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ROMANIAN INVESTORS PORTFOLIO. ONLINE VERSUS ASSISTED TRADING

Case Study

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Abstract

    One of the most important aspects in deciding to trade online, alone, without the help of a broker, is the portfolio profitability. In this study, using the personal experience, survey data and secondary sources, we identify some factors that may influence the gain and the loss of investors which trade online. Our study contradicts other results from literature that claim that the transition from assisted to online trading is a big drawback in terms of portfolio profitability. By analyzing the performance of the portfolio when passing from assisted to online trading, we observe that half of the investors achieved identical profitability. We also observed that the efficiency of the portfolios belonging to the online investors that were assisted in the past by a broker for a short period, is lower compared to the ones assisted (in the past) for a longer period.

INTRODUCTION

Online trading is a distribution channel for Investment and Financial Services Companies (IFSC). To trade online, you have to use certain platforms, created by the IFSC. Because the internet shortens the link between the investor and the products they wish to purchase (shares, futures, CFDs, bonds, etc.), it is important to note that today, in Romania, all stock transactions are conducted online, via the Internet (whether it is traditional or online trades). However, the existence and development of the Internet has made the transaction without a broker's assistance or with minimal human intervention possible (Voss, 2000). To trade online, the investor is required to know how to use the Internet (and therefore the terminal), whether he/she are using a computer, smart phone, tablet or laptop. Investor places trading orders through the platform provided by the investment firm. All orders and transactions made by the investor remain in the IFSC database. Execution of the order can be tracked by the investors in real time. If most of the studies show that the portfolio performances of online investors are lower than those assisted by a stock broker, our experience shows the opposite.

Literature review shows the benefits (strengths) and disadvantages (weaknesses) of the online versus the traditional trading. The benefits of online trading are described in detail by the author in other study (Iancu, 2015), now only reminding them: costs related fees to online trading are lower than those in traditional trading (Voss, 2000), speed of response, in a stock market with high volatility is best for online trading (Jobman et al., 2003), Madhavan (Madhavan, 1996) indicates that the transparency in the market is greater and stockbrokers have not always acted in the interests of customers, resulting in increased fees for excess transactions (Bakos et al, 2005). The weakest spot in online trades are the profits. Barber and Odean (Barber & Odean, 2000; Barber & Odean, 2008) show that the profits from the online portfolio administration are lower than when given by a broker. They also show that the people with low income, younger, less educated trade more and have the worst performance when trading on their own (Barber & Odean, 2008).

This study's objectives are:
- ✓ To study the existence of a link between the educational factors and online portfolio return of investment;
- ✓ To study the existence of a link between the time period with broker assisted trading and the portfolio profitability.
- ✓ To study the portfolio return of investment when going from assisted by a broker to online trading.

RESEARCH METHODOLOGY

To answer the research questions, the author started from the literature and personal experience. The method chosen to investigate the investor's portfolio when passing from traditional (assisted by stock broker) to online trading survey was that of a random and non-randomly, based on accessibility and reasoning questionnaire.

We estimate that the number of people receiving the questionnaire is around 6000. The main arguments of this estimation are the following: link and related information were sent by mail to 280 contacts (from the author's personal archive), more than 200 e-mails to online investors of an investment firm. Stock brokers from other two IFSC promoted the survey to their clients, using the "snowball method". Also, the questionnaire reached 3504 users by paid advertising on www.facebook.com, e-mails to 40 intermediaries operating in the Romanian capital market, with the request to help promote the survey among their clients and sending e-mails to over 2000 employees of the Technical University of Cluj-Napoca on the assumption that the respondents should be educated with inclination towards technology information.

Due to the fact that we talk about investors with rare characteristics (investors over 18, which passed from assisted by a stock broker to online trading) we have 54 respondents to our questionnaire. Data processing was performed in SPSS 20 software.

