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# Patterns of Social Behavior Among Individual Investors

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PATTERNS OF SOCIAL BEHAVIOR  
AMONG INDIVIDUAL INVESTORS

by

Stephen Lloyd

A Thesis Submitted to the Faculty of the Graduate School  
of Loyola University of Chicago in Partial Fulfillment  
of the Requirements for the Degree of  
Master of Arts

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## VITA

The writer, Stephen Thomas Lloyd, is the son of the late Thomas Lloyd and Gladys Victoria (Critchell) Lloyd. He was born on April 24, 1948, in London, England.

His elementary education was obtained at the New City Junior School, Plaistow, London, from which he entered Plaistow Grammar School, London, where he later majored at advanced level in English Literature, French, and Medieval History, and was graduated in July, 1966.

After a period of extensive foreign travel, teaching, and business experience, he entered London University in September, 1969, reading Sociology, and became an active member of the Sociological, Film, and Travel (British Universities North America Club) Societies. He graduated magna cum laude in July, 1972.

In September, 1972, he joined the Sociology Department at Loyola University of Chicago, and was awarded the Master of Arts in Sociology in February, 1975.

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## CHAPTER I

### THE PROBLEM AND A REVIEW OF RELATED LITERATURE

There are a number of problems that confront investors in the stock market. This paper will examine these problems sociologically. However, this examination will be but one part of the design of this study. Much of the paper will also consist of a detailed exploration of the social world of the investor, his socialization, participation, interaction, his view of the diverse agencies of the stock market, and a detailed analysis of patterns of social behavior in his investment milieu.

The 1970 New York Stock Exchange census reported that the total of individual shareholders in the United States was 30,850,000, or 15% of the population. Yet the stock market has hardly been studied sociologically. The only study which has taken the view of investment behavior as a social phenomenon and investors in stocks as participants in a specialized milieu with a distinct culture, is that of S. Kirson Weinberg (1974).

Weinberg suggests the following to be among the reasons for the lack of sociological research into the stock market investment milieu: the late entry of sociology into the universities as an academic discipline resulted in its having to deal with residual categories of human behavior. Shareholders and investors are not as accessible for study as were persons who had been institutionalized and who were therefore a captive group of subjects for

sociologists. Sociologists have been concerned with social control and therefore with deviants; investors were not deviants nor were they social problems requiring enquiry as a prelude to corrective action. Also, it has been suggested that the framework of sociology did not lend itself to the study of the stock market, except on a survey level.

Sociological investigation has so far reached only the more distantly related aspects of the stock market, such as the structure of the corporation (Emerson and Latcham, 1954), the role of the broker (Ney, 1970), rumor in the stock exchange (Lawson, 1906), and stock market investment as a form of gambling (Darvas, 1964).

Perhaps one of the most important areas of shareholder investment for sociological theory in the past fifty years has been the socio-political and socio-economic. This area has been the main concern of the managerial revolution debate, well worth discussion at this point since it may serve to elucidate the position of the small and moderate individual investor vis a vis ownership and control of corporations in which he invests.

The managerial revolution debate is one aspect of convergence theories in sociology which see bureaucratized, industrialized, and urbanized societies as moving towards a similar condition of diminished social differentiation and a general state of "middle-classness." Typical of these theories are those of Clark Kerr on industrialization and Louis Worth on urbanization.

Clark Kerr (1964) stresses the long-term standardizing pattern of what he considers to be the "logic" of industrialization; industrial societies are becoming increasingly comparable in their institutional

organization, with a distinctively pluralistic or "democratic" distribution of power.

The work of Goldthorpe, et. al. (1968) and Myrdal (1963) suggests that Kerr's propositions have been grossly overstated and are not substantiated by empirical data on social differentiation and industrialization, and that political factors are increasing, or at least maintaining social inequalities.

The theory of Louis Wirth (1964) is based on the assumption that urbanization--the process or trend leading to a growth in the number of cities--creates urbanism, a set of social institutions and attitudes, held in common by city dwellers. According to Wirth, the key variables bringing about such conditions are size, density, and heterogeneity.

Herbert Gans (1962) argues that Wirth failed to take into account several vital demographic, economic, and political factors, which, once considered, give ample evidence of a vastly different picture of city life, and of an urban economy that is shaped by national economic and political systems.

Berle's (1954) key proposition is similar to that of Wirth and Kerr in that it involves a view of a dawning middle-class society. Berle believes the rise of the new stock and share capitalists will result in collective ownership, thus sustaining the "evolutional declassification" of society. The old owner-controlling class is seen as becoming less influential as the control function of the owners in business is superseded by a new managerial class operating on behalf of shareholders.

What Berle does is to introduce the criterion of the proportion of shares owned by the largest shareholders as an index of relationships between ownership and control. The new managerial class is viewed as



"captains of industry," guided by a sense of responsibility to society and to the increasing numbers of middle-class shareholders.

Burnham (1960), while accepting the stock/share ownership argument of Berle, argues that it is not a new form of social organization (collective ownership) that is taking the place of the old system, but rather the establishment of a new and powerful group: the managers. Managers, representing the organization and leadership of industry would inevitably exercise power in their own interests and over the financiers and stockholders, both of whom had been necessary for the existence of capitalism, but whose power Burnham now considers to be decreasing.

Florence (1961) suggested three ways in which the managerial class might attempt to exercise control over shareholders: by "capital gearing," directors might distribute debentures in preference to voting shares, and not lessen their control. Secondly, "stock gearing" creates greater diversification of voting rights within large companies. Interlocking directorships, discussed at some length by Aaronovitch (1955), serve to enhance the power and control of key corporate executives.

Bearing the above arguments in mind, it is important to ask if, while share ownership is indicative of a certain affluence and is vital to the capitalist economic system, it is indicative of an increased homogeneity, equality, and democratization in contemporary society. This paper will also examine whether, although investment behavior pertains to a particular segment of contemporary society--the upper middle-class--the small and moderate individual investor has little power or influence over the actual business of stock investment policy or decision making; this is indicative of the extent to which he participates in frequent or daily trading, large investments, speculation and profit making.

The stock market is a specialized milieu and investors are participants sharing a distinct culture. Investment is often a central life interest, with considerable time spent on investment pursuits, learning the culture and symbols, sharing this form of social action with family and friends, and experiencing satisfactions, frustrations, hopes, and aspirations. But despite all the acculturation, the investor is often on the receiving end of investment culture, learning the details of a scene that is being set elsewhere by specialists, institutional and large investors and brokerage companies, who for the most part are the only groups with the knowledge and expertise to profit from their investment experiences.

## CHAPTER II

### THE METHOD

The concept of participant observation. . . signifies the relation which the human observer of human beings cannot escape--having to participate in some fashion in the experience and action of those he observes (Blumer, 1966).

It has been observed earlier that the stock market investment milieu is a specialized milieu. In order to understand the meanings which stock investment has for participants in this area of social action, and to employ the principle research strategy of this study (the questionnaire), it has been necessary to learn something about the social milieu. Significant in the procedure adopted has been the slow, informal learning of the culture of the stock market investor and the use of participant observation during the numerous discussions and meetings with investors and brokers on various aspects of the market and investor behavior. In the past this method has found favor among social anthropologists. However, unlike the social anthropological field study, the present study focuses not so much on a community as such, but on a dispersed population with a common culture. If there are any communal ties that bind investors to each other, they are the ties of the mass media, for the present study views investment behavior as a further aspect of mass behavior.

