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Understanding the Retail Investor: Technical and Fundamental Analysis

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Abstract:

If there is one thing that people take more seriously than their health, it is money. Behavior and emotion influence how retail investors make decisions on the methodology of investing/trading their money. The purpose of this study is to better understand what influences retail investors to choose the method by which they invest in capital markets. By better understanding what influences retail investors to choose a certain investment methodology, eventually researchers can provide tailored and normative advice to investors as well as the financial planning industry in effectively and efficiently working with clients.

Introduction:

It has been said that 'Cash is King'; and this is a statement most can agree upon regardless of whether or not you believe money is the universal driving force behind happiness. It is an undeniable fact that money makes the world go around; it is the oil to the engine of every dynamic and static system around the globe.

Yes, 'cash is king' but how do you manage, sustain, grow, and invest the cash that you have or acquire over the course of a lifetime. The two most notable methods for actively investing and managing money within various financial instruments is technical and fundamental analysis.

There have been numerous papers investigating the effectiveness of technical analysis and fundamental analysis—the two main ways to engage the financial markets. However, little work has been done on the question of what drives an individual to utilize one method over the other or a combination of both; discovery into this question could lead to superior normative advice for the retail investor and professional advice to the financial services industry on how to better target and serve prospective clients.

So the question becomes, how does the background and experiences of the retail investor/trader relate to the means by which they choose [fundamental or technical tools] to achieve their financial goals?

Interviews with eight retail investors form the framework of this paper. The specific characteristics of each investor are enumerated within the confines of this study; the content of this research is discussed in depth throughout the remaining pages.

Literature Review:

Since the late 20th century, researchers have thoroughly investigated the phenomena of investor psychology and the factors that influence individuals to financially behave in a certain way. This research has been performed within two main contexts: psychology and business. Another segment of research that has been exhaustively investigated is the effectiveness and validity of the primary methodologies of investing/trading: technical and fundamental analysis. Lastly, another division of research that is pertinent to this study is the investigations into the financial planning industry. All three branches of research have been investigated properly and copiously, but I have identified a gap that arises in the before mentioned research that could be important to the advancement of the financial planning industry, individual investor, and academia. This literature review will be structured to survey the three research categories that were listed above.

The breakdown of each individual section is not intended to be repetitive or redundant, but rather to place emphasis on the breadth of research that has been done and how this proposed study will reconcile a literacy gap to help answer the research question.

Retail Investor Psychology

According to (Grable, Rabbani 2014), financial planners need reliable and accurate information about ways that can be used to characterize the risk propensity of retail investors (i.e. investor psychology). This study investigates various elements of a person's life: driving tendencies, financial well-being, occupations, health, interpersonal, romantic affairs, and life changes with both female and male to see if there is any significance between certain behavior characteristics and a propensity towards risk taking. Indeed, upon conclusion of this study the researches did find that there are statistical correlations to various activities that a person participates in and their attitude towards risk. They theorized that simply being able to understand an investor's risk propensity by analyzing life style tendencies would lead financial planners towards a series of questions that would help generate a tailored and strategic plan that fits each investor's individualized need.

"Individual Risk Attitudes: Measurement, Determinants, And Behavioral Consequences" precisely focuses on determinants of individual risk attitudes and the behavioral consequences but from a broader context (smoking, holding stocks, sky-diving etc.) to gain a holistic understanding of risk. The researchers gave a global assessment that probed individuals to assess their own risk attitudes, which is contrary to many of the studies done prior that simply administer generalized surveys. They found a statistically significant impact of gender, age, height, and parental background on the individuals' willingness to take risks. At the outset of this study, the researchers discuss future research of theoretical positions regarding the relationship between risk attitude and a given behavior. And in the context of "Understanding the Retail Investor: Technical and Fundamental Analysis", the given behavior will be the propensity to choose a method of engaging the US stock market.

"Retail investors' financial risk tolerance and their risk-taking behavior: The role of demographics as differentiating and classifying factors." precisely centers on retail investors' financial risk tolerance and not risk as a whole, Kannadhasan empirically examines whether demographic factors, namely gender, age, marital status, income, occupation, and education could be used individually or in combination to differentiate among retail investors in terms of financial risk tolerance and risk taking behavior. The conclusions of this study aim to clarify and segregate retail investors' risk tolerance and risk behavior. The results confirm that demographic factors, indeed, play a role in differentiating and classifying retail investors; they suggest that these categories be used in future research and financial practice as well.

