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The new investors

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THEY use lucky numbers to decide on stocks, invest with cash stored under the mattress and are easily spooked by the latest market rumor. These are all popular anecdotes about the typical retail investor riding the rollercoaster that is the Shanghai Stock Exchange.

But two business consultancies have tried to separate fact from fiction, with a study into share buyers' motivations when investing on the Shanghai stock market.

Zennon Kapron, founder of finance industry consultancy Kapronasia, and Laura Mitchelson from business research and analysis firm Amber presented their report, "Betting on the Dragon," at a recent AustCham Shanghai function.

Before founding Kapronasia, Kapron was the global banking industry manager for Intel in Shanghai and chief executive of Citigroup in Portugal. Mitchelson, a Chinese speaker with 15 years' experience in China, is Amber's marketing director.

The report surveyed 600 active investors in the Shanghai market by telephone last November and also ran 10 face-to-face interviews.

Shanghai's stock market has one of the highest proportions of retail investors, at 57 percent, while 43 percent are institutional investors. This compares with New York, where 20 percent are retail investors, and Hong Kong with 30 percent.

The investors interviewed mirrored the geographical makeup of share buyers, with 33 percent coming from Shanghai and 17 percent each from Beijing and Guangzhou. The rest came from Nanjing in Jiangsu Province, Chengdu in Sichuan Province, and Hangzhou in Zhejiang Province.

Unlike many other markets where elderly investors try to build a retirement nest egg, Shanghai's share buyers were more likely to be young and upwardly mobile. The average A-share investor's age was 35, with 90 percent under 50. They were typically wealthy, with 77 percent earning above-average incomes. Sixty-six percent owned their own property and 34 percent had a mortgage.

But despite accumulating personal wealth, many of those interviewed had little experience of investing on the stock exchange. More than 40 percent had been playing the Shanghai market for less than a year, and only 27 percent had five or more years' experience.

This inexperience often leads to a short-term focus from investors and unrealistic expectations of potential returns, according to Haitong Securities Co analyst Zhang Qi, who was not involved in the survey.

"They have high expectation of yields, especially after tasting the sweetness in the bull market last year. However, they are not well prepared for the risks. They want quick money and are good at accusing others, such as analysts, when they suffer a loss," said Zhang.

In recent months, Chinese mainland's two exchanges in Shanghai and Shenzhen both posted big falls. The Shanghai Composite Index has been through a sharp correction. Last October, the index hit a record high of 6,124 but is now hovering around 3,500.

Several reasons lie behind the market's downturn, including concerns about the health of the US economy. But analysts feel that local retail investors' fragile confidence about their stock choices and a downturn in sentiment based on an unrealistic understanding of potential risks have added to the volatility.

The survey found a lack of diversification in portfolios, with 65 percent holding between one and three stocks, a high-risk strategy in a volatile market.

"One of the things that we thought was likely to happen in the future is that there would be a greater diversification of the stocks held," said Mitchelson. "This lack of diversification is a key contributor to market volatility."

Unlike many other markets, almost three-quarters of investors said they were investing to gain spending money, rather than to build wealth for retirement.

"We found a large number of investors would have up to 70 percent to 80 percent of their savings in the Shanghai stock market, yet if you ask them what they are investing for, they will say it's for spending money," Mitchelson said.

Li Jun is a typical young investor who bought shares to boost her disposable income rather than reinvesting to build up her portfolio.

The 27-year-old worker at a consulting firm opened her stock account at the start of last year. She was happy with her decision, riding the bull market to make some initial quick money. "Whatever shares I bought, they gave me a handsome return then," she recalled. "With the yields on stocks, I earned enough in just a couple of months to decorate my new home and filled it with an air-conditioner, LCD television and other things I needed."

But like many investors focused on short-term gains, Li said she got caught when the market turned. She said that when she was considering selling her stocks with a healthy return, the market dived and has since dropped a third of its value, taking much of her initial profits with it.

The researchers also looked at the level of knowledge retail investors had of basic market concepts. Only 18 percent of interviewees knew what a P/E (price-to-earnings) ratio was and 71 percent did not know what a company's market capitalization was.

As Haitong's analyst Zhang pointed out, the stock market is not and will never be an easy way to earn quick money. "It requires serious study," said Zhang.

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