The impact of investor confidence on the stock market

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Abstract: Economics, as a practical discipline, is also a tool and method to analyze a certain reality. With the rapid development of our society, economics is more and more closely related to people’s lives. As our study of economics, therefore, the life around some kind of economic phenomenon can be explained by the knowledge of economics, this is an example of the application of economics to life, is typical of the apply theory to practice, can make people understand life phenomenon of irrational thinking, and will produce the comprehend by analogy.

Key words: Economics; Securities and shares; Market impact

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Through careful observation will be found that the existence of the phenomena of behavioral economics in People’s Daily life is very common, also is ubiquitous, through the study of economics, and apply the theory of economics to the reality of everyday life, you’ll get more deep understanding and unique insights, make people’s life more colorful and rational.

1 securities and shares

The securities market is the product of the development of market economy to a certain stage. It is the market generated to solve the contradiction between capital supply and demand. In the market-developed economy, the securities market is the core of the complete market system, which reflects and regulates the movement of money and capital and directly affects the overall operation of the economy.

1.1 stock exchanges in China

1.1.1 Shanghai stock exchange

Founded on November 26, 1990, the Shanghai stock exchange is one of the two largest exchanges in mainland China. In December 1990, the Shanghai stock exchange officially opened for business. By the end of 2009, there were 870 listed companies in Shanghai stock exchange, with about 1,351 listed securities and a total stock market value of about 1,8465.523 billion yuan. Among the listed companies I hold, there are about 1,999 a-shares and 53 b-shares, including high-volume and high-salary technology, basic industries, key enterprises and pillar enterprises of the national economy. The trading hours of the Shanghai stock exchange are from Monday to Friday of each week. Before the morning, the time for bidding is 9:15-9:25, Shanghai stock exchange 9:30-11:30 is the time for continuous bidding; Afternoon for the afternoon, Continuous bidding time is 13:00-15:00, every weekend, the announcement of the Shanghai stock exchange rest day, the market is closed.

Shanghai securities exchange is a non-profit legal entity directly managed by China securities regulatory commission. Its functions are as follows: The establishment of business rules for securities exchanges; Accept the application for listing, and make
a good security card for the listing of securities; To organize and supervise securities trading, supervise listed companies and members; Market information announcement and management. Shanghai stock exchange, the main trading mode is electronic bidding, all listed trading securities trading, all through the computer host to implement public bidding declaration, the host according to the time and price priority basic principle, to achieve automatic matching transactions. In November 2009, the Shanghai stock exchange’s internal trading system was upgraded to handle 80,000 orders per second of peak volume. The system has a bilateral trading capacity of more than 120 million transactions in Japan, which is similar to the daily turnover of 1.2 trillion yuan in a single market.

The securities market of Shanghai has gradually become a leader in the domestic market, occupying a relatively high position in the number of listed companies and stocks, the transaction amount of national debt and stocks, the total turnover of securities, the market value in circulation, the total market value and other indicators. By March 2013, the Shanghai stock exchange had 954 listed companies and 2,214 listed securities, and the total value of the stock market value was about 1,607,507.1 billion yuan, which exceeded 25 trillion yuan in the accumulated financing of listed companies. After being listed on the stock market, high-volume high-salary technology, basic industries, key enterprises and pillar enterprises of the national economy have realized effective fund-raising of development funds and transformation of economic mechanism.

Under the background of new era, the Shanghai itself, which are responsible for the development of the market standardization this burden, more market to optimize the construction challenges or opportunities, it is able to take advantage of their own in the pudong new area location, hardware infrastructure and strong radiation, and other advantages, with the help of the Shanghai economy good development momentum and leading effect, give full play to the financial center construction and deepen the reform of the state-owned enterprise strong role, the varieties in Shanghai will firm faith, strengthen internal and external oversight, always maintain a standardization and stability development of the state of mind, to technology, service, talent and supervision and so on various aspects increasing, build a dynamic, open, efficient, transparent, standardized and world-class exchange.

**1.1.2 Shenzhen stock exchange**

Shenzhen on December 1, was founded in 1990, is one of the biggest Chinese mainland exchanges, able to provide infrastructure and centralized trading of securities, realize the effective organization and supervision of securities trading, strictly abide by the relevant state laws, regulations and rules, the duties specified in the policy, practice self-discipline supervision legal responsibility.