In this study, participant observation involved a commitment to adopt some of the perspectives of investors by sharing and discussing their day-to-day experiences. Participation was for the most part known to the observed investors who were overwhelmingly positive in their wish

to transmit as much information to the researcher as possible about the culture of stock investors.

The information contained in Chapter III was derived from open-ended, unstructured interviews and discussion held at the homes of investors, at their offices and at brokerages. Denzin (1970) has noted that a central assumption of participant observation is that the investigator shares as intimately as possible in the life and the activities of those he is studying. This may involve, as in the case of the ethnologist moving in with the group for an extended period of time, joining in their daily rounds of activities, and to an extent participating in the symbolic world of those under study.

The present writer was fortunate in finding himself, for a protracted period, situated in the financial district of Chicago. It was therefore easy to get access to investment houses, to learn the investment language and symbolism, and rules of etiquette. It is in this environment, and by reading investment publications, listening to investment reports and watching the "big tape," that it was possible to learn of the different types of investors, of the stock market folklore, the different stock indexes, and their history and status.

Many valuable details of stock market culture were learned from somewhat less formal meetings, over drinks, at lunch and during leisure hours.

Throughout this part of the research project many notes were taken and were later formalized into what follows in this chapter. In some cases investment company literature has been used. However, since much of this literature was published in the form of a brochure and not for

general distribution, no formal reference will be made to them in what follows.

In Chapters IV and V, the principal tool of sociological research has been the questionnaire. The researcher, having gathered experience and knowledge in stock market culture, chose the questionnaire in preference to verbatim interview reports, since the former provides a structure within which the subjects may be mindful that their experiences are of sociological importance, even though they may appear unimportant to the subjects themselves. The questionnaire provides a guide for the subjects as thoughts are organized and conveyed to the sociologist in such a manner as to be amenable to statistical analysis. At the same time subjects can still express opinions of their own.

Dimensions of the questionnaire which was used in this study covered such areas as: sociopersonal dimensions such as age, sex, extent of education, ethnicity, religion, occupation, salary, residence patterns and social status; developmental history of the individual's investments; attention to family influences and adult experiences in the stock market; nature and subjective meaning of experiences; recreational and avocational activities; satisfaction and value of investment experiences to the individual's self-perception; extent of participation in stock exchange culture. This method of investigation covered most aspects of the individual's investment experiences, studied both synchronically and diachronically.

In addition to attitude questions, there was plenty of scope for the individual to personalize the questions and to bring them within his frame of reference, although this has been accomplished without reliance on open-ended questions.

The original sample of 35 subjects was selected on the basis that all of them were individual investors of the upper-middle class and chosen either through personal contacts, broker's leads, or recommendations by other respondents. This method of selection has in no way biased the quality of responses, since every attempt has been made to supervise the administration of questionnaires. In the event of incomplete responses in self-administered questionnaires, respondents were followed-up in order to obtain full completions. The nature and size of the sample was not intended to be conducive to the formulation of sociological generalizations, but rather to the study of patterns of social interaction and behavior on a case-study basis.

Of the 35 subjects selected, two failed to respond. These non-respondents were members of a group representing 20% of the total sample who were contacted first by telephone and then by mail. Two telephone follow-ups were made, and in order to avoid embarrassment, no further follow-ups were attempted. Business pressures had previously been given as the reason for non-response. The final sample consisted of 33 subjects.

In order to enhance the qualitative nature of research and to maintain content validity, basic research has been supplemented by the use of structured interviews. These interviews with a stock brokerage executive and a former investment counsellor have been thought to elucidate the nature of the role of the investor, as seen by other members of the investment community.

## CHAPTER III

### THE SIGNIFICANCE OF STOCK MARKET INVESTMENT FOR SOCIETY AND AS AN AREA OF SOCIOLOGICAL ANALYSIS

Brokers, experts, economists, and politicians are agreed that investment is vital to the economy. In a capitalist economy, capital like labor must be free to work where it wishes. Part of this freedom is the right to transfer funds from an investment in one enterprise to another. The stock market provides that means, serving as a marketplace for money.

If business is to have the money it needs in order to promote economic growth, and if the growth rate is continually rising, then business will be in constant need of more and more investment capital to build new plants and replace old equipment. From the turn of the century to the end of World War II, business put \$218 billion into plant and production equipment. During the following decade, expansion accelerated so rapidly that \$232 billion of capital was needed--more than in all the preceding forty six years. Industry continues to invest. In 1970, such investment expenditures exceeded \$83 billion, with forecasters predicting that the level of \$100 billion would be reached by 1980 (Engles, 1971).

Not only is investment vital to growth in the economic system. Many people look upon the stock market as an indicator of the state of business and of faith in the economy. Some, especially the media, believe that business trends can be predicted by the way the stock market acts over a period of time. This theory, however, is not quite true.

For example, business conditions began to look bad in the late

spring of 1929, but it was not until late October of 1929 that the market began to "slump."

In 1945, when the changeover from a wartime to a peacetime economy retarded business, the stock market continued its upward trend until mid-1946, when it began to decline. By this time, business had begun to recover, and continued on an upward course. The stock market failed to reflect the post-War boom until early 1949.

Although the stock market does not predict business conditions, it does, after a while, follow business trends, since stock values are ultimately determined by the country's economic health. Ironically, the 1969-1970 market slump did sound an alarm for the poor economic period ahead.

Another way in which the importance of the stock market to American society can be seen is in the manner in which the diverse agencies of the mass media are sharply aware of its value as an index of national reaction to political crises. In fact, the stock market is extremely sensitive to rapid changes in the political structure of American society.

On Monday, September 26, 1955, when the market opened after the news of President Eisenhower's heart attack had broken over the weekend, sell orders far outnumbered buy orders. It was only the steady buying on the part of specialists that prevented sell orders from depressing prices beyond all reasonable levels before buying sentiment could be generated. On November 22, 1963, when news of President Kennedy's assassination hit the market floor, panic selling engulfed the floor. Seventeen minutes later, the exchange was closed by the governors.



But there are other ways in which the culture of the stock market permeates the structure of American life. The New York Stock Exchange is a sophisticated network of organizations, partnerships and corporations that influences national news, affairs and business, and in every city in the nation. The Exchange Community's work force--members and allied members of the Exchange; registered representatives; employees of the Exchange itself and its subsidiaries--totalled 147,000 persons at the end of 1972. In 1969, it was even higher--165,000 (N.Y.S.E., 1973).

Stocks of the biggest and best known corporations in America are bought and sold on the New York Stock Exchange. In World War II days, the average daily trading volume was less than a million shares. By the last quarter of 1968, trading volume had increased to an average 15 million shares a day. The 1969-1970 slump curtailed trading activity, but average daily volume still exceeded 10 million shares. With the market revival of 1971, there were many 20 million share days which is the equivalent of more than a billion dollars worth of trading (Engels, 1971).

The securities of some 3,000 companies are listed on the thirteen registered stock exchanges in the United States, and on the basis of dollar value of all stocks traded, about 75% of the business is done on the New York Stock Exchange--the Big Board as it is called--with 1,399 listings (N.Y.S.E., 1973).

The second largest exchange is the American Stock Exchange with about 1,000 listings. This exchange has moved rapidly, more than the New York Stock Exchange, to automate its procedures and to maximize computer application in the conduct of business--including a stock-watch technique to spot unusual trading patterns for prompt study by the staff.

The third biggest United States Exchange, the Midwest Stock Exchange, came into being in 1949, when the Chicago Stock Exchange consolidated its activities with those of other exchanges in Cleveland, St. Louis, and Minneapolis-St. Paul.

