

RETAIL INVESTORS SURVEY 1997

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1. EXECUTIVE SUMMARY

The Stock Exchange of Hong Kong (the Exchange) has conducted periodic retail investor surveys starting from 1989 to study retail participation in the Hong Kong stock market. The survey findings serve as an input to the Exchange's development and as reference for market practitioners. The fieldwork of the fourth Retail Investors Survey presented here was mainly conducted in September 1997.

Retail participation in stock market

- 16 percent of Hong Kong adults (aged 18 or above) or 799,000 individuals are stock investors who are holding stocks (including equities, warrants and stock options) or have engaged in stock trading in the 12 months preceding the survey. The corresponding figure for 1994 was 10 percent. The percentage of shareowners among the total adult population has increased from 9 percent in 1994 to 14 percent or 692,000 individuals.

Investor profile

- A typical Hong Kong retail stock investor is a male, white collar worker in his late 30s with secondary or higher education, and a monthly income of about HK\$22,500.
- Nearly one-third of stock investors are new stock investors, who have invested in stocks for the first time within the preceding 2 years. Compared with stock investors as a whole, new stock investors are more likely to be women, young adults aged below 30, blue collar workers and people with lower incomes.

Investment behaviour and attitudes

- Most investors invest in stocks because of the high rate of return, influence from relatives or friends and good understanding of the stock market. They prefer investing in stocks with medium risk and medium return.
- The average portfolio size is HK\$150,000 and the average deal size is HK\$50,000. But a large proportion of the investors do not have a regular trading amount.
- Most shareowners (65%) are holding equities in one to three listed companies, but more shareowners are holding four or more stocks than before.
- Stock investors tend to adjust their portfolios more frequently to take short term profit opportunities. They made a median number of 10 transactions in the past 12 months, compared with 4 transactions in the previous two surveys. Far fewer investors hold equities for longer than one year compared with 1994 and a substantial proportion of them (43%) do not have a fixed time frame.

Views on brokers and investor rights

- Stock investors are more satisfied with the services provided by broker firms than those by banks. But most of them consider that information about broker firms is inadequate.
- While most stock investors claimed that they would complain to the relevant authorities about suspected broker misconduct, many investors do not know that they can apply for compensation if they suffer losses arising from brokers' faults. And more than one-third of investors do not know the commission rate charged by their brokers.

Stock market information

- Stock investors mainly rely on personal study, commentaries in newspapers and suggestions from friends and relatives to make stock investment decisions.
- Stock investors use a variety of sources for real-time price information but rely predominantly on newspaper articles for price-sensitive information and historical information of listed companies.

Perception of the Hong Kong stock market

- Stock investors generally agree that trading in Hong Kong is efficient, there are enough good quality listed companies to invest in and the Hong Kong stock market is a fair and orderly market.
- Many stock investors are concerned about insider trading in Hong Kong, adequacy of investor protection, brokers' business conduct and brokers' financial position.
- A significant proportion (44%) of stock investors who have applied for shares of newly listed companies are dissatisfied with certain areas of the subscription process.
- A considerable proportion of stock investors (33%) are interested in investing in a new market for companies of small scale and short history but having high growth potential.

2. INTRODUCTION

The Exchange commissioned a market research company to conduct a retail investors survey in the third quarter of 1997, the Exchange's fourth survey of this kind since 1989. The 1997 survey is designed to ascertain local retail stock investors' characteristics, investment behaviour, views on brokers, use of stock market information and opinions on the Hong Kong stock market.

2.1 Objectives

The key objectives of the 1997 survey are:

- to establish the incidence of retail stock investment and the socio-economic profiles of retail stock investors;
- to understand the investment behaviour of retail stock investors;
- to assess retail stock investors' views on the brokers and the stock market, use of stock market information and knowledge of investors' rights.

2.2 Methodology

The survey was conducted in two stages during the period from 10 September to 3 October 1997 through telephone interviews with individuals aged 18 or above aided with a structured questionnaire.

The first stage was to find out the incidence of stock investors in the adult population of Hong Kong and their socio-economic characteristics. The second stage was to interview an additional sample of stock investors so as to achieve a reliable sample size for analysis. A total of 2,102 individuals were interviewed, of which 406 were stock investors.

It should be noted that the survey is subject to certain limitations. First, many of the findings of the survey are based on perceptions or estimation provided by the respondents. Second, responses to sensitive question such as wealth or income level may not be accurate.

2.3 Comparability with past surveys

The last survey was conducted in October 1994. A bullish period, especially the recent year, preceded the 1997 survey. The change in market sentiment may have had an impact on the incidence and behaviour of stock investors in comparison with that obtained under the market conditions of previous surveys.

Secondly, “adults” in this survey refer to individuals aged 18 or above, the new age band for legal responsibility, while that in previous surveys referred to individuals aged 21 or above. However, a negligible proportion of stock investors was found to be in the age range of 18 to 20. Accordingly, the basis of the investor group is comparable to past surveys.

Thirdly, the definition of stock investment includes investment in equities, warrants and stock options, while in previous surveys it referred only to equities. Nevertheless, the proportion of stock investors who invest only in warrants or stock options is very small and negligible.

2.4 Glossary

Stocks:

Hong Kong listed equities, warrants and stock options.

Shareowner:

An individual who is holding equities in one or more Hong Kong listed companies at the time of interview.

Stock investor:

An individual who is holding or has traded stocks in the past 12 months.

New stock investor:

An individual who has traded stocks for the first time within the past 2 years.

Warrant investor:

An individual who is holding or has traded Hong Kong listed warrants in the past 12 months.

Stock options investor:

An individual who is holding or has traded Hong Kong listed stock options in the past 12 months.

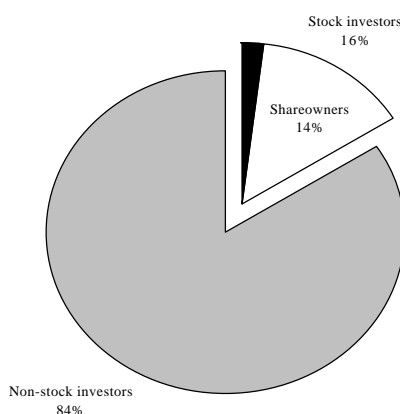
3. SURVEY FINDINGS

3.1 Retail participation in stock investment

In September to October 1997, there were an estimated 799,000 stock investors, accounting for 16% of the Hong Kong adult population. Among them, nine out of ten (692,000 shareowners) are currently holding equities.

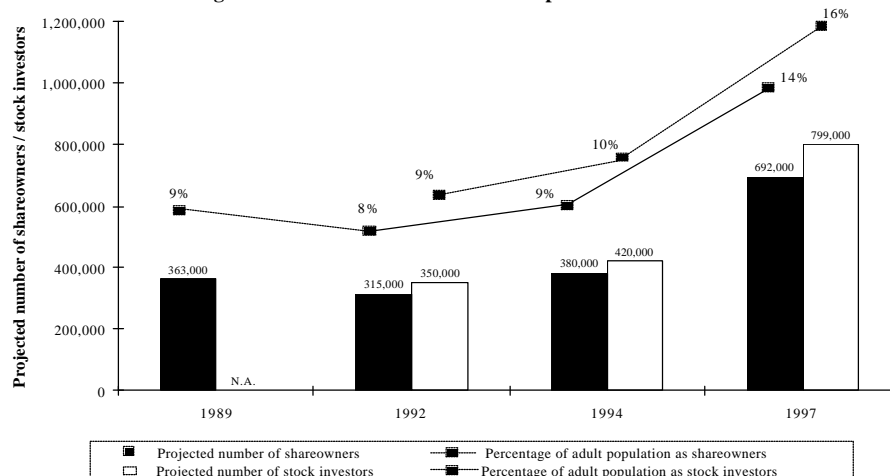
There are 466,000 households representing 25% of all households in Hong Kong having at least one stock investor, compared to 13% (or 230,000) in October 1994.

Figure 1. Stock investors, shareowners and non-stock investors



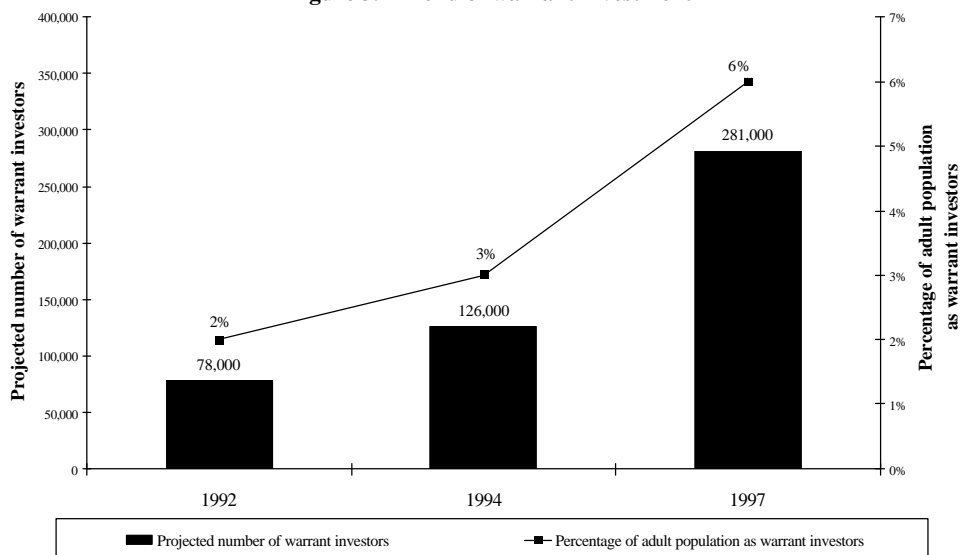
Shareownership in Hong Kong has increased significantly in the past three years as compared to 8-9% found by the past three retail investors surveys.

Figure 2. Trend of shareownership and stock investment



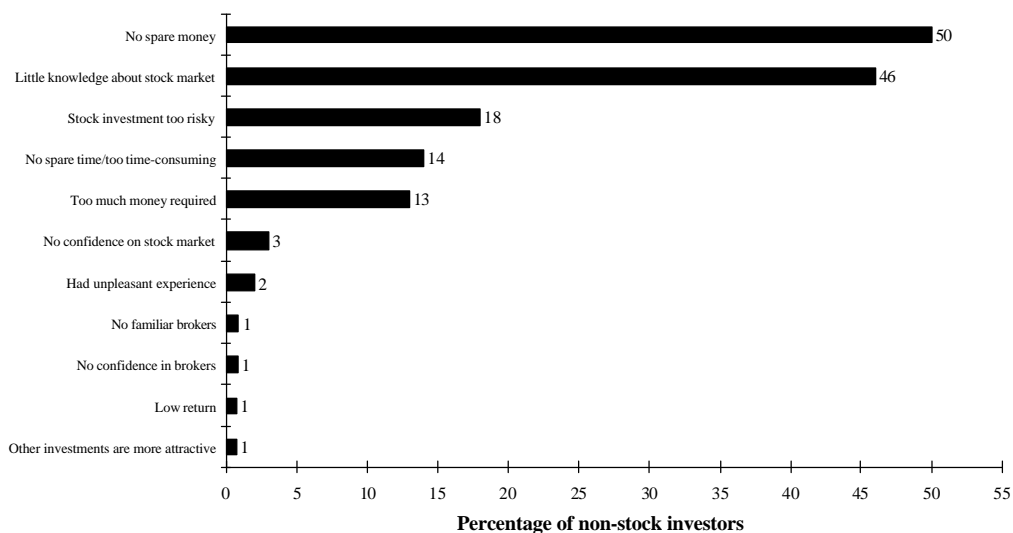
The number of warrant investors has more than doubled in the past three years. But the incidence of stock options investors is very low (less than 1%) since the options market was launched in September 1995.

Figure 3. Trend of warrant investment



Individuals' major reasons for not investing in stocks are no spare money and lack of knowledge about the stock market.

Figure 4. Reasons for not investing in Hong Kong stocks



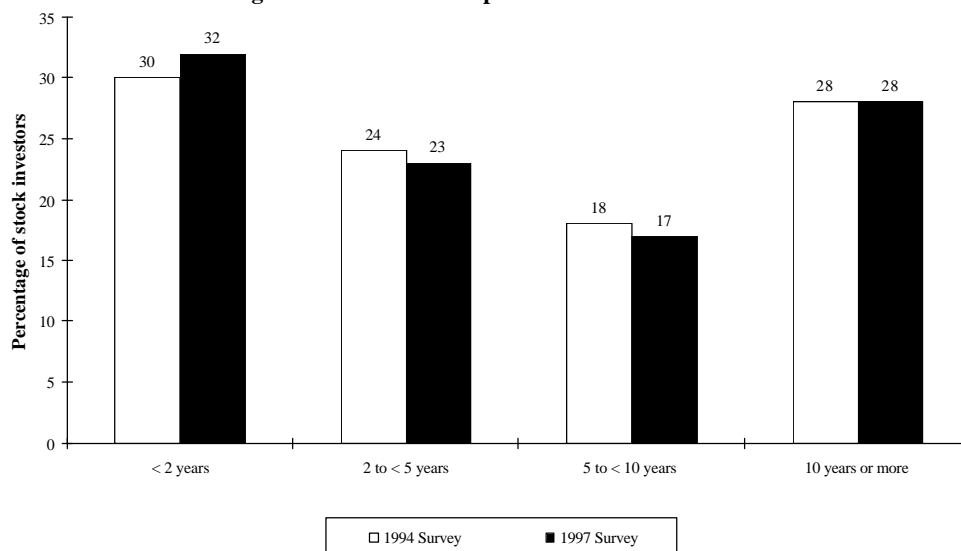
Note: Investors are allowed to give more than one answer.

3.2 Investor profile

Investment experience

Nearly one-third of stock investors first entered the market in the recent two years.

Figure 5. Investment experience of stock investors



Socio-economic profile

A “typical” stock investor in Hong Kong is a male in his late 30s, who has completed secondary education or above and is a white collar worker with personal monthly income of about HK\$22,500 or household income of about HK\$32,500.

