A STUDY OF THE INFLUENCE OF INFORMATION USE ON INVESTOR BEHAVIOR AT COLOMBO STOCK EXCHANGE

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Degree of the Master of Business Administration

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Thesis/Dissertation submitted in partial fulfilment of the requirements for the degree Master of Business Administration in Information Technology

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Declaration

I declare that this is my own work and this thesis does not incorporate any material previously submitted for a Degree or Diploma in any other university or institute of higher learning without acknowledgement and to the best of my knowledge and believe it does not contain any material previously published or written by another person except where the acknowledgement is made in the text.

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Abstract

Sri Lanka is rapidly moving towards a culture of utilizing information technology and telecommunication. The country's overall computer literacy in the year 2015 is around 26.8% and the highest literacy rate is 40.3% in the urban sector. The Colombo Stock Exchange (CSE) is one of the sectors which use information technology immensely. There are multiple systems and procedures in the Stock Exchange which allows prospective investors to seamlessly carryout their business.

This research has attempted to identify the behavior of the individual investor in the CSE and how they make use of their computer literacy for trading activities and use it in adopting a new pattern of investment behavior in making more effective trading decisions. This thesis has also taken into account two other main factors, (1) the correlation between the behaviour and investment decisions and (2) The correlation between the information sources and investment decisions.

This study has revealed that most of the investors in CSE do not carefully study the market and analyze the performance and the trends of the organisation prior to choosing the share companies in which they make their investments. Instead they mainly depend on the opinions of their friends, colleagues or stock brokers. The best method would be for the investor to become aware of the available information sources and be sure of their reliability before making their investment decisions. This study has identified the prevailing information sources and other important factors that affect the share price. This will enable the investors to make their investment decisions without having to depend on unreliable sources so that they can minimize the risk of investment and maximize the level of profit share.

This study has also revealed that the investors do not make a discernible attempt in buying Initial Public Offers (IPOs) and trading in the Secondary Market. It has been found that the individual investors do not spend time on evaluating and analyzing the best share and the correct time for trading. On the contrary, their main focus lies on the immediate short-term share price only and not on other factors that affect the share market in the long run. Undoubtedly, the logical behaviour constitutes the most successful factor in decision making which ensures the profitability and the risk reduction in share trading. The investors who used this methodology have been able to make substantial profits and continue to remain in the CSE. However, most of those who have failed to adopt this practice have sustained considerable losses and were compelled to leave the market and eventually lose their initial investment as well.

The main object of this thesis is to formulate a specific guideline for CSE investors in order to assist them in making their investing decisions on a rational basis by carefully analyzing information sources rather than resting on unreliable factors such as stock brokers, friends etc.

The sample target group of this study constitutes the shareholders who have already invested in CSE and work in the industrial sectors such as banking, brokerage, insurance, finance, a few pensioners and self-employed personnel. These categories of people have good computer literacy and around 70% of them have more than one-year experience in the CSE.

Keywords: Colombo Stock Exchange, Individual Investors, logical behavior, decision making, computer literacy

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List of Abbreviation

Abbreviation		Description
CSE	-	Colombo Stock Exchange
ASPI	-	All Share Price Index
MPI	-	Milanka Price Index
ROI	-	Return on Investment
IPO	-	Initial Public Offer
SAD	-	Seasonal Affective Disorder
WOM	-	Word of Mouth
CEO	-	Chief Executive Officer
MD	-	Managing Director
SEC	-	Security Exchange Commission
EMH	-	Efficient Market Hypothesis
P/E	-	Price Earning
IT	-	Information Technology
CDS	-	Central Depository System
EPS	-	Earnings Per Share
CAC	-	Cronbach's Alpha Coefficient

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