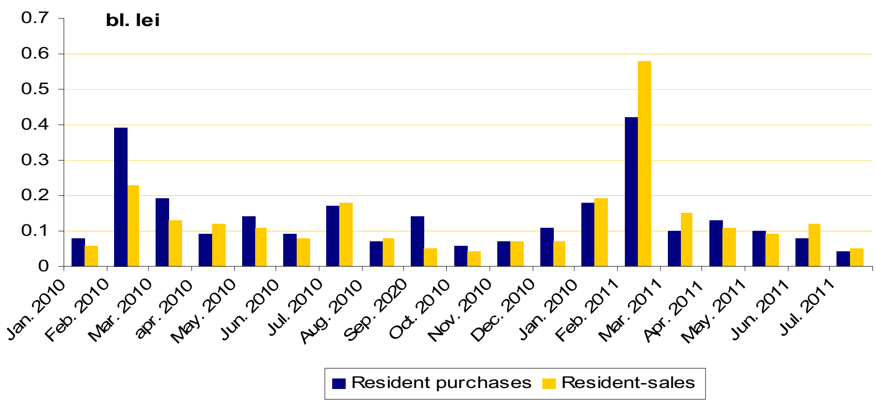
Figure no. 1

Investments between 2006-2010

Investor interest in securities occurs in a context of lower interest rates applied by the banking system, the decreasing level of yields on government securities issued by the Ministry of Finance, along with increased confidence and security in the capital market environment that operates under conditions of transparency and fairness.

Investor's perceptions of the risks associated with investments in the capital market recorded an improvement in January 2010 - July 2011. Stock market was correlated with a low degree of international markets, due to the high influence of internal factors who tend to pursue the daily developments. Risk aversion of investors has been a general downward trend, but there were also periods of high volatility as a result of tensions in international markets, sovereign debt crisis caused by Greece, Ireland and USA.

Non-resident investors have increased their trading activity on the BSE market in February 2010 and February 2011, but without inducing volatility. The general trend was relatively balanced between sales and purchases of securities by non-resident investors on the BSE market (Figure no. 2).



Source: Bucharest Stock Exchange.

Figure no. 2

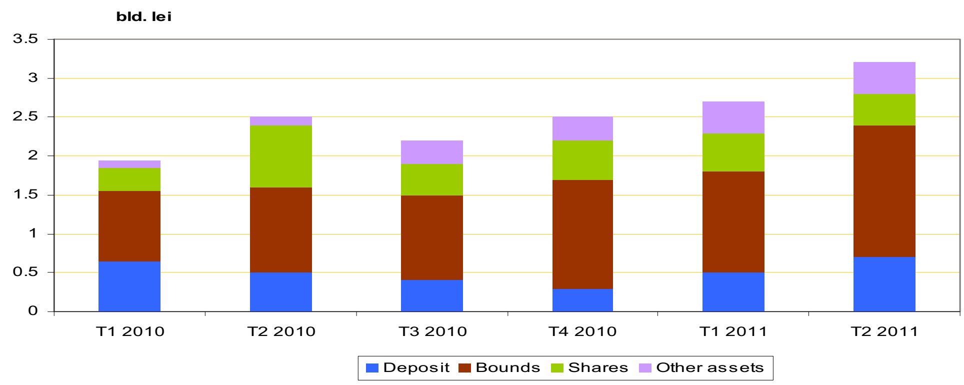
Non resident investors' BSE (excluding the international ones)

The value of purchases made by non-resident investors increased compared to 2009, but it is below the reference year 2007, when an amount of 5.53459 billion lei was recorded

Moreover, the percentage of resident investors who chose to purchase increased in 2010 compared to 2009 to 3.24% and 7.12% for sale, standing still, under value recorded in year 2007.

Net assets held by open-end investment funds increased in 2010 and in the first half of 2011, positive developments being sustained by both capital inflows as investment funds and portfolio value increase.

In 2010 there was recorded a significant high percentage of investments in bonds and newly issued securities, and in the first half of 2011, the investments in bank deposits and bonds increased, too (Figure no. 3).

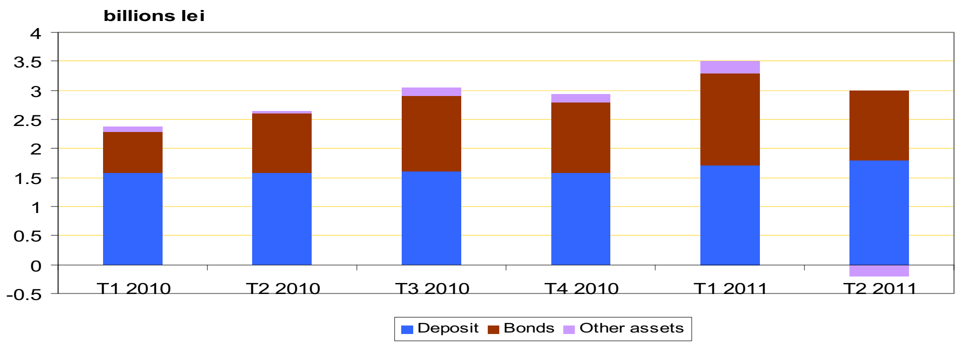


Source: C.N.V.M.

Figure no. 3

The structure of net assets held by open-end investments found

The assets administrated by the monetary funds have evolved during the research period in terms of investments in bonds while the bank deposits were standing still. (figure no. 4).



Source: C.N.V.M.

Figure no. 4

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The structure of IMF assets

Volatility reached its value, to the end of 2010, the same before Greece's sovereign debt, but the worse assessment granted to U.S. by the rating agency S&P on August 5, 2011 generated new capital market turbulence.

