IMPACT OF SELF-MONITORING ON INVESTMENT PERIODS: AN EMPIRICAL ANALYSIS

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Abstract:

Self-Monitoring is an individual's ability to adjust one's behaviour to external, situational factors**.** Individuals high on self-monitoring show considerable adaptability in adjusting their behavior to external situational factors. They are highly sensitive to external cues and can behave differently in different situation. Low self-monitors tend to display their true dispositions and attitudes in every situation; hence, there is high behavioral consistency between what they are and what they do. The study has observed and analyzed the similarities or differences among high and low self-monitors and investment periods. It is hypothesized that there is no significant difference between high and low self-monitors and the investment periods such as short term and long term while holding a stock. Testing of hypothesis, analysis of data and implications are discussed. It is found that high self monitors prefer to sell the stock within the shortest time period responding to the minor changes in the market conditions where as low-self monitors tend to hold the stock for longer periods without responding to the changes in the stock markets.

(Key words: Self Monitoring, Holding period, Short term and Long term periods, Retail investors)

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1. INTRODUCTION:

Self - monitoring refers to the ability to regulate behaviour to accommodate social situations. It is the ability to adjust one's behaviour to external, situational factors (Robbins and Timothy 2009). They are capable of presenting striking contradictions between their public persona and their private self. Low self- monitors tend to exhibit expressive controls congruent with their own internal states such as beliefs, attitudes and dispositions regardless of social circumstance. Evidence suggests that those high on self-monitoring tend to pay closer attention to the behaviour of others and are more capable of confirming than those, low on self- monitors. Further, high self-monitors will be better opportunity seekers and they will succeed in almost all their endeavours. It is evident that individuals high on self-monitoring are highly responsive to social cues and can behave differently in different situations. Similar to this behaviour, it would be quiet interesting to understand whether investors who are high on self-monitoring prefer to invest on a short term basis or not.

Short-term investments are the investments in financial assets with maximum of one year time span and long-term investments are the investments with more than time one year time span. Short-term investors trade on shorter time periods to buy stock when market is low and sell before one year to book profits. Long-term investors have a bigger picture and they are interested in the long term prospects, rather than watching little fluctuations of the market. Theyseek out dividend paying companies that have a proven track record of stability and growth. The main benefits to short-term investments are the potential for fast growth and the fact is that the term may only last a few weeks to a few months.These investments tend to be riskier and show a much higher rate of fluctuation than their long-term counterparts. Long-term investments have the ability to gain small amounts of money over a longer period of time. The slow but steady pace of long-term investments allow for a much greater degree of stability and a much lower risk than short-term investments. They are also ideal for making savings to grow. The main disadvantage of long-term investments is that they increase in value slowly.

The studies where personality traits influence investment decisions of individuals are scarce.It is evident that dematerialization of the shares, advancement of communication technologies and its application in stock markets made the investors to expand their investment horizon. Even though the opportunity to invest is similar and open to all investors, the investment objective may vary from individual to individual which directly correlated to their perceived risk. Perceived risk is the function of consequences and uncertainty (Cox and Rich, 1964). Individuals frequently misperceive risk linked with a specific activity because they lack certain information. Risk is a distinct attitude to each individual for the reason that risk perceived by one as major may be minor to others. This misperception leads the individual to commit the cognitive bias or mental mistakes or errors (Ricciadri, 2004, 2006). Lack of relevant information and the possibility of perceived risk persuade the investors to discount the data that is predominantly influenced by psychological factors and personality traits enable them to make effortless investment decision.

Self-monitoring refers to an individual's ability to adjust his or her behaviour to external, situational factors or environmental conditions. Investment decisions vary with respect to external market conditions. Thus the personality trait self-monitoring seems to be potentially related to effective investment decision making. The relationship between self-monitoring and its influence on investment decision making are yet to be empirically established. Eventhough there are few studies on self-monitoring ability and investment decisions, results

of these studies have been inconsistent especially in case of male and female traders (Bruno Biais, Denis Hilton, KarineMazurier and SebastienPouget, 2005). Thus it becomes highly relevant to understand whether self-monitoring might have a positive influential relationship to investor behaviour and their decisions.As personality factors have prominent influence in real life situations of individuals, these factors also might have an influential role in decision making where expected return may volte-face due to the uncertainties in the market. Behavioural finance draws heavily from psychology which explains human beings personality and behaviour in various situations. An investor who prefers to investment in financial assets not only take decisions based on the underlying factors of the respective stocks and prevailing market situations but also may give more weight his/her own perceived thought process and experiences. Very few that have already been studied are house-money effect, herd behaviour, anchoring, etc. Behavioural finance strives to explain and improve the available insights about the overall complex judgment process of investors. Thus the above fundamental and psychological indicators enable the investor to take investment decisions. Self-monitoring is a personality construct that have a prominent role in the decision making process.

