Analysis on Investment Behavior Deviation of China's Securities Investment Funds and the Amending Paths to Choose

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Abstract: - The paper adopts from the investment behavior theory and studies the affecting factors of financial investors in investment decision-making and the investment fund behavioral deviation. At the same time, the thesis also analyzes the efficiency of asset allocation and investment behavior of China's securities investment funds, and studies its impact on China's securities market. On the basis of this, it also uses LSV model to test the Fund's herding behavior, the investment behavior of the deviation and its effect on China's market orientation. At the last, it proposes some suggests and points out the paths and strategies on correcting investment behavior deviation of China’s investment fund.

Key-Words: - Investment Funds; Asset Allocation; Investment Behavior Deviation; Amending Paths

1 Introduction
In recent years, with the rapid development of China's securities market, as the “backbone of stability” in the securities market, investment fund has been excessively developed. Fund as a major institutional investor, coupled with its commitment to reveal the information, its status and impact is important to the market. However, it is inconceivable that the large-scale development of securities investment fund isn't able to cause a substantial change in China’s stock market which is volatile and low efficiency. There is a phenomenon need to pay special attention: during the large-scale development of China’s public offering fund, because of the policy protection and lacking of external competition, the fund investment behavior tends to be a dissimilation, or even exposure a "dark side of the fund". On a certain extent, the "herding behavior" has exacerbated the volatility of stock price and brought adverse effects to the market gradually. Comprehensive analysis and empirical research on a number of domestic fund companies’ asset allocation and performance in recent years, we can see that low efficiency on asset allocation, unsatisfactory performance and other issues still existed among China’s fund managers, whose root maybe is that a variety of cognitive deviations exist.

In view of the above, we believe that under the current market environment and theoretical research background , it has great realistic and theoretic significance in many ways: to strengthen the research in China's securities investment deviation and then in general holding the China’s fund managers’ transaction characteristics and its impacts on the market price, volume change and so on ; to provide a basis to the administration agency in making an appropriate policy and monitoring on the market development .

2 The Asset Allocation Efficiency of China's Securities Investment Fund and Its Impact
About the asset allocation efficiency of China's securities investment funds, we had gotten 63 funds' related data from the first quarter of 2000 to the fourth quarter of 2004 and used their asset allocation contribution to the funds' income rates as a sample, and tested and measured the contribution rate of China's major fund asset allocation to their income rate using a regression analysis of empirical research. The studies have shown that in Chinese market, the explanation of asset allocation for net-value of fund in the cross-section was significantly lower than that of pension funds and mutual funds in America. It shows that the contribution rate of China's major fund asset allocation to their income rate using a regression analysis of empirical research. The studies have shown that in Chinese market, the explanation of asset allocation for net-value of fund in the cross-section was significantly lower than that of pension funds and mutual funds in America. It shows that the contribution rate of China's major fund asset allocation to their income rate are overall low degree (the details may see the "research on the asset allocation efficiency of China's securities investment fund", financial Research, China,
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3 The Explanation of Chinese Fund Managers' Investment Behavior Deviation

China's securities investment funds' operational efficiency is lower and it did some negative effects by its investment behavior to increase the market shocks. There are a wide range of factors, and the fund manager's investment behavior is the most important of them. Securities investment funds behavior, to a certain extent, depends on the fund managers' judgments and behavior performance. A large number of empirical studies have shown that people's subjective factors such as emotions, personality and psychological sense and so on, play an important role in financial investment, which can not be ignored. And investors are not always in a rational manner to make decision-making, their investment behaviors are not only impacted by its own cognitive deviation, but also interfered by the external environment. Among them, the individual characteristics and psychology are two major factors in the fund managers’ decision-making behavior. In fact, as the most relative rational investors, fund managers are not absolutely rational but with some kind of emotion, that is limited rationality! They tend to be interfered in making decisions by some irrational factors, such as the investment deviation (including feelings deviation, prejudice asymmetry and over-confident "herding"), the cognitive deviation and subjective mood swings, so their investment behaviors will show a variety of extreme and even emotional characteristics.