"Psychological Factors Influencing Market Investment in Romania." differs slightly from the previous studies in the way the investor is examined. The study attempts to understand risk tolerance, self-confidence, and mental accountability as psychological factors that influence market participants' decisions, whereas the previous studies analyzed the influences on individual risk tolerance. This study was conducted by asking a series of related questions that allow insight into the behavioral decisions of an individual. The study proved that risk aversion decreases with higher education levels, women have a higher risk tolerance than men, and investor risk tolerance may depend on the country by which they reside. (These are just a few correlations that have empirically been proven throughout many studies.)

It is important to note the difference between this study and the previous study. The latter study builds upon the work that researchers above have already investigated; it seeks to understand the influences that cause investors to behave a certain way within the market, not within the retail investors risk attitude, self-confidence, and mental accountability.

Lastly, within the same realm of research, there lies another topic, “behavioral finance.” The papers above investigate the psychology of individuals on a personal level, whether it is their propensity towards risk taking or how that influences their decisions within the broader sense of investing. But according to (Bondt, Muradoglu, Shefrin, Staikouras, 2008), behavioral finance attempts to bridge the gap between psychology and finance; it is the study of how psychology impacts financial decisions in households, markets, and organizations.

They state that behavioral finance studies the nature and quality of financial judgments and choices made by individual economic agents and examines what the consequences are for financial markets and institutions. The current works being done in behavioral finance draw upon various forms of the cognitive research enumerated and discussed above.

All of these studies explore the individual investor from a psychological level. Any assessment of a peer-reviewed psychology or business journal will turn up many examples such as these. The gap that I have identified can be introduced here with elaboration in the remaining research categories of the literature review. The purpose of this research is to build upon the findings of the researchers who have gone before by understanding how these behavioral characteristics influence the propensity for a retail investor to choose the method by which they invest. In turn, as seen in the first study, this will aid financial advisors in their quest to better understand and market to their prospective clients.

Financial Planning:

As a retail investor, there are two key options of managing your personal finances: simply perform the duties yourself, or seek the counsel of a financial planner. There are two noteworthy branches of financial planning research, which are pertinent to the foundation of this study. The first is research into the efficiency and strategies that financial planners employ to get their clients tailored results. "The Role of Risk Profiles and Risk Tolerance in Shaping Client Investment Decisions." depicted that one of the difficult tasks in developing and assessing strategies to effectively help clients make decisions is that of risk and risk tolerance. The purpose of this study was to clarify the vast amounts of data and terminology that surround and envelope the financial planning industry which can obviously be overwhelming to the average investor. This study analyzes the topics of risk aversion, risk tolerance, risk capacity, risk need, risk preference, risk perception, and risk composure, which are integral to any financial plan. Understanding such terminology allows the financial planner to create a tailored risk profile to better service their clients. And further research was produced by Nick Carr to show financial advisors how they can create very usable risk assessments in a valid and reliable manner.

The second branch of research that exists is the functionality of the financial planners marketing tactics. To be successful within this industry, a new financial planner must be multi-versed and capable of engaging in multiple roles simultaneously. The sole source of income for a financial planner lies in his or her ability to acquire new money (clients). This is a feast or famine business and you reap what you sow, therefore research that has the potential of providing the financial planner with a competitive edge is always in demand.

"Surviving and Thriving in the Early Years." discusses and investigates the five areas that are essential for a new financial planner to be successful. The five areas cited are: referrals, targeted marketing, networking, joint work, and mentors. The study concludes by emphasizing the importance of developing and implementing a strategic plan before presenting to prospective clients along with learning how to structure and tailor conversations with each perspective client. Emphasis added on marketing.

Similarly, but outside the two main categories laid out above, "Financial Planners: Educating Widows in Personal Financial Planning." confers the importance of educating widows in personal financial planning. This research is important, and should not be excluded, because it emphasizes the point of educating potential clients - not just widows - and how important education is to the business of a financial planner. One point the study made was the importance that retail investor places on trustworthiness. The discovery was made that trust, knowledge, and skill were the most frequently desired qualities of a financial planner. Another interesting finding was the fact that the widows were more inclined to making their own decisions, but the request was for the financial planner to play the role of a leader that will guide those decisions. Ultimately, this study was portraying the fact that there is a shortage of educational programs promoting financial knowledge, and ostensibly displaying the desire of new information within this industry.