The tensions manifested in international markets after the sovereign debt crisis of Greece and the lower grade granted to the USA by the rating agency S&P resulted in a stronger orientation towards low risk assets. One of the consequences was a significant increase in gold price (from about 1100 dollars per ounce at the end of 2009 to 1765 $ per ounce in mid-August 2011).

In 2010 the percentage of investors who have turned to open-end funds with an investment policy aimed at low-risk financial instruments increased significantly from 2009: bonds (75.5%) and monetary funds (57%). Thus, over 93% of institutional investors (corporate) and over 74% of individual investors have preferred monetary and bond funds in 2010, as in Table no. 1.

Table no. 1 Number of investors in open-end funds in 2010 compared to 2009

Indicators	Share funds	Various funds	Bond funds	Monetary funds	Other funds	Total
No. investors December 2010	8.947	45.457	56.696	109.135	1.627	221.862
- natural persons	8.778	45.173	55.277	104.018	1.601	214.847
- juridical persons	169	284	1.371	5.117	26	6.967
No. investors December 2009	18.131	43.497	32.299	69.489	1.044	164.460
2010/2009 (%)	-50,7%	+ 4,5%	+ 75,5%	+ 57,1%	+ 55,8%	+ 34,9%

Source: C.N.V.M.

On the 31st of December 2010, 18 closed-end investment funds conducted their activities, three more than on December 31, 2009. The classification of funds according to the investment policy is as follows: seven equity funds, two funds diversified bond fund, monetary fund and closed seven investment funds.

At the end of December 2010, investors in closed-end investment funds reached the number of 92 668 persons, of which 99.7% were individuals. The number of individuals increased by 0.6% in 2010 compared to 2009, while the number of legal entities increased by 8.8%.

Considering the categories of funds, the number of investors at the end of 2010 is presented in Table no. 2.

Table no. 2 Number of investors in closed-end funds in 2010 compared to 2009

Indicators	Share funds	Various funds	Bond funds	Monetary funds	Other funds	Total funds
No. investors December 2010	90.218	11	273	699	1.708	92.909
- natural persons	89.975	10	261	685	1.657	92.589
- juridical persons	243	1	11	14	51	320
No. investors December 2009	90.425	15	0	747	1.122	92.309
2010/2009 (%)	- 0,23 %	- 36,36 %	-	-6,87 %	34,31 %	0,65 %

Source: C.N.V.M.

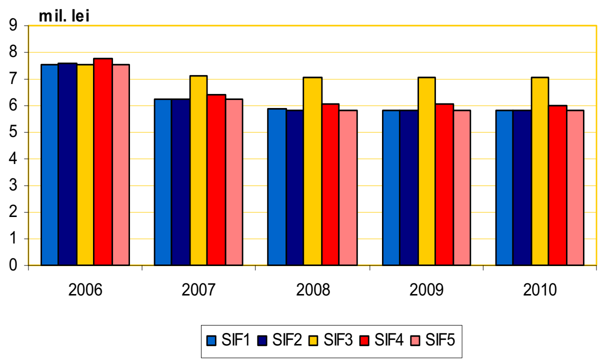
We notice the interest of investors to investment funds with an oriented financial instruments policy of high-risk category (shares) and to other types of funds. Compared with last December, the total number of investors in closed investment funds increased by 0.65%

During 2010, investors migration from closed-end investment funds to bond funds and other funds showed a mixed appetite to risk exposure.

The number of fund units in circulation decreased in December 2010 compared to the same period in 2009 with 0.30%, from 6,998,917.1 units in December 2009 to 6,977,723.1 units in December 2010, of which 88.7% were in the possession of individuals. The average investment made by legal persons at the end of December 2010 was 2604.38 units / investor, in decrease by 5.3% compared to December a year before.

In the past five years, the number of investors who hold shares issued by the five SIF in Romania has remained generally constant, except in 2006 when their number was at a higher level. Compared to 2006, the following years recorded stable number of investors in each of S.I.F.. Evolution of investors in securities issued by S.I.F. during 2006-2010 is described in Figure no. 5.

Anul	2006	2007	2008	2009	2010
SIF1	7.55	6.23	5.86	5.84	5.83
SIF2	7.57	6.23	5.85	5.84	5.83
SIF3	7.54	7.12	7.08	7.06	7.05
SIF4	7.75	6.42	6.05	6.04	6.02
SIF5	7.54	6.21	5.84	5.83	5.82



Source: C.N.V.M.

Figure no. 5

Investors owning S.I.F. shares during 2006-2010

4. CONCLUSIONS

Year 2010 was viewed with optimism, people expecting economic recovery and crisis overcome, but the reality was different. The economic crisis has deepened internally, its effects being present over all areas, including financial environment. So the capital market activity took place under extremely difficult economic imbalances affecting mainly investment act.

Against this background, the Bucharest Stock Exchange realized that to create prerequisites for a healthy growth of the market requires that investors should make investment decisions based on complete and timely information, enabling them to analyze and evaluate risks that may be imposed by financial investments made in securities listed on the stock exchange.

Investors showed their interest in estates in 2010 due to lower interest rates applied by the banking system, the decreasing level of yields for government securities issued by the Ministry of Finance, along with increased confidence in the capital markets that operate under this environment transparency and fairness. Besides, the tensions manifested in international markets have made investors target the low-risk assets.

In national and international context characterized primarily by uncertainty, the main objectives of B.S.E. should focus on increasing the liquidity and consolidating the investor's confidence. Local companies need encouraging signals from the capital market in order to have conviction strengthen that Romania's capital market financing is a viable alternative and can run major stocks and bonds offers

My opinion is that the main directions in which BSE should act in the next years will be to create optimal conditions for supply and demand of financial instruments and to stimulate the stock market presence of the factors that give substance to any scholarships: issuer,s investors and financial instruments.

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