We had gotten all the securities investment funds portfolio quarterly report from the first quarter of 1999 to the second quarter of 2005 in Shanghai and Shenzhen stock exchanges published by the Web site, and used them as the sample data. By using the classic model LSV, we have tested and done some empirical researches on China's stock market herding behavior of institutional investors. The study found evidence: there are obvious herding in China's stock market investment funds, the tendency of chasing rise and fleeing fall are not only existed among individual investors but in the institutional investors represented by the funds.

In the stock market, fund manager investment behavior is a response to the specific market system, culture and environment, and its investment behavior is formed in the process of interaction and evolution with a wide range of uncertainty, ambiguity and random factors. As a result, in the process of fund managers investment behavior analysis, we not only should consider the system and the cultural factors, but the main thing is to consider which is the impact from individual characteristics of fund managers to their investment behaviors and abnormal behavior performance in order to reveal the internal mechanisms which decide the fund managers investment behaviors and the nature of the characteristics. As a China's fund manager, his investment behavior is complex and has its special system backgrounds. The low asset allocation efficiency of China's securities investment fund and its positive impact on the market are mainly related to the fund managers investment behavior deviation, which include the interests departures between the fund managers and the client, the investment cognitive deviation, the fund industry internal Game, and the fund managers' internal and external acts of deviation which arisen from the excessive concern on their career.

4 The Amending Path of China's Fund Investment Behavior Deviation
4.1 The Government's Macro-level Acts

Enlarge the market capacity and improve the quality of the listed company shares. By these ways, the selection areas of investment funds will be widen, and then the fund have many sorts of investment ways to choose, which may effectively reduce the market risks and vulnerability that arise from the fund acts of deviation caused by "herding behavior".

Expediting the money market and bond market development, widen the investment channels. Chinese securities investment funds have a lot of communities, their differences in operation style are not obvious. The reasons for those are that the bond market limited variety of transactions, and the money market development is far from satisfactory, so that the market liquidity is relatively lower, which resulted in many obstacles to the Money market fund investment. Therefore, we think that Chinese government should vigorously develop the bond market and money market, and richen the bond trading varieties and currency transactions to increase the fund's investment channels, which are some effective ways in controlling the fund herding behaviors.

Energetically develop the financial derivatives market to enhance the price discovery function. China's financial derivatives are lagged behind the development of the stock market, the financial basic tools such as the futures and options does not yet exist, and the market is short of a mechanism of making hollow, so there are very high systemic risks in the market which can not effectively circumvent. These objectively resulted that the fund can only choose those good performances of stocks, which formed the fund act deviation that is characterized by the "herding behavior". We believe that timely launching the financial derivatives market will help to promote the reform and development of the China's securities market.

Encourage more high-quality and independent intermediary institutions to engage in the fund ratings and securities analysis business. The establishment of scientific and impartial evaluation system of the fund will help to change the fund selection criteria of the investors, which will guide the fund to establish their own unique style.

Focus on cultivating a high-performance securities market environment for the investment fund managers. We believe that they are all very needed: to rich the securities investment products of funds; as soon as possible to launch the financial derivatives such as the stock index futures, options to guard against the risk of securities investment funds; to improve the quality of listed companies; to expand the "blue shares" group; to strengthen information disclosure system to reduce information costs; to further improve the environment of law in China's stock market and so on.

Establish the three-co-regulatory modes and monitor the investment funds behaviors from the perspective of market. We believe that the management of the fund should establish a three-co-regulatory approach that is based on the building of laws and regulations, improving the fund industry and its self-regulatory mechanism.

4.2 The Fund's Micro-level Acts

Optimize the internal management structure of securities investment funds. It is needed to give full play to the incentive effect and binding function of the market to the fund manager's reputation in order to regulate fund managers' investment behavior and to reduce the irrational behavior of the operation.

Establish a scientific and effective system of fund investment decisions. It should be do to use the quantitative portfolio model to build investment portfolio in order to control investment risks and to ensure the investment decision-making process normalized, routinely and scientific, and to reduce the risk which brought by the irrational subjective factors.

Attach importance to the personality character of the Fund and give full play to the star effect of a fund manager. The personality characteristics of fund managers should be stressed, and we should enhance the overall quality and ability of fund managers, which is great significant to regulate fund managers investment actions. In addition, the "star of fund managers" always has his excellent psychological quality and comprehensive analysis ability, so his ability to control risk is relatively strong, and be able to promote the investment funds to play a role instability the securities market.

References:


