

# Understanding Investors in the Hong Kong Listed Securities and Derivatives Markets

Essie Tsoi, Research & Planning Department, Hong Kong Exchanges and Clearing Limited<sup>1</sup>

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## *A Note from the Editor*

*In this issue, Ms. Essie Tsoi discusses the profile and behaviour of stock and derivatives investors in Hong Kong, based on various surveys conducted by the SFC, HKEx, and the Hong Kong Investment Funds Association. We are grateful to Ms. Tsoi for her contribution to the SFC Quarterly Bulletin.*

## Summary

- From the various surveys conducted by Hong Kong Exchanges and Clearing Limited (HKEx) and other institutions, a clear picture of the investor population in the Hong Kong listed securities and derivatives markets emerges. While retail investors may be relatively diverse in investment behavior, with a fringe group coming and going, institutional investors are more stable. Derivatives investment is found to be associated with stock investment for retail investors, and probably overseas institutional investors too.
- There is a trend of rising overseas participation in both the cash and the derivatives markets, although the predominant countries of origin have been changing over time.
- Improving the number of quality stocks is the way to increase both retail and institutional investment in the Hong Kong stock market. For retail investors, knowledge is also a barrier, while institutional investors are looking for improved regulation.

## Introduction

1. HKEx has completed several surveys in recent years relating to investor participation in the HKEx markets. The Securities and Futures Commission (SFC) has also published two related surveys conducted in 2003. In addition, in 2002 the Hong Kong Investment Funds Association (HKIFA) published relevant findings on retail participation in investment funds. The findings from these surveys are the pieces of a jig-saw which, when combined, form a picture of the characteristics and behavior of the investor population in the Hong Kong securities and derivatives markets.
2. By combining the findings from the different surveys – albeit that these are of differing scope, time frame and reliability – this paper seeks to give an overall picture of the characteristics and behavior of the investor population in the Hong Kong securities and derivatives markets. Such picture of the major client group should be helpful to market development and promotional work.

## Survey References

3. HKEx surveys adopted in this paper include:
  - Cash Market Transaction Surveys (CMTS), since 1990/91
  - Derivatives Market Transaction Surveys (DMTS), since 2000/01
  - Retail Investor Surveys (full-scale and omnibus) (RIS & ORIS), since 1989
  - Primary Market Survey (PMS) 2001/02
4. SFC surveys adopted in this paper include:
  - Retail Investor Survey 2003 (SFC-RIS)
  - Investor Survey on Investment Research Activities, Nov 2003 (SFC-IRA)
5. HKIFA survey adopted in this paper includes:
  - Investor Survey 2002 (IFA-IS)
6. It must be noted that the interpretations made in this paper are subject to the limitations of the respective surveys. Readers are advised to refer to the respective survey reports for further details of the findings and the survey limitations.

<sup>1</sup> This paper is for pure fact-finding and research purpose, and is not an attempt to comment on the developments of any markets/companies or interpret the policies concerned. The views expressed in this paper do not represent those of the SFC or HKEx. Readers are free to use the information contained in this paper, but any usage should not be attributed to the SFC.

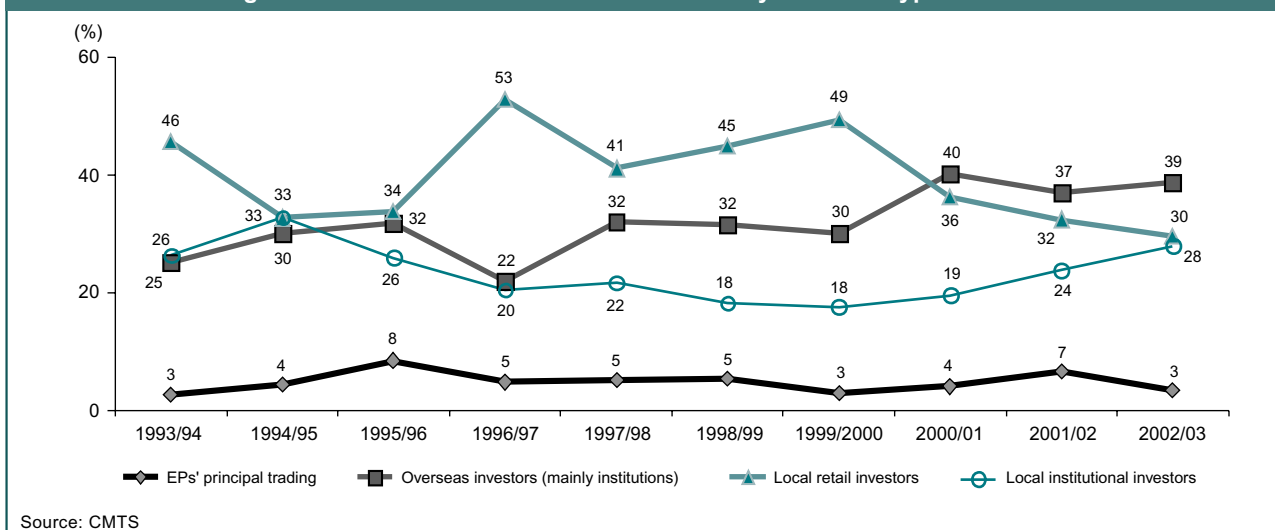
## Who Invest in HKEx's Markets?

*In the cash market, local retail investors have been the dominant group but are sensitive to market conditions; overseas institutional investors have a growing significance<sup>2</sup>.*

7. Local retail investors have been major contributors to HKEx cash market over the last decade. They contributed the largest proportion of market turnover value among all types of investor until 2000<sup>3</sup>. Since 2000, their dominant position has been taken over by overseas institutional investors. By 2003, local retail investor contributed less than one-third of total cash market turnover. Over a long historical time frame (more than a decade), overseas investors (predominantly institutions) have shown a gradual rising trend of participation in the Hong Kong cash market. Their percentage contribution rose from about one-quarter in early 1990s to about 40% in recent years (Chart 1).

8. Compared to institutional investors, retail investors are much more sensitive to changes in market sentiment. Compared to institutional trading, retail trading value contracted to a much greater extent during bearish times and expanded to a much greater extent during bullish times. For example, compared to the year 1997/98, retail trading value expanded by 86% (vis-à-vis 34% for institutional trading) in 1999/2000 when the market was bullish and relative to this level contracted by 52% (vis-à-vis 20% for institutional trading) in 2001/02 when the market became bearish<sup>4</sup>. The relatively stable contribution of institutional investors is probably because they are mostly fund managers who even in bearish times need to invest their money somehow for the beneficial owners or readjust their portfolios and will not totally retreat from the stock market. However, in bearish times retail investors may be discouraged from trading or withdraw all their investment from the stock market.

Chart 1 – Percentage Contribution to Cash Market Turnover by Investor Type



<sup>2</sup> Source for analysis: CMTS; survey period covered October to September the following year.

<sup>3</sup> Other types include local institutional investors, overseas retail and institutional investors, and Exchange Participants (or brokers) themselves.

<sup>4</sup> The comparison used implied trading values based on actual turnover value during the survey periods and percentage contribution by investor type as obtained from the surveys.

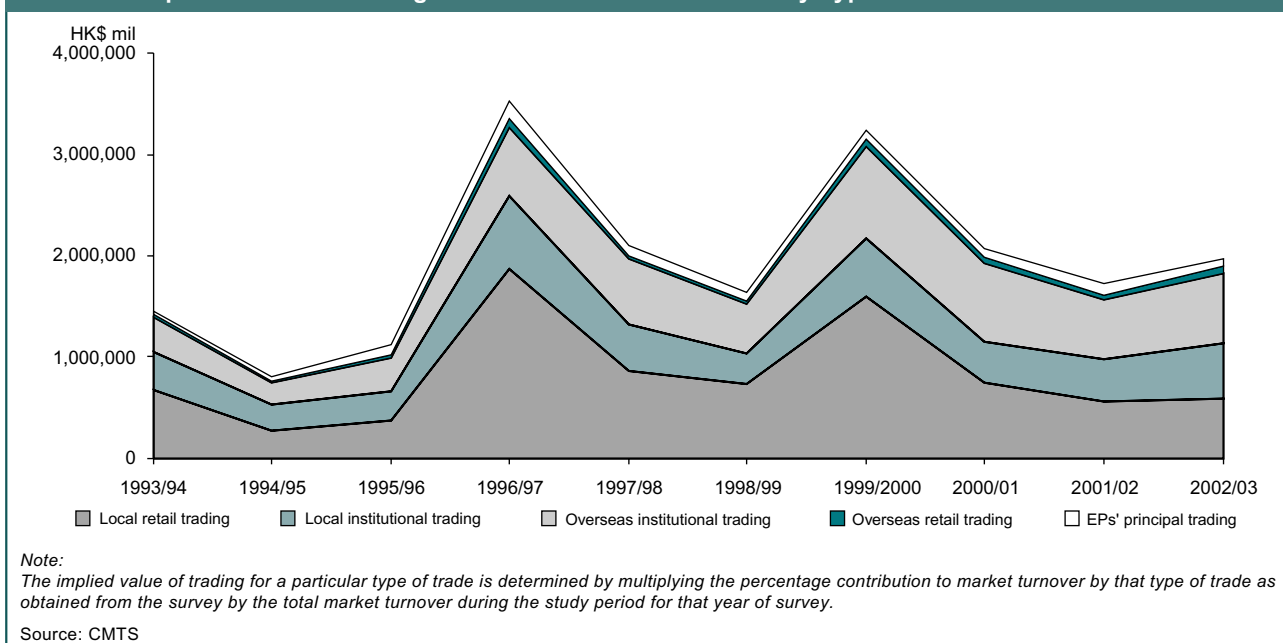
9. After the Asian financial crisis in 1997/98 and the subsequent property market slump in Hong Kong, the disposable wealth of general retail investors available for investment might have substantially reduced. As a result, the absolute trading value from local retail investors has not regained the peak it reached in 1996/97, not even in 1999/2000 when the market revived. In 2002/03, local retail trading value was 69% lower than in 1996/97 and local institutional trading was 23% lower. Compared to retail investor trading, overseas institutional trading had recovered fully in 1999/2000, being 33% higher than in 1996/97, and in 2002/03 still marginally higher than in 1996/97 (Chart 2). Overseas institutional investor participation therefore has a growing significance in the Hong Kong securities market, further supporting the market's international status. The country origins of these investors are further analysed in a section below.
10. The participation from another major investor type, local institutional investors, has not shown

a definite trend over time. Their percentage contribution to total market turnover has fluctuated around one-quarter over the years. It reached one-third in 1994/95 and fell below 20% after the Asian financial crisis. However, little information is available about the nature and institutional types of this investor group.

*Different derivative products have a different investor mix. Overseas institutions are of growing importance in the derivatives market<sup>5</sup>.*

11. Different derivative products have different dominant groups of traders. More than 70% of trading volume in stock options was principal trading by Exchange Participants (EPs), though there has been a gradual decrease in the proportion over the past three survey years (from over 80% in 2000/01 to 73% in 2002/03). Correspondingly, local retail and overseas institutional participation has increased, with their respective percentage contributions roughly doubling in 2002/03 (to 11% and 9%) over 2000/01.

Chart 2 – Implied Value of Trading in the Cash Market Turnover by Type of Trade



<sup>5</sup> Source for analysis: DMTS; survey period covered July to June the following year.