Compared with the adult population, stock investors tend to be more educated and with higher personal income.

Among new stock investors, there are more women (55%) than men (45%). New investors are also younger, with a lower education level, and more are blue collar workers with lower income than the typical stock investor.

Table 1. Profiles of stock investors and new stock investors

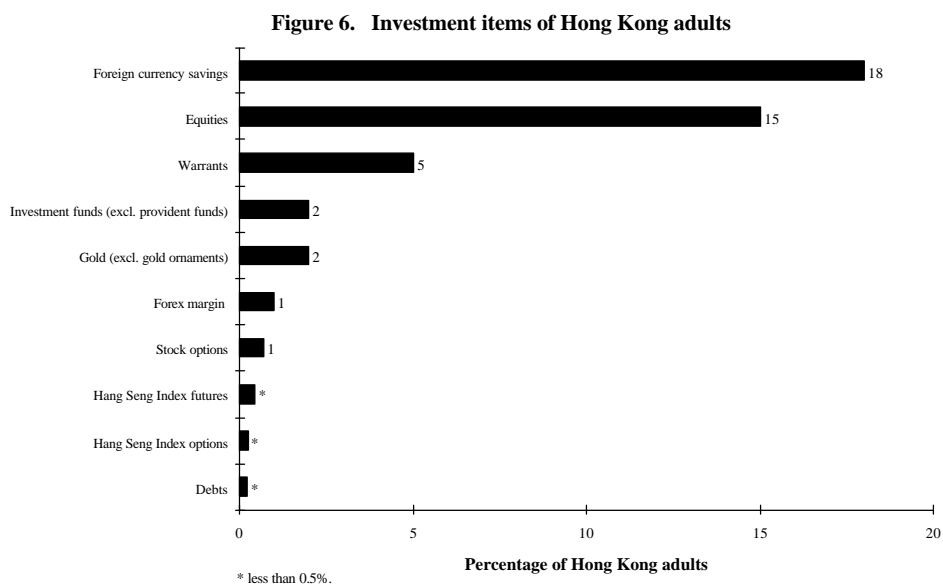
		Total adult population %	Stock investors %	New stock investors %
Sex	Male	48	55	45
	Female	52	45	55
Age	18-19	4	*	2
	20-29	22	21	35
	30-39	33	41	40
	40-49	21	26	18
	50-59	8	7	2
	60 or over	12	5	3
<i>Mean</i>		38.7	37.7	33.6
<i>Median</i>		37.0	37.0	32.0
Education level	Primary or below	27	11	13
	Some secondary	17	15	20
	Secondary completed	33	36	27
	Post secondary or above	23	38	40
Occupation	Professional/executive	9	21	21
	Proprietor/trader	3	6	5
	White collar	26	37	34
	Blue collar	26	17	23
	Housewife	19	13	12
	Retired	10	5	3
	Others	7	1	2
Median monthly personal income (HK\$)		13,750	22,500	16,250
Median monthly household income (HK\$)		22,500	32,500	32,500
* less than 0.5%				

There are no great changes in the demographic characteristics of stock investors as compared with the previous surveys in 1992 and 1994, except that the proportion of stock investors who are women continues to increase (45% vs 40% in 1994).

3.3 Investment behaviour and attitudes

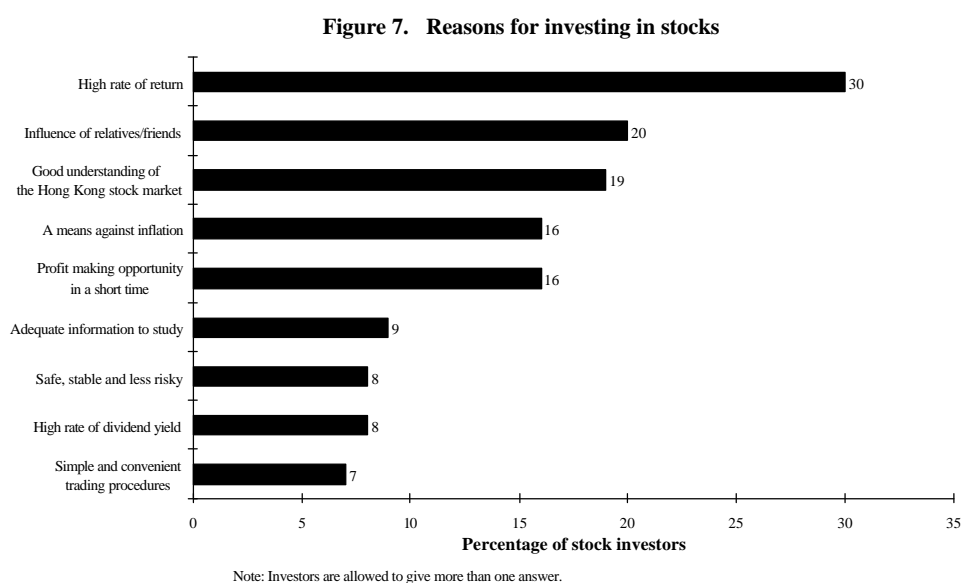
Overall investment portfolio

Excluding local dollar savings, foreign currency savings and stock investment (mainly in equities) are the two most popular investment items for Hong Kong adults.



Reasons for investing in stocks

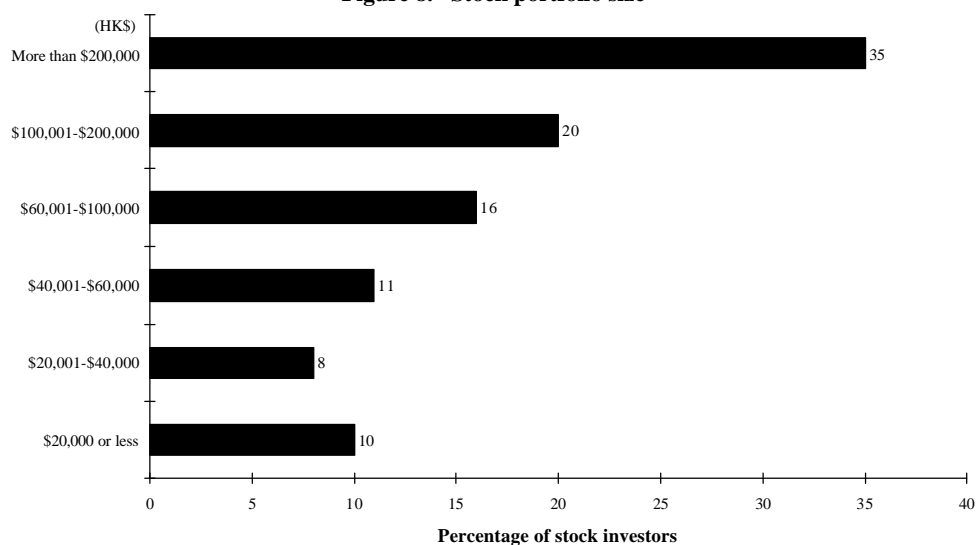
The high rate of return is the greatest attraction of stock investment. In addition, a high proportion of stock investors entered the market because of the influence of friends and relatives, or a belief of their good understanding of the stock market.