The shenzhen stock exchange, whose functions are to provide infrastructure and venues for the centralized trading of securities; Accept the application for listing, and make a good security card for the listing of securities; To organize and supervise securities trading, supervise listed companies and members; Release and management of market information; Other functions permitted by the CSRC. The shenzhen stock exchange adheres to the fundamental concept of improving market transparency, implements the eight-character principle of “supervision, innovation, cultivation and service”, and strives to create an open, fair and just market environment.

The Shenzhen Stock Exchange has a mission to build a Chinese multi-level capital market system, fully support the development of Chinese SMEs, and promote the implementation of the national strategy of independent innovation. In May 2004, small and medium-sized business boards were officially launched. In January 2006, the Science and Technology Park in Zhongguancun, China officially implemented a pilot offer transfer of shares of non-listed companies; in October 2009, the business was officially launched. Board, multi-level capital market system structure is basically established.

**1.1.3 the concept and characteristics of stocks**

Stocks, a kind of certificate of ownership issued by a joint-stock company, are securities issued by the joint-stock company to all shareholders for the purpose of raising funds to obtain dividends and dividends. Each share of stock represents shareholder’s ownership of the basic unit owned by the enterprise. And every stock will have a listed company behind it. At the same time, each listed company issues shares. Opening price: The first transaction price in the auction stage is the opening price. If there is no transaction, the opening price is the closing price of the previous day. The so-called closing price is the last price of the stock in the daily transaction, which is the closing price; the highest
price is the highest price among the transaction prices on the day. Sometimes, there is only one high price, and sometimes there are multiple transactions; the lowest price is the lowest price of the day’s transaction. Sometimes, there is only one low price, and sometimes there are multiple.

(1) Ordinary shares

Ordinary shares, that is, shares that enjoy ordinary rights and assume ordinary obligations, are the most basic form of company shares.

Shareholders of ordinary shares have equal rights to the management and earnings of the company, and are subject to greater dividends in accordance with the company’s operating efficiency, which is relatively risky. Shareholders of common rights in the company’s internal management, property and profit distribution represent a kind of remaining property and profit of the company that can meet the criteria for the payment of all debts, the rights of priority shareholders, and the right to gain. Claim.

Common share, its intrinsic characteristic is namely: investment income (include share out bonus and dividend), did not buy period agreement, after the issue company of the stock according to actual operation achievement gives effective determination. If the overall operating performance of the company is relatively better, the common stock will have a higher return. On the contrary, if the operating performance is relatively different, the common stock will have a lower return. Ordinary shares, which belong to the basic and important part of the overall capital composition of a stock company, have greater risks, but are the most common basic.

(2) preferred shares

Preferred stock is the stock that has the right of preference. This kind of preferred shareholders, the distribution of the company’s internal profits and assets have the priority, its risk is small. But preferred shareholders do not have a vote in corporate affairs. Preferred stock shareholders, without the right to stand for election and the right to vote, have no right to participate in the operation of the company, the preferred stock shareholders, can not realize the withdrawal of shares, only with the preferred stock redemption terms, redemption of the company.

Preferred shares have two rights, as detailed below:

One is that the company during the period of profit distribution, enjoy preferred shareholders, compared to holders of common stock shareholders have a first division, enjoying a fixed amount of dividends, is the preferred stock dividend rate characteristics of serious actually, and ordinary shares power with a fluid, should be combined with the company specific to set profit, good points, no benefit, regardless of many minutes, little, little points, dolly, without guaranteed, there is no cap; Second, after the dissolution of the company, during the distribution of the rest of the property, first for the distribution of preferred stock, then common stock.

2 Description of features

2.1 characteristics of irreducible ring

Non-refundable shares, which belong to a type of securities with no specific repayment period, can not be asked to realize the withdrawal of shares after investors subscribe for the shares, only to the secondary market to sell to the corresponding third party.

2.2 participation characteristics

Shareholders have the right to attend the shareholders’ meeting, to elect the board of directors of the company, and to participate in the major decision-making. Holders of shares enjoy economic interests and investment consciousness, and exercise their own equity by attending the corresponding shareholders’ meeting. The degree to which shareholders participate in a company’s decision-making power is often closely related to the actual number of shares held. In practice, shareholders can control the decision-making of a company only if the number of shares they own exceeds the actual amount required for the decision-making results.

2.3 income characteristics

Shareholders enjoy the right to receive dividends and dividends from the company by virtue of their own shares, and to receive investment returns. Dividend and dividend size, often by the company’s overall level of earnings, earnings distribution policies to determine. The characteristics of stock profitability are mainly reflected in the fact that the investors of stock curve can obtain the income of price difference or increase the protection of assets. By buying at a low price and selling at a high price, investors can make profits from the price difference.