RESULTS

The responses of the subjects in our study contradict other studies from the literature (Barber & Odean, 2000), according to which the portfolio return decreases when customers switch from traditional to online trading. 50% of our subjects say they have obtained identical yield, 37% had higher efficiency and 13% were less efficient in trading compared to the period in which they were assisted by a stock broker. A possible explanation for these results could be that most respondents have a high education and are able to understand the subtleties of investments on the stock market. Residues value (Table 1) indicates an association between the level of education and yield portfolios: the percentage of those with a postgraduate diploma have higher profitability when trading online, than assisted by a stock broker.

The intensity of the association (between the level of education and portfolio profitability during the transition from assisted by a stock broker to online trades) is low, the value of Somers'D coefficient is oscillating between 0.261 and 0.301 (Table 2).

The online trading efficiency of Romanian investors may be due to previously accumulated

personal experience. Beside the level of education influencing the portfolio profitability we wanted to see if there is a link between the experiences earned by investors when assisted by a stock broker. In our study we considered investors which were assisted for a short period (1 month to 1 year), medium period (1 to 5 years) and for a long period of time (more than 5 years). When studying the existence of a link between the periods in which the investors were assisted by a stock broker and online portfolio return of investment we observe that Residual Value is above 1.96 +/- (Table 3) and that makes the following statements to be accepted:

• there is an association between the portfolio profitability and the period in which the investor was assisted by a stock broker, meaning that those who were assisted for a short period of time (1 month - 1 year) have a lower yield than the expected value;

• investors that were assisted for a short period of time and with a portfolio yield identical to that obtained when counseled by a broker, are in a higher number than expected.

Association coefficients ($\chi 2$) indicate the existence of an association (Table 4) by a value different from 0 ($p < 0.031$). We can say that investors' with online portfolios, assisted for a short period in the past by a stock broker, have a lower yield than other online investors (assisted for a longer period by a stock broker).

No other associations were found between yield and socio-demographic variables, psychological or sources of information that online investors prefer.

CONCLUSION

The portfolio profitability of online investor is higher compared to the period in which he was assisted by a stock broker. A possible explanation for these findings may be that most respondents have higher education - which makes them able to understand the subtleties of investments on the stock market.

The number of postgraduate respondents, who achieved higher return of the investments, by trading online, is more than expected.

Online investors', who were assisted in the past by stock broker for a short period of time, have a lower return of investment than other online investors (assisted for a longer period).

Last, we emphasize that the small number of investors who responded to our survey and global market developments could affect the results of our study. The fact that the share price rose on Bucharest Stock Exchange (for most symbols in recent years)

(www.bvb.ro) resulted in higher returns on portfolios, regardless of the type of trading: online or assisted by a broker.

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

Table 1
The correlation between the level of education and portfolio profitability compared to the period in which the investor was assisted by a broker

	Level of education:	High School	College	Ph.D.
Lower	%	0.0	20.0	7.1
	Adjusted Residual	-.4	1.4	-1.3
Identical	%	100.0	56.0	42.9
	Adjusted Residual	1.0	.8	-1.1
Higher	%	0.0	24.0	50.0
	Adjusted Residual	-.8	-1.8	2.0

Table 2
The intensity of the association between education level and the portfolio return

	Value	Asymp. Std. Error	Approx. T	Approx. Sig.
Symmetric	.280	.116	2.393	.017
Portfolio profitability in online trading, now compared to the period in which they were assisted by a stock broker	.301	.126	2.393	.017
Level of education	.261	.108	2.393	.017

Table 3
The correlation between the period of assistance and portfolio profitability of online investors compared to the period in which they were counseled by a stock broker

Period of assisted trading		1 month-1 year	1 year - 5 years	< 5 years
Lower	%	0.0	20.0	7.1
	Adjusted Residual	-.4	1.4	-1.3
Identical	%	100.0	56.0	42.9
	Adjusted Residual	1.0	.8	-1.1
Higher	%	0.0	24.0	50.0
	Adjusted Residual	-.8	-1.8	2.0

Table 4
Association coefficients between the period assisted by stock broker and online portfolio profitability

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	10.619[a]	4	.031
Likelihood Ratio	12.445	4	.014
Linear-by-Linear Association	.342	1	.559
N of Valid Cases	54		

a. 5 cells (55.6%) have expected count less than 5. The minimum expected count is 1.69.