Whether the retail investor (client) is a widow or a recent graduate, people want to know what they don't know. Individuals want to be informed; they want an advisor who can articulate financial terminology and knowledge in such a way that they can understand. Also, individuals often times want to make their own decisions and desire the advice of their financial planner to align with their preexisting ideas and tendencies. “Understanding the Retail Investor” can help merge the gap of understanding. If there were more research into the understanding of how and why investors make the choices of their methodology, this could provide an educational opportunity for the client and the advisor, along with proper alignment of the financial planner and client.

Moreover, between each field of study in the financial planning industry, there is copious amounts of data that seek to aid the financial planner in strategic performance, acquisition, and growth of clients. This study attempts to aid in reconciling a gap between the two. There is plenty of research into the effectiveness and efficiencies of strategies that aim to outperform financial benchmarks. There are studies investigating the importance that clients place on a tailored, structured, and easy to understand approach that will help them achieve their financial goals. Lastly, there is plenty of research that aims to assist the financial planner in acquiring new clients. However, if the financial planner does not have the information necessary to speak the specific language of each client about their preferred style of investing they will already be disadvantaged. If they can better understand each investor, then they can be better prepared to form an individualized marketing plan, and tailor their investment strategy to what the client wants. It has been said that choosing a portfolio which is inconsistent with one’s financial risk tolerance may result in investor disappointment (Dorms, 1987) and may increase the financial stress of an individual, which in turn, affects his/her financial risk behavior.

Fundamental Analysis:

According to (Chandra, Kumar, 2014) fundamental analysis is a means of evaluating a security that necessitates attempting to measure its intrinsic value by examining related economic, financial, and other quantitative and qualitative factors. Magee, Edwards, Bassetti describe fundamental analysis as a statistically driven method that takes into account the microeconomics of individual companies and the macroeconomics of the global economy. From this specific method of analyzing equities, the investor determines if the investment is sufficient by assessing the current market price. If the current price is below the intrinsic value produced by the fundamental report, then it is a worthy investment. Benjamin Graham and Warren Buffett are notable supporters of fundamental analysis and have produced many writings on the topic.

Many studies have analyzed the effectiveness of this method by researching the method itself and theorizing about the efficiencies of markets (Random Walk Hypothesis). "Intrinsic Value of Stocks: Does Markets Appreciate it?" investigated the following question: do markets appreciate the intrinsic value of a stock? Answering this question gives empirical evidence into the effectiveness of fundamental analysis. Upon the conclusion of their study, they observed that the market had rightly appreciated the intrinsic value of the stock, which would tarnish the validity of the studies that suggest that there are some inefficiencies within the market that cause the stock price to trade differently than its intrinsic value.

"Morgan Stanley's Risk-Reward Views: Unlocking the Full Potential of Fundamental Analysis." discusses the mega banks risk-reward view of fundamental analysis. The pros and cons to fundamentally analyzing a company as a form of investing is enumerated, and the profit potential of fundamental analysis is recognized and validated. As an advocate of the merits of fundamental analysis, they believe fundamental risk-reward views should outperform, on average, an investment process based on single point estimates.

A simple examination of fundamental analysis in any academic business journal will reveal a plethora of literature, both supporting and criticizing the method. However, this research is not investigating the merits of the method. The findings of this research will simply seek to understand the factors that influence a retail investor to choose fundamental analysis.

Technical Analysis:

According to (Edwards, Magee, Bassetti, 2007) there are very few human activities that have been so exhaustively studied during the past century, from so many angles and by so many different people, as has the buying and selling of corporate securities and the means of interacting with these securities. They define technical analysis as the study of market action as opposed to the study of the goods in which the market deals (fundamental analysis); it is the science of recording the actual history of price action and volume changes in an equity. The book that they authored, "Technical Analysis of Stock Trends" is a comprehensive guide on technical analysis, technical methods, and result-oriented examples. Needless to say, they are ambassadors of technical analysis and its effectiveness and they support their claims by detailed citations of academic research and other writings.

Again, just as with fundamental analysis, there has been a significant amount of research into the effectiveness of technical analysis. The method has its supporters (peer reviewed research) and it has its opponents (peer reviewed research).

According to (Hoffmann, Shefrin, 2014) individuals who use technical analysis to trade frequently make poor portfolio decisions, resulting in dramatically lower returns than other investors. They observed through interviews of market participants that individuals who use technical analysis are apt to have speculation on short-term stock market trends as their primary investment objective, in turn, holding more concentrated portfolios. Unlike Magee and company, this study negates the effectiveness of technical analysis.

On the contrary, "Random Walks: Reality or Myth." investigated the merit of the random walk hypothesis - that stock markets prices move randomly and therefore cannot be predicted through observation of price action. Levy debunked and refuted the random walk hypothesis to support technical analysis by using empirical evidence and holding the theory to the same standards as the past studies. The conclusions of the study find that there are several applications of technical analysis, which empirically have been proven to be useful in forecasting price movement. Also, stock prices follow discernible trends and patterns that have predictive significance, thereby diminishing the credibility of the random walk hypothesis.

Similar to Levy's study, "Market Efficiency And Profitability Of Technical Trading Rules: Evidence From Vietnam." investigated the merits of technical analysis, but this time by empirically testing some of the indicators that technicians employ. The researchers empirically concluded that technical analysis does have predictive capabilities, in certain situations, and a technical strategy could, indeed, outperform a buy and hold strategy utilized by many fundamental analysts.

As previously mentioned, the topic has been comprehensively researched and the back and forth of support and denial could go on infinitely. This research does not seek to investigate further into the effectiveness and merits, but to build off of the existing research by seeking to understand the influences that lead investors to choose technical analysis as a method by which they engage the markets.

Lastly, there is numerous amounts of research that studies both schools of thought (technical and fundamental) simultaneously. Many of them seek to analyze and discover the optimal ratio of interaction between technical and fundamental analysis. "Sell When The Violins Are Playing -- Buy When The Cannons Rumble. Case Study: Technical Analysis And Chartists." talks about the effectiveness of combining both methods to produce the most profitable investment strategy. The study concludes that both methods have their respective places, but money cannot be managed in the long term solely on technical analysis. Investors must take into consideration many of the fundamental indicators of a company and pair those with key technical indicators, because both methods can be effective when utilized appropriately.

In conclusion, throughout this brief survey of preexisting literature, one should realize the ostensible exhaustive efforts that have gone into the categories of research important to this study: investor psychology, financial planning, fundamental analysis, and technical analysis. Even though excellent and break through research has been done in each of these fields, there still has been a question left unknown: what influences a retail investor's choice of methodology (technical or fundamental analysis) by which to engage the US stock market. This research seeks to understand this question. Building upon the preexisting research that has been touched on briefly above, qualitative analysis should be able to aid in the investigation and comprehension of this research question.

Methodology:

A qualitative study structured around phenomenology is utilized to investigate the influences that stimulate the retail investor to choose the method by which they engage in the capital markets. This deep understanding was best suited for in depth, open-ended, and semi-structured interviews with each investor. This allows the researcher to gain insight into a deeper knowledge, understanding, and analysis that simply could not have been successfully conducted by other research methods.

Phenomenology was selected because of the obvious nature of the research question; the question is best suited to be investigated by gaining insight into individual's motives and ideologies. The goal is to categorize emergent themes and then build theory. Also, phenomenology is focused on the singular perspective of the individual, meaning all external biases should theoretically be put aside.

Eight active retail investors were interviewed for about ninety minutes each. The population was accessed through seeking out friends that have had success from investing or trading and then subsequently snowball sampling each interviewee. Each one of the eight individuals have had at least 2 years of experience of engaging and participating in investing/trading their personal funds. Three of the individuals have decades of experience.

The interviews were conducted at a casual and informal location. The population consisted of all males between the ages of 22-55 years old. Each participant at the time of the interview was located within the same state, but all participants had had extensive travel exposure. Staying aligned with the qualitative methodology, each investor was interviewed using open-ended and semi-structured questions that allowed him or her to portray a personal and unique story and provide their perspective in hopes of better understanding the research question.

The interviews were completed after about ninety minutes; the entirety of the interview was recorded on a digital recorder and then the audio was sent to a transcriptionist who produced a transcript and then returned it to the investigating team. Open coding was used to interpret and analyze the data. The interviews were scanned and analyzed for common themes, words, phrases, sentences, and paragraphs that would be applicable to understanding the research question. Excel documentation, and manual coding was done to obtain the data.