For example, in 1983, the total investment of Coca-Cola in the United States was $1,000 at the end of the year, and in July 1994, it was sold at the market price of $11,554, from which it could earn about 10 times the profit. During the period of inflation, the stock price will gradually increase due to the increase of the original replacement price of the company’s assets, so the
depreciation of the assets can be avoided. The stock is generally regarded as the preferred investment object in the period of high inflation.

2.4 characteristics of circulation

The characteristics of the stock in terms of liquidity, refers to the stock in different investors in a mutual tradability. Liquidity, in fact, the actual number of stocks in circulation, stock prices, trading volume to measure the actual sensitivity of trading volume. If the negotiable stock art is relatively more, then the volume increases necessarily, the sensitivity of the price to the volume decreases, the stock has better liquidity. On the contrary, it is relatively poor.

The circulation of shares allows investors to sell their holdings in the market for cash. Through the stock circulation and stock price changes, people can understand the listed companies, related industries profit potential, development prospects and other judgments. The circulation market attracts more investors and companies and industries whose stocks continue to rise. Through the stock issuance, more capital can be continuously absorbed into the production and operation activities to promote the optimal allocation of resources. You can get promoted.

2.5 risk characteristics

The market in which stocks are traded is relative to each other and, like commodities, has its own market price and price. As stock prices are often affected by the company’s operating conditions, public psychology, bank interest rates, supply and demand relations and other relevant factors, there is uncertainty volatility. Investors in stocks are vulnerable to losses because of the uncertainty. There is a greater degree of certainty in price volatility, which will bear a larger investment gap. To this, the stock belongs to high-risk class financial product. For example, IBM, one of the world’s top computer technology companies, has achieved outstanding performance and its stock price is above $170 per share. However, it faces a huge challenge in its position and its stock price has dropped to $40 due to the loss caused by management mistakes. If the time to buy the shares at a high price, there will be more serious losses.

2.6 permanent aspect characteristics

Stock, the validity of its rights is always the same, because it is an indefinite period of legal evidence. The period of validity of the stock is related to the duration of the joint stock company.

2.7 characteristics of liability and right

According to the relevant provisions and standards of the company law, the corresponding holders of shares, namely the main shareholders of the stock company, have the right to attend or be represented by their agents to attend the shareholders’ meeting, elect the board of directors and participate in the company’s various operating decisions. The power of shareholders is closely related to the proportion of shares they own. Holders of shares enjoy the right of shareholders, usually can participate in the company’s internal shareholders meeting, enjoy the right to vote, that is, enjoy the right to participate in the overall management of the company, the right to distribute profits. Shareholders can receive dividends from the company by virtue of their shares, and enjoy the right of liability and claim. If the company goes bankrupt or is dissolved, the shareholders shall bear limited liability to the company, and shall assume limited liability to the creditors of the company according to the proportion of the shares they own. After creditors pay off their debts, all shareholders of preferred shares and common shares in the company can demand that the company pay off the remaining assets according to their respective shareholding ratios, starting with preferred shares and then common shares. The common stock has the right of recourse to pay off the remaining assets after the preferred stock has been claimed.

2.8 stability characteristics

Holders are not allowed to withdraw their shares and are not required to extract principal from the issuing company. Holders of stock may not change their shareholder status and equity, but they may sell their shares on the stock market to ensure that the shares can be transferred to other investors and the original investment will be recovered.

2.9 there is no value in the stock per se

It is only a “paper copy” of the real capital. However, as a special “financial commodity”, there is also a certain price at the time of trading, which is actually a kind of capitalized income. Stock prices, influenced by the state of business and a host of other social, political and economic factors, are often at odds with their face value, attracting and providing an active base for speculators seeking to profit from the spread in the stock market.

2.10 legal features

Shares must be approved and registered by the relevant
authorities before they can be issued, and must be in a legal form with legal records.

Ii. “rational man” and “irrational man”

(1) the basic concept of the rational person
The so-called rational person is a general abstraction of the most basic characteristics of all persons engaged in various economic activities in the economic society, and this abstraction of the basic characteristics is that every individual engaged in economic activities is selfish, that is, every individual engages in economic activities with the help of a variety of economic behavior, with the intention of their own minimum economic cost to obtain the maximization of their own interests.

(2) the basic concept of irrational person
Irrational man
It is based on the philosophy of hedonism, treats people as irrational, as people who are inherently lazy and not keen on some of the naturalness of work. This kind of irrational person, its most basic characteristic is not to have the master spirit, does not have the consciousness, the initiative, the creativity and the responsibility, is naturally lazy, therefore must use the force, the control, the reward and the punishment and so on the measure, in order to promote them to achieve the organization goal.