Other regional exchanges include the Pacific Coast Stock Exchange which is located in both Los Angeles and San Francisco, the Philadelphia-Baltimore-Washington Stock Exchange, and those in Boston, Cincinnati, Detroit, Pittsburgh, Salt Lake City, and Spokane. Also included are the Chicago Board of Trade, the nation's primary commodity market, and the relatively new National Stock Exchange, organized in New York in 1962 by another commodity exchange, the New York Mercantile Exchange. All of these exchanges are registered with the Securities and Exchange Commission, which means in effect that the Commission has approved their rules and regulations as being adequate for the discipline of any member who violates his public trust.

The regional exchanges were organized originally in order to provide a marketplace for the stocks of local companies. However, as the local companies grew and acquired national reputations, many of them wanted their securities on an exchange in New York City, the nation's biggest money market.

The importance that society places on these institutions is evident from the manner in which whole areas in the city have been named after the key financial districts. The "La Salle Street area" of Chicago and "Wall Street" in New York are typical of this tendency.

What is an investor? It is a person who participates through his trading in stock transactions, and by owning stock shares interests and

concerns with other shareholders regarding the condition of the market. It is a person who is willing to take a moderate risk with his money for the sake of earning a moderate return, which in the case of common stocks, might mean an annual income averaging 4% and a growth factor of about the same amount, representing the increase in value of holdings over the years. An investor usually has his eye on long-term values to be realized over a period of years.

In contrast to the investor is the speculator, a person who takes a big risk in the hopes of making a big profit as a result of an increase in the price of a stock. A speculator usually hopes to make a profit in a relatively short period of time.

Another type of investor is the daily trader, a heavy trader who might move in and out of a given stock several times during one day's trading. He gets in and out of a given stock generally for short-term profit.

Institutional investors, although like the last two examples, are not the subjects of this study, are the most substantial investors in the stock market. They consist of insurance companies, investment companies, non-insured pension funds such as corporations and state and local governments, foundations and other charities, and lastly, common trust funds and mutual savings banks.

In the early sixties, institutional investors accounted for only 15-20% of trading volume on the exchange. Preliminary estimates indicate that institutional holdings were 29.6% of the total market value of all NYSE-listed stock at the end of 1972 (N.Y.S.E., 1973). These institutions

with such tremendous buying power have been able to bring pressure on the exchange and to effect changes in such matters as the commission system. They often get private placement on a bond or stock issue that may never be marketed publicly.

Becoming an investor involves beginning a business relationship with a brokerage firm. This means that all new investors must open an account with a firm before he can either buy or sell securities. Opening an account with a brokerage firm involves establishing credit so that the broker is sure that securities ordered can be paid for. When the purchase is made, the broker assumes the responsibility of paying for the order and sends a bill for the cost of the shares once the order is executed. The price of the stock is rarely known when the market order for the stock is made. Most business is transacted over the telephone.

In the case of a Monthly Investment Plan account, the broker has no credit problem, because the customer makes his monthly or quarterly payments in advance of the purchase. Husbands and wives sometimes open joint accounts. Joint accounts are also used by individuals who have pooled their resources in a cooperative investment venture, often just for the sake of reducing commission costs on their trades. Accounts are sometimes opened for children. In 1961, all states permitted gifts of stock to children (minors). As a result, stock ownership among minors has increased at a faster rate than in any age group in recent years. In 1962, 450,000 minors owned stock. By 1970, the number had increased to 2,221,000 (Engels, 1971). Certain individuals, instead of opening a cash account open a margin account, which permits the purchase of securities by payment of only a portion of their purchasing price. The broker pays the balance on purchases in a

margin account, and that money may be on loan to the investor, at an interest.

Wall Street bears the primary responsibility for recruiting and educating new investors who must provide vital investment capital, and it does so through a sophisticated network of booklets, pamphlets and letters to explain securities. The educational effort uses advertising in newspapers, magazines, television, radio, even billboards. Some notable agencies of socialization attempt not so much to advertise in the vulgar sense of the word, but rather to inform the public of stock market developments, trends, fluctuations and economic indicators. Newspapers are important among these.

All major daily and evening newspapers contain a financial section, and it is here that an individual will find the listings of stock prices and averages, but also information about business in general and about individual companies.

A regular feature of the financial section is a daily column in which the action of the stock market is reported and analyzed in terms of various technical factors. Such features provide a means of acquiring some familiarity with standard jargon, such as "bull market" (trend of steadily upward moving stock prices over a long period of time), "technically strong" (heavy volume of sales when stocks go up and light volume when stocks go down in a bull market), "technically weak" (volume of sales is heavy on the down side and light on rallies), "short interest" (applied to NYSE--the total number of shares of Big Board stocks that all sellers are short).

It is in the pages of the financial section and the specialized

publications that the investor learns about the vital factors which determine the values of companies' stocks--factors such as industrial production, distribution, retail sales, orders and prices, consumer demand--as well as data on credit, bank deposits and interest rates.

An investor is likely to seek the detailed view of the business and investment scene by subscribing to a specialized publication, such as the Dow-Jones daily Wall Street Journal (estimated 4.3 million adult readers) (Wall Street Journal, 1973) and Business Week. Or, he may seek out the various government publications which provide data about business conditions. Notable among these are the Council of Economic Advisor's Economic Indicators, a monthly compilation of more than 200 basic economic measures, and the Commerce Department's Survey of Current Business, which provides a monthly collection of several thousand statistical series, originating both in government and in business.

In addition to general business publications there are financial periodicals such as Barron's, Financial World, and Forbes, that undertake to appraise the business situation primarily in terms of stock market values.

Two principal stock exchanges also have their own publications which are available to investors. The New York Stock Exchange publishes monthly its own Exchange, and the American Stock Exchange makes available its own American Investor.

For a number of months now, much attention has been given in the mass media to the daily stock averages. Every weekday, newspapers, television news and radio, release a report on the average movement of the

New York Stock Exchange prices and the concern shown serves to reinforce interest and attention to stock market developments.

The best known average is the Dow-Jones average, which combines averages covering four areas--industrial stocks, transportation stocks, utilities and a composite average which is supposed to reflect conditions in all divisions of the market.

Over the years, these averages, which date back to 1896, have come to be accepted as "gospel", partly because Dow-Jones and Company, which originated them, publishes the country's leading financial paper, the Wall Street Journal, and operates the ticker service known as the "big tape", which can be found in virtually every major bank and brokerage office, and a report of which can be heard over the telephone.

The sovereignty of Dow-Jones' industrial average has been challenged very often, on the basis that it is based on only 30 stocks, many of which are "blue chip" stocks and not representative of the market as a whole. Also, since many of the stocks have been split several times over the years, the average has become seriously distorted.

In recent years, increased reference is made by the media to the 500-stock index of Standard & Poor's Corporation, the nation's largest securities research organization. The 500-stock index, covering stocks that account for 86% of the total value of all Big Board stocks, is considered by many to be a more scientifically constructed index and provides a far more accurate picture of what is happening in the market. But despite this accuracy, Dow-Jones--by virtue of its age and its popularity with financial editors of press, radio and television--continues to be the principal average in the public mind.

Lesser known indexes are also available to the investor. Dissatisfaction with the Dow-Jones average prompted the New York Stock Exchange in 1966 to begin publishing its own official composite index, as well as four group indexes--industrials, transportation, utilities and finance. The composite index covers all 1,399 common stocks on the exchange and is computed cautiously, and publicly announced on the exchange ticker every half hour.