The coding process produced noteworthy results. The themes that emerged showed minute and almost irrelevant significance for the efficient market hypothesis (EMH), importance of education and media, and the most profound finding -- parental influences.

Findings:

The following discussion will focus on the themes and phenomenon that emerged from analyzing conversations from each retail investor.

EFFICIENT MARKET HYPTOHESIS

The discussions revealed that -- regardless if the participant directly and consciously understood the Efficient Market Hypothesis or if they unconsciously and inadvertently had an opinion on the efficiency of the markets -- each participant made at least one opposing statement to the theory. However, according the EMH, if markets are semi-strong then they must be weak-form efficient as well; both classifications disprove any marginal benefit of fundamental or technical analysis. One investor stated the following:

> *How can we be efficient if there is fear in the market?*
>
> *How can we be efficient if there is greed in the market?*

And then he goes on to say that he supports and utilizes fundamental analysis as a means to engage in the markets.

Regardless if the investor understands the theory or not, it still stands. The theory should hold and theoretically no investor should be able to outperform the market on a consistent basis rendering the effectiveness of either investment methodology null. One investor was not directly knowledgeable on EMH and stated the following:

> *I've heard the term efficient market hypothesis but I'm not sure that I conceptually know what it is. However, I still utilize technical tools and I have done technical trading utilizing fundamental analysis to determine sound companies.*

He later stated that he regularly outperforms the market. So understanding that he knows nothing about the theory yet outperforms the market by utilizing technical and fundamental methods leads us to look for different catalysts for methodological choices. This also is a question for empirical testing of the theory and methods, not a qualitative study investigating the influences behind the methods.

It should also be noted that each investor was neither opposed to the usage of technical or fundamental, in fact, 8/8 participants said that they have used both in their investments before. I posit this is contrary to the common misconception that the industry is completely polarized and many individuals choose either or.

PARENTAL INFLUENCE:

The main focus of this research and discussion is as follows. From this research, parental influence has emerged as one of the primary themes that affect an individual's propensity to choose an investment method. This is interesting because not only did 100% of the population discuss their parents and their rationale to investing -- it was the most frequently appearing theme discussed.

The most astounding aspect of this phenomenon is the parent's ideology of investing and finances showed significant correlation with their children's view of the market later on in life, or at the least had a substantial impact on the methodology selection. Another interesting theme was that the investors who didn't have parents that provided them knowledge and discussions of the capital markets forged their own way and utilized media and education to compensate for the 'void'.

Since most individuals are inevitably going to acquire money throughout the course of their life, they are going to have to make an investment decision at some point and time; thereby, they will need to offset any 'void' of knowledge so the investor can make educated decisions. Whatever their choice of media consumption or formal education tended to be this was the method by which they had a higher propensity to engage the markets.

One investor did not have parents that discussed engagement in the financial markets and he stated the following:

> *My parents dropped out of high school; so I have basically supported myself entirely since I was 16 and that's really shaped how I look at finances. I was influenced by media growing up; my parents let me watch whatever I wanted so I watched TV shows around money and these big hedge funds. I knew I wanted to follow the money. I wanted to be rich.*

The investor began to counteract the 'void' of knowledge of investments from media. He also discussed how education impacted his view of investing. He majored in finance and was taught fundamental principles for four years. Since he did not have education from his parents this 'void' was quickly filled by the first method he learned, which in this case was fundamental analysis. One can only imagine that if it would have been technical analysis the results could have been conspicuously different -- much like we will see in a following excerpt.

To emphasize the variation, on the other end of the spectrum a participant iterated the active parenting style that his family took with him as a child and how this impacted the way he views money and investing.

> *I grew up in an upper middle class family and my father has a degree in finance. From a very young age there was a lot of training in logical reasoning.*
> *I'm also in a very comfortable position in part because of my upbringing with shrinking my life down to something that can comfortably be lived with. My earning potential has never been low enough that I have cared about the idea of getting to a point where investment would be sustainable as a fixed income.*

Both excerpts emphasize the importance that family plays on the view of finance and investing of the child. The participant mentions his family multiple times and talked about how that has influenced his decision on money.

