

Characteristics of Domestic Individual Investors in Vietnam Stock Market



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ABSTRACT: Individual investors in the Vietnamese stock market have many different characteristics from individual investors in stock markets in other countries, especially developed countries. Outstanding features include: (1) domestic individual investors always occupy the leading position and dominate the market; (2) the transactions of this type of investors have the potential to change the market structure; However (3) they are strongly influenced by stock market sentiment and (4) most investors are still very young, have little experience, and have limited investment and capital management knowledge. leading to major fluctuations in the market that stem from this group of investors.

KEYWORD: Vietnam stock market, stock market characteristics, stock investors

1. INTRODUCTION, QUESTION

In Vietnam, after more than 20 years of operation, the stock market has gradually become an indispensable part of the country's economic development. Movements in the stock market come from the behavior of investors - those who participate in buying and selling securities on the market. In developed stock markets such as Europe and the US, individual investors only own less than 30% of the shares and account for only 10-20% of transactions, the majority of stock transactions are carried out by professional institutional investors. In the Vietnamese stock market, on the contrary, individual investors play an extremely important role leading the market as they account for an overwhelming proportion of the total trading volume of the whole market. According to data from the Vietnam Securities Depository Center (VSD), as of June 2023, the trading volume of individual investors accounts for nearly 90% of the total market volume, with a large proportion of transactions accounting for more than 85% of the number of transactions, the number of accounts has exceeded 7.25 million, equivalent to about 7.2% of the population, the transaction value is more than 3.5 times higher than that of institutional investors, therefore, the Vietnam's stock market price and development are strongly influenced and change according to the actions of individual investor groups. With the overwhelming number of individual investors in the Vietnamese stock market today, finding the characteristics of these investors is important and urgent in understanding, explaining and forecasting market fluctuations, that is why this article will research and analyze the characteristics of Vietnamese individual investors.

2. RESEARCH METHODS

The article uses qualitative research methods, methods of synthesizing previous research, using secondary data to make statistics, analyze, and present outstanding characteristics of Vietnamese individual stock investors, illustrated by vision. On that basis, the article will draw comparisons to find the advantages and disadvantages of Vietnam's stock market with stock markets in developed countries.

Research projects were searched on the search engine scholar.google.com with the keywords "individual investors", "Vietnamese stock investors", "stock investment", " stock market". Based on the title and abstract, suitable studies are selected for further research, and the research results are summarized according to each content that the topic wants to analyze. Secondary data is collected from reputable statistical agencies and organizations, articles and analyzes published on highly reliable official media.

3. THEORETICAL BASIS

3.1. Concept of stock investor

According to the Vietnam Securities Investment Law 2019, a securities investor is an organization or individual that meets the prescribed conditions to participate in buying and selling securities on the stock market for the purpose of making a profit. Investors are those who provide capital to the stock market to create liquidity for securities and investment certificates of public companies, investment funds, and securities investment companies participating in the market, therefore, investors play a decisive role in the

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excitement and development of the stock market. Participants in the stock market range from small individual investors to organizations with huge capital sources from other countries around the world, which can be banks and insurance company, pension funds or hedge funds. Their buy or sell orders can be executed through a trader (individual or organization) on the stock exchange.

3.2. Individual investors and institutional investors

In the stock market, there are many investors with different forms, financial capacities, goals and investment scales. Based on the form of subject, stock investors are divided into two types: individual investors and institutional investors.

Individual investors are people with temporary idle capital who participate in buying and selling securities on the stock market for the purpose of making a profit. Individual investors are often non-professional investment market participants and invest much smaller amounts than institutional investors. Because the investment scale is very small compared to the overall market, each individual investor's trading decision is very difficult or almost impossible to affect the market price. Individual investors have absolute freedom in making investment decisions for themselves, they are not controlled by any other individual or organization, because of this freedom, individual investors will react quickly to investment market movements but at the same time face the risk of not being able to control themselves, leading to hasty and ineffective decisions. It is the self-control characteristic in the decision-making process of individual investors that makes individual investors easily influenced by behavioral psychological factors on the decision-making process.