Stock portfolio size

There is a large variation in the current value of the stocks held by stock investors. The median value of stock holding is HK\$150,000, a 69% increase from HK\$88,750 in October 1994 in nominal terms. For reference, since the last survey the All Ordinaries Index has increased 59% by the end of September 1997.

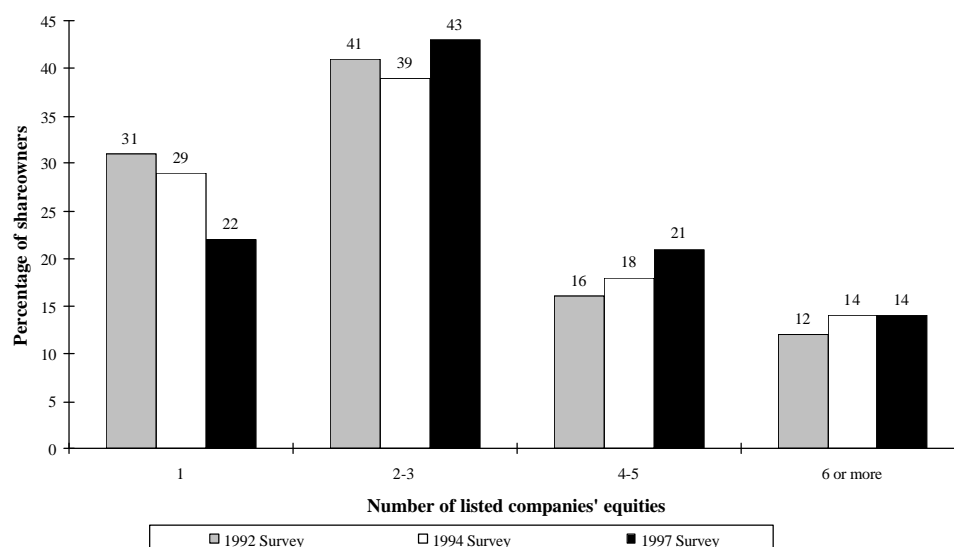
Figure 8. Stock portfolio size



Number of listed companies' equities held

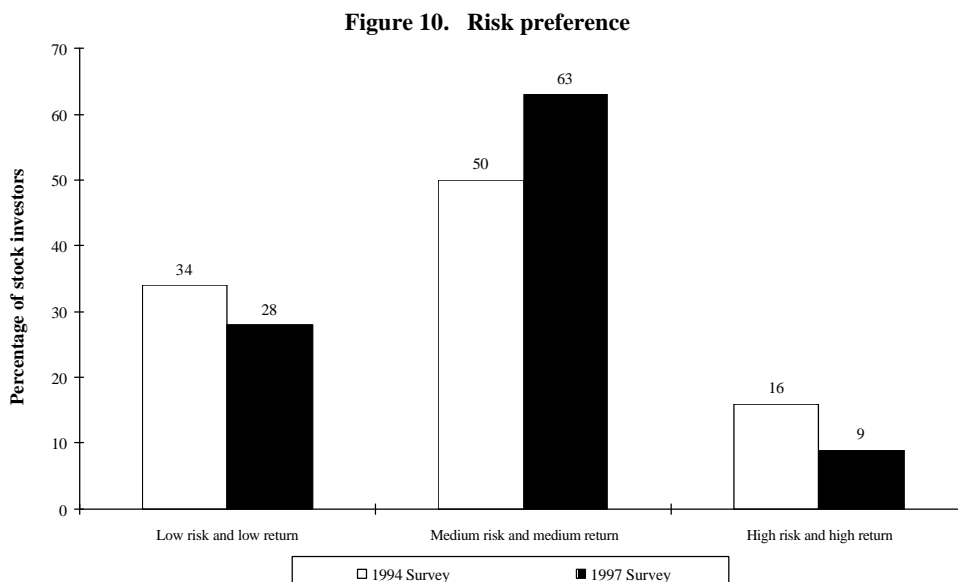
Most shareowners (65%) hold equities in one to three listed companies.

Figure 9. Number of listed companies' equities held



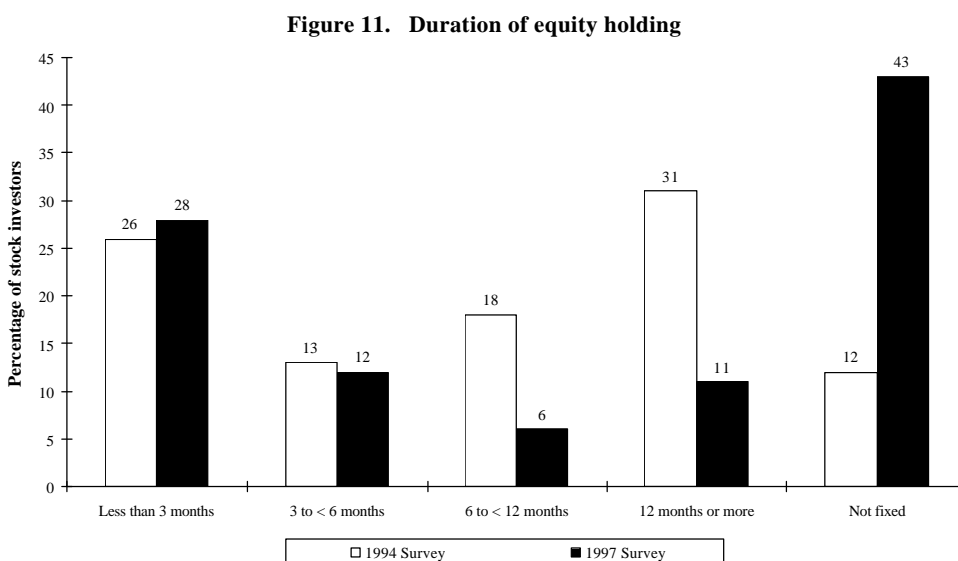
Risk preference

Hong Kong stock investors are generally risk-averse. Only 9% would choose stocks with high risk and high return. The majority (63%) prefer medium risk and medium return.