Another new index also made its debut in 1966: the first index of the American Stock Exchange securities (Amex)--devised, computed and published hourly by the exchange itself. Together with the other averages, it is one of the vital ways whereby an investor can keep in touch with the happenings of the day's trading, in addition to reading the daily published listings.

There are investment clubs in which novices to the field of investment can be socialized into the culture of stock investment. A club may consist of a dozen or more people who know each other either as family members, neighbors, business associates, commuters, and who meet on a regular basis. Members pool small amounts which are invested in a favored stock. In 1970, it was estimated that there were at least 60,000 clubs with approximately one million members (National Association of Investment Clubs, 1971). Brokers view clubs as good opportunities for educating club members in the techniques of investing, and therefore, for generating a worthwhile individual account.

As in other areas of American consumer behavior, advertising plays an important role in channelizing consumption and spending. Many brokerages



advertise freely in major publications and other media agencies. However, there are stringent checks on more specialized forms of advertising. During the period when a new issue is under prospectus regulation by the Securities and Exchange Commission, the securities industry is forbidden to disseminate any public information about the new issue or any other securities of the issuing company, and the advertising of the new issue is severely limited. The complete prospectus, containing all essential facts about the company, can be published, but barring that, the only other kind of advertising that can be used is the so-called tombstone announcement, in which no information is provided beyond the name of the issue, its price, its size, and the names of the underwriters and dealers who have it for sale.

Those who do not know the name of a broker may look in the financial section of a newspaper for brokers' advertisements. As with all other sales promotion literature, these ads must be approved by the New York Stock Exchange before publication. Furthermore, almost all member firms submit their advertising material and sales literature to the scrutiny of their own legal counsel as well as to the exchange.

Although they represent efficient agencies for the dissemination of information, many investors find that the services of an investment counsellor--whose sole business is to guide the investment destiny of his clients, making all the buying and selling decisions for him and seeing that they are properly executed by a brokerage firm--are beyond his reach as an individual small or moderate investor.

Even the investment advisory account service offered by many big-city banks cannot be justified for any person who does not have at least

\$100,000 to invest.

The small investor can, however, look for helpful financial advice to investment advisory services who offer a number of publications and services. The various publications fulfill a number of functions: some present compilations of statistical information. Some undertake to review business conditions as they affect the investment outlook. Some provide recommendations about hundreds of different securities--what to buy, what to sell, what to hold. Some offer a more personal and individual service including counselling services. Many publications are sold weekly on a subscription basis, offering their own rating system covering hundreds of different stocks, advising subscribers whether to buy or sell, and most of them maintain supervised lists of those investments that they consider particularly attractive.

Certain of the investment advising publications are regarded by brokers as being the "quacks" of the investment business, and on several occasions the United States Supreme Court has enforced compliance with the Investment Advisors Act of 1940. This act was designed to "protect the public and investors against malpractices by persons paid for advising others about securities."

Typical of the publications considered by the business to be ethical and responsible are Standard & Poor's Corporation Reports, Stock Guide and Outlook, and Moody's Manuals and Stock Survey. These two firms supply investors with basic facts and figures on all securities sold in the public markets and on the companies that issue the shares. Their publications consist of complete and detailed information on stocks, both listed and unlisted. Their weekly market letters include a confidential bulletin featuring a

supervised list of recommended investments.

Many communities and cultures develop over the years their own distinctive folklore. The stock market is no exception. A number of axioms about the market have come to be accepted as gospel, and compose a stock market folklore which the investor learns through interaction with other participants in the investment milieu. Like most folklore, these axioms contain a certain element of truth and a certain element of non-truth.

The following are examples:

"Buy 'em and put 'em away."

This axiom recommends that the investor should not start worrying about fluctuations of a point or two and try to sell on every turn. Rather, he should think about long-term capital growth. However, securities are perishable and values do change with the passage of time.

"Don't sell on strike news."

Labor troubles in any big company or in any industry are apt to be well publicized, and do have an effect on confidence in the market, although some people think that a strike does damage a company's long-term profit outlook. However, most strikes end with the company having to face a higher labor bill, and frequently the demand for a company's products, which a company could not fill while its employees were on strike, has been happily filled by a competitor.

"An investor is just a disappointed speculator."

This cynical observation has a measure of truth in it. Most stock buyers hope for a big profit, even though they do not like to admit it. So when the market drops, they do their best to assuage disappointment by assuring themselves and everybody else that of course they never expected

to make a killing--they were just investing on the basis of the fundamental stock values.

"A bull can make money. A bear can make money.  
But a hog never can."

This axiom is intended as a warning to over ambitious investors, and as such is indicative of the normative sanctions that are present in what is so often viewed as a laissez-faire milieu. The desire to make money is the prime motivating force of the stock market and stock investors. But greed can be dangerous, as in the case of an investor who makes a killing once in the market and may think that this sort of performance can be repeated everyday. The axiom recommends that an investor hold on to a good stock that is paying a good return and seems likely to continue doing so. It is too easy to lose all by risking speculation.

The above discussion has explored the culture of stock investment, the way an individual joins the stock market community and how he learns the culture of that milieu. The following chapter is concerned with the sorts of people who are likely to come into contact with stock investment culture, to become investors and to view investment as a central and fluctuating life interest which influences the way they view the future, political, social and economic affairs, their reading and their associations.

## CHAPTER IV

### WHO INVESTS

In 1952, the Brookings Institute, on behalf of the New York Stock Exchange, enquired into the number of stockholders that there were in the country. The Brookings Institute reported that the total was 6,490,000, representing 4% of all individuals and 10% of all families in the United States. About 20% had become stockholders in the preceding three years. In 1956, Alfred Politz Research, Inc., made a census of shareholders and reported a total of 8,630,000 in publicly owned corporation; an increase of 33% in four years. An upward trend in the total number of shareholders in the U.S.A. has been observed by the New York Stock Exchange censuses. In 1970, the Exchange reported a total of 30,850,000 U.S. residents, or 15.1% of the population were stockholders, as against only 10.4% five years earlier (Kimmel, 1952).

Over the past two decades, shifts in the age distribution of the total population have exerted only a minor influence upon the distribution of the shareholder population. Investing traditionally has been an activity for older folks.

So, while the median age of the general population and shareowners has moved downwards, the average age of shareowners has remained about 20 years above that of the whole population. Persons from the ages 45-50 are more numerous than those in any other ten-year age bracket from 35-65 and over. The number of minors owning stock increased from 1,280,000 to 2,221,000--an increase of 75%--in the years 1965-1970 (N.Y.S.E., 1970).

In the present study, 81% of the sample was male, which is not representative of the total shareholding population of the United States. According to the 1970 NYSE Shareholder Study, from the very first shareholder survey in 1952, the adult population has been about equally divided between males and females. In 1970, the NYSE study found 50.1% of individual shareholders were male.

Shareownership is closely correlated with educational attainment, which directly influences income level. But more than that, the better educated are more likely to come into contact with investment information. In terms of educational attainment, 94% of the present sample advanced to at least college level, about half of these (30% of total) attended either graduate school, business school or medical school.

Education is also related to occupation. The best educated group in the nation--professional and technical people--form the largest category of shareholders (36%) a position they share with the executive-managerial occupational group. Clerical and sales personnel composed 3% of the sample, skilled and artisan 12%, retired, housewives, both 3% each, and students 6%. No respondents were members of the semi-skilled and unskilled group, since the sample was of the upper middle-class. The average income of the sample was \$29,460 (median \$20,000).

