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MOTIVATIONS AND FACTORS INFLUENCING THE DECISION OF ONLINE TRADING

Case
Study

Keywords

*Investments,
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Investors' behavior,
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Abstract

In this study, using survey data, we explore motivations and factors that influence the Romanian investors to trade online even if they initially traded through a broker. To identify the factors we used secondary sources and for exploring the factors that influence the decision of trading online we used primary data. We find that investors decide to trade online especially because they spend less time, they have an easier access to information (due to the fact that most of the online trading platforms have notifications and alarms for news that can affect the stock market) and they know how to use the internet. We discover that only a few investors are influenced by advertising and the fact that it is fashionable to trade online.

INTRODUCTION

Understanding the motives and factors that drive investors to trade online is very important for a Brokerage Firm, due to the constant competition for investors and market share. Today, investors know more and more about stock market and it is important for a company to give them the liberty of trading alone, with lower fees, and why not, in the same Brokerage Company. An additional argument would be that analysts like: Hulu & Kock, Ennew & Binks, Davis, Mittal & Lassaria, Kotler (Kim, 2000) show that it is 5 times more expensive to get a customer than to keep one.

With this study we wanted to know what drives an investor, which consults a stock broker to pass to online trading.

There are studies that show the benefits and drawbacks of online trading (Iancu, 2015; Jobman et al., 2003) but only a few about the motivations and factors that influence the transition from traditional trading, with a stock broker to online trading (Kim, 2000).

It is important to note that today, in Romania, all stock trades are made online (whether it is traditional or online trades). The Brokerage Firms pay a fee to Bucharest Stock Exchange on every transaction made through it, and the difference between the fees paid and the fees received from the investors are the company's revenue. The online trade fees are different from a brokerage firm to another, but the average is 16% lower than the fees charged on transactions in the same company by a stock broker (http://www.monitorulcj.ro/cms/site/m_cj/news/73174-fees-for-small-magnet#sthash.2XSvZGbW.dpbs).

We didn't find any studies about the motivations and factors that influence the Romanian investors to trade online. Studying the literature we find a few starting points:

- Trends and ads can be a factor that increases the number of online investors. In the US there is great concern about the number of investors that, under the influence of commercials with online traders (with the rich, young, overnight celebrities), decide to invest in the stock market alone, without consultancy. The consequences are dramatic for some of them (Dugan, 2014).

- One of the best known and studied phenomena in the literature about investors is excessive confidence in their own abilities. This occurs when the investor has been successful in the past investments (Nofsinger, 2008). We wanted to know if confidence can motivate the investors to trade online.

- In Korea, the country with the most online traders, the rising interest for this kind of trade is linked to the low cost of trades. Online trading costs are lower than those of traditional trading.

Whether we look at the situation from the perspective of Brokerage Companies (which removes the human factor from the equation of placing orders on the market) or investor (which pays a lower commission) online traders are the winners (Kim, 2000; Voss, 2000).

- Jobman, Salcedo and Depilla (2003) show that the most important factor for US investors who want to trade online is the speed and efficiency of trades.

RESEARCH METHODOLOGY

The methods chosen to investigate the trends in trading on BSE, in particular, the investor's decision to move from traditional trading (assisted by a stock broker) to online trading, were: secondary sources of information (books and articles), our own experience and a survey with random and non-randomly sampling, based on accessibility and reasoning using as a tool, the questionnaire.

Most questions of the questionnaire are closed, multihotomic (giving the possibility to the respondents to choose one or more answers), questions with answers in Likert Scale, for measuring the intensity of respondents' opinions towards certain elements / statements. The answers to these questions reflect the opinion of retail investors in relation to the degree of importance of various motivations and factors about the decision to pass to online trading.

To see the motivations of investors to switch from traditional trading to online trading, the questionnaire included a question with five alternative answers: ads led me to believe that it is easy to make profit by trading online, my friends transacted online and I decided to inform myself and I do not consider that a stock broker has more information than me, I attended courses / seminars to learn how to trade online and I initially traded on "trial" platforms, with the possibility to note the level of importance to each.

The analyzed factors that influence the investors to switch to online trading were: fashion, convenience, the illusion of knowledge, time and costs.

The sample includes 82 subjects. Unfortunately, the lack of information about the number of retail investors who trade online did not allow the calculation of the sample size on a scientific basis. Therefore, we can say only that this study can be considered one of an exploratory nature, the results are specific only to the investigated sample (cannot be generalized to the population of retail investors). We estimate that the number of people receiving the questionnaire is distributed by 5000. The main arguments of this estimate are the following:

- link and related information was sent by mail to approximately 250 contacts from our personal archive;
- more than 300 e-mails to online investors of an investment firm;
- the stock brokers promoted the survey to their clients, using the "snowball" method;
- social networks promoted survey (that got to 3504 users) with the following characteristics: people over 18, regardless of gender and residence, speaking Romanian and interests in the capital markets.

Data processing was performed in SPSS 20 software.

RESULTS

Studying the motivations that drive an investor to trade online (Table 1), the responses show that, most of the investors, believe that a stock broker doesn't have more information than they do. Basically, we can say that this is the primary decision factor that led to the decision to online trading. This situation can be explained to some extent by the attitude of investors' regarding the risk of online trading (they have more self-confidence).

Second and third places in the hierarchy are occupied by: I traded first on trial platforms (2nd) and I attended courses and seminars to learn how to trade unassisted (3rd). We found that only 1.9% indicated that they were influenced by advertisements, which were made to believe that it is easy to do online share trading profit.