Institutional investors are investment institutions formed by individual investors who come together to invest money on behalf of shareholders to bring profits. There are six types of institutional investors: investment funds, pension funds, mutual funds, hedge funds, commercial banks and insurance companies. Investing through these organizations has the advantage of diversifying the investment portfolio and investment decisions are made by experienced professionals. An important part of investment organizations is financial companies, in addition, securities companies and commercial banks can also become professional investors when they buy securities for investors. me.

Table 1: Comparison of individual investors and institutional investors

	Institutional investors	Individual investor
Investment method	Institutional investors are very large companies, the decision-making process is more difficult because every investment decision must go through a board before implementation. Decisions involve consultation with financial experts to cover almost every aspect and oversee their day-to-day portfolio management	Be free in the process of making investment decisions, without having to ask others for their opinions. They are responsible for their own investment decisions.
Investment knowledge	There is a team of experts with in-depth knowledge of finance and investment	Limited financial and securities knowledge
Investment psychology	Less affected by investment psychology	Investment psychology is weak, often influenced by crowd psychology
Skill	Professional investment skills	Limited investment skills
Investment scale	Big	Small
Investment costs	Fees for intermediaries are lower than for individual investments.	Investors often have to pay additional fees and commissions to brokers.
Tax incentives	Pension funds, mutual funds, and other nonprofit organizations are tax-exempt, which is a huge investment benefit for these funds.	For private investors, the amount of tax payable at some point will have an impact on their profits.

Source: Compiled by author

4. RESEARCH RESULTS:

Through evaluating relevant indicators, it can be seen that individual investors in Vietnam have the following outstanding characteristics:

4.1. Feature 1: Domestic individual investors play a very important role in the Vietnamese stock market

Unlike developed markets such as Europe and the US where the majority of stock transactions are carried out by professional institutional investors, in the Vietnamese stock market, the majority of stock transactions are carried out by domestic individual investors, accounting for over 80% of the entire market's trading volume.

In the period 2016-2019, the role of domestic institutional investors improved with an increasing proportion, in 2019 accounting for 12% of the total trading volume, while the trading proportion of the individual investor group tended to decrease from 86% in 2016

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to the lowest level of 79% in 2019 due to the strong participation of foreign institutional investors, but then this number quickly increased again in the following years. However, from 2019 until now, the role of individual investors has become more and more important when this rate increased again to 86% at the end of 2020 and 80% in January 2021.

The period 2020-2022 witnessed an explosion of domestic individual investors when the number of new accounts opened by this group of investors increased dramatically, bringing the proportion of domestic individual accounts to more than 90%. As of the end of November 2022, the number of domestic individual investor accounts exceeded 6.74 million accounts, equivalent to about 6.7% of the population. Accumulated in the first 11 months of 2022, domestic individual investors have opened nearly 2.5 million new securities accounts, far exceeding the numbers of all 4 years of 2018, 2019, 2020 and 2021 combined.