The structure of the household is a strong influence on the buying habits of the individual. The shareowning household is somewhat distinct from the average American household in many ways. The household owning shares, for example, is more likely to be a stable, married unit; 75% of the sample were married, 78% were heads of households, and 16% were spouses, with a median household size of four persons. It was observed that 54%

lived in single homes and 22% in high rise buildings. Of the total households, 63% were owner occupied, with an average home value of \$80,250 (median value \$59,000).

While the number of shareholders in the U.S.A. was increasing rapidly between 1952 and 1959 (6.5 to 12.5 million), dispensable income increased from somewhat over \$200 million to about \$390 billion, or in constant dollars from \$1,675 per person in 1950 to nearly \$2,000 per person in 1961, although the population increased by only 13%. This rise continued through the decade of the sixties, so that by 1970, disposable income increased to over \$610 billion, and shareowners multiplied by two and one half times to 31 million (Hazard and Gout, 1962).

That many Americans have disposable incomes beyond their necessities is indicated by the fact that shareowners in the sample evinced activity in many other areas of investment activity: 78% have life insurance, 90% have savings accounts, and 63% own bonds (19% government, 42% corporate and 38% have both). Trading in commodities, however, is not a popular form of investment among stockholders, with 84% having never traded in futures. But little under half (48%) do own shares of mutual funds.

The U.S. population is becoming clustered. The farm and rural areas are leveling off or declining; the suburbs are spouting; the metropolitan areas (though not the inner-cities) are growing larger.

The present sample of shareholders is composed of urban dwellers (48%) and suburban dwellers (52%). These areas, because of their population, high degree of industrialization, permit people to be reached easily and economically by a well-developed mass media. Of all the respondents, 97%

had at least one television set in their home (average 2.18 sets per home). The urban/suburban area abounds with well educated people and with professional and managerial people. Investment behavior is clearly an urban phenomenon.

The 1970 NYSE study also has shown a marked trend towards further concentration of investors in Standard Metropolitan Statistical Areas (SMSA)<sup>1</sup> particularly those with the population classes of 100,00-200,000 and 500,00-1,000,000 inhabitants. The expansion of share ownership in these areas has been about nine times that of the U.S. population in the past five years.

The importance of metropolitan areas is more pointed in the area of brokerage business done by NYSE member firms. Offices located in SMSAs accounted for 97% of commissions received in 1969. The bulk (55%) of this came from institutions, and the remainder (42%) from individuals. More than 86% of member firm offices and 95% of registered representatives are located in SMSAs. The top ten SMSAs, containing 37% of the offices and 56% of the registered representatives were responsible for 70% of total commissions in 1969 (N.Y.S.E., 1970).

As a statement of the social profile of investors, the representativeness of the present study is substantiated by the study, Executive Living: A study of the lifestyles of subscribers to the Wall Street Journal, conducted by Erdos and Morgan, Inc. The purpose of the study was to report

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<sup>1</sup>A Standard Metropolitan Statistical Area is a county or group of contiguous counties which contain at least one central city.



on the personal lifestyles of the Journal subscriber. The projections of the report were made in terms of the September 29, 1972 attained circulation of 1,270,341 readers of the National Edition of the Wall Street Journal as reported to the Audit Bureau of Circulation. Journal subscribers were believed to represent the cornerstone of its more than 4.3 million adult readers as reported by W.R. Simmons. A systematic sample was drawn from U.S. galleys of the subscribers. After two mailings, a total of 10,882 questionnaires or 61% of the net mail out were received and tabulated.

The largest percentage of readers were in the 45-54 year age group. A large proportion of investors were male, 94.1%, of whom 19.6 attended college, 29.7 graduated from college, and 34.4 attended graduate school. The largest occupational group represented was the executive and managerial group (56.9%), followed by professional technical (18.1%), clerical and sales (8.4%), retired (10.6%), housewives (2.4%), and students (.4%). There were no members of the skilled and artisan or semi-skilled and unskilled categories.

Average household income was \$37,312 (median income \$29,402) in homes that were owner occupied by 85.6% of readers, with an average home value of \$56,424 (median home value \$49,606).

Regarding other forms of investment, 25.7% owned corporate bonds, 31.6% government bonds, and 35.6% owned shares of mutual funds. Life insurance was held by 93.4% of the sample.

The common socio-economic, educational, occupational, demographic and geographic profile of investors has been illustrated in this chapter. It is now quite clear just who the investors are in American society.

What the following chapter attempts to explore is the extent to which investors share common patterns of behavior in the stock market milieu, and whether stock investment has the same meaning for all investors. If investment does not have the same meaning for all investors, then it will be the aim of the study to analyze in precisely which cases meanings change. Inasmuch as the orientation and assumptions of this study are sociological, what differences in meanings that do appear will be examined in terms of subjectively experienced social variables such as social position, income, occupation, etc., and not personal predispositions.

## CHAPTER V

### PATTERNED SOCIAL BEHAVIOR AMONG INVESTORS

The median age at which investors first owned stock is 17 (average 18.2), although it is not until a median age of 23 that investors first buy stocks by their own decision. What affects investors in their decisions to buy stocks? For 81% it is one person in particular who influences their decision: 75% state that is is a relative, 15% a broker, and 12% a friend. For 9% it is either a tip, an investment counsellor or a company that influences their decision. There are no apparent economic factors explaining these differences.

Those that are influenced by no one person claim printed sources such as newspapers, magazines and books as sources of influence.

Only 16% of respondents never speak to their family about stocks. Of the respondents with children, 53% speak to their children about the stock market and 88% of these feel that this has aroused interest and curiosity in their children. The family, then, is an important primary agency of socialization into stock market culture.

As might be expected, most respondents (96%) speak to their spouses about the stock market, but only 40% admit that spouses enter into the decision making of stock trading. However, when women are viewed in isolation, such segmental decision making is not prevalent. Stock market decision making is not, at least on a familial level, democratically executed.

Of their associates who own stocks, and with whom they converse,

48% of respondents rank these associates as predominantly small and moderate investors, 27% as moderate investors predominantly, and 15% small investors predominantly. Only 7% of moderate investors claim associations among small investors, who for the most part associate with other small investors. There is a tendency for small and moderate investors to associate among themselves rather than with large investors. This is a reflection of patterns of income distribution and the social relationships that derives from such a distribution. All large investors (10%) had an income of over \$85,000, living in single homes of an average value of \$190,000 situated in either affluent suburban regions or fashionable downtown areas. These large investors tend to associate with other large investors and some moderate investors.

The categories that have been adopted here of the small, moderate and large investor are based on what brokers agree to be the amount in a portfolio pertaining to each category, namely: small investor--\$10,000-\$45,000; moderate investor--\$45,000-\$100,000; and a large investor--over \$100,000. These figures correspond with the modal estimates of sample investors of \$10,000, \$50,000 and \$100,000 respectively for small, moderate, and large investors.

Most shareholders converse with others about stocks. Only 21% claim never to converse with others on this subject. Stocks are most frequently discussed among close friend (45%), and friends who are not too close (30%). Some investors (12%) converse about stocks with persons whose only bond is a common interest in stocks.

Since 97% of investors have never belonged to an investment club, and since those that have have either never conversed with associate

members about stocks or never based decisions to buy or sell on information from club members or clubs' brokers, most investors (73%) choose advice from several persons as specific criteria used in stock selection. Information from one person is only used by 24% of investors.