2. OBJECTIVES OF THE STUDY

The study aims at observing and analysing the similarities or differences in Self-monitoring among active individual market participants with respect to their investment decisions (short term and long term) in Kerala. The main objectives are:

1) To study the Self-monitoring characteristics of individual investors on two different investment patterns (short term and long term).

2) To study the relationship between Self-monitoring and short term and long term investment patterns

2.1 Hypotheses

Null Hypothesis (H_0)

The respondents belonging to the categories of individual investors (criterion groups) of different investment patterns (shot term and long term) would remain to be homogenous on their scores on Self-Monitoring.

Alternative Hypothesis (H_a)

The respondents belonging to the categories of individual investors (criterion groups) of different investment patterns (shot term and long term) would not remain to be homogenous on their scores on Self-Monitoring.

2.2 Sample, sampling frame and characteristics

For the purpose of study, retail investors investing in the broking houses approved by SEBI in Kerala state were marked as the Universe. The perusal of the records at SEBI resulted in 36 broking houses having office in various districts of Kerala State. From the Universe, four districts, 'Ernakulum', 'Malappuram', 'Trissur', and 'Trivandrum', were chosen as sampling units through lottery method from among the fourteen districts of Kerala. Permission was requested to conduct the study in all the above said broking institutions from four districts. 'Five' institutions responded positively to provide the client list. 'Forty-six' branches of these institutions at four districts were categorized alphabetically and numbered numerically as per the alphabetical order of the places. Further one branch from every three based on the

numerical numbering was selected for the study. Systematic random sampling was adopted. Client list of 'fifteen' branch offices were formed as sampling frame. Further all individual investors from 'fifteen' branch offices categorized alphabetically and numbered numerically as per the alphabetical order comprising 'six hundred and forty-nine' retail investors. One investor from every two, based on the numerical numbering was selected for the study comprising of 'three hundred twenty four retail investors' as sample. Totally 'three hundred and sixteen' retail investors were responded among them 'twenty eight' questionnaires were rejected as responses were not complete. Finally, total number of retail investors considered as sample was "two hundred eighty eight".

2.2.1 Sampling Technique

The response sheets with a covering letter which explains the purpose and scope of the study were initially sent to all respondents. After three weeks, the respondents were requested and reminded to send back the completed response sheets. Many respondents completed the questionnaire and sent it back to the researcher. To collect data from few individuals who did not respond in time, the researcher went personally to their residence and collected the completed response sheets. Wherever the respondents confronted with ambiguous situations, they would explain about the nature of each situation without disclosing the conceptual frame work.

2.3   Measures

2.3.1 Self - Monitoring Scale

The revised self-monitoring scale developed by Lennox and Wolfe (1984) was used to measure Self-Monitoring. The instrument contains thirteen Likert-type scale items to be responded to a four point rating scale starting from 'always false', 'sometimes false', 'sometimes true' and 'always true'. The maximum possible score is 52 and minimum 13. The total cumulative scores of the responses of all items yield scores on Self-Monitoring. Of the 13 items, 11 items are to be scores by the direct method while 2 items are to be scored by the reverse method. Higher scores relate to high Self-Monitoring and lower scores relate to low levels of Self-Monitoring.

2.4   Results and Discussion

2.4.1 Classification of the respondents based on their scores on Self-Monitoring

The respondents are classified using their levels of Self-Monitoring as high and low. The scores on Self-Monitoring scale of the respondents are arranged in an ascending order. Based on the median (theoretical mean), scores of the respondents are divided into two groups. Those respondents who have scored greater than the median score are classified as high on Self-Monitoring. Those respondents who have scored less than the median score are classified as low on Self-Monitoring. The scores corresponding to the median score are removed from further analysis. Finally, '157' responses are found to be high-self monitors and '131' respondents are found to be low self-monitors.

Table 1: Classification of High-Low Self-Monitoring

| Sl. No | Self Monitoring | Respondents with investment pattern | | | | Total | |
| | | Short term | | Long term | | | |
		N	%	N	%	N	%
1	High Self Monitors	119	41.3	38	13.2	157	**54.5**
2	Low Self Monitors	49	17.0	82	28.5	131	**45.5**
	Total	**168**	**58.3**	**120**	**41.7**	**288**	**100**

The data collected are analysed using Chi Square test and the results are analysed and discussed for the difference of the scores of the respondents working with the criterion groups. During discussion, attention has been given in arriving at a conclusive perspective on the analysis, hypothesis testing and interpretation of data on specific personality trait called 'Self-monitoring'.