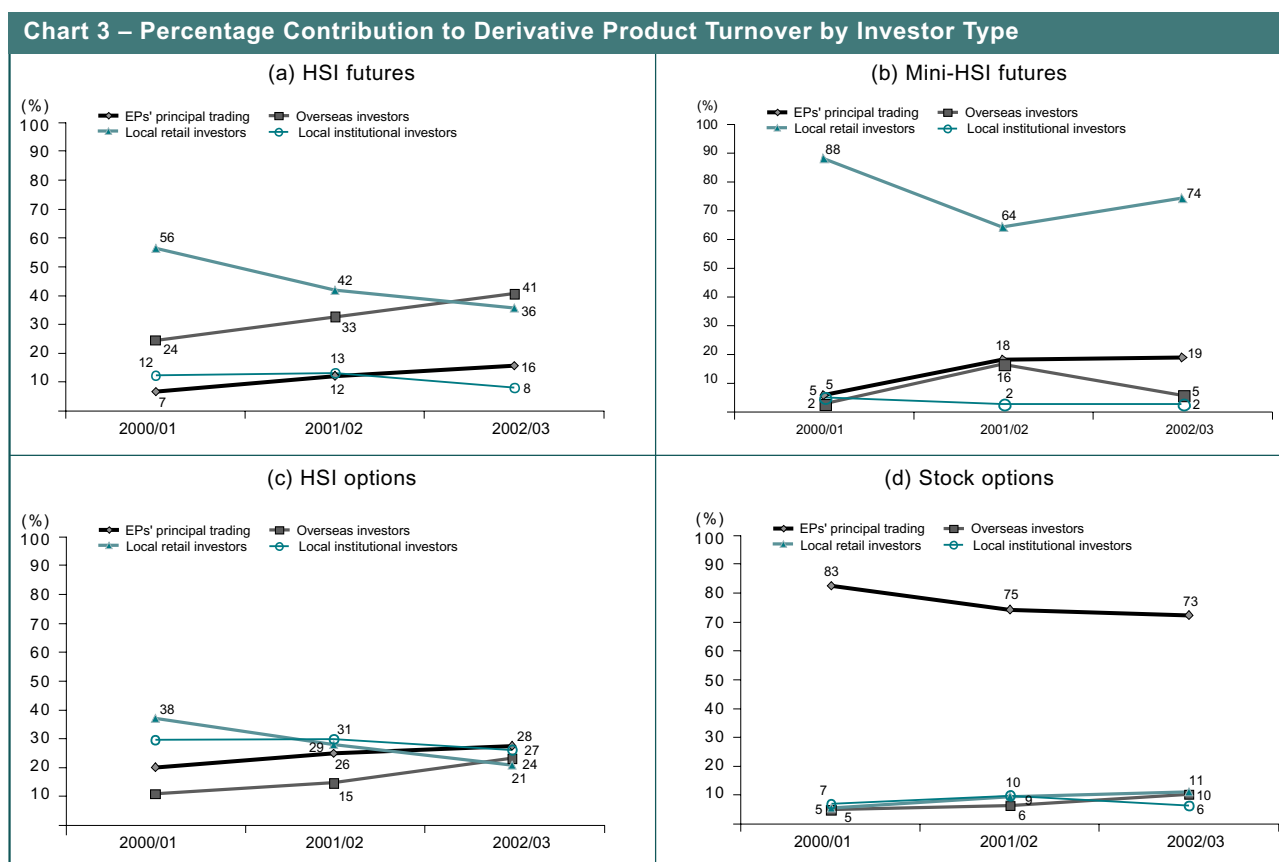
12. Local retail investors have been dominant traders in mini-HSI futures (64% to 88% over the past few years). Their participation in the regular HSI futures is also significant (contributing over one-third of contract volume in 2002/03) but they were overtaken in the recent year by overseas institutions (contributing nearly 40% of contract volume in 2002/03).
13. Local retail investors have less appetite for HSI options than HSI futures – contributing less than a quarter of HSI options volume. Their relative contribution was also overtaken slightly by that of overseas institutions (about a quarter) in 2002/03.
14. Local institutions have not been active in the HSI futures or stock options (contributing less than 10% of contract volume by product). However, they are relatively more active in HSI options (contributing about a quarter of contract volume)

and have been the largest group of investor contributors (excluding EPs) for HSI options trading since 2001/02.

15. It is noteworthy that as in the cash market, overseas institutional investors have an increasing participation in each of the major derivative products on HKEx over the past three years (Chart 3).

*Brokers' principal trading is more significant, and local institutional trading is less significant, in the derivatives market than in the stock market.*

16. EPs' principal trading constitutes a significant proportion of derivatives market turnover volume (19% for HSI futures and options and 73% for stock options in 2002/03), but a relatively low proportion of stock market turnover value (3% in 2002/03).



17. It is also found that in the stock market, the contribution from EPs' principal trading tend to increase during bearish times (e.g. 8% in 1995/96 and 7% in 2001/02). This is probably because in bearish times when client trading decreases stock brokers increase principal trading to earn money. In the derivatives market where there is market making for certain products (mainly the options products), principal trading by brokers would be generally higher than in the cash market.
18. Compared to their contribution to the stock market turnover, local institutions' contribution to the derivatives market turnover is minor. This might

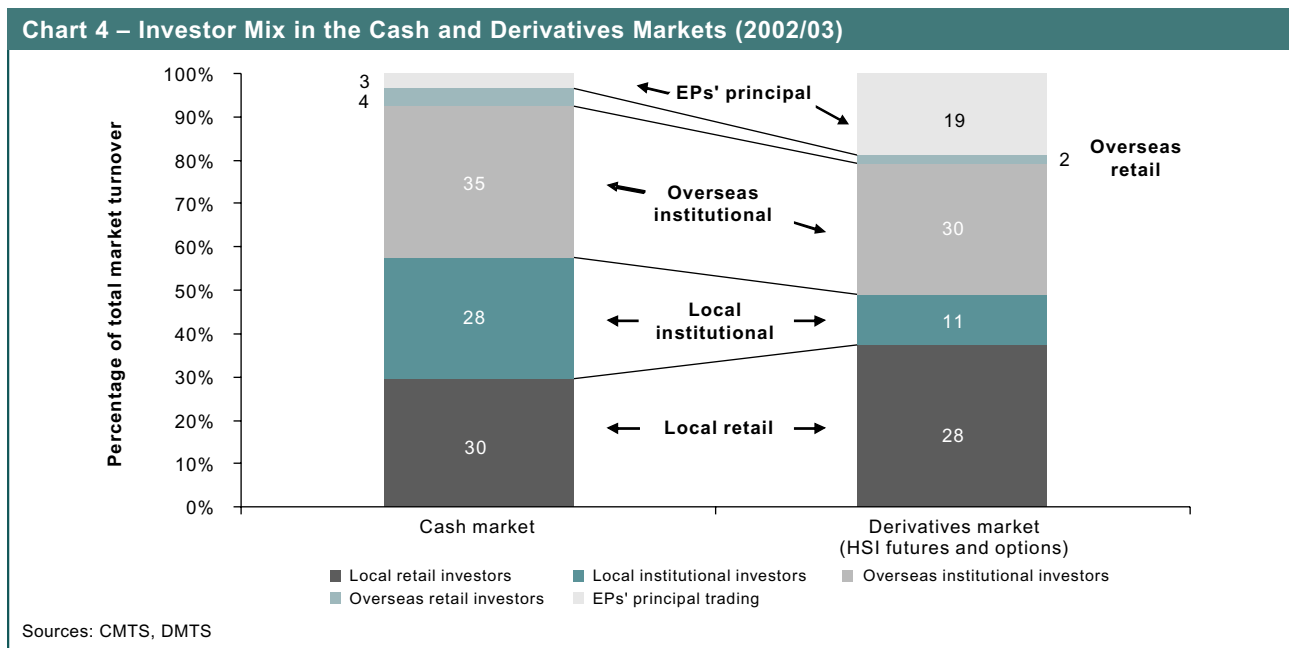
be because many local funds are restricted from trading derivatives by their mandates (Chart 4).

## Local Retail Investors<sup>6</sup>

### Who are they?

*A core group of stock investors with a fringe group entering and exiting the market depending on market conditions.*

19. The typical (i.e. median) Hong Kong retail stock investor is found to be a middle-aged white-collar worker with educational level and income level higher than the average individual in the adult population (Table 1).