Investment time frame

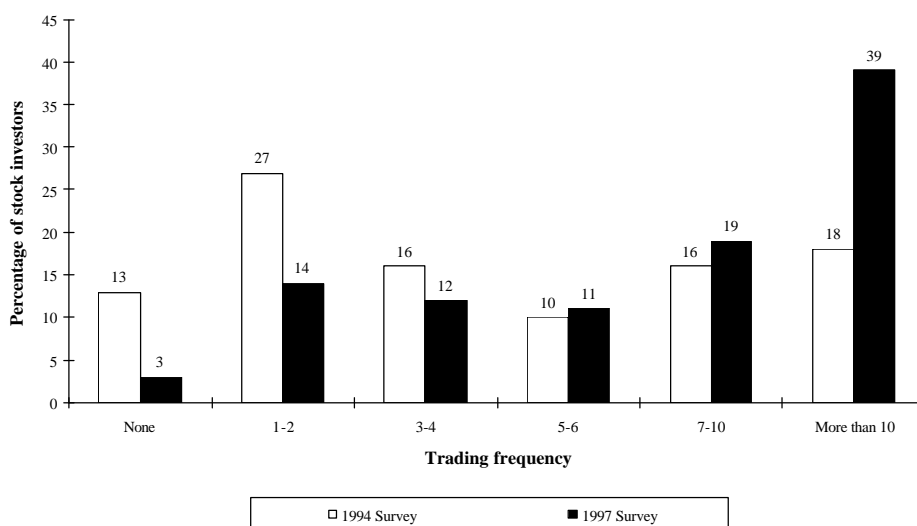
Stock investors hold their equities for a shorter period when compared with the previous survey. Only 11% are holding for one year or more which is much less than the 31% in 1994. Moreover, 43% of investors do not have a fixed pattern.



Stock transactions

Stock investors are trading more frequently than before. They made a median of 10 transactions in the past 12 months, compared with 4 transactions in 1992 and 1994. 39% of stock investors have made more than 10 transactions in the past 12 months compared to 18% in 1994.

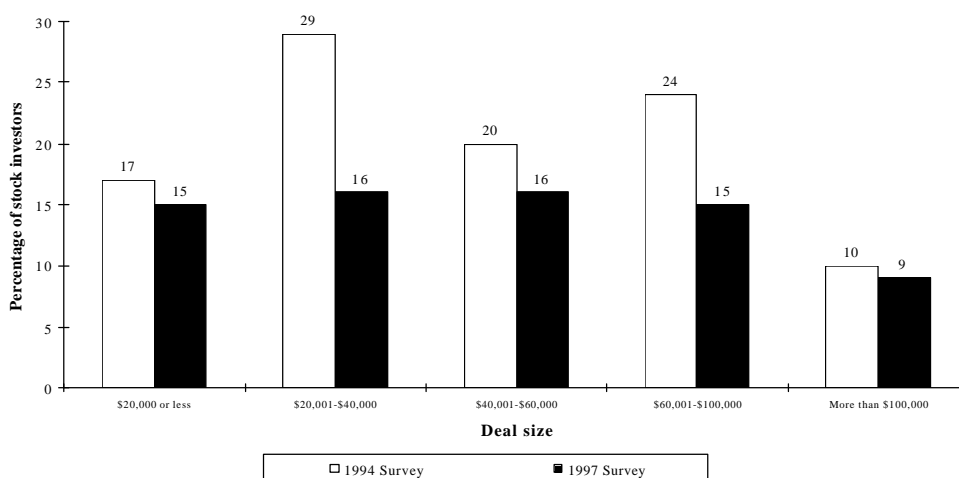
Figure 12. Number of transactions made in the past 12 months



Usual transaction amount

The median transaction amount per deal is HK\$50,000 in 1997, the same as in 1994, despite the rise in stock price level in the past three years. Most stock investors (62%) trade less than HK\$100,000 per deal. But 29% do not have a fixed pattern.

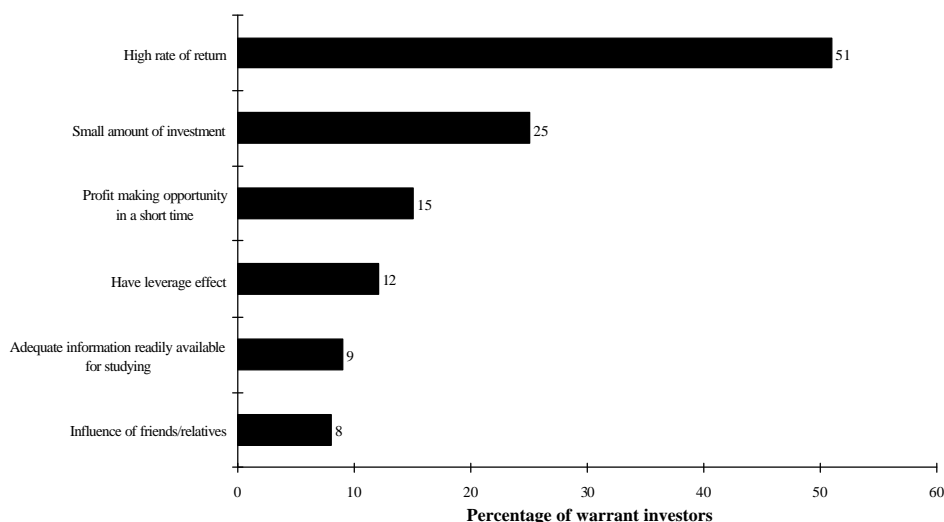
Figure 13. Usual transaction amount



Reasons for investing in warrants

35% of stock investors have engaged in warrant trading, mainly because of the expected high rate of return and the small amount of investment involved.

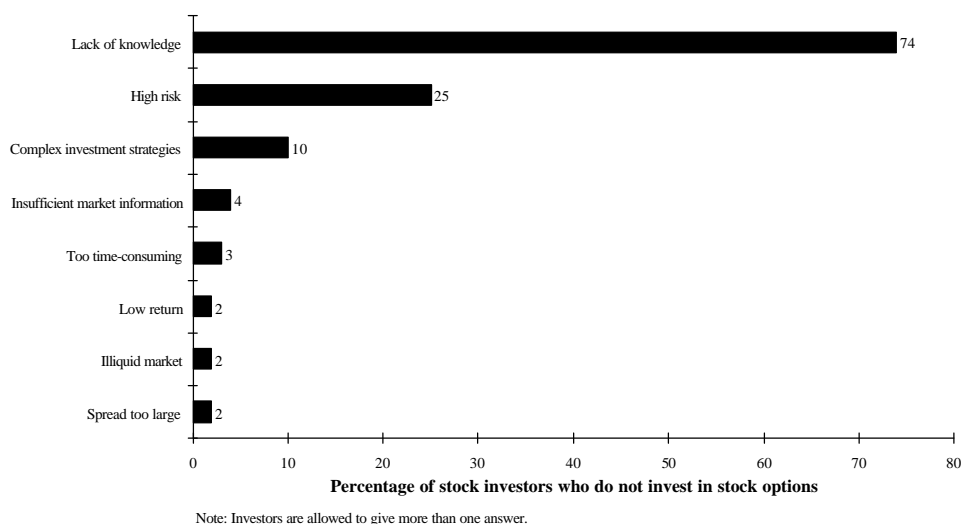
Figure 14. Reasons for investing in warrants



Reasons for not investing in stock options

Most stock investors (95%) have not participated in stock options trading, mainly because of lack of knowledge about stock options and the perceived high risk involved.

Figure 15. Reasons for not investing in stock options



3.4 Views on brokers and investors' rights

Retail investors in Hong Kong can trade through broker firms directly or through the bank outlets of bank-related brokers. Hereafter, the former type of agent is referred to as “broker firms” and the later type of agent is referred to as “banks”. They are together referred to as “brokers”.