3 behavioral economics

Perfectly rational economic man does not exist objectively. In people’s real life, all economic behaviors are affected by various irrational factors. Many behaviors that are “wrong” from the perspective of traditional economics are often ignored, but it is these behaviors that lead to the failure and even the consequences of those “beautiful looking” decisions.

3.1 introduction to behavioral economics

Behavioral economics, belongs to the practical economics, able to conduct the analysis of the wheel, the operation of the economic science, economic law, psychology, such as fusion together, is easy to find the current omissions or errors in the economics foundation model, the implementation of the mainstream economics of maximizing utility, complete information relating to the basic hypothesis of consistency, preferences, self-interest and rational effective correction processing deficiency. Behavioral economics is not new to mainstream western economics, but it has been dormant for decades from the 1950s to the 1990s.

3.2 prospect theory

3.2.1 Main introduction
Prospect theory, its main forecast, description, people face all kinds of risk decision during a performance, or the expected value of traditional theory, expected utility theory and other inconsistencies behavior theory, gradually people facing the lost risk preference behavior happened there are inconsistencies, face the risk of lost change pursuit, in the face of pick up show risk aversion; The specific setting and changes of the reference point often have a direct impact on people’s feelings of gain and loss, and more directly on the decision.

Different locations of reference points for individual positions may lead to different risks. This prospect theory can be used to study the relationship between risks and rewards.
In the case of uncertainty, the artificial judgment and decision reveal the irrational psychological factors that affect the choice behavior from the psychological characteristics and behavioral characteristics of people, and use the rational person hypothesis to influence the irrational factors of the choice from the psychological characteristics of people.

Prospect theory through a series of experimental observation that people under the conditions of various uncertainty decision implementation, often by the results and prospects (expected) and differences between to decide, not belong to the results, which is during the decision-making, people often can preset reference standard in my heart, all decision results, and the size of the differences between the reference standard.

3.2.2 Graph analysis (see figure 4)

Example: a person who expects to get a bonus of 500 yuan will feel nothing when his decision makes him get a bonus of 500 yuan. If he has a way to get more than the expected $500, most people will carefully consider the risks associated with the method so as not to lose the expected return. If, on the other hand, he had a safer way to get $100 less, most people would rather take a bigger risk to get the expected return.

Image analysis:
This picture assumes that the whole process of risk decision making is based on editing and evaluation. Editing process, by the individual with the basic structure, reference points and other information collection and processing; The evaluation process is the function judgment information which depends on the value and the subjective probability weight. The value function belongs to the economic type, and its features include: most people do not avoid risks during the acquisition period; Most people face loss periods for risk preference; People are more sensitive to loss than to gain. To this, people in the face of this situation, often not reconciled, dare to take a risk. People have different sensitivities to gain and loss, and the pain of loss is higher than the joy of gain.

In real life, we can see that people often overestimate the small probability and underestimate the large probability. The vertical line is the expected probability of the investor, and the horizontal line is the actual probability. The solid line in the graph represents reality, while the dotted line represents “reality” in the eyes of investors. This theory negates the traditional economic theory and proves that sometimes the line is not linear (figure 5).

3.2.3 Loss aversion

Loss aversion refers to the belief that people cannot tolerate losses when faced with the same amount of losses and gains. The negative utility brought by the same loss is 25 times the actual positive utility of the same return. Loss aversion reflects the difference in people’s own risk preferences. When it comes to benefits, people show risk aversion. When losses are involved, people are risk seeking.

When the profit reaches a certain level and then goes up, the positive value to the person is quite limited. For example, if you invest 100 dollars and make 10 dollars at the beginning, it feels good, but the difference between making 50 dollars and making 60 dollars is not much. Losses are different. As the amount of losses increases, the negative value brought to people increases continuously, and the increase does not decrease as the amount of gains. The more losses, the greater the negative value.

3.2.4 Deterministic effect

In the state of return, people tend to be averse to the risks they face, in contrast, they prefer to avoid such risks and achieve the psychological state of taking what they get. The vast majority of people are irrational. They are unwilling to risk a certain but smaller gain for what looks like a larger gain. This is known as the “deterministic effect”. It seems that most people like to be risk averse when they are in a state of return.

A: you must earn 30,000 yuan.
B. You have an 80% chance of making 40,000, and a 20% chance
Sex is nothing.
Which one would you choose?
And it turns out that most of them chose A.
In traditional economics, the “rational man” will jump out at the judgment: choice A is wrong because 40,000 ×80% = 32,000, and the expectation is greater than 30,000.