**Table 1 – Retail Investor/Non-investor Profiles (2003)**

	Adult population	Stock investors	Derivatives investors	Non-investors
Sex – Male (%)	47.6	60.1	59.3	45.0
– Female (%)	52.4	39.9	40.7	55.0
Median age	42	42	37	42
Tertiary education or above (%)	20.7	42.6	53.6	16.0
Managers / administrators / professionals (%)	10.4	24.7	31.5	7.3
Median monthly personal income (HK\$)	11,250	18,750	22,500	11,250

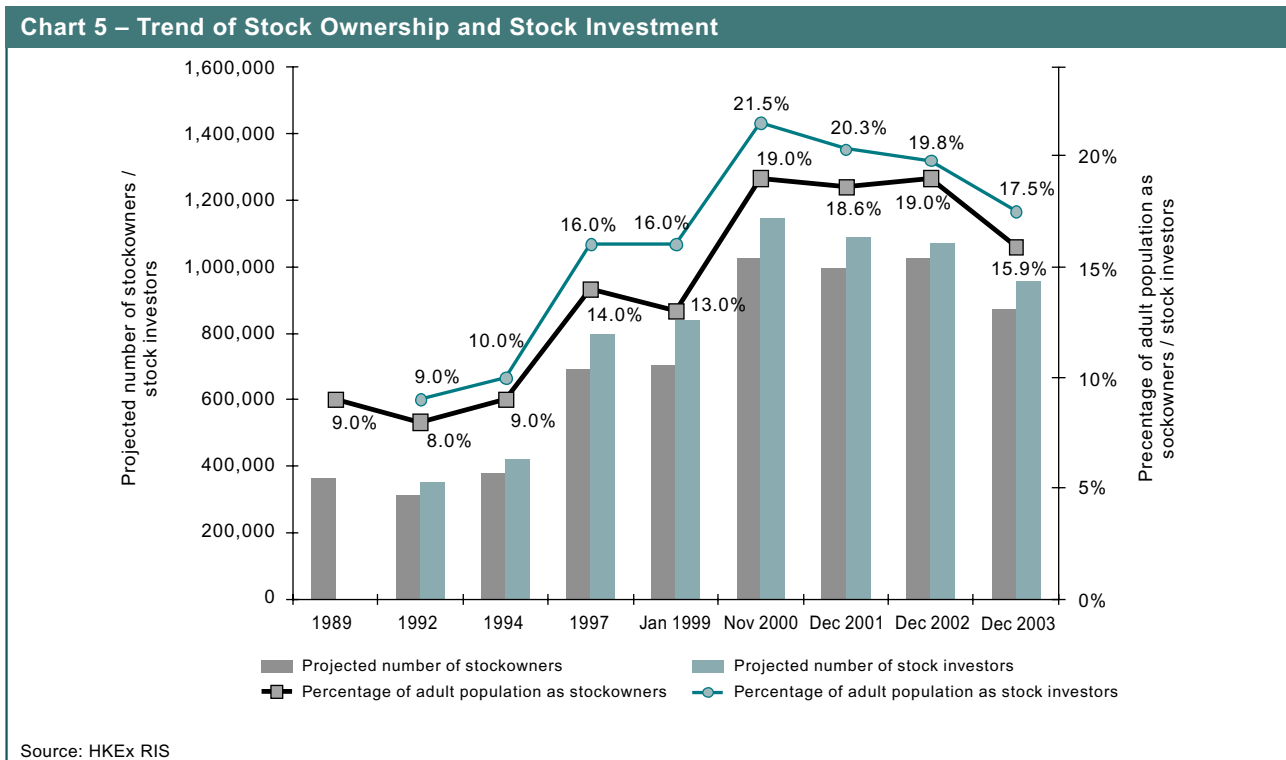
Source: HKEx ORIS2003

<sup>6</sup> Main sources for analysis: HKEx RIS and ORIS, SFC-RIS, IFA-IS.

20. Compared to a decade ago, the proportion of adult population investing in stocks doubled (18% in 2003 vs 9% in 1992) (Chart 5). From survey findings, the Hong Kong stock market has attracted more and more individuals of higher education level to enter (the proportion of stock investors having tertiary education or above gradually increased from 28% in 1999 to 43% in 2003)<sup>7</sup>.
21. Although there has been an overall long-term increasing trend, retail participation in the stock market has fluctuated as a result of changes in market sentiment. However, there is a slight indication that the effect of a bearish market on retail participation<sup>8</sup> may not be abrupt, i.e. the effect might lag behind and might be superseded by the positive effect of a following bullish market. For example, the retail participation rate was stable at 16% of adult population in January 1999 - the same as in 1997 even though the market had gone through the 1997/98 financial crisis; the participation rate then shot up to 21.5% in 2000 with the hi-tech market boom and it gradually declined in the following years. This might be because many retail investors held onto their

shareholdings during the market slumps waiting for better times to exit the market or hoping for a reverse of market trend.

22. It is believed that there is a core group of retail stock investors who remain in the market despite changes in market sentiment, and a fringe group who come and go depending on the market conditions.
23. Among the fringe group, there is probably one type of individual - the housewife. In 2000, the proportion of stock investors who were homemakers/housewives rose to 15%, and then declined to 11% in 2003. This might be part of the reason contributing to the rise in the proportion of female stock investors to 48% in 1999 and 2000 and the decline to 40% in 2003.
24. Nevertheless, there is no obvious trend of changes in the composition of stock investors by work status, though stock investors tend to comprise slightly more individuals of lower work status in bullish market times. The proportion of stock investors with higher work status (managers or professionals) stayed at around a quarter in the recent three years.



<sup>7</sup> The increase is believed to owe more to newcomers than the increase in educational level of individuals already in the investing population, given the fact that educational advancement takes place only gradually and not many adult working individuals would undergo tertiary education.

<sup>8</sup> Retail participation includes either stock ownership or stock trading or both.

*Derivatives investment is complementary to stock investment, attracting a small group of retail investors who are more educated and of higher work status.*

25. Retail participation in the Hong Kong derivatives market has rarely exceeded 5% of the adult population over the past 4 years (2.5% in 2003). Derivatives investors are found to be predominantly stock investors too but they comprise more young individuals and individuals of higher educational level and individuals of higher work status than the general stock investors (Table 1)<sup>9</sup>.
26. According to a survey of derivatives retail investors conducted by HKEx in late 2001 (though the results cannot be inferred onto the population as a whole), the major reason for retail investors to enter the derivatives market was motivation from their stock investment experience. This is perhaps due to the fact that the derivative products available on HKEx markets are mainly equity products (futures and options on equities or equity indices).