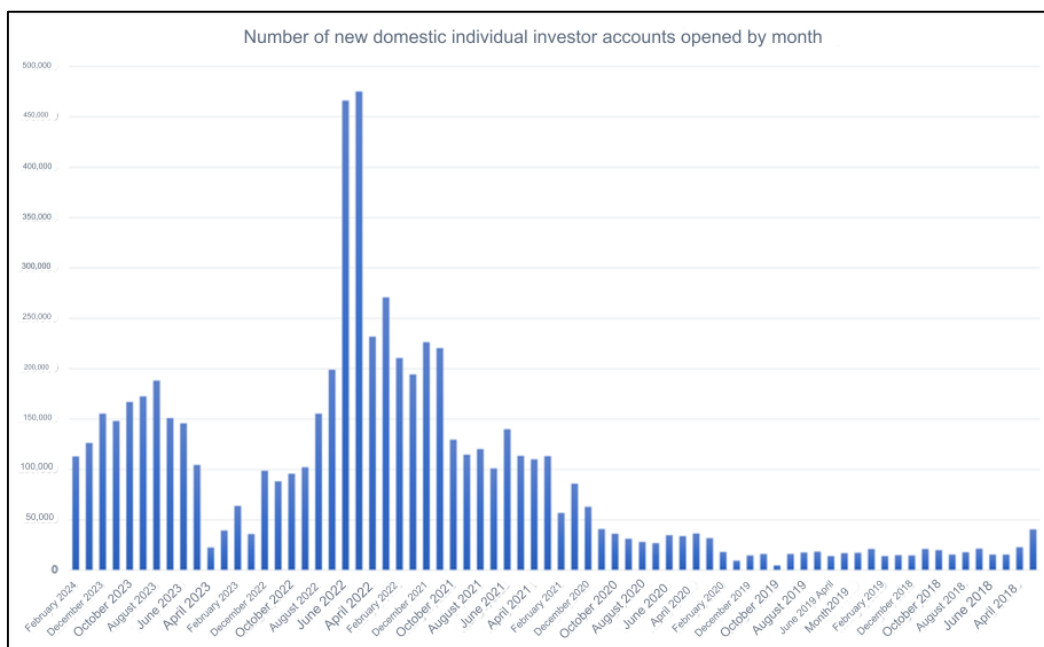


Figure 1: Number of new accounts opened by domestic individual investors (updated until February 2024)
Source: VSD

As of the end of April 2024, according to data from the Vietnam Securities Depository (VSD), the size of the entire market's trading accounts exceeded 7,468 million accounts - equivalent to about 7.5% of the population, of which, the number of domestic investor accounts is 7,759,703 accounts, accounting for 99.4%, the number of foreign investor accounts is only a modest 46,137 accounts, equivalent to about 0.6% of the whole market. Among the number of domestic investor accounts, individual investors account for an overwhelming proportion of nearly 99.8% of the number of domestic investor accounts, 99.2% of the total number of investment accounts in the world. whole market.

Table 1: Number of investor accounts (updated until April 2024)

INFORMATION ON NUMBER OF INVESTMENT ACCOUNTS					
Time	Domestic investors		Foreign investor		Total
	Individual	Organization	Individual	Organization	
January 2024	7,355,790	16,356	41,014	4,557	7,417,717
February 2024	7,468.88	16,434	41,131	4,546	7,530,998
March 2024	7,632,411	16,531	41,343	4,552	7,694,837
April 2024	7,743,033	16,670	41,595	4,542	7,805,840

Source: VSD

In particular, individual investors have a transaction value more than 3.5 times higher than institutional investors. With a large transaction rate, accounting for more than 85% of the number of transactions, and a higher transaction value than the remaining groups, the great role of individual investors in the development of Vietnam's stock market is indisputable thing.

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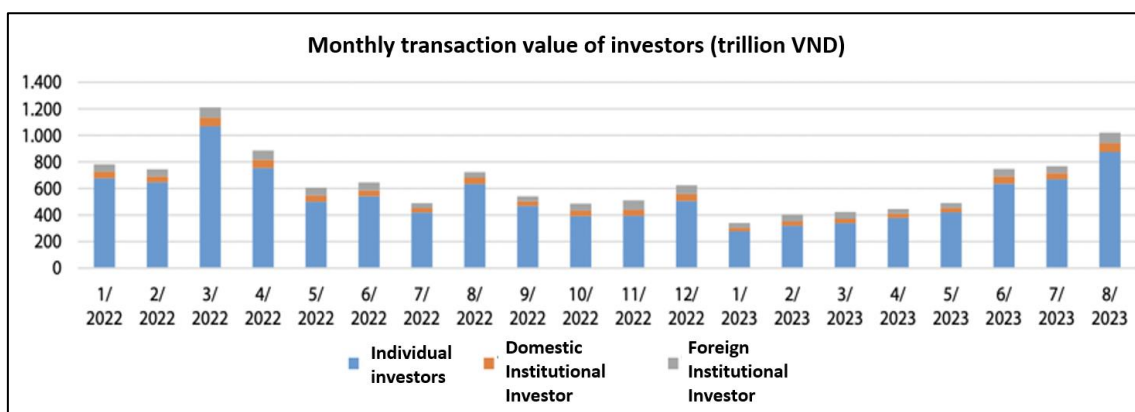


Figure 2: Order matching value by month of different types of investors (updated until August 2023)

Source: Rong Viet Securities Company

The data in the graphs above show that, during trading sessions, the transaction value of individual investors is always higher than the transaction value of the remaining groups including domestic and international institutional investors, foreign investor. Therefore, it is not surprising that prices and developments in the Vietnamese stock market are strongly affected and change according to the actions of individual investor groups.