Often advice for the selection and trading of stocks comes to the investor by way of tips, and only 24% had never relied on these tips. Only 6% rely exclusively on tips, most investors preferring to rely on them sometimes, but only after checking the tips. Some rely on a tip for a stray stock or so, but claim a more organized approach for most of the stocks they trade. Others rely on tips only in exceptional instances, and seldom for many shares.

When a brokerage executive and an ex-investment counsellor were asked whether they thought that individual investors spent enough time and attention developing definite and reliable criteria for stock selection they had some interesting comments:

Probably not enough homework is done. Usually they rely on the advice of brokers or someone else who they believe to be knowledgeable. (Executive)

Not necessarily. It is wise for the individual investor to find out and research as much as possible what he is interested in so he is familiar with what his investments cover and to keep abreast of events affecting his stock and the world in general. However, he should not be influenced too much or at all, by loose advice from individuals--or be influenced in any way by tips. Never that is, from other investors. The average investor will have reliable criteria if he has background and research about his stocks, and if he has a reliable broker. (Ex-counsellor)

Investors show evidence of a wide range of sources of advice on investment. Larger investors give the impression of being rather more independent in their assessment of a company's desirability, preferring technical analysis, growth potential, current trends, economic status of



the company, earnings, general market conditions, share value compared with past prices and share value compared with book value, to second hand sources of information.

Moderate investors tend to prefer more varied sources such as financial news, Wall Street Journal, broker's advice, growth potential, Executive Force, Standard and Poor's Reports, P-E ratio, earnings prospective, fundamentals analysis, management of company, unique situations and good growth potential. Overall, a more scientific approach to the "board room" know-how of larger investors.

Smaller investors prefer sources such as broker's advice, opportunity for gain, growth potential, Wall Street Journal, advice from insiders, stability, capital gains, good dividends, recommendations, prospects, yield, excellence-maturity--far more vague criteria than that of either large and moderate investors, and relying a great deal on second hand information from so-called experts.

As in any other field of social interaction, stock investment influences the way investors view themselves. Self-perceptions manifest themselves in a number of ways: doubt, fear, confidence, shame, pride, decision making, etc. These manifestations are prevalent among investors, too.

During sharp declines and abrupt rises in the market, 15% of investors feel that they find themselves acting impulsively in trading stocks. Most felt that during such periods they were paying much more attention to stock reports and share indexes, but do not admit that this was a manifestation of anxiety. Rather, they see such increased activities as indicative of their hopes for future security.

On the basis of past experiences and future hopes, 52% of investors feel as confident about being able to make money from stock transactions as when they first started; 15% were not quite sure about this.

Investors are more likely to discuss market gains than market losses. When there are gains in the market, 33% talk to others about these gains in a specific way, usually naming stocks. Others (27%) talk about gains in a vague and general way, and 25% strive to avoid talking about the outcome of investments. In the event of losses many investors keep such losses to themselves. However, when losses are unexpected, 65% of these investors will talk about it with others; more often than not it will be the broker (88%), a spouse (70%), or close friends (65%). The fundamental human traits, pride and shame perpetrate even the stock market milieu, so often considered a "stuffy" and unemotive domain.

Concerning the way members of the exchange community react to an investor's talk of gains and losses, the interviews with an executive and an ex-advisor brought out the following:

Everyday! I am a broker and try to give the best advice possible in line with my impression of the wants of the individual investor. (Executive)

It is usually jokingly referred to. . .an investor is more apt to talk about his gains than his losses; no one seems to want to admit losing a bundle in the market. Losses are usually referred to as 'dogs,' if a stock has dropped and there is no market for it. One must be wary of tips from individuals. These many times turn into 'dogs.' One's reaction should be to listen only, but not to be influenced. Either leave it to the experts or do much research of your own on it if you feel you would like to involve yourself in investing, or be familiar with what your broker is advising you of. (Ex-counsellor)

Investors indicate that brokers tend to make qualified, supportive suggestions, to the effect that the loss was to be expected due to market conditions. The broker may be helpful in suggesting alternative investments to cover losses. Brokers are optimistic about the way market conditions will improve, and that overall, gains are to be expected in the future.

Larger investors suggest that friends, at times of stock losses, will suggest alternative investments. However, for the sample as a whole, friends are either indifferent, consoling, or complacent. Some investors report that laughter or remarks such as "You, too?" would greet their admissions of market losses. Despite some notes of encouragement and hope for the future, many investors found mild interest and little suggestive help from friends.

Of the various facets of the mass media, very few investors (8%) rate stocks as a central life interest, although it is the most important after news (66%) and football (15%). However, investors do participate considerably in the culture of stock investment, as will be discussed below. It is not surprising that investors, with at least two television sets per house, should show some preference for America's number one spectator sport, football. Regarding news, a significant number of investors find that interests in stock investment has actually intensified and sensitized their interest in economic conditions (including business), political conditions, both domestic and international, and social conditions, all of which are given extensive coverage in the news media.

When asked whether there is any reason why an investor should be



anymore concerned about economic and social conditions than anybody else, a broker made the following reply:

Inasmuch as all of these factors influence peoples' emotions and have real effects upon corporate decisions and earnings, security owners should give them very real attention.

Most investors view their present interest in stock investment as moderate. An average of .78 hours per day is devoted to matters pertaining to stocks by 39% of investors; 42% spend 3.86 hours per week on such matters, and 19% spend an average of 2.83 hours per week in this way. As would be expected, it is the moderate and large investors who spend a greater number of hours on matters relating to stock investment, and who are to be found among the 25% who have felt at some time or other that the stock market was crowding out other activities. Of this group, equal proportions feel that the activities that are being crowded out are job, family, and leisure.

As has been observed previously in this study, the stock market is a future oriented social milieu. In terms of the broader aspects of time dimensions, investors show concern about the future and future change: 75% of investors feel that their attitudes towards these dimensions have become more concentrated since they first became investors. Equal proportions are concerned about both long and short term future change.

Reading is an area of activity that is profoundly affected by participation in the investment milieu. More time is devoted to reading the financial pages of newspapers by 72% of respondents. Subscriptions to new publications such as newsletters were purchased by 36% of investors, and most spend more time reading the stock listings. Over half the investors began to read books and other information dealing with economic

and other matters, and some (27%) have read books specifically dealing with the stock market.

Investors purchase a newspaper on the basis of the recency of the stock listings such as late markets and final markets. Most (66%) tend to follow published stock reports at least once a day, and half of these follow reports at least twice a day. Of the 80% who read the financial or business section, 93% read regular columnists in addition to stock reports and listings, and many read questions and answers to investor problems by specialists.

As compared with other reading, many investors (43%) rate their reading of stocks (and other securities) as of interest to them, but they do not concentrate their reading in this area; they keep up with daily happenings pertaining to stocks. Some (33%) prefer just to read the more eye-catching and dramatic news about the market, in addition to reading about their stocks. However, there are some investors (18%) among whom reading of stocks is among their areas of concentration and they read widely on the subject. Of these investors, 50% considered themselves large investors and the remaining 50% were all moderate investors.

Televised and radio reports of stock market conditions are even more popular than published reports, as a means of keeping in touch with the market. These reports generally consist of an announcement of share indexes, averages, and a report on the past day's trading by an account executive. Such reports attract 73% of investors.

The various share indexes that are available in addition to the Dow-Jones average have been discussed in Chapter I. However, only 30% of investors follow these other indexes and averages, and this proportion

is evenly distributed throughout small, medium, and large investors. The Standard & Poor's "500", New York Stock Exchange average and the Amex average are all equally popular among investors following more than one index.