Table 2: Investment patterns and High and Low Self Monitors

| Cross – Tabulation between Investment patterns and High and Low Self Monitors | | | Respondents with investment patterns | | Total |
			Short Term	LongTerm	
Classification of High – Low Self monitors	High Self Monitors	Count	119	38	157
		% within HLTSM	75.8%	24.2%	100.0%
		% within period1	70.8%	31.7%	54.5%
		% of Total	41.3%	13.2%	54.5%
	Low Self Monitors	Count	49	82	131
		% within HLTSM	37.4%	62.6%	100.0%
		% within period1	29.2%	68.3%	45.5%
		% of Total	17.0%	28.5%	45.5%
Total		Count	168	120	288
		% within HLTSM	58.3%	41.7%	100.0%
		% within period1	100.0%	100.0%	100.0%
		% of Total	58.3%	41.7%	100.0%

Table 3: Chi Square of Investment patterns and High and Low Self Monitors

Chi-Square Test	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	43.306[a]	1	.000		
Continuity Correction	41.741	1	.000		
Likelihood Ratio	44.241	1	.000		
Fisher's Exact Test				.000	.000
Linear-by-Linear Association	43.155	1	.000		
N of Valid Cases	288				
a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 54.58.					
b. Computed only for a 2x2 table					

3.0 Discussion on Investment patterns and High and Low Self-Monitoring:

From Table 2 the following interpretations are made. Within the High self-monitors 119 respondents (75.8%) are with short-term investment pattern whereas 38 respondents (24.2%) are with long - term investment pattern. Among the low self-monitors 49 (37.4%) are with short-term investment pattern whereas 82 respondents (62.6 %) are with long - term investment pattern.Within the respondents having short-term investment pattern, 119 respondents (70.8%) are high-self monitors whereas 49 respondents (29.2%) are low self-monitors. Among the respondents having long-term investment pattern, 38 respondents (31.7%) are high-self monitors whereas 82 respondents (68.3%) are low self-monitors.Considering both the investment patterns (long term and short term) and personality variable (high and low self-monitors) the above table reveals that 41.3% of the respondents (119 respondents) are high self-monitors with short term investment pattern, 13.2% of the respondents (38respondents) are high self-monitors with long term investment patterns. Further it is observed that 29.2 % of the respondents (49 respondents) are low self-monitors with short term investment pattern, 28.5% of the respondents (82 respondents) are low self-monitors with long term investment patterns.

Discussion on Hypothesis testing:

A Chi-Square test was conducted to test the homogeneity of the two criterion groups with the following hypothesis: From table 3 it is clearly noted that the p value (0.000) is less than the alpha value (0.05). Hence, we reject the null hypotheses and accept the alternate hypothesis that is; the two criterion groups are not homogenous. Further it can be concluded that high self-monitors have short term investment pattern and low self-monitors have long term investment pattern.

CONCLUSIONS AND RECOMMENDATIONS

This paper intend to draw on insights from personality psychology (self-monitoring) in order to improve the understanding of the reasons for observed differences across individuals on investment / trading patterns styles and judgment. From the study it can be concluded that High self-monitors have short term investment patterns and Low Self-monitors have long term investment patterns.Biais, B.Hilton, D. Mazurier. K, and Pouget, S(2005) found support

for their hypothesis that high self-monitors achieve superior trading performance, possibly due to strategic and tactical behaviour.However, the effect was significant only for male subjects. This calls for the importance of self-monitoring and trading / investment Patterns. Similarly, (R. Girtz, Joshua Hill, Mark Owens, 2017) reported that High Self monitors are more likely to switch their strategy than low self-monitors when faced with responsibility over another's outcome, and when they change strategies they tend to change in a manner consistent with their own preferences for risk.The interesting fact is that high self-monitors demonstrates higher level of behavioural inconsistency and more into short term investing. Their decisions are inconsistent compared to low self-monitors. Hence, in principle this study supports both the above studies.

It is aimed at studying the empirical relationship between personality(Self-Monitoring) and the investment patterns. Based on the outcome of the analysis of the results it is possible to extricate the skills and capabilities unique for the high complex investment scenario at the national and international level. Stock market investing is highly risky and especially for short-term trading and investing. It is identified in the study that high self-monitors go for short term investments and trading. Those investors need to be aware of their personality traits such as Self-Monitoring. General awareness training programmes many be given at a macro level to enhance awareness provided they are incurring losses in short term investing. Nurturing and developing the managerial skills suiting to the industry specific training needs is one of the very basic requirements. Effective correction and corrective actions may be implemented to enhance the consistency in the decision making process of the investor by providing adequate awareness programmes to fill the knowledge and competence gap. The study suggests the need to impart training to the retail investors. The stock broking personnel may initiate such training programmes so that conscious and consistent decision making and involvement reduces the investment risk.

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