### What do they invest and how active are they?

*Only a small group invest both in stocks and derivatives in Hong Kong, and an even smaller group in overseas stocks or derivatives.*

27. In the most recent two years, only about 15% of stock investors (or less than 3% of the Hong Kong adult population) invested also in derivatives. Only 2% or less of the adult population invest in overseas stocks or derivatives.

*Indirect investment through funds would be a complement to rather than a substitute for stock investment.*

28. The SFC-RIS found that 9.8% of the adult population invested in funds (excluding mandatory provident funds) in 2003<sup>10</sup>. This is up from 7.8% in 2000 and 3.2% in 1997 as found by prior HKIFA surveys. However, there is no survey finding on the degree of retail participation in both the stock/derivatives market and the fund market. The IFA-IS did find that the main reason for investing in funds was the low deposit rates in banks (27% of fund investors). Other reasons include a tool for risk diversification (16%) and for stable returns (15%). The findings may suggest that fund investors mainly view investment funds as a better alternative to bank deposits or a complementary tool to stocks for diversification. It therefore appears that funds are not a substitute for stocks. Moreover, the IFA-IS found that guaranteed funds have been the most popular fund product in the past few years. This indicates that fund investment is likely to attract risk-averse investors who are more reluctant to directly invest in stocks or derivative products.

*Retail investors are more receptive to futures than options products.*

29. As discussed above, among the major derivative products (HSI futures and options and stock options), local retail investors are more active in trading HSI futures and Mini-HSI futures than in HSI options or stock options. This might be because futures came first: HSI futures were introduced in 1986 while the first options product (HSI options) was introduced only in 1993 and stock options in 1995. Nevertheless, retail interest in stock options is slowly picking up.

<sup>9</sup> While derivative investors were found to have higher median income than stock investors in 2003, no such difference was found in 2002.

<sup>10</sup> The definition of an investor in the SFC-RIS covers a time frame of the past two years while that in the HKEx RIS and ORIS covers a time frame of the past 12 months only.

*The stock investor population is diverse in trading activity: a large group are inactive.*

30. As expected, stock investors are more active traders (in terms of frequency of trading) during bullish times and less active at bearish times. The frequency of stock transactions is sensitive to changes in market conditions. While stock investors did a median of ten transactions in 1997 when the market was very bullish, the median annual number of stock transactions was around 2 to 4 from 1999 to 2003.
31. Among the stock investors, there are two extreme groups – heavy traders and inactive investors. Over the years, 17% or more of the stock investors traded more than 10 times a year; the proportion went up to as high as 39% in 1997. The SFC-RIS found that 11% of stock investors had sometimes or always bought and sold a stock on the same day during the last 6 months at the time of interview in late 2003.
32. On the other hand, there is a significant proportion of stock investors who do not trade at all in a year – ranging from 23% to 40% throughout the past 5 years; this proportion tends to reduce during bullish times (e.g. 3% in 1997 but still high at 23% in another bull year, 2000). It is likely that there is a significant number of long-term investors who buy and hold stocks for at least a year.

*Stock-and-derivatives investors are more active stock traders.*

33. Stock investors who invest also in derivatives (stock-and-derivatives investors) tend to be more active stock traders, in both bullish and bearish times. Compared to stock investors who do not invest in derivatives (stock-only investors), a much smaller proportion of stock-and-derivatives investors do not trade stocks at all in a year and a much larger proportion trade more than 10 times a year. For example, in 2002 when the market

was bearish, still 46% of stock-and-derivatives investors traded stocks more than 10 times (18% for stock-only investors) and 17% did not trade at all (44% for stock-only investors). In 2003 when the market became bullish, 39% of stock-and-derivatives investors traded stocks more than 10 times (26% for stock-only investors) and 8% did not trade at all (33% for stock-only investors).

*Derivatives investors tend to trade more frequently in derivatives during bearish times.*

34. During 2002 when the market was bearish, 33% of derivatives retail investors traded more than 10 times in derivatives. The percentage is higher than the corresponding figure of 24% in 2003 when the market became bullish. This indicates slightly (the time series is not long enough for a more reliable analysis) that derivative investors tend to trade more frequently in bearish times.

How do they trade?

*Retail investors shifted from trading mostly through brokers to mostly through banks.*

35. Over the past decade, the main intermediary used by retail investors for trading stocks has changed from brokerage firms to banks. In 2003, 53% of stock investors traded through banks only, up from 27% in 1992, and 31% traded through brokerage firms only, down from 69% in 1992. Two main underlying reasons can be suggested. Firstly, there has probably been a gradual loss of confidence of stock investors in brokerage firms after a number of brokerage failures; also in case of the demise of individual brokers, clients would have difficulty regaining ownership of shares they put in the demised brokers' custody. Secondly, banks have been actively competing in the stock broking business during the past decade by offering full services to their clients at reasonable cost.

36. According to survey findings in both 2001 and 2003<sup>11</sup>, fees and charges are not the most important factor in retail investors' choice of intermediary. The financial soundness of the intermediary has a growing influence over investors' choice. Similarly, retail investors consider that strengthening internal control, financial backing and transparency are important means to enhance brokerage competitiveness. This reflects the increasing emphasis retail investors place on the integrity of the brokerage industry.

*Online trading is still not very popular but investors, if trading online, tend to use it often.*

37. The contribution of online trading grew gradually over the years to 8.5% of retail investor trading in stocks in 2002/03<sup>12</sup>. However, the proportion is not high compared to some overseas markets such as Korea and even Mainland China<sup>13</sup>. In addition, less than 30% of stock investors are found to be online traders, i.e. having traded stocks online in a year (27% in 2002 and 21% in 2003). Nevertheless, there is a growing proportion (over 80% in 2003) of online stock traders who trade online all of the time or most of the time.

38. In the derivatives market, the contribution of online trading grew to 16% of retail investor trading in 2002/03<sup>14</sup>. However, as in the case of stock investors, the proportion of derivatives investors who are online traders is also less than 30% (26% in 2003); a large proportion of online derivatives traders also trade online all of the time or most of the time (76% in 2003).

39. Online stock traders tend to be of higher educational level and higher work status and more active in stock trading than non-online stock traders.