Trading channels

The large shift to using banks for stock trading in 1994 is observed to reverse in 1997. Among the stock investors, 56% use broker firms and 30% use banks. However, a relatively higher proportion of new investors use banks (37%).

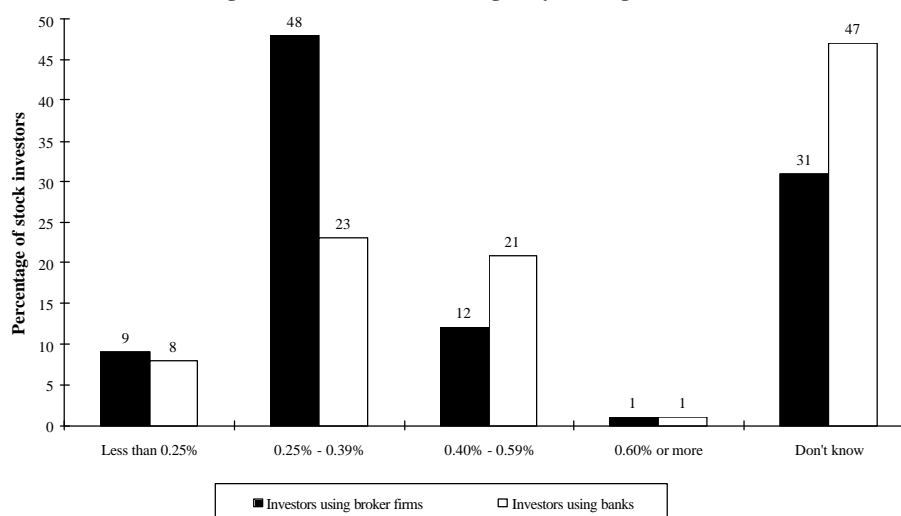
Table 2. Trading channels employed in stock trading

	<u>1992</u>	<u>1994</u>	<u>1997</u>	
	All stock investors	All stock investors	All stock investors	New stock investors
	%	%	%	%
Broker firms	69	54	56	50
Banks	27	39	30	37
Both broker firms and banks	-	5	10	7
Friends / relatives	3	2	2	5
Others	1	-	2	1

Commission charged

Banks on average charge a higher commission rate than broker firms (0.4% vs. 0.3%). But 37% of stock investors do not know the commission rate charged by their brokers.

Figure 16. Commission charged by trading channels



Satisfaction with services provided by brokers

Stock investors show more satisfaction with the services provided by broker firms than those by banks. Banks performed less satisfactorily on the timeliness of handling orders and response to price enquiries (29% and 13% dissatisfied respectively).

A considerable proportion of stock investors do not use services other than those directly related to stock trading execution, such as stock information provision and investment advice.

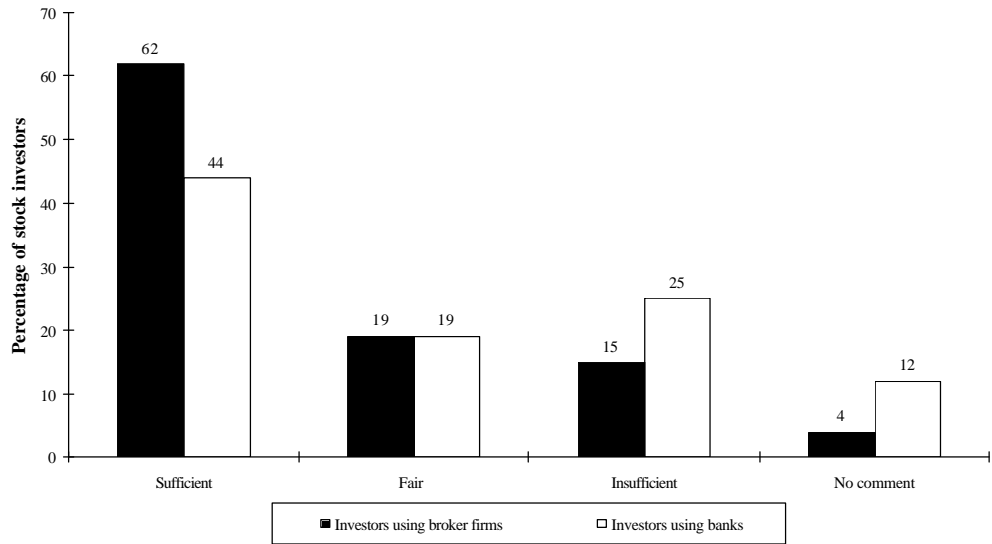
Table 3. Satisfaction of broker services by trading channels

	Total %	Trading channels	
		Broker firms %	Banks %
Clearing and settlement of stocks			
Satisfied	68	73	60
Fair	22	21	25
Dissatisfied	5	4	8
No usage	5	2	7
Handling orders on a timely basis			
Satisfied	58	68	43
Fair	25	24	25
Dissatisfied	13	4	29
No usage	4	3	3
Response to price enquiries			
Satisfied	51	57	44
Fair	25	25	26
Dissatisfied	9	6	13
No usage	15	12	17
Provision of stock information			
Satisfied	29	33	24
Fair	27	29	22
Dissatisfied	8	7	10
No usage	36	31	44
Investment advice			
Satisfied	22	25	17
Fair	18	19	16
Dissatisfied	5	5	5
No usage	55	51	62
Margin service			
Satisfied	9	12	4
Fair	4	4	4
Dissatisfied	1	1	1
No usage	86	83	91

Overall sufficiency of broker services

56% of stock investors consider their brokers provide a range of services sufficient to meet their needs, particularly for those who trade through broker firms.

Figure 17. Sufficiency of broker services to meet investors' needs



Investors' rights

The majority of stock investors (77%) claim that they will complain to the relevant authorities if they are suspicious of their brokers committing misconduct such as price cheating and deceit. However, the majority of investors (62%) are not aware that they can apply for compensation if they suffer losses arising from brokers' faults. This proportion is even higher among new stock investors (73%).

Figure 18. Whether investors will complain about brokers' misconduct

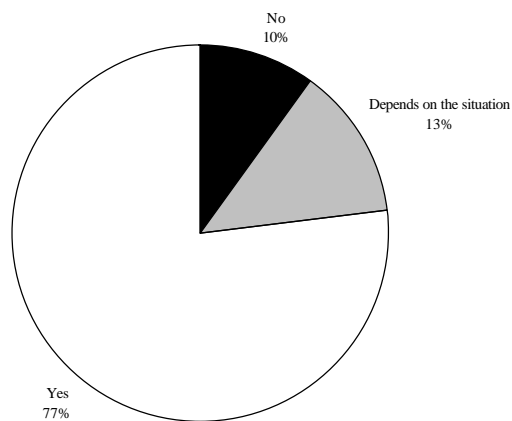
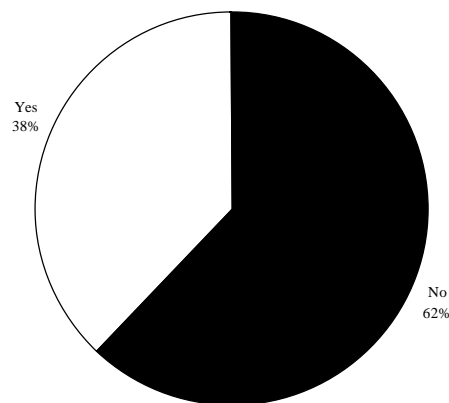


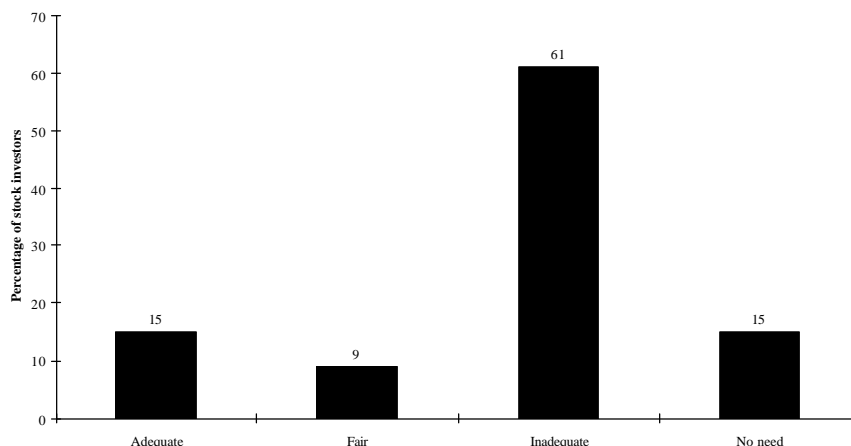
Figure 19. Whether investors know they can apply for compensation if they suffer losses arising from brokers' faults



Availability of information about broker firms

Most stock investors (61%) consider information about brokers firms, such as the range of services provided, charges, financial position and business performance, are inadequate for them to make a choice.

Figure 20. Whether investors consider adequate information about brokers is available

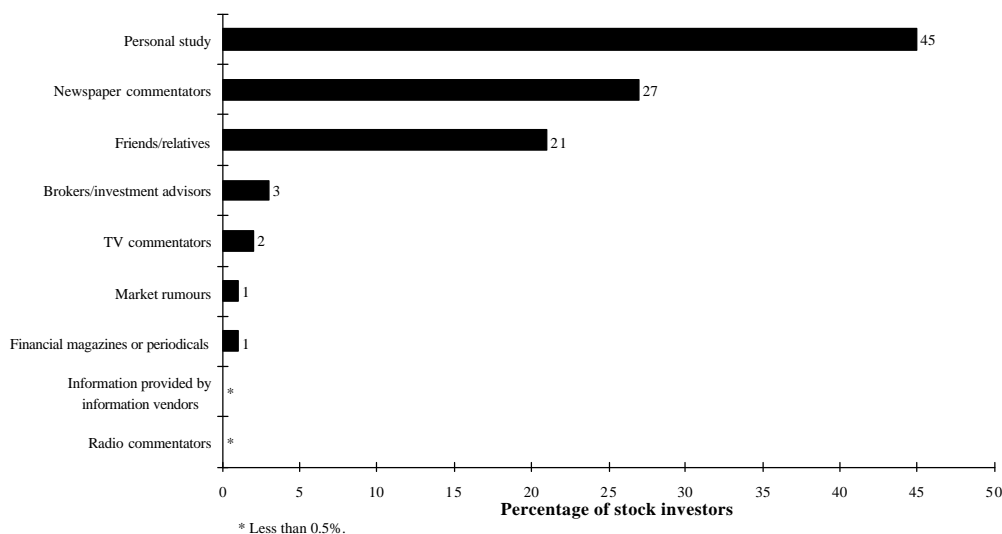


3.5 Stock Market Information

Sources of influence on making investment decisions

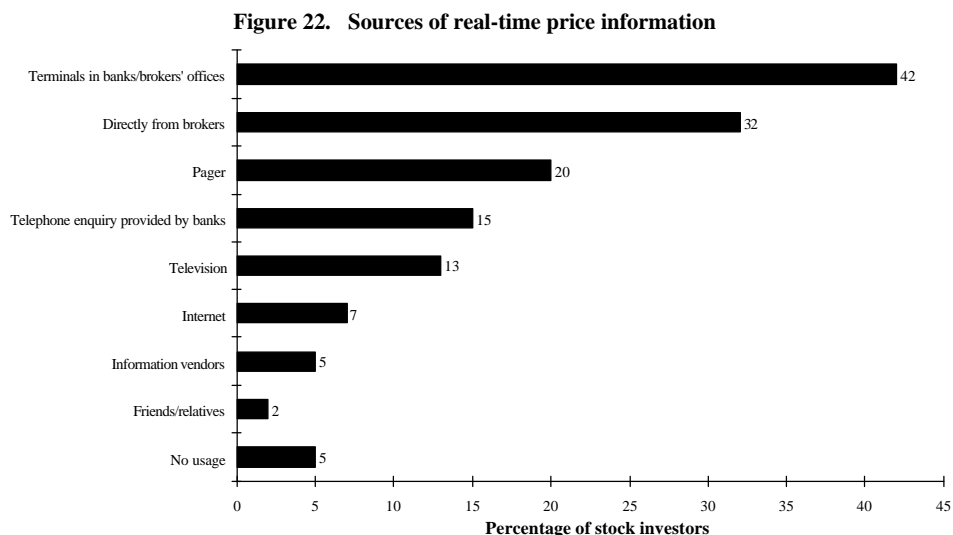
Stock investors claimed that they made their stock investment decisions mainly based on personal study, commentaries in newspapers, and suggestions from friends and relatives.

Figure 21. Major sources of influence on stock investment decisions



Sources of real-time price information

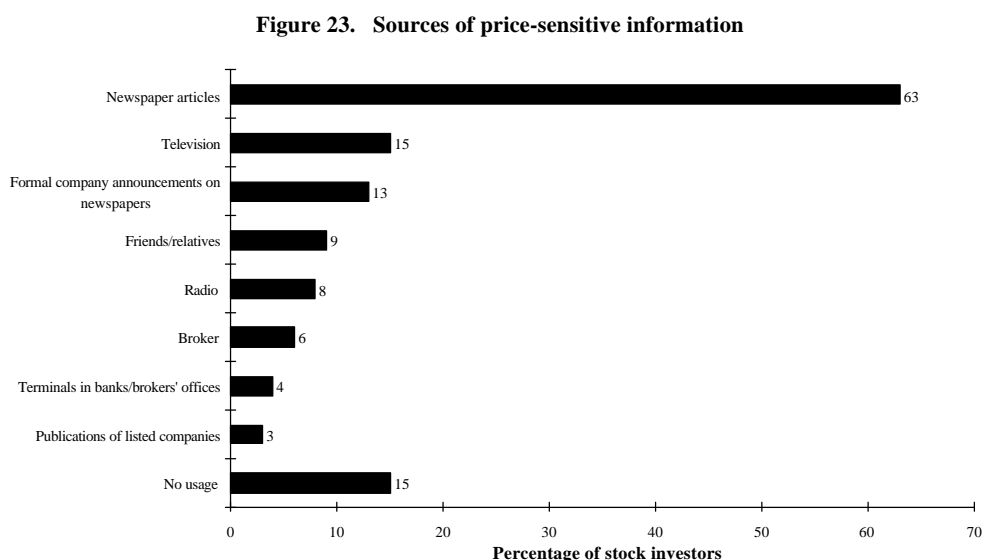
Stock investors use a variety of sources for real-time price information. The key sources are terminals in the banks or brokers' offices, brokers themselves and pagers.



Note: Investors are allowed to give more than one answer.

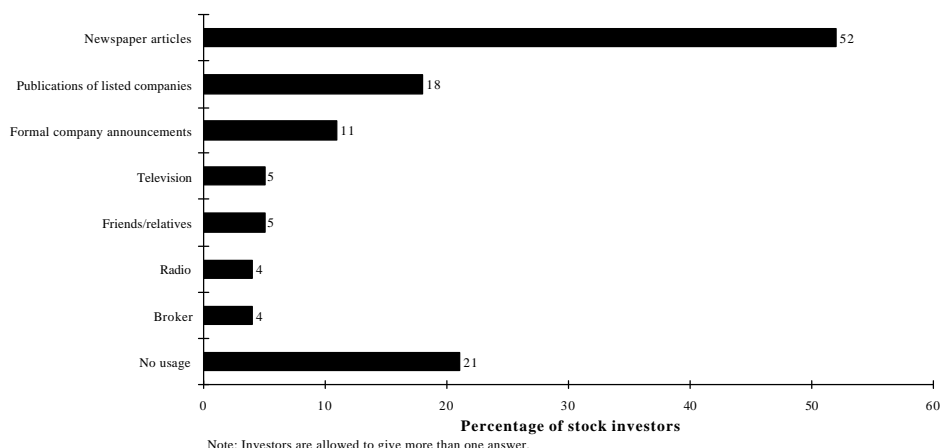
Sources of price-sensitive information and historical information

Stock investors rely heavily on newspaper articles for price-sensitive information and historical information on listed companies. But a significant proportion of investors (15% for price-sensitive information and 21% for historical information) claim that they do not use such information.



Note: Investors are allowed to give more than one answer.

Figure 24. Sources of historical information on listed companies



3.6 Perceptions of the Hong Kong Stock Market

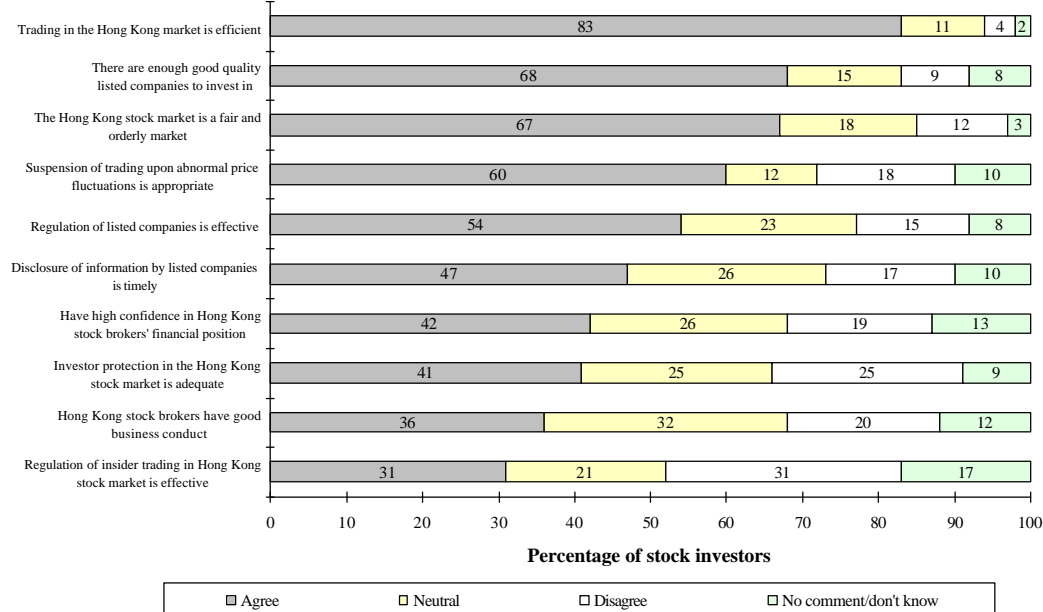
Views on the stock market

Most stock investors agree that trading in the Hong Kong stock market is efficient (83%), there are enough good quality listed companies to invest in (68%) and the Hong Kong stock market is a fair and orderly market (67%).

But many stock investors disagree that regulation of insider trading in Hong Kong is effective and investor protection in Hong Kong stock market is adequate. They also express concerns about brokers' business conduct and financial position.

A high proportion (60%) of stock investors agree that the Exchange's current measures to suspend trading of certain stocks upon abnormal price fluctuation are appropriate. But 18% disagree.

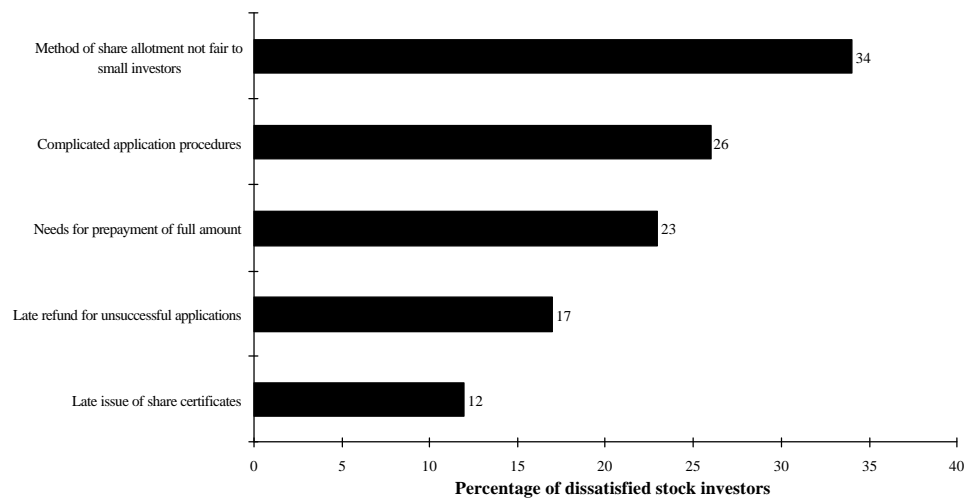
Figure 25. Stock investors' views on the stock market



Subscription of shares of newly listed companies

A significant proportion of stock investors who have applied for shares in newly listed companies (44%) are dissatisfied with certain areas of the subscription process. They are particularly dissatisfied with the fairness of the share allotment method (34% of the dissatisfied investors).

Figure 26. Areas of dissatisfaction about new shares subscription procedures



Note: Investors are allowed to give more than one answer.

Interest in new product

About one-third of stock investors are interested in investing in a new market for companies of small scale and short history but having high growth potential.

Figure 27. Interest in investing in a new market for companies of small scale and short history but having high growth potential