When stock prices appear on the big tape or on stock listings, company names appear in the form of abbreviations. These key elements of stock market culture must be learned and recognized in order that listings may be understood by participants. Many investors (64%) are able to recognize many symbols other than those representing companies of which they own shares. Some (18%) devote attention to these symbols but are able to recognize the coded symbols of their own stocks.

Since investors are able to participate in investment culture via agencies of the mass media, such as television and radio, and through conversations with friends, and telephone calls to brokers, it is not surprising that no more than 21% visit brokerages once a week. The largest proportion (40%) visit brokerages maybe once or twice a year. For these reasons, 76% never manage to spend time watching the big tape. Of the few who do watch the big tape, the average time spent watching is five to ten minutes. Those who visit the broker's office see friends there and while spending on average forty minutes at the brokerage, they do spend a short time watching the big tape.

There are differing opinions as to the extent to which stock investment is a way of life. During an interview a brokerage executive stated that:

For a person with excess funds--beyond normal living expenses--it should be.

While an ex-counsellor suggested:

It shouldn't be because one can become emotionally involved rather than objectively studying a stock or stocks and leaving investment with a wise broker. Investment should be viewed with security for the future.

Many (39%) investors regard investment somewhat as a way of life.

Many, despite the preceding evidence of involvement in the culture of the stock market, regard this form of social action as but a peripheral interest. Again, investors' self-perceptions do not seem to correspond to the facts of their behavior.

A great many investors (70%) are aware of a tendency for them to identify with the companies whose stocks they own. Identification is most likely to manifest itself in watching a company's advertisements more closely (42%) or buying its products (36%). Some investors will tend to follow a company's management more closely, and to note its corporate history and directions for the future.

Among those who feel that they had acquired the expertise to profit from their experiences and investment transactions, only 11% made less than the median ten trades a year. An average of thirty trades per year was made by members of this group, compared with 9.8 trades per annum for those with doubts about their expertise, and ten trades per annum for those feeling they definitely lacked the necessary expertise to profit from their experiences in the market. That the expertise to profit from experience in the stock market is more likely to arise as the total number of annual trades rises is a reasonable proposition.

The average estimated number of trades made in one year by large investors is 141; by moderate investors it is 13; for small investors

the average is 9. The number of trades made is one of the most valid measures of participation in the stock market, and is a reflection of the amount of knowledgeability and the size of portfolio that an individual has.

According to the 1970 NYSE study, an analysis of transactions indicated that the "six-trade" level was the most meaningful activity dividing point. In these terms, 40% of the subjects in the present study may be considered inactive investors. The NYSE study had a 10 trade median for active investors; the median number of trades for the present study is 10 trades per year.

A question that was asked in interviews with a broker and ex-counsellor was whether the individual investor, compared with the institutional investor, had much influence in changing the policy of the corporation in which he invests and whose management he has little faith in. According to the broker the individual investor has:

Very little.

The ex-counsellor had a little more faith in democratic processes:

This is what annual meetings of corporations are for. . .for voting and changing policies if the individual or institutional investor is not satisfied. That is why one should know one's corporation. The less stock one has in a company, the less influence. The more stock or percentage of ownership, the more influence. That is why institutional investment these recent years has influenced the market so much and has influenced the price and fluctuation of corporate stock.

Investors, as holders of stock in public corporations have the opportunity to attend stockholders meetings; this is one of their rights as shareholders--to listen to and to question aspects of corporate policy. Yet, surprisingly, only 30% of investors questioned ever attend shareholders' meetings.

There is a further recourse in the event of disagreement or dissatisfaction with corporate policy: a group can be formed to vote against corporate policy. Of the 18% of investors who had formed such a group, none were small investors. Some 30% of investors (30% small, the remainder moderate) do not follow the corporate policies of companies very closely, but merely watch the fluctuations in stock prices. A larger proportion of investors representing 54% of the total (50% moderate, 40% small, 10% large) will choose usually to sell the stock in the event of dissatisfaction with company management, thus relinquishing all rights to challenge corporations.

It is the large investors who have recourse to more powerful and influential measures, and display action typical of the elite groups that Lasswell and Kaplan (1950) have discussed. They tend to use their influence in organizing other substantial investors; they will write a letter to the management making suggestions and outlining the criticisms that have come to their notice; then they will either sell the stock or join a minority shareholder suit against a corporation.

It is vital, in any area of social interaction, that the social actor, in order to participate fully, should have a favorable and meaningful view of his social milieu. In the stock market milieu it is important that the investor should view his broker as a reliable person, worthy of his trust. The investor should also be able to view the various agencies of the stock market as possessing a great amount of integrity.

Most investors (78%) have dealt with more than one investor or account executive, in their experience as a stock investor. One large investor aged 41 years (median age of sample) has had 25 brokers.

The average number of brokers with whom investors have dealt is four.

According to the NYSE (1970) study, active investors, as might be expected, are more likely to have accounts with more brokers than inactives. Furthermore, six out of ten active investors switched firms during their investment careers. Active clients indicate that they maintain several accounts with different brokerage firms to obtain a variety of investment opinions, or to diversify their activities to insure partial privacy. The study goes on to note that no characteristic is more indicative of potential activity than income. In the present study the largest investors have the largest incomes, make the highest number of trades per year and either have dealt or are dealing with the largest number of brokers.

A large proportion of investors in the present study (72%) deal with only one broker. Among those dealing with two brokers, only 14% are small investors. Large investors compose the group with three or more brokers in their service at present. The reason given for this is that there are social pressures ensuing, and which lead them to take on additional account executives. It is evident then, that the larger the larger investor becomes, the more brokers he is likely to require, for reasons relating to both functional prerequisites and the realistic exigencies of his social life.

Investors tend to have a favorable perception of the broker. No investors consider him to be a person who operates as a salesman using subtle pressures to secure orders. Many (60%) view the broker's role as quite passive, being a registered representative who transmits orders for stocks, or (54%) as an advisor who recommends and "suggests"

stocks. It is notable that no large investors consider the broker's role as being an advisor who recommends and "tells" them when to buy or sell, or as an informant who, when asked, instructs them in the ways of the market. Large investors tend to view themselves as equal in knowledge and experience to the broker. But the broker is held by equal proportions of large, small and moderate investors to be a friendly person with whom they liked to chat about the market and other matters.

It is not surprising, in view of the above, that many (54%) investors characterize their present relationship with the broker as being friendly and open, and involving very little pressure to trade. Those feeling that their relationship with the broker, although friendly, involved pressures to trade which may have been for their benefit, are composed of 75% small investors and the remainder are moderate investors. This is consistent with what was discussed earlier regarding brokers' attitudes toward losses and brokers' treatment of small trades. Commission is an important source of motivation for brokers. It is only the small and moderate investors who characterize their relationship with the broker as ever being somewhat businesslike and formal, and involving mainly formal business transactions and pertinent knowledge of stocks.

No investors have the impression that their relationship with the broker is either strained and on a formal level because he was merely seeking business, or strained to the point where the investor sought a different broker. At no time was the relationship considered businesslike and formal with the investor having to resist the broker's pressure.

When asked whether he thought that the broker is really interested in assisting the individual investor, or whether his interests lie elsewhere,



the ex-counsellor commented:

His primary interest should be with the individual investor-- though of course there are many 'institutional' oriented investors wherein the commission is larger. . .his concern should be with the safety and wisdom of investment. . .for the individual and for the institutional investor he is serving.

An account executive gave a revealing statement of his own role in this regard:

To be successful the broker must have a clientel that has prospered. It is to his great benefit to have a group of investors who are happy. . .that is, who have made money.