*Online traders opt for convenience of online service and non-online traders worry about online security.*

40. According to the SFC-RIS 2003 survey, 92% of retail investors who traded online<sup>15</sup> did so for convenience, 21% for lower commission rate. Insecurity is the major barrier to online trading (46% of non-online investors) followed by computer/Internet illiteracy (23%). The knowledge or illiteracy barrier has become less significant over the past two years (45% of non-online stock investors chose it as a reason in 2001 according to HKEx RIS 2001). The current security concerns may relate to fake bank websites found from time to time and some incidents of bank online systems failing in the past year.

How mature are they?

*Stock investors rely increasingly on self-study for investment decisions; media influence is still significant.*

41. Stock investors increasingly rely on their own analysis to make buy-sell decisions (83% of stock investors in 2003 from the SFC-RIS compared to 45% in 1997 from HKEx RIS). They also made reference to celebrity analysts (45%, according to SFC-RIS) and media reports (42%). According to the SFC-IRA, unlike institutional investors who obtain research reports directly from the brokerage firms, retail investors access research reports mainly through the broadcast media and financial websites; and they are more interested in factual details and analysis on specific stocks or industry sectors than specific recommendations and target prices. However, just one-third of investors referred to corporate documents but over 50% relied on transaction volume, which seems to be less related to future stock performance.

<sup>11</sup> HKEx RIS 2001 and SFC-RIS 2003.

<sup>12</sup> HKEx CMTS 2002/03.

<sup>13</sup> Online trading currently constitute over 50% of market trading in Korea (source: Korea Securities Dealers Association), and it constituted 15% of total equity and fund trading value in the year 2003 and 20% in April 2004 for Mainland China (source: China Securities Regulatory Commission).

<sup>14</sup> HKEx DMTS 2002/03.

<sup>15</sup> In the survey, retail investors include those investing in investment products other than stocks and derivatives and online trading excludes e-banking services.

42. According to SFC-RIS, the stock attribute that most stock investors (97%) considered important in investment decision is financial position, but only 64% knew it for the stocks they had invested in. Other attributes that were considered important include prospects (97%), nature of business (93%) and risks of holding that stock (92%). However, for all these attributes, the percentage of stock investors knowing them was less than the percentage considering them important. Less than half of stock investors knew about the company's senior management and treatment of minority shareholders.

43. The findings indicate that on the one hand stock investors trust themselves more than commentators but, on the other hand, their own analysis of stock/company fundamentals may not be sufficient.

*Most stock investors know the service charges they are paying and check their trading records.*

44. As a means of self-protection, most stock investors understand very well or quite well the service charges associated with stock trading (83%) and check either contract notes or account statements or both (96%)<sup>16</sup>.

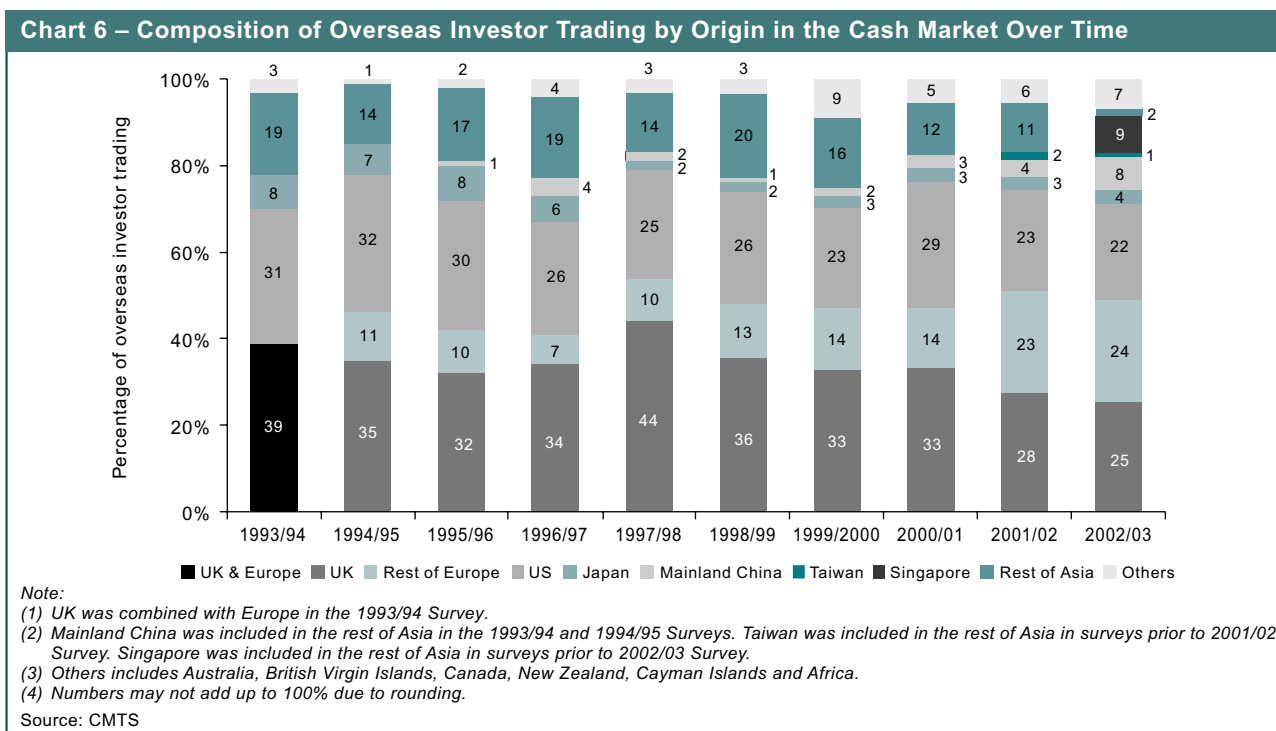
## Overseas Investors<sup>17</sup>

*Overseas investors are predominantly institutions.*

45. In both the cash and derivatives market, overseas investors are predominantly institutions. Direct investment by overseas retail investors in the Hong Kong market is quite minor (contributing less than 5% of market trading in both stock and derivatives).

*UK and US investors are the major overseas participants while other European investors have increasing participation.*

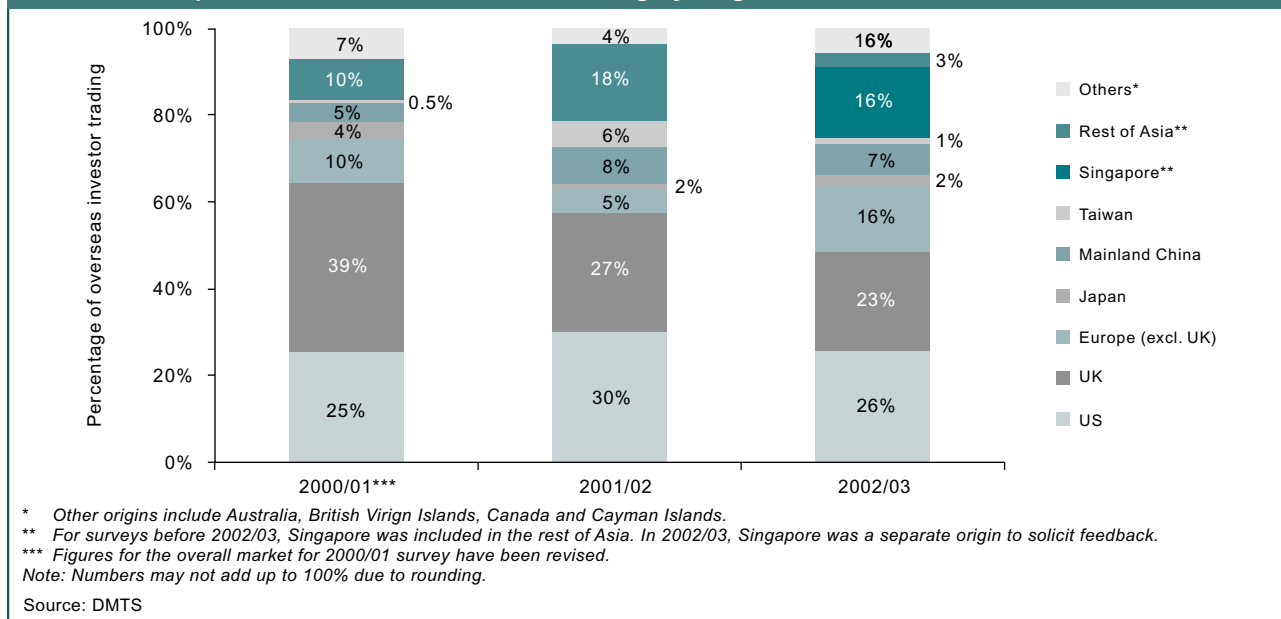
46. In the cash market, the major overseas participants are UK investors by turnover value, followed by US investors (contributing respectively 25% and 22% of overseas investor trading in 2002/03). Investors from the rest of Europe (excluding the UK) have expanded their participation in the cash market over the past three years (contributing in aggregate 24% of overseas investor trading in 2002/03, up from around 14% four years ago). (Chart 6)



<sup>16</sup> Source: SFC-RIS.

<sup>17</sup> Main sources for analysis: HKEx CMTS and DMTS; the HKEx surveys assessed the origin of trading by the source of funds.

Chart 7 – Composition of Overseas Investor Trading by Origin in the Derivatives Market Over Time



47. In the derivatives market, the major overseas investors by contract volume are US investors, followed by UK investors (contributing respectively 26% and 23% of overseas investor trading). Other European investors have also expanded participation in the derivatives market in the past year (contributing in aggregate 16% of overseas investor trading in 2002/03, up from 5% in 2001/02). (Chart 7)

48. The increase in participation from European investors (excluding UK) may relate to the changing landscape in the EU securities markets with the transition to united pan-European capital market and the efforts made in Europe to fund pension liabilities; these factors may have stimulated larger-scale overseas equity investment. Unlike US investors who may trade ADRs in many Hong Kong stocks in their own country, European investors may mostly prefer to trade directly in the Hong Kong market.

*Among Asian investors, Singapore is the largest contributor while Mainland investors have an increasing share.*

49. Singapore was the largest Asian origin for overseas investor trading in both cash and derivatives

(respectively 9% and 16% in 2002/03). Trading may come from a number of international fund houses that have their regional fund management operations based in Singapore and invest considerable amounts in the Hong Kong market.

50. The contribution from Mainland China investors to the cash market turnover increased for the fourth consecutive year to 8% of overseas investor trading in 2002/03. Their contribution to the derivatives market turnover also grew but at a slower rate (7% of overseas investor trading in 2002/03 from 5% in 2000/01).

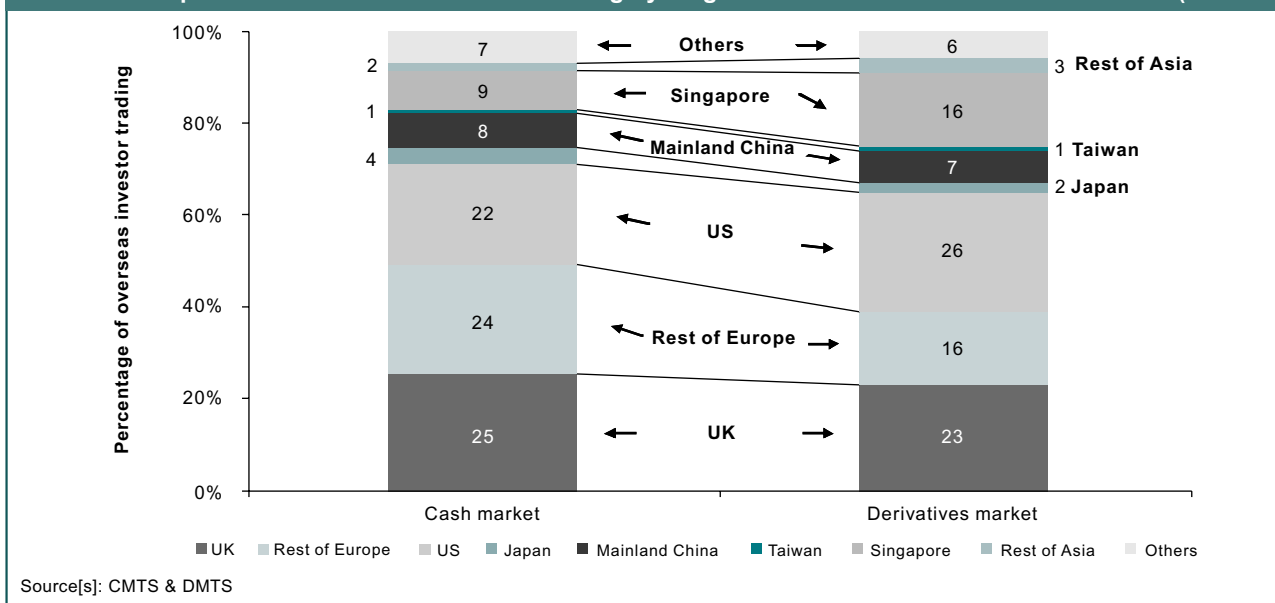
51. Further growth of the contribution from Mainland China is anticipated. It has been reported that rules for allowing Qualified Domestic Institutional Investors (QDII) to invest overseas are underway<sup>18</sup>; and that the State Council has approved a plan to allow the National Social Security Fund to invest up to RMB5 billion in overseas markets, including Hong Kong<sup>19</sup>.

52. The contribution from Japanese investors remains relatively low (below 5%) after the Asian financial crisis; and that from Taiwanese investors has also been low in the past two years.

<sup>18</sup> Source: Hong Kong Economic Journal, 7 June 2004.

<sup>19</sup> Source: Hong Kong Economic Journal, 5 March 2004.

Chart 8 – Composition of Overseas Investor Trading by Origin in the Cash and Derivatives Markets (2002/03)



*Cash and derivatives investment from overseas are likely to be related.*

53. From the similar distribution of market trading by overseas origin in respectively the cash and derivatives markets, it is likely that overseas investor participation in the cash market and that in the derivatives market are related to each other (Chart 8).

54. It is probable that some overseas investors utilize tools available in the Hong Kong derivatives to hedge or better manage their portfolios in the Hong Kong cash market. However, given that most funds still have long-only mandates, the close resemblance of composition of overseas investor trading by origin in the cash and derivatives markets might be the result of international financial conglomerates (large brokerage houses) being active both in Hong Kong's cash and derivatives markets.

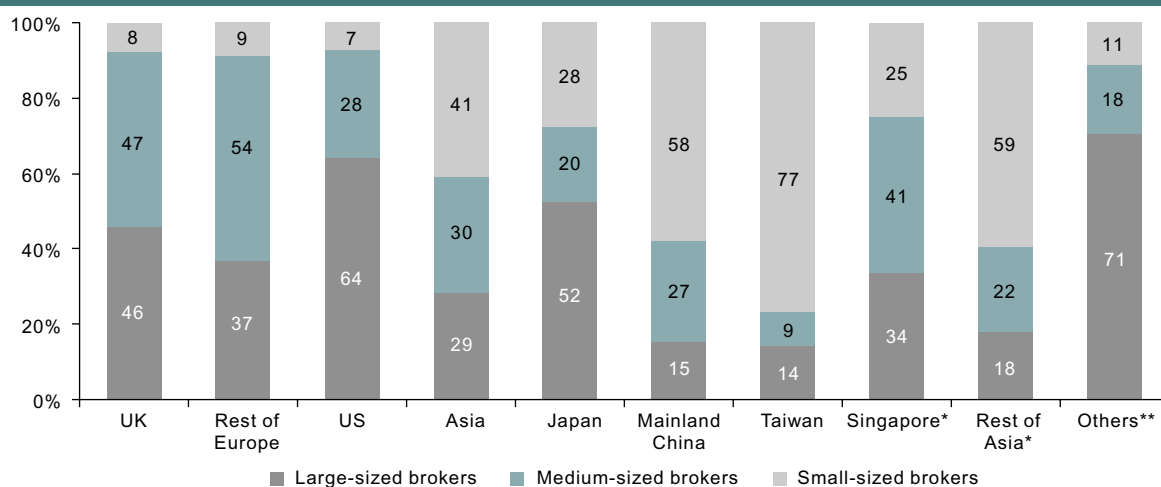
*Overseas stock investors of different origins are served by different broker groups<sup>20</sup>.*

55. UK investors, which are the most significant group of overseas contributors to cash market trading, mainly trade in the cash market through the medium-sized brokers. US investors, the second most significant group, mainly trade through the large-sized brokers. Small-sized brokers have a niche in serving Asian investors, especially those from Mainland China. (Chart 9)

56. There is some indication that the origin of client orders may be related very much to the origin of the broker. In Hong Kong, there are a number of US and UK brokerage firms, many of which belong to large global conglomerate groups. These firms will serve as the brokerage arms for executing orders channeled from their sister companies in their countries of origin. The pattern of serving clients from the same country origin is also observed among broker firms of other country origins such as Japan and Taiwan.

<sup>20</sup> Stock brokers are grouped into large-sized, medium-sized and small-sized according to their contribution to the market turnover value during the study period of CMTS – those contributing the top one-third are large-sized, second one-third are medium-sized and bottom one-third are small-sized.

**Chart 9 – Market Share of Each Broker Size Group in Overseas Investor Trading in the Cash Market by Origin (2002/03)**



\* Singapore was added in the 2002/03 survey as a designated origin for the first time, being included in the rest of Asia in previous surveys.  
 \*\* Includes Australia, British Virgin Islands, Canada, New Zealand, Cayman Islands and Africa.

Note: Numbers may not add up to 100 per cent due to rounding.

Source: CMTS

## How To Increase Investor Participation<sup>21</sup>

*Knowledge is a major barrier to retail investors.*

57. Apart from financial constraints, over the years lack of knowledge remains the major reason for not investing in stocks or derivatives. This may suggest that education of the public in the past few years might not be sufficient or that non-investors are simply not receptive to investment information. Education in investment concepts and personal financial management might be more effective if it is done as a programmed syllabus starting at school. Moreover, more and better investment knowledge will not only help increase retail investor participation but also the quality of their investment decisions and hence help contribute to the improvement of the overall market quality.

*Mass media would be the best channel for retail investor marketing/education.*

58. According to the SFC-RIS, television is considered the best channel by retail investors for delivering investor education information (chosen by 69%), followed by newspapers (47%) and radio (37%). Besides mass media, the Internet (36%) is also good, followed by seminars (20%) and public transportation (20%). It is believed that a multi-

tiered approach would be beneficial – this could on the one hand attract attention of the public via mass media like television, newspapers, radio and poster advertisements, and on the other hand could achieve more educational effect via interactive means like the Internet and seminars.

*Increasing investor protection and market quality is necessary.*

59. Investor protection, the regulation of insider trading, the regulation of listed companies and brokers, and listed company quality are the areas that retail investors show most concern about<sup>22</sup>. In addition, the major driving factor for more trading from retail investors was found to be more high-quality listed companies<sup>23</sup>. Local fund managers were found to be most concerned about regulatory issues and the information disclosure of listed companies<sup>24</sup>. The issues include:

- the effective regulation of
  - > insider trading;
  - > sponsors;
  - > GEM-listed companies;
  - > Hong Kong-listed Mainland companies; and
- the information disclosure of
  - > GEM-listed companies; and
  - > Hong Kong-listed Mainland companies. ■

<sup>21</sup> Readers may refer to an earlier research paper done by R&P, "Increasing investor participation: insights from HKEx surveys", which was published in the SFC Bulletin, July 2002.

<sup>22</sup> Source: HKEx RIS2003.

<sup>23</sup> Source: HKEx RIS2001.

<sup>24</sup> Source: HKEx Primary Market Survey 1999/2000.