The following is interesting to note, the participant recognizes that some parents did not discuss finances with their children because of the economical climate of the times ~ 1980's. The fact that there was no worry of money running out meant that most parents implemented a buy and hold strategy. He states,

> *Parents didn't feel the need to really educate kids on anything to do with money because there was plenty of it and there was only going to be more as far as they knew and so the*

> *climate at that point both politically and economically led to very little discussion of even the possibility of lean times. That was not a thing that got discussed. And if you wanted stuff you were in the midst of people building up all this debt that we are now suffering underneath but a lot of the most sophisticated an thus harder to really understand debt mechanisms that are in use now were just coming into practical availability and so kids didn't see their parents dealing with these. So from a basic household budgeting stand-point I think there was a lot less education that went on just during that little bit of time than is getting done now because as more people that are dealing with parents who may not have had a job or have been under employed during the last eight years.*

He recognized the reasoning that parents didn't educate their kids. He then moves forward to mention that children were observing a buy and hold strategy without active engagement, which lends itself to fundamental investing. And the methodology selection becomes almost predictable in that this participant aligns himself with more fundamental principles.

Further supporting the claim that family plays a crucial role in your investment mindset, the following was stated within an interview:

> *I definitely think community plays a role but I think the people you're around, your parents and elders play a bigger role in how you view money and investing.*

And lastly, one participant that actively uses technical trading strategies stated:

My parents left it open to me to do whatever I wanted so that kind of gave me the basic mindset that I can trade and not fall into a typical 9-5 job. I also had a bunch of help from my grandpa. He was really the first person to teach me about the markets, I guess I kind of started trading in 2011 and some of the first things that I learned were basic technical skills.

This portrays the importance of family interaction. Unlike the other participants, this participant discussed how his grandfather showed him technical indicators -- as opposed to fundamental principles -- that can be used for investing. This investor took the mindset that his parents instilled in him along with the tools that his grandfather provided and still utilizes the method and mindset (technical analysis) that he learned early in life. None of the other participants were shown technical indicators early on, and now they all actively utilize fundamental analysis. This individual utilizes only technical indicators for trading his money, and he is the only one out of the sample population that exclusively uses technical analysis tools.

This can also be associated and viewed through a lens that calls upon psychology and sociology. For instance, a child who was raised in a Judeo-Christian household that was politically and economically conservative is likely going to value those same principles later on in life. If an individual was raised by parents that were dedicated followers of an East Asian religion, then the likelihood of them supporting these same principles throughout life are exceedingly high.

Also, think about as a society, many individuals in Middle Eastern countries raise families that have differing views on women’s rights as opposed to the views set by many Western countries.

This is ideology that is passed down from the most basic family structure and it is perpetuated from generation to generation.

Therefore, after conducting this research, it appears that whatever investment method and financial ideology the child is exposed to, then those are the methods they are prone (emphasis on prone) to utilize later on in life. If there is no information being disseminated to the child, then whatever he or she first learns is perhaps what he or she will utilize later on in life.

EDUCATION:

I accentuated earlier, through a quote from an investor, how powerful media can be as an influence on investment methodology selection. Media and education are supplements to the financial knowledge that parents often withdraw their children from. Since most business schools teach fundamental principles and the overall consensus of materials available on investing are fundamental based, individuals tend to alleviate the 'void' with fundamental ideology -- thereby supporting fundamental analysis as the method of engagement.

To make the point, two of the individuals have a background in statistics. The interesting characteristic about these individuals is that they both affiliate more with technical investing.

> *Yes, I do think the degree has played a role in my investing. My degree is in statistics so I have some understanding of the concept of variation and how to analyze variation when you are dealing with the stock market. It makes it easier for me to conceptualize and understand what's being said. The degree in statistics takes the mystery out of it for*

someone that's never done any kind of statistical training. When you start talking about confidence levels or regression bands that could be more threatening to them.

The other statistician stated the following:

Yes, having a background has influenced my views. I conceptually understand risk; risk is essentially measured by standard deviation or beta. At first, I was a non-believer in technical analysis then I began to realize that the variation in the market is operating different from the variation we see in most business process, so that was kind of interesting to me.

The participant with a background in business analytics and a family that discussed investing – specifically technical trading -- stated the following:

I did business analytics, I started developing my own trading programs and I was using what I learned and it provided me a better understanding of statistics and what all went into it.

Two of the investors quoted above had parents that didn't discuss with them financial advice. These investors filled their 'void' with education -- in this case statistics, and that gave him a foundation to better understand technical principals. Therefore, it can be assumed that the choice of degree can influence the investor's choice of methodology by which they invest and or trade.