The result of this experiment is a confirmation of “principle 1”: most people in the state of return are usually very cautious, averse to risk, ready to accept the good, are more afraid of lost profits. However, sometimes for the majority of people, people are very irrational, sometimes people do not want to take the risk to obtain greater returns, instead, they are willing to give up this to find some relatively small returns and returns.
3.2.5 Reflex effect

You’re the President of a country and you’re told that 600 students and teachers at a school have been taken hostage by terrorists. Terrorists make unreasonable demands, of course you cannot agree, so ordered to rescue the army to study the rescue plan.

After studying the rescue forces, they came up with two plans. Plan A: rescue 200 hostages. The rest are killed. Plan B, there’s a 1/3 chance that 600 hostages will be rescued, and a 2/3 chance that all of them will be killed. What should you choose?

Most of the people who were asked this question chose plan A, because plan B was too risky, it was possible to save everyone, but there was a high probability that all of the hostages would be killed, and plan A was conservative, but it was certain that at least 200 people would be rescued. It's the “certainty effect” mentioned above. In the state of return, most people are risk-averse.

Put another way, the rescue forces have come up with two more. Plan C, 400 hostages will die. Option D has a 1/3 chance of saving all 600 hostages and a 2/3 chance of killing all hostages.

At this time, people had the opposite mentality: they were not allowed to die 400 people at all, but could only “die as a living horse doctor”. They chose D, and maybe 600 people could survive.

In the state of loss, people’s reluctance to take risks, as opposed to the certainty effect, is called the reflex effect.

Therefore, in the state of return, because of the “certainty effect”, people are more risk-averse and prefer to “take what’s good”. When in a loss state, because of the “reflex effect”, people prefer risk and tend to “take a gamble”. Different risk preferences of the same person are actually different in different states.

Certainty effect and reflection effect to explain the most appropriate investment, take stocks as an example, when the rise, in the state of return, most people tend to bag for safety. Down, in the loss state, do not want to stop loss in time, but choose to go up, waiting to sell back, the result is deep.

To put it simply, in daily life, people are faced with different choices. In the case of buying stocks, people often choose between uncertainty and risk. There are hidden risks.

People tend to dislike subjectivity and fuzziness, and dislike objective uncertainty. This finding is often called “fuzziness aversion.” The so-called vagueness can be defined as information that can be known, but is in the state of being known. Fuzziness belongs to the period when there is a greater possibility of loss in the future. People have a strong aversion to and avoidance of this fuzzy nature.

To avoid risks, we should focus on the possibility of risk loss in an activity, change or give up, so as to avoid the risk of this activity. Eliminating risk factors when risks occur is a technical means of effective risk control. Under the adjustment of the possibility of a greater threat from project risk problems, the serious consequences or losses caused are difficult to bear and transfer, so risk avoidance is the most effective means of risk control.

4 vague dislike

4.1 vague disgust

Fuzzy aversion refers to betting in the uncertainty accompanied by risk. People tend to bet on the type of uncertainty with a small size, rather than the unknown type.

Imagine you have a table full of red and blue in front of you. You can choose:

A. just take the $50
B. Feel a blue ball from the bucket and get 100 dollars.

Half the balls in the bucket are blue. No cheating, no peeking, you have a 50-50 chance of getting the blue ball. For this choice, most people chose $50 with no strings attached. Most people would choose bucket A, and they would rather take A known risk than an unknown risk and go for the obscure bucket B.

There are 100 balls in the box, and you are willing to bet that any balls that can be touched at random will be red if 50 of them are known to be in the box.

If you didn’t know what color balls were in the box, you wouldn’t want to put red on them.

5 The summary

To sum up, economics does not only exist as an important practical discipline, but more importantly, behavioral economics has become a link between People’s Daily life and cooperation and communication. Behavioral economics plays an increasingly important role in People’s Daily life and
is indispensable. On the other hand, People’s Daily life is carried out on the basis of economic development. Of course, the social and economic development of our country is also inseparable from the promotion and influence of People’s Daily life. No matter it is the analysis of some phenomena in daily life mentioned in this paper, as well as the aspects of financial management, work and consumption in life, it is full of the wisdom of behavioral economics, which is also the specific manifestation of behavioral economics. Therefore, it is possible to generate great economic theories by studying some behaviors of People’s Daily life. Through the study of behavioral economics, the experience gained in the process will make our life more colorful and rational.