4.2. Feature 2: Domestic individual investors have the ability to change the structure of the Vietnamese stock market

With a large transaction proportion and the rapid increase of individual investors, the Vietnamese stock market has a huge flow of hot money pouring in to seek short-term profits. When the proportion of individual investors in the total investors in the market is higher, it will increase the level of dynamic trading in the market. The level of active trading of investors is expressed through the ratio between trading value and market capitalization size, the larger this ratio represents the more trading activity of investors in this market. dynamic. The graph below shows the dynamic trading level of the Vietnamese stock market compared to other markets.



Figure 3: Average daily trading value per market capitalization (updated until June 2022)

Source: FiinPro

In the US stock market, one of the most developed stock markets in the world, the ratio of transaction value and market capitalization is about 0.2%, meaning that with a capitalization value of 40,000 billion USD, the daily trading liquidity in this market is about 80 billion USD. In the Chinese stock market, this index is more than double with more than 0.4%, this shows the level of active trading of investors, the reason comes from the fact that the Chinese stock market. There is a high proportion of investors who are individual investors, the proportion of individual investors in China is much larger than in the US. In the Vietnamese stock market before the Covid-19 pandemic, this rate was stable at approximately 0.2%. However, during and after the Covid-19 pandemic, along with the sudden increase of individual investors participating in the market, this index grew very quickly, even at its peak, it was higher than the Chinese stock market. With this rapid and unsustainable fluctuation, when there are shocks, the market will adjust sharply, a large amount of money will be withdrawn from the market and this index will gradually return to long-term balance.

In the US market, investors tend to hold diverse financial assets and longer holding periods through reasonable portfolio allocation. The percentage of people with stock accounts in the US is up to 52% of the population, but only a very small percentage is investing directly in the stock market (14%), and the majority of investors only hold shares through pension funds under the advice of financial advisors. Therefore, the frequency of transactions in the US market is much lower than the high frequency of transactions in the Vietnamese and Chinese markets. This difference in trading frequency can be attributed to the large difference in the demographic

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characteristics of stock investors in Vietnam and the US. According to the results of a survey of more than 700 investors by InfoQ Vietnam in December 2021, more than 70% of individual investors in Vietnam are younger than 30 years old - a very young age, love the feeling of risk and have a rapid increase in assets. Meanwhile, in the US, the older stock investors are, the higher the rate of opening stock accounts. This is the preferred age for safety and preservation of investment value. Their priority is mutual fund certificate products with a diverse investment portfolio that can be held long-term.

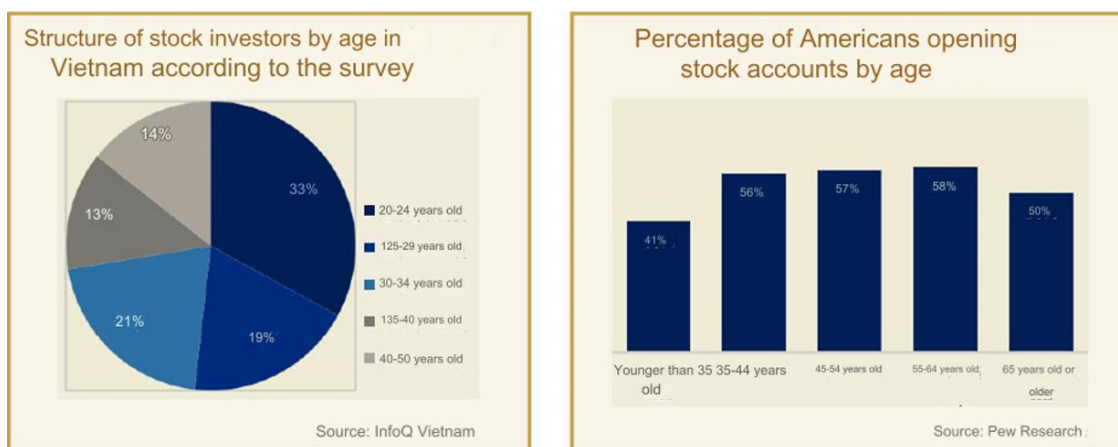


Figure 4: Proportion of stock investors by age
Source: InfoQ Vietnam and PewResearch

4.3. Feature 3: Domestic individual investors are strongly influenced by stock market sentiment

Market psychology is a concept that refers to market movements that reflect the emotional state of participants. When the crowd is optimistic, market psychology is positive, prices increase continuously, forming an uptrend. On the contrary, when the crowd is afraid and panics, the market psychology is negative and prices continuously decline, which is called a downtrend. The psychological evolution of investors in the market includes stages such as: disbelief, hope, optimism, thrill, euphoria, complacency, anxiety, denial, panic, capitulation, anger, depression and then repeat from the beginning.

Through the stock trading process, Vietnamese individual investors also reveal many limitations in investment psychology, leading to common erroneous behaviors such as overtrading and being affected by market developments and crowd psychology leads to emotional decisions... Fluctuations in the Vietnamese stock market since its inception have clearly reflected the influence of market psychology on investors, mainly investors. domestic individual investors.



Figure 5: Vietnam stock market sentiment (updated until October 2023)
Source: Author

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The trading level of individual investors is strongly influenced by market developments. When the market adjusts, this group often tends to limit transactions, thereby causing the market's transaction value to become quiet and trading volume to decrease. However, during recovery periods, this group domestic investors will become active again, demonstrated through a sharp increase in trading volume. In early 2020, the negative impact of the Covid-19 pandemic on the market dropped sharply, trading volume also decreased during this time, but when prices increased again, bottom-fishing demand from some investor groups increased, especially individual investors, trading volume also increased again.



Figure 6: VN-Index developments and transactions of individual investor groups by day (updated until October 2023).

Source: Author

The psychology of individual investors is affected by market developments, which is also shown through the number of new investors entering the market. When stock prices increase sharply, the number of new accounts opened also increases. In April 2018 when the VN-Index peaked, the number of new accounts opened by investors was also at a record level of more than 40,000 accounts that month, then when the market adjusted, the number of accounts opened increased. New accounts also decreased and remained around 15,000-20,000 accounts per month. When the market became vibrant again from April 2020, the number of accounts also increased sharply, on average, more than 30,000 new accounts were opened each month. In December 2020, when the market approached the historic peak around the 1,200 point mark, the number of new accounts opened was at a high level, more than 60,000 new accounts were opened. Not stopping there, in June 2021, when the market created a new peak at more than 1,400 points, the number of new accounts opened was high compared to previous times with nearly 500,000 new accounts opened in a month. Not stopping there, 2022 will witness a spectacular increase in the number of newly opened personal accounts. In just one year of 2022, the Vietnamese stock market has added nearly 2.6 million securities accounts. Newly opened securities increased by 60% compared to the previous year, this is a record high number in 22 years of operation, surpassing the total number of new accounts opened in the 6 years from 2016 to 2021 combined. During the market adjustment period from late 2022 to early 2023, the number of newly opened accounts decreased. In April 2023, the number of newly opened accounts hit bottom and then grew again significantly in the following months. when the market recovers.

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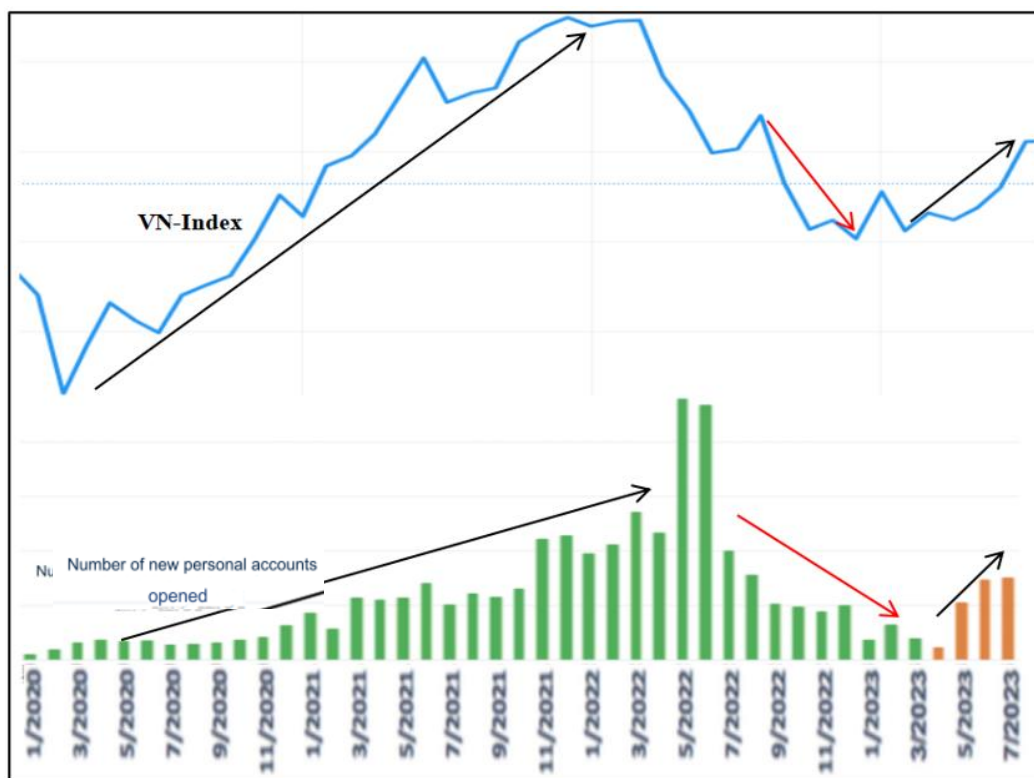


Figure 7: Market developments and number of newly opened individual accounts (updated until July 2023)

Source: Author

This further shows that individual investors tend to act according to market developments and are influenced by the surrounding crowd. When the market increases, this group will pay more attention to the market and increase trading. Trading volume increased and the number of new securities accounts opened also increased.

Another manifestation of the limited ability to manage trading psychology of Vietnamese individual investors is also shown through trading intensity, volume and holding time of stocks. When the market fluctuates strongly, individual investors accept more risk by holding more stocks. The level of volatility of the VN-Index is represented by the ATR coefficient. When ATR tends to increase, individual investors tend to accept more risk and increase stock holdings. In the period March-April 2020, when ATR increased and reached a high level, the number of shares held by individual investors was also high, the same thing happened in the period October 2020 - January 2021. The increase in the number of shares held means that the investor's risk will also increase, especially for investors who use high leverage to increase the amount of shares held.

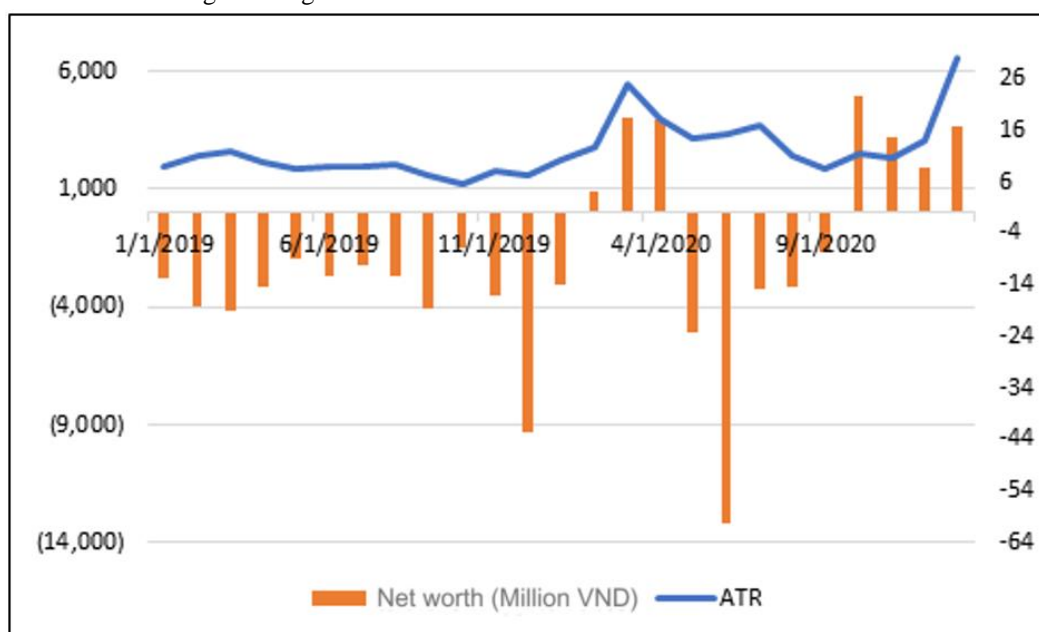


Figure 8: Volatility level and stock holding level of investors.

Source: Tran Truong Manh Hieu (2021)

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The stock holding time of Vietnamese individual investors tends to decrease during periods of strong market fluctuations, which is a sign of scalping investment, short-term psychology, which will lead to negative consequences for investors. Investments often have little profit when the market is favorable because they take profits early, but maintain long-term losses when the market adjusts or declines because they hope the market will recover to reduce losses. According to a survey by investment fund Dynam Capital and market research company Indochina Research conducted at the end of 2021 when the stock market grew rapidly, more than 35% of investors spent more than half of their money invested in stocks, they check the stock market index multiple times a day (84%) and 54% trade at least once a week, most of it via online applications.

In 2019, the average monthly trading volume of individual investors was only 5,400 million shares, however, in 2020, the average monthly trading volume increased more than 2 times, up to 11,700 million shares, When VN-Index approached the old peak of 1,200 points in December 2020 and January 2021, the trading volume reached over 20,000 million shares per month. The increase in volume may come from new cash flow or due to increased stock turnover, reducing the time investors hold shares. However, when considering the total assets of securities companies, there is no sudden increase in total assets (total assets of securities companies are about 150 trillion VND in 2019, and 169 trillion VND in Q3/2020), the growth rate of total assets is lower than the growth rate in transaction volume, thus demonstrating that the increase in transaction volume is not in the amount of new money poured into the market but in the turnover of stocks are increasing, or investors are reducing the time they hold stocks in their portfolio. Compared to 2019, the time to hold shares in 2021 is shortened to only half or less, continuous buying and selling causes transaction volume and value to increase significantly.

Time	Volume (million shares)	Transaction value (trillion VND)	Time	Volume (million shares)	Transaction value (trillion VND)
01/2021	25.845	547			
12/2020	23.693	472	12/2019	7.152	123
11/2020	14.112	283	11/2019	6.084	119
10/2020	15.281	282	10/2019	6.287	120
09/2020	12.438	212	09/2019	5.083	108
08/2020	10.090	163	08/2019	5.793	129
07/2020	10.434	161	07/2019	5.438	116
06/2020	16.321	220	06/2019	4.468	94
05/2020	9.868	164	05/2019	4.935	100
04/2020	8.718	121	04/2019	4.676	89
03/2020	8.968	127	03/2019	6.879	135
02/2020	6.178	103	02/2019	4.485	88
01/2020	4.662	86	01/2019	4.460	78

Figure 9: Investor trading volume and value

Source: VSD

4.4. Characteristic 4: Most Vietnamese individual investors still have many limitations in investment knowledge and capital management skills

Investment knowledge

Knowledge criteria include the investor's basic and advanced knowledge base in the financial field, analytical capacity, financial evaluation and investment thinking, understanding and awareness of the characteristics and risk nature of investment instruments. Financial investments are activities that require a very high level of knowledge, basic knowledge of finance and business is extremely important. Investors must at least have an understanding of the financial market before investing, be aware of the risks of capital instruments so that they can have an appropriate approach when investing. In addition, investors need to have macro and micro understanding of business and corporate finance to evaluate the company's business activities.