The next excerpt is going to proliferate this phenomenon because the interviewee has a business background that isn't necessarily statistically heavy and he currently uses more fundamental principles.

> *I majored in finance with a concentration in international business… I align more with investing because I am much heavier towards fundamental analysis; I like to know what I am investing in… The school preaches fundamental analysis.*

After analyzing the transcripts it becomes apparent that the following themes are relevant:

1. Investors are greatly influenced by their family and parental guidance.
2. There appears to be a correlation between the education an investor pursues and the method by which they choose to engage capital markets.
3. The Efficient Market Hypothesis doesn't seem to positively or negatively impact investors and it doesn't seem to be an influencing factor in their methodological choices.
4. Whenever there is a 'void' formed from the lack of parental influence, this 'void' seems to quickly be consumed with media consumption and a formal/informal education. It appears through the themes that emerged that whatever method materializes to the investor first is the method they choose to select.

Given the narrow breadth of this study, it will be necessary to further investigate these themes since they didn't perfectly correlate with all eight investors at all times. These are themes that can be used to derive future research and be empirically and statistically tested.

Limitations:

Given the small number of participants (eight) there is obviously much more needed depth and breadth of research into this phenomenon. Future research can evaluate many more retail investors on a greater scale to achieve an even greater understanding.

Since, all of the participants were males and within a similar geographical area there is room for expansion of gender and location.

This study discovered probable themes that had a significant influence on the investor; however, there was little research into each specific theme. Future research should isolate each of the discovered themes above and precisely conduct research into each theme. The framework of this study was designed to produce a theme(s).

Implications:

This can have a profound influence upon the retail investor and the financial planning profession. The normative advice that can be derived and produced from this research is significant. Given that many individuals are going to need to engage in the investment process at some point and time in their life, the findings in this research can more accurately depict to the individual their methodological investment propensity based off their background. This would be the normative implication to the research.

The financial advisory and planning profession can benefit greatly from these findings. Regardless of the retail investor's knowledge on investment methodology, the planner could ask a series of questions that would revel the certain background characteristics of the individual. This will allow them to provide a comprehensive plan that can be tailored to specific clients' needs.

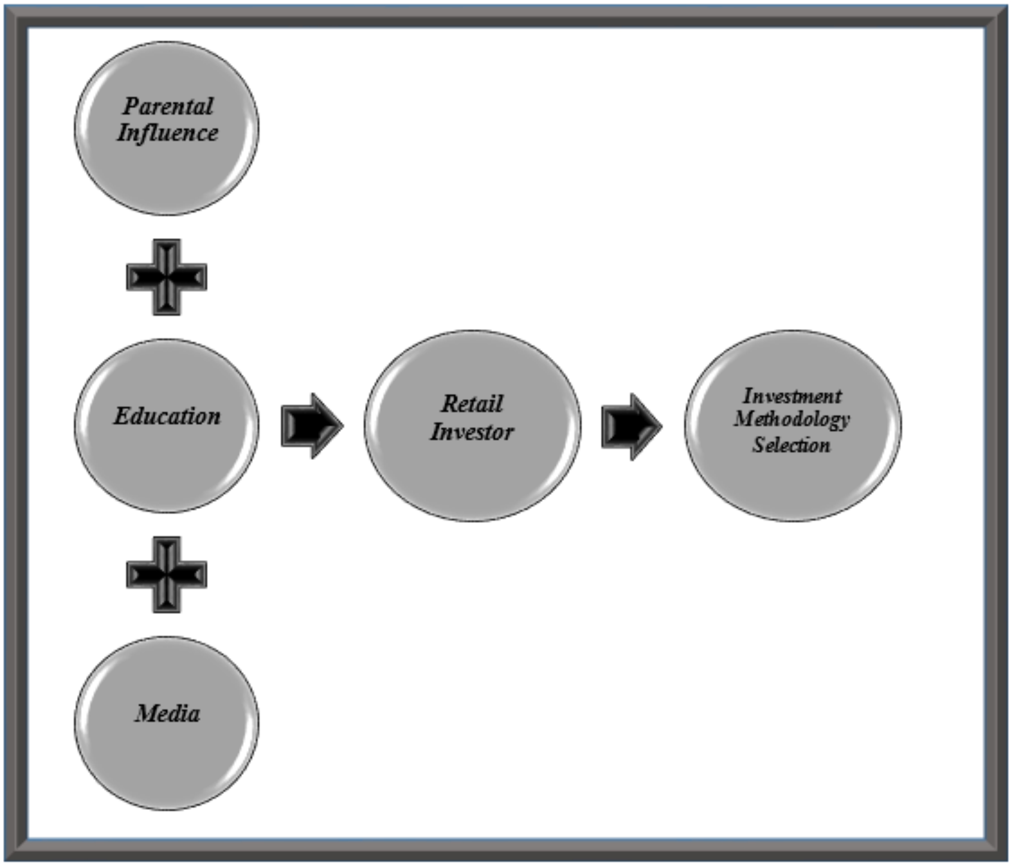
Also, the financial planning industry can implement a more efficient way of marketing. Instead of blanket marketing their prospecti out to an entire community arbitrarily, now they can take advantage of targeted marketing.