When we studied the factors that influence the decision to move from traditional trading to online trading we focused on a few specific elements: a) The trend of online trading, b) self-confidence in their own judgment, c) time (easy access to information, less time spent trading, efficiency in trading, difficulty in calling/visiting a stock broker) and d) costs of online trading.

a) The trend of online trading

In the US there is great concern about the number of investors who, under the influence of commercials about trending online trades (with the rich young overnight celebrities), decide to invest in the stock market alone, even if they don't have sufficient knowledge about the stock market. The consequences are dramatic for some, because they lose money (Dugan, 2014). In the sample studied, 20.8% of investors are influenced in large and very large measure by such advertisements, that it is fashionable to trade online (Table 2). In Romania, the ads must meet certain legal conditions and the persons responsible for marketing must keep in mind that promoting online trading among inexperienced investors, can bring more disadvantages than benefits to their companies.

b) Self-confidence in their own judgment

In our sample, 85.4% of respondents consider the trust in your own judgment as important or very important when they decide to trade online (Table 3).

c) Time factor when trading online (easy access to information, less time spent trading, efficiency in trading, difficulty in calling/visiting a stock broker) As shown in Table 4, the highest importance in the decision to trade online (in terms of time) was given to: "less time spent in making their transactions" (average means 4.37, with 5 being the highest grade / very important, and 1 being the minimum / very little importance). "Difficult to periodically call the agent" was the item which was given the slightest importance (mean 3.49).

d) Importance of fees in moving to online trading

The decision to trade online is influenced to some extent, by the lower amount of fees (Table 5). Thus, 29.3% of respondents considered very important lower trading fees, and nearly 44% believe that they have been influenced to a large extent by this element in the decision to trade online.

Another 19.5% were probably influenced by other variables in online trading decision (their answer to this question is "neutral").

To deduce which are the most important elements considered by an investor in the online trading decision, we made a top from means of responses (Table 6). The most important elements (the average over 4) are: less time to make his own transactions (have the most concentrated answers, $d_s = 0.729$), easy access to information on stock markets and efficient use of every moment of trading.

This study confirms the results of a previous study (Jobman et al., 2003) which shows that the time factor is the most important in the decision to move to online trading. The least important element seems to be "trendiness of online trading" (mean 2.41, $d_s = 1.227$).

CONCLUSION

It appears that Romanian investors that answered to this survey, like the American investors, are attracted to online trading because they spend less time, they have an easier access to information (due to the fact that most online trading platforms have notification and alarms for news that can affect the stock market). Only a few investors are influenced by advertising and the fact that it is trendy to trade online.

The marketing department of Investment Firms should make strategies according to the needs of investors. They must emphasize in their advertising the time factor.

LIMITS AND FUTURE RESEARCH

The lack of official reports about the structure and evolution of online share trades (other stock markets in UE or Asia have these information) or about the number of online traders, prevented a comparison between official reports and those obtained from survey respondents and the situation in other European countries. Thus, it could not detach a conclusion on the degree of development of this modern form of trading on BSE and about Romania's position in the EU from this perspective.

Due to the differences found between Asian and an US online investors (from motivations and factors that can influence the investors to move to online trading), in the future, we will collect more responses so we can have a proper image about Romanian online investors.

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ANNEXES

Tables

Table 1
Motivations of moving to online trading

	N	Standard Deviation
A Stock Broker doesn't have more information than I do	82	.502
I traded first on trial platforms	82	.439
I attended courses and seminars to learn how to trade	82	.432
Advertising made me think that trading online and making profit on stock market is easy	82	.262
Valid N	82	

Table 2
Responses about the level of importance of trends when deciding in trading online

	Frequency	Percent	Valid Percent
Not Important	28	34.1	34.1
Slightly Important	12	14.6	14.6
Moderate important	25	30.5	30.5
Important	14	17.1	17.1
Very important	3	3.7	3.7
Total	82	100.0	100.0

Table 3
Responses about the level of importance of trusting in own judgment when deciding to trade online

	Frequency	Percent	Valid Percent
Not Important	1	1.2	1.2
Slightly Important	1	1.2	1.2
Moderate important	10	12.2	12.2
Important	45	54.9	54.9
Very important	25	30.5	30.5
Total	82	100.0	100.0

Table 4
Important time elements considered by an investor in online trading decision

	Minim	Maxim	Mean	Standard Deviation
Less time to make your own trades	1	5	4.37	.729
Easy access to information on stock markets	1	5	4.22	.847
Efficiency in using time in trading	1	5	4.01	.975
Difficulty in calling and meeting with your stock broker	1	5	3.49	1.178
Valid N (listwise)				

Table 5
Responses about the level of fees when deciding in trading online

	Frequency	Percent	Valid Percent
Not Important	1	1.2	1.2
Slightly Important	5	6.1	6.1
Moderate important	16	19.5	19.5
Important	36	43.9	43.9
Very important	24	29.3	29.3
Total	82	100.0	100.0

Table 6
A top of importance attributed to factors influencing the decision of moving to online trading

	Mean	Standard Deviation
Less time to make your own trades	4.37	.729
Easy access to information on stock markets	4.22	.847
Trust in your own judgment	4.12	.760
Efficiency in using time in trading	4.01	.975
Lower fees than trading with a stock broker	3.94	.921
Personal experiences when trading	3.90	1.001
It is difficult to call my stock broker	3.49	1.178
I wasn't satisfied with my stock broker	3.23	1.147
Trendiness of online trading (my friends are trading online, I see a lot of ads)	2.41	1.227