Most Vietnamese individual investors still have limited financial and securities knowledge. Many individual investors do not really have an appropriate awareness of the risks of the stock market, leading to choosing trading methods. Stock trading is highly speculative and leaves unfortunate consequences. According to a survey published in Manager magazine at the end of 2021 by investment fund Dynam Capital and market research company Indochina Research on 425 investors at the Ho Chi Minh City Stock Exchange, the results show that up to 53% of stock investors surveyed are office workers, they look to stocks to earn additional sources of income in the context of the COVID-19 pandemic outbreak and they have to work at home; Half of the respondents said that they have participated in the stock market for less than a year, do not understand much about the market, they like to invest and

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expect lower returns than experienced investors; 60% of investors look to stocks as a source of secondary income, only a few consider stock investing as a long-term investment plan or preparation for retirement. This shows that the majority of Vietnamese individual investors are amateur investors with limited knowledge in the field of finance and investment.

In the US, most investors target the need for sustainable investment, thereby creating the development of the investment consulting market, financial advisors, who have a lot of knowledge and experience in the financial field, will be based on the investor's contribution level and risk appetite to advise and build an appropriate investment program. In Vietnam, the popularity of investment consulting services is still low, most investors conduct stock transactions themselves, and do not tend to entrust professional management units to do so. Portfolio consulting leads to potential risks for investors, especially when the market has large fluctuations when they do not have a specific direction, are psychologically susceptible to fluctuations, and lack knowledge and investment skills.

In addition, the number of certified brokers is still very low compared to the number of investors. According to data from the State Securities Commission (SSC), at the end of 2020, an average broker had to take care of 593 securities accounts, but by 2022 this number would reach nearly 1,000 accounts. With too many accounts that need to be taken care of, a large number of investors who have just joined the market will not receive appropriate care, they will not receive complete instructions on investment knowledge, and will not receive adequate guidance on investment knowledge. As a result, they are more likely to face large losses and thus have a negative view of the stock market in the long term.

Capital management and trading skills

Criteria for capital management and trading skills including risk management methods, knowledge and skills on asset allocation, diversification, portfolio management, and use of financial leverage are provided by securities companies.

Vietnamese individual investors often tend to act spontaneously in stock investing and pay little attention to risk management for their trading accounts. They tend to trade by using high leverage to hold many stocks during periods of market excitement, which creates great risk for their trading account, once the market declines, there is a risk of margin call is very high. Currently, according to regulations of the management agency, the maximum margin lending rate is 50%, however, in reality, there are some securities companies that circumvent the law to lend investors at a ratio greater than the prescribed level, especially, lending to high-risk stocks makes individual investors tend to borrow too much and will suffer the greatest losses when the market fluctuates unfavorably.

In the first 9 months of 2021, VPS Securities Company rose from eighth position in terms of brokerage market share to first position with 16% market share, far surpassing the second competitor – SSI – with only about 12%, a difference. This change partly reflects the investment choice trends of individual investors. SSI is a long-standing company that has always led the market share in the stock market since 2014 with strengths in market analysis, consulting and providing customers with quality reports on enterprise's business. Meanwhile, VPS focuses on competing through fee reduction policies and providing high leverage products. The shift in customers' choice of securities companies reflects the trend of short-term investment and surfing, so they focus on transaction leverage rather than careful long-term investments in businesses that operate efficiently. The formation of a number of companies that do not have any outstanding business activities and often have irregular increases and decreases with unreasonable market values that still attract the participation of many investors is also partly reflects the tendency for risky investment and short-term speculation of individual investors. An example is MTM shares of Central Mining and Mineral Import-Export Joint Stock Company in 2016 when this stock was just a shell company with headquarters in a restaurant in Nghe An, but still mobilized many investors, resulting in 1,065 investors being harmed with a loss value of nearly 60 billion VND. Recently, there was the case of FLC stocks and FLC family stocks with unusual price fluctuations and price manipulation causing losses of more than 7,000 billion VND to investors.

5. CONCLUSION

From the research results, we see that the Vietnamese stock market is heavily dependent on the group of domestic individual investors, who dominate the market and even have the ability to change the structure of the market. However, this group of domestic individual investors still has many limitations in terms of knowledge, skills and psychology and the results are shown through actual market fluctuations. Therefore, in order for the market to become more efficient and develop more stably and sustainably, authorities at all levels need to pay more attention to the group of domestic individual investors, when this group of investors operate more effectively, this is a necessary condition to improve the efficiency of the Vietnamese stock market.

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