Investors are generally (63%) satisfied with the facilities and services of their brokerages, and rate highly the broker's knowledge of stocks. As a result of their experiences only a half of the investors feel that they have acquired the expertise to profit from their investments and transactions. Included among these are all the large investors, 58% of the moderate and 33% of the small investors. This tends to support the hypothesis that large investors tend to view themselves as equal in knowledge-ability to the broker, and that the smaller investor lacks valid and reliable criteria for stock selection and profit making, other than from a broker.

Of all small investors, 70% (30% of the total of all investors) have doubts about their capacity to profit from the expertise they have gained; 60% of small investors (19% of total) feel that they lack the expertise to profit, and require the advice of some more knowledgeable person. The remainder in both cases are moderate investors.

Commenting on the integrity of the stock market and its various agencies during an interview, the ex-counsellor was quite positive in his

assessment--with reservations:

Basically, the integrity of the stock market and its various agencies is sound and unquestionable. Occasionally one hears about individual stockbrokers who mismanage funds of individual investors or trusts, etc. This is one reason one must not indiscriminately choose a stockbroker but should endeavor to investigate to some degree his background and, of course, do some research on the investment house or houses one has in mind or hears about. A larger national brokerage house is less risky than a smaller, lesser known one.

The comments of a brokerage company account executive were equally qualified:

There are some very good specialists and some that I feel do a poor job. You are dealing with individual people--and great amounts of money--obviously there are some cases for institutional action.

Investors tend to have pragmatic and permissive views of the stock market. Whereas few investors (9%) consider the integrity of the market in terms of complete honesty, 88% regard it as substantially honest, but with shades of suspicion of some of the trends and types of fluctuations.

Similarly, 58% of investors consider that in their experience with their present broker, his dealings with them have been reasonably honest allowing for human frailties. Some (39%) go as far as to say that they feel their dealings have been exemplary in their integrity.

Beyond the broker, reactions to the diverse agencies of the stock market are reasonably mixed: 55% have had no experience which raises their suspicions that any agency of the stock market is dishonest, and 30% believe they have experienced nothing, nor had enough knowledge, to suggest dishonesty. A few (30%) investors were more specific in stating that, from their experience and reading they suspected various agencies in the stock market of dishonesty.

Specifically:

Over the counter trading needs controls

Specialists can be rip-off artists.

Only 12% of investors have ever been so upset as to write a letter or to verbally complain concerning an experience or experiences in the stock market. Of those who have complained, 75% are large investors and the remainder are all moderate investors; all are highly active traders making an average of 112 trades a year. Typical of the descriptions of the nature of their experiences are the following:

Broker gave false information to get sales.

Unreliable information.

Touted on a bad situation.

When trading is small, commissions received by brokers tend to be small, especially where the number of trades made per year is few. However, 70% of investors feel that the size and amount of their investment has never mattered in the attention given by the broker. Of the 30% who felt otherwise, 70% were small investors (44% of the total of small investors). Some investors felt that brokers were only interested in "daily traders," and had suggested they were not trading enough and that they were overly cautious. Very often, not enough time or attention was forthcoming from the broker.

## CHAPTER VI

### CONCLUSION

Throughout this study investment has been viewed as a form of social behavior and investors seen as participants in this specialized social milieu with its distinctive culture. It has been observed that the numbers of individuals entering this milieu have increased steadily over the past forty years, and that this fact is indicative not so much of a trend towards increased homogeneity, equality or democratization among industrialized, urbanized and managerialized societies, but rather of a steadily increasing disposable income among the upper middle-class.

Participation in the stock market is a form of social action which pertains to the equal proportions of affluent, well-educated, high occupational status males and females of society, who are active in other forms of investment.

Viewing stock investment as a form of mass behavior, it has been noted that, although investors are subject to acculturation through a sophisticated network of agencies such as television, radio, newspapers, magazines, newsletters, primary and secondary groups, business associations, modern technology, they do not display an homogeneous social profile. The stock market culture which has such a vast influence on American society, encompasses and reflects the same social differences, the same distribution of power and influence as are present in other aspects of American society.

Investors share an urban-suburban environment. Common patterns of influence are apparent among investors; they are influenced by one person,

initially, usually a family member, who encourages them to invest, often by a gift. Investments are discussed among friends, especially when there are gains and losses. Investment encourages a more extensive participation in the mass media, especially in the areas of current affairs, domestic and international politics, economics and social problems. Reading, television viewing and radio listening are all influenced by the investor's central and fluctuating interest in stock investment. Participation in the culture of stock investment enables all investors to learn a system of shared symbols and a growing history and folklore.

What has become apparent through this research is that beneath the shared culture lay a number of sophisticated variations. Criteria for stock selection differ between small, moderate and large investors. Large investors have insight and definite criteria for selection of stocks. Moderate investors display a more scientific approach, using technical analysis provided by experts. Small investors tend to have a more vague and second hand criteria for stock selection, relying to a great extent upon their broker's advice. Small, moderate and large investors tend to associate among themselves, showing very little evidence of sharing anything beyond a common interest in stock investment. They each show little or no evidence of the type of urban-industrial interaction described by Wirth and Kerr, which breaks down status distinctions.

The expertise to profit from experiences in the stock market has been shown to be far more likely to arise among active investors--those trading at least 30 times a year. Trading has been shown to be a valid and reliable measure of active participation in the stock market, and is generally found to be accompanying the other principal index of knowledgeability--a large

portfolio--and a large income.

Regular attendance at shareholder meetings is only to be found among the moderate and large investors. Small investors seldom disagree with corporate policies. In contrast to small investor inertia in this regard, large investors will form groups to vote against corporate policy and will form minority suits in order to fight a management in whom they have little faith, rather than relinquish their shareholder rights by simply selling their stock. To be an active investor in this respect, power and influence is required--the sort of power and influence that comes with elite group membership. Here it is evident that even in the absence of the corporate tactics described by Florence (1961), shareholder democracy is a reified abstraction and does not manifest itself from the facts of the situation. The smaller investor is alienated from the decision making and influential areas of stock market culture.

Active, large investors have more brokers than smaller investors, for privacy and because of social pressures that are ensuing from their social interaction with stockbrokers, who are often in the same income group, or who are continually bidding for their patronage. Large investors view themselves as equal in knowledge and experience to their brokers, and have the experience to profit from their investments. Small investors, while sharing a favorable opinion of the broker and the stock market, find that the extent and frequency of trading do affect the service, time and attention received from a broker, and the pressures to trade that are forthcoming. Small investors tend to lack the expertise, the reliable and rational criteria for stock selection and profit-making, other than from the broker's advice or some other second hand source. They are immersed in the culture

of the stock market, along with the large and moderate investors, but remain passive participants; another silent majority.

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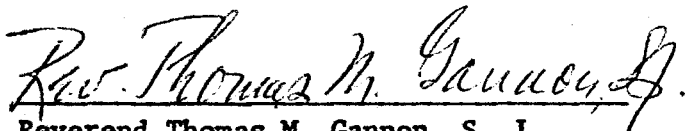
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APPROVAL FORM

The master's thesis submitted by Stephen Lloyd has been read and approved by the members of the Department of Sociology.

The final copies have been examined by the director of the thesis and the signature which appears below verifies the fact any necessary changes have been incorporated and that the thesis is now given final approval with reference to content and form.

The thesis is, therefore, accepted in partial fulfillment for the requirements of the degree of Master of Arts.



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