Given that one of the emergent themes was the significantly potential influence family can have on an individual, a financial planner could hypothetically retrieve data from the census or other data sources and mold a precise marketing plan given the demographics and common family dynamics of the surrounding regions. This also opens doors to entrepreneurial opportunities. There is, indeed, space in this industry for a computer program that takes in demographic data, processes it, and then produces a specific marketing plan for the planner.

Conclusion:

Much like past psychological and sociological studies have found, this research shows the impact that family ideologies concerning financial investments has on children. In fact, 8/8 of participants showed some signs of influence by the dissemination of knowledge, or lack there of, from their families. The families that neglected to discuss finances and investing with their children, for whatever reason, were filled by media and education. And the children that were educated by their parents tended to perpetuate these views throughout life. Other factors that were discussed in the interviews such as risk tolerance, money, and experience were discussed but did not dominate the conversation nor show significant signs of influence as family and education. And since many studies have gone into risk, money and investment experience, this research brings educational and parental influence into the lens.

Diagram #1



This diagram represents a proposed model that depicts the emergent themes – influences – on a retail investor. These categories directly impact the retail investor and subsequently have a direct relationship on their propensity to choose either technical or fundamental analysis.

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Appendix

Interview Guide

Thank you for agreeing to meet with me today. As we discussed when we set up this meeting, I would like to discuss with your views on financial goals and how you try to achieve them. You are the expert on your own experiences. There are not any right or wrong answers.

As the informed consent form states,

- you can ask to end the interview the interview at any time,
- you are only providing me with permission to interview you today, and
- all information is confidential

Content

Please tell me about your background, and specifically how it relates to setting and achieving financial goals. Get at:

- Upbringing
- Age
- Formal education
- Jobs
- Hobbies and interests (risk tolerance)

  Use probes:

  "Tell me more about that please," "how did that make you feel?" "is there anything else you would like to add," "what happened next?"

Have discussion around:

- Upbringing
- Past experiences
  - Self and others (friends, family)
  - Making and losing money
  - Doing himself or hiring brokers/fund managers
- Attitudes about
  - Money,
  - Investing,
  - Trading
  - The way the market works (perfect market hypothesis)
- Risk tolerance
- Knowledge and skills
  - Fundamental analysis

    - Technical analysis
    - Trading (stocks, options, futures, currency, metals…)
- Confidence

Potential Questions (Open)

1. What in your mind is a good way to achieve your financial goals?

2. How has this view changed over the years?

3. In your own words, what do these terms "mean" to you: to be "invest in the stock market" and to "trade the stock market?" Compare and contrast them if you can.

4. In your mind, how can either or both relate to reaching your financial goals?

5. What do you currently know about technical and fundamental analysis? How did you learn this?

6. What is the time horizon of your financial goals?

7. What is your view on taking risk with your money?

8. What does a "bad" market look like to you? Given that, how do you react when the market is performing "badly?"

9. How do popular opinion and the media impact your strategies?

10. What do you see other people to reach their financial goals that you agree with and that you do not agree with and why?

11. What processes do you follow to invest (trade)? Who else is involved and in what ways?

12. What does money "mean" to you?

13. Who if anyone, organization, or information source do you look to for information related to reaching your financial goals? To investing? To trading?

Is there anything else on this topic you would like to add that I did not specifically ask about?

If I have follow-up questions, may I contact you again?

Thank you very much for spending time with me. I will provide you with an executive report of my findings after I complete the project later this year if you provide me with your contact details.